

Customer Orientation of Service Employees (COSE): Customer Satisfaction, Commitment and Retention in Iranian Islamic Banking

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Abstract: With the performance of service personnel often constituting a major element of a service per se, the customer orientation of service employees (COSE) is often regarded as a main determinant of service firm's success. The purpose of this study is Understands how customer orientation (CO) of service employees (SE) affects customer satisfaction (CS), customer commitment (CC) and customer retention (CR) in Iranian Islamic banking sector. This is based on 300 responses collected from customers using Iranian Islamic bank service in three provinces (Khorasan-e Razavi, Khorasan-e Shomali and Khorasan-e Jonobi), in private and governmental sectors. The results show that customer orientation of service employees (COSE) has no impact in customer retention in Iranian Islamic banking. Therefore, other hypotheses accepted. There are important variables in the service sectors that affect customer quality perception. This paper draws on the conceptualization suggested by Henning-Thurau and Thurau and tests model of COSE dimensions (Technical and Social Skills, Motivation and Decision Making Authority) and customer-sided consequence in Islamic banking in Iran.

Key words: Customer orientation · Service Employee · Customer Satisfaction · Customer Retention · Customer Commitment · Islamic banking · Iran

INTRODUCTION

In recent years, the service sectors in developed countries have gained a greater economic and more significant presence in the business landscape. Organizations in both manufacturing and service sectors try to deliver high quality products and services in order to increase CS and customer loyalty [1]. Activities has widened: banking, financial, traveling, personal and professional and health-care activities have are now included in this sector. The concept of Islamic banking is gaining momentum in today's market. It has been reported that the establishment of Islamic banks and financial institutions have resulted from new challenges posed by the wave of globalization which has swept all fields of life worldwide [2]. Islamic banking was virtually unknown 30 years ago. Recently, Islamic banks operate in more than 55 countries with estimated deposits of over \$100 billion. There are more than 200 Islamic banking institutions in operation around the world and they are one of fastest

growing financial service markets in the Islamic world. What makes Islamic banking distinctive is its adherence to the basic Islamic principle that money should only be use to exchange goods and services and for nothing else [3]. When competition intensifies and when banks start to offer similar products and service, it is the employee CO that can influence the performance of the Islamic bank and determine its competitiveness and success. Current research shows basic essential skills that SE must have to succeed in their responsibilities. Specifically, the purposes of this project are:

- To present a usable conceptual model for understanding why service employees are essential to CS, CC and CR;
- To define the main skills that is important for banking service in Iran;
- Present effective suggestions for management and staff in banking industry to received CS, CC and CR.

History of Islamic banking in Iran: It is a novel feature of Islamic banking practice in Iran that it has been adopted at state level since the Islamic revolution 1979. In the earliest two decades of Islamic banking practice, the Iranian banking sector was highly centralized and did not share from the pool of knowledge, experience and development in global market or within the Islamic banking world. After the mid 1990s, however, the Iranian government showed inclination towards adopting privatization and deregulation in the financial sector. In 1997, the central bank of Iran, Bank Markaz, issued license to a number of credit cooperatives, interest-free Qardhul Hasan centers and three non-bank credit institutions to launch their operations in Iran. Foreign banks have been working in the designated free trade zones of Iran, since 1999. The private banking sector started to build up in Iran at the beginning of twenty-first century. In December 2001, the first private bank, Bank Karafarin, was granted a license to commence operations in Iran. Two private banks, Bank Eqtesdae-e Novin and Bank Parsian emerged in the Iranian market. The Iranian government denationalized its two banks, Bank Saderat and Bank Rfah-e Kargaran, to enhance the diversity of the private banking sector in the country. Presently, more than 44 applications for establishing private banking and financial institutions in Iran have yet to be decided by the Bank Markaz. The Iranian government has been working on evolving more flexible, competitive and innovative financial systems in the country. The growing global exposure and deregulation of the oil-rich Iranian economy and financial sector may have a far-reaching impact on Islamic banking growth and development in Iran. The Iranian government may achieve greater integration of its Islamic financial sector with global finance as well as the Islamic banking and finance world [4].

Literature Review: Customer orientation of service employees (COSE): Marketing theorists have long argued that firms that focus on their customers needs are better positioned to achieve long-term success than companies that do not [5, 6]. Indeed, empirical research has demonstrated several positive outcomes of market orientation (MR), enhanced profitability [7], employee commitment and esprit de corps [8]. Implementation of this marketing concept in service firms is accomplished through SE and their interaction with customers [9]. As a result of the intangible and interactive nature of services, customers often rely on the behavior of SE when judging the quality of a service. Consequently, the employee level of CO is considered an important leverage for a service

firm's economic success [10-14]. Despite its important position in the value chain, few studies have addressed the construct of (COSE) and its impact on a service firm's success [15]. Noteworthy exceptions are the studies by Kelley [16], Browen *et al*, [17], Donovan *et al*, [9] and Hening-Thurau [18]. While the first two studies focus on the relationship between COSE and employee characteristics such as personality traits, job satisfaction and organizational commitment, the latter author has suggested, but not empirically tested, a three-dimensional conceptualization of customer orientation of service employees, distinguished between the employees motivation to serve customers, his or her CO skills and his or her self-perceived decision-making authority. No study has yet tested the impact of COSE on the way customer assessment of transactions with service employees or their relationship with the service provider as a whole.

This paper draws on the concepts suggested by Hennig-Thurau and Thurau [18] and tests a model of COSE dimensions and customer-sided consequences. Following a review of the available literature on COSE, a four dimensional structure of COSE is proposed and used as the cornerstone of a model of customer side COSE consequence [14]. Zeithamal *et al*, [19] argue that appropriately skilled and trained service workers are essential to service delivery at Gap 3 of their Gap Model as well [20].

Customer Orientation (CO): Despite the amount of CO research [17, 9, 21, 22], the question of how CO influences perceived organizational performance from the customer's perspective is under review. CO is viewed as a desire by an employee to help customers meet their needs during the performance of organizational task [23]. Brown *et al*, [17] defined CO as an "employee's tendency or predisposition to meet customer needs in an on-the-job context." They found that CO was influenced by deeper personality traits and, in turn, influenced worker performance. This perspective is consistent with traditional views of personality. For example, Pervin and John [24] define personality as the "characteristics of the person that account for consistent patterns of feeling, thinking and behaving" [25].

Customer Satisfaction (CS): The degree of overall pleasure or contentment felt by the customer, resulting from the ability of the service provider to fulfill the customer's desire, expectations and needs in relation to the service. CS is a complex construct and has been defined in various ways [26-29]. CS is the sense of

attitude and feeling of a consumer toward a product or service after it has been used [30]. Recently, researchers have argued that there is a distinction between CS as related to tangible products and as related to service experience. In service markets, CS is often measured as the difference between service expectation and experience [31-33]. Rust and Oliver stated that satisfaction reflects whether a consumer believes that the possession and/or use of a service evokes positive feelings [23].

Customer Retention (CR): The individual judgment about buying a designated service from the same company again, taking into account his/her current situation and likely circumstances. Levitt [34] examines value and CR via the buyer-seller relationship. Retention can also be measured based on customer profitability. Pffeifer *et al.*, [35] stated that "some customer are more equal than others and firms can prosper by learning to identify and capitalize on customer differences". They quote a study by Reichheld and Sasser [36] which reported that a 5 percent increase in retention would increase profits by 75 percent [31]. Hawkins *et al.*, [37] assert that "repeat purchase is the continuous purchase of the same brand by consumers though they may not have an emotional attachment to the brand" [38].

Customer Commitment (CC): Commitment is important to the study of relationship because it not only signals enduring stability at the conceptual level, but also serves as a reliable surrogate measure of long-term relationship at the operational and empirical level [39, 40]. Commitment has served as the dependent variable in several relationship marketing models including those describing buyer-seller relationships and channel behavior [41]. Communication is a good indicator of long-term relationships [42-44]. Emotional reactions and subjective responses seem to be the prime determinants of satisfaction and post-consumption behaviour [45] and such reactions often prevail among consumers [46].

Hypotheses and Model for this Study: Several empirical studies show that it is impossible to maintain a satisfied and committed customer base without satisfied and committed employees. More than 90 years ago, Strong [47] emphasized that personal selling strategies should be directed toward securing CS as well as purchase orders [22]. The links between customer and employee variable have also been depicted by Hesket *et al.*, [48] within a framework termed "the service profit chain" or "employee-customer profit chain" [49].

Research focused on the customer-organization interface invariably incorporates the service provider as a key component [50-56]. Spector [57] said that employee satisfaction is important factor for increasing job satisfaction and service quality [58]. Any employee who comes in direct or indirect contact with a customer influences CS, customer perceived quality and revenues [59]. We offer the following hypotheses:

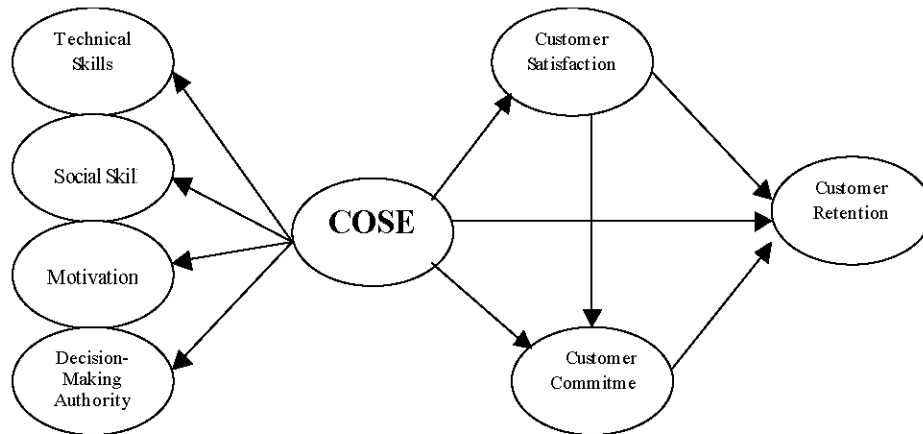
H1: The customer orientation of service employees has a positive influence on customer satisfaction.

In this increasingly competitive market, one of the most important tenets for a service organization is to maintain an ongoing relationship with their customers in order to protect their long term interest [60]. Considering this competitive environment, there is a need for service provider's to plan strategies that will differentiate them from other. This can be achieved through the delivery of superior service quality [61, 62]. In the case of services, such an emotional commitment is based predominantly on the customer's personal familiarity with and affinity to single service employees, consequently, we pressure that the employees handling of interactions with customers strongly influences the level of commitment a customer developed toward a service provider. At the same time, it is assumed that the level of satisfaction the customer experiences with the service provided also contributes to the CC of the service firm, as friendship requires at least a minimum of reliability and fulfillment [63].

H2: The customer orientation of service employee has a positive influence on emotional commitment.

A sizable number of researcher hold that trust, commitment and satisfaction are important in developing strong relationships between manufacturers and suppliers [42, 64- 69]. Most research presents trust and commitment as unique concepts [42]. In addition, Geyskens *et al.*, [70] show satisfaction as a distinct concept from trust and commitment. For example, some studies position satisfaction, commitment and trust, as dimensions of a higher order concept of relationship quality [67, 71, 68]. Other studies indicate satisfaction leads to trust and commitment [72, 73], is caused by commitment [44], or is a mediator between trust and commitment and other outcomes [69].

H3: Customer satisfaction has a positive influence on emotional commitment.



Source: Hennig-Thurau (2004)

Fig. 1: A model of COSE dimensions and consequences

Attracting new customers remain an important marketing management task. However, today's companies must also focus on retaining current customers and building profitable, long-term relationships with them. The key to CR is superior customer value and satisfaction [45]. There is abundant evidence that, in assessing service delivery, customers attach importance to their personal interactions with service employees. The role of emotions in service delivery has been examined in sufficient detail [74]. The study by Brown *et al.* [17] and Homburg *et al.*, [75], show that COSE has an important role in determining the quality of retail customer service evaluation [23]. Repeat purchasers also include dissatisfied customers due to the absence of alternatives and price deals. It is difficult to maintain customers who repeat purchase due to the lower price, that is, the more repeat purchase [38]. In some research, the concept of the "part-time marketer" suggest that because of the nature of service encounter, all customer-contact employees are, in fact marketers [76].

H4: The customer orientation of service employees has a positive direct influence on customer retention.

For many years CS has been a major goal of business organizations, since it has been deemed to affect CR and a company's market share [77, 28]. McNaughton *et al.*, [78] stated, "MR theory, no matter the sector in which it is applied, focused on the process whereby MR created value". Value created through MR and relationship enablers can facilitates an atmosphere that causes customer to stay [31]. Ranaweera and Prabhu [79] added, "It is a held belief that the more satisfied the customers are, the greater is their retention". Fecikova [80] believes that the key to organizational survival is the retention of satisfied internal and external customers. She proposed

measuring satisfaction to manage it effectively [31]. CS will have a considerable effect on the present and future life of an organization. A satisfied customer acts as advertising loudspeaker of company and attracts everybody towards products or service of company [81].

H5: Customer satisfaction has a positive direct influence on customer retention.

Commitment is considered to be of critical importance in organizational buying behavior and, it leads to important outcomes and higher motivation among. Commitment is positively related to loyalty and repeated purchases [82]. A customer is committed to a service provider, for example, because the provider has proven to be trustworthy and able to offer solutions, that successfully support the value generating process of the customer. Thus, to achieve CC, a company strategy must be customer centered, long-term and be based on mutual benefits. Long-term business should increase between two parties [83]. For reasons of completeness, a positive direct impact on CR is also postulated for CS and emotional commitment. In the case of satisfaction, it is argued that a service encounter which fulfils the customer's expectations positively influences the customer's evaluation of the firm. The customer expects similarly beneficial treatment the next time he or she makes use of the respective service [84]. Similarly, a consumer values interaction with a partner that they feel is committed. Consumers tend to prefer such a partner over an alternative to whom they feel no affective commitment [42].

H6: Emotional commitment has a positive direct influence on customer retention.

Table 1: Profile of respondent

Classification	no	percent
Gender (n=296)		
Male	212	72/1
Female	79	26/9
Missing value	3	1/0
Education (n=296)		
Before diploma	37	12/6
Diploma and after	121	41/2
Licensee	103	35/0
M.S	10	3/4
PHD.	10	3/4
Regional Education	10	3/4
Missing Value	3	1/0
Employment (n=296)		
Employees	199	67/7
Unemployed	87	29/6
Miss value	8	2/7
Bank (n=294)		
Saderat	60	20/4
Melli	63	21/4
Sepah	26	8/8
Tejarat	41	13/9
Mellat	22	7/5
Maskan	18	6/1
Keshavarzi	29	9/9
Parsian	14	4/8
Refah	8	2/7
Saman	6	2/0
Mehr	6	2/0

An Emperical Test of the Cose Cosequence Model

Methodology: To test the model of COSE consequences empirically, a customer perspective about Islamic banking was taken with all constructs in the model being assessed by service customers. The selection of respondents was based on a quota sample of age and gender as quota criteria (Table 1). A total of 1800 questionnaire were sent by post office in three provinces of Iran (Khorasan-e Razavi, Khorasan-e Shomali and Khorasan-e Jonobi). A total of 296 questionnaires were completed and remained in the analysis.

The model was tested in the banking sector. This service industry was chosen because of strong interaction intensity and frequently of use by Iranian consumers. It was important that the respondents were able to evaluate a service provider in this context for ensuring a sufficient response rate. When banking service customers completed the questionnaire, they were first asked to name of the bank which they had visited most recently. Using dramatically programmed software, all

further questions were then related to the service provider mentioned by the respondent. This procedure was chosen because it provided a systematic distortion of the sample toward highly loyal and satisfied customers and a small number of service providers. Moreover, as intended, the sample was not restricted to loyal customers, but covered a variety of customer-service provider relationships.

For measuring the model constructs, validated scales were used when available. Specifically for CC, CR and CS, we took scales from Morgan and Hunt [42], Zeithaml *et al.*, [85] and Hennig-Thurau *et al.*, [63], respectively and slightly reworded them by adding the name of the bank the customer has visited recently. Each of three constructs was measured with four items. As data collection took place in the Iranian banking service industry, items were translated into Persian (see the Appendix for a list of items). Initially, three items were formulated for each COSE dimension based on the definition given above. All items were measured on a five-point agreement scales, with five indicating maximum agreement and one indicating no agreement.

These scales were pre-tested against a sample of 35 users of the Islamic banking industry who were asked to fill out the questionnaires regarding several bank branches. Reliability was good for all constructs and the COSE dimensions, with alpha values of 0/86 for CS, 0/91 for CC, 0/75 for CR, 0/65 for technical skills, 0/80 for social skills, 0/64 for motivation and 0/63 and for decision making authority.

Testing the Dimensionality of COSE: The reliability of the COSE dimension scales was excellent in the main study as well, with the alpha values of 0/87 and higher for the four COSE dimensions (see Table 2 for details on alpha values, descriptive statistics and correlations). A confirmatory factor analysis (maximum likelihood algorithm and LISREL 8.5) supported the postulated four-dimensional structure of COSE (Technical skills, Social skills, Motivation and Decision making Authority). Specifically, both the χ^2 difference test and the Fornell-Larcher criterion showed that discriminate validity exists between the four COSE dimensions. In the case of the χ^2 difference test, discriminate validity is assumed if the increase of the models χ^2 values result from setting the correlation between two factors to one (i.e. indicating unidimensionality) which is χ^2 distributed with a single degree of freedom. The correlation also needs to exceed the theoretical χ^2 distribution at $\rho = 0.05$, which is true for all pairs of COSE dimensions.

Table 2: Descriptive Statistics and Correlations and R2

	No. of Std Item	Mean	dev.	Min	Max
Customer Satisfaction	4	13/67	3/612	4	20
Customer Commitment	4	14/68	3/236	7	20
Customer Retention	4	14/92	4/10	4	20
Technical skill	3	11/109	2/210	3	15
Social skill	3	9/614	2/826	3	15
Motivation	3	9/880	2/637	3	15
Decision making Authority	3	9/041	4/404	3	15
R2	COSE	→Customer Satisfaction 0/83			
R2	COSE	→Customer Commitment 0/61			
R2	COSE	→Customer Retention 0/68			
R2	Technical skills	→COSE 0/57			
R2	Social skills	→COSE 0/59			
R2	Motivation	→COSE 0/67			
R2	Making Decision Authority	→COSE 0/16			

Note: Significant at; p<0.05)

Table 3: The results of hypotheses testing

Hypotheses	Relationship of construct	Result	T-value
H1	COSE →CS	supported	11/27
H2	COSE →CC	supported	1/20
H3	CS →CC	supported	2/53
H4	COSE →CR	partly	- 0/35
H5	CS →CR	supported	3/04
H6	CC →CR	supported	4/27
χ ²		261/90	
Df		98	
CFI		0/96	
NFI		0/93	
NNFI		0/95	
RMSEA		0/085	

Note: Significant at; p<0.05)

Final Result: Table 3 reports the path coefficients, the degree of explained variances and the fit index for conceptual model for the total sample of banking industry. As with confirmatory factor analysis, model testing was done with the LISREL 8.5 software using the maximum likelihood algorithm. The overall fit statistics, as shown in Table 3, indicate an acceptable level of fit between the hypothesized model and the data.

As predicted, COSE has a direct positive relationship on CS (P<0.05, T=11.27), thus confirming H1. Results also show that COSE had significant impact on CC (P<0.05, T=1.20), supporting H2. As shown in the results, CS has a direct and positive impact on CC (P<0.05, T=2/53), thereby confirming H3. However, the path from COSE on CR (P<0.05, T= -0/35), can be seen as only partially supported by the data. Finally, the impact of CS on CR

(P>0.05, T=3/04) and CC on CR (P<0.05, T=4/27), strongly supported, H5 and H6.

DISCUSSION

Scholars in service marketing and organizational behavior are giving increasing attention to the personal interaction between customers and the employees on frontline of service business [86].

This study had two objectives. First, understand the role and effect of COSE dimension on CS, CR and CC. And, second, set out to investigate the impact and measure the effect of this variable in the Islamic banking of Iran. It is important to note that Islamic banking in Iran is the biggest of Islamic banking institutions in the world and it has the primary effect in the mind of customers.

Overall, results of this study generally confirm earlier work by Henning-Thurau, (2004) who worked this model in the travel and book, CD and DVD industries. This study found that all dimensions of COSE have impact on CS and CC, supporting earlier work [14]. These results highlight the importance of four dimensions in both variables (CS and CC) in Iranian Islamic banking and we recommend that top managers, first, consider the main role of this dimension and then apply this understanding in all stages of recruitment, selection and training programs for service employees. It is also advisable that managers in the Islamic banking industry test or educate service employees in these areas. The study of Sax and Weitz, (1982) and Jayawardhena and Farrell, (2011), point out that customer and service orientation behaviors impact service quality, value and satisfaction among customers [19]. Hiring employees who are more likely to have COSE dimensions should be an important consideration for managers. Previous work found this relationship to be significant. Garbarino and Johnson, (1999), Gwinner *et al*, (1998), Price and Arnould, (1999), Henning-Thurau, (2004), show the direct impact of CS and CC on CR [14]. This study also demonstrates how CS and CC effect CR in Iranian Islamic banking and that CS and CC are major variables. Managers must set goals to achieve higher levels of CR and CC to receive CR, because in marketing theory, CR is an easier and have lower cost strategy in comparison with advertising to obtain new customers.

Limitations and Future Research: Like any other empirical study, the study reported here includes various limitations. The main limitations include that, numerous questionnaires sent to our population weren't returned. It also took a long time to obtain about 296 completed questionnaires. Other limitations included sparse information provided by some respondents about various services.

Future research should make several extensions of the current study. We suggest using this model in the other service industries including hospitality, restaurants and any other industry in which employees have direct contact with customers. Next, researchers suggest that others studies should use this model in two service industries to compare them together, similar to the study of Henning-Thoreau. The focus of the study was limited to a few concepts, which are important for COSE; it did not include other factors that may also be important for employee growth. In conclusion, we suggest that other research consider the viewpoints of two parties, customer and employee. Employees have a good ideas for implementing customer service and other aspects of this

study. If managers consider this idea, they may increase employee satisfaction.

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APPENDIX.

List of items in the final questionnaire

Technical Skills

1. The employees of \$ have a high level of knowledge.
2. \$s employees are experts in their job.
3. The employees of \$ are highly competent.

Social Skills

1. The employees of \$ have extensive social skills.
2. The employees of \$ are able to consider their customers perspective.
3. The employees of \$ know how to treat a customer well.

Motivation

1. The employees of \$ show strong commitment to their job.
2. The employees of \$ do their best to fulfill their customers needs.
3. The employees of \$ are always highly motivated.

Decision-Making Authority

1. The employees of \$ show strong commitment to their job.
2. The employees of \$ have appropriate room for maneuver in solving customer problems.
3. In the case of customer requests, \$s employees do not need to ask their superior for permission.

Customer Satisfaction

1. I am fully satisfied with \$.
2. \$ Always fulfills my expectations.
3. \$ has never disappointed me so far.
4. My experiences with \$ are excellent.

Emotional Commitment

1. I feel committed to \$.
2. My relationship with \$ is important for me.
3. If \$ were no longer to exist, this would be a significant loss for me.
4. I would turn a blind eye to a minor of \$.

Customer Retention

1. In future I will buy most service at \$.
2. I am a loyal customer of \$.
3. My next service purchase will take place at \$.
4. \$ is my first choice when it comes to buying service.

Note: \$ was replaced in the questionnaire by the service provider most recently visited by the customer.