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The Indore Management Journal (IMJ) is a biannual journal published by the Indian Institute of Management Indore, with an objective to provide a diverse perspective on management functionalities to its readers as well as a medium to share experiences, knowledge and practices with the wider community. IMJ publishes empirical and theoretical investigations that enhance the understanding of various phenomena related to Business and Management. The journal is structured to include one general and one special issue every year. We welcome proposals for special issues of IMJ from potential guest editors. Please share your suggestions with us.

# Editorial

We are happy to present the second issue of the seventh volume of the Indore Management Journal. This is a special issue on the domain of marketing management. The present issue tries to focus on understanding and improving quality of products and services in emerging markets.

The first article discussed the factors affecting the competitiveness and survivability of unorganized retail outlets in the dynamic retail environment. The influence of employer branding on employee's attitude has been reported in second article.The third article investigated that service innovation must perform a mediating role in the relationship between market orientation and organization performance. The fourth article focuses on the consideration of ethics in marketing communication. The fifth article highlights the major issues in penetrating into new market segments of different sectors and suggests ways to overcome problems related to market penetration. The sixth article explores the four store characteristics which may lead to trust and, in turn, facilitate formation of willingness to purchase, electronic word of mouth and social capital in consumer's social networks. Last article measures and compares the perception of customers in the customer service practices of the two sectors.

We are confident that the articles presented in this issue will be useful to current management researchers and practitioners.

**Editorial Team**
Indore Management Journal (IMJ)

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# Factors Affecting the Competitiveness of Unorganised Retail Outlets in Rayalaseema Region of Andhra Pradesh

**G. Somasekhar, M. Suresh Babu, Shaik Saleem and R. Madhu**

## Abstract

The present study was conducted on unorganised retail outlets in the major towns of Anantapur, Chittoor, Kadapa, Kurnool and Tirupati in Rayalaseema Region of Andhra Pradesh. These locations have seen significant developments with respect to retailing, both organised and unorganised retailing outlets in equal measure. However, unorganised retail outlets have their own strategies and have to regulate their operational strategies to remain competitive. Twenty-one store attributes have been extracted from previous studies which are suitable to shoppers of Rayalaseema region of Andhra Pradesh. The study found that merchandise mix, ambience, and smooth transaction and exchange are the top three factors preferred by the shoppers from the unorganised retail outlets. Thus, it can be concluded that these factors affect the competitiveness and ability to survive of unorganised retail outlets in the dynamic retail environment.

**Key words:** Unorganised retail outlets, Factor analysis, Store attributes, Competitiveness.

## 1. Introduction

Retailing in India has been growing faster than China and accounts for 35 % of GDP. According to Technopak report (2011), Indian retail market was predicted at US $ 470 billion in 2011 and is projected to grow to US $ 675 billion by 2016, with CAGR of 7.5%. Organised retail market in India was estimated at US$ 26 billion in 2011 and is projected to grow to US$ 84 billion by 2016, with CAGR of 26% for the period 2011-16. The unorganised retail market also is expected to grow from $ 495 billion to $ 729 billion during the next three years. It shows that organised retail penetration is growing faster than unorganised retail penetration. In India, there are over 12 million mom-and-pop stores (family owned Kirana stores), and they occupy around 92 percent of the retail share.

The disposable income of the middle and upper households in India went up on a regular basis in the past decade and contributed in the rapid growth of retail trade in India. The retail revolution has already brought many positive changes in the lifestyle of consumers residing in metro cities; it is slowly affecting the lifestyle of consumers in the two-tier cities and small towns too. Today there is not much differences in spending between shoppers of cities and small towns (Srivastava, 2008) due to many reasons such as higher literacy rate, high disposable income, increased awareness level through media, presence and accessibility of a variety of consumer products. Due to the emergence of modern retail systems like supermarkets and hypermarkets in India, local stores (Kirana Stores) are facing severe competition with respect to pricing strategy, quality and availability of a variety of products. Retailing in the unorganised sector aims to earn something for livelihood rather than for making huge profits. Further, the growth in organised retailing in recent years may have adversely affected unorganised retailing. Further, the recent signal of reforms by the Government to incentivize Foreign Direct Investment (FDI) in various sectors has prompted positive sentiments in organised retail but at the same time has created negative sentiments in unorganised retail outlets (Agarwal and Tyagi, 2011).

Establishments in small towns such as hypermarkets, megastores and supermarkets backed by corporates in small towns are affecting the buying pattern of the consumers, and slowly these consumers are moving towards organised retailing. In addition, organised retailers are promptly coping with changes in the buying behaviour of consumers and taking suitable measures. It is essential for unorganised retailers to understand the buying behaviour of consumers and adapt accordingly. So, it is clear that various factors influencing the shoppers' behaviour may influence competitiveness in retailing. Moreover, factors influencing buying

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behaviour of shoppers are similar for both organised and unorganised retailing. It is vital for unorganised retailers to understand the changing buying behaviour of consumers in order to be more competitive in small towns where organised retailing is in its nascent stage. In this context the present study attempts to understand shoppers' behaviour in towns like Anantapur, Chittoor, Kadapa, Kurnool and Tirupati of Rayalaseema Region of Andhra Pradesh.

## 2. Review of Literature

South (1980) illustrated that management of competitive advantage is possible by, identifying, developing, and taking advantage of the enclaves through which a tangible and sustainable business edge can be achieved. According to Porter (1990) competitive advantage grows from the value a firm is able to create for its buyers over and above the firm's cost of creating the product or service. Day et al. (1988) focused on the state of the advantage of competitiveness along with how the advantage was gained by successful industries in various countries based on past cases. In their view competitive advantage consists of positional and performance superiority with an outcome relative to the competition with respect to skills and resources a business deploys. These skills and resources (Barney, 1991; Lado & Wilson, 1994)bring out positional advantages like cost and differentiation, by stressing on productivity. According to Porter (1992)there are three generic competitive strategies such as, cost, differentiation and focus strategy. It is to be noted that most of the firms used generic competitive strategy to differentiate themselves from the competitor.

Fulmer et al., (1998) study reveals that the significance of developing and sustaining competitive advantage is important if competitive conditions grow ever more turbulent. McGahan & Porter, (1997) reveal that it is essential to sustain competitive advantage for longer periods across industrial contexts. A number of researchers have pointed out that sustainable competitive advantage provides a fertile domain of study to reveal the peculiarities of retail industry (Greenley & Shipley, 1995; Hawes & Crittenden, 1984). Some researchers have opined that industry-level attributes and firm-level attributes are the two best categories of determinants influencing the competitive advantage of organizations(Amit & Schoemaker, 1993; Dyer & Singh, 1998; Lado et al., 1992; Rumelt, 1991). Others highlighted the distinctive attributes of firms as distinctive competencies (Fiol, 1991; Reed & DeFillippi, 1990). Empirical studies have also found that firm attributes play a significant role in the study of competitive advantage (Amit & Schoemaker, 1993; Hansen & Wernerfelt, 1989; Hooley et al., 1998; Lado and Wilson, 1994; Rumelt, 1991).

Some of the authors reveal that location emerged as a concentric variable of competitive strategy and was extensively viewed as a significant path for firms to achieve strategic advantage, firm success and to improve financial results (Bharadwaj et al., 1993; Fernie, 1995; Shiret, 1992; Wrigley, 1994 ). The impact of low prices in retail can attract customers very fast than competitive retailers and it forces other retailers to change their own prices(Howe, 1992). Swinyard (1997) reveals that the in-store use of developed technologies like self-scanning devices, customer and staff touch screen appliances, intelligent trolleys and consumer smart cards are resources exploited for developing competitive advantage in retail outlets. Numerous retail companies dominate retailing, threatening the survivalof unorganised retailers (Shaw et al., 1992 & Arnold et al., 1998).If conventional unorganised retailers must continue to exist in the competitive environment, they need to identify, understand and then fulfil customers' needs more effectively than the competitors(Mishra & Dash, 2008). A study by Sinha and Banerjee (2004) analysed 43 variables on store choice behaviour in an evolving market. These variables are grouped as proximity, merchandise, ambience, service, patronized and others.

Study by Goswami and Mishra (2008) had the objective of ascertaining the differences in shopping between Kirana stores and Supermarkets. This study measured 44 variables and extracted 11 factors these were labelled as: 1. Store cleanliness, store offers and product quality; 2. Store brands, family grocery shopping and parking facilities; 3. Hedonic shopping; 4. Location; 5. Specific day shopping; 6. Multiple stores; 7. Planned shopping; 8. In-store conveniences: 9. Helpful and trustworthy salespeople; 10. Travel convenience; 11. Unplanned purchases. Oppewal & Timmermans (1997) carried out a study on 183 retailers in a European town to know the importance of self perceived image and competitive positioning for the retailers. The study revealed that average retailers think of service as the key dimension to differentiate themselves from the competitors. Price and promotion factors have theleast impact on perceived image of the stores. The study further suggested that six dimensions underlie retailer's self perceived store image such as, Price, Location, Interior, Selection, Service and Product Quality.

A study by Ramakrishnan (2010) tried to explore the competitive response of small retailers with increased competition from organised retailers in the emerging Indian economy. In his study retailers were clustered into groups on the basis of the success strategies followed. The research brings out key findings regarding strategies such as, maintaining a personal relationship with the customers, providing additional services which are valued by the customers, and assessing the impact of adopted strategies identified by the retailers. Shah (2009) focused on the importance of understanding consumer preferences as a key to success in any business organization. The study was conducted in Rajkot and Jamnagar cities in Gujarat state. Customers who visited malls and 'mom and pop stores' on a regular basis were the major respondents for the study. The study highlighted various suggestions for 'mom and pop stores' to remain competitive in the fast changing world of retail such as, they need to improve the processes; careful inventory management needs to be done to reduce losses; stores need to improve the display of goods so as to have an aesthetic appeal to the customers; and, maintain customer relationship effectively.

Chattopadhyay and colleagues (2010) described the retail sector in India as undergoing transformation due to emerging economies and fast growing markets. Their research revealed that the traditional retail stores maintain their competitiveness and remain resilient with their service mix even in the presence of organised retailers. The study also indicated that even in the presence of large retail stores in metros, customers still retain loyalty towards neighbourhood stores due to distinctive strategies like credit facility, home delivery and facility to place orders over phone.Gupta and Tandon (2013) did a study based in Jammu city with an objective to identify the factors that influence consumers to visit organised retailers and vice versa, and also issues faced by the consumers with organised and unorganised retailers. The major finding of the study was that approximately 87 percent of consumers are willing to shop with unorganised retail outlets. At the same time this format needs to find ways to retain the customers, as modern formats are being continuously established (Uusitalo, 2001).

Reforms in Foreign Direct Investment (FDI), constant improvements in supply chain and logistics, changing preferences of consumer from traditional to modern stores etc. forced the unorganised retail outlets to change their operational strategies to gain competiveness across retailing. The area of unorganised retail is an unexplored area of research.Very few studies have concentrated on store attributes and there are no studies regarding competitiveness of unorganised retailing in Rayalaseema region of Andhra Pradesh. In this context, this study is a significant contribution to the research on factors affecting the competitiveness of unorganised retail outlets in Rayalaseema region of Andhra Pradesh.

Based on the above discussion we propose the following hypotheses

H1: Region of residence and living affect the preference of shoppers for store attributes in unorganised retail outlets.

H2: Age affects the preference of shoppers towards unorganised retail outlets.

H3: Gender affects the preference of shoppers towards unorganised retail outlets.

H4: Monthly household income affects the preference of shoppers towards unorganised retail outlets.

## 3. Research Methodology

The study is basically descriptive in nature.Data were collected from shoppers who visited unorganised retail stores of Rayalaseema region in Andhra Pradesh. Pilot study was carried out during May 2014 and the actual survey was conducted from June 2014 to November 2014.Questions were posed relating to demographics such as age, gender, monthly household income, occupation and education, of the respondents. 21 store attributes suitable to Rayalaseema region were extracted from previous studies.These store attributes were measured on a five-point rating scale. The respondents are above 20 years of age. The study was conducted in five major towns like Anantapur, Chittoor, Kadapa, Kurnool and Tirupati. 1250 questionnaires were distributed in all, which constitute 250 questionnaires for each town 1152 questionnaires were received back and were used for analysis of data. Response rates are 87.6%, 96.4%, 94.4%, 85.6% and 96.8%, respectively. Overall response rate is 92.2%. Care has been taken to keep the response rate as high as possible. ANOVA and Factor Analysis was conducted to analyse the data (Table 1).

## 4. Results and Discussion

### 4.1 Analysis of Shoppers' Profile

Table 2 shows the demographic profile of the shoppers scattered across Rayalaseema region of Andhra Pradesh. Out of 1152 respondents surveyed, majority of the shoppers (48 percent) are of age between 30-39 years. Further, majority of the shoppers (61 percent) are male. A majority of shoppers (32.5 percent) have income between Rs. 20001 to Rs. 30000.

### 4.2 Shoppers' Perception Level on Store Attributes

Shoppers' perception level towards various store attributes affects competitiveness in the unorganised retail outlets in Rayalaseemaregion. 21 items were list out from previous studies and preferences of shoppers towards these items were rated usinga five-point rating scale.

Table 3 shows that most of the shoppers in Rayalaseema region give higher importance to products stocked with freshness followed by convenient store timings, fast & efficient billing, availability of variety of brands & products and Promptness in handling shopper complaints with mean scores of 4.57, 4.13, 4.04, 4.01 and 4.00 respectively. Again, it observed that most of the shoppers in the region gave lesser importance to availability of global products and loyalty program membership with mean scores of 3.28 and 3.39 respectively.

Table 4 reveals the difference in the opinion of shoppers living in five towns of Rayalaseema region for various store attributes. It is found that shoppers from Anantapur indicated preference for availability of variety of brands & products and nearness to residence attributes. Shoppers from Chittoor highly preferred product stocked with freshness. Spacious & clean environment, error-free sales transactions & records, quick handling of complaints, exchange policy, all modes of payment accepted, relationship with the store and brand imagewere highly preferred by shoppers from Kadapa. Shoppers from Kurnool preferred prompt & efficient staff. Availability of global products, availability of products in desired pack sizes, discounts & promotion schemes, fast & efficient billing, free home delivery, credit availability, error-free sales transactions & records, loyalty program membership, convenient store timings, order is taken over phone and parking facilities were preferred by shoppers from Tirupati.

Overall, shoppers from Tirupati preferred 11 attributes followed by Kadapa on 7 attributes. People of Tirupati and Kadapatowns expect more from unorganised retail outlets as compared to other towns. However, the perception of the shoppers living in these towns do not differ significantly for store attributes except loyalty program, exchange policy and order is taken over phone. Thus, regional location does not affect the store attributes preferences since for most store attributes there is no significant difference for the perception of shoppers living in these towns. But for retailers to have a competitive advantage in these regions they have to focus on all attributes except loyalty program, exchange policy and order is taken over phone.

The above mean scores reveal the shoppers' preference level based on each attribute.The factor analysis has been carried out to ascertain the bundle of attributes preferred by shoppers from unorganised retail outlets.

### 4.3 Factor Analysis

Factor analysis was performed on the explanatory variables with the primary goal of data reduction.

#### *4.3.1 Explanation of the factors derived for unorganised formats*

Table 5 reveals that 'smooth transaction & exchange' showed the highest degree of variance (12.525%). Hence, it was labelled as the first factor followed by the second factor was 'convenience & comfort' with second highest degree of variance (11.766), the third factor was found to be 'ambience' that displayed 10.499 % variation, the fourth factor was tagged as 'attractive promotions'at 9.999% of variance, the fifth factor was 'merchandise mix'with 9.650% variance, the sixth factor was 'value added facilities'with 8.316% variance and while the seventh factor was tagged as 'store relationship'with 6.226% variance. A value of more than 0.6 Cronbach's alpha is considered a good measure of scale of reliability (Nunnally, 1978). Table 5 indicates that for all six factors, Cronbach's alpha values were more than 0.6. In case of the seventh factor it was nearer to 0.6.

Table 6 reveals shoppers' preferences towards factors based on rankings of unorganised retail outlets.It highlights that merchandise mix was the most preferred factor with a mean score of 4.07, followed by ambience with score of 3.84, smooth transaction & exchange with score of 3.82, convenience & comfort with score of 3.79, value added facilities with score of 3.71, store relationship with score of 3.64 and attractive promotions with score of 3.63. Hence, it was observed that merchandise mix, ambience and smooth transaction & exchange were the top three factors preferred or expected by respondents from unorganised retail outlets. Thus these factors affect the competitiveness of unorganised retail outlets in Rayalaseema region and they contribute to survival inthe changing retail landscape.

Table 7 reveals that smooth transaction & exchange was the preferred factor for shoppers of age group 20-29 years, followed by shoppers of age groups 30-39, 40-49 and 50 & above years, with mean scores of 4.05, 3.92, 3.61 and 3.52 respectively. The mean scores for convenience & comfort for age groups 20-29, 30-39, 40-49 and 50 & above are 4.03, 3.72, 3.59 and 3.89 respectively, indicating that age group of 20-29 is more cautious about convenience & comfort. The age group 20-29 is more concentrated on ambience with a mean score of 3.91. Shoppers of lower age groups are more cautions towards attractive promotions in comparison to shoppers of higher age groups. The mean score for merchandise mix for age group 20-29, 30-39, 40-49 and 50 & above years are 4.34, 4.10, 4.10 and 3.67 respectively, indicating that age group of 20-29 is more cautious about merchandise mix. Value added facilities factor is more considered by the age group of 20-29 followed by 40-49, with mean scores 4.05 and 3.65respectively. is more concentrated by 40-49 age group with the mean score 3.72. Hence it is observed that lower age groups were highly concentrated on maximum factors compared to higher age groups in unorganised retail outlets in Rayalaseema region.

From Table 7 it is concluded that age influences the importance of smooth transaction & exchange, convenience & comfort and merchandise mix. Therefore, smooth transaction & exchange, convenience & comfort and merchandise mix factors are influenced by different age groups towards unorganised retail outlets in the selected region.

Table 8 reveals that female shoppers are more concentrated on all the seven factors compared to male shoppers in unorganised retail outlets in Rayalaseema region. Further the factors preferences differ significantly for smooth transaction & exchange . Therefore gender does not have much impact on preference for various factors except smooth transaction & exchange in unorganised retail outlets in Rayalaseema region.

Table 9 brings out that smooth transaction & exchange factor is highly preferred by shoppers with income above Rs 40, 000, followed by shoppers with income Rs 10,001-20,000 with the mean scores of 4.10 and 3.90 respectively. Further shoppers having income above Rs 40,000 are more cautious about the convenience & comfort, ambience and value added facilities with mean scores of 4.27, 4.35 and 3.87 respectively. Shoppers having income between Rs 20,001-30,000 look more for attractive promotions with a mean score of 3.71. Merchandise mix is highly focused by shoppers having income between Rs 10,001-20,000 with a mean score of 4.20, followed by shoppers having income between Rs 30001-40,000 with mean score of 4.10 and so on. Low income group shoppers are keen about store relationship with mean scores of 3.93 and 3.73 respectively.

From Table 9 it is seen that income influences the importance for smooth transaction & exchange, convenience & comfort and merchandise mix. Therefore, the smooth transaction & exchange, convenience & comfort and merchandise mix factors influence different income groups in unorganised retail outlets in Rayalaseema region.

Table 10 explains that smooth transaction & exchange factor is greatly preferred by shoppers with graduation followed by shoppers with post graduation, shoppers with SSC and shoppers with intermediate. Thus shoppers with UG & PG qualifications are more cautious about convenience & comfort. Shoppers with intermediate qualification highly prefer ambience and store relationshi. Attractive promotions factor is more concentrated by shoppers with under graduate qualification, with SSC qualification prefer merchandise mix and value added facilities.

It is observed that shoppers with different qualifications have given distinctive opinion for the different factors.

Table 11 reveals that smooth transaction & exchange, convenience & comfort, ambience, attractive promotions and merchandise mix factors are highly preferred by shoppers with business occupatio. Value added facilities and store relationship factors seem most significant for shoppers who are housewives. Thus it is found that occupation influences the importance for merchandise mix.

## 5. Limitations and Future Research

The research has some limitations such as, the data collected views of shoppers from five locations only. Future research covering more number of locations can provide better understanding and clearer picture of the shoppers in Rayalaseema region. Another limitation is that the study was based on non probability and sampling. So, the possibility of generalization of results is limited. This limitation may be addressed by the use of probability sampling in future studies.

## 6. Conclusions

The study was conducted in unorganised retail outlets in the major towns of Anantapur, Chittoor, Kadapa, Kurnool and Tirupati in Rayalaseema region of Andhra Pradesh. These locations have shown significant developments with respect to retailing. However, in these locations unorganised retail outlets have their own strategies; still they have to regulate their operational strategies to remain competitive.

The first objective is to examine the preference of shoppers living in different regions of Rayalaseema for store attributes in unorganised retail outlets. The study reveals that the shoppers from Anantapur prefer availability of variety of brands & products and nearness to residence attributes more. Shoppers from Chittoor highly preferred product stocked with freshness. Spacious & clean environment, error-free sales transactions & records, quick handling of complaints, exchange policy, all modes of payment accepted, relationship with the store and brand image were highly preferred by shoppers from Kadapa. Shoppers from Kurnool preferred more the factor prompt & efficient staff. Availability of global products, availability of products in desired pack sizes, discounts & promotion schemes, fast & efficient billing, free home delivery, credit availability, error-free sales transactions & records, loyalty program membership, convenient store timings, order is taken over phone and parking facilities attributes were highly preferred by shoppers from Tirupati. Overall, the shoppers from Tirupati have shown high preference for 11 attributes, followed by shoppers from Kadapa with high preference for seven attributes. It shows that people of Tirupati and Kadapa region expect more from unorganised retail outlets as compared to people from other regions.However, the perception of shoppers living in these regions do not differ significantly for all the store attributes except loyalty program, exchange policy and order is taken over phone.

The second objective is to examine various factors affecting unorganised retail stores competitiveness in Rayalaseema region of Andhra Pradesh. As a result of this research, seven factors were extracted from 21 store attributes by conducting factor analysis. These factors are in the order of smooth transaction & exchange, convenience & comfort, ambience, attractive promotions, merchandise mix, value added facilities and store relationship.This study clearly indicates that merchandise mix, ambience and smooth transaction & exchange were the top three factors preferred or expected by respondents from unorganised retail outlets in Rayalaseema region of Andhra Pradesh. The study also highlights different demographic group's influence on the seven factors. This study helps to understand the preferences of shoppers in the unorganised retail stores in the Rayalaseema region of Andhra Pradesh.

**Table 1: Sample Size by Location**

| | Anantapur | Chittoor | Kadapa | Kurnool | Tirupati |
|---|---|---|---|---|---|
| Respondents Approached | 250 | 250 | 250 | 250 | 250 |
| Valid Responses | 219 | 241 | 236 | 214 | 242 |

**Table 2: Demographic Profile of Shoppers**

| Demographic Profile | Responses |
|---|---|
| **Age** | |
| 20-29 | 204 |
| 30-39 | 549 |
| 40-49 | 188 |
| 50 and above | 211 |
| **Total** | **1152** |
| **Gender** | |
| Male | 701 |
| Female | 451 |
| **Total** | 1152 |
| **Monthly Household Income** | |
| Less than Rs. 10,000 | 134 |
| Rs. 10,001-Rs. 20,000 | 330 |
| Rs. 20,001-Rs. 30,000 | 374 |
| Rs. 30,001-Rs. 40,000 | 199 |
| Above Rs. 40,000 | 115 |
| Total | 1152 |
| **Education** | |
| SSC | 125 |
| Intermediate | 89 |
| UG | 544 |
| PG | 394 |
| Total | 1152 |
| **Occupation** | |
| Student | 18 |
| Housewife | 149 |
| Businessman | 24 |
| Service | 852 |
| Self employed | 109 |
| Total | 1152 |

**Table 3: Shoppers' Preference Level Towards Various Attributes Inunorganised Stores**

| Attributes (Unorganised) | Mean | Std. Deviation |
|---|---|---|
| Spacious & clean environment | 3.77 | 1.06 |
| Products stocked with freshness | 4.57 | 0.88 |
| Availability of global products | 3.28 | 1.04 |
| Availability of products in desired pack sizes | 3.96 | 0.95 |
| Availability of variety of brands and products | 4.01 | 1.06 |
| Discounts & promotion schemes | 3.97 | 1.03 |
| Fast & efficient billing | 4.04 | 1.04 |
| Prompt& efficient staff | 3.69 | 1.07 |
| Free home delivery | 3.75 | 1.15 |
| Credit availability | 3.66 | 1.00 |
| Error-free sales transactions and records | 3.81 | 1.07 |
| Loyalty program membership | 3.39 | 1.13 |
| Quick handling of complaints | 4.00 | 0.95 |
| Exchange policy | 3.59 | 1.11 |
| All modes of payment accepted | 3.92 | 1.01 |
| Relationship with the store | 3.58 | 1.00 |
| Brand image | 3.73 | 1.17 |
| Nearness to residence | 3.86 | 0.95 |
| Convenient store timings | 4.13 | 0.98 |
| Order is taken over phone | 3.55 | 1.05 |
| Parkingfacilities | 3.84 | 1.08 |

**Table 4: ANOVA Results for Store Attributes Preferences at Five Towns in Rayalaseema Region of Andhra Pradesh**

| | Anantapur | Chittoor | Kadapa | Kurnool | Tirupati | Total |
|---|---|---|---|---|---|---|
| Spacious & clean environment | 3.73 | 3.73 | 3.83 | 3.75 | 3.79 | 0.35 |
| Products stocked with freshness | 4.55 | 4.62 | 4.52 | 4.54 | 4.60 | 0.55 |
| Availability of global products | 3.21 | 3.23 | 3.36 | 3.20 | 3.40 | 1.80 |
| Availability of products in desired pack sizes | 3.94 | 3.89 | 3.95 | 3.99 | 4.02 | 0.62 |
| Availability of variety of brands and products | 4.04 | 3.99 | 4.00 | 4.00 | 4.03 | 0.09 |
| Discounts & promotion schemes | 3.94 | 3.98 | 3.83 | 3.99 | 4.10 | 2.00 |
| Fast & efficient billing | 4.02 | 4.04 | 4.03 | 4.02 | 4.07 | 0.09 |
| Prompt & efficient staff | 3.63 | 3.61 | 3.74 | 3.75 | 3.74 | 0.99 |
| Free home delivery | 3.72 | 3.66 | 3.71 | 3.81 | 3.86 | 1.18 |
| Credit availability | 3.58 | 3.62 | 3.64 | 3.64 | 3.82 | 2.10 |
| Error-free sales transactions and records | 3.82 | 3.75 | 3.88 | 3.83 | 3.80 | 0.46 |
| Loyalty program membership | 3.35 | 3.23 | 3.44 | 3.38 | 3.54 | 2.47* |
| Quick handling of complaints | 4.00 | 3.95 | 4.05 | 4.00 | 4.02 | 0.38 |
| Exchange policy | 3.67 | 3.51 | 3.74 | 3.60 | 3.45 | 2.61* |
| All modes of payment accepted | 3.91 | 3.79 | 3.99 | 3.93 | 3.96 | 1.37 |
| Relationship with the store | 3.54 | 3.55 | 3.69 | 3.54 | 3.58 | 1.01 |
| Brand image | 3.72 | 3.68 | 3.81 | 3.67 | 3.74 | 0.53 |
| Nearness to residence | 3.89 | 3.88 | 3.86 | 3.88 | 3.79 | 0.49 |
| Convenient store timings | 4.11 | 4.16 | 3.98 | 4.15 | 4.23 | 2.08 |
| Order is taken over phone | 3.51 | 3.42 | 3.56 | 3.57 | 3.71 | 2.45* |
| Parking facilities | 3.80 | 3.78 | 3.78 | 3.85 | 3.96 | 1.22 |

Note : *significant at 5 % level

**Table 5 : Factors Based on Store Attributes Preferences**

| Factors | Loading | Eigen value | % of variance | Cronbach's alpha |
|---|---|---|---|---|
| **Factor 1: Smooth transaction & exchange** | | **5.732** | **12.525** | **0.715** |
| Fast & efficient billing | 0.663 | | | |
| Error free sales transactions and records | 0.811 | | | |
| Exchange policy | 0.654 | | | |
| Parking facilities | 0.621 | | | |
| **Factor 2: Convenience & Comfort** | | **1.804** | **11.766** | **0.765** |
| Loyalty program membership | 0.523 | | | |
| Quick handling of complaints | 0.531 | | | |
| Nearness to residence | 0.641 | | | |
| Convenient store timings | 0.791 | | | |
| Order is taken over phone | 0.704 | | | |
| **Factor 3: Ambience** | | **1.769** | **10.499** | **0.628** |
| Store spacious & clean environment | 0.815 | | | |
| All modes of payment accepted | 0.735 | | | |
| **Factor 4: Attractive Promotions** | | | | |
| Availability of global products | 0.640 | | | |
| Discounts & promotion schemes | 0.769 | 1.756 | 9.999 | 0.604 |
| **Factor 5: Merchandise mix** | | **1.282** | **9.650** | **0.729** |
| Products stocked with freshness | 0.835 | | | |
| Availability of products in desired pack sizes | 0.743 | | | |
| Availability of variety of brands and products | 0.543 | | | |
| Store image | 0.571 | | | |
| **Factor 6: Value added facilities** | | **1.111** | **8.316** | **0.618** |
| Free home delivery | 0.724 | | | |
| Credit availability | 0.648 | | | |
| **Factor 7: Store relationship** | | **1.033** | **6.226** | **0.589** |
| Prompt & efficient staff | 0.632 | | | |
| Relationship | 0.810 | | | |

**Table 6: Store Factor Rankings of Unorganised Retail Outlets**

| Factors | Overall Mean Scores | Rank |
|---|---|---|
| **Factor 1: Smooth transaction & exchange** | 3.82 | III |
| Fast & efficient billing | 4.04 | |
| Error free sales transactions and records | 3.81 | |
| Exchange policy | 3.59 | |
| Parking facilities | 3.84 | |
| **Factor 2: Convenience & Comfort** | 3.79 | IV |
| Loyalty program membership | 3.39 | |
| Quick handling of complaints | 4.00 | |
| Nearness to residence | 3.86 | |
| Convenient store timings | 4.13 | |
| Order is taken over phone | 3.55 | |
| **Factor 3: Ambience** | 3.84 | II |
| Store spacious & clean environment | 3.77 | |
| All modes of payment accepted | 3.92 | |
| **Factor 4: Attractive Promotions** | 3.63 | VII |
| Availability of global products | 3.28 | |
| Discounts & promotion schemes | 3.97 | |
| **Factor 5: Merchandise mix** | 4.07 | I |
| Products stocked with freshness | 4.57 | |
| Availability of products in desired pack sizes | 3.96 | |
| Availability of variety of brands and products | 4.01 | |
| Store image | 3.73 | |
| **Factor 6: Value added facilities** | 3.71 | V |
| Free home delivery | 3.75 | |
| Credit availability | 3.66 | |
| **Factor 7: Store relationship** | 3.64 | VI |
| Prompt & efficient staff | 3.69 | |
| Relationship | 3.58 | |

**Table 7: ANOVA Results for Shoppers'age Groups and Factors Preference**

| Factors /Age | 20-29 | 30-39 | 40-49 | 50 and above | F-Value |
|---|---|---|---|---|---|
| | | | Mean | | |
| Smooth transaction & exchange | 4.05 | 3.92 | 3.61 | 3.52 | 5.95* |
| Convenience & Comfort | 4.03 | 3.72 | 3.59 | 3.89 | 5.27* |
| Ambience | 3.91 | 3.84 | 3.77 | 3.84 | 0.18 |
| Attractive Promotions | 3.93 | 3.63 | 3.45 | 3.45 | 5.26 |
| Merchandise mix | 4.34 | 4.10 | 4.10 | 3.67 | 9.62* |
| Value added facilities | 4.05 | 3.62 | 3.65 | 3.64 | 3.76 |
| Store relationship | 3.60 | 3.62 | 3.72 | 3.58 | 1.41 |

Note: *significant at 5 % level

**Table 8 : ANOVA Results for Shoppers' Gender Groups and Factors Preference**

| Factors /Gender | Male | Female | F-Value |
|---|---|---|---|
| | Mean | | |
| Smooth transaction & exchange | 3.69 | 4.02 | 17.75* |
| Convenience & Comfort | 3.71 | 3.91 | 5.08 |
| Ambience | 3.69 | 4.07 | 18.15 |
| Attractive Promotions | 3.50 | 3.82 | 2.20 |
| Merchandise mix | 4.00 | 4.16 | 1.33 |
| Value added facilities | 3.59 | 3.90 | 8.96 |
| Store relationship | 3.52 | 3.82 | 0.92 |

Note: *significant at 5 % level

**Table 9 : ANOVA Results for Shoppers' Income Groups and Factors Preference**

| Factors /Income | >10,000 | 10,001 to 20, 000 | 20,001 to 30,000 | 30,001 to 40,000 | >40,000 | F-Value |
|---|---|---|---|---|---|---|
| | Mean | | | | | |
| Smooth transaction & exchange | 3.32 | 3.90 | 3.88 | 3.74 | 4.10 | 11.13* |
| Convenience & Comfort | 3.45 | 3.63 | 3.89 | 3.78 | 4.27 | 7.95* |
| Ambience | 3.46 | 3.82 | 3.81 | 3.89 | 4.35 | 5.15 |
| Attractive Promotions | 3.63 | 3.52 | 3.71 | 3.66 | 3.60 | 0.32 |
| Merchandise mix | 3.68 | 4.20 | 4.08 | 4.10 | 4.03 | 11.02* |
| Value added facilities | 3.56 | 3.66 | 3.71 | 3.78 | 3.87 | 3.05 |
| Store relationship | 3.93 | 3.73 | 3.40 | 3.70 | 3.69 | 1.49 |

Note: *significant at 5 % level

**Table 10 : ANOVA Results for Shoppers' Qualification Groups and Factors Preference**

| Factors /Qualification | SSC | Intermediate | UG | PG | F-Value |
|---|---|---|---|---|---|
| | Mean | | | | |
| Smooth transaction & exchange | 3.56 | 3.11 | 4.17 | 3.88 | 9.38* |
| Convenience & Comfort | 3.47 | 3.69 | 3.84 | 3.84 | 1.82 |
| Ambience | 4.10 | 4.28 | 3.92 | 3.74 | 2.17 |
| Attractive Promotions | 3.56 | 3.57 | 3.85 | 3.60 | 0.26 |
| Merchandise mix | 4.13 | 3.89 | 3.90 | 4.10 | 1.28 |
| Value added facilities | 4.22 | 3.37 | 4.03 | 3.61 | 19.71* |
| Store relationship | 3.42 | 3.96 | 3.75 | 3.62 | 6.19 |

Note: *significant at 5 % level'

**Table 11: ANOVA Results for Shoppers' Occupational Groups and Factors Preference**

| Factors /Occupation | Student | Housewife | Business | Service | Self employed | F-Value |
|---|---|---|---|---|---|---|
| | Mean | | | | | |
| Smooth transaction & exchange | 4.01 | 3.83 | 4.26 | 3.79 | 3.95 | 1.20 |
| Convenience & Comfort | 4.02 | 3.83 | 4.10 | 3.77 | 3.75 | 1.35 |
| Ambience | 3.06 | 4.27 | 4.83 | 3.78 | 3.65 | 2.20 |
| Attractive Promotions | 3.11 | 4.01 | 4.52 | 3.51 | 3.88 | 2.52 |
| Merchandise mix | 3.79 | 4.11 | 4.76 | 4.04 | 4.10 | 8.30* |
| Value added facilities | 3.92 | 4.51 | 3.83 | 3.63 | 3.21 | 4.90 |
| Store relationship | 3.97 | 3.99 | 3.90 | 3.56 | 3.69 | 0.93 |

Note: *significant at 5 % level

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# *Impact of Employer Branding on Employees' Attitude*

**Vijay Rathee and Ritu**


## Abstract

With the increasing emphasis on branding, employees as well as customers have become brand conscious. This study seeks to check the influence of employer branding on employees' attitude. This is an empirical study. Data were collected from 140 employees of private banking organizations. Secondary data that has been taken from journals, articles, reports and web sites, is also used for the study. This study identifies important determinants of employer brand. It also highlights the perceived level of importance of various dimensions of branding on employees' attitude. The finding of the study might help management practitioners to make effective strategies and foster a healthy relationship between the employer and the employees.


**Keywords:** Employer brand, Employees' attitude, Employer branding strategy.

## 1. Introduction

Initially, branding was used to differentiate products but now a days it is used to differentiate people, as people associate themselves with different brands (like i- phone user or apple user). Brand may be any term, name, logo, sign, design or a combination of all these that differentiates a product from competitors (Kotler & Keller, 2007). The use of branding principles in human resources (HR) is known as employer branding (Backhaus &Tikoo, 2004). Just as customers are attracted towards branded products, today's talent are also wants to work for a reputed or branded organization. The concept of employer branding is new in human resource management and came in focus in 1990 when Tim Ambler and Simon Barrow introduced the term. Later it was publicly defined by them in 1996 in their paper 'The Employer Brand'. Employer brand is defined as "the package of social, psychological and functional benefits provided by the employment and identified with in the employing company"(Ambler & Barrow, 1996).

There is a war for talent (Michaels et al., 2001) and organizations are facing the problem of attracting suitable talent and sustaining the talent. This challenge faced forced organizations to work for transforming their organization as an employer brand i.e., an attractive and desirable place for employees to work (Backhaus & Tikoo, 2004). Employer branding is the communication of employee value proposition that is, offering by the employer to employees in tangible and non-tangible forms. An effective employee value proposition can increase commitment up to 29 percent and decrease compensation premium up to 50 percent (Corporate Leadership Council, 2006).

Externally, employer branding helps to attract potential hires and internally it is used to retain employees, increasing productivity, motivating employees, and increasing loyalty of employees (Backhaus & Tikoo, 2004). Studies have shown that employees want to work for an organization that provides them good working conditions, development facilities, cooperative work environment and the ambience to use their skills (Nigel Wright Recruitment Survey, 2011). Now organizations are striving to establish themselves as employer brands. In India 24 percent organizations have well defined employer brand strategies and 26 percent are working on it (TJinsite survey, 2012).

## 2. Review of Literature and Hypothesis Development

Ambler and Barrow (1996) tested the relevance of the term branding in human resource management. They stated that if brand marketing and human resource management come in a single framework then close relations would develop between employees and the organization. This will create loyalty and trust in the organization. Backhaus and Tikoo (2004) conceptualized and researched the concept of employer brand and stated that employer brand projects the organization as an attractive employer for potential hires and influences the loyalty and productivity of existing employees.

Edwards (2010) found that when there is a strong perception of employees towards an employer image and identity, it creates higher levels of employee commitment and identification. It also results in higher level of talent attraction. Sokro, (2012) stated that employer branding is positively related to attraction and retention of employees. Good working conditions, career development, core values of the organization are foremost reasons for talent attraction whereas opportunity for growth, job security, company image are significant reasons for retention of employees.

Berthon et al. (2005) developed a scale to measure employer attractiveness for potential hires. They identified five main dimensions namely, economic, social, developmental, application and interest value, that makes an employer attractive or otherwise. Jiang and Paul Iles (2011) found that employer branding determinants such as, economic, developmental, social, interest and brand trust, create internal and external employee based brand equity and organizational attractiveness. Schlager et al. (2011) empirically tested the impact of employer branding on employees' attitude, especially in the service industry. They identified economic value, developmental value, social value, diversity and reputation value as the main employer brand dimensions. These dimensions show a positive impact on employees' satisfaction and identification. Nigel Wright Recruitment and researchers from Durham University Business School conducted a survey (2011) among potential employees in Europe on employer branding and found that social value, economic value and developmental value have maximum influence on the decision of employees to join any organization. Sivertzen et al. (2013) used the employer attractiveness scale (empAT) in Norway and found that economic, developmental, social, interest and application values proved important for potential employees. Corporate reputation is also considered as an important dimension for employer attractiveness. Researchers (Cable & Graham, 2000; Cable & Turban, 2001) concluded that reputation of the employer influences the job seekers' intention to apply for a job. Celani and Singh (2011), while discussing the central role of signaling theory in recruitment, identified that employers with more or higher reputation will attract more and better quality potential talent.

### 2.1. Employer Branding Dimensions

Collins and Stevens (2002) concluded that employees' intention to apply for a job depended upon two main dimensions of the employer - general attitude towards the company and perceived job attributes. This study included three main dimensions: Economic value, developmental value, social value of the EmpAT scale (Berthon et al., 2005), and one additional dimension i.e., corporate reputation value (Schlager et al., 2011) since literature signaled that it is important for studying employer brand influence on employees' attitude.

***2.1.1. Economic Value:*** Ambler and Barrow (1996) found that employer brand also provides benefits like product band in developmental, economic and psychological forms. So, the first dimension taken for the study is economic value that is given by Berthon, Ewing and Hah (2005) in the EmpAt scale. Economic value means the benefits provided by the employer, in monetary and non-monetary forms, to the employees. It includes good salary, retirement benefits, attractive compensation package, good promotion opportunities etc. Sanchez and Brock, (1996) identified that salary is related to job satisfaction and commitment of employees. Higher the salary, higher the satisfaction level of employees. Schlager et al. (2011) also proved that economic benefits like good salary, good retirement benefits, fair amount of vacation, good health benefits and high job security have a significant relationship with employees' satisfaction. Weathington, (2008) found that employees gave importance to both monetary and non monetary benefits. Non monetary benefits like retirement benefits, medical benefits etc. have significant influence on employees' perception of a job

Based on the above discussions, the following hypotheses were framed:

H1: There is a significant relationship between economic value and employees' attitude.

***2.1.2. Developmental Value:*** The second dimension taken for the study is developmental value. Researchers ( Berthon et al., 2005; Schlager et al., 2011) stated that developmental value constitutes access to career enhancing activities, spring board for future employment, recognition for good work, training opportunities, mentoring culture, empowering environment etc. These variables influence employer image and have relationship with talent attraction and employees' satisfaction. Tansky and Cohen (2001) investigated the positive influence of developmental programs on employee commitment and satisfaction. Lee (1971) studied employees' perception regarding current and future growth and performance reward, and highlighted their positive relationship with organizational commitment of employees. Saari and Judge, (2004) identified that the career development chances in an organization have significant influence on employee attitude. According to Douglas McGregor, employees who belong to generation Y are more career directed and want to be a part of the organization that provides them career growth opportunities, empowerment, creative work culture etc.

Thus, we propose the following hypothesis:

H2: There is a significant relationship between development value and employees' attitude.

***2.1.3. Social Value:*** The third dimension taken for the study is social value. Berthon et al. (2005) stated that having good relationship with superiors and colleagues, supportive and happy work environment, respectful environment etc. have influence on employer attractiveness. Schlager et al. (2011) show a positive relationship with employees' attitude to increase in satisfaction and identification. Saari and Judge (2004) stated that behavior ofsuperiors and colleagues, work culture in the organization have influence on employees' attitude,leading to satisfaction or dissatisfaction. Bhatnagar and Srivastava, (2008) concluded that the feel good factors at the organization, friendly work culture, helpful superior etc. should be communicated to the prospective hires to attract them. Backhaus and Tikoo, (2004) pointed out that potential employees became part of any organization on the basis of the social value of the company. They want to join the organization that will provide them social approval if they work for it.

Thus, we propose the following hypothesis:

H3: There is a significant relationship between employees' attitude and social value.

***2.1.4. Corporate Reputation:*** The fourth and final dimension for the study is reputation value. Studies (Cable & Graham, 2000; Cable & Turban, 2001) have defined it as job seekers' beliefs about how other people evaluate an employer. Reputation of the employer influences job seekers' intention to apply for a job. Employer with better reputation will be more attractive for potential talent. Schlager et al. (2011) also researched that reputation value like good quality products, well known products, innovative products, good reputation of company amongst friends, good brand to have on the resume, influence employees' attitude and their satisfaction level in the organization. Salam et al. (2013) checked the influence of corporate image and reputation on customer satisfaction and loyalty, and found that there is a positive relationship between corporate reputation, image and customer satisfaction and loyalty. It can be expected that similar relationship exists between corporate reputation and employees' satisfaction in an organization. Marty Stuebs and Li Sun (2010) stated that corporate reputation has a positive influence on labor efficiency and productivity. Higher the reputation of the organization, the higher will be labor efficiency and productivity. Also, Archer and Bussy (2006) stated that negative publicity of an organization will adversely impact the employer brand of the organization and its ability to attract potential talent.

Following hypothesis was developed from the review:

H4: There is a relationship between reputation value of an organization and employees' attitude.

## 3. Research Methodology

### 3.1. Research Design

This study based on both empirical and theoretical investigation.

A sample of 150 employees was taken for the study drawn from three leading private sector banks. Banks considered for the study are ICICI bank, HDFC Bank and Axis Bank since these banks have maximum employee strength and branches in NCR. HDFC Bank had 76,286 employees in March 2015 whereas ICICI had 67,857 employees in 2015. Axis Bank being the third largest privatebank, had 42,230 employees in March 2015. Further the decision of considering private banks, and not government-owned banks, emanates from the observation that private sector banks engage in branding activities; also, data collection and availability of employees is better compared to public sector banks. Another important reason is the availability of branches in most areas of the National Capital Region (N.C.R).Out of total 150 distributed questionnaires, 140 responses were received back. Thus, the average response rate is 93.33 percent.

Data was collected from both primary and secondary sources. Questionnaires and personal interviews were used for data collection. Questionnaire contains 20 questions related to employer branding dimensions namely, economic, social, developmental and corporate reputation. The questionnaire is based on the 5 point Likert scale and personal interviews. Along with primary source data collection, secondary sources like journals, books, websites and articles were also used for the study. For analyzing the data, descriptive statistics (mean and standard deviation) and t-test were used. Mean value of various factors and variables shows the importance of each factor and variable for measuring employees' attitude.

## 4. Analysis and Interpretation

Table 1 represents the different variables of employer branding, grouped under four factors namely, economic value (F1), social value (F2), developmental value (F3) and reputation value (F4). Mean value and standard deviation of various variables is shown in Table 1. Mean value shows the significance of the variable and standard deviation shows the consistency or variability of responses. Retirement benefits have highest mean score ($\bar{x}$ = 2.21) and standard deviation ($\sigma$ =1.021). This depicts retirement benefits as the strongest influencing variable in economic value but with high variability, whereas job security has the lowest mean value ($\bar{x}$ =1.72) representing that this aspect has least contribution towards satisfaction derived by the employees in F1. In the social value factor (F2), social meetings organized by employer have highest mean value ($\bar{x}$ =1.89) followed by social status enjoyed by the employee because of employer brand ($\bar{x}$ =1.79). Under developmental value, spring board for future has highest mean value ($\bar{x}$ = 1.88) with standard deviation ($\sigma$ = 0.744). This implies that it is the strongest influencing variable in F3 to retain employees within the organization. Training and developmental programs have least mean value ($\bar{x}$ = 1.61) with standard deviation 0.765. On the other hand, good reputation among friends and relatives is the lowest influencing variable of the reputation factor because of lowest mean score ($\bar{x}$ =1.50) with standard deviation ($\sigma$ =0.617). So, it is proposed that this variable is not a strong decision influencer.

Table 2 represents the t-test results. In Table 2, "t" column represents the observed t statistic for each factor, calculated as the ratio of mean difference divided by the standard error of the sample mean. The "df" column displays degree of freedom. The value listed is the probability of obtaining an absolute value greater than or equal to the observed t statistics, if the difference between the sample mean and test value is purely random. From Table 2 it is found that all factors are significant at 95 percent level of significance. This depicts that hypotheses H1, H2, H3 and H4 are accepted. It means all the factors of employer branding i.e., economic value, social value, development value and reputation value, have significant influence on employees' attitude while rating the employer as an attractive employer. This result also reflects that the employees will be highly motivated and will work to their full efficiencies if the above said factors are reasonably present in the organization. The final ranking of these factors can be done by the mean score representations.

Table 3 depicts the mean value and standard deviations of various factors of employer branding. Economic dimension (F1) mean ($\bar{x}$ =1.869) is highest, so it is the strongest influencing factor on employees' attitude towards the organization. Developmental value (F3) is the second highest influencing factor with mean value ($\bar{x}$ = 1.8114), followed by social value (F2) ($\bar{x}$ =1.7014) and reputation value (F4) ($\bar{x}$ = 1.6814). As Table 3 shows, reputation value have lowest mean value ($\bar{x}$ = 1.6814) which shows that it is the lowest influencing factor among all the four determinants of employer branding. On the other side, developmental value has highest variation because it has highest standard deviation (σ) with value 0.583. Reputation value shows minimum variability in responses and shows highest consistency because of lowest standard deviation (σ) with value 0.459.

All the factors of employer branding are significant but have different levels of significance for employees. So, an employer should frame strategies for employees on the basis of their importance.

## 5. Discussion

For increasing the satisfaction level of employees, there are some strategies suggested to the managements on the basis of the significance of crucial factors of employer branding. Economic dimensions have maximum significance among all the dimensions of employer branding. In economic dimension, retirement benefits have highest mean score with highest standard deviation. On the other side, compensation packages have comparable mean score with less standard deviation. So, it is suggested that managements should give maximum importance to attractive compensation package followed by good retirement benefits. Attractive compensation package may include attractive and timely salary, proper incentives etc. Retirement benefits can be given in the form of voluntary retirement scheme, onetime payment of providentfund, after retirement health benefits etc. It is the second most significant factor of employer branding. Organizations should focus on providing novel work practices to employees to increase their satisfaction level. Novel work practices may include openness to change in policy matters, creative tasks etc. An employer should frame strategies for the social environment of the organization by giving priority to social meetings organized by the employer. Social meetings can be organized in the form of family gatherings at festivals or success parties of the organization and inter-organizational parties. Get-togethers with close competitors or with best players in the industry can also inculcate faith in employees. Employees perceive this dimension as the least significant but this dimension also has significance. An organization should promote itself as the best in the category to retain and motivate employees. The same could be done by following ethical practices, especially through quality products and services. Organizations can promote themselves through corporate web sites, social media etc.

## Conclusion

In this study, we examined the perceived importance of various dimensions of employer branding by employees, and its influence on their attitude towards the organizations. It is found that social, economical, development and reputation factors have significant influence on employees' attitude towards an organization and they influence satisfaction, retention and productivity within the organization. It is concluded that economic factor is perceived by employees as the strongest influencer and corporate reputation as the least influencing factor, which affects their satisfaction level within the organization. This study helps employers to frame strategies for the betterment of employees on the basis of employees' preference for crucial factors of employer branding, and simultaneously building its own brand image and attainment of objectives very effectively, efficiently and in time. Employer brand acts as an inspirational tool for motivating and retaining employees in the organization; retaining an employee is much cheaper and a better alternate as compared to attracting newer talent, unless needed. This not only helps in the growth of the organization but also in lowering attrition rate.

Employer branding is a very complex concept and there could be many other dimensions to study the same. This paper has considered only limited dimensions to see the impact on employee's attitude. Further, employees around the world and country in the banking systemare varied and this points to the geographical limitation of the study. Not only as employees, but cultural background of the respondents also has an influence on the perception of employer branding. Paucity of time and funds is obviously a limiting factor of the study.

**Table 1: Employer Brand Dimensions**

| S.No. | Scale items | Mean value | Std. Deviation |
|---|---|---|---|
| **F 1** | **Economic value** | | |
| | I believe that the compensation package offered by the employer attracts me. | 1.92 | 0.857 |
| | I like to work at a place where timely and fair rewards are given. | 1.72 | 0.750 |
| | I closely monitor the way periodic performance is evaluated by the organization. | 1.77 | 0.817 |
| | Retirement benefits affect my performance and motivation at work place. | 2.21 | 1.021 |
| | I prefer a secure job. | 1.72 | 0.841 |
| **F 2** | **Social value** | | |
| | I believe in equality of respect and appreciationin an organization. | 1.56 | 0.526 |
| | I enjoy working with an employer withhigh social status. | 1.79 | 0.827 |
| | Regular social meetings organized by employer makes me happy. | 1.89 | 0.832 |
| | The ease of work and timely help in problems motivates me. | 1.69 | 0.787 |
| | The availability of facilities and cordial environment brings in satisfaction. | 1.58 | 0.612 |
| **F 3** | **Developmental value** | | |
| | Regular training and developmental programs give an add-on to the career. | 1.61 | 0.765 |
| | Novel HR work practices boost my performance. | 1.90 | 0.807 |
| | I enjoy power and responsibilities at workplace. | 1.81 | 0.735 |
| | The employer should provide equal opportunities for growth. | 1.86 | 0.801 |
| | The employer brand should act as a spring board in my future endeavor. | 1.88 | 0.744 |
| **F 4** | **Reputation value** | | |
| | I believe organizations are what they represent themselves as to the potential hires. | 1.53 | 0.555 |
| | When my friends and relatives compliment me because of my company, I feel proud. | 1.50 | 0.617 |
| | Brand image of the existing employer gives a cutting edge in future jobs. | 1.68 | 0.649 |
| | How the people (employees/ society) feel about the reputation (good/bad) motivates or de-motivates me to be more/less productive. | 1.84 | 0.755 |
| | How I feel about the brand image (best/good/average/poor) influences my decision onlongetivity of services to the organization. | 1.86 | 0.923 |

Source: Primary Data; 1= strongly agree, 2= agree, 3= neutral, 4= disagree, 5= strongly disagree.

**Table 2: Analysis of Employer Branding Factors on the Basis of T-Test**
**One-Sample Test**

| | | t | df | Sig. (2-tailed) | Mean Difference |
|---|---|---|---|---|---|
| F1 | Economic value | 39.376 | 139 | .000 | 1.869 |
| F2 | Social value | 43.833 | 139 | .000 | 1.701 |
| F3 | Developmental value | 36.788 | 139 | .000 | 1.811 |
| F4 | Reputation value | 40.090 | 139 | .000 | 1.681 |

Source: Primary Data; 1= strongly agree, 2= agree, 3= neutral, 4= disagree, 5= strongly disagree.

**Table 3: Analysis on the Basis of Mean Score of Crucial Factors of Employer Branding**
**One-Sample Statistics**

| | Factors | N | Mean | Std. Deviation | Std. Error |
|---|---|---|---|---|---|
| F1 | Economic value | 140 | 1.8686 | .56148 | .04745 |
| F2 | Social value | 140 | 1.7014 | .45927 | .03882 |
| F3 | Developmental value | 140 | 1.8114 | .58261 | .04924 |
| F4 | Reputation value | 140 | 1.6814 | .49626 | .04194 |

Source: Primary Data; 1= strongly agree, 2= agree, 3= neutral, 4= disagree, 5= strongly disagree.

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# *Market Orientation and Service Innovation: Examining the Linkages to Organisation Performance*

**Garima Gupta and Sanjeewani Sehgal**


### Abstract

Market-oriented service firms are becoming more creative and innovative in their pursuit of delivering superior customer value. Though the impact of innovative practices on a firm's performance is sufficiently acclaimed by previous studies, there still remains a void with respect to the distinctive impact of the dimensions of market orientation on types of service innovation, especially in the context of emerging economies such as India. The present study addresses this gap by examining firms in four select service sectors for their role and impact on the type of innovation and organisation performance. Using survey method, primary data was collected from 353 managers and statistical techniques such as Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM)were used for analysing the hypothesized relationships of the research model. The results revealed that only customer orientation exertsa strong and positive influence on incremental and radical innovation. Service innovation is also found to be strongly associated with organisation performance. The findings further suggested that service innovation mustperform a mediating role in the relationship between market orientation and organisation performance. The study draws useful implications for market-oriented service firms and outlines the scope for future research in this pertinent domain.


**Key Words:** Market orientation, Incremental service innovation, Radical service innovation, Organisation performance

## 1. Introduction

With the impressive growth of the service sector in a highly competitive market era, the demands of service management are increasing significantly (Bates et al., 2003; Camison, 1996; Yavas et al., 1997). Service firms are becoming market oriented in their pursuit to create and deliver superior customer value. This requires creative ideas and continuous innovation for long term customer retention and sustenance in the market place. For firms and economies which function in an environment of intense competition, slow growth and decreased spending, more apprehensive innovative approaches may be needed. It is therefore not surprising that service innovation is regarded as a critical component for the economic viability of firms. It is also a key driver for the long term success and competitive advantage ofnations (Baker & Sinkula, 2002). In an emerging country like India too, innovation is one of the significant parameters for growth and development in the service sector.

As such, innovative practices have become a central means for gaining competitive advantage, enabling companies to provide distinctive services. The degree of innovativeness further reflects the firm's knowledge and its capability to increase organizational performance through application of new methods and processes. The process of turning opportunity into new ideas and their implementation not only provides customers with different options to satisfy their needs on a sustainable basis, but also becomes an effective way ofincreasing the firm's financial and non-financial performance.

Though the concept of innovation in services has gained importance, empirical research with a market oriented perspective still remains an under-researched area(Grawe et al., 2009). The contribution of market orientation to new services and its impact on firm's performance empirically is equivocal (Manzano et al., 2005; Zhou et al., 2005). But a component-wise analysis of market orientation in relation to its impact on types of service innovation and organisation performance is majorly lacking (Cheng & Krumwiede, 2012). Further, majority of the innovation studies have been conducted for products and that too in the context of developed nations (Alam, 2007; Alam, 2006; Storey & Easingwood, 1999). The present study addresses this gap in existing literature by examining market oriented service firms of four select service sectors i.e., Hospitality, Healthcare, IT and Banking services, for their role and impact on types of innovation and organisation performance in the context of an emerging economy like India.

## 2. Objectives of the Study

As suggested by previous studies, the present study conducts a dimension-wise analysis related to three primary constructs namely, market orientation, service innovation and organisation performance. The hypotheses formulated are subsequently tested to determine a deeper understanding of the linkages between each of these constructs. More specifically, the objectives of the study can be outlined as follows:

- To examine the independent effect of two dimensions of market orientation (i.e. customer orientation and competitor orientation) on two dimensions of service innovation i.e. incremental innovation and radical innovation, for firms in four select service sectors.
- To assess the independent effect of two dimensions of market orientation on two components of organisation performance i.e., financial and non-financial performance.
- To investigate the mediating role of service innovation in impacting the relationship between the dimensions of market orientation and the dimensions of organisation performance.

## 3. Conceptual Framework and Formulation of Hypotheses

### 3.1 Market Orientation and Service innovation: Components and Linkages

Market orientation, defined as an organisation's responsiveness towards consumer needs and tastes, necessitates intelligence about the market, customers and competitors and thus is considered as an important component of organisational culture (Baker & Sinkula 1999; Lonial et al., 2008; Narver & Slater, 1990). Existing literature has dominantly conceptualized market orientation as being composed of three interactive dimensions: Customer orientation, competitor orientation and inter-functional orientation. However, due to lack of presence of inter-functional orientation in actual practice, the present work has confined itself to the examination of the remaining two dimensions for their distinct relationship with innovation practices. According to Narver & Slater (1990), the dimension of customer orientation can be understood as a collection of knowledge and intelligence about customers in order to satisfy their needs and desires. The continuous change in needs and preferences of the customers requires firms to pay special attention to creation or development of new ideas which bring new opportunities and superior value for target customers (Joshi & Sharma, 2004; Nasution et al., 2011). Competitor orientation, on the other hand, is understood as a firm's ability to identify, analyse and respond to competitors' actions (Kohli & Jaworski, 1990). This allows firms to deliver services which are distinct from those of its competitors, thereby confirming the role of competitor's strategy as another source of innovation in the form of differentiation (Han et al., 1998).

Services marketing literature conceives service innovation as the development of new service offerings and concepts, including how to generate new ideas for service offerings and develop customer-oriented options (Nijssen et al., 2005; Olsen & Sallis, 2006). Later, it was regarded as the set of innovations in service processes i.e., service-logic innovation for the existing service products of an organization (Gadrey et al., 1995). The varied classifications of service innovation suggested by past studies are breakthrough innovation, continuous and discontinuous innovation, exploratory and exploitative innovation, and incremental and radical innovations (Chan et al., 1998; Jansen et al., 2006).The typology of incremental and radical innovation is considered important (Cheng & Krumwiede, 2012). While incremental innovations connotes minor adaptations or improvements of an incremental nature that are regularly made in modern business houses to continually improve their products or services (Garcia & Calantone, 2002; Griffin, 1997 ), radical innovations are technologically new to the market as well as to the innovating firm (Oerlemans et al., 2013) and brings in abrupt changes in technology usage and are based on unique knowledge sources.

Despite sufficient studies being conducted in the area of marketing orientation and service innovation, effective research has not been conducted by marketing practitioners so far for examining the relationship between dimensions of market orientation and types of innovative service practices (Jaworski & Kohli, 1993). Some of the related studies examining the linkages between these constructs too fail to provide a consensus. For instance, though studies show a positive effect of market orientation on innovation (Athuahene-Gima, 1995), there exists a parallel view which suggests that customer orientation in the form of placing a greater reliance by firms on customer feedback may have a negative impact on the degree of innovation (Christensen et al., 2005). Propagating this view, Christensen (1997) argues that many large organizations fail because listening to customers places stringent limits on the strategies firms can and cannot pursue, resulting in failure of radical innovation. Similarly, though an imitation of competitor's strategy is regarded as a logical source for bringing new services in so far as minimisation of cost and risk are involved, many scholars (Bennett & Cooper, 1981; Hayes & Abernathy, 1980) have argued that businesses following their competitors too closely can make only small improvements in the existing services and ignore radical changes. Further, Day &Wensley (1998) also stressed that focussing too much on competitor's strategy may distract marketer's attention towards changes in existing market segments, and reduces their capability to innovate radically. Against this background, the present study envisages the following hypotheses to test the dimension-wise relationship between market orientation and service innovation:

H1a: Customer orientation significantly relates to incremental service innovation.

H1b: Customer orientation insignificantly relates to radical service innovation.

H2a: Competitor orientation significantly relates to incremental service innovation.

H2b: Competitor orientation insignificantly relates to radical service innovation.

### 3.2 Relationship of Market Orientation and Service Innovation with Organisation Performance

Previous studies have addressed the performance of business or service firms from varied perspectives such as, financial performance, business unit performance, or organizational performance, (Venkatraman & Ramanujam, 1986), subsequently providing consensus to the view that a firm's innovation performance should be considered broadly in terms of its financial and non-financial performance (Avlonitis et al., 2001; Gounarisetal., 2003).Following this line, the present study considers organisation performance to be composed of two broad components: Financial and non-financial. Financial performance reflects the ability of a firm to use its current assets for generating revenue. It includes parameters such as,increase in profitability of the company, more revenue generation, sales, cost reduction, and expansion in market share (Avlontis et al., 2001; Menor et al., 2002). The non-financial component, on the other hand, may be understood in terms of enhanced customer loyalty, increase in new customer base, improved image and reputation of the firm (Blazevic & Lievens, 2004; Lievens & Moenaert, 2000).

A number of previous studies have regarded market orientation as an essential factor for generating innovative service and improved organisation performance (Dawes, 2000; Manzano et al., 2005; Song et al., 2009; Tsiotsou, 2010). A pioneering study by Kohli&Jaworski (1990) argued that clarity of focus and firm's vision are facilitated through market orientation. However, assessment across dimensions of market orientation has provided mixed findings where studies (Chao et al., 2007; Deshpande & Farley, 1998) suggest customer orientation as an important aspect of market orientation to business performance, but have found competitor orientation to be detrimental to profitability (Sin et al., 2005).

In addition to market orientation, literature emphasises that service innovation, whether incremental or radical, also significantly contributes towards firm's financial and non-financial performance (Venkatraman & Vasudevan, 1986). Studies examining the relative influence of innovation on a firm's financial success (Lievens & Moenaert, 2000; Thompson et al., 1985) showed that the process of new service development improves quality of service, in-turn providing benefits to the company in the form of increased profit, cost savings, increase in sales performance and expanding market. In relation to non-financial outcomes too, researchers have opined that adoption of service innovation practices such as providing ease of buying process and prioritising customer's needs result in customer retention, value generation, and firm's superior image and reputation (Avlonitis et al., 2001).

Furthermore, some of the studies propound the direct contribution of market orientation on organisation performance (Kumar et al., 1998; Langerak, 2003) while others suggest the mediating role of service innovation in impacting the relationship of a market oriented firm with its overall performance. More specifically, a study by Tsiotsou (2010) provides the strong view that market orientation can not make a direct impact on firm performance without service innovation. However, research on the direct or indirect relationship between market orientation and organisation performance remains largely inconclusive. The hypotheses formulated on the basis of the aforesaid discussion can be stated as follows:

*H3: Market orientation (customer and competitor) significantly influences organisation performance.*

*H4: Service innovation (incremental and radical) significantly influences financial as well as non-financial organisation performance.*

*H5: Service innovation mediates the relationship between market orientation and organisation performance.*

## 4. Research Methodology

### 4.1 Selection of Sample

Adopting the questionnaire design, primary data for the study were collected from key personnel of firms/ companies in four service industries namely, hospitality; healthcare, information technology and banking services. These industries are generally engaged in innovative activities and hence were found to be suitable for the purpose of the present research. For instance, hospitals like Medanta have introduced new dedicated telemedicine centres across the country and all over the world to deliver the best health-care facilities even in remote areas. The world class budgeting and planning system offered by one of the IT companies (TCS) enabled government offices to process data fast. Lemon Tree hotels provide new human resource practices such as employing and training deaf and mute people in the organisation. Banking sector is also moving ahead with its cost-effective financial and technological innovations such as online utility billing and online filing of Income-Tax returns.As majority of representative firms from these four sectors are situated in the National Capital Region, covering major industrial areas of Gurgaon, Faridabad and Noida, the sampling frame for the study consisted of the medium and large service firms situated in three areas of Delhi-NCR.The details of these service firms were obtained from websites and the database maintained by Confederation of Indian Industries (CII), with prior approval of its human resource department. While a total of 667 companies were found in IT enabled/ Telecom services, 257 hospitals including clinics, nursing homes, and other health care organisations comprised of the health care sector. The hospitality industry accounts for 563 hotels, which includes rating from one star to five star. The total number of banks was 70, including private and public, national and multinational banks operating in India. All the sources, including official websites and database of CII, provided the pool of 1557 firms from four service sectors. Assuming that only firms having more than 100 employees and an annual turnover of more than 2 crores usually have formal organisation of functional departments, firms not meeting the reference criterion were excluded from the sample. Information pertaining to annual turnover of organisations was obtained from their respective official websites. Following a similar approach for hospitality services, hotels with less than 3 star rating were removed from the sample list. The reduced sample of 1059 service firms (comprising of 372 firms from hospitality services, 447 firms in IT and telecom sector,170 hospitals and 70 banks) formed the final sample of firms that were approached for the purpose of data collection.

In the second phase, pretesting was conducted on 50 respondents including 10 respondents from each of the four service industries and remaining 10 comprising of marketing professors, marketing practitioners and head of the concerned sectorial divisions from CII. Interview method was adopted during pretesting. The contact details of top level management were obtained from the database provided by Confederation of Indian Industries (CII) and also from the respective official websites of the responding firms. Key officials having access to information about innovation service activities and performance, and possessing familiarity with customers were approached for the survey. The respondents were further screened on three parameters: First, for their experience as practicing managers in the service development or a related position; second, for their involvement in new service development process; and third, the firm having introduced a new service and/ or a new method of service delivery to the customers in the last three years. In addition to the online survey, personal visits were made to collect the responses. The follow-up mails, phone calls and regular personal visits provided the final response set from 353 service firms, yielding a response rate of 33 percent.

### 4.2 Measurement of Constructs

The primary constructs examined in the study include market orientation, service innovation and organisation performance. The scale items for these constructs and their sub-dimensions have been largely adapted from previous studies. However, since these studies pertained to varied service settings of more developed western countries, some of the statements were modified to make them more suitable for the chosen service sectors in the context of emerging economies such as India. The scales developed by Narver and Slater (1990) and Paladino (2007) were used to measure the construct of market orientation. The adapted scale comprising of 15 items captured the two dimensions of market orientation, namely competitor orientation and customer orientation. While radical service innovation was measured using a five-item scale adapted from Avlonitis et al. (2001), a merged scale of six items suggested by Abernathy and Clark (1985), Benner and Tushman (2003) and Lewin et al. (1999) was used to operationalise incremental service innovation. Organization performance, both financial as well as non-financial, was measured through a scale consisting of 10 items derived from O'Sullivan and Abela (2007), Zou and Cavusgil (2002), Avlonitis et al. (2001) and Voss and Voss (2000). The responses for all underlying constructs under study were obtained using a seven-point Likert scale with response categories ranging from 'strongly disagree' (1) to 'strongly agree' (7).

The final questionnaire was pre-tested with 50 respondents from the mix of four service sectors (hospitality, healthcare, information technology and banking) chosen forthe study. Informal discussions with researchers, academicians and top-level management experts of service sector organisations located in Delhi-NCR helped in further pruning the instrument, which was finally tested for reliability, validity and multicollinearity. Table 1 provides the details of item statistics and estimated loadings of the measures. The responses generated from the final questionnaire were coded in SPSS 16.0 and the study hypotheses were tested through structural equation modeling (SEM) using AMOS 16.0.

## 5. Analysis and Discussion

The two-stage analysis of the present study assessed the measurement model using confirmatory factor analysis (CFA) and examined the hypothesized relationships of the proposed research model using path analysis.

### 5.1 Measurement of Reliability and Validity

The study examines reliability through computation of Cronbach alpha values. The values above the accepted value of 0.70 for all the items (see Table 1) indicate good internal consistency of scale items (Gerrard & Cunningham, 2003). In addition, composite reliability above 0.90 for all the constructs in the present work further confirms the reliability of data (Fornell & Larcker, 1981). The majority of loadings above 0.70 and AVE values above 0.50 for all the constructs indicate convergent validity of the scale. Following the approach of Fornell and Larcker (1981), discriminant validity has beenassessed on six factors by comparing square root of AVE with the correlations between constructs. Results provided in Table 2 indicate the presence of discriminant validity as the square-root of average variance extracted is greater than the correlation between the pair of constructs in almost all the cases.

### 5.2 Confirmatory Factor Analysis

After testing the data for reliability and validity, CFA was performed for the three primary constructs namely, 'market orientation', 'service innovation', and 'organisation performance'. The approach suggested by Fang et al. (2005) and Joshi (2009) was followed in this regard. The first CFA model was estimated for 'market orientation' with its two first-order dimensions: customer orientation and competitor orientation. Of the fifteen-itemscale that was used for measuring the construct and its underlying dimensions, four items were subsequently deleted due to their regression weights (or factor loading) less than 0.50. The final model with eleven items has been found to have a good fit (Chi-square/df=2.171, RMSEA=.05, GFI= .96, AGFI= .92, CFI=.98, NFI=.966 and TLI=.966) and so was accepted in the present work. Separate CFA models were similarly examined for 'service innovation' with its two first-order dimensions: incremental innovation and radical innovation(Chi-square/df=2.27, RMSEA=.06, GFI=.97, AGFI=.93, CFI=.99, NFI=.98 and TLI=.98) and for 'organisation performance' with its two dimensions i.e., financial performance and non-financial performance (Chi-square/df=3.448, RMSEA=.08, GFI=.98, AGFI=.90, CFI=.99, NFI=.99 and TLI=.97).The results, summarized in Table 3, demonstrate an acceptable fit with these indices for all three models.

### 5.3 Hypotheses Testing

Taking market orientation as an independent variable, service innovation as a mediating variable, and organisation performance as the final outcome variable, the hypothesized relationships of the study were examined through structural path analysis. The overall fit measures suggest that the data provides a good fit for the hypothesized model (Bagozzi et al., 1991; Baumgartner & Homburg, 1996). The goodness-of-fit index (GFI=0.983), adjusted goodness-of-fit index (AGFI=0.917), root mean square error of approximation (RMSEA=0.07) and standardised root mean square residual (SRMR=0.011) are within acceptable range. The values for other indices like normed-fit index (NFI), comparative- fit index (CFI) and Tucker- Lewis index (TLI) are also found to be above 0.90, thereby reflecting a reasonable fit to the data as well as for the overall structural model ($X^2$/df =2.993; GFI=.983; AGFI=.917; CFI=.995; NFI=.992; TLI=.995; RMSEA=.07).The SEM results (see Figure 1) reveal strong association, with customer orientation significantly influencing both incremental service innovation ($\beta$ =.78, p<0.00) as well as radical service innovation ($\beta$ =.73, p<0.00), thereby lending support to the acceptance of H1a and rejection of H1b in the present study. The findings contradict previous studies (Cheng & Krumwiede, 2012) that have suggested customer orientation to be significantly related with incremental service innovation only. With respect to competitor orientation, the results in Table 4 show an insignificant relationship with both incremental innovation ($\beta$=.04, p=.20) and radical innovation ($\beta$=.01, p=.45). The study thus rejects H2a and accepts H2b.

An assessment of the impact of market orientation on organisation performance provides interesting results when component-wise analysis is performed. While customer orientation is found to be exerting a positive and significant influence on financial ($\beta$=.23) as well as non-financial performance ($\beta$=.21),the study found the effect of competitor orientation to be negative and insignificant for both the dimensions of organisation performance. In all, the findings provide partial support to H3. The next stage of analysis was conducted to examine the impactofthe two dimensions of service innovation on two components of organisation performance. The findings reveal a positive and significant impact of incremental service innovation on both financial ($\beta$=.23) and non-financial performance ($\beta$=.54). The direct impact of radical service innovation on financial performance ($\beta$=.32) and non-financial performance ($\beta$=.23) too is found to be positive and significant. The present study thus accepts H4 (see Table 3).

The four-step approach of Baron and Kenny (1986) was used to examine the mediating role of service innovation in influencing the relationship between market orientation and organisation performance. The mediation was checked separately for all the relationships between market orientation and organisation performance (i.e., customer orientation-financial performance, customer orientation-nonfinancial performance, competitor orientation-financial performance, competitor orientation-nonfinancial performance). In Step 1 of the mediation model, the regression of market orientation total scores on organisation performance, ignoring the mediator, was significant, ($\beta$=0.65, $p<.001$). Step 2 showed that the regression of market orientation on service innovation was also significant ($\beta$=0.70, $p<.001$). Step 3 of the mediation process revealed that the regression of service innovation on the organisation performance, controlling for the market orientation, was significant ($\beta$=0.81, $p<.001$). Step 4 of the analyses showed that after un-constraining all the paths, market orientation scores remain significant but with decreased regression weights i.e., the significance of the relationship between market orientation and organisation performance decreased after mediator service innovation ($\beta$=0.16, $p<.001$). The results presented in Table 5 indicate partial mediation of service innovation, thereby providing only partial acceptance to H5.

## 6. Discussion and Conclusion

The study makes an attempt to contribute to the existing literature by providing useful insights with respect to the component-wise linkages between market orientation, service innovation, and organisation performance, in the context of four major service sectors namely, hospitality, healthcare, information technology and banking services. The results of the study can be used by market oriented innovative service firms to understand better the differential impact of two dimensions of market orientation (i.e., customer orientation and competitor orientation) in bringing about either incremental or radical innovation of the service firms and subsequently affecting its financial and non-financial outcomes. The results at the outset reveal customer orientation to be significantly associated with both incremental as well as radical innovation. This implies that due to continuous change in needs and preferences of the customers, firms should give special attention towards innovation efforts. A proactive customer-oriented approach with a clear understanding of customers' latent needs may enable the firms to deliver value through service innovations that can either be incremental or radical in nature. On the other hand, the findings did not show any impact of competitor orientation on either type of service innovation. This may be due the fact that competitor orientation is a source for imitation. Easy imitation of new services by competitors may thus fail to influence any innovationpositively. Keeping this in mind, it may be inferred that too much focus on competitors may reduce the innovative capabilities of a service firm and hence should be avoided. In all, the findings lend support to the superior diagnosis ability of the component-wise measurement model tested in the present research.

Results of the study indicate the significant and positive influence of each type of service innovation (i.e., incremental and radical) on the two components of organisation performance. However, while the contribution of incremental service innovation towards non-financial performance is relatively greater, radical innovation is found to be influencing financial performance more than non-financial performance. The firms should therefore focus on continuous innovation to derive advantage of superior image and customer loyalty, but at the same time should also strive to develop new services so as to outperform competing firms in terms of profitability and market share.

In addition to establishing the direct impact of market orientation on organisation performance, the present research also found service innovation to be partially mediating the relationship between market orientation and organisation performance. It may thus be inferred that market-oriented innovative service firms would provide greater impetus to their organisation performance in comparison to firms that choose to be either market-oriented or innovative in their approach. To sum up, it can be suggested that a balanced focus towards introduction of totally new innovations as well as continuous improvements in the existing ones is the key ingredient for an improved overall performance of market-oriented service firms.

As is true with majority of studies, the present work too has certain limitations which may be addressed by future researchers. First, the study has been undertaken in the context of only four select service sectors in Delhi-NCR. Inclusion of other service sectors and geographical locations may provide better understanding of the constructs under investigation. Second, the research can be extended to incorporate the views of customers as well as managers to examine the differences in the perception towards innovation for both groups of stakeholders. Third, non-availability of empirical studies in the context of emerging economies may have resulted in the exclusion of some of the other sub-dimensions of the primary constructs. Future studies can attempt to make the model more exhaustive by identifying additional dimensions. Lastly, there always exists a possibility to improve the reliability and validity of scale items for future use.

**Table 1: Item Statistics and Estimated Loadings**

| Constructs/Items | | Mean | Std. Dev | Cronbach Alpha | AVE | Composite Reliability | Item Loadings |
|---|---|---|---|---|---|---|---|
| **Market Orientation** | | | | | | | |
| **(a)** | **Customer Orientation** | | | 0.88 | 0.66 | 0.96 | |
| • | Taking corrective actions | 6.32 | .942 | | | | .922 |
| • | Taking efforts to modify a service | 6.04 | 1.145 | | | | .778 |
| • | Spending time in discussing customers' future needs | 6.08 | 1.125 | | | | .750 |
| • | Periodically circulating documents (such as reports) related to customer information | 6.07 | 1.068 | | | | .720 |
| • | Meeting customersatleast once a year | 5.73 | 1.285 | | | | .517 |
| • | Disseminating information about customer satisfaction | 5.88 | 1.279 | | | | .549 |
| • | Knowledge about major customer/ market | 5.73 | 1.315 | | | | .565 |
| **(b)** | **Competitor Orientation** | | | 0.79 | 0.54 | 0.98 | |
| • | Information about competitors generated independently by all departments | | | | | | |
| • | Sharing information about | 5.88 | | | | | |
| | competitors by top management | 5.87 | | | | | |
| • | Quick response to competitors' actions | 6.01 | | | | | |
| • | Rapid response to competitors' campaignfor target customers | | | | | | |

| Constructs/Items | | Mean | Std. Dev | Cronbach Alpha | AVE | Composite Reliability | Item Loadings |
|---|---|---|---|---|---|---|---|
| **Service Innovation** | | | | | | | |
| **(a)** | **Incremental Innovation** | | | 0.80 | 0.60 | 0.98 | |
| • | Regular adaptation of existing services | 5.87 | .828 | | | | .623 |
| • | Improved efficiency of providing services | 6.29 | .774 | | | | .916 |
| • | Expanding services for existing clients | 5.36 | 1.675 | | | | .886 |
| • | Using improvised ways of providing services | 5.99 | 1.025 | | | | 0.928 |
| • | Introducing continuous improvements in services for local markets | 6.29 | .837 | | | | .859 |
| **(b)** | **Radical Innovation** | | | 0.83 | 0.52 | 0.97 | |
| • | Using advanced technology to produce service | 6.24 | .914 | | | | .738 |
| • | Creating totally new services | 5.44 | 1.53 | | | | .807 |
| • | Changing customers' buying behaviour through their usage of new services | 5.51 | 1.229 | | | | .609 |
| • | Using new ways of evaluating quality of services | 5.79 | 1.040 | | | | .709 |
| • | Prompt addition of new service features in comparison to that of competitors | 5.68 | 1.078 | | | | .741 |
| **Organisation Performance** | | | | 0.94 | 0.77 | 0.98 | |
| (a) | Financial Performance | | | | | | |
| • | Enhanced sales and profitability | 6.12 | .862 | | | | .842 |
| • | Organisation meeting its sales objectives | 6.22 | .738 | | | | .833 |
| • | Successful attainment of market share objective | 6.19 | .878 | | | | .876 |
| • | Good return on investment | 6.25 | .821 | | | | .916 |
| • | Attainment of profit targets | 6.15 | .828 | | | | .937 |
| (b) | Non-Financial Performance | | | .93 | 0.75 | 0.97 | |
| • | Significant number of new customers | 6.00 | .759 | | | | .891 |
| • | Increased loyalty of existing customers | 6.14 | .905 | | | | .913 |
| • | Strong market reputation | 6.30 | .846 | | | | .932 |
| • | Gainingcompetitive advantage over other service providers | 6.19 | .820 | | | | .889 |
| • | Improved organisation image | 6.28 | .875 | | | | .706 |

**Table 2: Correlation Matrix and Discriminant Validity**

| Variables | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1. Customer Orientation | (0.81) | | | | | |
| 2. Competitor Orientation | .27 | (0.73) | | | | |
| 3. Incremental Innovation | .63 | -.01 | (0.77) | | | |
| 4. Radical Innovation | .73 | .01 | .91 | (0.72) | | |
| 5. Financial Performance | .73 | -.03 | .76 | .77 | (0.87) | |
| 6. Non- Financial Performance | .63 | .04 | .75 | .78 | .87 | (0.86) |

Note: Values on the diagonal are the square-root of the average variance extracted for each construct (AVE).

**Table 3: Summarized Results of CFA and SEM**

| | Model 1 | Model 2 | Model 3 |
|---|---|---|---|
| **Construct** | Market orientation (second-order construct) | Service Innovation (second order mediator variables) | Organizational Performance (second-order construct) |
| **Sub-Dimensions (first-order constructs)** | Customer Orientation and Competitor Orientation | Incremental Innovation and Radical Innovation | Financial Performance and Non-Financial Performance |
| **Number of items** | 11 | 10 | 10 |
| $X^2$ | 67.9 | 38.7 | 31.0 |
| df | 33 | 17 | 9 |
| $X^2$/df | 2.058 | 2.276 | 3.448 |
| GFI | .966 | .979 | .983 |
| CFI | .983 | .993 | .995 |
| TLI | .971 | .982 | .975 |
| RMSEA | .055 | .060 | .083 |

**Table 4: Results of Hypotheses Testing**

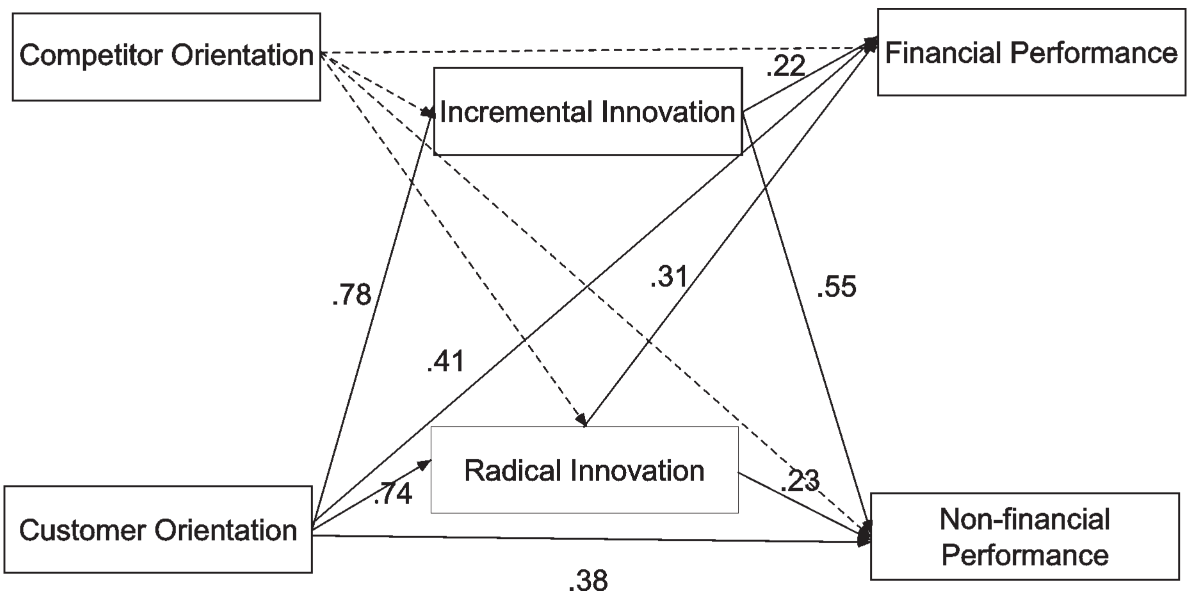
| Direct effect | βPath Coefficients | Hypotheses Testing |
|---|---|---|
| **Market Orientation → Service Innovation** | | Partially accepted |
| Customer orientation-Incremental SI | .781* | Accepted |
| Customer orientation-Radical SI | .732* | Rejected |
| Competitor orientation-Incremental SI | NS | Rejected |
| Competitor orientation-Radical SI | NS | Accepted |
| **Service Innovation → Org Performance** | | Accepted |
| Incremental SI -Financial Performance | .474* | Accepted |
| Incremental SI -Non-Financial Performance | .611* | Accepted |
| Radical SI - Financial Performance | .375* | Accepted |
| Radical SI - Non-Financial Performance | .233* | Accepted |
| **Market Orientation → Org Performance** | | Partially accepted |
| Customer orientation- Financial Performance | .413* | Accepted |
| Customer orientation- Non-Financial Performance | .386* | Accepted |
| Competitor orientation- Financial Performance | NS | Rejected |
| Competitor orientation- Non-Financial Performance | NS | Rejected |

*Notes: *p<.001, NS: Not Supported*

**Table 5 Mediation Results-Four Step Procedure**

| Steps | Model | Linkages | Effects |
|---|---|---|---|
| **Step 1- Step 3** | Constrained Model | **MO-----------OP**<br>(IV) (DV) | **.65*** |
| | | **MO-----------SI**<br>(IV) (M) | .70* |
| | | **SI-------------OP**<br>(M) (DV) | .81* |
| **Step 4** | Unconstrained Model | After mediator SI<br>MO--------------OP<br>(IV) (DV) | .16*(Significant but lower SRW, SI partially mediates the relationship between MO and OP) |
| | | **MO-SI-OP** | Partially accepted |

*Notes: *p<.001, IV: Independent Variable, DV: Dependent Variable, M: Mediating Variable, MO: Market Orientation, SI: Service Innovation, OP: Organisation Performance*




**Model Fit Indices**

| $X^2$/df | GFI | CFI | IFI | RMSEA |
|---|---|---|---|---|
| 2.857 | .992 | .997 | .986 | .078 |

**Figure 1: Path Model Results**

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# Ethical Marketing Communication in the Era of Digitization

**Kuldeep Brahmbhatt**


## Abstract

The present paper focuses on the consideration of ethics in marketing communication. Recently, Lenskart, American Swan and Trioka made promotional brand communication on the day of the Nepal earthquake to exploit business leverage. This faced criticism on various media platforms for insensitivity of the communication piece. Author identified various factors which may lead to such insensitive communication which includes, organizational policies, role of educational institutes in moral development, cognitive moral upbringing of individual, individual personality traits, intentions of the message and competitive environment. In addition it explains, how brands handle image management once it has been damage. A few components of Image Repair Theory such as, mortification, evasion of responsibility and reduction in the offensiveness of the act have been used to restore the image.


**Keywords:** Marketing communication, ethics in marketing, ethical marketing communication, competitive environment, image management.

## 1. Introduction

*"Ethical considerations - questions of right and wrong - are an inseparable part of real-life marketing communications. Any part of an organisation's marketing communications can send messages about its ethical stance, either intentionally or otherwise. Organisations need to cultivate an active awareness of the ethical consequences of their marketing communications."*

*- Richard Christy (2009, p. 99)*

Over the decades, marketing has been a process to sell goods and services produced by the business world. Marketing includes the processes to communicate offerings to the prospective customers in a way which attracts attention and stimulates the intention to purchase. The modes of communication have undergone changes over a period of decades in line with technological reforms, economic changes, changes in the operating environment of the business and most importantly, customer expectations. In the last decade, digitization has revolutionized marketing communication. Aaker (2015) noticed that digital marketing communication is a powerful device for building brands and strengthening the relationship with individuals and community by engaging them actively in the marketing process. He also adds that such active participation has led the marketer to communicate the message at individual level with rich and deep content. In a way, the digital platform has given the marketer an option for greater reach with more customized offerings.

According to Aaker (2015), digital marketing communication strategies need not be seen as a silo entity, it could take many more forms depending on cultural differences, events, crisis, company profiles, logistics of the countries and variety within the country. It would be very naïve to generate branding strategies and its communication for India as a country, without considering its cultural diversity or the logistics of the regions across India. Thus, a context is of prime importance for any marketing communication.Likewise, at the time of natural calamity, a marketer needs to understand the criticality of that crisis and needs to formulate the communication campaign taking into account societal and humane needs.

For example, on the day of the Nepal earthquake on 25 April, 2015, Bharti Airtel offered all calls from India to Nepal free of charge on its network for 48 hours from midnight the same day. ("Nepal earthquake: Call traffic from India sees massive jump", 2015). Similarly,

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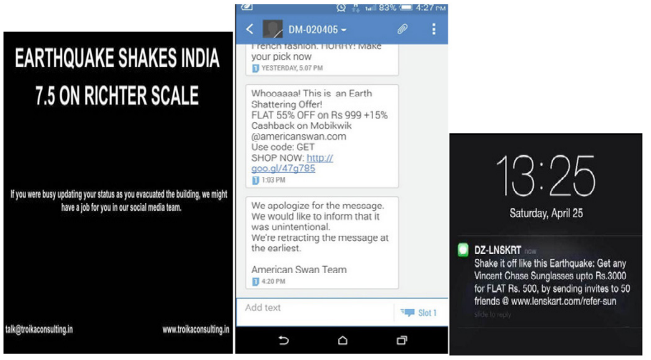
Facebook ran a campaign called “Safety Check for the people affected by the earthquake”. Through Safety Check, one could update one's family and friends that one is safe.People could also check about their friends' safety (Sen, 2015).In contrast to Airtel and Facebook, a few brands like Lenskart, American Swan and Troika Consulting tried to get business leverage through the calamity of the earthquake.

Lenskart, a seller of eyewear and contact lenses through online and retail stores, sent an SMS advertisement to its customers saying,"Shake it off like this earthquake" (Khosla, 2015). The message sought to offer special discounts for sunglasses on the disastrous day for Nepal. The discount offered by sending the message to fifty known people was on the brand Vincent Chase sunglasses. Such viral activity had been planned to generate buzz in the market relating to a particular offer. Sprague and Wells (2010) argued that personal recommendation through referencing is one of the strongest triggers for customers because it comes from a reliable source instead of a corporate third party. But, the thrust of Lenskart to gain more consumers by the means of buzz marketing during a calamity was questioned and they faced criticism for their SMS advertisement (Khosla, 2015). Another similar piece of communication was by American Swan, an online fashion retailer, which came up with, "Earth shattering offer", providing discounts to its followers (Khosla, 2015). In the SMS advertisement,followers were provided promotional codes to avail high discount and added discount for using the platform of Mobikwik. Thus, American Swan planned to get business from existing customer through sales promotion. But, their choice of event for sales promotion faced criticism (Khosla, 2015). Another blunder was from the talent sourcing agency, Troika, which communicated hiring of people who were busy updating their status on social media while their building was being evacuated in earthquake (Khosla, 2015). Troika posted a picture of the same on their Facebook media job group page and urged social media savvy candidates to apply for the posts of social media team. As rightly noted by Va (2015, p. 75) for communication message, brand "cannot touch the tangent Millions unless the Method of dialect between the brand and the prospective customer is unique, innovative and special", which is also a premise of guerilla marketing. In the same manner, Troika tried to be unique by Guerilla marketing on social media, but it faced criticism too (Khosla, 2015). Images of these communications areshown below.




Consequently, these brands attracted immense criticism on social media; so they ended up with an apology for their advertisements. American Swan and Lenskart sent posted apologies to their followers and customers for their message and said that the whole event was unintentional and they did not intend to be mean about any crisis or the people involved in it (Shrivastava, 2015). Troika Consulting removed its Facebook post within a few hours and sent an apology post to their followers. With acommunication to Social Samosa, Troika communicated that the message not intended forearthquake victims ("Troika Consulting's response to Earthquake Post", 2015).Thus, all the three brands planned image management immediately after the incident. Even though the brands tried to build positive images afterwards, customers do have their own way of interpreting the phenomenon. Wan and Schell (2007) argued that the image of the brand isanalyzed at two levels: firstly at the level of personality and character, which refers to motivations of the brand with skillfully designed communication. At the second level, customer's perception about the communication, based on their understanding and interpretation. Here, two processes are playing a role, firstly at the cognitive level through customer's understanding about the organization and secondly, at the affective level through customers'own interpretations in relation to marketing communication by the brand(Avraham & Ketter, 2008; Dowling, 2001).

Ethics in marketing communication refers to the marketing morality related to one of the 4P's that is, promotion. Communication pieces like the ones mentioned above raise concerns over the ethics involved in marketing communication. In India, Advertising Standards Council of India (ASCI) regulates the ethical issues involved in marketing communication. The general guidelines from ASCI and other regulatory bodies put emphasis on the normal requirements of decency, legality and honesty regarding the advertising messages or claims, and the means by which these messages are being presented (Pickton &Broderick, 2005). But, these requirements are not explained in great detail (Pickton & Broderick, 2005). So, for a marketing manager, what might be communicated is nebulous. Most organizations are not intentional in their unethical doing (Carrigan & Attala, 2001); but these are pitfalls which organizations should be wary of. Such pitfalls may lie with organizational policies, workforce or other environmental forces. In the following section,through detailed literature review, author explains ethics in marketing communication and identifies the factors which may lead to insensitive marketing communication. Plus, once the damage has been done, how a brand reacts to the situation and undertakes image management is also studied.

## 2. Ethics in the Marketing Communication

Ethics is about the study of morality in which practices or activities which are right and wrong have been focused (De George, 1999).Question of right and wrong have been discussed by thinkers and writers over many decades and to discuss it superficially here in this space would not do justice to its magnitude. Varey (2002, p. 325) produced a more pluralistic view for ethics in marketing communication stating, "ethical standards should ensure that representation and expression are not misleading, deceitful, exploitative, demeaning, irritating, wasteful, arrogant or servile". For this research we consider people's response on a particular instance as a right or wrong act.Laczniak and Murphy (2006) noted that ethical marketing puts customers first.In the present case, criticism on various media for marketing communication by Lenskart, American Swan and Troika would reveal the insensitivity in their communication or wrong action, while studying morality.

As a part of the larger domain of ethics, ethics in business focuses on ethical principles in relation to the conduct of the business. Within the study of business ethics, ethics in marketing communication is an important component. In the literature of marketing communication, ethics concerns appear at two levels (Christy, 2009). Firstly, critiques of the marketing communication who believe that the activity as a whole is undesirable or only some aspects of the marketing communication activity are not justifiable on the basis of ethical principles. This study focuses on the ethical consideration within various activities of the marketing communication which may include advertising, sales promotion, PR and so on.

As Robin and Reidenbach (1993) pointed out, marketing communication is seen to be ethical or unethical based on the context in which they are applied.The consideration of ethics in marketing communication has been studied in various contexts such as truth telling through advertisements, treatment for vulnerable groups, representation of groups, infringement of personal privacy through direct marketing, images of women and men in advertising and stereotyping people, culture and region (Attas, 1999; Borgerson & Schroeder, 2002; Carrigan & Szmigin, 2003; Christy & Mitchell, 1999; Packard, 1960; Strachan & Pavie-Latour, 2008). However, no study has focused on sensible and ethical marketing communication in the scenario of natural calamity. This study offers an opportunity to explore and understand the phenomena of ethics for sensible communication by the brands in the scenario of devastative natural calamity.

## 3. Factors Influencing Ethical Marketing Communication

### *3.1 Personal, Organizational and Institutional Factors*

It is quite interesting to know why brands adopt differing communication strategies in similar situations of devastation. In the Nepal earthquake, Airtel and Lenskart chose to do different marketing communications. It is critical to understand the factors that actually differentiate both. Sparks and Hunt (1998, p. 92) pointed out various organizational factors which affect organizational ethical decision making, which includes,"the process of judging organizational practices, the impact of supervisory actions, the effect of Machiavellianism, the influence of cognitive moral development, the role of deontological norms and the role of the importance and moral intensity of ethical issues".Hunt &Vitell (1992) described a model of ethical decision making wherein sensing the ethical situation and feeling ethical sensitivity in the decision making process is a personality trait.As a result, some people neverrecognize the existence of the issue at all. The study identified variables like religion, individual value system, beliefs, strength of moral character and ethical sensitivity. Here, they consider ethical sensitivity as a personal characteristic which enables an individual to feel the presence of an ethical issue.Some authors have also pointed out the role of educational institutes like schools and colleges in instilling the sense of ethics. There is an influential relationship between the environment of an educational institution and the development of standards of ethics in students (Hawkins &Cocanougher, 1972).Thus, factors at personal, organizational and institutional levels have an influential role to play in ethical communication.

### 3.2 Contextual Factors

In addition to the factors mentioned above, context and motives are also vital while evaluating ethics in marketing communication. Clampitt (1991) has discussed three fundamental assumptions in relation to the communicator and the motives for ethical interventions in marketing communication. Firstly, each and every communication has one or the other ethical dimension. While choosing any communication, a communicator focuses onthe feelings attached, information to be sent and motives. It is the receiver who takes a moral stance for any piece of communication. Secondly, he adds that marketing communication involves motives and their impact. There is the chance that a good motive was directed in a deceitful way. Lastly, while making decisions relating to ethical communication, one needs to understand who is communicating with whom, in what sense, where and when.Thus, motives and context of the communication are important.

### 3.3 Competitive Environment

Eliashberg and Chatterjee (1985) have noted that a brand'smarketing department keeps an eye on competitors' activities or conduct. A competitor's activities or industry practices are important driving factors for a brand's marketing strategies to gain competitive advantage. Johnson & Busbin (2000, p. 153) observed that competitive advantage has taken a "multidimensional character";to be at the cutting edge, brands need to be effective at product strategies as well as marketing strategies. They added that to attain competitive advantage, a brand needs to be up to date with the flow of market information, distribution intensity and diversity, sophistication of customers and competitors etc. At the same time, competitive advantage can be hindered by "structural nature of the industry, networking, alliances and government interventions" (Johnson & Busbin, 2000, p. 153).

In the present scenario, digital marketing communication and its innovative tactics have added one more dimension to competitive advantage. Johnson & Busbin (2000, p. 153) noted that digital marketing has changed the form of "time based competition" introduced by Stalk and Hout in early 1990s, which focused on being faster than the competitor. Being faster would include being faster in response to market changes, faster in distribution channels and service to the customers, faster in new product development with the advent of technological changes. In the above mentioned form of competition, digitization has revolutionized information dissemination in an innovative way. The advances ininformation dissemination has generated concepts like buzz marketing, viral marketing, stealth marketing, word of mouth and Guerilla marketing.

Notarantonio and Quigley (2009) explained buzz and viral marketing as tempting customers or consumers to take the product, service, brand or any business function so that they involve themselves in the advocacy process by spreading the message to others. They added that in the process, the source of the message has prime importance due to its assumed objectivity. Commercial sources of the message are also important in spreading awareness.But, word of mouth has a strong influence on innovation information adoption which is a more reliable source in consumer decision making (Katz & Lazarsfeld, 1955; Mahr & Chiagouris, 2005). Notarantonio and Quigley (2009) added that Word of Mouth (WOM) is a source of consumer dominated channel of marketing because it is assumed to be independent of marketer intervention. So, WOM is a more reliable, credible and trustworthy source of communication. Schweitzer (2005) defined Guerilla marketing as an unconventional way of promoting the brand wherein traditional media is no longer able to reach the targeted mass demographic. He added that Guerilla marketing comes with more engaging instruments with element of surprise and unconventional methods of connecting with the consumer through offensive modes of promotion. Thus, the above marketing communication tactics give leverage to brands on the digital platform due to their capability of faster and more innovative information dissemination.

In order to gain competitive advantage, such communication tactics have generated a blind race of sales promotion and in turn, brands follow insensitive communication as observed in examples of earthquake mentioned above. Within the area of ethical marketing in general, and ethical marketing communication in particular, no studies have put emphasis on the factor of competitive environment as a vital influencing factor for ethical marketing communication. This study would instigate this factor for future research.

## 4. Image Management

Nandan (2005) explained the concept of brand. He said that brands are intangible assets which help in shareholder value maximization by reflecting the true value of the firm, keeping in mind the benefits of both organization and consumer. He also added that brand identity is the company's reflection of their own self to the world and brand image refers to the image received or perceived by the consumer. Brands try to eliminate the gap between brand identity and brand image through their communicative messages over a period of time. But if the gap widens, companies need to do image management by handling crisises encountered by the organization. Hermann (1963) notes three fundamental characteristics of crisis which are surprise, threat and a short response time. In the same line of thought, "An organizational crisis is a specific, unexpected, and non-routine event or series of events that create high levels of uncertainty and simultaneously present an organization with both opportunities and threats in relation to its high-priority goals" (Ulmer, Sellnow and Seeger, 2015, p. 7). In this paper, we mention threat as a threat to the image of the brand. Organizational crisis through any activity widens the gap between brand identity and brand image, which needs to be managed. Objectives of the crisis management are maintaining the organization's image, lessening the negative outcomes, and protecting stakeholders' rights (Pang, 2012). Pang (2012) also added that, the impact of the crisis on the image of the brand depends on three things:firstly, how strong the current image is, secondly, the magnitude and type of the crisis and lastly, how much media attention the event got. Crisis and/or Image Management should thus opt for organizational normalcy and seek to influence the perception of the audience.

In the process of regaining the image and to restore the brand image, Holtzhausen and Roberts (2009) suggested Image repair theory proposed by Benoit and Pang. Image repair theory in public relations has got its roots in two forms of rhetoric: political rhetoric and social science. This theory suggests five strategies to repair the image of abrand. First, denial: It is explained as the communicative agency's stance on denying the performance of the act or to transfer the responsibility to someone else's shoulder. Second, evasion of the responsibility: It caters to the argument that the event was merely an accident and unintentional on the part of the organization. Third, reduce the offensiveness of the act: It emerges from showcasing one's good traits or by reducing the importance of the act or by blaming the accuser or by providing compensation to the victim. Fourth, corrective action: It refers to the communicative agency's plans to resolve the issue. And lastly, mortification: It suggests apology for the event by the brand. According to the situation, the organization would use either one strategy or a combination of a few to resolve the crisis. Thus, a brand can restore its image in a crisis situation through any of the ways.

## 5. Discussion and Future Direction

### *5.1 Empirical Investigation of Ethical Marketing Communication*

Lenskart, American Swan and Troika faced criticism with plenty of comments on various social media platforms for their proclaimed (by the people) insensitive piece of communication. The same incident raised questions relating to ethicality in marketing communication. To evaluate the same, one need to look at it from multiple perspectives, which include company policies relating to ethical behavior, individual's cognitive moral development, individual personality traits, intentions behind representation and expression of the message, role of education institutions, context of the communication, and competitive environment. For instance, criticism on a piece of communication has proved brands to be guilty of a deed, which proved to be insensitive in a single time communication.

At this juncture, it is quite difficult to evaluate whether on a larger scale people have actually perceived brands to be unethical and if yes, then which are the contributing factors to it. And even among the contributing factors mentioned, it is difficult to know which factors contribute more and with what intensity.To ascertain the same in future research, executing the method of laddering is recommended. Laddering refers having in-depth interviews with customers and developing an analysis of how customers actually translate the attributes of the products/communication with meaningful attachment by considering their own self, following means-end theory(Gutman,1982). Here, the very purpose of having in-depth interviews is to know the attributes (A),consequences (C) and values (V) associated with the insensitive piece of communication. Attributes and values would be the influencing factors for ethical marketing communicationin the current study. Thus, execution of the laddering method would distinguish ethics of the brands and the perceived value associated with it,which in turn decides the basis for the brand or piece of communication being ethical or unethical. Another measure for finding ethicality of the brand is "ethical brand index" introduced by Karen Fraser, which is one of the most accurate measurements of perceived image in relation to ethics (Arnold, 2009, p.16).Such measures would help us to gaugelong term perceived image of brands relating to ethicality. The combination of laddering and ethical brand index would give us a proper indicationfor customer's point of view.Varey (2002) argued that the objective of marketing communication is to differentiate, remind, persuade and inform, not by an authoritarian way, but through collaboration and participation with the stakeholders in a specific context. Here, brands tossedinsensitive communication without understanding the sentiments of the customers at atime of natural calamity.

### *5.2 Competitive Environment: A New Factor of Influence*

Renowned semiotician, Barthes (1953) said that, denotations are not the first meaning of signs and messages but it pretends to be so, whereas connotations are more established and close to the reading of signs and messages. So, denotations and connotations together lead to meaning making of the phenomenon. With the connotative underpinnings, the communication messages of Lenskart and American Swan generated guilt-by-association for brands likeVincent Chase and Mobikwik. Guilt-by-association refers to the consumer judgments of higher perceived risk and lack of trust regarding a particular brand by associating with another brand whose brand image has been contaminated (Gao et al., 2013) Both the associates, Vincent Chaseand Mobikwik, might have got negative word of mouth for getting involved in such a piece of communication. Secondly, Lenskart had floated its offer for people who were required to make it viral by communicating the same message to fifty more people in order to get the discount. In a way, it planned for buzz marketing or word of mouth from a devastating calamity. Sprague & Wells (2010) opined that customers are highly receptive of word of mouth communication and adaptive to messages from reliable sources. Such buzz marketing campaign could have been created on a festive season or by announcing season's sale insummer, but the brand messed up with the unusual communication on the day of a disaster.Troika Consulting used the concept of Guerilla Marketing through its unconventional message for recruiting people for the social media team. Apparently, all the three brands had tried to get competitive advantage through these communication pieces but it did notwork for them.

In the last few years, the e-commerce segment in India has become highly competitive with the presence of international and national brands. PWC Report (2014) noted that, this segment has grown three times in the last four years: by 12.6 billion USD in 2013, which wouldgrow manifold in two more years.To grab the market in this competitive environment and to get competitive advantage each brand is keeping an eye on other brands' actions and industry practices. Parallel to it, frequent sales promotions have been a trend in the industry. As a result, every player in the market is catchingup with faster market changes, faster distribution and services, and faster new product development. Such a race is motivating them to grab the opportunity to earn even through disastrous natural calamities. This leads them to insensitive communication for profit maximization, which generatesa pitiful situation. Thus, competitive environment as an influential factor for ethical marketing communication would bea new avenue for future research.

### *5.3 Image Management*

Brand identity is an organization's unique and differentiated offering to the target audience which ideally reflectsin every single communication by the brand. In the present case, Lenskart communicated to "Shake it off like earthquake" (Khosla, 2015).In this piece of communication, what is to be shaken off is an ambiguity. In the same context, earthquake that is a disastrous event with plenty of attached sad emotions was clubbedwith the ambiguous message. It points tothe clear blunder in the communication. American Swan communicated,"Earth shattering offer" (Khosla, 2015), which had connotations of being surprised with the present offer. But, how could a person be surprised in the shock of the disaster? Such instances have placedthe brands in animage crisis. Once the crisis occurred, the brands tried to maintain the image and to lessen the negative word of mouth. After a few hours, they sent apologies for the communication to normalize the situation and to change the perceptive image already generated.But, till then social media and traditional media had captured the issue and ruptured their brand image significantly. According to Image Repair Theory, brands performed the strategies of mortification, evasion of responsibility, and reduction in the offensiveness of the act. They intended to prove the messages unintentional and conveyed that they were merely an accident. Through their act, they curtailedthe importance of the event in an effort to influence the perceived image in the minds of consumers. But, actually how effective they were poses a question of exploration with empirical studies in future.

## 6. Conclusion

Out of the 4P's of marketing, promotion is one of the significant parameters which drive the firm's success. Marketing of promotional communication has a significant impact on consumer psychology and their behavior in the consumer market. Ethicality in every communication campaign plays a very vital role in generating a good brand image for the organization. At a micro level, an organization's corporate policies, individual's cognitive moral development, individual personality traits, intentions behind representation or expression, context of the communication, are the most influencing factors for any irresponsible or deceptive communication. At the macro level, a rush for getting competitive advantage in the digital age motivates the marketer to use marketing tactics such as, viral marketing, buzz marketing, stealth marketing and guerilla marketing, in unethical ways. Plus, environment of educational institutions also plays a vital role. Such macro and micro factors leading to unethical practices widens the gap between brand identity and brand image, which in turn generates crisis situations for the brand. According to the Image Repair Theory, communicating agency's crisis situation can be handled by five strategies out of which evasion of responsibility, reducing the offensiveness of the act, and mortification were used by Lenskart, American Swan and Troika.

Though quite often utilitarianism decides the moral worth of ethicality of the communication from the customer point of view, there is the need to dig deep and explore the underpinning factors which matter for ethical marketing communication with the intervention of both customers and marketers.

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# Market Penetration through Sales Promotion - A Review

**Subhasis Sen and Kannan Rajagopal**


## Abstract

Market penetration has always been a vital challenge for companies targeting customers in different sectors. Samsung outsmarted Nokia by introducing dual-sim technology and Android operating system in mobile-phones. Haldiram has been a dominant player in fast-food category in the Indian market in spite of the presence of McDonald's, KFC and Domino's. Sensodyne and Colgate Sensitive are the two brands struggling to make a mark in the low-priced oral-care segment. Bajaj Scooters in India experienced marketing myopia in spite of being a first-mover in the two-wheeler segment. Keeping in view the problems faced by different sectors in the industry, a multiple qualitative case analysis has been done taking into account their innovative practices. A site-ordered effects matrix model has been derived out of the sales promotion cases about established market-players in the industry to find solutions to problems related to market penetration faced by the companies in Oral-care, FMCG, Automotive, Banking, Consumer Electronics, Real Estate segments.


**Keywords:** Customer Engagement, Brand Revitalization, Affiliate Marketing, Sales Promotion

## Introduction

Market penetration has always been perceived by companies as an uphill task for product launches and service delivery, especially in a market where competitors already exist (Masterson and Pickton, 2014). Samsung outsmarted Nokia by introducing dual-sim card technology and Android operating system in mobile phones. Samsung has a wide range of handsets with different price points and screen sizes, and is thereby ahead in competition with Nokia. The oral care industry has not been able to retain its customers in the sensitive toothpaste category. Experts feel sensitive toothpaste brands like Sensodyne, Colgate Sensitive hit the mark initially but consumers switched to regular ones after early trials (Malviya, 2015). It has also been observed that in Quick Service Restaurant (QSR) category, despite the profusion of multinational corporation brands with high cool quotient like McDonald's, KFC and Domino's, good old-fashioned Indian offerings from Haldiram's still dominate the Indian market. Haldiram's presence has been felt both in ubiquitous casual dining eateries and packaged snacks. Every product of Haldiram is made in-house (Malviya, 2015). In yet another segment, slow-moving winter has affected FMCG players viz.,Emami, Dabur. Sales of winter care products, primarily cold creams, body lotions, specialized face-care creams, lip balm, and food items like chyawanprash, dry fruits and sweets such as chikki have dropped by five to seven percent, while 20 percent fall has been observed in woolen garments like jackets and footwear across general trade(Bhusan and Mukherjee, 2014). Two-wheeler industry has been going through a changing phase. Most of the market-players like TVS, Piaggio, Honda, Hero Motors, and Yamaha have re-invented their scooters with innovative features and introduced customer loyalty programmes. Two decades ago, Bajaj was the key player in the two-wheeler scooter segment. There was a sudden decision to fade out scooters, which had been on a successful journey on the Indian roads from 1950-2000, as a result of technology obsolescence and redirecting their focus on manufacturing and marketing of motorcycles (Pandya and Jani, 2011). Industry trends show changes in tastes and preferences of customer with progress in time, technology and thought process. Therefore companies have to look for continuous improvement of product promotion and service delivery. The need of the hour is to find ways to penetrate the markets by replicating successful innovative practices from different sectors. The study was conducted during the year 2014-2015 to identify innovative sales promotion practices implemented by companies while penetrating different global markets.

## Literature Review

A study by Yeniyurt, Townsend and Talay (2007) identified factors impacting the launch of brands in emerging global markets. The multiple indicators of activities can contribute to experiential learning while launching brands globally. Market attractiveness positively impacts the possibility of a brand being launched in an emerging market. This indicates that potential demand conditions should be considered during the product introduction stage. The results have shown significant outcomes with respect to the role of psychic distance and experiential learning. There are lesser probabilities of brands launching into nations that are culturally and economically less similar to the domestic market. From a managerial perspective, this research suggests that enterprises should look for acquiring both local and global expertise to materialize the launch of products and brands in the international markets.

Industry analytics can be treated as a customized informatics solution for creating an entry strategy into an emerging market, launching a new product or developing the operating strategy of a firm. The firms have to proactively design and modify their strategy to maintain market position.

The telecom industry of United States might be experiencing spin-offs, mergers and acquisitions. The country has faced falling stock prices, decreasing margins and declining market share. The double-digit growth of a stable economy is now a place of businesses competing for each other's customers in a saturated market. The situation of declining costs and market shares have resulted to a wave of consolidations. The market is significantly moving to a phase when companies would concentrate on their core competencies and offer low cost products with high level of differentiation. This research, (Krishna and Ghatak, 2008), based on secondary data, ascertains the fact that convergence of technology and consolidation along with technology leadership is the need of the hour. The saturated markets in America are driving companies offshore into emerging markets like India in search of newer acquisitions in terms of customers and competencies.

A study (Beverland, 2002) analyzed the strategy adopted by large New Zealand based companies and reveals that the relationship with East European traders is context driven. It has been debated that relationship-marketing models accurately capture the trading realities of market entry in Eastern Europe. A series of propositions have been developed with respect to the research which has reflected uncertainties in market entry, formation of alliances and building relationships.

Cordis Australia is an American company that is a division of Johnson & Johnson. Cordis manufactures and markets medical devices designed to treat cardiovascular conditions. The study describes and evaluates Cordis introduction of a new and innovative coronary artery stent named as CYPHER. Coronary artery stents are tiny stainless steel 'mesh like' tubes (similar to a spring from a pen) that are used to open up arteries of the heart when they become blocked. This procedure is called angioplasty. Such blockages of coronary arteries can lead to chest pain and heart attacks. Cordis has been the first-mover to develop a stent with a drug coating that offered superior features when compared to plain stainless steel stents (Rankin,2004).

Marlboro advertisements have benefitted by the tradition that precedes them. They have captured a complex message which attempts to differentiate a product from competitors, that are largely the same, through simple image and few words. The success of Marlboro brand can be attributed to the branding strategy used by its parent company - the Altria Group. Altria has opted for an endorsement strategy. In this strategy, individual brands and divisions are marketed under the canopy of the parent company. The combination of brand equity of the parent company with the value of individual brands and divisions has created greater impact. It leverages the endorsement equity of the parent across divisional and product categories. The brands and divisions retain their identity and can be included in the total equity of the company. Thus, it brings recognition among the shareholders, increased cross-selling opportunities, and endorsement credibility for new products or services (Hemdev,2005).

Research on the car wars identifies the issues leading to success or failure of an automotive, analyzing product successes and failures in United States during the last 50 years. The development and analysis of twenty case studies have found several factors driving the fate of the products launched. The results indicate that the product development system of new vehicles with high success has emerged from financial and corporate responses to market crisis. The target segment of a new entrant in the automotive sector and its progress depends on the economic conditions of buyers and the leadership position of the firm (Hanawaltand Rouse, 2010).

A study discusses the challenges faced by sales people to understand consumer behavior that boost up sales growth. Data has been collected from across industries through a survey of sales managers, sales representatives and customers. With reference to product promotion through personal selling, the findings highlight that an optimum level of customer orientation is essential with regard to individualized products having premium price and high degree of competitive intensity(Homburg, Muller and Klarmann, 2011).

Co-creating experiences demands interactions between the customer and the company (Klaus and Maklan, 2011). Co-creation considers every interaction to be vital for customers' evaluation of their experience (Ballantyne and Varey, 2006).

The findings of a qualitative study highlights that customers perceive quality on three dimensions: brand experience, service experience and post-purchase/ consumption experience. The research has also pointed out that customers experienced quality, while evaluating significant marketing outcomes like satisfaction, level of loyalty and word of mouth publicity (Klaus, 2015).

## Objectives of the Study

The current study aims to derive solution to challenges faced in selected sectors with respect to market penetration. The objectives of this qualitative research study include:

Understanding the sales promotion approaches to enter different markets through review of cases pertaining to leading business enterprises;

Aligning the problems faced by sectors like Oral-care, FMCG, Automotive, Banking, Consumer Electronics, Real Estate, with the innovative sales promotion practices in the industry.

## The Methodology and Model

The study represents a qualitative multiple case analysis (Gay, Mills and Airasian, 2008). A case study can be about an event, activity, firm or individual. It gives detailed information, acquired from multiple sources, leading to a detailed understanding of a particular situation (Masterson and Pickton, 2014). The data has been derived from reliable secondary sources like renowned journals and books on marketing and sales management. The researchers have designed a site-ordered effects matrix model for aligning the innovative sales promotion practices in the business with the problems faced by the companies with respect to market penetration (Gay, Mills and Airasian, 2008). Multiple case studies related to sales promotion are considered as previous knowledge. The innovative sales promotion practices derived out of the cases can be implemented as solutions to problems faced by different sectors like FMCG, Automotive, Consumer Electronics, Banking, QSR, and Oral-care.

## Market Penetration for Haul-Away Truck Segment

A reputed manufacturer of large trucks, MAN, wanted to improve its sales performance and identify ways to penetrate a new market segment. The company wanted to launch more trucks on the road. MAN followed a franchising model of business. The product was technically sound with its engine offering the best-in-class fuel economy. The brand reputation was immense and financially competitive. The success of the franchises, however, varied significantly. The largest demand for the trucks had been in the 'haul-away' market segment. This involves waste or construction spoil being transported from wherever it has been created or stored to where it would be disposed of or used. The trucks were heavy, durable and reliable. The company failed, however, to successfully penetrate the container haulage market segment. The container haulage market segment required trucks to haul containers to and from ports, and to make deliveries throughout Europe. It was found that truck buyers (the product) not only looked for technical functionality but also for trust in the franchisee's 'in franchise territory' service and the service coverage provided through the manufacturer for 'out of franchise' and European use of the truck. The buyers were looking for flexible and quick turnaround times for vehicle servicing, preferably overnight, and fast and reliable breakdown services throughout UK and the rest of Europe.

The solution to this franchisee problem can be through shared understanding of the market, its segmentation and how the truck manufacturer sees its future competitive positioning within it. The need of the hour is to develop the product and service portfolio to enable them to exploit the market opportunities more effectively. The truck manufacturer relied upon the franchisees' commitment to the product and their willingness and ability to invest in the customer relationship and services to support it. It is a symbiotic relationship based upon mutual understanding and intent to invest for boosting the product sales and service portfolio (Morlay, 2014).

### Brand Revitalization at KFC

KFC, having its base in Louisville, Kentucky, is considered the world's most preferred chicken restaurant chain. It operates over 5,000 restaurants in United States and more than 15,000 globally. It is a division of Yum Brands, with a revenue of around $11 billion in the year 2009. In 1965, KFC started its operations in Britain. The number of KFC stores has exceeded 700 in the year 2015. KFC lost its dominance during the year 2005 as a result of declining reputation and sales. This led to exhaustive research leading to revitalization the brand's image. A strategy has been developed to change the taste of its offerings to differentiate them from the competitors. The initiative to design products with different ingredients has been carried out over the year, to increase both frequency of visits and spending. The brand has regained its lost glory by April 2006 and hence forth has been maintaining a high rate of year-on-year growth. Sales promotion helped to a great extent in regaining the brand's reputation and average spends. In India, KFC has created awareness among people by adapting affiliate marketing in tie-ups with banks like Bank of India for attractive offers via SMS and emails to the bank customers on registered mobiles and email ids. The factors customers consider before visiting KFC are found to be store ambience, friendliness of the staff, and inclination towards the brand and store location (Davis, 2009).

### Sustainable Brand Promise by Audi

The famous German car manufacturer, Audi, has been launching vehicles since early twentieth century and is considered a valuable brand within the Volkswagen Group. In UK, Audi has proved to be a major competitor within the prestige car category, known for its excellence in engineering and commercial success. Marketing has enhanced the success of Audi from a niche brand to a leading position in the prestige car sector. Audi's unique approach has always been challenging the conventional design in the car industry. The company is positioning itself as Vorsprung durch Technik which means, advancement through technology.

Technological advancement is both Audi's brand message and philosophy. Audi has always emphasized on innovation while reaching out to its buyers, going beyond the conventional way, meeting the expectations through emerging technologies, and justifying the progressive ideology of brand. Innovative design is projected while communicating with the audience in a more appropriate manner. Launch of a new TV Channel named Audi Channel for prospective customers to engage with the brand, imaginative content creation in the form of a magazine named GQ, generating brand buzz by partnering with the New Scientist for a competition and going interactive through online marketing are examples. The website of Audi works as a virtual dealer which helps customers to explore and identify the perfect car (Davis, 2009).

### Shell Joint Promotion through Long-Term Scheme

Petrol retailers faced steep competition and difficulty to sustain in the market in1997. The popularity of supermarkets generated higher revenue than dealing with petroleum products. There were various heavily promoted card based schemes from Shell as well as other forecourt businesses. But these offers failed to bring about benefit to continue with the petroleum business. In 1994, Shell launched a 5-year 'Smart Card' programme. Shell had been the market leader for quite some time but was steadily losing its leading position due to its failure in offering a life-long loyalty programme. The focus of Shell's sales campaign had been to attract customers through premium pricing and high mileage for their vehicles. The Smart Card campaign was launched in a tie-up with prominent service providers like Air Miles, HMV, UCI and Ticketmaster. The offer against the card was the choice of redeeming points with the option of saving, third-party deals and catalogue shopping, opportunity for donations and individual gains. The promotional activities caused a viral effect through television advertisements, direct selling, and point of purchase in forecourts, radio promotions, direct mailers and magazine insertions. Shell achieved 3 million cardholders within a year and also won ISP Gold Award for its card scheme. Further, Shell developed partnership with Dixons, Currys and Victoria Wine. Shell re-launched its brand with a new card scheme in the year 2007. Thus, joining hands in the forecourt business with different brands helped the petrol retailers to sustain and build a long term relationship with petrol users(Mullin, 2010).

## Electrolux Premium Promotions

Product launch in case of a vacuum cleaner is always a tough task. Electrolux launched a new micro-cleaner, the X8, in the year 1994. The company initially sent a series of mailers to potential buyers. The sales representative had been visiting the prospects with a security box made of stainless steel having top-secret messages. Once the lid was opened, a personalized message was played by a cassette player about the top secret mission that the buyers were about to experience. The box showed the X8 in all its 'micro' glory after the message was played. This created valuable impact in terms of interest and amusement to the traders. The Electrolux outlets started showcasing X8 and this motivated the rise of X8 sales in different outlets. The market share of Electrolux in the cylinder cleaner sector rose to 50 percent, capturing the brand leadership position (Mullin, 2010).

## Sainsbury's 'Schoolbags' Campaign

Sainsbury's is the second largest supermarket chain in the United Kingdom with a market share of around 17 percent. Sainsbury's 'Schoolbags' promotion is an innovative measure to fulfill business objectives and address social and environmental issues. Sainsbury's had been planning strategies to increase its family appeal to deal with market competition and on the other hand, to reduce the huge waste of carrier bags for shopping issued to millions of customers every year. The Promotional Campaigns Group emerged with an idea to involve families with children shopping at Sainsbury's and reiterate the reusability of the carrier bags. The shoppers were offered schoolbag vouchers at the exit point forthe bag they reused. The vouchers could be collected by educational institutions to acquire equipments like crayons and clipboards. Schools were invited to participate in the scheme through direct mail, in-store and TV advertisements.

The campaign was a huge success for Sainsbury's and engaged families to shop for a noble cause and fulfill the requirements of their kids going to school. About 12,000 schools across United Kingdom participated and benefitted in acquiring equipments for school children. The above initiative saved the society from environmental pollution by restricting the use of new carrier bags and attracting the shoppers for repeat purchases (Mullin, 2010).

## Upselling - A Common Practice for Real Estate Market-Players

This case study illustrates helping or attracting customers to invest more than they originally intended. It is essential to identify the buyers' needs and thereby offer them the best possible solutions. Sometimes the prospective buyers are ready to scale up their budget for a better future. In this case, a judicious real estate customer would buy an economy apartment at a reasonable price and sell it off at a much higher price in a short duration of about five years to purchase a premium spacious apartment of the same construction company or some other builder. The sales assistant in the real estate business creates a value proposition (features, benefits and values) of its offerings for the prospective buyers. The value appreciation enables the investors in real estate to gain within a short period of time (Leadbetter, 2011 and Gould, 2012).

## Results and Discussions

The cases discussed can be considered innovative practices by companies facing difficult situations for penetrating into new market segments. Based on the study, the following Site-Ordered Effects Matrix Model(Gay, Mills and Airasian, 2008) has been derived: (Table 1)

The study has future scope for research in sectors not mentioned earlier.

The case study based research highlights the major issues in penetrating new market segments of different sectors and suggests ways to overcome problems related to market penetration. Customer Engagement Campaigns, Branding, Service Delivery, Upselling and Affiliate Marketing play a major role in influencing prospective customers. An attempt has been made to map the innovative industry practices with the problems faced by existing market-players. The sustainability of products and services in any market depend largely on customer involvement and innovation in marketing.

## Scope for Further Development

This research can help marketers to define sales promotion strategies for market penetration. The proposed model can be further tested by collecting primary data with respect to customer engagement, branding, service delivery, upselling and affiliate marketing.

**Table 1: Alignment of Innovative Practices with Problems faced by Industry**

| Sector | Problems faced | Recommended Innovative Practices in the Cases Discussed |
|---|---|---|
| Oral-Care, FMCG, Real Estate | Lack of Usage, Seasonal Fluctuation in Sales | Customer Engagement by Sainbury's 'Schoolbags' Promotion |
| Automotive | Technology Obsolescence, Lack of Service Facilities | Innovative Brand Communication by Audi, Affiliate Marketing by KFC; Overnight Service Facility by Haul-Away Truck Segment |
| QSR | Unable to create Purchase Intent for the Foodies | Premium Promotions of a new Micro-Cleaner by Electrolux to its dealers; Joining hands in the forecourt with Petrol Retailers like Shell offering loyalty schemes |
| Banking, Consumer Electronics | Selling Products at a Premium Price | Creating Value Proposition in Real Estate Business |

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# Role of Trust in Perceived Store Characteristics and Consumer Behavioural Outcome in the Context of Online Social Media Marketing

**Nirankush Dutta and Anil Bhat**

## Abstract

Social media marketing is the latest effective tool for disseminating marketing related information, increasing consumer awareness and providing a perception of the size, reputation and ease of transaction associated with online stores. Consumers' trust in online stores is influenced by messages delivered by the companies themselves as well as own social media contacts. This research paper explores four store characteristics which may lead to trust and, in turn, facilitate formation of willingness to purchase, electronic word of mouth and social capital in consumer's social networks,. A conceptual model is proposed and tested empirically with partial least square. It finds that awareness and absence of risk significantly influence development of trust. Social capital and electronic word of mouth (e-WOM) are most influenced by trust, while there is least effect of trust on willingness to purchase..

**Keywords:** Social Media Marketing, Trust, s-Commerce, Social Network Sites

## 1. Introduction

Online Social Media (OSM) has become a part of our daily lives by facilitating flow of information without any spatial and temporal barrier. Availability of free information at the right time adds to the charm of social media. Thus, people all over the world are joining social media sites to keep themselves abreast of latest developments and to connect with friends.

Marketers have grabbed this opportunity to connect with this huge customer base. Companies of varying sizes have set up their presence on different social media sites to promote their products through online campaigns and drive virtual communities of customers. Thus, Online Social Media Marketing (OSMM) has evolved as an effective marketing tool over the last few years.

OSMM has become more attractive because of the freedom that emanates through participation of neutral customers who voice their support or concern for various brands. Although this freedom of speech may backfire on the brands, undoubtedly it gives rise to trusted sources of information. Online stores often attempt to enhance perceived trustworthiness by incorporating different strategies, which may range from providing timely and accurate information to assuring the consumers about the vast variety of available products at a fair price. There exists a need to understand the various factors that help to increase perceived trustworthiness of online stores.

Although some of the earlier researchers have identified and studied the role of trust in the context of OSMM(Chow & Shi, 2014; Esmaeili, Mardani, Mutallebi, & Golpayegani, 2015; Gorner, Zhang, & Cohen, 2013; Pentina, Zhang, & Basmanova, 2013), there ishardly any study that focuses specifically on store specific characteristics as antecedents of trust. This research explores four store characteristics in the context of online social networks, aiming to find out their relative importance, so that online stores / brands can take proper measures to effectively utilize them for achieving their marketing objectives.

A conceptual model is proposed and empirically tested with a sample of 150 users of online social network sites (OSN) to investigate the effect of awareness, perceived reputation, perceived risk and perceived size of an

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online store on developing a consumer's willingness to purchase, intention to disseminate electronic word of mouth (e-WOM) and formation of social capital moderated by interpersonal organizational trust. The results indicate that awareness and perceived risk influence formation of trust. On the other hand, trust acts as a moderator and influences willingness to purchase, e-WOM and social capital. Perceived size and reputation of an online store does not have significant impact on formation of trust.

## 2. Theoretical Background, Hypothesis and Research Model

### *2.1 Trust and its Effects*

From personal life to business transactions, trust plays a significant role while entering into a transaction. Marketing scholars view trust as a variable which facilitates relationships to evolve and change over time (Czepiel, 1990). Because of greater uncertainties associated with e-Commerce transactions compared to the traditional offline ones, trust becomes even more critical when consumers enter into such a transaction.This is due to consumers' sense of insecurity caused by the inability to interact face to face with the online firm personnel (Bart, Shankar, Sultan, & Urban, 2005) or physically check the products they wish to purchase (Grabner-Kräuter & Kaluscha, 2003).

"Trust is a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another" (Rousseau, Sitkin, Burt, & Camerer, 1998). This type of interpersonal trust can act as a lubricant to facilitate online purchase decision. Trust can be affective (wherein customers exhibit willingness to rely on a trustee's competence and reliability) or cognitive (based on trustee's benevolence) (Chang & Chen, 2008). Therefore, trust develops when a consumer feels that an online store/ brand has the ability, integrity and benevolence to reliably deliver goods and services as expected.

In the impersonal world of e-Commerce, consumers depend on the faceless store front to act on their behalf (Culnan & Armstrong, 1999). Thus, consumers pick up cues from the online store to validate his belief of trust. These cues may be in the form of range and variety of products, reputation as is evident from other buyers. Online social networks facilitate dissemination of information about various stores and brands through the online stores themselves as well as other customers,and thus can help in formation of trust.

In this study, interpersonal trust between an individual and an organization is considered to measure its effects on purchase decision and transmission of e-WOM as well as formation of social capital.

### Willingness to Purchase

Although majority of organizations use social media to inform consumers about their brands, promote online campaigns and create a virtual community (Ernst & Young, 2013), the ultimate objective is definitely to entice the customers to purchase products and services. Consumers, on the other hand, may feel more comfortable once they have established trust on an organization through previous interaction, or the perceived characteristics of the firm as evident from social network sites.Earlier researchers have identified purchase intention as one of the most common consequences of trust (Ganguly, Dash, Cyr, & Head, 2010) in the context of e-Commerce. This study examines the effect of trust on willingness to purchase by testing the following hypothesis.

H1: Interpersonal organizational trust in an online store positively influences willingness to purchase.

### e-WOM

The rules of relationship marketing have been redefined in the age of social media. Social network sites allow consumers to build communities around a product , brand or online store (O'Brien, 2011). They have made communication process faster among the participants of online communities by removing barriers of location, time and access that existed in the earlier traditional media. As consumers post their opinion or recommendations about an online store or brand through their social network profiles, they may greatly influence their contacts in various stages of decision making. Trust plays a vital positive role in spreading e-

WOM(Bergeron, Ricard, & Perrien, 2009; Chu & Kim, 2011), as consumers spend their valuable time and energy to voluntarily disseminate information.Sichtmann found that the likelihood of recommending products or services of a company increases proportionately with consumers' trust on it (Cater & Zabkar, 2009; Sichtmann, 2007). This leads to formation of the second hypothesis.

*H2: Interpersonal organizational trust in an online store positively influences dissemination of e-WOM.*

### Social Capital

Social capital refers to the set of resources embedded in a social network accessed and used by actors within that network (Coleman, 1988). Social capital is intangible and is comprised of shared norms, expectations and obligations that may affect individual behavior. From the consumer behavior perspective, social capital can be in the form of expectation of valid and relevant information from their contacts in social network sites.

Since consumers primarily use OSMs for purposes other than marketing, existence of social capital can act as an added bonus to them. Once consumers feel that the virtual communities formed around the online stores offer them more than simple marketing information, they may become loyal to the stores and deliberately participate in dissemination of more information, resulting in a close knit community. Therefore, online stores / brands may consider social capital as one of their desired outcomes of participation in OSMM.

Trust plays a critical role among online community members in promoting information and knowledge sharing among members (Chiu, Hsu, & Wang, 2006). Trust facilitates the use of information with increase in perceived credibility and the subsequent higher usage of that information (Nahapiet & Ghoshal, 1998). High trust in an organization will speed up the formation of social capital, while absence or low level of trust will act as an impediment. Thus we form the following hypothesis.

*H3: Interpersonal organizational trust in an online store positively influences the formation of social capital.*

### 2.2 Awareness

Awareness is defined as the ability of a potential buyer to recognize or recall a specific online store. Familiarity or awareness of an online store originates from the number of store related experiences that the consumer has had (Alba & Hutchinson, 1987). This is a function of the time spent processing information about the store. Awareness may reduce the effort for information search and give rise to trust. Previous researchers have found that a company's awareness significantly influences website trust (Cheskin Research & Studio Archetype/ Sapient, 1999; Yoon, 2002). Awareness of a brand is also expected to influence the level of trust (Banerjee & Banerjee, 2012).Although some researchers suggest that trust may not be so dependent on awareness or familiarity (McKnight, Cummings, & Chervany, 1998), we find it more logical to assume that high level of awareness of an online store will give rise to enhanced interpersonal trust in it, unless one has anegative attitude. This leads to the fourth hypothesis.

*H4: Awareness of an online store positively affects formation of interpersonal organizational trust on it.*

### 2.3 Perceived Store Reputation

Reputation is a valuable asset that is built with long term investment of resources, effort and attention to customer relationship. Good reputationof stores indicates past forbearance from opportunism (Smith & Barclay, 1997). Stores having good reputation are perceived to have higher cost of untrustworthy behavior, especially in cases where the consumer group can easily interact (Axelrod & Hamilton, 1981). The general perception of reputation of a store influences individuals to form an opinion of trust on it, as reputation is transferable among individuals (Koufaris & Hampton-Sosa, 2004). Earlier studies have found that perceived reputation of an online store influences trust in it(Yoon, 2002).This research attempts to test the same in the social media marketing context.

*H5: Reputation of an online store in social network sites positively influences / positively affects formation of interpersonal organizational trust on it.*

### 2.4 Perceived Store Size

Literature suggests that the perceived size of a store, rather than the actual size, assists consumers in forming their impression regarding trustworthiness of a store (Jarvenpaa, Tractinsky, & Vitale, 2000). A buyer uses store size as an indicator that other consumers believe in a particular store to deliver on its promises (Doney & Cannon, 1997). Larger store size also hints that the business has invested considerable assets in establishing itself and has more to lose by going back on its promise. Moreover, a large store should be able to control its associates better to ensure customer delight.

Online stores give indicationof their size by showing a variety of product categories available at different product ranges. Many stores resort to paid advertising in their effort to impress customers with their offerings. Claims of being exclusive dealers of certain brands may also act as indirect indicators of the size of an online store. Thus the next hypothesis is formed as below.

H6: An online store's perceived size positively affects formation of interpersonal organizational trust on it.

### 2.5 Perceived Risk from Store

Perceived risk can be regarded as a consumer's subjective function of the magnitude of adverse consequences and the probabilities ofthese consequences occuring if the product is acquired (Dowling & Staelin, 1994). Risk perception refers to the "trustor's belief about likelihoods of gains and losses outside of considerations that involve the relationships with the particular trustee" (Mayer, Davis, & Schoorman, 1995). In the context of this study, perceived risk embodies certain types of financial risks, product performance, social, psychological, physical and time risks when consumers make transactions online (Corbitt, Thanasankit, & Yi, 2003).

Some earlier researchers have considered perceived risk as an outcome of trust (van der Heijden, Verhagen, & Creemers, 2003), while others have treated risk as the antecedent of trust (Corritore, Kracher, & Wiedenbeck, 2003). But researchers have also specified that trust is interwoven with risks (McAllister, 1995). Trust can reduce perception of risk, whereas the absence of perceived risk may also affect trust positively (Alam& Yasin, 2010; Resnick, Zeckhauser, Friedman, & Kuwabara, 2000). Users of OSNs get a perception of risk involved with an online store as other users openly share their experiences online. The recommendations and feedback of past users play a significant role in the development of risk perception towards online stores.

H7: Absence of perceived risk from an online store positively affects formation of interpersonal organizational trust on it.

### 2.6 Conceptual Model

The conceptual model thus developed is illustrated in Figure 1.

The conceptual model illustrates that consumers' willingness to purchase from an online store, spread e-WOM about it or feeling of having obtained social capital, are contingent to the store's ability to evoke trust from the consumer. Trust is affected by consumer's awareness of the store, perceived reputation and size of the store as well as perceived absence of risk in entering into a commercial transaction with the store. All these may positively affect the formation of trust.

## 3. Methodology

### 3.1 Sample

By using random sampling technique, 150 proper responses were collected to an online survey,over a period of two weeks, from students pursuing undergraduate and post graduate courses in a reputed deemed university in India. This method of data collection is justified as many students feel a sense of confidence and privacy expressing their opinion online. Moreover, online data collection has become popular throughout the world, as this method is fast, convenient and cost-effective.

The demographic details of the respondents are listed in Table 1. The mean age of the respondents was 23.23 years, 33 (22%) being female and the rest male (78%). 102 (68%) respondents were pursuing undergraduate studies, while the rest 48 (32%) were enrolled into postgraduate courses. This age group of respondents representthe most active users of various social media and constitutes a major target for e-Commerce companies. 140 respondents expressed that Facebook was their preferred social media platform for marketing purposes.

### 3.2 Measurement Development

The questionnaire was primarily divided into two parts: demographic variables and construct items. The respondents were requested to choose their preferred social media for marketing purposes (e.g., information search, interaction with brand, dissemination of product related information among contacts etc.) from among Facebook, LinkedIn, Twitter and Google+ as well asany of the online stores from amongJabong, Myntra, Yebhi and Zovi. They responded to the rest of the survey against this backdrop.

All constructs were adapted from earlier studies. Store Reputation (Jarvenpaa et al., 2000) and Perceived Store Size (Jarvenpaa et al., 2000) were measured by two variables. Store Risk Perception (Jarvenpaa et al., 2000) was measured by three variables, Willingness to Purchase (Jarvenpaa et al., 2000) by four variables, Store Awareness (Bart et al., 2005) by six variables, Interpersonal Organizational Trust (Eastlick & Lotz, 2011) by eight variables, Electronic Word of Mouth (Chu, 2009) by 11 variables and Social Capital (Choi, Eldomiaty, & Kim, 2007) by 19 variables. All items were measured on a 5-point Likert scale in the range of 1 to 5, with 1 denoting "strong disagreement" and 5 conveying "strong agreement".

## 4. Results

### 4.1 Descriptive Statistics

Table 2 lists the mean, standard deviation and Chronbach Alpha values of the constructs. Acceptable reliability is achieved as is evident from Chronbach Alpha value of more than 0.7 for all the constructs (Nunnally & Bernstein, 1994).

Table 2 gives the mean, standard deviation, skewness, kurtosis, and Shapiro-Wilk test results for individual indicator items of the constructs. It is evident that the data is not normal but slightly skewed and kurtotic.

### 4.2 Analytical Strategy for Assessment of Model

Partial Least Square (PLS) Path Modeling was used for analysis of data. PLS has become popular because of its predictive abilities using different explanatory constructs (Joe F. Hair, Sarstedt, Ringle, & Mena, 2012). Moreover, it produces fairly accurate results using a relatively small sample size (Haenlein & Kaplan, 2004), without any restriction on multivariate normality (Lowry & Gaskin, 2014). The sample size considered in this study is more than that recommended for the conceptual model of this type (Hair, Hult, Ringle, & Sarstedt, 2014).

SmartPLS 2.0 (Ringle, Wende, & Will, 2005) was used to verify the proposed conceptual model empirically. The model is based on various earlier researches. The constructs were measured with the help of reflective indicators, except in the case of Interpersonal Organizational Trust which was measured by formative constructs. The collected data contained no missing values. Path Weighing Scheme with an initial value of 1 for each of the outer weights was applied. Stop Criteria was set to 0.00001 and maximum iteration was limited to 300. Bootstrapping was done with 1500 samples with no sign change option.

### 4.3 Measurement Model

During analysis of thethe measurement models, reflective indicators with outer loadings below 0.4 were removed straight away. Reflective indicators with outer loading above 0.4 but below 0.7 were removed in cases where the removal resulted in increased composite reliability or average variance extracted (AVE) above the threshold value of 0.7 or 0.5 respectively. Indicators of Formative Construct- "Interpersonal Organizational Trust" with t-Statistics less than 1.96 (5% level of significance) and outer loading below 0.5 were deleted from further analysis (Hair et al., 2014). This resulted in the removal of one indicator from Store Awareness, one from Electronic Word of Mouth, one from Interpersonal Organizational Trust, and eight from Social Capital. Thus, only reflective indicators with sufficient individual reliability were considered for the analysis.

The composite reliability for each construct is more than the acceptable value of 0.7 (Nunnally & Bernstein, 1994), indicating sufficient internal consistency. The AVE was also more than 0.5 for each construct (Fornell & Larcker, 1981). Thus, adequate convergent validity was also ensured.

Moreover, square root of the AVE of each construct was higher than its highest correlation with any other construct (Fornell & Larcker, 1981) (Table 2). Both these evaluations indicated acceptable discriminant validity.

Evaluation of formative indicators found no existence of multicollinearity, as tolerance was more than 0.2 and VIF was less than 5 for each of them (Hair et al., 2014).

### *4.4 Structural model*

The structural model is analyzed with the help of SmartPLS software to test the hypothesized relationship among various constructs. The structural model is found to be free of multicollinearity (Table 2), as Tolerance value is more than 0.2 and VIF is less than 5 (Hair et al., 2014).

Trust was found to have a significant impact on Willingness to Purchase ($\beta$=0.285, $p<0.01$), Electronic World of Mouth ($\beta$=0.450, $p<0.01$), and Social Capital ($\beta$=0.492, $p<0.01$). Therefore, H1, H2 and H3 were accepted.

Path coefficient of Reputation to Trust and Size to Trust werenot statistically significant. Thus H5 and H6 could not be accepted. On the other hand, the path coefficients for Awareness to Trust ($\beta$=0.249, $p<0.05$) and Risk to Trust ($\beta$=0.154, $p<0.05$) were found to be significant. Thus, H4 and H7 were accepted. Figure 1 depicts the structural model with its path loading.

The four antecedents of trust account for 15.9% of its variance. Trust alone accounts for 24.1% variance of Social Capital and 20.1% variance of Electronic Word of Mouth. But only 8.3% variance of Willingness to Purchase can be accounted for by Interpersonal Organizational Trust. It should be noted that in consumer behavior research R2 values of 20% can be considered as high (Hair et al., 2014). Hence, the analysis found the effect of Trust on e-WOM and Social Capital quite significant.

## 5. Discussion and Conclusion

### *5.1 Discussion*

This study attempts to explore the effects of four perceived store characteristics on interpersonal organizational trust, which in turn acts as a mediator in the formation of willingness to purchase, e-WOM and social capital in the context of online social networks. Although trust is one of several reasons that may affect these outcomes, undeniably it is a vital component.

This study finds that trust developed through OSMM activities of a store influences e-WOM and social capital more than the formation of willingness to purchase. Till now, companies too have been focusing more on usage of social media marketing for spreading positive word of mouth through online campaigns and building virtual community of consumers. Thus, the findings of this study provide empirical evidence in support of most of the marketers.

Although awareness of online store and perceived absence of risk are significant in building trust towards the store, it is found that awareness is more important of the two, as indicated by higher Total Effect exhibited by it (Awareness to EWOM: 0.112; Awareness to Social Capital: 0.129).

### *5.2 Practical Implications*

This research has direct practical bearing on brands and stores using social media marketing. Online social networks facilitate formation of trusts by disseminating information from various sources and providing various cues to the prospective consumers. Online stores also utilize these networks to grab customer's positive attention. In doing so, they try to enhance customer's awareness about the store, and provide a feeling of being large and reputed.

But in the emerging world of OSMM, it seems that brand reputation or size is no more important to build trust. This is quite evident with the emergence of online stores which compete with the established brands. Since customers can browse online catalogues of stores from the comfort of their desk at home or at work, they are less concerned about the size of the store. Visiting different stores online takes the same time as visiting a single store. What matters more is the availability of products and the assurance that quality of the product would meet the expectations at the given cost.

Moreover, customers may also perceive reputed established brands and upcoming stores with indifference. Since the e-Commerce space is witnessing a lot of competition to grab new customers, online stores often provide heavy discounts, especially during the initial days. Customers areprobably aware of this phenomenon. Thus they may trust and willingly go to a less reputed smaller store than spend more for the same product in a big online store. This finding points to the fact that OSM may have emerged as a strong platform to build online reputation. It is also quite possible that consumers are not able to distinguish between reputed stores and not-so-reputed ones which promote themselves through OSMM. Thus, unlike earlier offline businesses or even e-Commerce, in OSMM reputation does not play a significant role in evoking consumer trust.

In these circumstances increasing customer awareness is the main challenge facing the social media marketers. Since social media marketing provides a very cost-effective platform for communication, even smaller companies can take advantage of it to win the big battle of customer acquisition. Devising a proper social media marketing strategy and implementation of the same can only help online stores to increase customer awareness and be perceived as more trustworthy. The PLS analysis reveals that availability of products of good quality in an online store is the most important influencer in the formation of positive attitude towards a store. A properly maintained online social network page of a store is the second most important criteria for formation of positive attitude towards the store.

Online stores should emphasize on being perceived as less risky through their messages. The analysis indicates that customers estimate likelihood of making a good bargain by buying from an online store as the most important indicator of perceived risk. Stores which provide good value for money are probably perceived as more trustworthy because of the lower monetary risk associated. This also shows that customers are value conscious and may ignore reputed brands in favour of emerging ones if they provide good value for money.

The analysis also finds that trust plays the most important role in forming social capital in the context of social media marketing. Customers expect to get varied information from their trusted sources. Thus, companies should focus on providing a holistic experience to customers and encourage their evangelists to form a dense virtual community, rather than restricting communication to offerings of the store only. Customers like to know what different people think about something of their interest and they want to feel part of a larger community. Online stores should therefore focus on these attributes to become successful in social media marketing.

Online stores can measure the success of their social media campaigns by the extent of dissemination of their content through e-WOM. Consumers who trust online stores willingly spread positive e-WOM and recommendation of their network contacts to their friends online. Customers also ask for opinion about new products in OSMs. Online stores should therefore strive to disseminate relevant information in a timely manner.

The analysis reveals that willingness to purchase is least influenced by trust. Nevertheless, interpersonal organizational trust in an online store is significant in the formation of this attitude. This research finds that after development of trust in an online store, customers are more likely to make a purchase from it within the next three months, if they have money to buy a product they need and it is available from the trusted store. Still, it may be difficult to measure customer's trust on a store through purchase behavior alone. Moreover, OSMM is still at a nascent stage as a platform for direct buying. Although platforms such as, Facebook, Google Plus, Twitter and Pinterest, have been trying to integrate purchase options, they have not been successful in implementing the same ona larger scale till now. Companies should thus focus on other metrics than increase in sales volume while calculating the success of their social media marketing campaigns.

### *5.3 Limitation and Scope for Further Research*

The present study explores the effect of online store characteristics on formation of three outcomes where interpersonal organizational trust acts as a mediator. This has been done with the help of four Indian online retailers of fashion and accessories. This category was chosen as it is one of the fastest growing segments in the Indian e-Commerce space. Also, the respondents of the survey conducted were expected to be more familiar with online stores in this domain.

But the e-Commerce space is sprucing up with different products from grocery to real estate. Attitude formation process for stores operating in this vast product range may also be different. Future research should therefore focus on products of different categories which are expected to give rise to varying levels of involvement.

The five store characteristics together account for 17.2 percent variance explained for interpersonal organizational trust. This indicates that there are other factors which may influence formation of trust in OSMM context. This may be related to social networking characteristics, personal characteristics or a user's interaction characteristics etc. Future research should focus on finding the effect of these different characteristicsto explore other dimensions which affect trust and its outcomes.

Although the sample size collected for this study is sufficient for PLS path modeling, a larger sample consisting of information from user group with varied demographic profiles may be considered for future research.

The present study attempts at development of theory and prediction of constructs. Once other antecedents of interpersonal organizational trust in the context of OSMM are developed, the evolved theory can be tested and confirmed after comparison with existing alternative theories through the use of covariance based structural equation modeling?

## 6. Appendix

**Table 1: Demographic Details**

| Age | | No. of Respondents |
|---|---|---|
| | Below 20 years | 30 |
| | 20 - Below 25 years | 75 |
| | 25 - Below 30 years | 29 |
| | 30 years and above | 16 |
| Gender | | |
| | Male | 117 |
| | Female | 33 |
| Education | | |
| | Undergraduate | 102 |
| | Postgraduate | 48 |
| Daily Internet Usage Duration | | |
| | Less than 1 hour | 5 |
| | Less than 2 hours | 27 |
| | Less than 3 hours | 24 |
| | Above 3 hours | 94 |

**Table 2: Descriptive Statistics**

| Sr. No. | | M | SD | CA | CR | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Interpersonal Organizational Trust | 3.230 | 0.835 | 0.730 | --- | 0.941 | | | | | | | |
| 2 | Store Awareness | 3.822 | 0.861 | 0.786 | 0.839 | 0.403 | 0.718 | | | | | | |
| 3 | Store Reputation | 4.215 | 0.747 | 0.736 | 0.841 | 0.634 | 0.563** | 0.854 | | | | | |
| 4 | Store Risk Perception | 3.350 | 1.058 | 0.926 | 0.952 | 0.227 | 0.184* | 0.295** | 0.932 | | | | |
| 5 | Perceived Store Size | 3.725 | 0.858 | 0.798 | 0.907 | 0.418 | 0.376** | 0.547** | 0.226** | 0.910 | | | |
| 6 | Electronic Word of Mouth | 3.391 | 0.943 | 0.884 | 0.927 | 0.279 | 0.220** | 0.318** | 0.179* | 0.161* | 0.748 | | |
| 7 | Willingness to Purchase | 3.690 | 1.081 | 0.876 | 0.918 | 0.496 | 0.254** | 0.453** | 0;.284** | 0.294** | 0.258** | 0.858 | |
| 8 | Social Capital | 3.613 | 0.924 | 0.882 | 0.919 | 0.290 | 0.233** | 0.289** | 0.122 | 0.141 | 0.488** | 0.279** | 0.714 |

Note: No. of respondents = 150
Diagonals represent square root of AVE
Interpersonal Organizational Trust is a formative construct
Significance at ** 0.01, * 0.05
M is Mean, SD is Standard Deviation, CA is Cronbach Alpha and SR is Composite Reliability

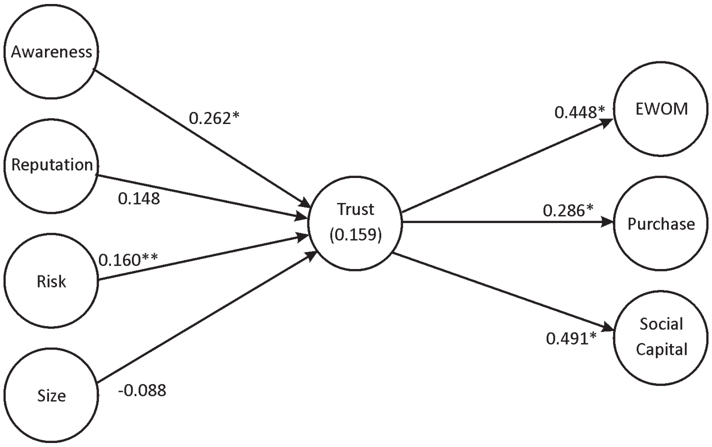


**Figure 1: Structural model evaluation**

N.B. ** denotes significant at 0.05 and * denotes significant at 0.01.

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# *Way to Customer Delight- Interpreting the Role of Dimensions of Service Quality for Effective CRM in Banking and Insurance Sectors*

**Charu Upadhyaya and V.K Jain**

**Abstract**

Customer Delight refers to a phenomenon when the needs and desires of customers are not only met but exceed their expectations. There is a paradigm shift in concept from satisfied customers to delightedcustomers. The main aim of Customer Relationship Management is understanding customer needs and effectively responding to them is a great way to build a strong relationship. Now a days when initiatives are being taken to reach the masses, the concept of Customer Service is a concern among service providers, especially Banks and Insurance companies. This study aims at finding whether the banks and insurance companies have incorporated the similar components to attain customer delight. Furthermore, the study measures and compares the perception of customers in the customer service practices of the two sectors.

In order to access the service levels of Banking and Insurance sector, primary data was collected by using self-designed questionnaire. Three factors of Customer Service, Empathy, Responsiveness and Tangibles, were selected for the purpose of the study and respondents' score was measured for these factors. For the Insurance sector, empathy and tangibles emerged as the most significant constructs to create a significant difference with the Banking sector.

**Keywords:** Customer delight, CRM, Customer service, Empathy, Responsiveness, Tangibles.

## 1. Introduction

Customer relationship management (CRM) is an integrated business approach that tries to collaborate employees with the process and technology so as to improve an organization's relationship with its existing and prospective customers. The aim of any business is to attain the market demands and cater the needs of its customers, CRM helps business to achieve this aim in a highly competitive environment. CRM is an ongoing cycle consisting of segmentation and lead analysis, customer service and customer retention.

Service quality, a major component of CRM strategy, is a reflection of organizational performance and is the ultimate measure of customer's satisfaction, especially in the services sector which tries to retain customers for life. Quality service ideates strong personal association with the customers. A strong association leads an enterprise to attain greater heights. As an emotional association is developed, it becomes easier for any organization to determine the real demands of its customers and to maintain a strong relation with them. Over the years the product life cycle concept has helped in developing the theory of customer life cycle where the focus is on the designing the services in such a manner that not only the present needs are determined but also companies can cater to the future needs of existing customers. (Panda, 2003).

It is found from customers across the globe that they have become more demanding when it comes to quality of services; hence there is an increase in the requirements for higher quality service (Sin et al., 2005). Thus, in order to sustain competitive advantage service sectors such as banks and insurance are obliged to provide excellent services to their customers. Now a days, with the advent of technology and global competition, the environment in which the companies operate has become very dynamic. Thus, in order cope up with the dynamic environment with a focus on maintaining long term relations with customers, banks and insurance companies also design several market strategies to benefit the customers with high end delivery of services (Eisingerich et al., 2006).

Now a days banks and insurance companies have to be at par, they should be committed to provide excellent customer service which will help them to have satisfied customers, and play a major role in the financial sector that is growing and diversifying (Balachandran, 2005). It is observed in the last few years that there has been a considerable change in the way the service sector operates. Today's customers demand services of high quality from banks and insurance organizations. With multiple choices available, customers will look for the best. Banks as well as insurance companies have realized that they need to meet that increasing expectations of customers. Hence, by delivering effective quality of services, banks and insurance companies can cope up the dynamism where, the role of technology would be the most important aspect.

In order to fully tap customer potential, the challenge is to keep pace with the changing needs of the customers and to provide them with the best service at the right time and at the best price. To meet these challenges, there is a need to access the highest level of service quality in both the sectors. With the advent of multinationals, the competition is also increasing between the banking and insurance sectors. This study is undertaken to highlight the prominent factors in enhancing service quality levels for both sectors and to draw a comparison between them.

This study will help to depict a clear picture of how factors considered for the study, including responsiveness, empathy and tangibles, play an important role in maintaining relationships for the sectors. Also, a clear comparison based on these factors would help in determining the level of adoption of components of CRM in both sectors and thus, would help the sectors in analyzing their performance to develop a better CRM strategy.

## 2. Literature Review

### *2.1 Status of CRM in Banking and Insurance Sectors*

Browne and Hoyt (1995) conducted a study in the area of insurance sector where he found that though the banks and insurance are separate entity but soon the banks are going to be involved into non-banking activities, it would be beneficial to both as banks have huge customer data and contacting these customer so as to expand their business, it will allow the entry of insurers into the banks base. Although, the response of bank customers towards insurance products has not been appreciated, this might be because of the risk element involvement in insurance business. It is also suggested by the author for banks to continue their involvement in the insurance products as it will involve only an incremental cost to their business.

Nath et al. (2009) conducted a study for comparing CRM adoption amongst Banking and Insurance sector. It was suggested in the research that in order to improve customer satisfaction, organization must provide their employees with greater job satisfaction and motivation to help them in serving the customers better. This enhances the overall customer relationship management. Second, they pointed out that organizations should make the customers aware of the importance of maintaining good relationship which will in turn help them in gaining more benefits from the organization. It was also highlighted in the research that there are many organizations which have partially inculcated, or are at the designing stage of integrating the communication channels with the customers so as to maintain and deepen customer relationship in this competitive era. This will help in developing trust and assurance between the customer and the organization which will definitely be beneficial to both the parties.

Fagbemi and colleagues (2011) conducted a study to compare CRM implementation between banks and insurance companies in Nigeria. It was found in the study that although both banks and insurance have implemented CRM practices but their method to achieve CRM differs in many ways. In order to effectively manage the relationship with customers many variables of CRM were studied in the research. It was suggested that attitude of employees towards customers should be friendly, high end technological tools should be used to track the customer information, high service quality should be delivered to the customers. It is also found that all these factors together lead to high customer commitment which ultimately results into effective relationship management.

A Report by Delloitte (2011) mentioned that the awareness levels of insurance offerings are low as compared to banking products, except for products like motor insurance where insurance is mandatory. Even when awareness of insurance products exists, the perceived value of buying insurance remains low for reasons like high expectations on returns (which other financial products may offer) and the belief that risk coverage is not needed. Hence, insurance remains a "push" rather than a "pull" product in India. Even among those who buy insurance, the lapse ratios are high (average ~25% lapse ratio for top 13 players as per IRDA 2010 annual report) and many buyers lose interest due to mismatch between expected returns and actual benefits. It is suggested that players would primarily need to innovatively improve two aspects of business - value proposition to customers (to improve customer acquisition) and operational performance (to improve profitability).

Thus from literature it is clear that banking and insurance sectors are now collaborating and over the years there has been a significant difference in the way customer service is managed by corporates. With the changing times and latest technological advancement, the concept of customer relationship management has also changed. Now the customers are more demanding and they want service that is more than their expectations i.e., they want to be delighted. Thus, in order have delighted customers it is necessary to measure the current service levels and to find new avenues to maintain customers' interest with the organization.

Further review reflects the important factors of CRM studied by various researchers over the years. Although there are several factors that were studied earlier, in the context of service quality, the prominent factors considered for the study are Reliability, Empathy and Tangibles. (Table 1)

## 2.2 Factors Considered for the Study

### *2.2.1 Responsiveness*

Responsiveness here is referred with respect to employee's attitudes and behiour towards customers. If the employees are willingly providing quick services to the customers, then they are said to be responsive towards them. it is generally observed in service sector that customers are very sensitive to employees' behavior, especially in the Banking and Insurance industries (Brown and Mitchell, 1993). A study conducted by Gollway and Ho in 1996 revels that in order to achieve better service quality for customers there should be a correct match between staff skills and customers' expectations. Another study states that the important components of service quality are service recovery and problem solving (Hart et al., 1990; Swanson and Kelley, 2001). Another study to compare the Islamic banking measured the level of quality of service and customer satisfaction in Malaysia. It was found in the study that responsiveness emerged as the most important factor of service quality (Nelson, 2006).

### *2.2.2 Empathy*

This dimension shows the magnitude of caring and individual attention given to customers. In the Banking and Insurance industry the two important aspects for enhancing performance are customer care and individual attention. Empathy has emerged out as an important dimension of service quality preferred by bank customers (Jabnoun & Al-Tamimi, 2003). Many studies results show that if the employee is commitment to deliver quality services and is skilfully handles conflicts if any and is together efficiently delivers services then it will lead to long term benefits for the organization as it would resulted in satisfied customers (Nelson & Chan, 2005).

### *2.2.3 Tangibles*

Tangibles encompasses of the physical amenities available at the premises which are designed to facilitate the customers in the best possible way.This may include features like presence of service desk, sitting space and other physical aspects to facilitate the customers. Tangibles has found to be preferred by customers and is an important dimension of service quality in UAE Banking industry (Jabnoun & Al-Tamimi, 2003).

As all the above factors are important determinants of service quality level, these factors are measured for both the sectors for the purpose of comparison.

## 3. Hypothesis

In order to analyze the factors affecting Customer Service in Banking Sector, the following hypotheses were proposed.

*H1: There is a significant difference in the level of responsiveness between Banking and Insurance Sectors.*

*H2: There is a significant difference in the level of empathy between Banking and Insurance sectors.*

*H3: There is a significant difference in the level of tangibles between Banking and Insurance sectors.*

## 4. Research Methodology

In order to measure the level of service quality and its components in banking and insurance sectors, primary data was collected by using self-designed and standard structured questionnaire. As the purpose of the study is to measure customer satisfaction about the services provided by the two sectors, primary data collecting tool is used for this study. The sample size selected for the study was 500; hence, questionnaire is selected as a tool for collecting data. The questions in the questionnaire tried to identifythe factors of Service Quality prevalent in Banking and Insurance Sectors.

Also, discussions with some experts in the Insurance industry were conducted to show them the factors which to be used in the study. After the discussions all the considered factors were accepted. After finalizing the factors, the questionnaire of these researches was combined and further amendments done in the questionnaire.

## 5. Data Analysis

### *5.1 Descriptive Statistics*

In order to measure the level of Service Quality components in Banking and Insurance Sectors, mean value was computed for individual factors constituting Service Quality including, Tangibles, Empathy and Responsiveness. The mean values of individual factors were computed on a scale of 1 to 5. The values are presented in Table 2.

It can be seen from the Table 2 that there exists a significant level of Responsiveness, Empathy and Tangibles for Banking and Insurance Sectors as the mean value for all the parameters is more than 3. Moreover standard deviation is also minimal in all the cases. Here, N represents number of responses which are 459 in case of Insurance sector and 469 in case of Banking Sector. Further, to measure the relationship of these factors with each other, correlation was applied on the data collected.

### 5.2 Correlation Statistics (Table 2)

Service Quality and Empathy (.857); the major factor contributing to it is the effectiveness of employees in handling in grievances, willingness to help the customers by providing then with necessary guidance and delivering prompt service.Further, there also exists a strong association between Service Quality and Tangibles (.716); customers find the overall infrastructural facilities of their insurance companies appealing and the presence of help-desk is also rated high in terms of satisfaction quotient. Lastly, the association of Responsiveness with Service Quality is found to be moderately positive (.084) which is not significant. This is mainly because of the fact that team visits are less, the real time- response to customer queries is also not satisfactory.Level of response to customer complaints is also found to be a prominent factor for a non-significant correlation. Hence, it can be said that Service Quality increases as the level of Tangibles and Empathy increases for the Insurance Sector. (Table 2)

It can be clearly seen from the Table 2 that there exists a significant level of positive correlation between Service Quality and Reliability (.883);the major factor contributing to it is the respect for customers from the employees which leads to satisfactory behavior, timely execution of services and the presence of well trained and motivated staff. Further, there also exists a strong association between Service Quality and Empathy (.874). Customers find the services to be prompt; also, employees are willing to help the customers and provide them necessary guidance. Lastly, the association of Tangibles with Service Quality is found to be positive (.819) which is significant. This is mainly because the overall infrastructural facilities are appealing, premises are well maintained and the presence of help-desk is rated high in terms of satisfaction quotient. Hence, it can be said that Service Quality increases as the level of Tangibles, Empathy and Responsiveness increases for the Banking Sector.

### 5.3 Regression Statistics (Table 3)

a. Dependent Variable: Service Quality in Insurance Sector (SQI)

Hence, the regression equation:

SQI= -.482 + .045 REI+ .621 EMI + .433TGI.

Since the value of slope for Responsiveness (RE), Empathy (EM) and Tangibles (TG) is positive, we can say that there is a positive impact of these factors on Service Quality. The constant value is small and negative (-.482) which shows that the three factors are important determinants of Service Quality for the Insurance Sector as they carry high weightage. It can also be depicted that Empathy has a higher impact on Service Quality as its coefficient value is more than Tangible and Responsiveness coefficients. (Table 4)

a. Dependent Variable: Service Quality in Banking Sector (SQB)

Hence, the regression equation:

SQB= -.107 + .015 REB + .626 EMB + .369TGB

Since the value of the slope for Responsiveness, Empathy and Tangibles is positive, we can say that there is a positive impact of these factors on Service Quality. The constant value is small and negative (-.107) which shows that the three factors are important determinant of Service Quality for the Banking Sector as they carry high weightage. Similar to the case of Insurance Sector, the value of Empathy has a higher impact on Service Quality as its coefficient value is more than Tangible and Responsiveness coefficients.

Further, in order to compare the level of Service Quality between Banking and Insurance Sectors Z Test was applied on the data collected which resulted in the following,

### 5.4 Z Statistics

#### *5.4.1 Z score for Tangibles*

It can be inferred from the results for Tangibles (Table 4) that the value of two tail z test is -2.10116 which is under the rejection area, and is more than $|z| = 1.96$, hence the null hypothesis, for Tangibles stands rejected. Also, P value is .03 which is less than the significance value .05, hence, the null hypothesis gets rejected and the alternate hypothesis is accepted.

Since the mean value of Tangibles for Insurance Sector (3.969) is higher than Banking sector (3.878), it can be said that Insurance Sector is operating with different levels of infrastructural amenities, because of which there is a difference in the level of service quality between the two sectors. The major areas where Insurance sector scores more than Banking sector in terms of mean value are found to be -maintenance of premises, spacious offices and presence of help desk; thus, the overall score for infrastructural facilities inInsurance companiesis found to be more than Banks.

#### *5.4.2 Z score for Empathy*

It can be inferred from the Empathy results (Table 4) that the value of two tail z test is -5.043052 which is under the rejection area, and is greater than $|z| = 1.96$, hence the null hypothesis, for Empathy is rejected and the alternate hypothesis gets accepted. This indicates that there is significant difference in the level of Empathy between the two sectors.

The major areas where Insurance sector scores more than Banking Sector in terms of mean value are found to be effectiveness of employees in handling customer grievances, their willingness to help the customers and providing them with necessary guidance.

#### *5.4.3 Z score for Responsiveness*

It can be inferred from the Responsiveness test results (Table 4) that the value of two tail z test is -1.52905 which is under the acceptance area, and is less than $|z| = 1.96$, hence the null hypothesis for Responsiveness is accepted. Also, the value of P is .126251, which is more than the level of significance value .05. Thus the alternate hypothesis "There is a significant difference in the level of Responsiveness between Banking and Insurance sectors" gets rejected whereas, the null hypotheses, "There is no significant difference in the level of Responsiveness between

Banking and Insurance sectors" is accepted. Here, we can conclude that there is thesame level of

Responsiveness between the two sectors inhandling relationship management.

### *5.4.4 Z score for Service Quality*

It can be inferred from the Service Quality test results (Table 4) that the value of two tail z test is -3.4014 which is under the rejection area, and is greater than |z| = 1.96, hence the null hypothesis for Service Quality is rejected. Also, the value of P is .0006, which is less than the level of significance value .05. Here, we can conclude that there is a significant difference in the level of 'Service Quality' between the two sectors inhandling relationship management.

## 6. Findings

1. There exists a difference in the level of Empathy in Banking and Insurance Sectors. It is found that bank employees are not available whenever needed to guide the customers whereas, in insurance companies grievances are handled well by the employees, as compared to banks.
2. It is also found that insurance employees handle customer grievances more effectively as they have an understanding of customer needs and are always willing to help the customers by providing them with necessary guidance and instant response to their requests.
3. Insurance companies are also found to be more equipped with tools such as presence of detailed brochures of products and its features because of which it becomes easier for the customers to perform their transactions. This also saves the time of employees in providing guidance to customers.
4. There is a difference in the level of Tangibles in banking and insurance sectors. The point of difference lies in the infrastructural facilities available at Insurance companies which is more visually appealing to the customers than in the Banks.
5. This infrastructure also includes less seating space in Banks compared tothat of insurance companies,creatinginconvenience to them. Moreover, the presence of customer service help-desk at insurance companies is found to be more effective than at banks,which helps the Insurance customers to resolve their queries faster and more conveniently.
6. Also, customers found employees in insurance to be more neat in appearance than inbanks.

## 7. Conclusion

Banking and Insurance Sectors must aspire for customer delight which is a form of customer satisfaction. With customers placing greater demands, and competitive conditions forcing organizations to accede to them, customer expectation is a moving target, and one that organizations must strive to constantly exceed by takingadequate measures to empower their employees.

From the study it can be concluded that there are certain factors of Service Quality that have a great impact in the Insurance sector, hence managers should consider these factors as their strength and enhance these attributes in their CRM strategy. For the Banking sector there is need to concentrate more on services which are focusing customers, effective grievance handling, friendliness of employees, information and communication technology, high quality service, and other variables of the study.

## 8. Implications for Practice

1. Customers who are satisfied with the services tend to be loyal.The only way to cater loyal customers is by delivering qualityservice. Organizations should design loyalty programs for its customers which will make the loyal customers feel delighted. The selection of loyal customers may depend not only on their bank balance but also, their length of relationship and reference provided by them and so on.
2. One of the most essential aspect of service quality has emerged as Reliability. Reliability is an integral part of service quality. From the study, reliability score is found to be less, thus, both banks and Insurance companies can provide sufficient training to its employees which will help them in properly addressing the customers issues with ease. This would help in gaining reliability from customers.
3. Organizations should provide better amenities to have a delightful customer experience. Thus, adequate space for parking, also proper seating arrange-

ment and the availability of other amenities such as drinking water, can be small important aspects of a delighted customer experience.

## 9. Implications for Further Research

1. Banks and Insurance sector are a part of financial service sector of a country. As the economic and corporate sector slowdown has led to an increase innumber of banks focusing on the retail segment. Many of them are also entering the new vistas of Insurance. Hence, further research can be conducted to measure the efficiency of bancassurance channels in India.
2. Also, future researchers could cover more service categories and with large database across countries to compare the level of CRM and thus can also build an index for measuring CRM for more service categories.
3. Further study can be conducted in order to compare the performance of Indian Banks and Insurance companies with their foreign counterparts.

**Table 1 : CRM Factor Scale**

| Sr. No. | Model | Author/s | Variables of the Study |
|---|---|---|---|
| 1 | Kano's Model | Kano (1984) | Must-be requirements, One-dimensional requirements, Attractive requirements, Reverse Quality |
| 2 | Perceived SQ Model | Gronroos (1984) | Technical service quality, Functional service quality, Corporate image |
| 3 | SERVQUAL | Zeithaml Barry and Parasuraman, (1996) | Reliability, Responsiveness, Assurance, Empathy and Tangibles |
| 4 | SERVFERF | Cronin and Taylor (1994) | Reliability, Responsiveness, Assurance, Empathy and Tangibles |
| 5 | E-commerce | Reichheld and Schefter (2000) | Customer support, on-time delivery, compelling product presentations, convenient and reasonably priced shipping and handling, clear and trustworthy privacy |
| 6 | e-SQ and e-SERVQUAL | Zeithaml, Parasuraman, and Malhotra (2000) | Efficiency, Reliability, Fulfilment, Privacy, Responsiveness, Compensation, And Contact |
| 7 | e-Satisfaction | Szymanski and Hise (2000) | Convenience, Merchandising, Easiness, Information, Deign, Financial Security |
| 8 | Service Quality | Kumar and Manjunath (2012) | Tangibles, Reliability, Empathy, Assurance, Convenience. |

**Table 2: Correlation Table**

| Sr No | Variables | Mean (Insurance Sector) | SD (Insurance Sector) | Mean (Banking Sector) | SD (Banking Sector) | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Responsiveness | 3.5419 | .58733 | 3.4767 | .66275 | – | .047 | -.014 | .084 |
| 2 | Empathy | 3.8505 | .49748 | 3.6604 | .56700 | .813*** | – | .331*** | .857*** |
| 3 | Tangibles | 3.9692 | .50210 | 3.8785 | .78534 | .508*** | .510*** | – | .716*** |
| 4 | Service Quality | 3.7872 | 0.050594 | 3.6718 | 0.10944 | .883*** | .874*** | .819*** | – |

Note: No. of respondents in Insurance sector = 459, Banking Sector = 469; upper diagonal represent insurance sector; lower diagonal represent banking sector; SD: Standard Deviation, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$

**Table 3: Regression Statistics**

| Sr. No. | Model | Regression Statistics for Insurance Sector | | Regression Statistics for Banking Sector | |
|---|---|---|---|---|---|
| | | Std. Error | Beta ($\beta$) | Std. Error | Beta ($\beta$) |
| 1 | (Constant) | .054 | – | .051 | – |
| 2 | Reliablity | .008 | .059*** | .009 | .018*** |
| 3 | Empathy | .010 | .693*** | .012 | .619*** |
| 4 | Tangibles | .010 | .488*** | .009 | .502*** |

Note : $*p < 0.05$, $**p < 0.01$, $***p < 0.001$

$\beta$ represents Standardized Coefficients

**Table 4 : Z Statistics**

| z-Test: Two Sample for Means | Z Statistics (Tangibles) | | Z Statistics (Empathy) | | Z Statistics (Responsiveness) | | Z Statistics (Service Quality) | |
|---|---|---|---|---|---|---|---|---|
| | Banking Sector | Insurance Sector | Banking Sector | Insurance Sector | Banking Sector | Insurance Sector | Banking Sector | Insurance Sector |
| Mean | 3.878465 | 3.969188 | 3.660448 | 3.85049 | 3.475316 | 3.538336 | 3.671409436 | 3.786005 |
| Known Variance | 0.616761 | 0.252101 | 0.321491 | 0.247487 | 0.439146 | 0.349914 | 0.33 | 0.198 |
| Z | -2.10116* | | -5.43052*** | | -1.52905 (ns) | | -3.40148668*** | |

Note : $*p < 0.05$, $**p < 0.01$, $***p < 0.001$

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