

**Diagnosing Customer Orientation of Service  
Employees and Rapport on  
Customer Satisfaction and Future Behaviour:  
An Empirical study in Banks of North Cyprus**

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## ABSTRACT

Despite the significance of customer orientation of a firm, the concept has not received much attention until recent years. Previous studies were mostly focused on customer satisfaction. Hence, one of the objectives of this thesis is to provide an understanding of Customer Orientation of Service Employees and applicability of this concept in order to evaluate customer satisfaction and loyalty within service sector.

For this purpose a structural equationing modelling was used to identify how customers perceive customer orientation of service employees and how this effect their loyalty intention towards banks at North Cyprus. Total number of 266 respondents served as a particular sample for this study. While forming questionnaire an intensive literature review were carried out.

Results show that there are positive relationships among drivers of customer orientation and loyalty. In addition results of this study support previous research findings and show that customer satisfaction has positive effect on customer loyalty. Based on these findings, study proposed some relevant suggestions and managerial implications.

**Keywords:** Customer Orientation, Customer Satisfaction, Loyalty, Bank, North Cyprus

## ÖZ

Müşteri odaklılık firmalar açısından büyük önem arz etmiş olmasına rağmen bugüne kadar yeterli önem bu konuya verilmemiştir.. Önceki çalışmalarda ağırlıklı olarak müşteri memnuniyeti üzerinde duruldu. Bundan dolayı, bu tezin amaçlarından biri hizmet sektöründe müşteri memnuniyetini ve sadakatını değerlendirmek amacıyla hizmet sektöründe çalışanların müşteri odaklılığını araştırmak ve bu kavramın uygulanabilirliği hakkında bir çalışma yürütmektir.

Bu amaçla çalışmada yapısal eşitlik modellemesi analizi yapılmıştır. Yürütülen analizlerle Kuzey Kıbrıs'ta bankacılık sektöründe hizmet çalışanlarının müşteri odaklılığının müşteriler tarafından nasıl algılandığı ve bunun müşterilerin kuruma sadakatını nasıl etkiledi analiz edilmeye çalışılmıştır Çalışmanın örnekleme 266 katılımcıdan oluşmaktadır. Anketin oluşturulmasında geniş bir literatür taraması yapılmıştır.

Çalışmanın bulguları müşteri odaklılık ve müşteri sadakatı arasında olumlu ilişki olduğunu göstermektedir. Elde edilen sonuçlar daha önce bu alanda yapılan çalışmaların sonuçlarını desteklemekte olup, müşteri memnuniyetinin müşteri sadakatı üzerinde olumlu etkisi olduğunda göstermektedir. Bulgular doğrultusunda çalışmada öneriler ve yöneticilere yönelik uygulama tavsiyeleri de yer almaktadır.

**Anahtar Kelimeler:** Müşteri Odaklılık, Müşteri Memnuniyeti, Sadakat, Banka, Kuzey Kıbrıs

Dedicated to my lovely father and mother  
for their honest sacrifices.

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## LIST OF ABBREVIATIONS

AVE .....	Average Variance Extracted
CO .....	Customer Orientation
COM.....	Customer Commitment
COSE .....	Customer Orientation of Service Employees
CS.....	Customer Satisfaction
DMA .....	Decision-Making Authority
GDP.....	Gross Domestic Product
IC.....	Internal Consistency
MIM .....	Mobile Instant Message
MT.....	Motivation
PLS.....	Partial Least Square
RA .....	Rapport
RI.....	Repurchase Intention
SEM .....	Structural Equation Modeling
SS .....	Social Skills
SWCO .....	Service Worker Customer Orientation
TL .....	Turkish Lira
TR.....	Trust
TRNC .....	Turkish Republic of North Cyprus
TS .....	Technological Skills
USD .....	United State Dollar
WOM .....	Word of Mouth

# Chapter 1

## INTRODUCTION

Increasing number of new entrants, as a probable consequence of profitability of financial services sector due to changing demand patterns, market liberalization and deregulation; besides the ever growing international competition, forced the financial companies to focus more on keeping existing customers in the fold rather than seeking new ones. The banking marketplace today is such that the customers have easily access to information, which provides them with variety of choices and probably better offers with lower prices from competitors (Bhardwaj, 2007). Recognition of the key factors influencing customer loyalty has received noticeable attention within marketing and management theory and practice (Ruyter and Bloemer, 1998).

According to Al-Rousan and Badaruddin (2010) customer loyalty coordinates the service quality. Customers are loyal when they are repeating their purchases and at the same time these customers are providing product recommendations (without any benefits) to other customers (Heskett and Schlesinger, 1997). When these loyal customers are constantly purchasing same products or services, they are producing valuable financial results (Duffy, 2003). High switching barriers or the absence of substitutes will keep some loyal customers, but for others the main reason why they remain loyal is because of their satisfaction with the services, and it has been also proved and demonstrated by previous researchers that customer loyalty is influenced by

perceived service quality (Al-Rousan and Badaruddin, 2010). Therefore it has been argued that customer satisfaction is the key factor for keeping a long-term relation with customers (Dovaliene, Gadeikiene and Piligrimiene, 2007) and for their long-term behaviour, customer satisfaction has been considered to be a basic element (Oliver, 1980; Yi, 1990). The importance of customer satisfaction was previously studied by Muffato and Panizzolo, 1995; Shemwell et al., 1998; Fournier and Mick 1999; Meuter Ostrom, Roundtree and Bitner, 2000; Ndubisi and Wah 2005, and there is little reason to review those discussions further. Scholars argued that firms who serve satisfied customers receive more financial profits from them (Fornell Johnson, Anderson, Cha, and Everitt Bryant, 1995) by reducing perceived risk and transaction costs; moreover, the possibility of retaining more satisfied customers are much higher (Fornell, 1992; Anderson and Sullivan, 1993). The above mentioned rationales can simply justify the importance of the concept of customer satisfaction.

One way of building continuing customers' relationship is to establish a customer-oriented culture within a firm or an organization (Kerry and Darby, 1997). According to Narver and Slater (1990), a customer-oriented company is able to generate greater value for its customer since it has a better understanding of their needs. While a customer orientation atmosphere was believed to be derived from so called "top –down management style" (Grönroos, 1990, Berry and Parasuraman, 1991), recent studies highlighted the actions at the individual levels (Kim and Ok, 2010); meaning that customer oriented employees will consider their customers benefits rather than their own interests, since they are well aware of the fact that without the customers, who bring financial profit, the system and its employees will no longer survive.

Despite the significance of customer orientation of a firm, the concept has not received much attention until recent years. Previous studies were mostly focused on customer satisfaction. In order to evaluate customer satisfaction and loyalty within service sectors, one of the objectives of this Master thesis is to provide an understanding of customer orientation and applicability of the concept of Customer Orientation of Service Employees (COSE).

Customers' expectations as a direct result of competitive global market, especially in the service sector, have increased and they have more options to choose among the competitors these days. Therefore, in service sector due to its unique characteristics, for instance the complication of measuring the quality of the service, the role of customer contact is more significant. Customer contact personnel can influence the formation of expectations to a great extent; they can also manage and control customer experiences which shape the general clients service evaluation (Bateson, 1992, reviewed by Kerry and Darby 1997).

According to Hennig-Thurau and Thurau (2003), customer orientation provided by companies has undeniable influence on its continuing relationship with their customers. Within the area of services, regarding to customer's satisfaction and service quality, the main role consists of the performance of employees (Bitner Booms and Tetreault 1990; Sergeant and Frenkel, 2000); especially those personnel who interact personally with customers. Bowen and Schneider (1985) believe that employees are not responsible only for providing and generating the service, but in the customer's view they are actually a part of it. This is more applicable to banking services since they compete and satisfy customers with a few core services (Fatima and Razzaqu, 2010).

Bearing in mind the critical role of service employees, the concept of (COSE) with its dimensions and its influence on customer satisfaction and loyalty needs to be described and investigated. Hennig-Thura and Thura (2003) described COSE as “the behaviour of service employees when serving the needs and wishes of existing and prospect customers”. They explained that there are three dimensions namely freedom, skills, motivation or authority in decision making that has impact on employee’s behaviour in order to fulfil customer needs. However, later the dimension of skills was divided into technical skills and social skills by Hennig-Thura (2004). Therefore, the extent of COSE can be determined by the strength and interrelationships of these dimensions.

Once the COSE and its dimensions are specified, its relation to customer satisfaction and loyalty in that specific market sector can be investigated. Fatima and Razzaqu (2010) argued that in order to gain sustainable competitive advantage, banks should discover how perception of customers’ interactions with contact employees influences continuing satisfaction. Gremler and Gwinner (2000) described rapport, as “an enjoyable interaction of a customer and personal connection with the employees of the service provider.” Kim and Ok (2010) adopted the concept of rapport as a mediatory variable between the dimensions of COSE and target variables, namely customer satisfaction and customer retention, in order to design a model which can explain the relations between these variables.

From bank management point of view it is very important to find out the relationship between rapport and trust. Finally, the influences of trust on customer satisfaction and loyalty have to be discovered.



## **1.1 Purpose of the Study**

The main purpose of this study is to test the conceptual model by having structural equation modelling to determine the correlation between drivers of customer orientation of service employees and loyalty in Cyprus banking system by adopting a regression analysis of those derives. In order to gather required data, a questionnaire, based on preliminary hypotheses, will be designed and sent to respondents. Finally results of analysed data will be compared to previous literature of the subject to ensure the reliability and validity of the results.

## **1.2 Scope of the Study**

The scope of this study is to provide important recommendations for an effective management based on findings of this study since the quality of service and customer satisfaction are crucial in today's highly competitive service industry. Therefore the role of employees in service sector is critical and the concept of COSE with its influence on Customer Satisfaction (CS) and loyalty needs to be described and investigated. Recommendations based on finding should provide useful information for companies operating within the service industry in achieving competitive advantage. Detailed implications for management are described in Chapter 4.

## **1.3 Methodology of the Study**

In order to develop and test a conceptual model that examines relationship between drivers of customer satisfaction and loyalty in Cyprus banking system by adopting a regression analysis of those derives, deductive approach was used.

Based on study of customer orientation of service employees (Hennig-Thurau, 2004) and other theoretical frameworks described in Chapter 2, this study develops and tests a conceptual model that examines relationship between drivers of customer orientation and loyalty.

Prior to the development of conceptual model and hypotheses that are analysed in Chapter 2, the self – administrated survey questionnaire was used as the main instrument to collect necessary data. 300 questionnaires will be distributed to the retail customers cooperating with different banks in TRNC. Study of customer orientation of service employees (Hennig-Thurau, 2004) served as a basis for development of questionnaire's items. Respondents will be asked to evaluate their loyalty towards the bank (at North Cyprus) they are working with by considering bank customer oriented service employees acts.

#### **1.4 Limitations of the Study**

There are several limitations in this study, specifically methodology limitations. Data were collected over a two months period August – September 2012 in a specific place and the sample was not wholly representative of the population of interest because only the perceptions of bank customers was taken into account. As this study looks only at the customers experiencing bank services within North Cyprus, results may not necessarily apply to different countries. It is necessary to take these limitations into account as well as the assistance in substantiating this work, because in the area of relationship marketing further research is needed.

## **Chapter 2**

### **LITERATURE REVIEW**

#### **2.1 Service Industry**

According to the World Trade Organization (2013) service industry is the fastest growing sector of the global economy. Almost 20% of global trade consist of services and in most developing countries they have significant influence on gross domestic product (GDP) and employment. Growing role of services in the economy has effect on development process as more than 50% of GDP in low income countries is created by service sector (Cali, Ellis and Willem te Velde 2008). This phenomenon is called “service economy”. Fuchs introduced this term in 1965 to describe growing importance of service sector in the USA after the World War II. Today this term explains the critical role of services in a product offering and in most developing countries service industry is made of distribution, financial services, tourism, education, information technology and health (Cali et al., 2008).

The service sector is very unique in its nature (Luke, 2007). Zeithaml, Bitner, Gremler (2009) define services as “deeds, processes and performances provided or coproduced by one entity or person for another entity or person”. The main characteristics differentiating services apart from physical goods are: inseparability, perishability, variability (heterogeneity) and intangibility (Kotler, et al., 2002).

### **2.1.1 Intangibility**

This characteristic can be explained as service's inability to be touched or viewed. Usually services are not purely intangible. Mostly they can be associated with tangible elements. Services can be viewed as a mix of tangible and intangible offerings to the buyer (Luke, 2007).

Due to this specific service characteristic there are some important marketing challenges. For example services cannot be easily patented therefore competitors can copy it easily. As it is impossible to display or easily communicate services, it can be also difficult for consumers to assess its quality (Zeithaml and Bitner, 2003).

### **2.1.2 Inseparability**

Since the services are inseparable, they are produced and consumed at the same time. Because it is impossible to separate service from the service provider, his or her professionalism and appearance will be used to judge the service quality by customer (Luke, 2007). In customers' estimation of the service quality and satisfaction, employees' actions and the interactions between them and customers in "real time" are important (Zeithaml and Bitner, 2003).

### **2.1.3 Variability (Heterogeneity)**

As service involves a human element it cannot be standardized and always there are differences in performance. It is therefore enormously difficult to develop standards of performance and to ensure consistent service quality is highly challenging (Luke, 2007).

#### 2.1.4 Perishability

It is impossible to put service into storage for later use or sale because of this specific characteristic (Kotler, et al., 2002) and service capacity can be easily wasted if it is not used when available. For example, an empty seat on a particular flight from Cyprus to Turkey cannot be sold to a passenger leaving on a later flight to Turkey. Due to this fact, when service failure occurs, it is necessary to develop serious recovery strategies (Zeithaml and Bitner, 2003).

The service sector is hard to define because of diversity understood under the term “services”. One approach divides services into two categories – intermediate and personal or final services:

- *Intermediate services* contribute to the delivery of some other goods or services with strong position in value chain,
- *Personal or final services* bring direct benefit to their consumers (Ahmed and Ajmair, 2011).

Another approach categorizes service activities by the customer served:

- *Business-to-business (B2B)* – transactions between businesses,
- *Business-to-consumer (B2C)* – business activities that focus on retail transactions,
- *Business-to-government (B2G)* - services to various government levels.

The service sector became a barometer of level of development in economy as its share has grown rapidly during the last years. Growing demand in service industry is caused mostly by changes in consumer preferences, technological advances, and

increases in competitive pressure. Therefore there is need for productivity improvements in that can be done through technical innovation, downsizing or selective outsourcing (Ahmed and Ajmair, 2011).

Due to high dynamic of service markets in order to generate and sustain competitive advantage among competitors, the main challenge lies in changing focus from products to market needs and in growing the importance of services. The most of employment and income from the services sector is derived not only by economies. Many services play important intermediary role for other sectors. These services are for instance insurance and finance, transport and telecommunications.

## **2.2 Financial Services**

In many developing countries the service economy usually consists of financial services, tourism, health, education, information technology and distribution (Cali et al., 2008). The financial services sector is the largest in the world in terms of earnings including banks, stock brokers, credit card companies, etc. (Jenkins and Sutton, 2007). According to the World Bank financial sector has also significant effect on economic growth and development. Financial services play important role in helping private citizens save money and build credit, for the poor citizens these services reduce debts and help people to manage assets that are available to them (Jenkins and Sutton, 2007). In other words, besides payment services, financial services provide products that help households and firms to manage economic uncertainties (Herring and Santomero, 1996). Large multinational bank corporations have significant direct impact to change the way entire markets operate. Institutions such as cooperatives, savings banks, banks, mutual funds, finance companies, insurance , investment banks and other institutions provide

many different services and offer different products within the financial sector. Financial institutions can be divided into different segments according to product lines and regulated separately (Herring and Santomero, 1996).

### **2.3 Marketing in the Service Industry**

The traditional marketing mix is created by 4P's known as Place, Product, Price, and Promotion. Since this traditional approach does not evaluate customer needs and it industrial marketing it has been criticized for not being complete (Bitner, 1995, Gronroos, 1990, Gummesson, 1997). Judd (1997) considers human resource element and proposes the fifth factor called People. Booms and Bitner (1981) added Process Participants and Physical Evidence to the original 4P's and created new model of 7P's.

Considering the service dimension, the last three elements were added to the marketing related literature. According to many scholars the additional three Ps should be known as the Service Ps, supported by Payne and Clark (1995) who developed expanded marketing mix for services.

In addition to the traditional marketing mix it is necessary, for service companies, to add three additional elements proposed by Payne and Clark (1995) called Participants, Physical evidence, and Process. By considering this expanded marketing mix, managers of service organizations are able to handle the complexity of services. Three elements are critical for service companies because it will help to manage their customer service building of bonds with customers, ensuring long-term relationships of mutual advantage (Payne and Clark, 1995).

### **2.3.1 Marketing in Banking Industry**

Changes in banking industry caused that the marketing concept has become important for the financial sector as well. Since banking sector became very competitive, it is necessary especially in the area of small-medium business banking (Teleghani Gilaninia, and Mousavian, 2011) to look for new opportunities such as flexible pricing, market segmentation, effective positioning in the market development and product testing (Lewis, 1984). Expanding customers' needs and sophisticated purchasing behavior represents another challenge and in order to gain competitive advantage bank institutions become more marketing-orientated (Lewis, 1984). Marketing philosophy and marketing concept related to banking industry was discussed earlier in the literature (Berry and Donnelly, 1975; Hodges and Tillman, 1968; Ornstein, 1972; Berry and Capaldini, 1974; Reekie, 1972; Baker, 1977; and Wilson, 1980).

Developing continuing relationships with main customers can help institutions to differentiate themselves from competitors at improved product level (Heffernan et al, 2008; Teleghani et al., 2011). Relationship marketing became distinctive approach how to establish continuing beneficial relationship with customers in today's extremely competitive financial world (Gilbert and Choi, 2003; Teleghani et al., 2011). Understanding of this relationship leads to improvement not only in management but in loyalty among customers as well (Ndubisi, 2007; Gilaninia,Almani, Pournaserani and Mousavian, 2011). By building and sustaining good relationships with customers, bank institutions are maintaining competitive advantage that cannot be easily replaced and imitated by the competitors.



## 2.4 Relationship Marketing

The concept of relationship marketing in service marketing theory was introduced (Swaminathan et al., 2007, Bolton et al., 2008; Dwyer et al., 1987; Thorbjornsen et al., 2002; Ndubisi and Wah, 2005) and developed during the late 1980s and 1990s (Beetles and Harris, 2010) and it is one of the oldest approaches in marketing related literature (Zineldin and Philipson, 2007). The importance of this concept grown in recent years (Manso and Speece, 2000) and it includes international, industrial and services marketing (Davis, 2008). Relationship marketing can maintain service intangibility and it this strategy is recommended for services that are difficult for customers to evaluate (Gilaninia et al, 201; Crosby and Stephens, 1987).

According to Kotler and Armstrong (1991) “relationship marketing is marketing that involves creating, maintaining, and enhancing strong relationships with customers and other stakeholders.” According to Murphy et al., (2005) “relationship marketing is orientated to the long term and the main goal is to deliver long-term value to customers, and the measure of success is long-term customer satisfaction.” Patsioura et al., (2009) argued that “relationship marketing is about retaining customers by improving communications, customer data collection and customer service quality.” The main objective of this approach is to maintain customer loyalty, which Oliver (1999) defined as a “deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior.”

The key virtues that have been theorized and listed by marketing scholars in the relationship marketing literature, for example, *trust* (Sirdeshmukh, Singh, Sabol, 2002;

Macintosh and Lockshin, 1997; Veloutsou et al., 2002; Beetles and Harris, 2010; Knemeyer et al., 2003) and *commitment* (Beetles and Harris, 2010; Morgan and Hunt, 1994) are described in following sections as well as the other aspects of relationship marketing important for this study.

#### **2.4.1 Customer Orientation**

As mentioned before marketing scholars and practitioners argue that service companies paying more attention to their customers' desires are more likely to be successful in long-term comparing to those with less focus on their customers' needs (Donavan et al., 2004). Previous studies demonstrated that customer-oriented companies are able to generate greater value for their customers since they have a better understanding of customers' needs (Narver and Slater, 1990; Jaworski and Hohli, 1993). It must be born in mind that misinterpretation of customer orientation can cause problems in organizations or deviation from the strategic practice of that organization (Nwankwo, 1995). Customer orientation attitude has been argued to be one of the essential factors of a firm's success, but difficult to sustain (Capon, Farley, Hulbert and Lei, 1991).

Conduit and Mavondo (2001) stated the importance of internal customer orientation (CO), however the focus of previous studies was mainly on the external customers; meaning that employees not only should be focusing on the end customers' needs but also should consider their colleagues as internal customers. Besides, organizations operating in international market should focus more on their internal customer orientation since the employees are perhaps their only contact with external customers. Conduit and Mavondo (2001) concluded that without satisfying the

requirements of employees, it is almost impossible to provide the end customer with optimal product or service and generate great values in different stages of value chain.

For a better understanding of the concept of customer orientation it is essential to describe customer orientation by its components. Egan and Shipley (1995) have investigated these components in the UK financial services sector. They considered seven following elements of customer orientation namely, Service System, Customer Contact, Image and Reputation, Service/Product Delivery, Customers' Performance, Communications and Customer Base; where they concluded that all financial sectors became more familiar with understanding of customer orientation development within their organizations.

Customer orientation importance is more emphasized in market sectors which their employees are in direct and longer contact with customers. An investigation by Donovan et al. (2004), between two different service sectors namely bank and restaurant, not only highlighted the earlier statement but also revealed that customer orientation influences job satisfaction positively, commitment and performance of the employees.

Many scholars (Schneider and Brown 1995, Kotler et al., 1996) among the others, recognized the importance and significance of CO in service sectors and argued that the employees' character and their attitude towards the customer play a great role in establishing a customer oriented culture within an organization. CO in service sector has been described as "a personality variable that reflects the service worker's disposition to meet customer needs" (Brown et al., (2002). Some scholars associated CO with marketing concepts (Nwankwo, 1995) and considered customer orientation as a component of market orientation (Narver and Slater, 1990). COSE will be explained in more details later.

### **2.4.2 Importance and Necessity of Customer Satisfaction**

The importance of CS and its effect on the elements of customer retention namely Commitment, Loyalty, Repurchase Intention (R.I) and Word of Mouth (WOM); besides its influence on market share and profitability of firms has been discussed by many marketing scholars for example, (Anderson and Sullivan, 1993, Anderson et al., 1994, Fornell et al., 1996, Mittal and Kamakura, 2001, Gustafsson et al., 2005). Although there has been a considerable number of customer satisfaction studies in the past and it is almost a routine in firms and organizations to monitor the level of their customer satisfaction, the most comprehensive customer satisfaction studies in national level took place in Sweden for the first time in 1991 (Fornell *et al.*, 1996); where the results of that study exhibited a positive effect of CS on the general economy of the country.

Johanson and Fornell (1991) defined the customer satisfaction as “a customer’s overall evaluation of the performance of an offering to date”. Anderson and Sullivan (1993) described the customer satisfaction as “a function of perceived quality” and “disconfirmation”, in addition to which realized quality fails to match pre-purchase expectation”. Coelho et al. (2010) stated that the satisfaction of customers’ needs is significantly dependent upon the customer orientation of frontline workers and argued that it is very likely that companies can achieve success by fulfilling their customers’ requirements and expectations.

It is almost well accepted among marketing scientists (Anderson and Sullivan, 1993, Anderson et al., 1994, Fornell et al., 1996, Mittal and Kamakura, 2001, Gustafsson et al., 2005) that there is direct relationship between customers’ satisfaction

and market share. It is obvious that satisfied customers not only will come back to the company which was successful in fulfilling their expectations but also may recommend the company's product or service to the other potential customers. Therefore, satisfied customers are basically free advertising agencies for a business, especially in service sector where there is no tangible product for pre-assessment. Anderson et al. (2004) studied the effect of customer satisfaction on market share and profitability of companies, where they concluded that although the economic benefits of improving customer satisfaction are not realized in short period, in long-term satisfied customers can improve the cash flow, hence they are a "revenue-generating asset" to those companies. In addition, Anderson et al. (2004) recognized the effect of quality as a factor that helps the firms to satisfy their customers' need; however they refused to provide a guideline for the best practice and quality level within the firms as they argued it has to be developed by firms' managers since it may be different among those firms as a result of variation in their activities.

Assuming that the customer retention can be interpreted as a long-term relation of the customer with service provider, it has been argued that customer satisfaction is the key factor for keeping such a long-term relation (Dovaliene et al., 2007). In other words, CS is considered to be the basic element of continuing customer behaviour (Oliver, 1980; Yi, 1990). Much has been written about the importance of customer satisfaction, for example (Muffato and Panizzolo, 1995; Shemwell et al., 1998; Fournier and Mick, 1999; Meuter et al., 2000; Ndubisi and Wah, 2005) and there is little reason to review those discussions further. Fornell et al., (1995) argued that firms who serve satisfied customers receive more financial benefits from these customers by reducing perceived risk and transaction costs; moreover, the possibility of retaining more satisfied customers are much higher (Anderson

and Sullivan, 1993; Fornell, 1992). The above mentioned rationales can simply justify the importance of the concept of customer satisfaction.

Finally, companies should not forget their internal customers namely their own employees and pay attention only to their external customers since it is impossible to provide a quality service without a satisfied and motivated employee. Moreover, it is important for a company to identify the factors affecting customer satisfaction (internal and external customers). Kumbhar's (2011) study of Indian E-Banking service showed that the factors affecting the customer satisfaction are majorly service quality, brand perception and perceived value. He concluded that bankers and e-banking service providers should enrich their knowledge of customers' expectations and pay more attention to the factors affecting their satisfaction from their perception (Kumbhar, 2011).

### **2.4.3 Importance of Customer Satisfaction in Service Industry**

Considering satisfaction is being a direct result of quality as stated by many scholars (Anderson et al., 1994; Gustafsson et al., 2005), in service sector due to its unique characteristics, for instance the complication of measuring the quality of the service, satisfying customers' needs has a complex nature and requires more consideration. Gustafsson et al., (2005) argued that overall satisfaction in service sector is similar to overall evaluations of service quality.

The quality of service being the major determinant of customer satisfaction has been also recognized by many researchers (Gronroos, 1984; Zeithaml et al., 2000; Scheffer and Reichheld, 2000; Gommans et al., 2001), and for example Mihelis et al.,

(2001) conducted a customer satisfaction survey among different branches of Commercial Bank of Greece, in order to discover the factors affecting the customers' satisfaction and behaviour. They argued that measuring customers' satisfaction provides marketing managers with a direct, significant and objective benchmark about their customers' preferences and expectations. Finally they concluded that customer satisfaction is a dynamic parameter and customers' needs and expectations changes very often, especially in service sector (for instance banking system) that competitors and new entrants in the current market offer variety of options to the customers and competition is very high, hence marketing managers should update their satisfaction surveys regularly in order to predict customer's behaviour, discover the weak links in the system and motivate the strong performing parts or sections.

Marketing experts have long been searching for a predicting method of their customers' behaviour in near future and long-run, since predicting their attitude towards the companies' product or service helps the marketing sector to satisfy clients' requirements in the most efficient manner (Brady and Joseph, 2001; Gronroos, 1984; Zeithaml et al., 2000; Schefter and Reichheld, 2000; Gommans et al., 2001). It is clear that customer satisfaction as a measuring parameter plays a great role in this regard.

Deng et al., (2009) argued that creation of a high level of CS is critical for service provider not only to develop their relationship with their customers but also from service differentiation point of view. Their study of Mobile Instant Message (MIM) in China showed that customer satisfaction, trust and loyalty are directly linked and are influenced by perceived quality of service and customer perception of provided value.

Considering the importance of customer satisfaction in service sector it is essential to study the factors affecting customer satisfaction in different market sector. For instance, a study of mobile service providers in Pakistan by Muzammil et al., (2010) showed that customer services and price fairness are among the factors affecting customer satisfaction, although the effect of the later is greater. Kumbahar's study (2011) also highlighted the effect of service quality, brand reputation and perceived value on customer satisfaction.

#### **2.4.4 Relationship between Customer Orientation and Customer Satisfaction**

Customer orientation is described as willingness of a company and its employees (considering the situation where the work force are satisfied and motivated) to meet customers' needs (Donavan et al., 2004). Hence, there is straight relationship between customer satisfaction and customer orientation meaning that a customer oriented organization or firm should have satisfied customers who brings profits to the their service providers. Hennig-Thurau and Thurau (2004) explained that customer oriented firms are those organizations paying attention on the satisfaction of their actual and potential customers' needs and desires.

In order to establish the most effective marketing strategy, to understand the relationship between customer orientation and customer satisfaction is essential. For that purpose one should consider the factors affecting customers' satisfaction as discussed earlier and customer orientation dimensions namely Decision-Making Authority (DMA), Technical Skills (TS), Motivation (MT) and Social Skills (SS) which will be discussed in more details later. Considering the characteristics of a customer oriented companies



namely price fairness, quality service and etc..., one can simply realize that the company is capable of providing optimum customer satisfaction.

Susskind et al., 2003; Hennig-Thurau, 2004; Stock and Hoyer, 2005 reposted a positive relationship between CS and customer orientation. Marketing experts also argued that in this relationship customer satisfaction can be substitute by customers' service quality perception (Cronin et al., 2000; Brandy and Cronin, 2001). It is well known that service quality has a positive association with customers' satisfaction (Jayawardhena et al., 2008).

Susskind et al. (2003) study showed that customer orientation is strongly related to customers' satisfaction with service. Another study by Gountas and Gountas in 2008, regarding customers' experiences of the real estate industry, revealed that there is a significant relationship between CS and perceived customer orientation, perceived service sincerity and finally customer trust in an organization. They concluded that in real estate industry organizational trust seems to be the most important indicator of overall satisfaction.

It must be born in mind that developing a customer oriented atmosphere within a firm requires all employees' contribution and cooperation and this will not happen unless the firm pays sufficient attention to needs and expectation of its personnel. However, in service sector where employees, especially frontline workers, are in direct and long-term contacts with customers the effect of workers' satisfaction is more emphasized.

#### **2.4.5 Customer Orientation Policies of Businesses**

Awareness of customers' needs and requirements is the first step and the key factor for deciding any policy for an organization (Coelho et al., 2010). Success of any business is strongly dependent on its policy. In order to establish the most efficient customer oriented policy in an organization, it is crucial for marketing managers to develop a customer orientation management system within that organization. Therefore, it is important to know the market and its characteristics, besides the behaviour of actual and potential customers.

Customer oriented policies can differ widely depending on the nature of the business and its industry, market characteristics of that business, geographical location of the business and finally customers purchasing behaviour. For instance, Muzammil et al., (2010) study showed that price fairness is more important to customers than customer service. However, another study by Gountas and Gountas, (2008) conducted in Australia, "regarding customers" experiences of the real estate industry, revealed that in real estate industry, organizational trust appears to be the most significant indicator of overall satisfaction. Thus, it is important to provide market and customer analyses, before deciding for any business policy. It must be born in mind that the policy needs to be updated and personnel should receive regular training according to the updated policy.

#### **2.4.6 Customer Orientation Measurements**

There are different parameters to measure whether a firm is customer oriented or not and if it is what level of orientation exists in that firm. For instance service price, quality of service, perceived service value by customers and so forth.... In the context of service marketing, developing a market oriented strategy is strongly dependent upon

frontline employees (Coelho et al., 2010). Although COSE is almost a new concept in service marketing and was first introduced by Henning-Thurau and Thurau in 2003, since then it has received a considerable attention from marketing experts. Henning-Thurau and Thurau (2003), suggested that COSE can be distinguished by three dimensions of workers' motivation to offer a satisfactory service to the customer, their customer-oriented skills, and their self-recognition of their decision-making authority.

Kelley (1992) and Brown et al., (2002) have studied the relationship between employees' attitude and COSE such as organizational commitment, personality characters and job satisfaction as determining dimensions of COSE. Donovan et al., (2004) investigated the internal benefits of Service-Worker Customer Orientation (SWCO) and interactions between customers and individual service employees in two different service industries namely, bank and restaurant. Donovan et al., (2004) concluded that CO of service workers positively influences their commitment to the organization and job satisfaction; besides, motivated employees help their organization to succeed. Moreover, Donovan et al., (2004) observed that employees who are in contact with customers in longer period are generally have higher level of responsiveness to their job. To provide a guideline for marketing managers in their recruitment policy, it was suggested that manager should hire workers who have higher level of customer orientation, since this personality character leads to job satisfaction and commitment.

Hennig-Thurau (2004) studied the impacts of COSE on customer satisfaction, commitment and retention. He argued that since customers often depend on the service employees' behaviour when deciding to choose a service or judging its quality (it should

be bear in mind this is only true if the customer do not have enough information about the service or its quality), customer orientation culture among frontline service workers is an important factor of companies' economic success. He considered that COSE is a four-dimensional concept and defined these dimensions as TS, SS, MT, and DMA, where each dimension has a direct impact on COSE and an indirect impact on CS, commitment and retention. He concluded that the effect of COSE on customer satisfaction is stronger than on commitment and retention.

Coelho et al., (2008) study of factors and climate affecting customer orientation of frontline or similarly COSE, showed that psychological atmosphere (for example a situation in which employees work under stress) of an organization does not directly affect the customer-oriented behaviour of service employees. However, employees' behaviour can be affected directly by the stress resulted from the nature of role itself. They suggested that marketing managers can encourage their frontline employees, who are in direct and long-run contact with customers, to have a more efficient customer-oriented attitude by showing them the companies' commitment to customers, to ethical decision making and innovation. The latter two values are important as they are indicating factors of employees' responsibility towards customers.

In a more recent study conducted by Kim and Ok (2010) in order to examine the influences of COSE on service-outcome variables namely customer satisfaction and affective commitment in full service restaurants, they considered similar individual dimensions for COSE as proposed by Hennig-Thurau (2004) (DMA, SS, MT, and TS). They found that the dimensions of TS, SS, and MT have similar degree of effect on CS and Repurchase Intention (R.I), while DMA demonstrates little effect on them. The study also revealed that COSE has a strong direct and a minor indirect effect on

customer satisfaction, while having a moderate indirect effect via rapport and customer satisfaction on affective commitment.

For the purpose of this study similar individual dimensions of COSEs (TS, SS, MT, and DMA), among employees of North Cyprus banking system, besides the influence of rapport (enjoyable interaction of a customer and personal connection with the employees of the service provider) have been considered to investigate their direct and indirect effects on customers' satisfaction and future behaviour.

#### **2.4.7 Customer Orientation Effects on Service Employee**

In area of relationship marketing the concept of a “customer orientation” is essential (Kohli and Jaworski, 1990; Kotler, 1972). The first attempt to empirically measure the COSE was made by Henning-Thurau & Thurau (2003) and Henning-Thurau (2004) and they defined COSE as the “extent to which the service employee's behavior in personal interactions with customers meets those customer needs.”

Previous studies show the implication of a customer-oriented approach within a company has variety of positive effects on behaviour of service workers, for instance, their job satisfaction, commitment to the company, and performance of the employees (Kelley, 1992; Brown et al., 2002; and Donovan et al., 2004). Brady and Cronin (2001) argued that CO perceptions are positively associated with the evaluation of the perceived quality of the employees' performance, products and firm's environment. In addition Brady and Cronin (2001) also emphasized the importance of consistency in customer-oriented behaviour of employees.

In order to investigate the effects of CO on service employees, one has to bear in mind that geographical and cultural differences, besides sex and gender have a great

impact on results of such a study. Although it is well-known that in western countries market orientation has a positive influence on service employees' attitude (Kohli and Jaworski, 1990; Narver and Slater, 1990), and study among female service employees in Thailand showed that "none of the behavioural components of market orientation has a positive impact on job satisfaction of Thai female customer contact service employees; and that only customer orientation and inter-functional coordination have marginal effects on role ambiguity and organizational commitment" (Powpaka, 2006).

Frontline service employees are regularly under pressure due the unexpected conflicts and challenging interactions with customers, which can affect the performance of employees and result in loss of revenue and extra cost for an organization. Working under unpleasant climate also can result in lack of motivation and increase the risk of making errors in variety of tasks associated to employees' role in an organization.

A study conducted by Paarlberg (2007) to investigate the impact of CO on government employee performance (Studies of American federal employees) revealed that there are positive relationships between customer orientation and employees' job satisfaction, performance, motivation, and support for organizational change. He concluded that as a result of ever changing nature of work and the characteristics of labour pool, government agencies worldwide are becoming more operative in recruiting, retraining and motivating employees. It is well agreed among the marketing specialists that employees with customer-oriented attitude are generally motivated and attractive to organizations.

Alex et al., (2012) investigated the influence of CO on frontline employees' job outcomes, among 300 samples of frontline sales and service workers employed across a variety of industries, including retail, financial services, health care, professional

services, real estate, and hospitality. They argued that customer-oriented climate provides employees variety of psychological benefits, for instance it reduces role stress and increases job satisfaction and commitment to the task. Besides, they claimed that customer-oriented workers as a result of job satisfaction are less likely to leave their firms in short period. They suggested that since customer orientation is most likely and inherent characteristic of frontline service employees, companies should allocate their recruitment resources to attract and retain employees with customer-oriented attitude.

#### **2.4.8. Relationship between Customer Orientation of Service Employees and Rapport**

Once the COSE and its dimensions are specified, its relation to customer satisfaction and retention in that specific market sector can be investigated. Fatima and Razzaqu (2010) argued that in order to gain sustainable competitive advantage, banks should discover how customers' perception of their interactions with contact employees or "Rapport" influences continuing satisfaction. According to Gremler and Gwinner (2000) rapport in the context of service marketing can be defined as "an enjoyable interaction of a customer and personal connection with the employees of the service provider." Gwinner and Gremler (2008) also defined various dimensions of rapport; based on customer' point of view namely attentive behaviour, courteous behaviour, common grounding behaviour, connecting behaviour, and information sharing behaviour. It must be born in mind that these dimensions are from customers' point of view and are not assessed empirically.

Although there is no definite definition of rapport Weitz et al., (2007) suggested that rapport can be defined as good relationship experience between two or more interactions. Marketing experts often adopt the most suitable definition of rapport for

their application. Kim and Ok (2010) adopted the concept of rapport as a mediatory variable between the dimensions of COSE and target variables, namely customer satisfaction and customer retention, in order to design a model which can explain the relations between these variables.

In today's competitive markets that every business has to deal with new entrants and challenging situation, attracting new and retaining the existing customers have become a puzzling issue for marketing managers. Therefore, for example bank managers are trying to understand the impact of trust, quality and involvement on rapport, and thereby on overall satisfaction (Fatima and Razzaqu, 2010).

A survey conducted by Siti (2011) in Malaysia among customers of dental clinics revealed that among the two dimensions (Respect and Rapport) which were considered to study the relationship quality between the customer and the service provider, rapport showed a stronger impact on relationship quality. He argued that key parameter in rapport is enjoyment. He also claimed that rapport is the very first step of building an effective relationship between customer and service provider (generally the frontline service workers).

It is found that service quality of a firm has significant impacts on rapport; in addition, customer involvement with that firm also has a positive impact on rapport, however the effect of personal involvement is greater (Fatima and Razzaqu, 2010). Moreover, it was found that overall satisfaction was strongly influenced by Rapport. Bearing in mind that the performance of employees (which itself is influenced by customer-oriented climate in that firm) plays a major role in customer's satisfaction and service quality (Bitner et al., 1990, Sergeant and Frenkel, 2000), it is clear that there is a positive relationship between COSE and rapport. Kim and Ok (2010) reported that



customer-oriented employees (considering being motivated and having sufficient decision-making authority) are likely to take advantage of their social and technical skills to improve an enjoyable relationship with customers. However, it was found that motivation and social skills respectively have greater impact on rapport in comparison with decision making authority and technical skills.

#### **2.4.9 Relationship between Rapport and Trust**

Only limited numbers of researches have taken place to describe the connection between rapport and trust. Gremler et al., (2001) reported a positive link between the “personal connection” of service employees and customers as a dimension of rapport and trust; however the most important dimension of rapport, “enjoyable interaction” was not examined in the survey. A study by Macintosh (2009) was designed to examine the relationship between rapport and trust in service sector and factors contributing to this relationship. The results showed a positive link between rapport and trust and rapport is one of the most important factors of building a trustworthy relationship with organizations’ customers.

It must be born in mind that trust can be examined at the interpersonal (enjoyable interactions between customers and service employees) or the organizational level (customers actually become organizations’ advocate). Kim and Ok (2010) argued that an interpersonal relationship (as a dimension of rapport reported by Mancintosh (2009) between customers and service employees provides confidence and trust.

From bank managers’ point of view it is very important to find out the relationship between RA and TR. The influences of trust on customer satisfaction and retention also have to be discovered. Ranaweera and Prabhu (2003) investigated the

combined effects of CS and TR on customer retention and concluded that the effects of satisfaction and trust on customer retention are significant; however, later shows smaller effects. Jayawardhena (2004) suggested that with today's increasing online banking services, it would be a rational policy that banks focus on building trust through ensuring the security and privacy of customer information.

#### **2.4.10 Relationship between Rapport and Commitment**

An empirical based study of bank customers' loyalty in Amman-Jordan revealed that relationship marketing variable like bonding, trust, communication and satisfaction have a positive effect on customer loyalty and commitment (Alrubaiee and Al-Nazer, 2010). It is well known among marketing scientists that increased customer commitment is the most common outcome of relationship marketing efforts of a firm. Trust is suggested by theories of relationship marketing (as first step of rapport) to be a key mediating parameter with influence on positive relationship outcomes, such as commitment (Morgan and Hunt, 1994).

In relationship marketing context, the concept of commitment plays an essential role and generally refers to continuity of a relationship between partners (Dwyer et al., 1987) and is the most developed phase of partners' interdependence (Scanzoni, 1979). In financial service sector, the contact employee's ability to influence customer's loyalty and their commitment is largely determined by employees' behaviours (ethical behaviour is believed to have a positive impact on customers' commitment) while interacting with the customers (Pressey and Mathews, 2000; Strout, 2002). Moreover, maintaining customer loyalty requires customer-oriented attitude from banks and they must understand their customers' needs and try to satisfy those in the most efficient way.

Understanding customers' requirements also needs a close and moral relationship between the service employees of the banks and customers.

Alrubaiee (2012) study, in which data was collected from 217 bank customers in Jordan, showed that earning customers' retention and loyalty requires understanding and attention of banks to their customers' needs. He concluded that ethical sales behaviour of service employees (a component of rapport) in banks was a significant predictor of customers' commitment, trust and loyalty. The results of the study was consistent with Chen and Mau's (2009) study, where they claimed "if the customers think their salesperson's sales behaviours are ethical then they would tend to trust the salesperson as well as the company." However, a study by Hansen and Riggle (2009) indicated inconsistent with previous studies that the relationship between ethical sales behaviour and customer commitment to the organization is strongly mediated by customers' trust in the salesperson or frontline service worker in service sectors.

In the context of service marketing, it is well-known that customers may stay with their service provider for a long time not because of its performance or quality level, but perhaps because of the emotional connection to the service provider or its employees (Garbarino and Johnson, 1999; Gwinner et al., 1998; Price and Arnould, 1999). In the case of services, those emotional commitments create through customers' interactions with service employees and their personal perception of that relationship. Therefore, it can be agreed that the level of customers' commitment towards a service provider is affected by the employees' attitude in handling connections with firms' customers (Hennig-Thurau, 2004).

Reynolds and Beatty (1999) argued that customers' positive feelings about employee is caused by rapport. Since there is no agreement on the positive link between

rapport and customers' loyalty toward a firm among marketing experts; for instance, Macintach and Lockshin (1997) believed that there is a strong positive link between rapport and repurchase intention, whereas Gremler and Gwinner (2000) have found only partial support for the positive link between those two factors. Hence, Kim and Ok (2010) argued that perhaps the role of rapport is to mediate the effects of COSE on service outcomes (CS, affective commitment, R.I and WOM). For the purpose of this study the same interpretation of rapport is considered.

#### **2.4.11 Relationship between Customer Satisfaction and Loyalty**

The dimensions of COSE (TS, SS, MT, DMA) and relationship between COSE and Rapport (RA), Trust (TR), CS, and finally Customer Commitment (COM) have been explained in details earlier. Now it is important to find out the connections between customer satisfaction and probably the most important aim of every business which is customers' loyalty.

Noticeable interest in customer loyalty within service industries has been shown among marketing and management scholars and practitioners (Ruyter and Bloemer, 1998). Since sustainable competitive advantage may be considered as a barrier to customer switching behaviour its development is affected by customer loyalty (Keaveney, 1995; Gremler and Brown, 1996). In other words, considering long term success in a market, enlarging and sustaining loyal customer base is essential (Al-Rousan and Badaruddin, 2010).

During the last years, customer satisfaction has been advanced to account for customer loyalty (Newman and Werbel, 1973; Oliver and Linda, 1981; LaBarbera and Mazursky, 1983; Bearden and Teel, 1983; Bitner, 1990; Fornell, 1992; Anderson and Fornell, 1994; Dick and Basu, 1994; Oliver, 1996). According to Parasuraman et al.

(1988) service quality is the most powerful weapon in service industry and plays critical role as differentiator. Service organizations should try to sustain a high level of service quality in order to access and maintain customer loyalty (Zeithaml et al. 1996) that is critical for business existence (Reichheld, 1993).

Customer loyalty “occurs when there is repeated purchasing by the same customers with their willingness to recommend the product to other customers without any instant benefits” (Heskett et al., 1997) and it can be considered as one of the key coordinator of service quality (Al-Rousan and Badaruddin, 2010). These repeated usages can possibly bring positive and beneficial financial results (Duffy, 2003).

Customer loyalty brings economic benefits such as retention improvements and increase in the share of a company (Al-Rousan and Badaruddin, 2010). According to Bowen and Shoemaker (1998) “customer loyalty means that customer would return or continue to use the same product or other products of the same organization, make business referrals, and intentionally or even unintentionally providing strong word-of-mouth references and publicity.” Usually loyal customers cannot be easily influenced by rival firms, and mostly they buy more comparing to less loyal customers (Baldinger and Rubinson, 1996).

High switching barriers or the absence of substitutes will keep some loyal customers, but for others the main reason why they remain loyal is because of their satisfaction with the services, and it has been also proved and demonstrated by previous researchers that customer loyalty is influenced by perceived service quality (Al-Rousan and Badaruddin, 2010). Positive relationship between service quality and customer loyalty was demonstrated in Wong and Sohal’s (2003) study on retail trade and positive

relationship between service quality and loyalty in the banking sector was described by other scholars (Bloemer et al. 1998; Ehigie, 2006). It is approved that service quality is related to customers' behaviour outcomes, in the form of complaint, WOM, recommendation and switching (Al-Rousan and Badaruddin, 2010). Karatepe (2006) in his study stated that the customers' behaviour related aspects of the loyalty can be characterized in terms of repurchase intentions, word-mouth-communication, and recommendations (Yi, 1990; Zeithaml et al., 1996).

## **2.5 The Conceptual Model and the Hypotheses of the Study**

### **2.5.1 Effects of Customer Orientation of Service Employees on Rapport**

As mentioned before Kim and Ok (2010) adopted the concept of rapport as a mediatory variable between the dimensions of COSE and customer satisfaction. Other studies mentioned before (Fatima and Razzaqu, 2010) showed that service quality has significant impacts on rapport; in addition, customer involvement with that firm also has a positive impact on rapport and it was also found that overall satisfaction was strongly influenced by rapport. Performance of employees plays a major role in customer's satisfaction and service quality (Bitner et al., 1990, Sergeant and Frenkel, 2000), therefore it is clear that there is a positive relationship between COSE and rapport. Based on these findings first hypothesis was developed as follows:

**H1:** Customer orientation of service employees has a positive effect on rapport.

### **2.5.2 Effects of Rapport on Trust**

Macintosh (2009) explains that as the increasing rapport between two parties will cause decrease in uncertainty and therefore, trust should increase as well. Doney and

Cannon (1997) suggest that rapport can be considered as potential former trust. As stated before Gremler et al. (2001) reported a positive link between the “personal connection” of service employees and customers as a dimension of rapport and trust. Study by Macintosh (2009) examining the relationship between rapport and trust in service sector showed a positive link between rapport and trust and rapport is one of the most important factors of building a trustworthy relationship with organizations’ customers. Gournaris and Venetis (2002) found that improvements in customer’s feeling of trust for the service employee should be affected by positive rapport. Therefore second hypothesis was developed on these bases:

**H2:** Rapport has a positive effect on trust.

### **2.5.3 Effects of Trust on Customer Satisfaction and Customer Commitment**

Studies show conceptual differences between satisfaction and trust even if they are closely related to each other. According to Macintosh (2009) in most services as the customer is basically buying “a promise”, trust is even more important comparing to other marketing contexts. He believes that “trust is an important mediating variable related to a number of positive outcomes.” For example, trust has been shown to be related to commitment (Morgan and Hunt, 1994), loyalty (Macintosh and Lockshin, 1997), and word-of-mouth (Gremler et al., 2001).

Due to a special nature of service consumers, trust became essential especially in service industries (Brown and Fern, 1981; Davis, Gultinan, and Jones, 1979; Murray and Schlacter, 1990) and it is crucial in maintaining satisfactory customer/service provider relationships (Crosby et al., 1990) that customers trust their service provider (Bateson, 1977).

As mentioned before commitment is found to be an important aspect of service providers and customers' cooperative relationships leading into higher levels of service quality and profitability (Zeithaml et al., 1996; Gronroos, 1997). According to "Commitment–Trust Theory of Relationship Marketing" (Morgan and Hunt, 1994) it is essential to have committed customers as they will show cooperative behaviours critical for continuing relationship that is equally valuable. Additionally, Tsoukatos and Mastroianni (2010) argued that customer retention in banking is likely to be dependent on trust and confidence.

Based on these findings hypotheses are as follows:

**H3:** Trust has a positive effect on Customer Satisfaction.

**H4:** Trust has a positive effect on Customer Commitment.

#### **2.5.4 Effects of Customer Satisfaction and Customer Commitment on Loyalty**

Customer satisfaction is considered to be critical element of repurchase intention (Liao, Palvia, and Chen, 2009) and customer loyalty (Eggert and Ulaga, 2002). Customer satisfaction makes the customers loyal to service provider and it influences the decision of repurchase, purchase of more products, positive word of mouth and willingness of customer to pay more for the particular brand (Hanif et al., 2010). As the importance of satisfaction on retention is well recognised among service practitioners, it is possible to measure satisfaction to predict customer retention and loyalty (Prabhu and Ranaweera, 2003).

According to Sivadass and Baker-Prewitt (2000) "customer loyalty is the ultimate objective of customer satisfaction measurement." In order to gain competitive advantage improving customer loyalty should be the key focus for all service providers.



Olive (1999) stated that it is easier to create loyalty when service provider can satisfy the customers' needs better than competitors. Fornell (1992) argued that high customer satisfaction causes that the customer loyalty is also high and according to Clarke (2001), effective satisfaction creates customer loyalty and it is also proved that customer satisfaction has positive effect on customer loyalty (Choi, Seol, Lee, Cho, and Park, 2008) or negative effect on switching intention (Walsh, Dinnie, and Wiedmann, 2006).

On the basis of these studies, the expected findings are:

**H5:** Customer Satisfaction has a positive effect on Loyalty.

**H6:** Customer Commitment has a positive effect on Loyalty

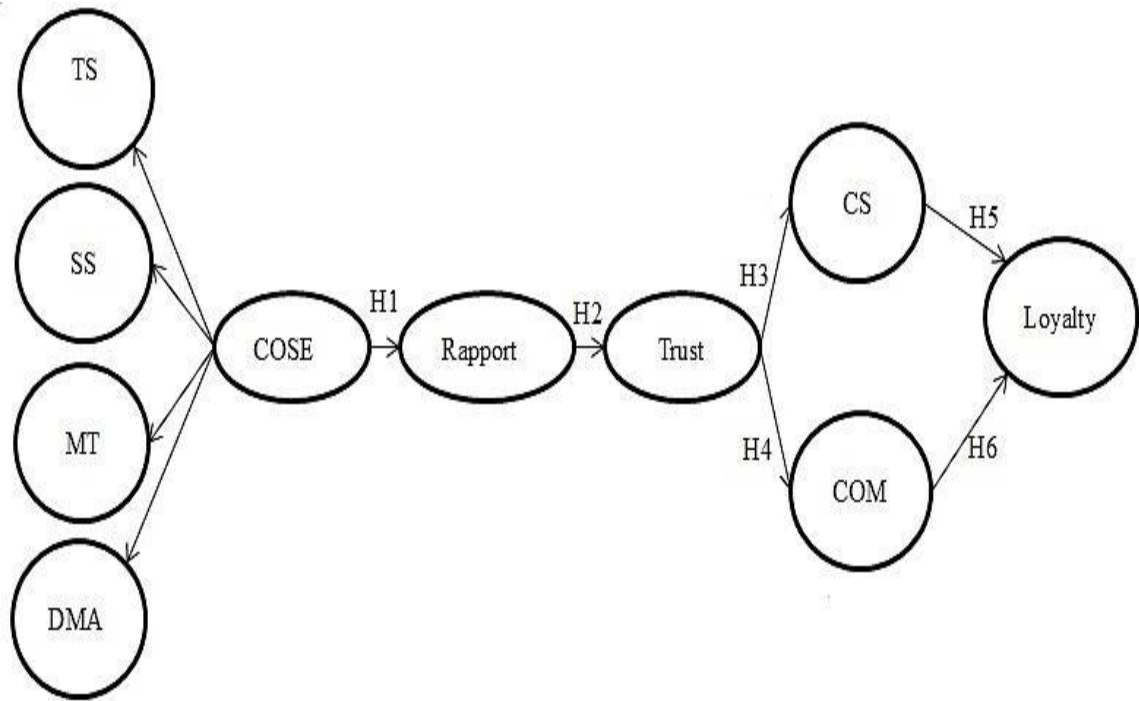


Figure 2.1: The Conceptual Model

Note: TS = technical skills; SS = social skills; MT = motivation; DMA = decision-making authority; COSE = customer orientation of service employee; CS = customer satisfaction; COM = customer commitment.

## Chapter 3

### METHODOLOGY AND FINDINGS

#### 3.1 Banking Industry in North Cyprus

North Cyprus has a population of approximately 286,257 inhabitants (2011 census), 3,355 km<sup>2</sup> land area and it shows typical characteristics of a small island economy located in the Mediterranean Sea.

The banking sector's share in North Cyprus' gross domestic product (GDP) went through changes since 1999. It was 6.3% with 568.4 million Turkish Lira (TL) (in 1977) and has decreased to 4.8% with 416.1 million TL (in 2003). Economic crisis have been the main reason of previous decline so that the recent share is roughly the same as in 1992 (Şafakli, 2003).

Today financial sector represents 4.2% of countries GDP and banking sector was developed according to Turkish system as North Cyprus been having close relationship with it. Growing trend in island's tourism and economy caused that banks adopted modern structured banking system with certain changes. Except Turkish-based and local Turkish-Cypriot banks, there are international branches of international banks such as HSBC operating within the Turkish Republic of North Cyprus (TRNC).

Economic crisis and financial problems in 2000 – 2002 were the consequences for the beginning of the Turkish currency (Gunsel, 2008). These turbulences in the economy in 1999 caused that out of 37 commercial banks operating in TRNC by the end

of 2002 ten of them were closed and three were taken over by other banks. Today there are 32 off-shore banks and 24 commercial local banks operating under the new Banking Law which has come into force in November 2001. The majority of the off-shore banks are corporations located in Turkey (Şafakli, 2003). International companies such as İşbank, AXA, HSBC, Garanti Bank ING, TEB, Ziraat, Halk Bank, Groupoma, and many others are providing banking and insurance services. The Central Bank of the Turkish Republic of North Cyprus is responsible for monetary, credit and exchange policy, and at the same time this institution acts as banker to the government (Şafakli, 2003).

### **3.2 Purpose of Research**

The purpose of this study was to determine the correlation between drivers of customer orientation and loyalty in Cyprus banking system by adopting a structural equation modelling of those derives.

In order to determine the correlations conceptual model and hypotheses were developed. The researcher opted to obtain the view of retail customers within banking industry, specifically in North Cyprus. Primary data together with secondary resources (published articles and literatures) were used to create survey and to support the hypotheses described in Chapter 2.

### **3.3 Research Approach**

As this study developed hypotheses deductive approach was used. Deductive approach is based on existing theory, developing a hypothesis (or hypotheses), and then designing a research strategy to test the hypothesis (Wilson, 2010, p.7).

Hypotheses were developed according to study of customer orientation of service employees (Hennig-Thurau, 2004) and other theoretical frameworks described in

Chapter 2 and tested using data obtained from a sample of bank customers with a time period of two months in North Cyprus. As Graziano and Raulin (1993) previously mentioned, “support or lack of support for the theory is obtained as the deductions are empirically tested through research.”

This study tested the correlation between drivers of customer orientation and loyalty.

### **3.4 Research Strategy**

According to type of information sought, quantitative approach was chosen as a proper research type for this study. Quantitative approach is concerned with variations, averages, differences, relationships and represents one of the major research approaches within the social sciences (McQueen and Knussen, 2002). York (1998) argues that “quantitative research is about prediction, generalizing a sample to a larger group of subjects, and using numbers to support or reject a hypothesis.”

Survey research, the most typical of research approaches in social research (McQueen and Knussen, 2002), was chosen as a proper type of quantitative research method. By the use of a questionnaire, survey research collects data from a sample of a well-defined population (Babbie, 1990; Fowler, 1988; Frey, 1989; Lavrakas, 1993; Weisberg, Krosnick and Bowen, 1996).

Once a survey design has been specified, the next step in a survey investigation is selecting a sampling method (Henry, 1990; Kalton, 1983; Kish, 1965; Sudman, 1976).

### **3.5 Sample**

In this study non-probabilistic convenience sampling technique was applied. Non-probability sampling – one of the major approaches to sampling, does not afford

every individual in a given population the same likelihood of being selected (McQueen and Knussen, 2002).

Data were obtained from the retail customers of selected banks in TRNC. This target group is also called *sampling unit* or simply *sample* (McQueen and Knussen, 2002). In light of the information received from the Central Bank of TRNC at the time of the present study, there were 24 commercial banks operating under the Banking Law in North Cyprus.

An amount of 300 questionnaires is distributed among randomly selected customers of banks operating in TRNC in the banks themselves, restaurants, activity centers, at the universities and other places and after analysing collected data 266 (88.7%) questionnaires found usable for carry out analyses.

### **3.6 Questionnaire Structure and Measures**

As mentioned before this quantitative study used a survey research design. The survey serves as the most widely used quantitative method in social science research as this method can offer a “snapshot of a section of society at a particular point in time that can be generalize to the whole population” (McQueen and Knussen, 2002).

The self – administrated survey questionnaire was used as the main data-collecting instrument to determine the correlation between drivers of customer orientation and loyalty (see Appendix).

Items in the questionnaires were developed according to previous studies of customer orientation of service employees. Twelve items that used to measure COSE adopted Hennig-Thurau (2004). In order to measure rapport eleven items that were employed by Gremler and Gwinner (2000) previously was used. The questions

regarding trust consists of four items and was adopted from Morgan and Hunt (1994). Three items adopted from Hennig-Thurau et al. (2002) used to measure customer satisfaction. In order to measure customer's commitment four item scales was used which adopted from Morgan and Hunt (1994). Five items were adapted from Zeithaml et al. (1996) to measure customers' loyalty.

The profile contains questions related to respondents' age, gender, nationality, level of education, occupation, average monthly income and marital status.

The survey proper consists of closed-ended questions where the possible range of response is predetermined by the tester (McQueen and Knussen, 2002). All questions were designed as rating scales – scales that rate some attribute from positive to negative, low to high, strong to weak (McQueen and Knussen, 2002). A special type of scaled items used in this survey comes from Likert (1932) and it is called *Likert scale*. This type of question contains a statement with which the respondent indicates the amount of agreement/disagreement with an issue (McQueen and Knussen, 2002). Issues in this study were: social and technical skills of bank employees, motivation, rapport, trust, customer satisfaction, commitment, and loyalty. Respondents ranked their level of agreement with proposed statements related to their loyalty towards the bank on scale 1 – 5. All scale items were obtained from the empirical studies in the extant literature reviewed in Chapter 2.

### **3.7 Data Collection**

According to McQueen and Knussen (2002) there are two types of data - secondary and primary data and this study used both types.

Academic articles from international journals and documentation were used as the secondary data sources for this study. As mentioned before studies of Morgan and Hunt (1994); Zeithaml et al. (1996); Gremler and Gwinner (2000); Hennig-Thurau et al. (2002); and Hennig-Thurau (2004) provided necessary information for development of the conceptual model, hypotheses and survey instrument. Survey research was used as primary data collection technique. After completion of questionnaire distribution process started with pre-testing on a smaller scale of 30 respondents known as “pilot study” to improve the data collection method and to check the validity of the research instrument.

Respondents were personally interviewed and questionnaires were not distributed on-line. Data were collected from August till September of 2012 among retail customers of selected banks operating in North Cyprus in the banks themselves, restaurants, entertainment areas, at the university and other areas, especially in Famagusta and Lefkosa.

### **3.8 Findings**

The demographic breakdown of respondents is described below. Figures 3.1 to 3.7 show the demographic distribution of the respondents.



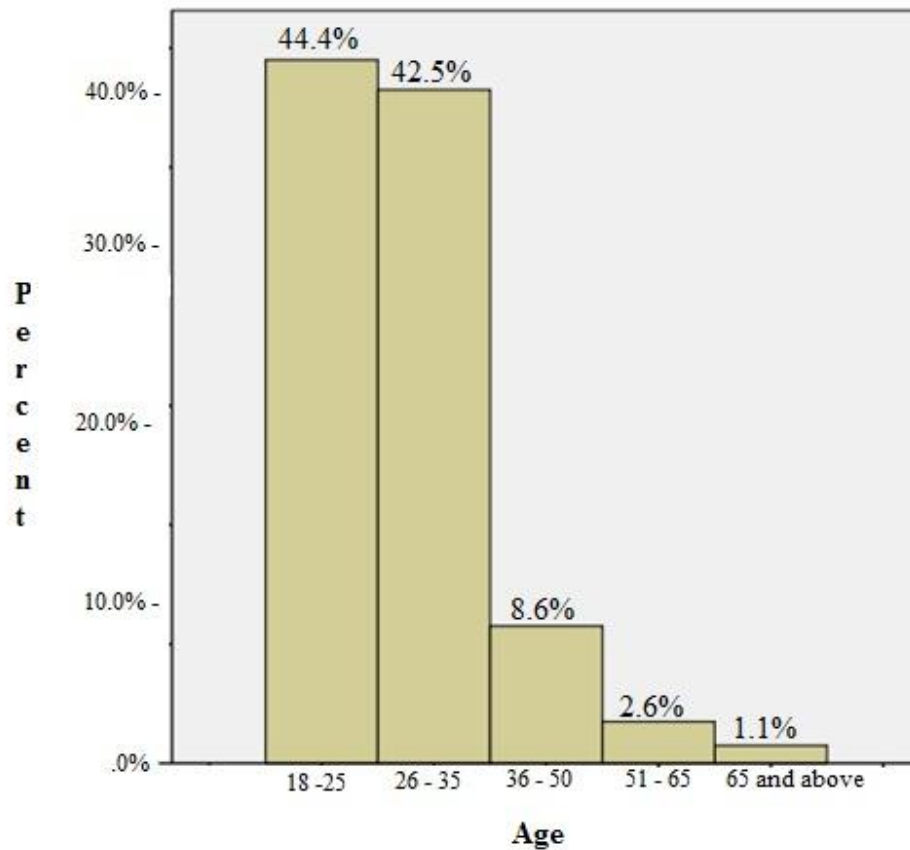


Figure 3.1: Age

As can be seen in Figure 3.1 most of the respondents were between 18 – 35 years old. The majority belongs to the first group – age 18 – 25 with almost 45% and the second largest group was age 26 – 35 with 42.5%. On the other hand respondents at the age of 66 and above make up the minority with only 1.1%.

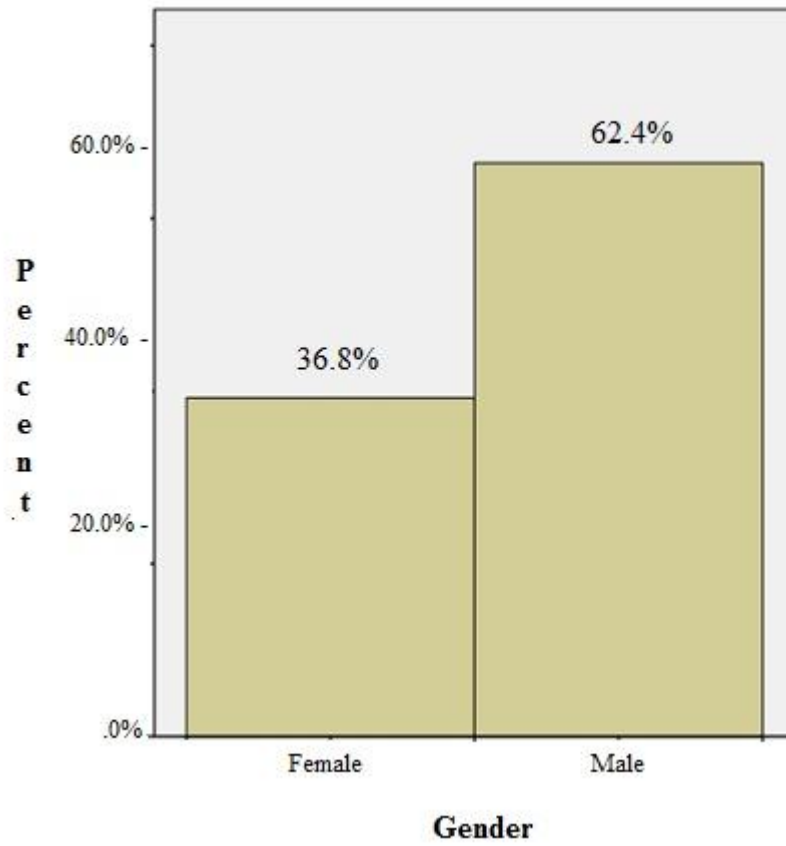


Figure 3.2: Gender

Figure 3.2 illustrates gender distribution of respondents. Majority of them were male respondents with 62.4% while females were 36.8%.

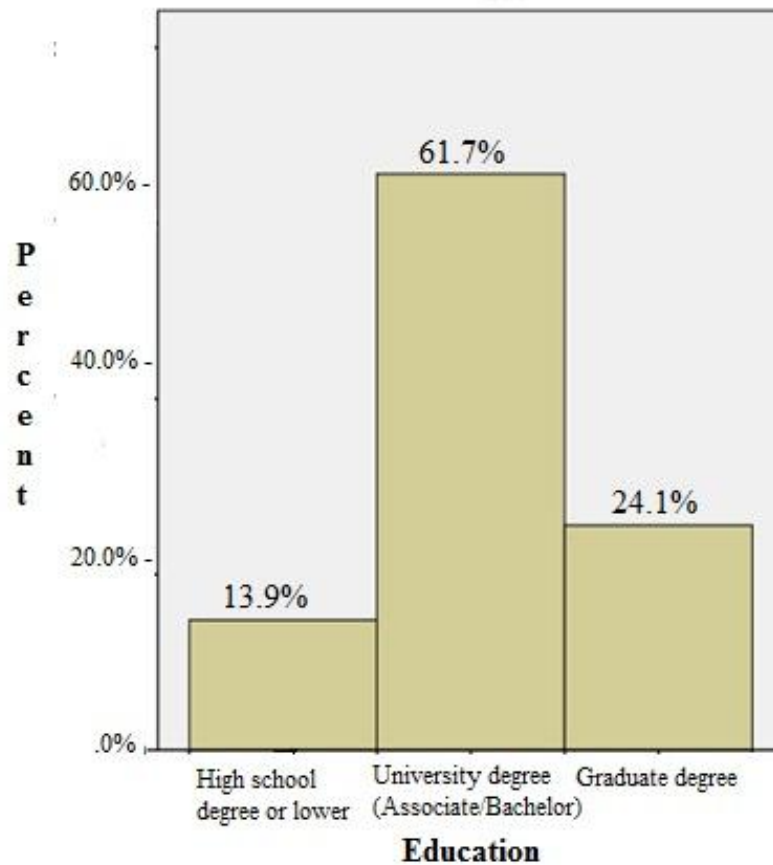


Figure 3.3: Level of Education

Figure 3.3 represents respondents' level of education. Majority of them have university degree equal to Associate's or Bachelor's degree – almost 62%. This result can be influenced by fact that research was conducted within university campuses and there are 6 universities operating in North Cyprus with more than 40,000 students (Arslan and Güven, 2007). Second largest group was “Graduate degree” with 24% and almost 14% of respondents have high school education or lower.

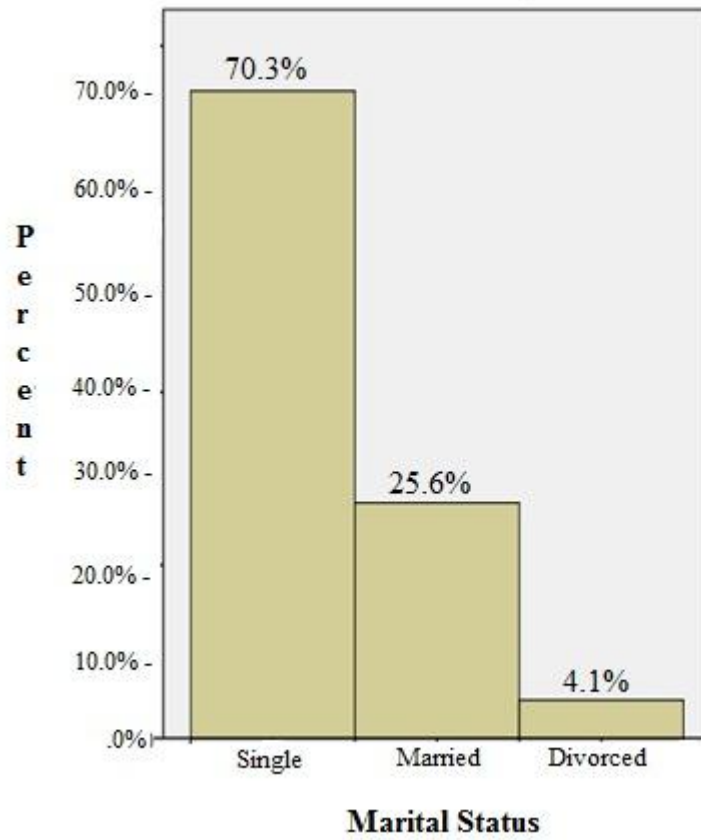


Figure 3.4: Marital Status

As showed in Figure 3.4 the majority of respondents are single – 70.3% and 25.6% of them are married. On the other hand only 4% are divorced.

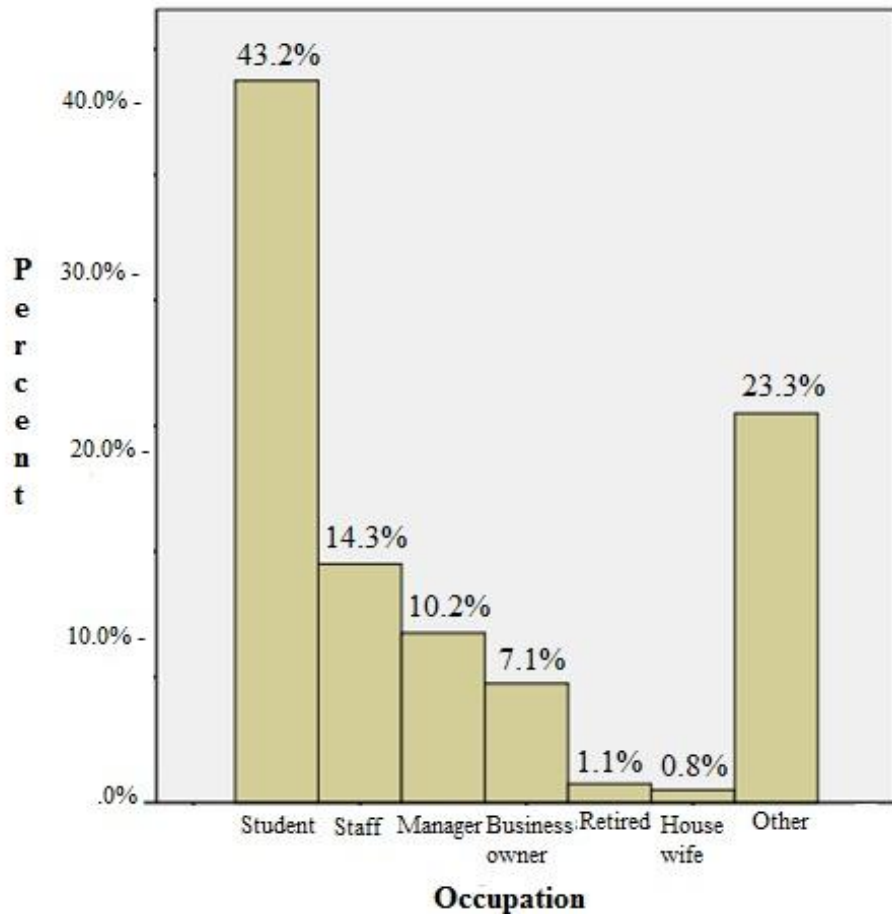


Figure 3.5: Occupation

Figure 3.5 is related to occupation and it can be seen that more 43% of them were students. As mentioned before this result can be influenced by fact that data were collected within university campuses and there are more than 40,000 students studying in North Cyprus (Arslan and Güven, 2007).

Second largest group was “other” type of employment with more that 23%. 14.3% of respondents belong to staff, 10% were managers and more than 7% were business owners. Only around 1% were retired people and less than 1% house wives.

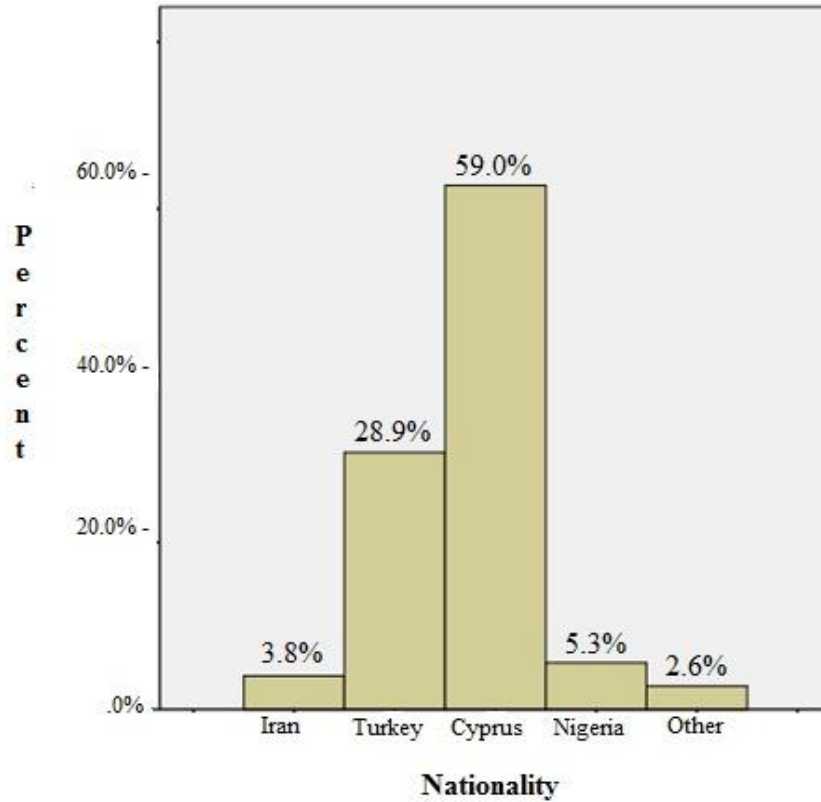


Figure 3.6: Nationality

The above graph illustrates results related to nationality of respondents. Majority of them were Cypriots with almost 60%. The second largest group were customers from Turkey, mostly students with almost 29%. 5.3% of respondents were from Nigeria and 3.8% from Iran. Only 2.6% answers were related to “other” nationality.

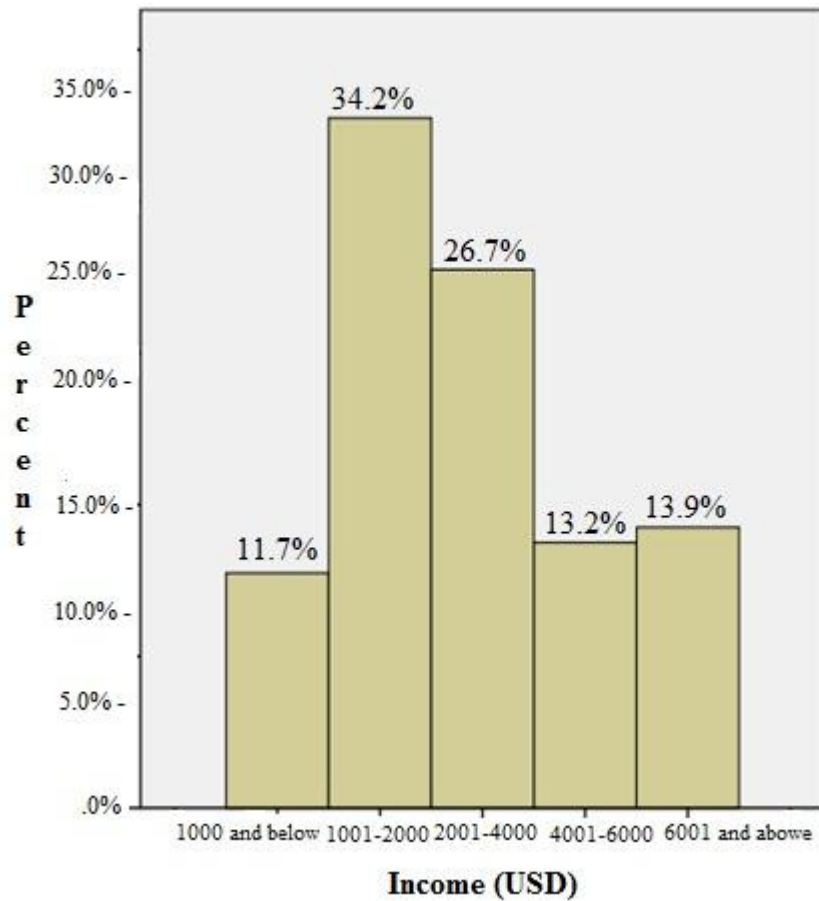


Figure 3.7: Income

Most of the customers have income between 1,001 – 2,000 united state dollar (USD) (34.2%) and between 2,001 – 4,000 USD (26.7%). Almost 14% of respondents stated that their income is 6,001 and more dollars and 13.2% of them have income 4,001 – 6,000 USD. The last group was 1,000 and less USD with almost 12%.

In conclusion we can say that most of the customers were between 18 – 35 years old, students with university education coming mostly from Cyprus and Turkey with average monthly income between 1,001 – 4,000 USD.

### 3.9 Data Analysis

After data collection “The Statistical Package for the Social Sciences” (SPSS) software version 15.0 was used to facilitate quantitative data.

Data were firstly coded and entered to the program and then nominal frequencies were used to report respondents’ profile (e.g., age, gender, education, nationality, and occupation).

The aim of this study was to determine the correlation between drivers of COSE and loyalty, therefore procedure called correlation was used to find out whether there are relationships between variables or not. Data analysis consists of the structural equation modeling (SEM) tool and partial least square (PLS), that were used to test the hypothesis of this study. PLS was described as one of the instruments in SEM and simultaneous equation model or multivariate (i.e., multiequation) regression model used for causal interpretation of observational data (Fox, 2002). This model is also sometimes called Lisrel model.

PLS is responsible for the “relationships between constructs and their corresponding indicators” (Sang et al., 2009, p. 147), and the structural model is accountable for “correlation between constructs in order to decrease error variance” (Chin, 1998).

The measurement model is made up of various dimensions of analysis including; Average Variance Extracted (AVE), Internal Consistency (IC) and Cronbach’s alpha ( $\alpha$ ). Larcker and Fornell (1981) developed both the Internal Consistency and Cronbach’s alphas measurement model that were assessed using the commonly accepted cut-off point of 0.70 (Nunnally, 1978).



Discriminant validity was evaluated using  $\chi^2$  difference tests (Anderson and Gerbing, 1988). This test has a sufficient level of discriminant validity around 0.90. Confirmatory factor analysis was used to assess the convergent validity of the model constructs (Anderson and Gerbing, 1988; Joreskog and Sorbom, 1996) which examines if constructs that should be related are actually related. In case they are related the convergent measure is more than 0.70 (Chin, 1988).

This data analysis strategy was developed in order to test the hypotheses and achieve the research objectives of this study.

### **3.10 Results**

In order to evaluate the internal consistency of the model by measuring the internal consistency, convergent and discriminant validity of the construct (see Table 1), PLS methodology (smart-PLS 2.0 M3) was used. To investigate the internal consistency for a given block of indicators, the  $r$  coefficient developed by Werts, Linn, and Joreskog can be calculated (Chin, 1998). To design constructs with high internal consistency, researchers have suggested that the value of  $r$  should be greater than 0.70 (Nilsson et al., 2001). To check the validity of the model, the AVE is used (Fornell & Larcker, 1981). The AVE measures the amount of variance that is captured by the constructs in relation to the amount of variance due to measurement error (Fornell & Cha, 1994). To ensure discriminant validity of the constructs, the AVEs of the latent variables should be greater than the square of the correlations among the latent variables (Chin, 1998). The AVEs shown in Table 1 are above the recommended level of 0.50. Also, the reliability measures in the table show that the questionnaire items have both internal consistency

and alpha of above 0.70. The validity of the items is supported as all of the items are loaded on their constructs from 0.53 to 0.95.

Table 1: Convergent and Discriminant Validity of the Model Construct

Variable									Factor Loading
<b>Commitment</b>									
ic =	0,9108	Factor mean score =	3,1416	$\alpha =$	0,87	SD = 1,03	AVE =	0,719	
COM1									0,8318
COM2									0,8554
COM3									0,8889
COM4									0,8131
<b>COSE</b>									
ic =	0,9073	Factor mean score =	3,1416	$\alpha =$	0,89	SD = 0,82	AVE =	0,701	
DMA1									0,5873
DMA2									0,6558
DMA3									0,5378
MOT1									0,6859
MOT2									0,7292
MOT3									0,6971
SS1									0,6123
SS2									0,7234
SS3									0,7737
TS1									0,6767
TS2									0,7156
TS3									0,6319
<b>Customer Satisfaction</b>									
ic =	0,8903	Factor mean score =	3,1416	$\alpha =$	0,81	SD = 0,97	AVE =	0,73	
CS1									0,8527

CS2										0,8496
CS3										0,8612
<b>Loyalty</b>										
ic =	0,9442	Factor mean score =	3,1416	$\alpha =$	0,92	SD= 1,06	AVE =	0,772		
LOY1										0,8862
LOY2										0,8931
LOY3										0,8744
LOY4										0,8597
LOY5										0,8792
<b>Rapport</b>										
ic =	0,9472	Factor mean score =	3,1416	$\alpha =$	0,93	SD = 1,06	AVE =	0,621		
RAP1										0,6798
RAP10										0,8119
RAP11										0,7313
RAP2										0,7972
RAP3										0,8316
RAP4										0,8396
RAP5										0,7901
RAP6										0,7892
RAP7										0,7902
RAP8										0,7845
RAP9										0,8067
<b>Trust</b>										
ic =	0,86	Factor mean score =	3,1416	$\alpha =$	0,93	SD = 1,00	AVE =	0,842		
TR1										0,8963
TR2										0,9243
TR3										0,9141
TR4										0,9345

Table 2: Composite Reliabilities for Model

	COMM	COSE	CS	LOYALTY	RAP	TRUST
COMM	<b>0.848</b>					
COSE	0.6087	<b>0.837</b>				
CS	0.713	0.6052	<b>0.855</b>			
LOYALTY	0.7906	0.6333	0.8043	<b>0.879</b>		
RAP	0.619	0.5667	0.4906	0.5669	<b>0.788</b>	
TRUST	0.6057	0.5401	0.6945	0.6298	0.4875	<b>0.917</b>

Note: Square root of AVE in the diagonal

Table 2 illustrates correlation matrix. To find the correlation between the constructs calculation of the square root of the average variance for each construct is showed in the diagonal. Each construct is expected to have a higher value with respect to the other value of variance extracted in the diagonal, which is found below the main core.

As shown in Table 2, where the value of the square roots of the average variance extracted in the diagonal for commitment is 0.848. This value shows important information about the correlation of commitment with the other constructs. This goes on to say that any value, located below 0.848, should be less than the mentioned value.

As it can be found in Table 2 the same applies for all the constructs; COSE, CS, loyalty, RAP and trust.

Table 3. Structural Model Results

<b>Effect on Rapport (R-Square 0.3212)</b>	<b>Proposed Effect</b>	<b>Path Coefficient</b>	<b>Observed T- value</b>	<b>Significance</b>
COSE	+	0.5667	8.7451	0.00
<b>Effect on Trust (R-Square 0.2377)</b>				
Rapport	+	0.4875	6.1733	0.00
<b>Effect on CS (R-Square 0.4823)</b>				
Trust	+	0.6945	10.8062	0.00
<b>Effect on COMM (R-Square 0.3669)</b>				
Trust	+	0.6057	8.1384	0.00
<b>Effect on Loyalty (R-Square 0.7428)</b>				
CS	+	0.4895	5.9024	0.00
COMM	+	0.4416	5.1272	0.00

Table 3 illustrates important function carried out in the data analysis of this study. The effects of each structure on the other structures are explained by path coefficient in terms of R – square ( $R^2$ ) (variance). The main reason of using the PLS method in this study is to minimize error, while increasing the variance among all endogenous constructs at the same time (Hulland, 1999).

The results demonstrated in Table 3 shows how each dependent construct affects the others in terms of  $R^2$ , which is viewed as the variance of the constructs. Results were obtained by deriving  $R^2$  for each dependent construct with the value of the t-statistics and also calculating the significant level of the path-coefficient.

The  $R^2$  statistic indicates how much of the dependent variable's variation is due to its relationship with the independent variable(s). An  $R^2$  of 1 means that the independent variable explains 100% of the dependent variable's variation (it entirely

determines its values). An  $R^2$  of 0 means that the independent variable explains none of the variation in the dependent variable (Sweet and Grace-Martin, 2012).

Data illustrated in Table 3 shows that the structural model gives 32% variance in rapport construct (relationship between COSE and rapport). This indicates that COSE has explained 32% positive effect on rapport thus hypothesis H1 was supported.

Value of  $R^2$  between rapport and trust shows 24% variance and value and there is positive correlation between these two variables. It means that rapport has positive effect on trust and hypotheses H2 was supported.

Stronger positive correlation between trust and customer satisfaction with 48% variance means that hypothesis H3 was fully supported and trust has positive effect on customer satisfaction.

Similar results are shown in relationship between trust and commitment. Positive correlation with 37% variance supports hypothesis H4, therefore trust has positive effect on customer commitment.

Relationship among customer satisfaction/commitment and loyalty shows 74% variance which is very acceptable with stronger positive relationships. Hypotheses H5 and H6 were supported as well. It means that customer satisfaction has positive effect on loyalty and customer commitment has positive effect on loyalty.

Table 4: Mean and Standard Deviation Distribution of Responses

<b>Statements</b>	<b>Mean</b>	<b>Standard Deviation</b>
TS 1	3,06	1,17
TS 2	3,04	1,13
TS 3	2,99	1,17
SS 1	2,98	1,18
SS 2	3,18	1,24
SS 3	3,14	1,31
MO 1	3,15	1,21
MO 2	3,15	1,28
MO 3	2,89	1,20
DMA 1	2,80	1,23
DMA 2	2,86	1,20
DMA 3	2,75	1,23
Rap1	3,27	1,28
Rap 2	2,91	1,35
Rap 3	3,03	1,32
Rap 4	2,99	1,30
Rap 5	2,94	1,32
Rap 6	3,27	1,27
Rap 7	2,78	1,34
Rap 8	3,12	1,43
Rap 9	3,06	1,38
Rap 10	2,89	1,38
Rap 11	2,63	1,44
TR 1	3,24	1,11
TR 2	3,37	1,12
TR 3	3,32	1,06
TR 4	3,52	1,09
CS 1	3,53	1,14
CS 2	3,22	1,13
CS 3	3,46	1,15
Comm 1	3	1,24
Comm 2	3,32	1,19
Comm 3	3,23	1,18
Comm 4	3	1,23

Loyalty 1	3,35	1,15
Loyalty 2	3,43	1,20
Loyalty 3	3,20	1,21
Loyalty 4	3,31	1,27
Loyalty 5	3,24	1,24

The means and standard deviation of the questionnaires are illustrated in Table 4. The means for almost all questions lean towards neither agreeing nor disagreeing or neutral.

The hypotheses were supported by the data as shown in Figure 3.8. The results show that COSE has positive impact on rapport, supporting H1. Despite the fact that relationship between rapport and trust is the weakest, H2 was supported. Providing support for H3 and H4, commitment and customer satisfaction is also significantly influenced by trust. Finally, both customer satisfaction and commitment have positive effect on loyalty, as suggested in H5 and H6. This impact is the strongest with 74% positive effect on Loyalty.

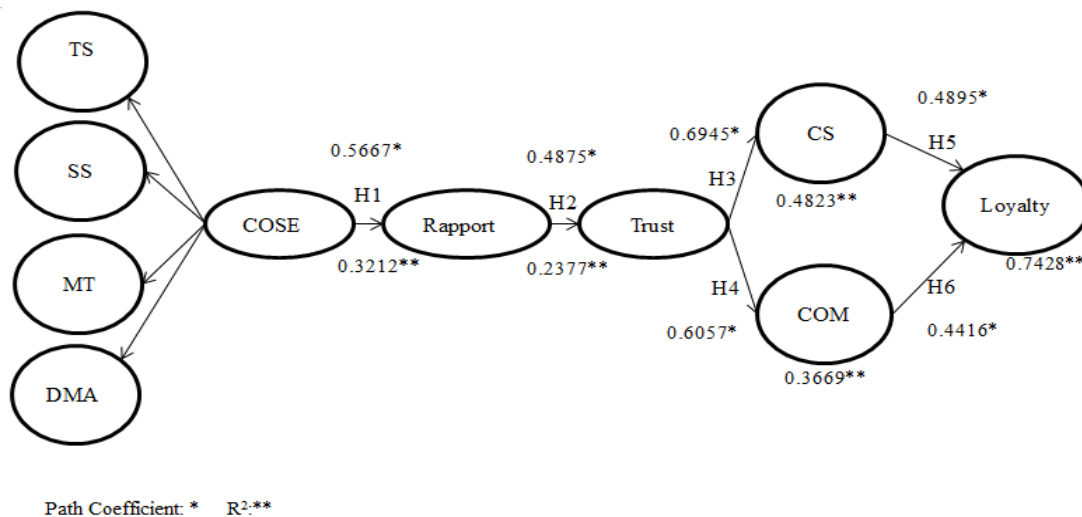


Figure 3.8: Evaluated Conceptual Model



## Chapter 4

### CONCLUSION AND RECOMMENDATIONS

#### 4.1 Discussion

Literature related to service marketing and organizational behavior increases its attention to the personal interaction between customers and the frontline service employees (Bettencourt and Gwinnner, 1996). The employees' level of customer orientation is an essential advantage considering service firms' economic success (Bitner et al., 1990; Bove and Johnson, 2000; Bowen and Schneider, 1985; Sergeant and Frenkel, 2000). Despite this fact the construct of COSE and its impact on service firms' success have been examined only by few scholars (Brown et al., 2002). Thus the main objective of this study was to examine the effect of COSE dimension on rapport, trust, CS, COM and loyalty. Conceptual model and questionnaire were developed according to study adapting proposed model in the travel agencies and electronic media retailing Henning-Thurau (2004).

According to results of this study all hypotheses were supported and it was found that COSE has impact on CS and COM thus supporting earlier work (Henning-Thurau, 2002). As shown in Table 3 the most significant is effect of CS and COM on loyalty (0.7428).

One of the contributions of this study is based on the important ability of service organizations' grow and sustain a large group of loyal customers (Al-Rousan and

Badaruddin, 2010). Marketing scholars argue that firms focusing their activities on their customers' needs - behaving in a customer-oriented way, perform better than companies that are not customer-oriented (Donavan et al., 2004).

The findings analysed in this study show that service employees' customer orientation is a driver for customers' satisfaction, customers' commitment and their degree of loyalty. It is necessary to mention that employing customer-oriented employees does not guarantee economic success but represent an important step in achieving it (Henning-Thurau, 2004).

## **4.2 Conclusion and Managerial Implications**

In this study, a scale for measuring COSE and its impact on customer satisfaction and loyalty was proposed through exploratory factor analyses. Gaining knowledge on these areas is critical for all successful managers in order to improve service quality in today's highly challenging and competitive service industry (Al-Rousan and Badaruddin, 2010).

Findings of this study provide some basic recommendations how to manage customer orientation of service employees effectively. According to study of Sax and Weitz (1982), and Jayawardhena and Farrell (2011) service quality, value and customers' satisfaction have effect on customer and service orientation behaviors. An important consideration for managers should be according to Hanzae and Mirraisi (2011) hiring employees having COSE dimensions. Previous studies proved that this relationship is essential. Garbarino and Johnson, (1999), Gwinner et al, (1998), Price and Arnould, (1999), Henning-Thurau, (2004), show the direct impact of CS and COM on CR. This study confirms that CS and COM affect loyalty among bank customers in

North Cyprus. Therefore the main aims for managers should focus on higher levels of CR and COM because in marketing theory, CR - the behavioral aspect of the loyalty (Karatepe, 2006) have lower cost strategy in comparison with advertising to obtain new customers (Hanzaee and Mirraisi, 2011).

Results of this study show that the development of stable relationships with customers is affected by COSE that has strong influence on satisfaction and commitment, (Hennig-Thurau, 2004). The key implications for all service providers is that COSE should perform the main role in budget allocation. Special focus should be given to recruitment of new employees, training of new and existent service employees and it is recommended for all service companies to focus on selection of future employees (Hennig-Thurau, 2004).

By identifying company's customer-oriented strengths and weaknesses managers should be able to improve COSE (Hennig-Thurau and Thurau, 2003). Employee's customer orientation implies management's employee orientation and it is essential for managers to ensure that all service workers are trained, empowered, and motivated to increase their customer sensitivity and responsiveness in order to achieve a strong COSE (Kim and Ok, 2010).

Results of this study confirm that COSE has positive effect on rapport and trust. According to Hollman and Kleiner (1997) employees should practice building rapport as it can be seen as a learned behaviour. Conveying empathy, making the customer feel important, and reflecting a customer's pace of speech are suggested techniques to facilitate rapport building with customers (DeWitt and Brady, 2003).

From the results of this study it can be understood that COSE has a significant impact on customer satisfaction and loyalty. Companies should evaluate if they want to be successful in extended period of time and rather than on how many customers are served, managers should focus on creation and extension of satisfied and loyal customers (Kim and Ok, 2010).

Since the power of customer retention and loyalty could be destroyed by managers' inability to recognize the power of customer satisfaction, monitoring customer loyalty has become an important focus for managers operating not only within the service industry (Yi and Alison, 2001). Therefore, managers should be able to identify customer satisfaction individually rather than focusing only on attracting customers (Al-Rousan and Badaruddin, 2010).

According to Nwankwo (1995) sustained customer focus is critical in today's competitive service environment. It is impossible to achieve an integrated customer orientation simply by adopting policies within the organization, development of an effective administrative support is also required. Competitive marketing tool and new opportunity for service organizations is represented by strategic management that is customer-orientated (Nwankwo, 1995). Decision making and strategic planning in the competitive service market environment requires understanding of the relationship among service quality and loyalty (Al-Rousan and Badaruddin, 2010).

### **4.3 Limitations and Recommendations for Future Research**

As mentioned before this study suffers from a number of limitations specifically methodology limitations. Data were collected over a two months period August – September 2012 in a specific place and the sample was not wholly representative of the

population of interest because only the perceptions of retail bank customers was taken into account. As this study looks only at the customers experiencing bank services within North Cyprus, results may not necessarily apply to different countries such as Germany or the USA. Moreover different service industries should be investigated.

Another limitation of this study is the fact that all data were collected from retailer customers only. Findings reported in this study could be validated with future research using data from both retail and corporate customers and employees.

As the results reported in this study shows the potential of COSE for service firms, future studies which improve the model for determinants of COSE can be useful for future investigation (Hennig-Thurau, 2004). Therefore further research is needed in the area of relationship marketing within service industry in order to assist in substantiating this work.

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## **APPENDIX**

Değerli Katılımcı,

Bu araştırmanın amacı Kuzey Kıbrıs'taki bankalarda çalışan hizmet personelinin müşteri odaklılığının müşterilerinin bankaya olan bağlılığı üzerindeki etkisini tespit etmektir.

Araştırmanın uygulaması yaklaşık 5 dakikalık zamanınızı alacaktır. Çalışma sonuçları toplu olarak değerlendirilecek ve akademik amaçla kullanılacaktır. Katkılarınız için şimdiden teşekkür ederiz.

Dear Participant,

You are invited to participate in a research study to evaluate your loyalty towards the bank (at North Cyprus) that you are working with by considering their customer oriented service employees acts.

Your time commitment should be approximately 5 minutes. Any information obtained in connection with this study will remain anonymous. Your participation in this study is truly appreciated.

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Çalışma içerisindeki yargı cümleleri ile ilgili düşünceleri ifade ederken alttaki ölçeği göz önüne alınız. I. Ölçek 1 – 34 arası sorular içindir. II. Ölçek 35-39 sorular için geçerlidir.

While expressing your perceptions about statements, please use the following scales. I. Scale is for questions 1 -34, while II. Scale is for 35 -39.

I. Ölçek/Scale

1	2	3	4	5
Kesinlikle Katılmıyorum		Ne katılmam ne katılmam		Kesinlikle Katılıyorum
Strongly Disagree		Neither agree nor disagree		Strongly Agree

II. Ölçek/Scale

1	2	3	4	5
Hiç bir şekilde olası değil		Kararsız		Kesinlikle Olası
Not at all likely		Netural		Extremly likely



<b>Technical Skills</b>		
The employees of the bank		Bankanın çalışanları
1. Have a high level of job knowledge	1 2 3 4 5	İşle ilgili yüksek seviyede bilgiye sahiptirler.
2. Are experts in their job	1 2 3 4 5	İşlerinde uzmandırlar.
3. Are highly competent	1 2 3 4 5	Yetkinlikleri üst düzeydedir.
<b>Social Skills</b>		
The employees of the bank		Bankanın çalışanları
4. Have extensive social skills	1 2 3 4 5	Gelişmiş sosyal becerileri vardır.
5. Are able to consider their customers' perspective	1 2 3 4 5	Müşterilerinin görüşlerini dikkate alırlar.
6. Know how to treat a customer well	1 2 3 4 5	Müşterilerine nasıl davranacaklarını iyi bilirler.

<b>Motivation</b>		
The employees of the bank		Bankanın çalışanları
7. Show strong commitment to their job	1 2 3 4 5	İşlerini yapmak için önemli kayret gösterirler.
8. Do their best to fulfill their customers' requirements	1 2 3 4 5	Müşterilerinin ihtiyaçlarını karşılamak için ellerinden gelenin en iyisini yapmaya çalışırlar.
9. Are always highly motivated	1 2 3 4 5	Her zaman en üst seviyede motivedirler.
<b>Decision Making Authority</b>		
The employees of the bank		Bankanın çalışanlarının
10. Are allowed to decide autonomously in customer matters	1 2 3 4 5	Müşterilerle ilgili konularda bağımsız olarak karar vermek için müsaade edilmiştir.
11. have appropriate room for maneuver in solving customer problems	1 2 3 4 5	Müşteri problemlerini çözebilmek amacı ile uygun manevra alanları vardır.
12. Don't need to ask their superior permission in the case of customer requests.	1 2 3 4 5	Müşterilerin talepleri karşısında amirlerinin iznine ihtiyaç duymazlar.

<b>Rapport</b>		
In the bank, there is (a) particular employee(s) who(m)		Bankada belirli (bir) çalışan ile
13. I enjoy interacting with	1 2 3 4 5	Etkileşim içerisinde olmaktan memnunum
14. create(s) a warm feeling in our relationship	1 2 3 4 5	İlişkimizde sıcak hisler oluşmuştur
15. relate(s) well to me	1 2 3 4 5	Benimle çok ilgilidir
16. I have a harmonious relationship with	1 2 3 4 5	Uyumlu bir ilişkimiz vardır
17. has/have a good sense of humor	1 2 3 4 5	İyi bir mizah duygusu vardır
18. I am comfortable interacting with	1 2 3 4 5	Etkileşim içinde olmaktan dolayı rahatım.
19. I feel like there is a bond between myself and the employee	1 2 3 4 5	Çalışanla aramda bir bağın olduğunu hissediyorum.
20. I look forward to seeing when I visit this bank	1 2 3 4 5	Bankayı ziyaretimde o çalışanı görmeyi umut ederim
21. I care about	1 2 3 4 5	Ona önem veririm
22. has/have taken a personal interest in me	1 2 3 4 5	Bana karşı kişisel olarak ilgi gösterir.
23. I have a close relationship with	1 2 3 4 5	Benim yakın bir ilişkim var
<b>Trust</b>		
24. This bank's employees can be trusted at all times.	1 2 3 4 5	Bu bankanın çalışanlarına her zaman itimat edilir.
25. This bank's employees have a high level of honesty.	1 2 3 4 5	Bu bankanın çalışanlarının dürüstlükleri üst seviyededir.
26. This bank's employees made every effort to fulfill the promises made to its customers.	1 2 3 4 5	Bu bankanın çalışanları müşterilerine karşı söz verdiklerini yerine getirmek için her türlü çabayı gösterirler.
27. Overall, this bank is reliable.	1 2 3 4 5	Genel olarak bu banka güvenilirdir.
<b>Customer Satisfaction</b>		

Considering all my experiences with the bank		Banka ile olan yaşamış olduğum tüm tecrübeleri dikkate aldığımda
28. My choice to open an account in this bank has been a wise one	1 2 3 4 5	Bu bankada hesap açma kararımın doğru olduğuna inanıyorum.
29. I am delighted with this bank's service	1 2 3 4 5	Bankanın sağladığı hizmetlerden çok memnun kaldım.
30. Overall, I am satisfied with this bank	1 2 3 4 5	Genel olarak bankadan memnunum.
<b>Commitment</b>		
31. I am very committed to the bank.	1 2 3 4 5	Bankaya karşı üst seviyede bağlılığım vardır.
32. I intend to maintain relationship definitely.	1 2 3 4 5	İlişkimi sürdürmeye niyetliyim.
33. I think the bank deserves my effort to maintain relationship.	1 2 3 4 5	Bankanın ilişkimi devam ettirme yönündeki çabamı hak ettiğine inanıyorum.
34. I can develop warm feeling toward the bank.	1 2 3 4 5	Bankaya karşı sıcak hisler geliştirebilirim.
<b>Loyalty</b>		
35. Say positive things about this bank to other people.	1 2 3 4 5	Bu banka ile ilgili diğer kişilere olumlu şeyler söylerim.
36. Recommend this bank to someone who seeks your advice.	1 2 3 4 5	Bu bankayı senin tavsiyeni isteyen kişilere öneririm.
37. Encourage friends and relatives to use this bank.	1 2 3 4 5	Arkadaş ve yakınlarına bu bankayı kullanmaları için yüreklendiririm.
38. Consider this bank my first choice for my financial service requests.	1 2 3 4 5	Bu banka benim finansal hizmetlerle ilgili ihtiyaçlarım için ilk tercihimdir.
39. Consider this bank more for financial services in the future.	1 2 3 4 5	İleride bu bankayı finansal hizmetler için daha fazla dikkate alacağım.

## Demografik Sorular / Demographic Questions

### 1. Yaşınız/Age

- 18-25  
 26-35  
 36-50  
 51-65  
 66 ve daha büyük / 66 and above

### 2. Cinsiyetiniz/Gender

- Kadın / Female  
 Erkek / Male

### 3. Eğitim Durumunuz / Level of Education

- Lise veya daha alt seviye eğitim/ High school degree or lower  
 Önlisan/Lisans eğitimi/ University degree (Associate or Bachelor degrees)  
 Lisansüstü eğitim/Graduate degree

### 4. Ailenizin Toplam Aylık Geliri / Monthly income of your family

- 1500 TL ve altı / 1000 USD and below  
 1501-3000 TL / 1001-2000 USD  
 3001-6000 TL / 2001-4000 USD  
 6001-9000 TL / 4001-6000 USD  
 9001 TL ve daha üstü / 6001 USD and above

### 5. Uyuşgunuz/Nationality:

- Iran  
 Turkey  
 Cyprus  
 Nigeria  
 Diğer/Other (.....(Belirtiniz/Please mention))

### 6. Mesleğiniz/Occupation

- Öğrenci/Student  
 Memur(Devlet veya özel)/ Staff  
 Yönetici(Devlet veya özel) / Manager  
 İşveren(İşadamı) / Owner of a business  
 Emekli / Retired  
 Ev Hanımı /House wife  
 Diğer/Other (.....(Belirtiniz/Please mention))

### 7. Medeni Haliniz/Marital Statues

- Bekar/ Single  
 Evli/ Married  
 Dul/ Divorce