

# Apeejay Business Review

Volume 16, Number 1

June 2016

---

## Editors

Srirang Jha, Apeejay School of Management, New Delhi

Deepak Halan, School of Management Sciences, Apeejay Stya University, Sohna

## Assistant Editor

Priya Gupta, Apeejay School of Management, New Delhi

## Editorial Advisory Board

**Abad Ahmad**, formerly with University of Delhi, Delhi

**Alok Saklani**, Apeejay School of Management, New Delhi

**G. S. Batra**, Punjab School of Management Studies, Punjabi University, Patiala

**K. N. Badhani**, Indian Institute of Management, Kashipur

**N. K. Chaddha**, Department of Psychology, University of Delhi, Delhi

**R. P. Hooda**, formerly with M D University, Rohtak

**Raghubir Singh**, Guru Nanak Dev University, Amritsar

**Sanjay Jain**, Department of Commerce, University of Delhi, Delhi

**T. N. Kapoor**, formerly with Panjab University, Chandigarh

Published by

**Apeejay School of Management, New Delhi**

**School of Management Sciences, Apeejay Stya University, Sohna, Gurugram**

**Apeejay Business Review (ABR)** is a peer-reviewed and refereed bi-annual journal published by Apeejay School of Management, New Delhi and School of Management Sciences, Apeejay Stya University, Sohna, Gurgaon.

ABR publishes original research papers on all the functional areas of Management to augment body of knowledge as also to influence managerial practices, holistic policy-making, strategy formulation and raise the level of public discourse on contemporary issues in business and management.

ABR follows a fair and blind peer-review policy. Each paper received for publication is sent for review where identity of both the reviewers and contributors are kept confidential. Normally the review process takes 10-12 weeks.

Papers submitted for publication in ABR must be accompanied with a signed note by the contributors stating that the paper is original contribution of the author/authors and does not violate copyrights/intellectual property of any individual or institution.

**Annual Subscription:** Rs. 300/-

**Editorial and Subscription Enquiry:** [abr.asm@gmail.com](mailto:abr.asm@gmail.com)

**Copyright ©** Apeejay School of Management, New Delhi

All Rights Reserved. None of the articles can be reproduced without written permission of the Publisher/Editor.

**Disclaimer:**

- All the papers are published in good faith.
- Authors are responsible for any violation of copyrights.
- Views expressed in the papers are those of the authors and not necessarily of the members of Editorial Advisory Board or Editors or Publishers.

Printed and Published by Director, Apeejay School of Management, Institutional Area, Sector 8, Dwarka, New Delhi –110077

## Contents

**Editorial      5**

Tangibility and Assurance as Predictors of Customer Loyalty  
In Nepalese Commercial Banks: A Study

**Radhe Shyam Pradhan and Srijala Shrestha      7**

Service Quality as Predictor of Satisfaction:  
A Comparative Study of Bank Customers in Ethiopia and India

**P K Agarwal and G Sudhakar      17**

Impact of Emotional Intelligence on Leadership Styles:  
A Study of Educational Leaders in Himachal Pradesh

**Shyam L Kaushal and Ina Sood      29**

Customer Co-creation: A Value Creation Perspective

**Etinder Pal Singh and Sanchita Sabharwal      39**



## **Editorial**

We are happy to present June 2017 issue of Apeejay Business Review (Vol. 16, No. 1) to the illustrious scholarly community of practitioners as well as faculty members and researchers. In this issue, we have included four papers drawn from Marketing, Finance and HR. We sincerely hope that the readers will find these contributions valuable and thought provoking.

Radhe Shyam Pradhan and Srijala Shrestha have explored various factors affecting the customer loyalty in commercial banks of Nepal in their paper titled 'Tangibility and Assurance as Predictors of Customer Loyalty in Nepalese Banks: A Study'. The research shows that tangibility and assurance are positively correlated to customer loyalty in Nepalese Banks. Besides, the results also show that empathy, responsiveness and reliability are positively correlated to customer loyalty.

P K Agarwal and G Sudhakar have tried to gauge the determinants of service quality delivery and its impact on customer satisfaction in commercial banks in India (State Bank of India) and Ethiopia (Commercial Bank of Ethiopia) in their paper titled 'Service Quality as Predictor of Satisfaction: A Comparative Study of Bank Customers in Ethiopia and India'. Results of the study show that service quality parameters for both the banks significantly affect the customer satisfaction of banks' retail customers.

Shyam L Kaushal and Ina Sood have tried to explore how emotional intelligence shapes leadership styles in their empirical paper titled 'Impact of Emotional Intelligence on Leadership Styles: A Study of Educational Leaders in Himachal Pradesh'. They conducted the study on the leaders of educational institutions in three districts of Himachal Pradesh on a sample of 139 participants. Emotional intelligence was measured by using the Weisinger's Emotional Intelligence Scale, and leadership style, using the Multifactor Leadership Questionnaire (MLQ-5x Short). The results showed that emotional intelligence was related to both transactional and transformational leadership styles. However, no relationship was found with laissez faire leadership style. Emotional Intelligence training, therefore, appears as a powerful tool that can be employed in the organizations to enhance the leadership skills.

Etinder Pal Singh and Sanchita Sabharwal have made a concerted effort to highlight value creation perspective alongside customer co-creation in their review paper titled 'Customer Co-creation: A Value Creation Perspective'. The authors emphasize that consumers are no longer passive members of a value creation process rather they participate proactively with the company to create value. Consumer Co-creation has transformed today's market from a firm-centric perspective to a consumer-centric perspective, where consumer has evolved as a competence. Customer Co-creation has become the driving reason for success. This review paper delves into exemplars to display the impact Customer Co-creation has on the companies.

Readers are invited to share their comments on the published articles. Selected communication (1000-1500 words) may be published in the next issue of ABR. Conceptual and empirical papers as well as integrated literature reviews on any theme having a potential impact on management practices are welcome for the forthcoming issues of the journal.

**–Editors**



## Tangibility and Assurance as Predictors of Customer Loyalty in Nepalese Banks: A Study

**Radhe Shyam Pradhan**

Uniglobe College (affiliated to Pokhara University), Kathmandu, Nepal

E-mail: [rspkamal@gmail.com](mailto:rspkamal@gmail.com)

**Srijala Shrestha**

Free Lance Researcher, Kathmandu, Nepal

### Abstract

This study examines the factors affecting the customer loyalty in commercial banks of Nepal. Customer loyalty is the dependent variable. Responsiveness, tangibility, empathy, assurance and reliability are the independent variables. The study is based on 200 respondents from 25 commercial banks of Nepal. To obtain the data, well-structured questionnaire is prepared. The regression models are estimated to test the significance and importance of customer satisfaction of Nepalese commercial banks. The study shows that the tangibility and assurance are positively correlated to customer loyalty. This indicates that increase in the level of tangibility and assurance leads to increase in customer loyalty. The result also shows that empathy, responsiveness and reliability are positively correlated to customer loyalty. This indicates that higher the level of empathy, higher would be the customer loyalty. Likewise, results show that responsiveness is positively related to the customer loyalty. This indicates that higher the level of responsiveness to the customers on their queries, higher would be the customer loyalty. Similarly, results show that more the banks provide reliable services, higher would be the customer loyalty. The regression results show that the beta coefficient for assurance, tangibility and responsiveness are positive with customer loyalty at 5 % level of significance.

**Keywords:** Customer Loyalty, Tangibility, Reliability, Empathy, Responsiveness, Assurance

### Introduction

Customer loyalty is a fundamental goal of marketing as the purpose of marketing is to satisfy customers. According to Bloemer & Odekerken-Schroder (2002), customer loyalty is the result of successful marketing that creates competitive value for consumers. Contemporary marketing efforts are geared towards meeting consumer needs and ensuring customer loyalty and strategizing on how to retain such customers (Hassan, 2008). Judgments of product performance are related to expectations that could enhance the customer satisfaction or brand loyalty (Awan & Rehman, 2014). Shemwell et al. (1998) indicated that loyalty became a popular topic in marketing during the 1980s and is a debated topic during both business expansion and recessions. Most discussion on customer loyalty involves customer expectation of the service delivery, actual delivery of the customer experience, and expectations that are either exceeded or unmet. If expectations are exceeded, positive disconfirmation results, while a negative disconfirmation results when customer experience is poorer than expected. Thus, the key to sustainable competitive advantage lies in delivering high quality service that result in satisfied customers.

Customer loyalty is often regarded as the consequence of marketing activity performed by an organization so it has acquired a central position in marketing. Customer loyalty leads to change in

attitude of customers, repeat purchase and ultimately brand loyalty. Origin of the concept of customer loyalty is derived from the marketing concept that profit is generated through satisfaction of customer needs and wants (Sabir et al., 2014). Davies et al. (1995) revealed that concept of customer loyalty is new to those companies which have given more preference to price and availability of products for earning profit. Therefore, there must be clarity as to what customer satisfaction really means. Thus, customer satisfaction represents the state of mind in which the customer finds themselves after using products and services offered by the company as compared to their pre-purchase standard and expectation.

Bank as a service sector has a great influence in the economy of the country. It plays very important role in economic development. The growth rate of economy largely depends on the rate of investment which, in fact depends on the level of saving. Higher saving leads to higher level of capital formation which is crucial for economic growth and development. The primary function of commercial bank is to accept deposit and provide loans. The commercial banks play major role in mobilizing saving for capital formation. The role of commercial banks in economic development includes saving promotion, saving mobilization, promotion trade, industry and employment allocation of funds, and transfer of money (Mishkin, 2011).

Doostdar et.al. (2013) argued that obtaining and maintaining brand loyalty is a key challenge in increasingly competitive markets. The critical role of interpersonal interaction between the client and vendor in effecting customer satisfaction, creating favorable brand attitudes and strengthening the bond between consumers and a brand are of greater significance. In vast competitive markets, brand loyalty provides several advantages including a barrier to competitors, more sales and revenue, lower customer acquisition costs and lower customer sensitivity to other competitors' marketing efforts. Creating brand loyalty requires investment in marketing programs especially for current and potential customers. Several studies show that satisfaction with a trade mark is the primary key to brand loyalty. Therefore, the selling session links the customer with the vendor, and satisfaction in the selling session increases customer loyalty to the vendor. Thus, loyalty to the vendor has a very positive effect on brand loyalty.

Customers are considered as the base of any particular organization as satisfied customer does have a positive effect on an organizational profitability. Satisfied customers form the foundation of any successful business as they lead to repeat purchase, brand loyalty, and positive word of mouth among others (Nabi, 2012). Kailash (2011) found that enhancing the customer experience is a crucial component of attracting and retaining customers in order to grow and protect a profitable business. Islam et al. (2011) found that customer satisfaction and reputation of the bank lead to greater loyalty.

Aydin et al. (2005) found that the switching cost factor directly affects loyalty and has a moderator effect on both consumer satisfaction and trust. Therefore, it plays a crucial role in winning customer loyalty. Spreng and Mackoy (1996) found that service quality is an important indicator of customer satisfaction. Service quality is a subjective phenomenon which varies from one individual to another. Therefore, it must be measured by encompassing different dimensions or components which constitutes the overall quality of service provided by the organization.

Consumers recognize brand by building favorable attitude towards the brand and through the purchase decision process. Brand preference is understood as a measure of brand loyalty in which a consumer exercises his/her decision to choose a particular brand in presence of competing brand (Rajagopal, 2010). Studies on customer satisfaction established that there is a close relationship between the brand image and brand attributes. This relationship in turn influences the consumer's response towards brand loyalty (Silva & Alwi, 2006). According to Gray (2004), service quality

provides lasting competitive advantage to an organization and also helps to distinguish the organization from the competitors. Thus, service quality not only serves as an ingredient for creating customer loyalty but also helps to create product differentiation. The rapid change in technology has changed customer perception of service quality. On top of that, the increase in the number of service providers has made customer loyalty not an option but an essential part of the organizations' strategic planning.

Intangibility associated with service quality has been recognized as the major hindrance in measuring the service quality. Another important dimension of service quality is inseparability where the production, delivery and consumption of the service occur simultaneously. Thus, customers evaluate service quality by matching expectation with their perception regarding the service during or after its use (Barry et., 1988). The banking sectors around the world provide similar type of services which is regarded as the main reason why customer loyalty has gained greater significance. Therefore, customer loyalty is regarded as the major differentiating factor that helps banks to achieve sustainable competitive advantage (Lim & Tang, 2000).

In the context of Nepal, Pandey (2015) revealed positive correlation between job satisfactions, employee's fairness perception with organizational commitment. Khanal (2015) found that there is a positive relationship between service quality and customer satisfaction and customer loyalty in commercial banks of Nepal. Similarly, Khadka (2015) revealed positive and significant relationship of service quality, behavior of the employee, complaint handling, and customer convenience with customer satisfaction.

Likewise, Maharjan (2014) found positive relationship of service qualities attributes such as tangibility, assurance, empathy assurance with customers' satisfaction and customers' loyalty in commercial banks in Nepal. Dhungel (2015) revealed positive and significant relationship of marketing dimensions such as trust, commitment, empathy, values, conflict handling and communication with customer loyalty. Similarly, Gyawali and Kunwar (2014) found that there is positive and significant relationship between 'service quality dimensions and customers' loyalty. The above discussion reveals that there is no consistency in the findings of various studies concerning service quality dimensions and customer satisfaction. Therefore, this study has been conducted to analyze the relationship between service quality dimensions and customer loyalty. More specifically, this study has been conducted to examine the impact of reliability, tangibility, responsiveness, empathy and assurance on customer satisfaction.

### Methodological Aspects

The study is based on the primary data which were gathered from 200 respondents of 25 commercial banks in Nepal. The respondents' views were collected on reliability, tangibility, responsiveness, empathy assurance and customer loyalty from Nepalese commercial banks. Appendix 1 shows the number of commercial banks along with the number of the respondents selected for the study.

**The model:** As the first approximation, the model estimated in this study assumes that the customer loyalty depends on the several dimensions of service quality. Moreover, the various factors affecting customer loyalty are reliability, tangibility, responsiveness, empathy and assurance. Therefore, the model takes the following form:

$$CUSLoL = \beta_0 + \beta_1 RES + \beta_2 TAN + \beta_3 EMP + \beta_4 ASSU + \beta_5 REL + e_t \dots\dots\dots (I)$$

Where,

CUSLoL= Customer loyalty, RES= Responsiveness, TAN= Tangibility, EMP= Empathy, ASSU= Assurance and REL= Reliability

**Responsiveness:** Responsiveness is defined as the willingness or readiness of employees to provide service. It involves timeliness of services (Parasuraman et al., 1985). According to Sullivan (1993), responsiveness determines the promptness of the organization in meeting the requests of the customers. It also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers safety in their transaction (Kumar et al., 2009). Shamsuddoha et al. (2003) observed positive and significant impact of responsiveness, assurance and empathy on customer loyalty. Likewise, Guzzo (2010) revealed that increase in responsiveness of the employees can lead to better customer loyalty. Similarly, Cooil et al. (2007) found that an increase in responsiveness through customer segmentation can increase the level of customer loyalty. Likewise, there is significant and positive relationship between responsiveness and customer loyalty (Jhandir, 2012). Based on this, the following hypothesis has been developed:

*H1: There is a positive relationship between responsiveness and customer loyalty.*

**Tangibility:** Tangibility is defined as the physical attributes of an organization that immediately influences the perception and expectation of the customers (Bitner et al., 1990). According to Chase (1978), tangibility refers to those attributes of the organization that directly interact with the customers. Similarly, Parasuraman et al. (1985) defined tangibility as the appearance of physical facilities, equipment, personnel, and written materials. Islam et al. (2007) revealed positive relationship between tangibility and customer loyalty. Similarly, Osman and Sentosa (2013) found positive and significant relationship between tangibility and customer loyalty in the case of Malaysia rural tourism. Likewise, Khan and Tabassum (2011) found positive and significant positive relationship between tangibility and courtesy with customer loyalty. Based on this, following hypothesis has been developed:

*H2: There is a positive relationship between tangibility and customer loyalty.*

**Empathy:** Empathy is defined as the caring and individual attention the firm provides its customers. According to Douglas and Connor (2003), empathy is the ability of the employees to understand the needs and wants of individual customers in order to deliver a personalized service experience. Parasuraman et al. (1985) defined empathy as the caring and individual attention the firm provides its customers. Markovic et al. (2014) found positive and significant relationship between empathy and customer loyalty. Likewise, Martin-Ruiz et al. (2012) revealed that empathy plays a positive and significant role in determining customer loyalty in hotel sector. Similarly, Corte et al. (2015) observed that tangibility plays a significant role in determining customer loyalty in tourism industry of Naples. Based on this, the following hypothesis has been developed:

*H3: There is a positive relationship between empathy and customer loyalty.*

**Reliability:** Reliability is defined as the handling customers' services problems, providing services at the promised time and maintaining error-free records (Parasuraman et al., 1988). Reliability also consists of accurate order fulfillment; accurate record; accurate quote, accurate in billing, accurate calculation of commissions; keep services promise. Yang and Fang (2004) also mentioned that reliability is the most important factor in banking services. In line with this, Islam et al. (2007) revealed that reliable ATM services are key determinant of customer loyalty. Likewise, Shamsuddoha and Alamgir (2003) found reliability as an important antecedents of customer loyalty in retail banking. Similarly, Gupta and Islamia (2008) observed positive impact of reliability on customer loyalty in online banking sector. Based on this, the following hypothesis has been developed:

*H4: There is a positive relationship between reliability and customer loyalty.*

**Assurance:** Assurance is defined as knowledge and courtesy of employees and their ability to inspire trust and confidence. Parasuraman et al. (1985) defined assurance as knowledge and courtesy of employees and their ability to inspire trust and confidence. Whitaker et al. (2008) found positive impact of assurance on the customer loyalty. Similarly, Halimi and Choshalyc (2011) found that high level of communication and personalization increases assurance level of the customer which ultimately increases customer loyalty. Similarly, Martin-Ruiz (2012) revealed positive impact of assurance on customer loyalty in hotel sector. Likewise, Sabir et al. (2014) found the positive and significant relationship of assurance, tangibility and courtesy with customer loyalty. Based on this, the following hypothesis has been developed:

*H5: There is a positive relationship between assurance and customer loyalty.*

**Results and Discussion**

**Correlation analysis:** On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall’s correlation coefficients have been computed and the results are presented in Table 1. The correlation coefficients are based on the primary data collected from 25 sample banks. Where, customer loyalty are dependent variable. The independent variables are TAN (tangibility), REL (reliability), ASSU (assurance), RES (responsiveness) and EMP (empathy).

**Table 1: Kendall’s correlation matrix for the dependent and independent variables**

Variables	Mean	S. dev.	ASSU	TAN	REL	RES	EMP	CULOL
ASSU	3.02	0.84	1					
TAN	2.96	0.58	0.10*	1				
REL	2.98	0.89	0.13**	0.03	1			
RES	2.59	0.74	-0.07*	0.10	0.03	1		
EMP	1.47	0.2	0.33	0.20**	-0.02	-0.09*	1	
CULOL	3.38	0.48	0.36	0.28*	0.24*	0.15**	0.01	1

*The asterisk (\*\*) and (\*) sign indicates that the results are significant at 0.01 and 0.05 level of significance respectively.*

This study found that tangibility is positively related to customer loyalty, which indicates that higher the level of tangibility, higher would be the customer loyalty. Similarly, reliability is positively related to customer loyalty. It indicates that more the banks services are reliable, higher would be the customer loyalty. Likewise, assurance is positively related to customer loyalty. It indicates that higher the level of assurance, higher would be the customer loyalty. Similarly, empathy is positively related to customer loyalty. It indicates that higher the level of empathy, higher would be the customer loyalty. Likewise, responsiveness is positively related to customer loyalty. This indicates that more the banks are responsive on customer queries, higher would be the customer loyalty.

**Regression analysis:** Having indicated the Kendall’s correlation coefficients, regression analysis has been performed and the results are presented in Table 2, which shows the regression of tangibility, reliability empathy, responsiveness and assurance on customer loyalty. The results are based on 200 observations by using linear regression model. The model is  $CUSLoL = \beta_0 + \beta_1RES + \beta_2TAN + \beta_3EMP + \beta_4ASSU + \beta_5REL + e_t$ , Where, CUSLOL (customer loyalty) is the dependent variable. The independent variables are RES (responsiveness), TAN (tangibility), EMP (empathy), ASSU (Assurance) and REL (reliability).

**Table 2: Regression of tangibility, reliability, assurance, empathy and responsiveness on customer loyalty**

MODEL	INTERCEPT	Regression Coefficient					Adj. R <sup>2</sup>	SEE	F
		TAN	REL	ASSU	EMP	RES			
1	3.62** (28.90)	0.13** (2.97)					0.1	0.47	3.90
2	3.50** (20.20)		0.15** (2.71)				0.13	0.47	4.50
3	3.45** (29.23)			0.12** (2.57)			0.12	0.47	5.32
4	3.35** (27.45)				0.02 (0.24)		0.005	0.47	1.06
5	3.60** (14.23)					0.06** (2.87)	0.11	0.47	4.76
6	3.77** (17.44)	0.14* (2.02)	0.06 (0.83)				0.12	0.47	5.29
7	3.57** (13.45)				0.02 (0.32)	0.06** (2.89)	0.16	0.47	5.43
8	3.52** (15.33)		0.05 (0.63)	0.14** (2.50)	0.02 (0.26)		0.14	0.47	6.27
9	3.67** (12.00)			0.15** (2.71)	0.03 (0.37)	0.07** (2.98)	0.18	0.47	6.45
10	3.79** (16.41)	0.14* (1.97)	0.05* (1.98)	0.12** (2.29)			0.23	0.47	5.55
11	3.77** (10.87)		0.04 (0.64)	0.15** (2.63)	0.03 (0.35)	0.07** (2.98)	0.27	0.47	5.44
12	3.75** (14.62)	0.14* (1.98)	0.06* (2.77)	0.12** (2.31)	-0.02 (0.33)		0.34	0.47	7.18
13	4.00** (11.00)	0.14* (1.98)	0.05 (0.77)	0.13** (2.44)	0.03 (0.42)	0.07** (2.99)	0.40	0.47	11.14

*The asterisk signs (\*\*) and (\*) indicate that the results are significant at 0.01 and 0.05 level of significance respectively.*

The table indicates that beta coefficient for tangibility is positive with customer loyalty. It shows that higher the level of tangibility, higher would be the customer loyalty, where beta coefficients are significant at 5 percent level of significance. This finding is similar to the findings of Osman and Sentosa (2013). Likewise, the beta coefficient for assurance is positive with customer loyalty. It indicates that higher the level of assurance, higher would be the customer loyalty, where beta coefficients are significant at 5 percent level of significance. This finding is consistent to the findings of Gupta and Islamia (2008). Similarly, the beta coefficient is positive and significant for responsiveness at 5 percent level of significance. This indicates that more the banks are responsive on customer queries, higher would be the customer loyalty. This finding is consistent to the findings of Markovic et al. (2014).

### Summary and Conclusion

Customer satisfaction measures how well the expectations of a customer concerning a product or service provided by the company have been met. Customer satisfaction is an abstract concept and

involves such factors as the quality of the product, the quality of the service provided, the atmosphere of the location where the product or service is purchased, and the price of the product or service. The study attempts to explain the impact of various factors of customer loyalty in Nepalese commercial banks. This study is based on primary data of 25 commercial banks with 200 respondents. Likewise, this study hypothesizes that the various factors such as tangibility, reliability, assurance, responsiveness and empathy affecting customer satisfaction and customer loyalty.

The study reveals that all the factors affecting customer loyalty such as tangibility, reliability, empathy, assurance and responsiveness have positive impact on customer loyalty. This means higher the tangibility, accessibility, empathy, assurance and reliability, higher would be the customer satisfaction and customer loyalty. The study concludes that Assurance plays the most influencing role to determine the customer satisfaction in Nepalese commercial banks.

The study reveals that tangibility is positively related to customer loyalty. This indicates that more the services are tangible, higher would be the customer loyalty. The study also found that reliability is positively related to customer loyalty. It indicates that more the banks services are reliable, higher would be the customer loyalty. Likewise, the study shows that assurance is positively related to customer loyalty. It indicates that higher the level of assurance, higher would be the customer loyalty. Similarly, the study reveals that empathy and responsiveness are positively related to customer loyalty. This indicates that increase in the level of empathy and responsiveness leads to increase in customer loyalty. The regression results show that tangibility, reliability, empathy, assurance and responsiveness have positive impact on customer loyalty. However, coefficients are significant only for tangibility assurance and responsiveness.

### **References**

- Aydin, S., and G. Ozer, O. Arasil (2005). Customer loyalty and effect of switching cost as a moderating variable: A case in in turkish mobile market. *Market Intelligence and Planning*, 23 (1), 89-103.
- Awan, A. G., and A. U. Rehman (2014). Impact of customer satisfaction on brand loyalty-an empirical analysis of home appliances in Pakistan. *British Journal of Marketing Studies*, 2 (8), 18-32.
- Barry, L., V. Zeithaml, and A. Parasuraman (1988). The service-quality puzzle. *Business Horizons*, 31 (5), 35-43.
- Bitner, M. J., M. S. Tetreault and B. H. Booms (1990). The service encounter: Diagnosing favorable and unfavorable incidents. *Journal of Marketing*, 54 (1), 71-84.
- Bloemer, J., and G. Odekerken-Schroder (2002). Store satisfaction and store loyalty explained by customer-and store-related factors. *Journal of Customer Satisfaction, Dissatisfaction and Complaining Behavior*, 15 (1), 68-80.
- Chase, R. B. (1978). Where does the customer fit in a service operation? *Harvard Business Review*, 56 (4), 137-142.
- Cooil, B., L. Aksoy and T. Keiningham (2007). Approaches to customer segmentation. *Journal of Relationship Marketing*, 4 (8), 34-45.
- Corte, V. D., M. Sciarelli, C. Cascella and G. D. Gaudio (2015). Customer satisfaction in tourist destination: the case of tourism offer in the city of Naples. *Journal of Investment and Management*, 4 (1), 39-50.
- Davies, F., L. Moutinho, and B. Curry (1995). Construction and testing of a knowledge-based system in retai bank marketing. *International Journal of Bank Marketing*, 13 (2), 235-260.
- Dhungel, S. (2015). Impact of relationship marketing on customer loyalty in Neapalese commercial banks. *Nepalese Journal of Business*, 2 (1), 111-116.
- Doostdar, M., B. P. Rad, and M. Alizadeh (2013). The impact of mobile phone brands on customer satisfaction and loyalty. *International Research Journal of Applied and Basic Sciences*, 5(8), 957-961.
- Douglas, L., and R. Connor (2003). Attitudes to service quality: The expectation gap. *Nutrition and Food Science*, 33 (4), 165-172.

- Gray, B. (2004). The relationship between service quality, customer satisfaction and buying intentions in the private hospital industry. *South African Journal of Business Management*, 35 (4), 27-37.
- Gupta, P., and J. M. Islamia (2008). Internet banking in India - consumer concerns and bank strategies. *Journal of Business Research*, 2 (1), 43-51.
- Guzzo, R. (2010). Customer satisfaction in the hotel industry: a case study from Sicily. *International Journal of Marketing Studies*, 2 (2), 3-12.
- Gyawali, S. and N. Kunwar (2014). Customer satisfaction over service quality: Exploring SERVPERF in private banks of Butwal. *The KIC Journal of Management and Economic Review*, 1(2), 14-27.
- Halimi, A. B., S. H. Choshalyc, M. Salehi, and Z. Pourabedine (2011). The influence of perceived service quality on relationship marketing orientations and customers buying behavior in b2c relationship from the customer perspective. *Economics and Finance Research*, 5 (3), 217-221.
- Hassan, A. (2008). Customer Satisfaction and Retention Strategy in Marketing. *MRL Journal*, 1 (2), 65-74.
- Islam, R., S. Kumar and P. K. Biswas (2007). Customer satisfaction of ATM service: a case study of HSBC ATM. *Dhaka University Journal of Marketing*, 3 (5), 1-19.
- Jhandir, S. U. (2012). Customer satisfaction, perceived service quality and mediating role of perceived value. *International Journal of Marketing Studies*, 4 (1), 21-30.
- Kailash, M. (2011). An evaluation of customer perception on service quality in retail banking. *Indian Journal of Commerce and Management Studies* 2(4), 105-117.
- Khanal, B. (2015). Impact of service quality dimensions on customer satisfaction and customer loyalty in the in the Nepalese commercial banks. *Nepalese Journal of Business*, 2 (1), 41-52.
- Khadka, R. (2015). Impact of crm on customer satisfaction of Nepalese commercial banks. *Nepales Journal of Business*, 2 (1), 53-63.
- Khan, P. I., and A. Tabassum (2011). Service quality and customer satisfaction of the beauty-care service industry in Dhaka: a study on high-end women's parlors. *Journal of Business in Developing Nations*, 12 (2), 33-41.
- Kumar, M., F. T. Kee and A. T. Manshor (2009). Determining the relative importance of critical factors in delivering service quality of banks: An application of dominance analysis in SERVQUAL model. *Managing Service Quality*, 19 (2), 211-228.
- Lim, P., and N. Tang (2000). A study of patients' expectations and satisfaction in Singapore hospitals. *International Journal of Health Care Quality Assurance*, 13 (7), 290-299.
- Maharjan, M. (2015). Service quality, customers' satisfaction and customers' loyalty in commercial banks of Nepal. *Nepalese Journal of Management*, 1 (1), 100-106.
- Markovic, S., D. Loncaric and D. Loncaric (2014). Service quality and customer satisfaction in the health care industry towards health tourism market. *Tourism and Hospitality Management*, 20 (2), 78-89.
- Martin-Ruiz, D., C. Barroso and I. Rosa-Diaz (2012). Creating customer value through service experiences: an empirical study in the hotel industry. *Tourism and Hospitality Management*, 18 (1), 1-17.
- Mishkin, F. (2011). *The Economics of Money, Banking and Financial Markets*. Addison Wesley.
- Nabi, N. (2012). Customer expectations of service quality: A study on private banks of Bangladesh. *World Review out Business Research*, 2(4), 172-186.
- Osman, Z., and I. Sentosab (2013). Mediating effect of customer satisfaction on service quality and customer loyalty relationship in Malaysian rural tourism. *International Journal of Economics Business and Management Studies*, 2 (1), 25-37.
- Pandey, J. (2015). Impact of employee participation on job satisfaction, employee fairness perception and organizational commitment: a case of Nepalese commercial banks. *Nepalese Journal of Business*, 2 (1), 15-24.
- Parasuraman, A., V. A. Zeithaml and Berry, L. L. (1985). A conceptual model of service quality and its implications for further research. *Journal of Marketing*, 49 (1), 41-50.

- Parasuraman, A., V. Zeithaml, and L. Berry (1988). SERVQUAL- a model-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*, 64 (1), 12-40.
- Rajagopal (2010). Conational drivers influencing brand preference among consumers. *Journal of Transnational Management*, 15(2), 186-211.
- Sabir, R. I., O. Ghafoor, and N. Akhtar, (2014). Factors affecting customer satisfaction in banking sector of Pakistan. *International Review of Management and Business Research*, 3 (2), 1014-1025.
- Shamsuddoha, M., M. T. Chowdhury and A. B. Ahsan (2003). Automated Teller Machine: A new dimension in the bank service of Bangladesh. <http://paper.ssrn.com/so13>.
- Shemwell, D. J., U.Yavas, and Z. Bilgin (1998). Customer-service provider relationship: An empirical test of model of service quality, satisfaction and relationship oriented outcome. *International Journal of Service Industry Management*, 9 (1), 155-168.
- Silva, R., and S. F. Alwi (2006). Cognitive, affective attributes and conative, behavioural responses in retail corporate branding. *Journal of Product and Brand Management*, 15 (5), 293-305.
- Spreng, R. A., and R. D. MacKoy (1996). An empirical examination of a model of perceived service quality and satisfaction. *Journal of Retailing*, 72 (2), 201-214.
- Sullivan, R. (1993). Service quality perceptions between cooperative and Islamic banks of Britain. *American Journal of Economics and Business Administration*, 2 (1), 1-5.
- Whitaker, J., M. S. Krishnan, and C. Fornell (2008). Does offshoring impact customer satisfaction? *American Journal of International Law*, 4 (1), 32-47.
- Yang, Z., and X. Fang (2004). Online service quality dimensions and their relationships with satisfaction:A content analysis of customer reviews of securities brokerage services. *International Journal of Service Industry Management*, 15 (3), 302-326.

**Appendix 1: Number of commercial banks selected for the study along with the number of respondents**

	Name of commercial banks	Number of respondents
1	Nabil Bank Limited (NBL)	8
2	Nepal Investment Bank Limited (NIBL)	7
3	Standard Chartered Bank Limited (SCB)	10
4	Himalayan Bank Limited (HBL)	9
5	Nepal SBI Bank Limited (NSBI)	9
6	Everest Bank Limited (EBL)	8
7	Bank of Kathmandu Limited (BOK)	9
8	Laxmi Bank Limited (LXBI)	6
9	Machapuchhre Bank Limited (MBL)	8
10	Kumari Bank Limited (KBL)	9
11	Nepal Bangladesh Bank Limited (NBB)	10
12	Rastriya Banijya Bank Limited (RBBL)	8
13	Agriculture Development Bank Limited (ADBL)	10
14	Nepal Bank Limited (NBL)	8
15	Siddhartha Bank Limited (SBL)	7
16	Nepal Credit and Commerce Bank Limited (NCC)	8
17	Global IME Bank Limited (GBL)	10
18	Citizen international Bank Limited (CIBL)	7
19	Prime Commercial Bank Limited (PBL)	7
20	Sunrise Bank Limited (SBL)	7
21	NMB Bank Limited (NMB)	6
22	Lumbini Bank Limited (LBL)	8
23	Mega Bank Limited	8
24	Civil Bank Limited	7
25	Janata Bank Limited	6
	<b>Total observations</b>	<b>200</b>



## Service Quality as Predictor of Customer Satisfaction: A Comparative Study of Bank Customers in Ethiopia and India

**P. K. Agarwal & G. Sudhakar**

**Department of Management, Wolaita Sodo University, Ethiopia**

**E-Mail: [agarwalpk001@gmail.com](mailto:agarwalpk001@gmail.com), [gsudhakar9309@gmail.com](mailto:gsudhakar9309@gmail.com)**

### **Abstract**

The focus of the present study is on assessing the determinants of service quality delivery and its impact on customer satisfaction in commercial banks in India (State Bank of India) and Ethiopia (Commercial Bank of Ethiopia). Both banks are public sector banks and are the biggest in their respective countries. The study evaluates the impact of service delivery dimensions on customers' satisfaction. Mainly the five dimensions in service quality such as Tangibility, Reliability, Responsiveness, Empathy, Assurance have been considered as the basis to predict the customers satisfaction. The study was undertaken during Dec 2016 – April 2017. The study has been conducted using conclusive model (descriptive and causal) based on primary data collected through self-administered structured questionnaire. Results of the study showed that service quality parameters for both the banks significantly affect the customer satisfaction of banks retail customers. Functional quality factors especially assurance and empathy were found to be most important for both the banks on which both banks have to work extensively as they are found to be on lower side in both the banks. The expected contribution of this study is to help the bank administration through the implementation of the findings and recommendations and also expected to be a reference to further studies.

**Keywords:** Service Quality, Customer Satisfaction, Assurance, Empathy, Reliability, Responsiveness, Tangibility, Banks

### **Introduction**

In today's world, the existence of all human beings is related with different services including banking services, food services, communication services, medical services, transportation services, and emergency services to list a few. The service sector is becoming increasingly competitive and hence service quality has become a critical measure of organizational performance. It continues to compel the attention of banking institutions and remains at the forefront of services marketing literature and practice (Lasser et al., 2002). In general, our economy is founded on services (James, 1998). The importance of customer satisfaction has been recognized by service organisations around the world, for developing and maintaining enduring relationship with their customers which leads to increased business profitability.

Banks in general play an important role in the economy of the country whether it is private or government bank. Banks are the main mediators between those with surplus money (depositors) and those individuals and businesses with feasible projects but need money for their investment (creditors). Banks perform the following general functions of accepting deposits, lending money, transferring money both local and foreign exchange of foreign currency, working as an agent on behalf of the customers, etc. Several banking institutions are experiencing increasing level of customer dissatisfaction and disappointment. Research suggests that customer dissatisfaction is the major reason of bank customers switch to other banks (Manrai and Manrai, 2007). The customer interest is largely driven by the fact that high service quality results in customer satisfaction and

loyalty, and it leads to greater willingness to recommend to others, reduction in complaints and improve in customer retention rates (Levesque and McDougall, 1996).

According to Auka et al (2013), service quality is one of the critical success factors that influence the competitiveness of a service organization. A bank can differentiate itself from competitors by providing quality services. Otherwise customer will not hold or purchase service products from the bank. If the bank ensures the effective service quality delivery, then the customer will be loyal to the bank to take the service. Customers feel secured when they get quality service delivery. As a result the main duty of the bank is to ensure the delivery of quality services to the prospective customers. Researchers have proven that providing good service quality to customers (Lovelock & Wirtz, 2011) retains them, attracts new ones, positive word-of-mouth recommendation, enhances corporate image, and above all guarantees survival and profitability (Negi, 2009; Ladhari, 2008).

Service quality and customers satisfaction are arguably the two core concepts that are at the root of the marketing theory and practices (Spreng and Mackoy, 1996). In today's world of intense competition, the key to sustainable competitive advantage lies in the delivery of high quality services that will result in customers' satisfaction. The importance of service quality is increasing as the competition is increasing and environmental issues have become dynamic, (Asubomteng, 1996).

Service plays a major role in building and maintaining the development and growth of a country's economy and hence the size of the service sector is increasing around the world. On the other hand, the quality of service supplied by banks and other service providers is not fulfilling the customer's wants consistently. People complain about late deliveries, incompetent personnel, inconvenient service hours, needlessly complicate procedures, long queues, and a lot of other problems (Lovelock and Wirtz, 2004)

#### **Statement of the Problem**

Banks are playing a great role in creating opportunities for the development of national resources by facilitating savings and making them accessible to trade and industry. This in turn would work for the expansion of the productivity and capacity of the people, to satisfy their wants with respect to both goods and services. Due to this, in the last twenty years the number of banks increased in Ethiopia i.e. in 1994 there were only two commercial banks in the country. However in 2016 the number of banks reached eighteen which creates a stiff competition among banks in meeting the customers' satisfaction and expectation. Financial services particularly banks are competing in similar products therefore service quality grows to be a main competitive weapon (Stafford, 1996).

The superiority of the service creates loyal customers. Any service providing organization, be it public or private or government sector, the vital of its existence and achievement depends on its ability to deliver effective service and satisfy the customers. That is customers who buy more services and who influence others to buy. The main challenge for any service business is to provide satisfactory results to its customers in a way that are cost effective for the organization. If customers are dissatisfied with the quality of the service they would not be willing to pay for it or even buy it, if the competitor offer is better (Lovelock and Wirtz, 2004). Most of the banks are facing the challenge of delivering effective services, which will satisfy their customers. Though the ultimate goal of every service giving industry is satisfying customers, more often, many of the service delivering organisations have failed to satisfy customers and as a result of not understanding the customers interest as well.

Understanding the current and future needs of the customer, having customer oriented strategies, measuring and monitoring the customer satisfaction levels, build strong relationship and offer the deliverables with high quality within a reasonable price determine the satisfaction and loyalty of the

customers, which ultimately boosts the success and existence of the firm. In view of the above discussions, the present study focuses on assessing the determinants of service quality delivery and its impact on customer satisfaction in commercial banks in India (State Bank of India) and Ethiopia (Commercial Bank of Ethiopia). Both banks are public sector banks and are biggest in their respective country.

### **Research Objectives**

The objective of this study is to compare the service quality delivery determinants which have an impact on customer satisfaction in the State bank of India and Commercial bank of Ethiopia.

### **Significance and Scope of the study**

Customer satisfaction is the key factor for the success of the organization, therefore it is very important to measure it. Considering the high costs of acquiring new customers and high customer turnover in banks, it is very important to study the determinants of customer satisfaction. The study focuses on providing knowledge on the importance of service quality delivery on customer satisfaction with the objective of enabling banks to understand the relationship between service delivery dimensions and customer satisfaction and take the necessary steps in order to satisfy the customers. The scope of this study is limited to one public sector bank in India and in Ethiopia but the present study will have applicability to all banks in India and Ethiopia in general and other countries as well with same demographic and socio- economic dimensions.

### **Review of Literature**

Service is any activity or benefit that one party can offer to another that is essentially intangible and may not result in the ownership of anything (Phillip Kotler et al, 1999). Cannon (1998), viewed services as those separately identified, essentially intangible activities which provide want satisfaction and which are not necessarily tied to the sales of a product or another service. In the option of Etzel, Walker, and Stanton (1997), service are the identifiable, intangible activities that are the main object of a transaction designed to provide want satisfaction to customers.

Gronroos (1984), has identified three distinct dimensions of service quality viz., technical quality (what consumer gets), functional service qualities (how consumer gets the service) and corporate image (how consumers perceive the firm and its services). *Technical quality* refers to the basis of technical accuracy and procedures and is the core service provided by the banks. It can be considered as the competence of the staff as they go about performing their schedules. These consist of the operating skills of the bank employees. *Functional quality* is how the service is provided and it is the process by which the bank services are delivered, e.g. attitudes of manager and employees toward the customers, cleanliness of the facilities etc.

The researchers Boshoff and Du Plessis (2009) have defined service quality in terms of three key variables, namely: technical quality, functional quality, and quality image. *Technical quality* describes the service provided by the service organization, for instance, open an account or processing a home loan application. *Functional quality* describes how service is delivered, for instance, quickly and reliably processing a home loan application. *Quality image* refers to the outcome of both technical and functional quality. Customers receive the service and form an image about the service organization based on the service delivered (Boshoff & Du Plessis, 2009).

Service quality can be used to define differentiation between two service provider's services and to win strategic competitive advantage. The service quality provides a key determinant of whole Satisfaction, which leads to customer retention and loyalty (Ennew & Binks, 1999). Ennew & Binks (1999) concluded that customer loyalty and satisfaction can be achieved if customers are provided with the best quality of services. Similarly, it is considered one of the most significant factors of

customer loyalty in service industries (Fullerton, 2005). The quality of transactions services delivered to customers can improve the performance of the bank and customer relationship into a long-term, close and trustworthy.

According to Negi (2009), who explained that customer perception about quality of services provided by the organization had attained enhanced consideration, because of its particular contribution to trade industry competitiveness. It can be concluded that quality of services provided by organizations is imperative construct to be comprehended by meaningful interpretation to calculate customer satisfaction. This makes essential improvements in this dimension. If poor customer service is realized at any time in a business, it will lead to customer dissatisfaction. If more customers are retained at an increased rate, a business can be able to realize profits increased by 25% on an average scale (Griffin, 1995).

According to Parasuraman et al., (1985), Tangibility, Reliability, Responsiveness, Assurance and Empathy are used to measure the gap between customers' expected service level and perceived service level by performing the gap analysis. Buell et al. (2010), in the retail banking industry in the U.S, the industry is found to be too competitive and customized in offering a better service quality and price to the customers and hence there is a positive association between customer value and service sensitivity when the competitor lacks in providing high quality services to the customers. All the five dimensions of service quality influenced customer satisfaction substantially and improving the service quality elements is widely considered as the main ancestor which could effectively bring significant contributions on customer satisfaction.

Following are the five dimensions used in this research as five independent variables as banking service provided by the banks (Parasuraman et al., 1990):

- Tangibility includes those attributes pertaining to physical items such as equipment, buildings, and the appearance of both personnel and the devices utilized to communicate to the consumer. For instances, the customers can assess the premises of the banks, or perhaps the appearance of the bank's staff.
- Reliability relates to the personnel's ability to deliver the service in a dependable and accurate manner. Reliability is the extent to which the service is delivered to the standards expected and promised (Siddiqi, 2011) or it represents the customer getting what they feel they have paid for. It shows the customers' confidence that banks will fulfill the promised terms and conditions which will not go against customers' interests.
- Responsiveness is the desire and willingness to assist customers and deliver prompt service makes up the dimension of responsiveness. Responsiveness dimension is concerned in dealing with the customer's requests, questions, and complaints promptly and attentively (Siddiqi, 2011). Parasuraman, et al (1991) include such elements in responsiveness as telling the customer the exact time frame within which services will be performed, promptness of service, willingness of assistance, and never too busy to respond to customer requests. It is the responsibility of banks to communicate with the customers regarding the duration they will get back the customers enquiries and how would them in handling or managing the customers' problems. Companies should understand the concerns rise from the customers rather than their individual's perspective (Zeithaml et al, 2009).
- Assurance is the degree of trust and confident of customers to feel that the services providers are competent to provide the services (Siddiqi, 2011). The customer will not be satisfied if he or she did not feel assured about the competence of the service provider. The banks should build the confidence to the public in order to get the higher rates of customers satisfaction and to increase the professionalism in their services especially the assurance they promise to customers i.e. to competent their roles and responsibilities. Thus, the banks should always re-examine their assurance whether they fulfill the customers' expectations.

This is a way to retain the customers and would become a significant to that particular bank in public. Parasuraman, et al (1991) included actions by employees such as always courteous behavior instills confidence and knowledge as prime elements of assurance.

- Empathy is the caring and personalized attention the organization provides to its customers. Empathy is regarding the way to serve the customer whether the customers able to feel the uniqueness or special care from the banks (Srinivasan, 2010). Individual attention and convenient operating hours were the two primary elements included by Parasuraman, et al (1991) in their evaluation of empathy. Convenient working hours, individualized attention, better understanding of customer's specific needs, enhanced communication between management and customers will have a positive outcome on customer satisfaction (Ananth et al., 2011). There are quite numbers of small companies using this technique to provide a customized services as a competitive advantages over the larger organizations (Zeithaml et al., 2009). This dimension is important where it is able to determine the 'survival' of a particular service organization building the relation with customers as opposed to 'transaction marketing' (Andaleeb & Conway, 2006).

### Conceptual Framework of the Study

Based on the results of empirical research the five independent variables, namely Tangibility, Reliability, Responsiveness, Empathy, Assurance as independent variables and Customer satisfaction as dependent variable have been identified (fig 1). These variables are being evaluated for both the banks and then compared as displayed in the model. All the variables are measured on continuous scale.

From the conceptual framework following mathematical model can be developed:

$$CS = \beta_0 + \beta_1 Tan + \beta_2 Rel + \beta_3 Resp + \beta_4 Emp + \beta_5 Ass + U$$

Where, CS = Customer satisfaction;  $\beta_0$  = is intercept & constant;  $\beta_1 - \beta_5$  = Regression coefficients; Tan = Tangibility ; Rel = Reliability; Resp= Responsiveness; Emp = Empathy; Ass = Assurance; U = Stochastic Disturbance

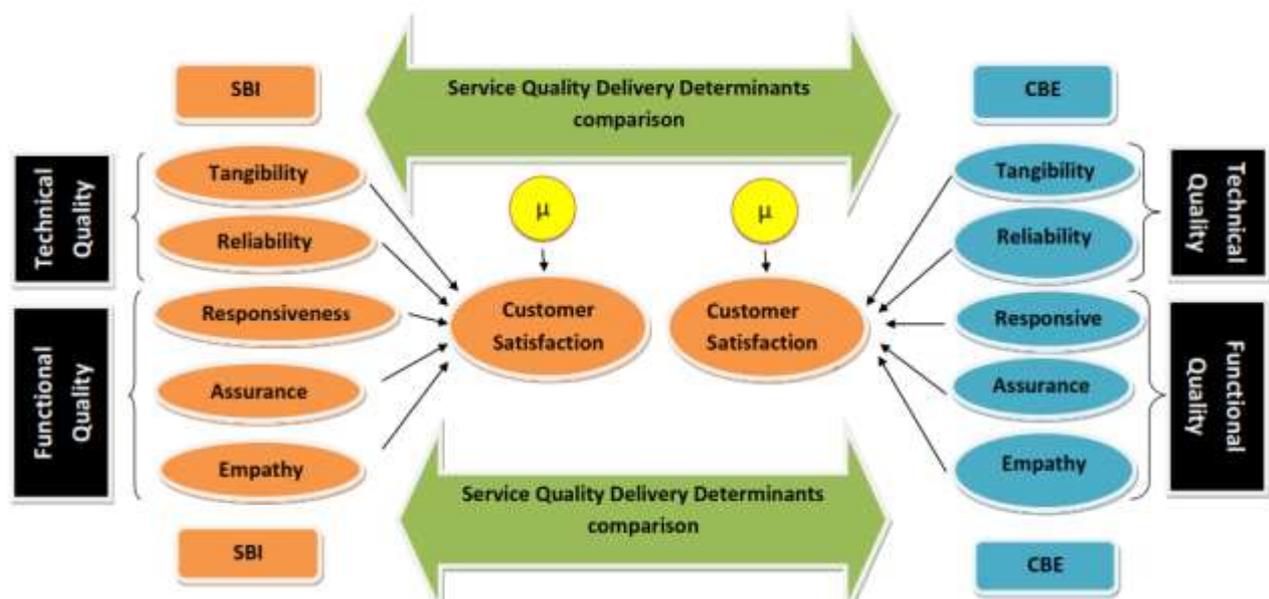


Fig 1: Conceptual model of the study

### Research Hypothesis

Iwaarden et al. (2003) defined tangibility as physical facilities, equipment and appearance of employees and management team. It is also defined as the ease in visibility of resources necessary for providing the service to customers, well groomed employees and ease in accessing written

materials like pamphlets, brochures, folders, information books etc will have a favorable consequence on the level of customer satisfaction (Parasuraman et al., 1985). It means how physical facilities, equipment, personnel, and communication materials appear. Modern looking or sophisticated equipments and visually appealing or attractive ambience are viewed as the positive impacts of tangibility on customer satisfaction in banking sector (Ananth et al., 2011). The above arguments will lead to the development of the following hypothesis:

H<sub>1</sub>: Tangibility has a significant impact on Customer Satisfaction in SBI.

H<sub>2</sub>: Tangibility has a significant impact on Customer Satisfaction in CBE.

Reliability is defined as the ability to perform the required service to customers dependably and accurately as promised to deliver (Zeithaml et al., 1990). Dealing whatever the problems in services encountered by customers, performing the required services right from the first time, services being rendered at the promised time and maintaining error-free record are the paradigm of reliability in terms of service quality which will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). In banking services provided to the customer, accuracy in completing orders, maintaining precise record and quote, accuracy in billing, maintaining promised services are the basic views of reliability which is considered as the most important factor in convincing customers to retain in banking services (Yang and Fang, 2004). The above discussion leads to the development of the following hypothesis:

H<sub>3</sub>: Reliability has a significant impact on Customer Satisfaction in SBI

H<sub>4</sub>: Reliability has a significant impact on Customer Satisfaction in CBE

Zeithaml et al. (1990) defined responsiveness as the interests shown in providing prompt service to customers when required. Further, it is researched that willingness or readiness of employees to provide the required customer service without any inconvenience at any time will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). Customers get satisfied when banks provide individual attention and the employees are paying attention to problems experienced by customers regarding safety in transaction (Kumar et al., 2009). The above discussion leads to the development of the following hypothesis:

H<sub>5</sub>: Responsiveness has a significant impact on Customer Satisfaction in SBI.

H<sub>6</sub>: Responsiveness has a significant impact on Customer Satisfaction in CBI.

Assurance is defined as the knowledge and good manners or courtesy of employees (Van Iwaarden et al., 2003). Further, it is also defined as the ability of employees with the help of the knowledge possessed to inspire trust and confidence will strongly strike the level of customer satisfaction (Parasuraman et al., 1988). In banking services provided to the customer, assurance means providing financial assistance in a polite and friendly manner, ease in accessibility of account details, comfort or convenience inside the bank, a well experienced and professional management team and will have favorable outcomes on customer satisfaction (Sadek et al., 2010). The above arguments will lead to the development of the following hypothesis:

H<sub>7</sub>: Assurance has a significant impact on Customer Satisfaction in SBI.

H<sub>8</sub>: Assurance has a significant impact on Customer Satisfaction in CBI.

Empathy is defined as the ability to take care of customer's attention individually in providing service to customers (Iwaarden et al., 2003). Further, it is researched that understanding customer expectations better than competitors in providing the required customer service at any time without any inconvenience will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). Convenient working hours, individualized attention, better understanding of customer's specific needs, enhanced communication between management and customers will have a positive outcome on customer satisfaction (Ananth et al., 2011). The above arguments will lead to the development of the following hypothesis:

H<sub>9</sub>: Empathy has a significant impact on Customer Satisfaction in SBI.

H<sub>10</sub>: Empathy has a significant impact on Customer Satisfaction in CBI.

**Research Methodology**

The target population of this study is all the existing retail banking customers of SBI (Delhi) and CBE (Addis Ababa). The study was undertaken Dec 2016 – April 2017. Total 350 customers (175 customers of each bank) were selected as the sample and systematic sampling was used as sampling technique. Sample frame includes those customers who visited the bank on 15 specified days when responses were taken. The research design used is conclusive (descriptive and causal) research design with the objective of identifying the impact of service delivery on customer satisfaction (dependent variable) with five independent variables, namely Tangibility, Reliability, Responsiveness, Empathy, Assurance. Data was collected from the customers through primary sources using questionnaire as instrument. A survey questionnaire was prepared using seven point Likert scale (1 = extremely disagree, 7= extremely agree) to measure the response on continuous scale. Descriptive and inferential statistics was used as data analysis tool. Pilot study was conducted on 30 customers to check the reliability and validity of the questionnaire. Reliability was used using Cronbach alpha to understand how closely the set of items are related as a group or factor. The Cronbach alpha of various factors ranges from .84 to .91 which shows that the questionnaire is highly reliable. The validity (content) was ensured by taking the advice of experts.

**Data Analysis and Interpretation**

Table 1 shows the independent sample t test. It shows that perceived service quality of SBI is more than CBE on all parameters viz., Tangibility, Reliability, Responsiveness, Assurance and Empathy and the difference is significant as  $p < .05$ .

**Table 1: Independent Samples Test**

		Levene's Test for Equality of Variances		t-test for Equality of Means			
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference (SBI – CBE)
Tangibility	Equal variances assumed	.201	.654	2.533	348	.012	.11833
	Equal variances not assumed			2.563	333.735	.011	.11833
Reliability	Equal variances assumed	.008	.927	2.612	348	.009	.14944
	Equal variances not assumed			2.606	318.246	.010	.14944
Responsiveness	Equal variances assumed	1.001	.318	4.018	348	.000	.22167
	Equal variances not assumed			4.032	325.117	.000	.22167

Assurance	Equal variances assumed	10.871	.001	2.308	348	.022	.13917
	Equal variances not assumed			2.253	289.104	.025	.13917
Empathy	Equal variances assumed	39.075	.000	5.408	348	.000	.30375
	Equal variances not assumed			5.742	340.315	.000	.30375

Table 2 shows the model summary. It states that for SBI the five independent service quality variables shows 48.9% variability in customer satisfaction. Table 3 states that for CBE the five independent service quality variables shows 62.5 % variability in customer satisfaction. In Table 2 & 3 the value of Durbin Watson is 1.793 and 2.321 which falls under 1-3(rule of thumb) which shows that there is no significant auto correlation among residuals which shows model fit.

**Table 2: Model summary (SBI)**

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.700	.489	.474	.50353	1.793

**Table 3: Model summary (CBE)**

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.790	.625	.614	.42849	2.321

Table 3 and table 4 show the variance by five independent variables on customer satisfaction in case of SBI and CBE. In both the cases the independent variables significantly affect the dependent variables in both the cases at 5% level of significance.

**Table 3: ANOVA (SBI)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	41.062	5	8.212	32.39	.000
Residual	42.849	169	0.254		
Total	83.911	174			

**Table 4: ANOVA (CBE)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.642	5	10.328	56.255	.000
Residual	31.028	169	0.184		
Total	82.671	174			

Table 5 and table 6 display the regression coefficients of independent variables that have impact on customer satisfaction in SBI and CBE. Table 6 & 7 shows that Reliability and Responsiveness factors do not significantly affect the customer satisfaction of retail customers of banks in India and Ethiopia while Assurance and empathy are the most significant factors( sig less than .05) at 95% confidence level on which both the banks have to give due emphasis. For SBI tangibility is also marginally significant which means that they have to work on their tangibility also. give on tangibility also.

Constant value in negative shows that if all service quality factors become zero, then the customer satisfaction reduces by which we can infer that that significant service quality factors positively enhances customer satisfaction of the banks.

**Table5: Regression coefficients (SBI)**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.705	.611		-1.155	.250		
Tangibility	.203	.101	.130	2.005	.047	.354	2.826
Reliability	.106	.082	.080	1.282	.201	.759	1.317
Responsiveness	.132	.116	.100	1.141	.256	.681	1.468
Assurance	.245	.104	.185	2.345	.020	.584	1.713
Empathy	.427	.093	.375	4.569	.000	.811	1.233

**Table 6: Regression coefficients (CBE)**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.604	0.610		-2.63	0.009		
Tangibility	0.155	0.081	0.093	1.913	0.057	.705	1.418
Reliability	0.079	0.082	0.06	0.965	0.336	.682	1.467
Responsiveness	0.051	0.092	0.036	0.548	0.584	.218	2.071
Assurance	0.639	0.091	0.541	6.998	.000	.351	2.848
Empathy	0.473	0.121	0.265	3.904	.000	.750	1.334

Regression equation for SBI can be written as:

$$CS = \beta_0 + \beta_1 \text{Tan} + \beta_2 \text{Rel} + \beta_3 \text{Resp} + \beta_4 \text{Emp} + \beta_5 \text{Ass} + U$$

$$CS (SBI) = -0.705 + 0.203 \text{Tan} + 0.245 \text{Emp} + 0.427 \text{Ass}$$

Regression equation for CBE can be written as:

$$CS = \beta_0 + \beta_1 \text{Tan} + \beta_2 \text{Rel} + \beta_3 \text{Resp} + \beta_4 \text{Emp} + \beta_5 \text{Ass} + U$$

$$CS (CBE) = -1.604 + 0.639 \text{Emp} + 0.473 \text{Ass}$$

The last column in table 5 and 6 checks the multi-collinearity among the independent variables. As the values of Tolerance and VIF are above .1 and below 5 respectively (rule of thumb) we can infer that the variables do not show multi-collinearity.

Fig 2, 3, 4 and 5 relates to checking the normality of residuals for model fit. Fig 2 and 3 displays the histograms of distribution of residuals which shows that residuals are almost normally distributed (distribution is bell shaped). Fig 4 & 5 displays the Normal P-P Plot of Regression Standardized Residuals. In the fig we see that the residuals are congregated on the normal line. Fig 2,3,4,5 verifies the normality of data and model fit.

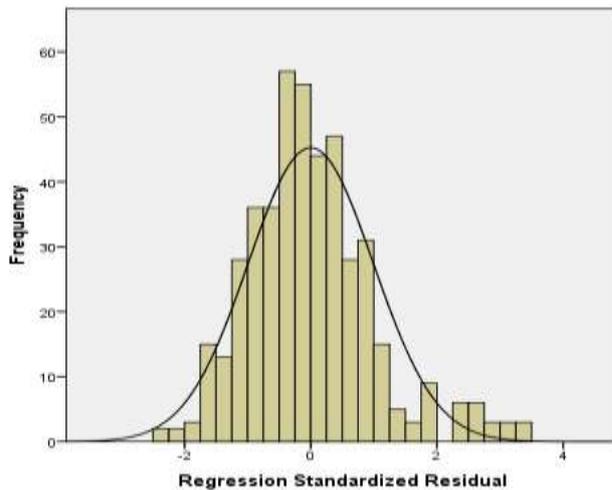


Fig 2: Histograms of residuals (SBI)

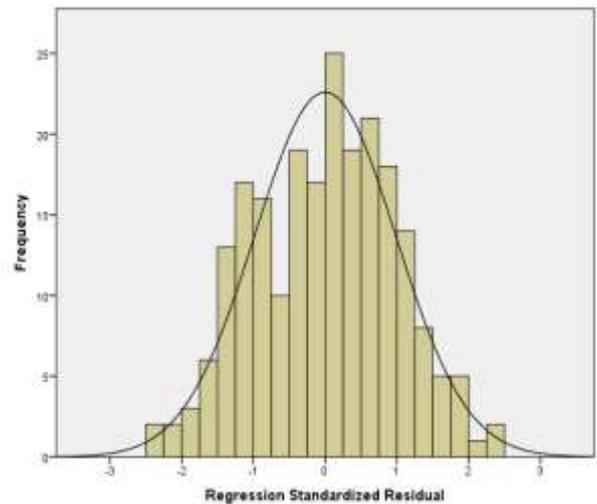


Fig 3: Histograms of residuals (CBE)

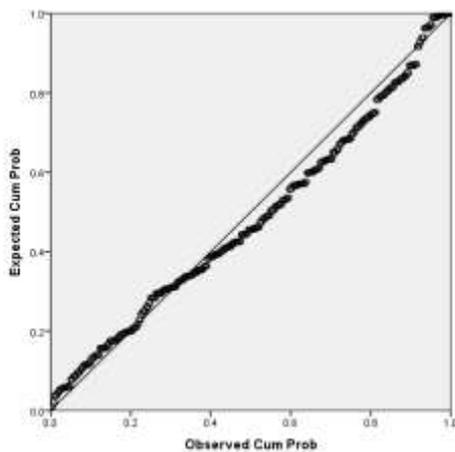


Fig 4: Normal P-P Plot of Regression Standardized Residuals (SBI)

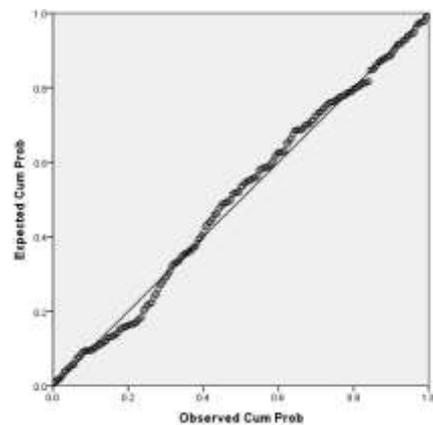


Fig 5: Normal P-P Plot of Regression Standardized Residuals (CBE)

### Hypothesis Testing

From table 6 & 7, stated hypothesis can be tested, as:

H<sub>1</sub>: Tangibility has a significant impact on Customer Satisfaction in SBI. The hypothesis is accepted as p value is .047 which is less than .05 at 5% level of significance.

H<sub>2</sub>: Tangibility has a significant impact on Customer Satisfaction in CBE. The hypothesis is rejected as p value is .057 which is more than .05 at 5% level of significance.

H<sub>3</sub>: Reliability has a significant impact on Customer Satisfaction in SBI. The hypothesis is rejected as p value is .201 which is more than .05 at 5% level of significance.

H<sub>4</sub>: Reliability has a significant impact on Customer Satisfaction in CBE. The hypothesis is rejected as p value is .336 which is more than .05 at 5% level of significance.

H<sub>5</sub>: Responsiveness has a significant impact on Customer Satisfaction in SBI. The hypothesis is rejected as p value is .256 which is more than .05 at 5% level of significance.

H<sub>6</sub>: Responsiveness has a significant impact on Customer Satisfaction in CBI. The hypothesis is rejected as p value is .584 which is more than .05 at 5% level of significance.

H<sub>7</sub>: Assurance has a significant impact on Customer Satisfaction in SBI. The hypothesis is accepted as p value is .020 which is less than .05 at 5% level of significance.

H<sub>8</sub>: Assurance has a significant impact on Customer Satisfaction in CBI. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

H<sub>9</sub>: Empathy has a significant impact on Customer Satisfaction in SBI. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

H<sub>10</sub>: Empathy has a significant impact on Customer Satisfaction in CBI. The hypothesis is accepted as p value is .000 which is less than .05 at 5% level of significance.

### **Conclusion and Recommendations**

Based on the findings of this study, it can be concluded that service quality parameters for both the banks significantly affects the customer satisfaction of banks retail customers. Functional quality factors especially assurance and empathy were found to be most important for both the banks on which both banks have to work extensively as they are found to be on lower side in both the banks.

On the basis of the results of this research, it can be recommended that both the banks should work on assurance and empathy very much. Assurance can be improved by respecting privacy of customers, treating customers with dignity, respect, and making the payment procedure quick and simple. Empathy can be enhanced by putting customer's best interest at heart, understanding specific needs of customers and give them their personal attention, enhancing comfort to customers, and by giving smiling welcome by the lobby man, receptionist and staff.

The results of this research contribute to all the banks as service quality was found to be having significant contributor of customer satisfaction. They must review their service quality perception from time to time through customer feedback system and take corrective action as customer satisfaction is one of the most important contributors of customer retention and customer loyalty and ultimately gives competitive advantage.

### **Scope for future research**

Further research may be conducted to private bank in same area as well as other regions of Ethiopia and India in public and private banks to generalize the findings. Further the researchers have to find out other factors, which are not covered in this research and conduct the research, as these unidentified factors also constitute large grey areas.

### **References**

- Ananth, A., Ramesh, R. & Prabakaran, B. (2011). Service Quality GAP Analysis in Private Sector Banks A Customer Perspective. *Indian Journal of Commerce and Management Studies*, 2(1), 245-252.
- Andaleeb, S.S., & Conway, C. (2006). Customer satisfaction in the restaurant industry: An examination of the transaction-specific model. *Journal of Service Marketing*, 20(1), 3-11.
- Auka, D. O., Bosire, J.N. & Matern, V. (2013). Perceived service quality and customer loyalty in retail banking in Kenya. *British Journal of Marketing Studies*, 1(3), pp 32-61.
- Boshoff, C. & Du Plessis, F. (2009). *Service Marketing: a contemporary approach*. Cape Town: Juta.
- Buell, R.W., Campbell, D. & Frei, F.X. (2010). Are Self-Service Customers Satisfied or Stuck? *Production and Operations Management*, 12 (6), 679-697.
- Cronin, J.J. Jr and Taylor, S.A. (1992). Measuring service quality: a reexamination and extension. *Journal of Marketing*, 56(3), 55-68.
- Ennew, C. T., & Binks, M. R. (1999). Impact of participative service relationships on quality, satisfaction and retention: an exploratory study. *Journal of Business Research*, 46(2), 121-132.
- Fullerton, G. (2005). The service quality-loyalty relationship in retail services: does commitment matter? *Journal of Retailing and Consumer Services*, 12(2):99-111.
- Griffin, J. (1995). *Customer loyalty: How to earn it, how to keep it*. New York: Lexington Books.
- Gronroos, C. (1984). A Service Quality Model and Its Marketing Implications. *European Journal of Marketing*, 18(4), 36-45.
- Kotler, P., Armstrong, G., Saunders, J and Wong, V (1999), *Principles of Marketing*, 2e, Prentice Hall, Europe

- Kumar, M., Kee, F.T., & Manshor, A.T. (2009). Determining the relative importance of critical factors in delivering service quality of banks – an application of dominance analysis in SERVQUAL model. *Managing Service Quality*, 19(2), 211–228.
- La Barbera, P.A. & Mazursky, D. (1983). A longitudinal assessment of consumer satisfaction/dissatisfaction. *Journal of Marketing Research*, 20, 393-404.
- Lasser, W.M., Manolis, C. and Winsor, R.D. (2002), Service quality perspectives and satisfaction in private banking, *Journal of Services Marketing*, 14(3), 244-71.
- Levesque, T. and McDougall, G.H.G. (1996), Determinants of customer satisfaction in retail banking, *International Journal of Bank Marketing*, 14(7), 12-20.
- Lovelock C and Wirtz J., (2007), *Services Marketing: People, Technology, Strategy*, 6<sup>th</sup> Ed., Pearson Prentice Hall, New Jersey.
- Manrai, L.A. and Manrai, A.K. (2007). A field study of customers' switching behavior for bank services, *Journal of Retailing and Consumer Services*, 14, 208-15
- Mont, O., & Plepys, A. (2003). Customer satisfaction: Review of literature and application to the product-service systems. *The International Institute for Industrial Environmental Economics*, 27-48.
- Negi, R. (2009). Determining Customer Satisfaction through Perceived Service Quality: A Study of Ethiopian Mobile Users. *International Journal of Mobile Marketing*, 4(1).
- Parasuraman, A., Zeithaml, V.A., & Berry, L.L. (1985). A conceptual model of service quality and its implications for future research. *Journal of Marketing*, 49, 41-50.
- Parasuraman, A., Zeithaml, V.A., & Berry, L.L. (1994). Reassessment of expectations as a comparison standard in measuring service quality: Implications for further research. *Journal of Marketing*, 58, 111-124.
- Parasuraman, A., Zeithaml, Valerie A. & Berry, Leonard L. (1991). Refinement and reassessment of the SERVQUAL scale, *Journal of Retailing*, 67(4), pp. 420-50
- Parsuraman A., Zeithaml., V.A., & Berry, L.L. (1988). A multiple item scale for measuring consumer perception Vol. VIII, No. 1, March 2015 - August 2015 Impact of Service Quality on Customer Satisfaction in Public Sector and Private Sector Banks of service quality. *Journal of Retailing*, 64(1), 12-40.
- Sadek, D., Zainal, N., Taher, M. & Yahya, A. (2010). Service Quality Perceptions between Cooperative and Islamic Banks of Britain. *American Journal of Economics and Business Administration*, 2(1), 1-5.
- Siddiqi, K.O. (2011). Interrelations between service quality attributes, customer satisfaction and customer loyalty in the retail banking sector in Bangladesh. *International Journal of Business and Management*, 6(3), 1236.
- Spreng, R.A., Harrell, G.A., Mackoy, R.D., (1995). Service recovery: impact on satisfaction and intentions. *Journal of Services Marketing*, 9(1), 15–21.
- Srinivasan , R. (2012). *Services marketing: The Indian context* (3ed). PHI Learning Pvt Ltd.
- Stafford, M.R. (1996). Demographic discriminators of service quality in the banking industry. *The Journal of Services Marketing*, 10(4) 6-18.
- Sudhahar, J.C., & Selvam, M. (2007). Service quality scale development in Indian retail banking sector: An empirical investigation. *Journal of Applied Sciences*, 7(5), 766-771
- Van Iwaarden, J., van der Wiele, T., Ball, L., & Millen, R. (2003). Applying SERVQUAL to web sites: An exploratory study. *International Journal of Quality & Reliability Management*, 20(8), 919-935.
- Yang, Z. & Fang, X. (2004). Online service quality dimensions and their relationships with satisfaction: A content analysis of customer reviews of securities brokerage services. *International Journal of Service Industry Management*, 15(3), 302 – 326.
- Zeithaml, V. A., Parasuraman, A., and Berry, L., (1990). *Delivering quality service: Balancing customer perceptions and expectations*. New York, NY: Free Press.

## Impact of Emotional Intelligence on Leadership Styles: A Study of Educational Leaders in Himachal Pradesh

**Shyam L Kaushal and Ina Sood**

Himachal Pradesh University Business School, Shimla

E-mail: [kaushal.shyam@gmail.com](mailto:kaushal.shyam@gmail.com), [ina.sood9@gmail.com](mailto:ina.sood9@gmail.com)

### Abstract

Education is vital in developing an economically prosperous society and for ensuring equality and social justice. It is the key to human development and fundamental to all round development of human potential - material and spiritual. But the educational system faces rapid changes, so it is important to have leaders, who are adaptive, work effectively, constantly improve systems and processes, are student focused, and who share the need to make a profit. The study was conducted on the leaders of educational institutions in three districts of Himachal Pradesh on a sample of 139 participants. Emotional intelligence was measured by using the Weisinger's Emotional Intelligence Scale, and leadership style, using the Multifactor Leadership Questionnaire (MLQ-5x Short). The results showed that emotional intelligence was related to both transactional and transformational leadership styles. However, no relationship was found with laissez faire leadership style. Emotional Intelligence training, therefore, is a powerful tool that can be employed in the organizations to enhance the leadership skills. The results of this study contribute to current insights about the interrelationships on leaders' emotional intelligence and the leadership style practiced by them. The findings of the study show that emotional intelligence directly affects the motivation, satisfaction and commitment of the leaders.

**Keywords:** Emotional Intelligence, Transactional Leadership, Transformational Leadership, Educational Institutions, India

### Introduction

Education is a fundamental human right and an important feature in the development of children, communities, and countries. It plays a vital role to a productive, good life and improves the value and excellence of one's life. It makes people more independent and aware of what is going on in the world today, along with the awareness of opportunities and rights. It offers a greater understanding of one's capability and potential as well. Therefore, education is essential for all. It has continued to evolve, diversify and extend its reach and coverage since the dawn of human history. An appropriate educational system cultivates awareness, knowledge, a positive attitude and a sense of responsibility towards rights and duties and imparts inner strength to overcome oppression and inequality. India is among countries that have the largest higher education systems in the world, with 25.9 million students enrolled in more than 45,000 degree and diploma institutions in the country. In India, there are four broad stages of education, elementary/ primary education, secondary education, higher secondary education and higher education.

There are approximately 677 universities, 37,204 colleges and 11443 stand-alone institutions in India (HRD ministry, 2014) that include 2 million students who are enrolled in the various distant learning programs offered by several universities. However, only 6% students go for masters programs and 1.5% for research. Central Government establishes all major policies relating to higher education in the country. It also gives grants to the UGC and 16 established central universities. Similarly, respected state governments are responsible for the establishment and maintenance of state

universities and colleges. Higher education is on the concurrent list of the union and the states, subject to Entry 66 of the union list I of the constitution of India, which provides exclusive legislative power to the central Government for coordination and determination of standards in institutions for higher education. Several bills have been introduced during the 12<sup>th</sup> five year plan period to improve the quality and transparency in higher education. (MHRD, 2016)

However, in spite of the significant progress made during the past few years, India's higher education sector is still inundated with several challenges, e.g., the relatively low gross enrolment ratio (GER), unequal access to higher education by community, gender and geography, and lack of high-quality research and education institutions, resulting in sub-optimal outcomes. Also, there have been changes due to technological advancements, fast-moving information, stimulation-saturated environment and the changing nature of the students. All these have imposed on the educational managers who are responsible for the successful execution of educational programs, a need to be creative and innovative in order to grow, to compete and to lead. In such a scenario it is very important that people who hold leadership positions are effective. There are various factors that distinguish leaders with outstanding economic performance from leaders with average results such as the strength of the emotional qualities of the leader, the ability to communicate and to establish interpersonal relationships, the ability to create an open, motivating environment.

Emotional intelligence is now being considered as a possible fundamental aspect of effective leadership as it enhances leadership skills and improves the effectiveness. Leaders who can embrace the emotional side of the followers understand particular emotional skills that are important for the leaders in order to achieve their goals and objectives. To cultivate a culture that challenges the status quo and expects excellence, educational managers need to learn, develop, and demonstrate high levels of emotional intelligence. Therefore educational managers who are capable of using their emotions and knowledge constructively have certain advantages over those who cannot. Previous studies have found that leadership styles are related to the positive outcomes such as satisfaction, commitment, performance and motivation of followers. Hence it becomes important to explore various constructs that help to predict leadership styles in order to identify potential leaders who are capable of bringing positive changes in the followers.

Leaders high on emotional intelligence see changes as opportunities for something better, and they do not cherish stability but ongoing development of individual workers. Numerous studies have been conducted on the relationship between emotional intelligence and leadership behavior. (Goleman, Barling et al. (2000); Goleman, Boyatzis, and McKee (2002); Gardner and Stough (2000); and Palmer et al. (2001). Leadership is basically an emotional process. Leaders recognize the emotional states of the followers, attempt to encourage emotions in the followers, and then seek to manage emotional states of the followers accordingly (Humphrey, 2002). Leaders high on emotional intelligence bring out the best in members of the organization, constrain emotions in a positive manner, connect with others at an emotional level, and make work more meaningful and important. It is imperative for the leaders that they have the ability to recognize their own emotions and to be able to express those emotions to others.

Emotional intelligence is one of the most important predictors of organizational success. It demonstrates the ability of knowing, and understanding emotions in oneself and in others, in order to have better and more efficient relationship between two parties. It comprises of major characteristics and competencies like emotional awareness, motivation, managing anger, intuition and perception, emotional reaction to others emotions and feelings (Rosete, D. and Ciarrochi, J., 2005). George, J.M. (2000) opined that feelings are not only an integral part of leadership but it is the multiplicity of mood and emotions that influences leadership effectiveness. Leaders are evidently human beings with a wide variety of emotions potentially accessible to them. Kaushal S.L.

and Sood I. (2013) opined that leaders with strong emotional intelligence competencies generate the skill to deal with stress without collapsing, to be positive to solve a problem, and focus on positive feelings such as confidence, self-motivation, self-awareness and empathy. Leaders with high emotional intelligence outperform and advance faster in their careers in comparison to the leaders with low emotional intelligence (Bar-On and Parker, 2000; Higgs and Rowland, 2002). Also, Ashkanasy and Tse (2000) and Lewis (2000) have claimed that effective leaders are recognized as using emotions to communicate a vision and to elicit responses from their subordinates. Arora R.G (2014) posited that leaders will be better equipped to use positive emotions to facilitate improvements and influence followers so that they are receptive to change and supportive of the leader. Higgs (2003) studied potential relationships between emotional intelligence and leadership by developing a framework to uncover possible interactions between the concepts of both.

Therefore, on the basis of review of the literature, it is evident that emotional intelligence is essential for measuring, selecting, and developing leaders. The present study will be helpful in developing a better understanding of emotional intelligence and the leadership styles depicted by the educational managers and the relationship between emotional intelligence and leadership styles in the educational institutions of Himachal Pradesh.

### **Objectives**

The objectives of the study are as follows:

1. To examine the emotional traits present in the educational managers in higher educational institutions of Himachal Pradesh
2. To examine the leadership styles practiced by the educational managers in higher educational institutions of Himachal Pradesh
3. To study the relationship between Emotional Intelligence and Leadership Styles of educational managers in higher educational institutions of Himachal Pradesh.

### **Scope of the Study**

The present study was conducted on the educational leaders of educational institutions in three districts of Himachal Pradesh i.e. Shimla, Solan and Kangra. The research covered 2 government universities, 6 private universities, 4 professional colleges, 4 B.ed colleges and 4 private colleges across various districts of Himachal Pradesh. The study was devoted to assess emotional intelligence traits and the leadership styles of the educational leaders and the relationship of emotional intelligence with leadership styles of educational leaders in educational institutions in Himachal Pradesh.

### **Sample**

A sample of 139 educational managers working in different government and private educational institutions of Himachal Pradesh were personally contacted. Only the employees holding leadership positions i.e. Directors, Deans, Principals, Head of the departments in the educational institutions were included in the survey. Data was collected through stratified sampling technique.

### **Research Instrument**

To measure the Leadership Style, the study used the Multifactor Leadership Questionnaire (MLQ) as transactional, transformational, and laissez-faire. The MLQ defines the terms and measures the constructs of Bass's leadership model and was developed based on the Full Range Leadership Model designed by Avolio and Bass (1995). The MLQ Form 5X is a self-reporting questionnaire consisting of 45 questions addressing how often the participant's supervisor displays a spectrum of leadership behaviors (Gardner & Stough, 2002). The sub-scales in the MLQ 5X is based on (a) the elements of transformational competencies: individual consideration, intellectual stimulation, idealized influence, inspirational motivation; (b) three transactional competencies: contingent reward, active

management-by-exception, passive management-by exception; and (c) the laissez-faire leadership style. (Avolio & Bass, 1995; Howell & Avolio, 1993). The dependent variables rated are extra effort, perceived leader effectiveness, and employee satisfaction with the leader.

To measure Emotional Intelligence, a forty five item questionnaire developed by Hendrie Weisinger that measures the emotional intelligence across five dimensions, i.e. self-awareness (conscious knowledge of one's own character and feelings), managing emotions (The ability to be open to feelings, and to modulate them in oneself and others), self-motivation (Ability to do what needs to be done, without influence from other people or situations), relating well ( ability to get along with others and fit in with others in a social situation) and emotional mentoring (helping others to manage their emotions, communicate effectively and resolve conflicts) has been used. The respondents check on a five point scale how widely each of the value is shared in the organization.

**Table 1: Reliability Coefficients of Variables**

	Leadership Styles	Emotional Intelligence
Number of items	45	45
Cronbach Alpha	.895	.875

**Analysis**

To arrive at significant results, the collected data was put through a statistical analysis using SPSS (20.0) package. The tools, which were employed for analysis included: mean, standard deviation, T-test, and correlation and regression analysis. The data was tabulated for each variable being studied separately.

**Discussion**

Table 2 presents the descriptive statistics (mean and Standard deviations along with the maximum and minimum values) for the five dimensions of emotional intelligence as well as for the overall emotional intelligence. Each variable was constructed by computing the mean of the items comprising the scale. Table revealed that all the educational managers depicted certain traits of emotional intelligence. Out of various dimensions of emotional intelligence emotional mentoring (M= 36.37and S.D. = 8.42) was found to be most prominent which was followed by relating well (M= 33.40 and S.D. = 7.11) and self-awareness (27.60and S.D = 5.60). Also, managing emotions accounted least emotional intelligence traits (M=21.07and S.D =4.74). But, all the educational managers displayed certain emotional intelligence traits.

**Table 2: Descriptive Statistics of Emotional Intelligence**

Variables	Mean	Standard Deviation	Minimum	Maximum
Self Awareness	27.60	5.60	14	40
Managing Emotions	21.07	4.74	10	31
Self Motivation	23.33	5.64	10	33
Relating Well	33.40	7.11	11	44
Emotional Mentoring	36.37	8.42	16	50
Overall Emotional Intelligence	141.78	26.50	73	184

Table 3 presents the descriptive statistics (mean and Standard deviations along with the maximum and minimum values) for the leadership styles as well as for the overall leadership style. Table revealed that majority of educational members in Himachal Pradesh depicted Transformational Leadership style (M = 77.32 and S.D. = 9.65). Out of the various dimensions of transformational leadership, inspirational motivation was found to be highest (M= 15.72 and S.D= 2.45) which was followed by idealized influence (behavior) (M=15.57 and S.D= 2.51). Idealized influence (attributed) (M=15.09 and S.D= 2.59) was found to be least affecting Transformational leadership style. Transactional leadership style was also depicted by many educational managers (M = 39.03 and S.D. =5.00). Out of the various dimensions of transactional leadership contingent reward was found to be highest (M= 15.49 and S.D =2.39) and management by exception (passive) was found to be least affecting transactional leadership style. (M=9.29 and S.D=2.23). Table also showed that Laissez Faire leadership style was depicted by very few educational managers (M= 7.65 and S.D= 2.62) and majority of leaders displayed transformational leadership style.

**Table 3: Descriptive Statistics of Leadership Styles**

Variables	Mean	Standard Deviation	Minimum	Maximum
Idealized Influence (attributed)	15.09	2.59	6	20
Idealized Influence (behaviour)	15.57	2.51	5	20
Inspirational Motivation	15.72	2.45	6	20
Intellectual Stimulation	15.39	2.18	5	19
Individualized Consideration	15.55	2.48	8	20
Transformational Leadership Style	77.32	9.65	34	98
Contingent Reward	15.49	2.39	5	19
Management by exception (active)	14.25	2.84	5	20
Management by exception (passive)	9.29	2.23	4	17
Transactional Leadership Style	39.03	5.00	18	51
Laissez Faire Leadership Style	7.65	2.62	4	17
Overall Leadership Style	124.00	13.77	57	153

**Correlation between Leadership Styles and Emotional Intelligence**

Pearson’s Correlation was run to see whether emotional intelligence is significantly associated with the different dimensions of leadership styles as well as overall leadership styles. Table 4 shows the relationship of the five variables of emotional intelligence and overall emotional intelligence with the three leadership styles and overall leadership style. As is evident from the table 4, all the five variables of emotional intelligence i.e. self-awareness, managing emotions, self-motivation, relating well and emotional mentoring are found to be significantly positively correlated with transactional and transformational leadership. All the dimensions of emotional intelligence were found to be significantly related positively with overall leadership style (p < 0.001). Also, overall emotional intelligence was found to have a significant positive association with overall Leadership Style (p<0.001). The strong positive relationship indicates that leadership styles focused on relating well with other colleagues, superiors as well as the students. Relating well dimension of emotional intelligence showed the strongest relationship with the Overall Leadership style (r=.593). Self-awareness (r= .456), self-motivation (r= .595) and relating well (r=.597) dimensions of emotional intelligence were found to have highest significant positive relation with transactional leadership

style. Relating well and emotional mentoring were found to be significantly related to transformational leadership style ( $r=.538$  and  $r=.482$  respectively). Also, overall emotional intelligence showed a strong positive relationship with overall leadership styles ( $r=.555$ ) which indicated that leaders in the educational institutions are emotionally intelligent and therefore they are effective leaders. The relationship between relating well dimension of emotional intelligence was also found to be highest with both transactional leadership style and transformational leadership style ( $r=.597$ ) and ( $r=.538$ ) respectively.

However, any of the dimensions of emotional intelligence was not found to be significantly correlated with laissez faire leadership style. No correlation was found between all the variables of emotional intelligence and laissez faire leadership style which indicates that leaders who practiced laissez faire style of leadership were not emotionally intelligence or the level of emotional intelligence was very low in such leaders. Thus, educational leaders depicting laissez faire leadership style did not display emotional intelligence traits which were found high in case of educational managers depicting transactional and transformational leadership style. Thus, it may be concluded that emotional intelligence is positively related to transactional and transformational leadership styles of the educational managers whereas no relationship was found between emotional intelligence and laissez faire leadership style. The correlation matrix displaying the relationship between emotional intelligence and leadership styles is shown in the table no 4.

**Table 4: Correlation matrix of Emotional Intelligence and Leadership Styles**

Variables	1	2	3	4	5	6	7	8	9	10
Self-Awareness	1									
Managing emotions	.355**	1								
Self-Motivation	.588**	.415**	1							
Relating well	.598**	.494**	.782**	1						
Emotional Mentoring	.619**	.467**	.790**	.851**	1					
Overall Emotional Intelligence	.757**	.623**	.873**	.920**	.929**	1				
Transactional Leadership Style	.456**	.277**	.595**	.597**	.570**	.614**	1			
Transformational Leadership Style	.242**	.160**	.468**	.516**	.480**	.477**	.655**	1		
Laissez Faire Leadership Style	.032	.084	-.129	.006	-.006	-.012	.110	-.032	1	
Overall Leadership Style	.341**	.229**	.520**	.593**	.542**	.555**	.843**	.933**	.208*	1

Correlation is significant at the 0.05 level (2-tailed).\*

Correlation is significant at the 0.01 level (2-tailed). \*\*

**Multiple Regression Analysis of Emotional Intelligence and Styles of Leadership**

Multiple regression analysis was used to study if emotional intelligence significantly predicted the three styles of leadership styles significantly. In the model, overall emotional intelligence served as independent variable and transactional, transformational and laissez faire leadership styles as the dependent variable. Table depicts the Regression model summary whereby it reports the strength of the relationship between the model and the dependent variable. The Table displays the adjusted R<sup>2</sup>value. It is therefore evident that the regression model has explained 30.04% of variance in Leadership styles. The results of the Analysis of Variance have also been summarized by the table which shows that the significance value of the F statistic is less than 0.05, which suggests that the variation explained by the model is not due to chance. Emotional intelligence has been found to be significant predictor of all the three leadership styles in the educational sector of Himachal Pradesh. Thus, it can be concluded that emotional intelligence has a significant influence on transactional and transformational leadership styles.

**Table 5: Regression Analysis of Emotional Intelligence and Leadership Styles**

Dimensions	Standardized Coefficient (Beta)	T	Sig.	Regression Model Summary
(Constant)		15.60	0.000	Adjusted R <sup>2</sup> = 0.346
Overall				ANOVA (F) = 15.628
Emotional Intelligence	.555	7.819	0.000	Significance = 0.000

\* Beta co-efficient is the standardized regression coefficient, which allows comparison of the relatives on the dependent variable of each independent variable.

\* t-statistics help to determine the relative importance of each variable in the model

**Findings and Interpretations**

The intent of this study was to examine the relationship between emotional intelligence and leadership styles of educational managers in educational institutions of Himachal Pradesh. This survey combined the Emotional Intelligence Scale and Multifactor Leadership Questionnaire (MLQ 5X). It collected 139 responses of leaders from various educational institutions of Himachal Pradesh describing the emotional intelligence traits and the style of their leadership. The results of survey indicated that the all the educational managers displayed various emotional intelligence traits and amongst them emotional mentoring was found to be most prominent. This was followed by relating well component of emotional intelligence. This indicted that the educational managers were concerned about establishing good interpersonal relationships and helped others to manage their emotions, communicate effectively and resolve conflicts.

The educational managers tried to expand their emotional and social skills in ways that informed thought and action and resulted in career learning and advancement. Similar results were found in the study conducted by Opengart, R. and Bierema, L. (2015) who found that emotionally intelligent people maintained successful relationships, and mentored professionals to achieve higher levels of position, pay, and career satisfaction. However, self-motivation was found to be present in very few educational leaders. This indicated that only a few leaders had the ability to do what needs to be done, without any outside influence of people or situations. Similarly, the results of leadership style survey indicated that majority of the leaders adopted transformational leadership style. The scores of inspirational motivation and individualized consideration were found to be highest in transformational leadership style. Leaders in the educational institutions attended to the needs of

the teachers and students, behaved as mentor or coach to them, and listened to their concerns also. They had an inspiring vision, communicated optimism about future goals, and provided meaning for the task at hand.

Transactional leadership style was practiced by some educational leaders where contingent reward scored the highest. Educational managers believed in rewarding the followers who were able to attain the goals. However, laissez faire leadership style was adopted by a very few leaders of educational institutions. This result is similar to the findings of earlier studies like Avolio (1999) who noted that effective leaders are described as displaying transformational leadership behaviors and transactional leadership behaviors more frequently than passive and ineffective non-leadership style behaviors. The results of correlation found that all the components of emotional intelligence were found to be related to transformational leadership style and transactional leadership style. Similar results were reported in many studies (Martell, & Desmet, 2001, Sivanathan & Fekken, 2002) which indicated that there is a significant and direct relationship between emotional intelligence and transformational leadership style of educational managers. Also Harms P. & Crede M. (2010) found that emotional intelligence was positively linked to contingent reward.

No significant relationship was found to exist between any of the dimensions of emotional intelligence with laissez faire leadership style. In a study conducted by Weinberger (2003) similar result was found that there is no relationship between Laissez-faire leadership and the various dimensions of emotional intelligence. But an important finding of the study was that emotional intelligence was found to be related more with transactional leadership style in comparison with the transformational leadership style. This was in contrast with the most of the previous findings that indicated strong association between emotional intelligence and transformational leadership style. However Vito, Higgins and Denney (2014) supported transactional leaders to use emotional intelligence applications as they see rewards and punishments are another form of managing people through emotions. Overall, it was found that the results linking emotional intelligence with transformational leadership variables were not as strong or as compelling in comparison to transactional leadership variables. Thus, the present analysis suggests that emotions and emotional intelligence are worthy of consideration in the leadership domain. Leaders who are capable in assessing the feelings of other people and understand the way they behave and respond, and sometimes modify these feelings in productive ways that are helpful to improve the performance, are more likely to be able to overcome resistance to change and transform an organization in productive ways.

### **Conclusion**

From the findings it has been noted that emotional intelligence has a significant effect on leadership; hence, higher level of emotional intelligence helps to improve performance of the leaders and enhance leadership effectiveness. Almost all the educational managers were found to display various emotional traits and transformational leadership style was practiced by majority of them. Most importantly it was noted that emotional intelligence was found to be related more with transactional leadership style in comparison with the transformational leadership style. Emotionally intelligent leaders help to restrain negative feelings like anger, self-doubt, stress, anxiety and help in focusing upon the positive feelings such as confidence, self-motivation, self-awareness and empathy, therefore, educational managers should focus on developing the emotional intelligence traits in order to be successful at work.

### **References**

Akerjordet, K. and Severinsson, E. (2008). "Emotionally Intelligent Nurse Leadership: A Literature Review Study", *Journal of Nursing Management*, 16, 565-577.

- Anand, R. and Udasuriyan, G. (2010). "Emotional Intelligence and its Relationship with Leadership Practices". *International Journal of Business Management*, 5(2), 65-76.
- Arora, R.G. (2014). "Study of Relationship between Emotional Intelligence and Leadership Practices", *Pacific Business Review International*, 6(11), 13-17.
- Ashkanasy, N.M. (2001). "Emotion in the Workplace: The New Challenge for Managers", *Academy of Management Executive*, 16(1), 76-86.
- Ashkanasy, N. M. and Tse, B. (2000). "Transformational leadership as management of emotion: A conceptual review". In N. M. Ashkanasy, C. E. Hartel, & W. J. Zerbe (Eds.), "Emotions in the Workplace: Research, Theory, and Practice (pp. 221- 235). Westport, CT: Quorum Books.
- Bar-On, R., & Parker, J. D. (2000). "The Handbook of Emotional Intelligence Theory, Development, Assessment, Application at Home, School and in the Workplace". San Francisco: Jossey-Bass/Pfeiffer.
- Barling, J., Slater, F., & Kelloway, E. K. (2000). "Transformational leadership and emotional intelligence: An exploratory study". *Leadership and Organizational Journal*, 21(3), 157-161.
- Bass, B. M. 1998. "Transformational leadership: Industrial, Military, and Educational Impact". Mahwah, NJ: Lawrence Erlbaum; Bass, B. M., & Avolio, B. J. 1990. "The implications of Transactional and Transformational Leadership for Individual, Team, and Organizational Development". *Research in Organizational Change and Development*, 4, 231-272.
- Dulewicz, V., & Higgs, M. (1999). "Can Emotional Intelligence be Measured and Developed?" *Leadership & Organization Development Journal*, 20(5), 242.
- Gardner, L., & Stough, C. (2002). "Examining the Relationship between Leadership and Emotional Intelligence in Senior Level Managers". *Leadership and Organization Development Journal*, 23(1/2), 68-79.
- George, J. M. (2000). "Emotions and leadership: The Role of Emotional Intelligence". *Human Relations*, 53(8), 1027-1055.
- Goleman, D., Boyatzis, R., and McKee, A. (2002). "Primal leadership: Realizing the power of Emotional Intelligence". Boston: Harvard Business School Press.
- Harms, P.D. and Credé, M. (2010)., "Emotional Intelligence and Transformational and Transactional Leadership: A Meta-Analysis" *Leadership Institute Faculty Publications*. Paper 14
- Higgs, M., and Rowland, D. (2002). "Does it need Emotional Intelligence to Lead Change?" *Journal of General Management*, 27(3), 62-76.
- Higgs, M. (2003). "How can we make sense of leadership in the 21st century?" *Leadership & Organisational Development Journal*, 24, (5), 273-284.
- Humphery, R. H. (2002). "The Many Faces of Emotional Leadership". *Leadership Quarterly*, 13, 56-144.
- Kaushal S.L. and Sood I. (2013). "Emerging Stressors and Emotional Intelligence: An Insight", *Shimla Management Journal*, 6(1), 95-110
- Lewis, K.M. (2000). "When Leaders display emotions: How Followers respond to Negative Emotional Expression of Male and Female Leaders". *Journal of Organizational Behaviour*, 21, 221-234.
- Martell, R. F., & DeSmet, A. L. (2001). "A Diagnostic Ratio Approach to Measuring Beliefs about Leadership Abilities of Male and Female Managers", *Journal of Applied Psychology*, 86, 1223-1231.
- MHRD (2016). University and Higher Education, Department of Higher Education, Ministry of HRD, Government of India. Retrieved from <http://mhrd.gov.in/university-and-higher-education> as on 12.10.2016.
- Opengart, R. and Bierema, L. (2015). "Emotionally Intelligent Mentoring: Reconceptualizing Effective Mentoring Relationships", *Human Resource Development Review*, 14(3) 234-258.
- Palmer, B., Walls, M., Burgess, Z. and Stough, C. (2001). "Emotional Intelligence and Effective Leadership", *Leadership and Organization Development Journal*, 22(1), 5-10.

- Prati, M.L., Douglas, C., Ferris, R.G., Ammeter, P.A. and Buckley, R.M. "Emotional Intelligence, Leadership Effectiveness and Team Outcomes", *The International Journal of Organizational Analysis*, 11(1), 21-40.
- Rosete, D., & Ciarrochi, J. (2005). "Emotional Intelligence and its Relationship to Workplace Performance Outcomes of Leadership Effectiveness", *Leadership and Organization Development Journal*, 26(5/6), 388-399.
- Sivanathan, N., & Fekken, G.C. (2002). "Emotional Intelligence, Moral Reasoning and Transformational Leadership", *Leadership and Organization Development Journal*, 23, 198-204.
- Sosik, J. and Megerian, J. (1999). " Understanding Leader Emotional Intelligence and Performance", *Group and Organization Management*, 24, 367-91.
- Vaill, P. (1996), "Learning as a Way of Being", San Francisco: Jossey-Bass.
- Vito, G.F., Higgins, G.E and Denney, A.S (2014). "Transactional and transformational leadership: An examination of the leadership challenge model", *Policing: An International Journal of Police Strategies & Management*, 37: 4, 809 – 822.
- Wechsler, D. (1958). " The Measurement and Appraisal of Adult Intelligence (4th edition)". Baltimore: Williams & Wilkins.
- Weinberger, L.A. (2003). "An Examination of The Relationship Between Emotional Intelligence, Leadership Style and Perceived Leadership Effectiveness", Human Resource Development Research Centre.

## Customer Co-Creation: A Value Creation Perspective

**Etinder Pal Singh**

Apeejay School of Management, New Delhi

E-mail: [etinder.singh@gmail.com](mailto:etinder.singh@gmail.com)

**Sanchita Sabharwal**

Nielsen India, Gurugram

Email: [sanchitasabharwal9@gmail.com](mailto:sanchitasabharwal9@gmail.com)

### Abstract

Forces like globalization, deregulation, convergence of technology and evolution of success have shaped the international markets extensively and made large number of product and service choices readily available to the consumer across boundaries. However, with these forces coming into play, an average consumer is not satisfied with the consumption of the products offered to him. Today, Consumers are more aware and actively search for information to make more informed purchase decisions. Web 2.0 has revolutionized the consumer interaction with available products and service and lead to consumer empowerment. With Consumer empowerment, comes the contemporary view of value creation process; consumers are no longer passive members of a value creation process, they participate proactively with the company to create value. Consumer Co-creation has transformed today's market from a firm-centric perspective to a consumer-centric perspective, where consumer has evolved as a competence. Customer Co-creation has become the driving reason for success, our research delves into exemplars to display the impact Customer Co-creation has on the company.

**Keywords:** Customer Co-creation; Value Creation, Customer Involvement, New Product Development

### Introduction

The Marketing has evolved from the production concept to the marketing concept where focus is more on value creation for the consumers. Consumer is a rational, problem solving being who stores and evaluates sensory inputs to make a reasoned decision. Today, consumers actively search for and use information to make more informed purchase decisions (Zaichowsky, 1985). Even though an average consumer comes across ample of product choices than ever before, but in recent times, they seem to be dissatisfied with the product offerings (Prahalad et al., 2004). Consumers appear to be increasingly less fulfilled by the act of consumption itself; consumer researchers have a strong notion that a materialistic object cannot satisfy the intrinsic psychological needs of a consumer (M.S. O'Hern et al., 2010). This changing scenario helps us shift our viewpoint from the traditional business processes where a consumer was external to the organization and also to the value creation process to a newer paradigm where a consumer is an integral part of the value creation process (Prahalad et al., 2004; Prahalad et al., 2000; M.S. O'Hern et al., 2010). Major business discontinuities such as free trade, globalization, technological convergence, and the rapid evolution of the Internet have obscured the roles that companies used to play and resulted it customer co-creation (Prahalad et al., 2000).

Business Competition used to be a lot like traditional theater: the actors had clearly defined roles, and the customers paid for their tickets, sat back, and watched passively. In business, companies,

distributors, and suppliers understood and adhered to their well-defined roles in a corporate relationship. Now the scene is different, business competition seems more like the experimental theatre of the 1960's and 1970's; everyone and anyone can be part of the action (Prahalad et al., 2000). Customers are no longer a 'passive audience', but 'active co-producers'. They want to co-create value to build their identities, express themselves creatively, socialize with other consumers and enjoy unique and memorable experiences (Gambetti & Graffigna, 2010). As the roles of customers and firms have become increasingly blurred, encouraging customers to be value co-creators is considered the next frontier in competitive effectiveness (T. Fernandes, 2016).

### **Background Review**

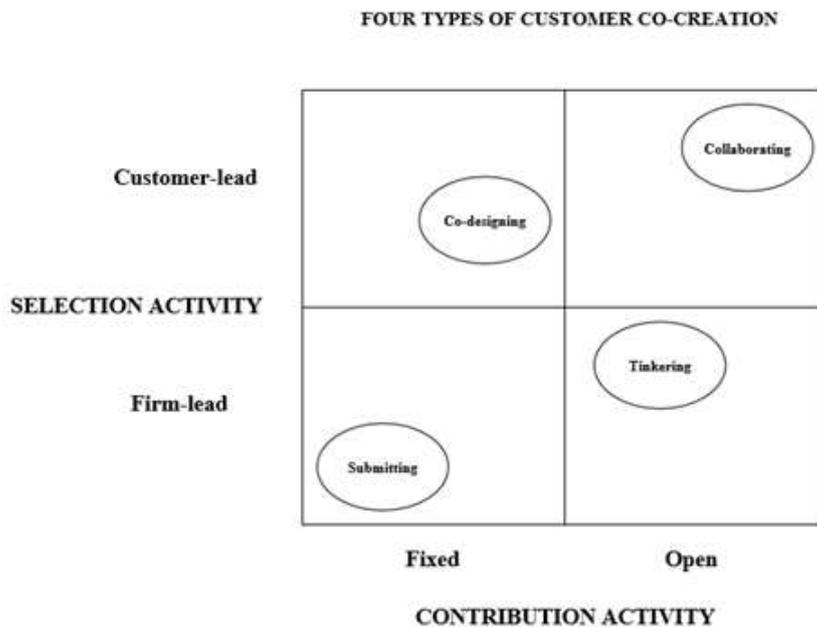
The co-creation concept came into the light in 2000-2001 when internet altered the relationship between the individuals and the institutions. The customer was initially involved in co-creating the product design with the company, and the shift of value creation was witnessed from entirely inside the firm to with the customer (Prahalad et al, 2000). In the initial leg of customer co-creation it was confined to the New Product Development. For a successful NPD there is a need for two essential types of information: (1) information about customer needs and (2) information about how best to solve these needs (von Hippel 2005). Typically, customers (or users) have the most accurate and detailed knowledge about the first type of information while manufacturers (or providers) have the most accurate and detailed knowledge about the second type. This disparity creates a condition of information asymmetry (von Hippel, 2005). Traditionally, the firm tried to grapple the asymmetry with thorough market research; however, customer needs are often idiosyncratic and tacit in nature and, hence, hard to measure accurately and implement. Consumers have deep and complex ("high fidelity") needs; however, traditional market research methods often provide managers with only a cursory ("low fidelity") signal of what customers want or need. As a result, most new product failures are attributed to a firm's inability to assess accurately and satisfy customer needs. As an emerging means of bridging this asymmetry is to provide customers with information and tools that enable them to take a more proactive role in the NPD process (M.S. O'Hern et al, 2010). The proactive role of a customer for successful innovation became the core reason for the birth of customer co-creation.

The increasing inherent skepticism, fuelled by increased news coverage of corporate scandals (e.g., Enron, ImClone), muck-raking documentaries of big business (e.g., SuperSize Me, The Corporation), and anti-corporate websites (e.g., adbusters.org, spacehijackers.org), have also contributed towards birth of customer co-creation (M.S. O'Hern et al., 2008).

With the advent of Web 2.0 consumers have been increasingly engaging themselves in an active and explicit dialogue with manufacturers of products and services. The power of communities helps us establish a notion of consumer as competence. They seem to be transforming the management of brands, especially on internet the words spread so fast that people now refer the word of mouth as 'viral marketing'. In traditional paradigm, companies pushed an image concept that was positioned through advertising, packaging, and so on, to individual consumers. But in the new paradigm, positioning evolves with consumers' collective personalized experiences (Prahalad et al., 2007). For instance, Google, Amazon, Yahoo, eBay, MakeMyTrip.com; in each case, it was the customers who forged and legitimized the evolving identities of those companies and gave them meaning as brands in the new economy.

Various researchers have tried to look into the types of customer co-creation , M.S O'Hern, 2008 distributed the co-creation into two main processes 1.) contribution (i.e., submitting content) and 2.) selection (i.e., choosing which of these submissions will be retained). Using these two processes they developed four main kinds of co-creation processes. (Figure 1.)

- Collaboration
- Tinkering
- Co-designing
- Submitting



**Figure 1**

Co-creation experience is the basis of value creation for the firm as well as the consumer. The interaction becomes the locus of value creation; the interaction can be anywhere in the system, not just at the conventional point of sale or customer service. In the traditional view of marketing, interaction is where the firm markets its offerings to extract economic value from the consumer (based on the value the firm has already created through its value chain). However, the firm's profitability and economic success in the newer paradigm is dependent on its relationship with the customer and the transparency the firm maintains (Prahalad et al, 2004).

Our study delves into a few examples to understand the kind of impact co-creation has on success and profitability of the firm.

**Exemplars**

Coca-Cola: *"Consumers expect unlimited choice, personalized and delivered through multiple channels at maximum speed."*- Tripodi, Chief Marketing and Commercial Officer, Coca Cola

Ways in which Coca Cola is focusing on customer co-creation

a) Packaging

For Coke, packaging has been a defining aspect of its essence and a key part of its engagement strategy. The contour-shaped Coca-Cola bottle has been 102 years old. Its shape is iconic, and totally synonymous with the brand. Coke has experimented, and had success, with a variety of packaging innovations over the years.

In 2013, they came up with a packaging idea in Australia: Customizable packaging by replacing the "Coke" branding with Australia's most popular Teen first names. Instead of a "Coke" one could order and drink a "Mike", "Dave" or "Suzy."

As a result, the Sales spiked, with an incredible amount of social media impressions and expressions. Soon after its success Customized Packaging was rolled out in 30 countries. In Japan, where customizing packaging by names could not be done, Coke found another ingenious way to deliver the idea. It partnered with Sony so its customers could download free songs that were tied to their birth year.

b) Coca Cola Freestyle Machine

There is nothing like Coca-Cola Freestyle in the world of self-serve drink machines. While other beverage dispensers offer between six and eight drink choices, Coca-Cola Freestyle is equipped with an easy-to-use touchscreen that allows users to dispense more than 100 individual brands, including some, like Diet Raspberry Coke, that aren't available anywhere else. That's more drink choices than one can get at some retail outlets. It enables any kind of flavor mix, creating new and unique flavor combinations. It's a big shift: out of manufacturing and into equipment innovation to enable consumer co-creation and customization.

c) Consumer Provocation ( Social Media Co-Creation )

In 2012, Part of Coke's engagement strategy was to move away from being a brand that promotes happiness, to a brand that *provokes* happiness. The heart of Coke's engagement program was social platforms that provokes experiences through stories that are sufficiently powerful and share worthy to fuel conversations with many.

LEGO: LEGO has co-creation in their DNA. They extend the core product expertise to embrace social media and in the process both support community and let go of control of their product.

LEGO is a true pioneer in the space of co-creation with many famous successful examples already including *LEGO Mindstorms, Design By Me, Cuusoo* and *LEGO Architecture*. Their new site <https://ideas.lego.com> develops this open culture one step further. They are asking for their fans and customers to come up with new ideas for LEGO sets, using the online platform to get 10,000 supporters for their idea. For LEGO this reduces the risk of launching a new product as they know it will be popular in advance. There is a special business model here too, 1% of the total net sales of the product (including third-party intellectual property such as a game, TV show, or movies) goes to the inventor. It is no coincidence that the 2 highest selling new products ever were produced in this way.

LEGO Ideas

It is a comprehensive site built for consumer interaction and product innovation, the more active a consumer is, the more clutch power they gain.

LEGO has established general project guidelines and house rules on what kind of projects do they accept. A customer, if comes up with a great idea, worth sharing has to take pictures of the model they build with a project description, if the customer is able to gain 10,000 supporters for the idea, the LEGO review board, reviews the product and then is launched as a LEGO product worldwide.

BMW: In 2015, BMW Group created the Co-Creation Lab whereby allowing consumers or interested individuals to help in the process of creating future cars. BMW has been rolling out various contests like, 'The future of Urban Mobility Service' & 'Individualized Interior Equipments'; the winners of the contest not only get a remuneration but worldwide recognition.

Co-creation Labs

The Co-Creation Lab is a virtual meeting place for individuals interested in car related topics, eager to share their ideas and opinions on tomorrow's automotive world with one of the leading car manufacturers. The Co-Creation Lab will be launched as a platform for future co-creation projects soon after the BMW Group Idea Contest, where members can share their ideas for the automotive future and collaborate with other users and the team of the BMW Group.

The BMW Group Idea Contest " Tomorrow's Urban Mobility Services " was seeking new ideas for mobility services in tomorrow's urban areas. In total 497 users published around 300 ideas which were evaluated and commented by over 1000 persons worldwide.

Harley Davidson: A company that had a near-death experience in the early Eighties and was close to losing its market to the Japanese manufacturers. The turnaround can be traced back to 1981, when a group of 13 senior Harley executives led by Vaughn Beals bought the company. They celebrated with a victory ride from the company's factory in York, Pennsylvania, to its headquarters in Milwaukee but this was just the first step of a journey to design the business around customer loyalty. Customer loyalty was no accident. The process of designing customer loyalty into your organisation is a complex process.

Harley believes in Customer Co-creation of the brand where it realizes the potential of its loyal customers as Brand Advocates –Harley Owners Group. Harley-Davidson realised that its own loyal customers were advocates for the brand and therefore a primary source of marketing communication. How many customers do you know who will happily tattoo your brand on their body? It formed the Harley Owners Group (HOG), a brand community of enthusiastic customers who buy holidays, clothing and attend regular weekend rides. The Harley Owners Group started in 1983 and today numbers 850,000 members worldwide.

IKEA: The IKEA's vision is to create a better everyday life for the many people. Its business idea is to offer a wide range of home furnishings with good design and function at prices so low that as many people as possible will be able to afford them.

They believe a company can only be successful with co-creation as their core guiding principle and they together work on the principle of 'democratic design'. It believes customer will co-create only if there is something beneficial for them, the IKEA model helps them saving costs with high customization.

#### The IKEA Concept

The IKEA Concept starts with the idea of providing a range of home furnishing products that are affordable to the many people, not just the few. It is achieved by combining function, quality, design and value - always with sustainability in mind. The IKEA Concept comes to life in many ways: through the worldwide stores, in the IKEA catalogue, via the website and apps, and most importantly in millions of homes around the world.

IKEA customers play an important role in the democratic design process. The company does its part, customer does their part and together they save money. Customers get involved in many ways - assembling flat-pack products (first used over 60 years ago for the LÖVET table), having a positive approach at home and providing them feedback, thus, helping in value co creation.

#### **Conclusion & Implications**

With the increasing dissatisfaction from consumption of the existing products and services, and the rise of consumer empowerment due to increasing accessibility, co-creation is becoming a tool for success. The more a customer realizes that the organization is committed to listening, embracing and delivering the exact requirements, the more he wants to be involved in the co- creation process. These exemplars exhibit that not only co-creation is leading to value creation for the consumer, but it also contributes towards increasing sales and profits for the organization, irrespective of its size. However, not all markets are equally ready to embrace the commitment and transparency of co-creation, but the ones that are, should do it now.

## References

- 3 Ways LEGO Leads Co-creation. (2017). Digital Influence Mapping Project. Retrieved 19 April 2017, from [http://johnbell.typepad.com/weblog/2006/09/3\\_ways\\_lego\\_lea.html](http://johnbell.typepad.com/weblog/2006/09/3_ways_lego_lea.html)
- BMW Group Co-Creation Lab. (2017). Press.bmwgroup.com. Retrieved 19 April 2017, from <https://www.press.bmwgroup.com/global/article/detail/T0082655EN/bmw-group-co-creation-lab?language=en>
- Customer Experience Management Plus: Harley-Davidson | CustomerThink. (2017). Customerthink.com. Retrieved 19 April 2017, from [http://customerthink.com/customer\\_experience\\_management\\_plus\\_harley/](http://customerthink.com/customer_experience_management_plus_harley/)
- Everything You Need to Know About Coca-Cola Freestyle Dispenser. The Coca-Cola Company. Retrieved 19 April 2017, from <http://www.coca-colacompany.com/stories/everything-you-need-to-know-about-coca-cola-freestyle>
- Fernandes, T., & Remelhe, P. (2016). How to engage customers in co-creation: customers' motivations for collaborative innovation. *Journal of Strategic Marketing*, 24(3-4), 311-326.
- Forbes Welcome. (2017). Forbes.com. Retrieved 19 April 2017, from <https://www.forbes.com/sites/avidan/2013/10/07/just-how-does-coca-cola-reinvent-itself-in-a-changed-world/2/#48ebeaa52616>
- Gambetti, R., & Graffigna, G. (2010). The concept of engagement. *International Journal of Market Research*, 52(6), 801-826.
- LEGO Ideas - How It Works. (2017). Ideas.lego.com. Retrieved 19 April 2017, from <https://ideas.lego.com/howitworks>
- O'Hern, M. S., & Rindfleisch, A. (2010). Customer co-creation. In *Review of marketing research* (pp. 84-106). Emerald Group Publishing Limited.
- Prahalad, C. K., & Ramaswamy, V. (2000). Co-opting customer competence. *Harvard business review*, 78(1), 79-90.
- Prahalad, C. K., & Ramaswamy, V. (2004). Co-creation experiences: The next practice in value creation. *Journal of interactive marketing*, 18(3), 5-14.
- The IKEA Catalogue Concept - Home Furnishing Products". Ikea.in. N.p., 2017. Web. 19 Apr. 2017.
- Von Hippel, E. (2005). Democratizing innovation: The evolving phenomenon of user innovation. *Journal für Betriebswirtschaft*, 55(1), 63-78.