CONCEPTUALIZATION OF CUSTOMER BASED BRAND EQUITY IN FINANCIAL SERVICE SECTOR

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Abstract:

Brand management is not well understood in developing countries in comparison to its rich literature in developed countries. Therefore, current study aimed to conceptualize the customer based brand equity in the financial service sector with respect to its effect on perception of brand. A sample of 384 actual customers of Bank Saderat Iran (BSI), as the largest private bank in Iran, used to test the relations which depicted in the proposed model of the study. Findings showed that perceived quality, brand loyalty, brand awareness and brand association are influential criteria of brand equity that enhances perception of brand in financial service sector. Among the four mentioned dimensions, brand association appears to have the most influence on brand equity than other dimensions. This study provides important insights about the understanding of customer perceptions of overall brand equity and its dimensions in financial service sector of developing countries, especially in banking industry.

Key words: *Customer based Brand Equity, Perception of Brand, Branding in Financial Services, Banking Industry*

1. Introduction

Study of customer based brand equity is one of the popular research fields in brand management. Many researchers have interested in brand equity concept and tried to use different approaches to measure it in various industries. This is because of the necessity in today's marketplace to develop, maintain and use product branding to acquire a certain level of competitive advantage. Strong brand offers advantages such as competitiveness position in the markets, more brand loyalty and better reaction toward increase in price by customers.

Despite of the many researches which focused on measurement of brand equity in physical products, brand equity in the service sector has not been fully explored. Conceptualization of customer based brand equity and its relation to customer perception of brand are crucial for services, especially for financial service sector and its sub sectors such as banking or insurance industry. This study aimed to make contribution towards a theory of customer based brand equity and its effects on customer perception of brand in financial service sector of developing countries. To accomplish the stated goals, this paper is organized in the following manner: first, a brief review of the literature in the area of conceptualization and measurement of customer based brand equity and its criteria has been provided. Next, the methodology and the rationale for measuring the customer based brand equity and its effects on customer perception of brand are provided. This is followed by conclusion and operational implications.

Service Brands

In a brief and simple definition, a brand is a name that has the power to influence a buyer (Kapferer, 2004). The American Marketing Association defines a brand as a "name, term, sign, symbol or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitor" (Keller, 2003). Some researchers believe that a brand can also be said to include all tangible and intangible attributes that the business stands for (Prasad & Dev, 2000). Branding plays a special role in service companies because strong brands increase customers' trust of the invisible, enabling them to better visualize and understand the intangible and reduce customers' perceived financial, social or safety risk (Simoes & Dibb, 2001).

Since the term "brand equity" emerged in the 1980s, there has been a growing interest in the subject among marketing academicians and practitioners. The meaning of the mentioned term has debated in many different ways and for a number of different purposes. Brand equity is the added value endowed by the brand name; it is the difference between overall brand preference and multi-attributed preference based on objectively measured attribute levels and overall quality and choice intention (Tang & Hawley, 2009). There are two principal and distinct perspectives that have been taken by academics to study brand equity; financial based approach and customer based approach. The first perspective of brand equity come from financial market point to view where the asset value of the brand is appraising, and the customer based brand equity is evaluating the consumers' response to brand (Fayrene & Lee, 2011).
Vazquez, Del Rio, and Iglesias (2002) describe brand equity as the overall utility that the consumer associates with the use and consumption of the brand, including associations expressing both functional and symbolic attributes (Vazquez et al, 2002). Brady, Cronin, Fox, and Roehm's (2008) definition is notable because it distinguishes brand equity from brand loyalty; this construct is conceptually broader which encompasses brand image (e.g., perception of service quality) and brand familiarity

(Brady et al, 2008). Brand loyalty has traditionally been conceived as a behavioral construct relating to intentions towards repeat purchase. By contrast, brand equity entails favorable disposition that may not necessarily result in purchasing behavior. Thus, behavioral intentions are consequences of brand equity, rather than its components (Nam et al, 2011).

While brand equity concept in tangible goods has received a great deal of attention in the literature, a basic understanding of the nature of brand equity for services has yet to emerge (Krishnan & Hartline, 2001). Most of what is known about brand equity for services is based on theoretical or anecdotal evidence (Kayaman & Arasli, 2007). Service brands are particularly different since service characteristics are different from those of physical goods and that they rely on employees' actions and attitudes. This difference is seen to focus around the belief that services are conceptually different from products; services are seen to have a number of unique characteristics including intangibility, inseparability of production and consumption, heterogeneity of quality and perishability (Chernatoy & Segal-Horn, 2003). Banking industry as the sub sector of financial services has the same characteristics applicable to the services.

Costumer based Brand Equity in Service Industry

Although costumer-based brand equity cited as multidimensional construct within the marketing literature (Nam et al, 2011), debate exists as to whether the principles of branding within goods marketing could be directly applied to service dominant brands such as banks, insurance and hotels.

Aaker'sconceptualization of brand equity is one of the most cited works that identified various dimensions of brand equity (Tang & Hawley, 2009). He viewed brand equity as a multidimensional construct which is made up of perceived quality, brand loyalty, brand awareness, brand association and other propriety assets. Aaker's study didn't state which quality dimensions should be included in the brand equity model and therefore whether the model is suitable for assessing service dominant brand equity models in the different service industries (Nam et al, 2011). A similar conceptualization was proposed by Keller; according to him, costumer based brand equity consists of two dimensions, brand knowledge and brand awareness.

Many researchers adopted Aaker's framework in their study of costumer based brand equity (Prasad & Dev, 2000; Low & Lamb, 2000). Some of the results adjusted the framework of Aaker in one or two dimensions. Adjustments to the goods-based branding models needed to accommodate the unique characteristics of services (Nam et al, 2011).Yoo and Donthun employed four of Aaker's components of brand equity; brand awareness, brand loyalty, perceived quality and brand association excluding proprietary assets dimension as it is not important in the measurement of customer based brand equity (Yoo & Donthu, 2001). Some researchers stated that applications of the goods-based brand equity models show poor validity in the tourism industry as one of the service sectors (Boo et al, 2009). In the service sectors distinct dimensions of brand equity emerge when evaluating brands. The dimensions mentioned most frequently for services are employees, facilities, experiences, and word-of-mouth (Nam et al, 2011; O'Cass & Grace, 2004). Researchers stated that two service quality dimensions; physical quality and staff behavior are incorporated to the costumer based brand equity model (Dall'Olmo Riley & Chernatony, 2000). So it's needed to develop appropriate costumer based brand equity framework in service industries with respect to characteristics of services.

2. Conceptual Framework

Foundation of the conceptual framework for current study has taken from Aaker's model of the brand equity. He introduced five elements in his model; perceived quality, brand loyalty, brand awareness, brand association, and other proprietary brand assets such as patents, trademarks, or channel relationships (Atilgan et al, 2005; Kim & Kim, 2004; Yoo et al, 2000). Among these dimensions, the first four represent customers' evaluations and reactions to the brand that can be readily understood by consumers; these elements have widely adopted to measure customer based brand equity in previous studies (Tang & Hawley, 2009). At the other hand, this study is distinct from earlier published papers as it devotes to investigate the relationship between customer based brand equity and perception of brand. Therefore first four dimensions of customer based brand equity are meaningful for the scope of the current research. Developed from Aaker's work, this study sets out to test a framework for evaluation and measurement of customer based brand equity and its effect on perception of brand in the financial service sector. The conceptual framework of the study presented in Figure 1.

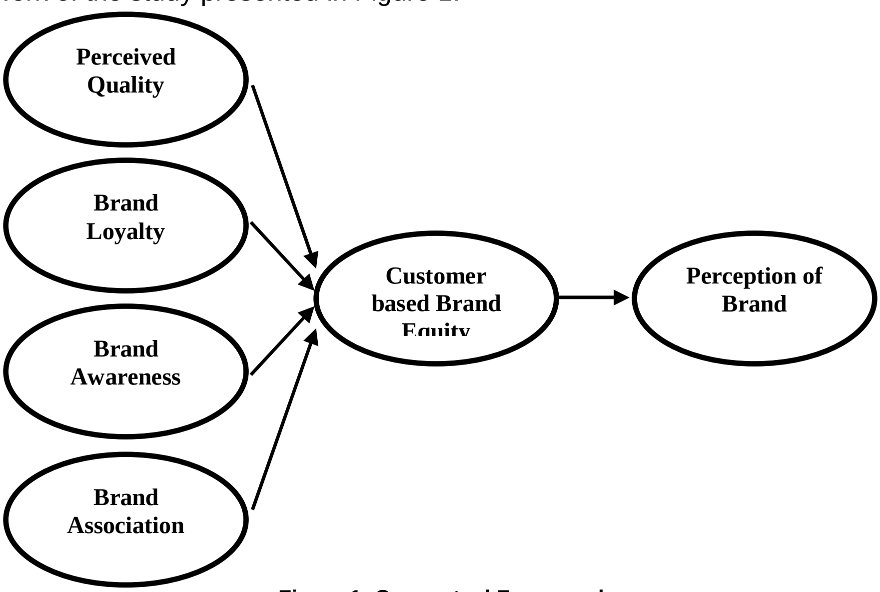


Figure 1: Conceptual Framework

Perceived quality

Perceived quality is the customer's judgment about a product's overall excellence or superiority that is different from objective quality and relates to customer's perception (Tang & Hawley, 2009) (Fayrene & Lee, 2011). Perceived quality is one of the antecedents of customer satisfaction and has a positive effect on customers purchase intention (Syzmanski & Henard, 2001). Service quality is central to the development of strong service brands because it enhances perceived superiority of the brands and helps to differentiate brands in markets (Low & Lamb, 2000; Yoo et al, 2000). Perceived quality decomposed into five components; tangibility, reliability, responsiveness, assurance and empathy. Researches indicated that tangibility and responsiveness have a positive effect on brand loyalty as one of the other dimensions of customer based brand equity and reliability; while assurance and empathy have positive effect on brand image as a brand association dimension of the framework (Kayaman & Arasli, 2007). Based on the above definition and the suggested relationship of perceived quality and brand equity in the literature, the following hypothesis is formulated:

H1:Perceived quality has a positive direct effect on brand equity.

Brand Loyalty

In the marketing literature, loyalty has been widely recognized as being of the utmost importance; brand loyalty produces positive word-of-mouth recommendation, and greater resistance among loyal consumers to competitive strategies from rival suppliers (Caceres & Paparoidamis, 2007). But researchers have challenged to define and measure brand loyalty. It is widely acknowledged that loyalty has both attitudinal and behavioral components (Odin et al, 2001). Behavioral loyalty refers to the frequency of repeat purchases. Attitudinal loyalty refers to the psychological commitment that a consumer makes in the purchase act, such as intentions to purchase and intentions to recommend without necessarily taking the actual repeat purchase behavior into account (Nam et al, 2011). The attitudinal loyalty closely linked to the highest level of awareness (top-of-mind), where the matter of interest also is the brand, in a given category, which the consumers recall first. Thus, a brand should be able to become the respondents' first choices (Attitudinal loyalty), and therefore purchased repeatedly (Behavioral loyalty) (Fayrene & Lee, 2011). So loyalty begins with the customer's becoming aware of the product and the more the customer is aware of the product, the greater the possibility that she or he will purchase the product (Kayaman & Arasli, 2007). Hence, the following hypothesis for the relationship between brand loyalty and brand equity is proposed:

H2:Brand loyalty has a significant positive direct effect on brand equity.

Brand awareness

Brand awareness is the customers' ability to recall and recognize the brand as reflected by their ability to identify the brand under different conditions and to link the brand name, logo, symbol, and so forth to certain associations in memory (Keller, 2003); so brand awareness has two aspects; brand recall and recognition. Brand awareness can be a sign of quality and commitment, letting consumers become familiar with a brand and helping them consider it at the point of purchase (Tang & Hawley, 2009). Many researchers have seen brand awareness as an element that plays a vital role in consumer's choice of brand. Lin and Chang indicated that brand awareness had the most powerful influence on consumers purchase decision (Lin & Chang,2003). Some researchers tested the relationship between brand awareness and other dimensions of customer based brand equity. Brand awareness has a correlation with brand association (Atilgan et al, 2005); high levels of brand awareness positively affect the formation of the product's brand image (Pappu et al, 2005; Villarejo-Ramos & Sánchez-Franco, 2005). At the other hand, the study of Kayaman and Arasli showed that brand awareness was not loaded significantly as a customer based brand equity factor in hospitality industry (Kayaman & Arasli, 2007)., the following hypothesis is posited:

H3:Brand awareness has a positive direct effect on brand equity.

Brand association

Aaker defined brand association as anything linked in memory to a brand (Tang & Hawley, 2009) and the most accepted aspect of brand equity (Fayrene & Lee, 2011). Brand associations consist of all brand related thoughts, feelings, perceptions, images, experiences, beliefs and attitudes (Kotler & Keller, 2006). Brand association can be seen in all forms and reflects features of the product or aspects independent of the product itself (Chen, 2001). A set of associations, usually organized in some meaningful way, forms a brand image. Conclusively, brand image can be said to be the brand association or costumer's perception about a particular brand as a result of their association with the brand. Chen categorized two types of brand associations; product associations and organizational associations (Fayrene & Lee, 2011; Chen, 2001). Product associations include functional attribute associations and non-functional associations. Functional attributes are the tangible features of a product; while evaluating a brand, consumers link the performance of the functional attributes to the brand (Fayrene & Lee, 2011). If a brand does not perform the functions for which it is designed, the brand has low level of brand equity (Chen, 2001). Non-functional attributes include symbolic attributes which are the intangible features that meet consumer's needs for social approval, personal expression or self-esteem. Organizational associations include corporate ability associations, which are those associations related to the company's expertise in producing and delivering its outputs and corporate social responsibility associations, which include organization's activities with respect to its perceived societal obligations (Fayrene & Lee, 2011) Based on this, then, the following hypothesis is posited:

H4:Brand association has a positive direct effect on brand equity.

Perception of brand

Kotler defined perception as the process by which information is received, selected, organized and interpreted by an individual (Kotler et al, 2004). It could be said that customer perceptions of brand are accurate reflections of brand performance in the marketplace (Kim & Kim, 2004). Many factors such as quality, price, advertising, packaging and convenience influence the perception of the brand. Quality has positive effect on brand identity that affects perception of the brand.Convenience of the brand has a significant effect on consumer, Lin and Chang indicated that easy access to the brand in store is vital when buying low involvement product (Lin & Chang, 2003). Furthermore the following hypothesis is suggested:

H5:Brand equity has a positive direct effect on perception of brand.

3. Methodology

Data for current study gathered from financial service sector. Based on our research objectives, survey questionnaire prepared to investigate costumer based brand equity in Bank Saderat of the Iran. Questionnaire of the study developed from the research hypotheses and previous works on customer based brand equity.

Most items indicating perceived quality; brand association and perception of brand were drawn from the previous literatures which render more convincing content validity of measures. Questions were assessed using a five-point scales ranging from strongly agree to strongly disagree. Perceived quality component was measured by four items from performance based approach that focused only on customer perception rather than considering customer expectation. Also in order to measure each of the brand loyalty, brand association brand awareness four items were applied. Finally to measure the perception of brand three items and to measure customer brand equity five items were employed. The final scale consists of 24 variables to capture the four dimensions that comprise customer based brand equity and perception of brand.

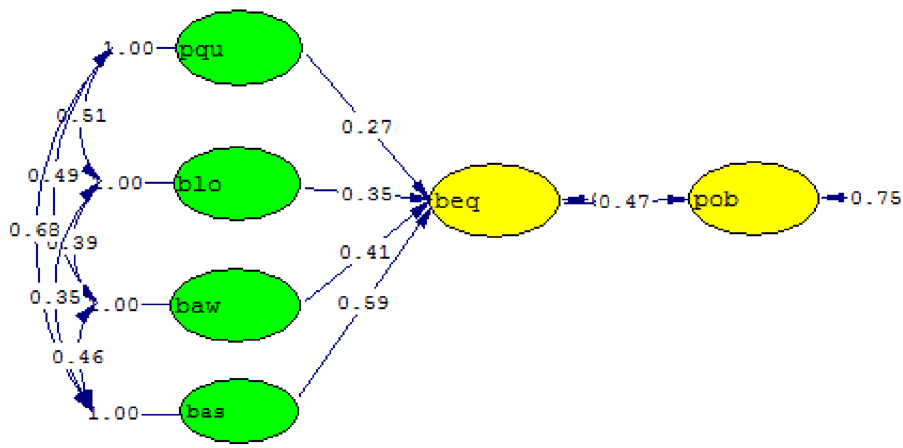
As the size of population is unknown in the current study, the sample size has determined by using the formula for unlimited population and thus, 406 questionnaires gathered out which 384 questionnaires eventually accepted. A tool with Cronbach's Alpha greater than the minimum quantity level 0.7 is considered reasonable from reliability aspect. Cronbach's Alpha for the questionnaire of the study is 0.875 which approved the reliability. Also experts confirmed the content validity of the questionnaire. For data analysis, structural equation modeling employed and performed by LISREL software.

Data Analysis

Confirmatory factor analysis was conducted to determine if the indicators for each construct loads as predicted on the respective construct. We refined the scales by deleting items that did not load meaningfully on the underlying construct and those that did not highly correlate with other items measuring the same construct. Through a series of scale purification processes, final acceptable CFA results were achieved: χ^2 = 75.08, df = 32; GFI = 0.92; AGFI = 0.89; NFI = 0.94; NNFI = 0.93; CFI = 0.99; RMSEA = 0.06; RMR = 0.08. After the process, all indicators significantly loaded to a respective construct, providing unidimentionality.

The hypothesized model is tested employing structural equation modeling using LISREL. The overall fit of the model is acceptable (χ^2 = 65.05, df = 37; p-value < 0.00002; GFI = 0.93; AGFI = 0.91; NFI = 0.88; NNFI = 0.91; CFI = 0.96; RMSEA = 0.05; RMR = 0.04).

All the hypothesized paths are supported. As shown in figure 2, perceived quality has a positive impact on brand equity, but supporting H1 weakly (β = 0.27). Effect of brand loyalty is found to be significantly positive as well which support H2 (β = 0.35). The path between brand awareness and brand equity is found to be significant (β = 0.41), so H3 is accepted too. Also path between brand association and brand equity shows that H4 is supported (β = 0.59) and finally path between brand equity and perception of brand is supported by our findings (β = 0.47).



pqu = perceived quality; blo = brand loyalty; baw = brand awareness;
bas = brand association; beq = brand equity; pob = perception of brand;

Figure 2: Summary of results in the model of research

T-values for all of hypothesis indicated in table 1, which supported the result of the analysis.

Table 1: Standardized parameter estimates of the hypothesized paths

Hypotheses	Paths	Correlations	T-values	Results
H1	Perceived quality → Brand equity	0.27	3.19	supported
H2	Brand loyalty → Brand equity	0.35	5.08	supported
H3	Brand awareness → Brand equity	0.41	6.27	supported
H4	Brand association → Brand equity	0.59	8.69	supported
H5	Brand equity → Perception of brand	0.47	6.09	supported

4. Conclusion

This study contributes to understanding of customer based brand equity criteria and its influences in financial service sector by examining the dimensions of this construct and its relationship with customer perception of brand. Customer based brand equity concept is measured by breaking down this construct into the sub components; brand loyalty, brand awareness, brand association and perceived quality. Then the relationships between these components with customer based brand equity and relationship of customer based brand equity and customer perception of brand tested through structural equation modeling in banking industry of Iran.

The general finding of current study confirms its assumptions, which indicated in hypotheses. According to statistical results, perceived quality, brand loyalty, brand awareness and brand association were significant as a customer based brand equity criteria and their effects on customer perception of brand supported; therefore, all of these elements counted as the foundation of customer based brand equity in financial service sector. Obtained results are consistent with earlier works. Among these variables, relationship between brand association and customer based brand equity was stronger than other paths, so strong associations that support a competitively attractive and distinct brand position could create a favorable feeling and behavior toward the brand and lead to a more market share in banking industry.

Effect of the brand awareness on customer based brand equity accepted in this study while some prior studies didn't confirm its role in customer based brand equity in service sectors such as Kayaman and Arasli (2007). For the brand awareness dimension, it's recommended that banks should focus most of their advertisement at increasing customer's awareness of their brand; so that customers can consider brands in their choice of alternative. Managers can benefit from various marketing efforts such as advertising, direct mail, trade press, word-of-mouth communication, and promotion activities as well as charity involvement in social, cultural and other kinds of public event to improve their brand awareness. As a result, banks may increase their customer's loyalty, which is important dimension in according to its calculated T-value and correlation in the research model. From this study, perceived quality can be seen to be the least dimension influencing costumer perception of brand in banking industry. One possible reason is that having high quality is not a guarantee of a successful brand, this conclusion is also in line with some earlier studies such as Tong and Hawley (2009); but managers should not undervalue the effects of perceived quality on customer perception of brand.

Since this study focus on banking industry, the future researches can be devoted to the other financial service sectors like insurance and stock brokerages and results compare with banking industry in order to design a comprehensive customer based brand equity model in financial service sector.

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