

Perceived price and service quality as mediators between price fairness and perceived value in business banking relationships: a micro-enterprise perspective

ABSTRACT

Paper type – Research Paper

Purpose – To test perceived price and service quality as mediators between price fairness and perceived value in service encounters between micro-enterprises and their banks.

Design/methodology/approach – The study is based on a self-administered and internet-based questionnaire conducted in the banking industry. The sample consists of 381 micro-enterprises in South Africa that employ one or two staff members.

Findings – Provides evidence for both theory and practice that perceived price and service quality influence the relationship between business banking customers' perception of price fairness and the value of the service offered.

Research limitations/implications – The measurement and structural properties reported are satisfactory. Confirms the hypothesized relationships in the tested research model, and rejects a tested rival model. Limitations are reported, and suggestions for further research are provided.

Managerial implications – Offers banking executives guidance in managing the pricing structure of their services, and highlights the value of offering greater transparency with regards to service charges and interest rates.

Originality/value – Contributes to insights into the mediating effects of perceived price and service quality between price fairness and perceived value in business relationships between micro-enterprises and their banks.

Keywords – price fairness, perceived value, perceived price, service quality, micro-enterprises, banking industry

INTRODUCTION

Small, medium, and micro-enterprises (SMMEs) play a central role in any economy, as they are viewed as the key drivers of economic growth, innovation, and job creation (Kozubíková *et al.*, 2015). Micro-enterprises, in particular, provide rich entrepreneurial opportunities that contribute to economic growth; however, this growth is largely impacted by the development and spread of bank infrastructure, which in turn is essential to facilitate entrepreneurial activity and business start-ups (Autio and Fu, 2015; Lee and Hung, 2014).

Since micro-enterprises are dependent on banks for loans and trade credit, they provide valuable opportunities for profitable growth if a loyal customer base is retained (Baas and Schrooten, 2006; Zineldin, 1995). According to Ibbotson and Moran (2003), business customers are increasingly more demanding; and as a result banks must focus on the creation of greater value for micro-enterprises to gain a competitive advantage and ensure customer retention.

In order to enhance the perceived value of banking services, perceived service quality must exceed perceived price, as customers generally attribute value to a product or service subject to their perception of these two factors (Matzler *et al.*, 2006; Lichtenstein *et al.*, 1990). While the component of service quality has been investigated in great depth in the banking industry (see Chen *et al.*, 2012; Hu *et al.*, 2009; Seth *et al.*, 2005; Newman, 2001; Holmlund and Kock, 1996), relatively few studies have investigated the price component in detail (Varki and Colgate, 2001).

This is surprising, given the central role that price plays in business customers' selection of a bank and the complexity of pricing structures in the banking industry. This complexity results in reasonability, transparency, and fairness in banks' service charges being major issues for customers in this industry (Kaura *et al.*, 2014; Kaura *et al.*, 2013). However, little attention has been paid to analyzing how business customers' perceptions of price fairness might shape their perceived value, with almost no studies specifically investigating it within a micro-enterprise banking environment.

To fill this gap in the literature, this study aims to determine the role of price fairness in micro-enterprises' overall perceptions of price, service quality, and value. By incorporating price fairness into the value model, this study adds to recent research efforts on the relationship of customer value with perceived sacrifice and perceived benefits (Jaakkola and Hakanen, 2013).

The research objective, therefore, is to test perceived price and service quality as mediators between price fairness and perceived value in service encounters between micro-enterprises and their banks. This study could thus provide guidelines to determine which essential constructs to consider in the formation of a business' banking value creation strategy.

The rest of the paper is organized as follows: First, the theoretical framework is described and the existing literature is reviewed. In this section, the relationship between micro-enterprises and their banks is expanded and the concepts of price fairness, perceived price, perceived service quality and perceived value are explained. This is followed by an explanation of the methodology adopted. Thereafter, the study's results and conclusions are presented. Finally, research and managerial implications, are offered and conclusions, limitations of the research, and suggestions for further research are provided.

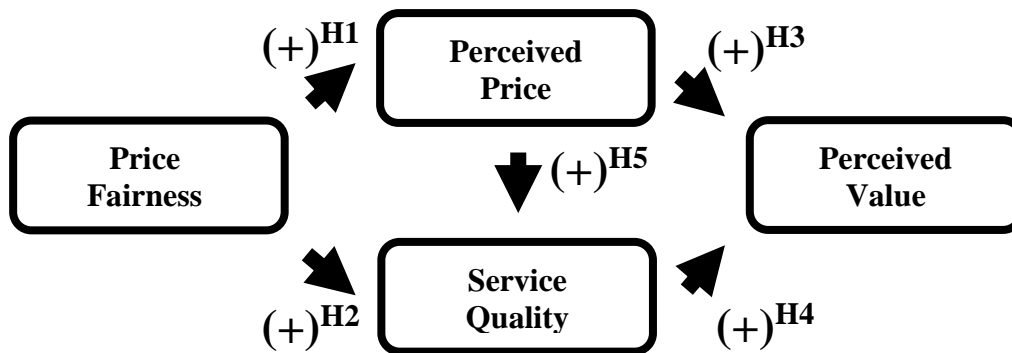
THEORETICAL FRAMEWORK AND HYPOTHESES

Micro-enterprise/bank relationships: a framework to guide the study

The complexity and intangibility of the offerings in the business banking industry and the high level of customer involvement highlights the importance of building closer banking relationships (Dibb and Meadows, 2001; Colgate and Alexander, 1998). A relationship marketing approach has consequently become the predominant approach to marketing financial services and ultimately increasing customer retention (Madill *et al.*, 2002). The social exchange theory is a central contributor to the development of relationship marketing, moving organizations away from transactional exchanges to relational exchanges, where interactions and interpersonal relationships between customers and organizations are fundamental components of a relationship marketing approach (O'Malley and Tynan, 2000; Möller and Halinen, 2000). According to Madill *et al.* (2002), strong relationships between banks and business customers have advantages for both parties. Advantages for banks include the ability to maximize profits by reducing risks, improved information flows, and more satisfied customers, while advantages for business customers include greater access to finance, favorable rates on loans, higher quality service, avoidance of switching costs and increased convenience (Madill *et al.*, 2002; Ennew and Binks, 1996). For SMMEs, banks represent an important and indispensable business partner since they facilitate numerous functions necessary for their survival. Neuberger and Rätthke (2009), however, stress that relationship banking plays a larger role for micro-enterprises than for other small and medium-sized enterprises as a result of higher information opacity, credit risk and vulnerability. Since micro-enterprises are typically businesses employing one or two persons with limited capital assets; access to finance on competitive and realistic terms is a key to their survival and growth (Prasad and Tata, 2009; Neuberger and Rätthke, 2009; Yavas *et al.*, 2004). Just as the success of a micro-enterprise is dependent on the type of relationship it maintains with their bank, the success of banks depends on an understanding of their micro-enterprise customers' needs to create value (Perry and Coetzer, 2009; Yavas *et al.*, 2004; Adamson, 2003). Micro-enterprises' main needs are financial flexibility in meeting their business obligations and offering expansion opportunities, which banks can satisfy by offering more flexible loan terms, reasonable interest rates for those micro-enterprises with limited collateral, and fair service charges. Such relationship pricing could be a way of improving the perceived quality of the service offering and a means of adding value (Perry and Coetzer, 2009). If micro-enterprises expect the perceived benefits to outweigh the costs of doing business with the specific bank, they will experience a sense of security and reciprocate their perceived value by staying with the bank (Auka, 2012).

Based on this review, this study postulates that banks can increase micro-enterprises' perception of value through a positive view of the banks' pricing and service quality, which is, in turn, influenced by positive perceptions of price fairness. These relationships are based on existing research on what drives the perceived value of a service offering (Zeithaml, 1988), how service quality is evaluated (Parasuraman *et al.*, 1988), how customers arrive at a perception of a reasonable price (Martins and Monroe, 1994), and the impact of price fairness on perceptions of price, quality, and value (Oh, 2003). The research model used in this study is illustrated in Figure 1. Detailed theoretical foundations for the research model are offered next.

Figure 1: Research model



Price fairness

Bolton *et al.* (2003) define fairness as a judgment of whether an outcome (or the process to reach an outcome) is reasonable, acceptable, or just. The cognitive aspect of this definition indicates that fairness judgments of market prices involve a comparison of a price or procedure with a pertinent standard, reference, or norm (Xia *et al.*, 2004).

Price fairness judgments can therefore be separated into two parts, namely the outcome and the procedure leading to the outcome (Kukar-Kinney *et al.*, 2007). Studies of the notion of outcome are derived from the early work on social exchange (Adams, 1965; Homans, 1958). An important component of social exchange is distributive justice, which maintains that people judge the fairness of an exchange relationship based on the just allocation of rewards in proportion to what they have invested in the relationship (Herrmann *et al.*, 2007; Xia *et al.*, 2004). Equity theory broadens this perspective, with buyers evaluating equity or inequity based on a comparison between their own profits or costs and those of other buyers who are in an exchange relationship with the same selling organization for the same product or service (Kukar-Kinney *et al.*, 2007; Xia *et al.*, 2004; Oh, 2003).

More recently, the concept of procedural justice has gained attention, where it relates to whether the selling organization has ‘played fair’ by adhering to the rules of process when setting the price (Maxwell, 2002; Gielissen *et al.*, 2008). It is therefore postulated that a bank’s micro-enterprise customers can judge the overall fairness of a price interest rates and service charges by the fairness of the outcome (i.e., the price offered) and by the procedural fairness (i.e., the method for establishing its pricing structure or price changes).

Price fairness and perceived price

Price represents an extrinsic cue that is one of the most significant forms of information available to customers when making a purchasing decision and their subsequent evaluation of services (Ryu and Han, 2010; Lin *et al.*, 2005). While price essentially refers to the amount of money charged for a product or service (Khandelwal and Bajpai, 2012), from the customer’s perspective, price is what is given up or sacrificed to obtain that product or service (Zeithaml, 1988). Defining price as a sacrifice is consistent with the conceptualizations of other pricing researchers; however, most researchers agree that customers’ perceived price is not the same as the actual price (Kim *et al.*, 2012; Bei and Chiao, 2001; Lichtenstein *et al.*, 1988).

According to Oh (2003), price perceptions can be explained by the adaptation level theory and assimilation/contrast theory. The adaptation theory suggests that a customer holds an internalized adaptation level price for a particular product or service in a given category, which becomes the frame of reference for evaluating actual prices of products. The assimilation/contrast theory assumes that customers have ranges or latitudes of acceptance, rejection, and neutrality, with the size of the disparity between expectations and actual results determining whether assimilation or contrast effects will develop (Anderson, 1973:41). Therefore, a charged price that is greater than the range of price acceptance may not be assimilated by the customer and may subsequently be rejected, while a price located within the range of acceptance may be assimilated, contrasted and incorporated into this range (Kim, 2012).

Perceptions of price are subsequently formed comparatively, i.e., in a relative sense, with the actual price becoming meaningful only when the customer evaluates its acceptability – for example, ‘too high’, ‘acceptable’, or ‘very reasonable’ (Oh and Jeong, 2004; Monroe and Lee, 1999; Lichtenstein *et al.*, 1988). In other words, perceived price can be described as customers’ subjective judgments of the reasonableness of a price for a product or service in comparison with competitors’ reference prices (Han and Hyun, 2015; Lin, 2013).

Oh (2003) postulates, based on the equity theory, that negative deviations between reference prices and the actual price can be perceived as unfair, which directly influence overall price perceptions. However, according to Xia *et al.* (2004), such a price comparison is a necessary but not sufficient condition for price unfairness to occur - information providing reasons why a certain price is set may also influence perceptions of price fairness.

According to Ferguson and Ellen (2013), information about the offered price, such as competitors’ prices, advertised prices, and prices paid by others, is more readily available than the means used to set prices. Therefore, providing information about how an organization determines prices could reduce unfairness perception and make it easier to implement new pricing strategies (Ferguson *et al.*, 2017; Heussler *et al.*, 2009). Secrecy and hidden charges are also considered to create perceptions of price unfairness; and customers might suspect that the organization is motivated to act in this way because it has something to hide (Ferguson and Ellen, 2013; Miao and Mattila, 2007).

It is therefore imperative that banks provide greater transparency to their micro-enterprise customers about current and future pricing structures, since under an informed purchase decision situation, customers evaluate the reasonableness of a price based on their understanding of an expected fair price (Oh, 2003). Therefore, the following hypothesis is formulated:

H₁: Price fairness relates positively to perceived price.

Price fairness and service quality

Ever since a conceptual model of perceived service quality was proposed by Parasuraman *et al.* (1985), service quality has become one of the most studied and debated topics in the services marketing literature (Prakash and Mohanty, 2013; Chumpitaz and Paparoidamis, 2007; Zins, 2001; Lee *et al.*, 2000). Unlike product quality, which can be measured objectively by tangible indicators such as durability and number of defects (Garvin, 1983), service quality is an abstract and elusive construct because of the typical service characteristics of inseparability, intangibility, and heterogeneity (Parasuraman *et al.*, 1988).

Thus, in the absence of objective measures, Bamert and Wehrli (2005) suggest that an appropriate approach to assessing service quality is to measure customers' perceptions of quality. In this regard, service quality perceptions are generally defined as customers' global judgments or attitudes about a service's overall superiority that are formed subjectively at the time of use (Kang, 2006; Zeithaml, 1988). This judgment is based on the disconfirmation-of-expectations paradigm, which suggests that service quality results from a comparison of expectations with perceived performance (Bolton and Drew, 1991; Parasuraman *et al.*, 1985; Grönroos, 1984).

Bennett and Barkensjo (2005) argue that perceptions of service quality develop over a period of time, not from a single encounter. So customers form their service quality perceptions on the basis of an evaluation of performance at multiple levels, and ultimately combine these evaluations to arrive at an overall service quality perception (Brady and Cronin, 2001). In support of this view, Dagger *et al.* (2007) developed a hierarchical service quality scale that allows researchers to measure service quality on three levels: an overall level, a dimensional level, and a subdimensional level. This hierarchal structure offers researchers a choice about the level of detail to be measured. The present study follows this approach, and only measures service quality at the overall level to get a broad indication of an organization's service quality performance.

According to Singh and Sirdeshmukh (2000), in the absence of adequate information to formulate confident expectations, customers generally rely on organizations' pricing to judge overall service quality. While there is a common belief that a higher price means better quality (Scitovszky, 1944), Oh (2003) found that significant overpricing tended to lower customers' overall quality perceptions.

Matzler *et al.* (2006) therefore urge organizations to focus on providing high quality at an appropriate price, and on treating customers fairly by offering transparent price information.

Apart from the precise communication, having a clear pricing policy should also be a major goal for banks, thereby enhancing micro-enterprises' experience of price fairness and subsequently improving overall service quality perceptions. Hence, it is hypothesized that:

H₂: Price fairness relates positively to perceived service quality.

Perceived price, perceived service quality, and perceived value

Perceived value research is an interdisciplinary area in the services marketing literature, derived from psychology, sociology, economics, and business concepts, and recognized as a key factor in strategic management (Boksberger and Melsen, 2011; Sánchez-Fernández and Iniesta-Bonillo, 2006). From the customer's viewpoint, obtaining value is a primary purchase objective that is therefore pivotal to all successful exchange transactions (Chen and Hu, 2010; Grönroos, 2004; Patterson and Spreng, 1997; Holbrook, 1994; Bagozzi, 1975).

Based on the social exchange theory (Emerson, 1976; Blau, 1964; Homans, 1958), perceived value is derived from reciprocal exchange transactions containing an 'exchange ratio' of tangible and intangible actions. Thus, perceived value is commonly defined as customers' overall assessment of the utility of a service or trade-off based on perceptions of what is received and what is given (Boksberger and Melsen, 2011; Patterson and Spreng, 1997; Zeithaml, 1988).

Perceived value is subsequently conceived from a utilitarian perspective, whereby economic and cognitive reasoning is used to assess the costs and relevant benefits associated with the purchase (Jahanzeb *et al.*, 2013; Sánchez-Fernández and Iniesta-Bonillo, 2007). Early studies in the utilitarian approach focused mainly on price, and on an analysis of the price-quality relationship, defining value as the ratio of quality to price (Lichtenstein *et al.*, 1991); the balance between the quality or perceived benefits and the sacrifice by the payment of price (Monroe, 1990); and the cognitive trade-off between perceptions of quality and sacrifice (Dodds *et al.*, 1991).

The benefits component – what customers receive from the purchase – is mostly conceptualized as the cognitive response of product and service quality. For example, several researchers agree that customers' perceived value of a service can be enhanced either by offering superior service quality or by diminishing customers' perceived cost associated with acquiring such services (Cronin *et al.*, 2000; Ravald and Grönroos, 1996).

Price, therefore, tends to counteract quality perceptions toward customer value judgments, whereas price fairness perceptions tend to enhance value judgments (Oh, 2000). Several researchers' findings support the notion that perceptions of price fairness influence customers' perceptions of value (Kukar-Kinney *et al.*, 2007; Oh and Jeong, 2004; Xia *et al.*, 2004; Martins and Monroe, 1994). Also, Oh (2003) studied the asymmetric effects of price fairness on overall price, quality, and value judgments, and found that asymmetric effects on perceived value were almost completely mediated by perceived price and perceived service quality. In light of the preceding discussion and findings, it is hypothesized that:

H₃: Perceived price relates positively to perceived value.

H₄: Perceived service quality relates positively to perceived value.

Brady and Cronin (2001) highlight that a customer's assessment of value is defined by the combination of perceived price as a sacrifice component, and perceived service quality as a benefit component. While price is usually seen as a monetary sacrifice for obtaining a product or service, it also serves as an important extrinsic signal for quality judgments (Kwun and Oh, 2004; Lichtenstein *et al.*, 1993, Zeithaml, 1988). The use of price as an indicator of quality stems from the belief that the price in the market is determined by the forces of competitive supply and demand (Dodds *et al.*, 1991). Thus customers expect high quality when the perceived price is high (Suri *et al.*, 2003). At the same time, however, the higher the perceived price, the higher the sacrifice that the customer needs to make, thus possibly resulting in a negative influence on perceived value (Oh, 1999). The relationship between perceived price, service quality, and value can be explained in part by the assimilation-contrast theory, which holds that customers have a set of prices that are acceptable to pay, and customers can refrain from purchasing when they consider the price too high, while being suspicious of the quality if the price is lower than what they consider acceptable (Dodds *et al.*, 1991; Kalyanaram and Winer, 1995; Kosenko and Rahtz, 1988). Finally, if a price is unacceptable, it can be inferred that the offer holds little or no value for the customer. Therefore, within in the context of banking service encounters, perceptions of the reasonableness of a banks' pricing influence micro-enterprises' perceptions of service quality, which in turn has a positive influence on their perceived value (Sweeney *et al.*, 1999). It is therefore hypothesized that:

H₅: Perceived price relates positively to perceived service quality.

METHODOLOGY

Research context and sample

This study was conducted in a business banking environment, with the sample comprising South African micro-enterprises. A micro-enterprise is considered a registered, licensed, formal business with limited capital asset employing one or two persons (Sharma and Gounder, 2012; Neuberger and R athke, 2009). Micro-enterprise operations in developing countries such as South Africa are important to drive entrepreneurial development and future job creation (Prasad and Tata, 2009). So far, the majority of empirical studies on business banking relationships refer to small and medium-sized enterprises, neglecting micro-enterprises (Neuberger and R athke, 2009). This under-researched target group was subsequently chosen to add a significant contribution to both theory and practice.

The sample was extracted from a database provided by one of South Africa's largest banks through systematic sampling methods. A descriptive research design was followed, and a self-administered, internet-based questionnaire was applied to gather the data from respondents, yielding a total of 381 usable questionnaires, obtained from micro-enterprises operating in various business sectors. The majority (14 percent) were from professional, scientific, and technical industries, followed by the wholesale and retail trade (9 percent). Almost half of the participating businesses (43 percent) had an annual turnover of less than R500,000 (\$35,700). Respondents were predominantly the owner of their respective business (72 percent). A screening question ensured that respondents had satisfactory knowledge about their business' perception of its main bank, as per Campbell's (1955) recommendation that respondents used in a study need to be competent enough to answer questions relating to the subject matter under investigation.

Measures and scale items

The conceptual model of this study draws from past research on the constructs of price fairness, perceived price, perceived service quality and perceived value (e.g. Kukar-Kinney *et al.*, 2004; Oh and Jeong, 2004; Xia *et al.*, 2004; Oh, 2003), with each of the four constructs, measured by three items drawn from previously used scales. The measures of perceived value were modified from Lai *et al.* (2009) to suit the banking context, while those of overall service quality were adapted from an instrument developed by Dagger *et al.* (2007), who recommended its use to a range of service providers offering high involvement services. The measures of perceived price and price fairness were drawn from research by Kaura *et al.* (2015), which took place in a banking setting. Despite the fact that Kaura and colleagues' study was conducted amongst retail banking customers and not business banking customers, the measurement items nevertheless suited the target group under investigation (i.e., micro-enterprises). In order to improve the content validity of the study, the decision was taken to use the same measurement items, instead of completely altering the items from other industries such as airline, automotive, tourism and hospitality.

All items in the study was measured using a five-point Likert-type scale where 1= strongly disagree, 2 =disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree.

Table 1 provides a detailed description of the items used in this study.

Table 1: Items, sources, factor loadings, and explained variance per item

Construct and items	Related sources	Factor loading	Explained variance
<i>Perceived price</i>	Kaura <i>et al.</i> (2015); Kaura <i>et al.</i> (2013)		
(a) This bank pays reasonable interest rates on deposits.		0.59	0.77
(b) This bank charges reasonable service fees.		0.68	0.82
(c) This bank charges reasonable interest rates on loans.		0.48	0.69
<i>Price fairness</i>	Kaura <i>et al.</i> (2015); Kaura <i>et al.</i> (2013)		
(a) This bank is transparent about its service charges.		0.72	0.85
(b) There are no hidden charges for the products and services offered by this bank.		0.74	0.65
(c) This bank keeps customers informed of price changes.		0.42	0.65
<i>Service quality</i>	Dagger <i>et al.</i> (2007)		
(a) The overall quality of the service provided by this bank is excellent.		0.82	0.91
(b) The quality of service provided at this bank is impressive.		0.86	0.93
(c) The service provided by this bank is of a high standard.		0.87	0.93
<i>Perceived value</i>	Lai <i>et al.</i> (2009)		
(a) Overall, the service we receive from this bank is valuable.		0.82	0.90
(b) This bank offers us good value for our money.		0.85	0.92
(c) Overall, our business receives good value from this bank.		0.86	0.93

RESULTS

The proposed research model was analyzed using AMOS 23.0 software in the two-step approach recommended by Anderson and Gerbing (1988), which emphasizes the analysis of two conceptually distinct latent variable models: the measurement model and the structural model. This sequence allows researchers to ensure that latent variables have adequate reliability and validity before drawing conclusions on hypothesized relationships (Hair *et al.*,

2013; Fornell and Larcker, 1981). Woo and Ennew (2004) add that the measurement model provides an assessment of convergent and discriminant validity, while the structural model provides an assessment of predictive and nomological validity.

Goodness-of-fit measures – measurement model

The fitness of the measurement model was assessed by means of a confirmatory factor analysis using four constructs (price fairness, perceived price, perceived service quality, and perceived value) and 12 indicator variables, as shown in Table 1. All the items used to measure each factor were used in the analysis, as no items were found to have cross loadings of 0.3 or greater to warrant being dropped from the analysis. The measurement model provided a good fit of the data, as the goodness-of-fit measures were all well within recommended guidelines (Hair *et al.*, 2006). These results are presented in Table 2.

Table 2: Measurement model – goodness-of-fit measures

CMIN	DF	P	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
167,323	48	.000	3,486	0.960	0.944	0.971	0.960	0.971	0.081

Construct reliability and validity

According to Fornell and Larcker (1981), researchers must demonstrate satisfactory levels of reliability and validity when evaluating a measurement model. In assessing measurement reliability, the composite reliability measure was used, which is superior to the commonly used Cronbach’s coefficient alpha in estimating true reliability. Peterson and Kim (2013) explain that this is due to the construct loadings or weights for coefficient alpha being constrained to be equal, while in composite reliability measures the loadings or weights are allowed to vary. Interpreted like a Cronbach’s alpha, composite reliability coefficients of 0.7 and above indicate high levels of reliability (Hair *et al.*, 2013). Table 3 shows that all latent variables exceeded this threshold, with results ranging between 0.85 and 0.95.

Apart from measurement reliability, construct validity was assessed by investigating the underlying constructs’ relationship with other constructs, both related (convergent validity) and unrelated (discriminant validity) (Pallant, 2010). Table 3 reveals that the variance extracted from all constructs exceeds 50 percent for each, ranging from 59 to 84 percent, which indicates convergent validity. The variance extracted was then compared with the squared inter-construct correlations in order to examine whether the research model measures distinct constructs (Hair *et al.*, 2013). The variance extracted was larger for all constructs in relation to the corresponding squared inter-construct correlations, with the exception of that between perceived value and perceived price, as shown in Table 3. It can thus be concluded that the model has satisfactory discriminant validity.

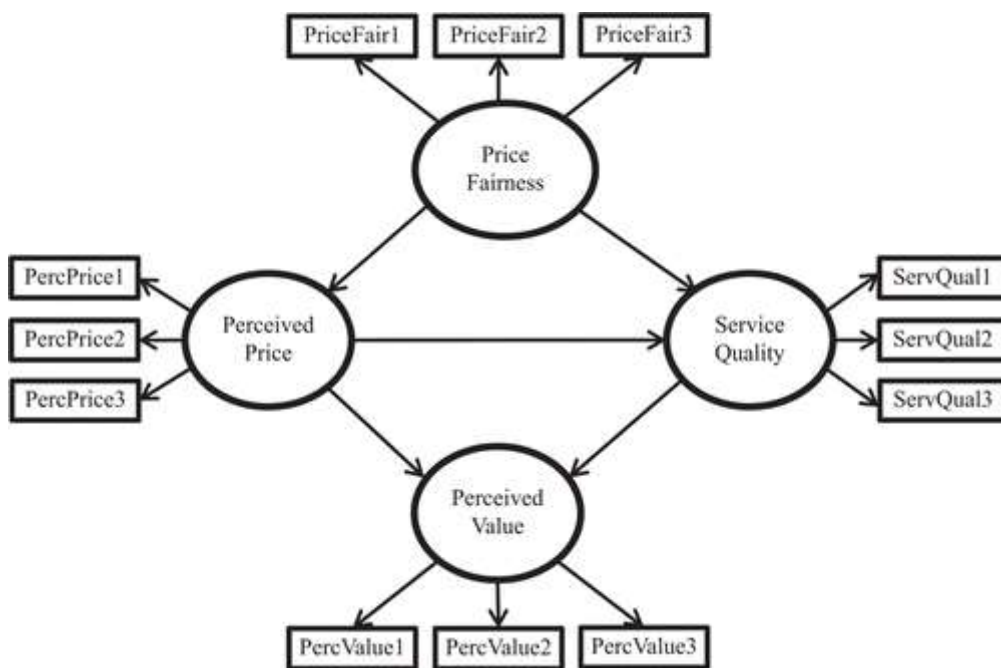
Table 3: Squared inter-construct correlations and summary statistics

Construct	(1)	(2)	(3)	(4)
(1) Perceived price	1,000			
(2) Price fairness	0,54	1,000		
(3) Perceived service quality	0,42	0,40	1,000	
(4) Perceived value	0,64	0,52	0,84	1,000
Variance explained	59%	61%	85%	84%
Composite trait reliability	0.85	0.86	0.95	0.95

Structural model

After achieving a satisfactory fit in the measurement model, the structural model was estimated using structural equation modeling. The researched model is displayed in Figure 2.

Figure 2 Structural model



The overall goodness-of-fit measures indicate that the structural model fits the data well, as shown in Table 4. RMSEA achieves the recommended threshold, while NFI, RFI, IFI, and CFI are all above the recommended threshold.

Table 4: Structural model – goodness-of-fit measures

CMIN	DF	P	CMIN/DF	NFI	RFI	IFI	TLI	CFI	RMSEA
168,613	49	.000	3,441	0.959	0.945	0.971	0.960	0.971	0.080

Hypotheses tests

Table 5 presents results from the hypotheses tests done on the structural model, which provide support for all five of the hypothesized structural paths. The structural path associated with the highest influence was found to be the one between price fairness and perceived price ($\beta = .746$). The influence between price fairness and service quality is lower, but still significant ($\beta = .337$). From the regression weights, it is also evident that service quality is a stronger precursor of perceived value ($\beta = 0.678$) than of perceived price ($\beta = .399$). Finally, perceived price relates positively to service quality ($\beta = .367$). All five hypothesized relationships in the structural model were significant, confirming nomological validity.

Table 5: Tests of hypotheses

Hypothesis	Endogenous construct	Exogenous construct	Regression weight	Significance	Finding
1	Perceived price	Price fairness	0.746	0.00	Supported
2	Perceived SQ	Price fairness	0.337	0.00	Supported
3	Perceived value	Perceived price	0.399	0.00	Supported
4	Perceived value	Perceived SQ	0.678	0.00	Supported
5	Perceived price	Perceived SQ	0.367	0.00	Supported

Rival model

A rival model that included a hypothesized relationship between the constructs of price fairness and perceived value was also tested. This model was tested based on research by Kukar-Kinney *et al.* (2007) and Oh and Jeong (2004) whose models supported a direct relationship between price fairness and perceived value, with higher levels of perceived price fairness leading to higher levels perceptions of value. The rival model established that a direct significant relationship between these two constructs existed.. However, when perceived price and service quality were included in the research model, this hypothesized relationship turned out to be non-significant.

The regression weights for price fairness and perceived value changed from 0.715 (p-value: 0.000) to 0.052 (p-value: 0.248). Furthermore, the parsimony-adjusted measures were also lower in the rival model (PRATIO: 0.727; PNFI: 0.698; PCFI: 0.706) than in the research model (PRATIO: 0.742; PNFI: 712; PCFI: 0.721), confirming a better fit for the tested research model without the direct relationship between price fairness and perceived value. It can therefore be concluded that the results support the notion that perceived price and service quality are mediators between price fairness and perceived value.

RESEARCH IMPLICATIONS

Drawing on social exchange theory, this study tested a research model that investigated the relationships between price fairness, perceived price, perceived service quality, and perceived value. Specifically, it tested the mediating effect of perceived price and service quality between price fairness and perceived value. The study took place in a business banking setting focusing on micro-enterprises.

The results of this study support all five postulated hypotheses, and reject a sixth hypothesis about the direct relationship between price fairness and perceived value that was tested additionally in a rival model. The results show that micro-enterprises' perceptions of price fairness are an important driver of their subsequent price, quality, and value perceptions, as shown in the research model in Figure 1.

This study reveals that customers' perceptions of price fairness entail the notions of transparency, hidden costs, and open communication about price increases, which stimulate their perception of a reasonable price. Kaura (2012), in contrast, found that if customers perceive price as reasonable, then it is likely to be fair and transparent, which indicates that these two constructs are highly correlated and are not necessarily causal.

The results of the study further reveal that organizations providing ongoing information and support for their pricing policy can enhance customers' experience and improve their service quality perceptions. This finding is consistent with Oh (2003), who found in his study of how customers perceive and process price information in the tourism industry, that price fairness generated a strong influence on perceived quality, which in turn influenced perceived value positively. However in Oh (2003)'s study, higher quality and value perceptions were elicited by customers' actual price being less than their perception of a fair price, while this study focused on what a fair price really means to a customer with regards to transparency and information sharing, which in turns drive their perception of a high quality financial service provider that offers superior value to their banking customers.

Furthermore, the positive relationship found between perceived service quality and perceived value is consistent with the arguments of Callarisa Fiol *et al.* (2011) and Varki and Colgate (2001), who view the cognitive response of service quality as the main benefit component of perceived value. The positive relationship between perceived price and perceived value is also consistent with previous research – for example, by Cronin *et al.* (2000), who found that customers' perceived value can be enhanced by diminishing the perceived cost associated with acquiring such services. In other words, organizations should handle their business customers' price perceptions by providing them with reasonable and attractive prices without lowering the quality of the services offered.

Despite the important role that price fairness plays in developing customers' perceptions of quality and price, which in turn influence their perceptions of value, no direct relationship between price fairness and perceived value exists in this study. However, the results are in line with the findings of Oh (2003) that value perceptions were only indirectly influenced through customers' price and quality perceptions. While the context and scope of the present study within a banking context differs significantly from Oh's (2003) study - which was sampled within a single upscale hotel - the findings nevertheless contribute to a deeper understanding of the price fairness construct in the extended value framework.

MANAGERIAL IMPLICATIONS

The results of this study have implications for the management of customer relationships with micro-enterprises in the banking industry. Since the pricing structure of banking services is complex, banking executives must offer greater transparency about their service charges and interest rates to enable customers to compare those charges with other sources of finance.

Any changes in the bank's pricing policy need to be communicated clearly and timeously to customers, with sufficient information to allow them fully to understand the implication of the price change. Bank executives should therefore take into account that unjustifiable increases might cause customers to view the new price as unreasonable, which could lead to a lower perception of value, and possibly lead to customer defection.

Open communication about expected price adjustments will not only provide customers with the necessary information to make informed decisions about how to structure their accounts, loans, and investments, but also enhance their experience with the bank, leading to a perception of a bank that offers excellent quality service. This will then also increase customers' perception of the value offered by the bank.

This study reinforces the importance of a balanced price-quality ratio. However, since service quality was found to be a stronger precursor of perceived value than perceived price, bank executives must aim to maintain an exceptionally high standard of service. Bank executives can then turn the quality of the bank's service offering into a competitive advantage to generate higher value in an effort ultimately to retain a loyal customer base and increase their profits.

CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study contributes to confirming the mediating effects of perceived price and service quality between price fairness and value perception in business relationships between micro-enterprises and their banks. It contributes to both theory and practice, providing empirical evidence that perceived price and service quality influence the relationship between price fairness and perceived value.

Although the study results have theoretical and managerial implications for researchers and practitioners respectively, this research nevertheless has several limitations that could guide future research in further exploring the measurement and structural properties of the research model tested in this study.

This study sampled only micro-enterprises in South Africa, and so its findings might not be universally applicable to small, medium, or large businesses operating in South Africa or in other countries. Generalization of the study results is further limited since this study is located in the business banking industry. The inclusion of additional industries and business-to-business settings is likely to increase the validity and reliability of the results.

The exclusion of other constructs that might be relevant in business banking relationships can also be considered a limitation of this study, as well as the manner in which price fairness was defined. The definition of price fairness focused on transparency, hidden charges, and the communication of price changes; but this might not capture the issues that are separately related to the asymmetric, differential effects of advantageous and disadvantageous inequities in price-quality comparisons (Adams, 1965).

Integrative research on the construct of fairness (or unfairness) is necessary to reconcile conceptually similar constructs that have appeared in related studies. Therefore, an opportunity for future research is to consider expanding the construct and measurement properties of price fairness to include distributive fairness, procedural fairness and affective fairness as dimensions of a multidimensional price fairness construct (e.g., Chung and

Petrick, 2015; Ferguson *et al.*, 2014). Another opportunity for future research would be to include additional constructs in the tested research model – specifically, constructs that can expand on the consequences of price fairness perceptions, such as behavioral intentions and economic and non-economic satisfaction.

Since satisfaction is often studied in relation to service quality and perceived value, the addition of more price-related constructs, such as price fairness and perceived price, could expand on how to achieve higher levels of customer satisfaction, particularly within the banking industry, where customer dissatisfaction with pricing has been reported to be one of the main reasons that customers switch banks (Gupta and Dev, 2012).

According to Yavas *et al.* (2004), while smaller enterprises seem to be generally dissatisfied with their banking relationships, they still value relationships due to their vulnerability as business entities and their dependence on the banks for financing. However, these relationships are generally maintained with a single bank, while larger enterprises with a reduced dependency and lower credit risk, may have multiple banking relationships depending on their demand for financial services (Neuberger and R athke, 2009; Adamson *et al.*, 2003). It may therefore also be of interest to add moderating variables such as dependency and number of banking relationships, to the research model in future.

Future research could also evaluate the measurement and structural properties of the constructs used in this study, including the perceptions of small, medium and large-sized enterprises, as well as those operating in other countries and cultural contexts. Such extensions would contribute to an improved understanding of the constructs that evaluate the perceived value of business relationships.

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