

**ELECTRONIC SERVICE QUALITY SATISFACTION,
TRUST AND LOYALTY: A STUDY ON
ONLINE BANKING IN PENANG**

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By

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ABSTRAK

Kajian ini dijalankan bagi mengkaji faktor-faktor yang menyumbang kepada kesetiaan pelanggan terhadap kualiti perkhidmatan elektronik. Kajian ini membantu untuk mengkaji dan memahami faktor yang perlu ditekankan dalam menentukan kesetiaan pelanggan. Tujuan utama kajian ini adalah untuk lebih memahami dimensi kualiti perkhidmatan yang memberi kesan kepada kesetiaan pelanggan dalam sektor perbankan internet daripada perspektif pelanggan. Berdasarkan sorotan karya, kerangka teori telah dibentuk, dan empat dimensi kualiti perkhidmatan telah dipilih untuk diuji dalam sektor perbankan internet bagi mendapatkan pemahaman yang lebih mendalam terhadap isu ini. Sejumlah 102 responden terlibat dalam kajian ini yang (merupakan pengguna perbankan internet di Pulau Pinang) untuk menganalisis hipotesis ini. Dengan menggunakan perisian SPSS versi 12.0, analisis faktor, analisis kebolehpercayaan, dan analisis regresi telah dijalankan. Penemuan kajian menunjukkan terdapat beberapa kaitan antara faktor kontekstual dan kesetiaan pelanggan. Empat pembolehubah tidak bersandar dalam kajian ini iaitu rekabentuk laman web, kepercayaan, dan personalisasi pembolehubah bersandar ialah kepuasan pelanggan dan kepercayaan. Kesemua hipotesis telah berjaya diuji dengan menggunakan perisian SPSS dan didapati 10 hipotesis mempunyai penemuan yang positif. Penemuan kajian, teori dan implikasi pengurusan juga dibincangkan. Kekangan dan syor bagi kajian yang akan datang juga dibentangkan.

ABSTRACT

The purpose of the study is to investigate the factors contribute to customer loyalty in electronic services quality. It helps to examine and understand which factor that really needs to be emphasize in determining customer loyalty. The intention of this research is to gain a better understanding of the service quality dimensions that affect customer loyalty in the internet banking sector from a costumer perspective. Based on detailed literature review, a theoretical framework developed, and four services quality dimension were selected to be tested in the internet banking sector in order to get a better understanding of this issue. A total of 102 usable responses which are using online banking in Penang are employed to analysis the hypothesis. Using SPSS software version 12.0, factor, reliability, and regression analyses are conducted. The findings show that there are numerous significant associations between contextual factors and customer loyalty. The four independent variables are website design, Reliability, responsiveness and personalization. The mediating variables are customer satisfaction and trust. The entire hypotheses were successfully tested with SPSS method and only 10 were proven with positive acceptance. Based upon the study's findings, theoretical and managerial implications are discussed. Limitations and suggestions also are made for future research.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter includes a brief explanation of the research background. It investigates the problems statement, research questions and objectives. Finally, it describes the significance and outline of the thesis.

1.2 Background of the study

With the rapid global growth in electronic commerce (e-commerce), businesses are attempting to gain a competitive advantage by using e-commerce to interact with customers. Business with the most experience and success in using e-commerce are beginning to realize that the key determinants of success or failure are not merely web site presence and low price but also include the electronic service quality (Yang, 2001; Zeithaml, 2002). Santos (2003) defined e-service quality as overall customer assessment and judgment of e-service delivery in the virtual marketplace.

Customer satisfaction and customer retention are increasingly developing into key success factors in e-banking. Most importantly, profitable e-banking requires a strong focus not only on the acquisition of new customers but also on the retention of existing customers, since the acquisition costs in online banking exceed that of traditional off line business by 20-40 % (Reibstein, 2002; Reichheld & Scheffer, 2000). Consequently, establishing long-term customer relationships is a prerequisite for generating positive customer value on the internet. During the last few years, these findings have led to the development of simple banking web sites into comprehensive e-banking portals offering a great variety of services in addition to traditional bank

products and thereby enabling customers to gain financial advice from merely one source. Thus, the user ideally no longer needs to make use of several different web sites. The great variety of portal resources available also creates incentives for longer site visits (stickiness) during each use. Offering a broad range of financial services and features at one single site has been noted as the most important development in e-banking (Jun & Cai, 2001; Strieter *et al.*, 1999). According to Jun and Cai (2001), most internet banks are still lagging behind their customers' expectations.

In order to enhance customer loyalty, portals are required to put a strong emphasis on their customers' quality demands, which are steadily increasing over time due to the growing competition in the internet banking industry (Jun & Cai, 2001). Most importantly, loyalty has been recognized as a key path to long-term profitability. These findings hold especially true for the financial service sector, where reducing the defection rate by 5 per cent can boost profits up to 80 per cent (Reichheld & Sasser, 1990). Additionally, service quality is a key determinant in differentiating service offers and building competitive advantages, since the costs of comparing alternatives are relatively low in online environments (Gronroos, Heinonen, Isoniemi, & Lindholm 2000; Santos, 2003). Customer loyalty is considered as a main key to organizational success and long-term profit (Oliver, 1997). The development of customer loyalty is a strategic objective for most companies. All markets agree that new customer acquisition alone will not guarantee long-term success. Acquisition must be balanced with customer retention and customer development to optimize the performance and shareholder value in the long-term.

1.3 Internet banking in Malaysia

Malayan Banking Berhad (Maybank) is the largest domestic bank in Malaysia in terms of assets as well as network distribution. It became the first bank to offer Internet banking services on June 15, 2000, through its own portal, www.maybank2u.com. The services include banking enquiry functions, bill payment, credit card payment, funds transfer, account summary and transaction history. In December 2000, Hong Leong Bank commenced its Internet banking operation “E-Banking” through its web site, www.hlbb.hongleong.com.my. Subsequently, the third bank to offer Internet banking in Malaysia was Southern Bank through its website, www.sbbdirect.com.my. Southern Bank provides services that are also offered by Maybank and Hong Leong Bank. This was followed by Alliance Bank, offering its Internet banking delivery channel via www.alliancebank.com.my. Public Bank and its subsidiary, Public Finance, joined the bandwagon when they officially launched their fully interactive PbeBank.com Internet banking service on June 28, 2001. Currently, all local domestic banks offer real-time transaction via the Internet.

Bank institutions are expected to benefit from the implementation of internet banking. The impacts to the banks are savings form of operations costs (Sathye, 1999) and expansion in their operations into other business activities such as advertising the information of their products and services to the customers. Besides bankers, customers are also expected to achieve benefits such as convenience Chan, Lakonishok and Sougiannis (2001) in term of ease of making transactions, accessibility and cost saving with regards to travelling. To this extent, it is very important to have a better knowledge what the users perceive after using internet banking services. As a result, this study will focus on the service quality of internet banking in Malaysia.

1.4 Problem statement

The successful on online banking depends on the delivery of superior e-service quality, satisfaction and trust to its customers. For this reason banks generally try to understand customer's perceptions of e-service quality and the extent of their satisfaction and trust by reviewing e-service quality and conducting occasional customer surveys.

This study will research on e- service quality, satisfaction and trust perceived by customers from a service experience. To what extent does the perception of service experience foster the future behavioural and attitudinal response toward the banks services.

E-service quality dimensions are occasionally considered to be causing e-loyalty directly (Srinivasan et al., 2002), a majority of studies view them as antecedents of e-satisfaction and e-trust (Szymanski & Hise, 2000; Van Riel et al., 2004), satisfaction and trust is conceptualized as a mediator of the relationship between e-service quality and loyalty. To put it simply, that is what makes customers become loyal in online banking

1.5 Research questions

Based on the research background, the general literature, and the problem statement, the research questions are formulated as below:

1. What is the relationship between e-service quality and satisfaction?
2. Is there any relationship between e-service quality and trust?
3. What is the relationship between satisfaction and loyalty?
4. Is there any relationship between trust and loyalty?
5. Is satisfaction a mediator between e-SQ and loyalty?
6. Is trust a mediator between e-SQ and loyalty?

1.6 Research objective

The objectives of this study are as follows:

1. To determine the relationship between e-service quality and satisfaction.
2. To examine the relationship between e-service quality and trust.
3. To investigate the relationship between satisfaction and loyalty.
4. To examine the relationship between trust and loyalty.
5. To find out whether satisfaction mediate e-service quality and loyalty
6. To know whether trust mediate e-service quality and loyalty.

1.7 Significant of the study

The importance of this research is to further improve the customer's satisfaction level and also to increase the awareness of the bank itself to come out with better method of service delivery. The study helps local banks to identify the important service quality elements that can help to increase customer satisfaction. Furthermore, it can serve as a service quality and customer satisfaction benchmark for local banks to compare with and continue to improve in the future. Understanding the determinants of service quality, trust and customer satisfaction for online banking is important for both marketing researchers and online bank managers. Moreover, previous studies have revealed that service quality in online environments is an important determinant of the effectiveness.

Another point to add is that with the opening up of the Malaysian Financial market, the study would play a significant role to further increase the level of service quality in the bank. Through this, local banks will realize the importance of service

quality not only as a competitive advantage tool to satisfy customers but also as a mean of retaining customers, getting repeat purchases and business.

1.8 Organization of the thesis

This research is organized into five chapters: The first chapter is the introduction to the study which covers briefly what the study is all about. Then it continues with the overview of recent developments of Internet Banking services in Malaysia and also presents a background to the study. The chapter also explains the statement of problem, research questions, research objectives and the significance of the study. The second chapter presents a literature review pertaining to e-service quality concept, determinants of e-service quality, e-service quality review, e-service quality dimensions. Relationship marketing, relationship quality, relationship e-service quality and trust, trust and loyalty, loyalty, trust and satisfaction .The third chapter presents the research methodology, which includes the theoretical framework, sample size used, statistical testing and analysis, measure e-SQ dimension, measure satisfaction and trust. The fourth chapter covers data analysis and findings, which presents the findings and the interpretation of the findings. The fifth chapter is conclusions and a recommendation, which presents the conclusions from the study, based on the findings and discusses the implications of the results for future research consideration and practice.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to provide a literature review on e-service quality in Internet banking. This chapter presents a discussion of the conceptual models or frameworks of e-service quality in electronic commerce and Internet banking system. This chapter also reviews the selection of unique dimensions of e-service quality which can be adopted in the Internet banking system. In this regard, section 2.2 presents the concepts of e-service quality. Sections, 2.3 present the concept of service quality in the context of e-service quality, section 2.4 present service quality dimensions and customer satisfaction, section 2.5 continue with review on service quality in e-banking, Section 2.6 present types of ripple effects can be generated by loyal customers, section 2.7 present relationship marketing, Sections 2.8 present the Relationship quality, Sections 2.9 Relationship satisfaction and trust, Sections 2.10 present loyalty, Sections 2.11 present satisfaction, Sections 2.12 present trust and Sections 2.13 present e-service quality damnation.

2.2 The concept of e-service quality

E-service quality can be defined as overall customer evaluations and judgments regarding the excellence and quality of e-service delivery to insure the customer loyalty on online banking (Santos, 2003). Research over the past two decades has demonstrated that service quality influences consumption decisions. For example, service quality measures have been applied to assess the quality of virtual community web sites (Kuo, 2003), satisfaction with e-commerce channels (Devaraj *et al.*, 2002), and determinants

of web site success (Liu & Arnett, 2000). Online shopping is a complex process that can be divided into various sub-processes such as navigation, searching for information, online transactions, or customer interactions. Customers are unlikely to evaluate each sub-process in detail during a single visit to an online store, but rather will perceive the service as an overall process and outcome (Van *et al.*, 2001). Furthermore, for online customers, high standard e-service quality is the means by which the potential benefits of the internet can be realized (Yang, 2001). Because it is much easier to compare product technical features and prices online than through traditional channels, e-service quality becomes a key factor for customers (Santos, 2003). Online customers thus expect equal or higher levels of service quality than traditional channels customers.

2.3 Service quality concept in e-banking

In the retail banking services area, most models of customer evaluations of services focus on the comparative judgment of expectations versus perceived performance resulting in the two major evaluative judgments of perceived service quality and customer satisfaction (Bloemer *et al.*, 1998; Murphy, 1996; Smith, 1992). For example, customers assess service quality by comparing their expectations prior to their service encounter with a bank (employee), develop perceptions during the service delivery process and then compare their perceptions with the actual service received from the bank employee. Thus, customer expectations are unique, individual constructs which, prior to a service, influence customer's evaluation of service performance and customer satisfaction.

Services, by definition, are intangible and easily duplicated. They can be divided into high-touch or high-tech services. High-touch services are mostly dependent on people in the service process producing the service, whereas high-tech services are

predominantly based on the use of automated systems, information technology and other types of physical resources. However, one should always remember that high-touch also includes physical resources and technology-based systems that have to be managed and integrated into the service process in a customer-oriented fashion (Gronroos, 2001). Thus, in this study, e-banking services include both high-tech and high-touch services. For example, high-tech services include Internet/Telephone/Short Messaging Service (SMS), ATM machines whereas high-touch services consist of instructions and personnel assistance in using the services.

Quality is differentiable and stem from the expectations of customers. Hence, it is necessary to identify and prioritize expectations for service and incorporate these expectations into a process for improving service quality (Kassim & Bojei, 2001; Goodman et.al., 1986). Implementing and evaluating service quality is a very complex process. Two aspects need to be taken into consideration when evaluating service quality: content and delivery (Zeithaml, Bitner & Parasuraman 1996). Customers may be in the best position to evaluate the quality of delivery, while the service providers are the best judges of the content of the message. Though there is a number of a different aspect of services involved, this study focuses on only one: the perceptions of e-banking users as to the quality of the services.

2.4 Service quality concepts in the context of E-service quality

An increasing amount of attention is being paid to the customer-service facet of e-commerce and Internet-based interactions (Urban *et al.*, 2000; Zeithaml *et al.*, 2000). The importance of service quality as antecedent of customer satisfaction and ultimately customer loyalty has been widely acknowledged (Zeithaml *et al.*, 1996; Rust *et al.*, 1995; Anderson *et al.*, 1994). Exploratory studies have suggested varying number of

dimensions, ranging from three to eleven, depending on the Srinivasan *et al.* (2002); Van *et al.* (2001); Wolfinbarger and Gilly (2001); Zeithaml *et al.* (2000), the research on service quality in electronic commerce can be viewed from two perspectives, which are from the customer perspective and from the provider perspective. Thus, both parties have a significant contribution in the study of the e-service quality concepts. It is important to note that the study of service quality concept in physical services generally is similar with the concept of e-service quality through electronic channel. From the customer perspective, one of the famous service quality concept is the service quality perceived by customer stems from a comparison of what they feel that service organizations should offer (from their expectation) with their perception (from their experiences) of the performance of the organizations that provide the services.

Based on the above equation, it means that if the customer believes that performance is less than expectation, then negative disconfirmation occurs, and then confirmation arises, and if performance exceeds expectations, then positive disconfirmations occurs (Athiyaman, 1997). As a result from this concept, a service provider can be said as achieved the e-service quality for the service when the customer has a positive overall impression and has a positive experience about the level of services performed by the service provider. In this study, Internet banking users will be the respondents to evaluate Internet banking service performance.

The concept of service quality from the providers' perspective has been developed by Crosby, Evans and Cowls (1990) which is defined as the concept of quality conformance to requirements from the point of view of the service provider. The quality conformance refers to the target quality level and the real quality delivered to customers. It depends on the service quality management system in an organization. However, the quality of a service should be determined by the customer's expectation

and not by the perceptions of the providers of the service. This is because the customer's requirements, perception and expectation are changing with time and these changes are unpredictable.

2.5 Service quality dimensions and customer satisfaction

Researchers have paid much attention to the close relationship between service quality and customer satisfaction (Bitner & Mary & Bernard 1990; Parasuraman, Berry, Leonard, Zethaml & Valarie 1988). Oliver (1993) suggests that service quality is a more specific judgment, which can lead to a broad evaluation, customer satisfaction. The question is: how exactly will particular service quality dimensions influence customer satisfaction formation? Johnston (1995) has found that the causes of dissatisfaction and satisfaction are not necessarily the same. Some service quality attributes may not be critical for customer satisfaction but can significantly lead to dissatisfaction when they are performed poorly. Drawing upon Herzberg *et al.* (1995) research on work motivation, Johnston (1997) has further classified all dimensions into enhancing (satisfiers), hygiene (dissatisfies), and dual factors. Enhancing factors are those which will lead to customer satisfaction if they are delivered properly, but will not necessarily cause dissatisfaction if absent. In contrast, hygiene factors are those which will lead to customer dissatisfaction if they fail to deliver, but will not result in satisfaction if present. Dual factors are those that will have an impact on both satisfaction and dissatisfaction. Johnston (1995) identified attentiveness, responsiveness, care, and friendliness as the main source of satisfaction in banking services, and integrity, reliability, responsiveness, availability, and functionality as the main source of dissatisfaction. In addition, Mittal *et al.* (1998) have discovered that the positive performance of a service quality attribute has less impact on overall consumer

satisfaction than negative performance of that same attribute. This “asymmetric effect” suggests that it is necessary to carefully investigate service quality attributes having both negative and positive contributions, and to grant more attention to those salient negatively-performed attributes to increase customer satisfaction.

2.6 Reviews on Service Quality in E-Banking

As a consequence of the increasing importance of modern information and communication technologies for the delivery of financial services the analysis of e-banking quality issues becomes an area of growing interest to researchers and managers (Hughes, 2003; Jayawardhena, 2004). Virtually all studies dealing with the quality of electronic financial services focus on specific aspects of the quality evaluation. To our knowledge, the study presented by Gounaris and Dimitriadis (2003) is the first attempt to investigate the service quality of e-banking portals.

Based on the SERVQUAL, the authors identify three quality dimensions, namely customer care and risk reduction benefit, information benefit and interaction facilitation. These dimensions are represented by only 14 items, a fact that has to be criticized. These indicators do not fully cover all relevant facets regarding the business activities of an e-banking portal, which contradicts the idea of portals as holistic business models. For example, aspects like offering a broad spectrum of complementary products and services or the reliability of service delivery are not included. The following studies are focussed on specific service delivery aspects of conventional, simple banking web sites and therefore consider particular service quality dimensions. Broderick and Vachirapornpuk (2002) and Jun and Cai (2001) employ qualitative techniques.

By using the critical incident technique, Jun and Cai (2001) identify 532 critical incidents in online banking, which are grouped into three central quality categories namely that of customer service quality, online systems quality, and banking service products quality. Broderick and Vachirapornpuk (2002) tracked the member usage patterns over a three-month period based on a participant observation in an internet banking community. The bulletin board enabled discussion episodes on the experiences the participating members made with internet banking. In total, 160 incidents from 55 topic episodes were analyzed. The findings show that the elements with the most immediate impact on service evaluation are cues in the service setting, key events in the service encounters and the level and nature of customer participation. However, the results indicate an aggregated level of research, which makes a precise and testable measurement of service quality in internet banking impossible. Jayawardhena (2004) transforms the original SERVQUAL scale to the internet context and develops a battery of 21 items to assess service quality in e-banking. By means of an exploratory (EFA) and confirmatory factor analysis (CFA), these 21 items are condensed to five quality dimensions: access, web site interface, trust, attention and credibility.

Although 59 per cent of the variance in overall service quality can be explained by the model, affective customer reactions to the service process are not considered. This has to be seen critical as several authors emphasize the importance of hedonic aspects of the electronic service consumption represented by the extent of fun and enjoyment provided by the portal (Dabholkar, 1996; Van *et al.*, 2001). To sum up, the studies discussed above provide important insights into the dimensions and characteristics of service quality in general as well as service quality in e-banking in particular. However, considering e-banking portals as holistic business models, the

existing partial measurement models have to be integrated and extended in order to fully capture all relevant dimensions of portal quality.

2.7 Overview of internet banking

Regulating Internet banking becomes not only a national concern, but also attracts some international attentions. At the same time, the capacity of the existing regulation to adequately address the complexities created by this mix-up remains very doubtful (Ezeoha, 2005a).

The effort of the law enforcement agents, where it exists, is mainly not targeted to objectively controlling the activities of the users and operators. In addition, the danger in regulating Internet banking and commerce transactions arises from the fact that the country's ISP's and Cyber café, operate in a highly deregulated Telecommunications Industry, with most of the Internet traffic being routed to VSAT Backbone Providers all around the world (Oyesanye, 2004).

2.8 E-Service Quality Dimensions

2.8.1 Web site design.

Web site design quality is crucial for online stores (Than & Grandon, 2002). Web site design describes the appeal that user interface design presents to customers (Kim & Lee, 2002). The influence of web site design on e-service performance has been studied extensively. For instance, Cho and Park (2001) conducted an empirical research of a sample of 435 internet users to examine the e-commerce user-consumer satisfaction index (ECUSI) for internet shopping. They found that the customer satisfaction is assessed using the quality of web site design. A recent empirical study found that web

site design factors are strong predictors of customer quality judgments, satisfaction, and loyalty for internet retailers (Wolfenbarger & Gilly, 2003).

2.8.2 Reliability

Reliability represents the ability of the web site to fulfil orders correctly, deliver promptly, and keep personal information secure (Parasuraman *et al.*, 1988; Janda *et al.*, 2002; Kim & Lee, 2002). The importance of reliability has been emphasized by the information technology-based service. Moreover, Zhu *et al.* (2002) argued that reliability dimension has a direct positive effect on perceived service quality and customer satisfaction by electronic banking systems. Online stores must provide mistake-free service and secure online transactions to make customers feel comfortable using online shopping.

2.8.3 Responsiveness

Customers expect online stores to respond to their inquiries promptly (Liao & Cheung, 2002). Responsiveness describes how often an online store voluntarily provides services (e.g. customer inquiries, information retrieval and navigation speed) that are important to its customers (Parasuraman *et al.*, 1988; Yang, 2001; Kim & Lee, 2002). Researchers examining the responsiveness of web-based services have highlighted the importance of perceived service quality and customer satisfaction (Yang & Jun, 2002; Zhu *et al.*, 2002).

2.8.4 Personalization

The lack of real-time interaction tends to prevent potential customers from purchasing through online shopping (Yang & Jun, 2002). Personalization involves individualized attention, personal thank you notes from online stores, and the availability of a message area for customer questions or comments (Yang, 2001). Previous studies have examined the influence of the customer service provided by internet retailers on customer perceptions of service quality and satisfaction (Wolfenbarger & Gilly, 2003).

2.9 Relationship Marketing

Relationship marketing has been defined in several ways. Berry (1983) defined relationship marketing as attracting, maintaining and in multiservice organizations and enhancing customer relationships. He advocated a number of relationship strategies, including a core service strategy, customization, relationship pricing, and internal marketing. Similarly, Jackson (1985) referred to industrial relationship marketing as effort oriented towards strong, lasting relationship with individual accounts. Predominant among most definitions of relationship marketing is the view that buyer-seller encounters accumulate over time, and opportunities exist to transform individual and discrete transaction into relational partnerships (Czepiel, 1990). This view supports the notion that a relationship exists when an individual exchange is assessed not in a solution, but as continuation of past exchanges likely to continue into the future. Perceived in this way, customer acquisition is only an intermediate step in the marketing process, with the ultimate goal being to strengthen already strong relationships, and to convert indifferent customers into loyal ones (Berry & Parasuraman, 1991). Consequently, relationship marketing may be used to describe

marketing relationship, such as those between a bank and its customers (Morgan & Hunt, 1994).

In order for the concept of relationship marketing to be useful, berry (1983) identified three conditions that should exist, and they are: (1) the customer must have an ongoing or periodic desire for the service; (2) the service customer must be control the selection of the banks. (3) There must be alternate suppliers. As a result, these conditions appear to preclude the definition of relationship marketing as “locking-in” the customer. Other authors pointed to trust, satisfaction, loyalty and the sharing of secrets as characteristics of relationships (Crosby *et al.*, 1990; Morgan & Hunt, 1994). Multidimensional in nature, relationship marketing as a theoretical construct has been studied in terms of a variety of inter-related concepts. Some of the prominent relationship building dimensions that have constantly emerged in the literature include relationship quality, trust, satisfaction and loyalty (Boles *et al.*, 2001; Crosby *et al.*, 1990; Kennedy *et al.*, 2001; Morgan & Hunt, 1994).

2.10 Relationship Quality

Relationship quality has been discussed as a bundle of intangible value which augments products or services and result in an expected interchange between buyers and sellers (Levitt, 1986). The more general concept of relationship quality describes the overall depth and climate of a relationship (Johnson, 1999). Additionally, relationship quality refers to a customer's perception of how well the whole relationship fulfils the expectation, predictions, goals and desires the customer has concerning the whole relationship (Jarvelin & Lehtinen, 1996).

Consequently, it forms the overall impression that a costumer has concerning the whole relationship including different transaction. Gummesson (1987b) identifies two

dimensions of relationship quality in the service interface. He defines them as professional relations. The former relationship is grounded on the service provider's demonstration of competence; while the latter is based on the efficacy of the service provider's social interaction with the customer. Crosby *et al.* (1990) studied various aspects of relationship quality and perceive it as a buyers trust in a salesperson and satisfaction in the relationship. Therefore, high relationship quality means that the customer is able to rely on the service provider's future performance because the level of past performance has been consistently satisfactory. Besides, research conducted by Bejou *et al.* (1996) concludes that customer-satisfaction relationship quality is an important prerequisite to a successful long-term relationship.

2.11 Relationship E-service Quality and Trust

The quality elements of the e-service are expected to affect e-trust directly (Gronroos *et al.*, 2000), because they represent trust cues that convey the trustworthiness of the site and the system to customers (Corritore *et al.*, 2003). In a review of studies on online trust, Grabner-Krauter and Kalusha (2003) even interpret e-quality determinants as trust, i.e. trusting beliefs, and intentions to repurchase as trusting intentions. Furthermore, Corritore *et al.* (2003) call web sites objects of trust and suggest that navigational architecture and design elements have a direct effect on trust. A qualitative study by Davis *et al.* (2000) on e-tail brands also demonstrates the importance of e-tailer trust, with quotes such as “Think of brands I trust in terms of quality” and “if there was no trust, I couldn’t allow the service to continue”. Although these studies are not on e-trust, e-quality can be expected to have a positive effect also trust in the online medium. Therefore, in analogy with the arguments used to underpin the relationship between satisfaction and e-trust, we expect that the confidence

customers have in online exchanges will be positively affected by the quality of their online experiences:

2.12 Relationship marketing in this model

Relationship marketing play ascetical roles in this model through satisfaction and trust, relationship marketing emphasis's the notion that banks need to know who its customers are, what they want and effectively cross-market throughout the banking group to them.

Relationship marketing tries to recognizing the service quality and need to be integrated in a much closer manner than previously thought trust, satisfaction and loyalty to make a good relationship. Communications must be open, honest and frequent (Berry 1995; Bitner, 1995; Clark). Enhancing the quality of the relationship is likely to stimulate customer retention.

Relationship marketing can be applied to a range of diverse market domains - not just customer markets (Berry, 1995). Given that the private banking industry the increasingly competitive, it would appear that relationship marketing may be a means of differentiation and gaining competitive advantage.

2.13 Trust and Loyalty

Trust is proposed as another important antecedent of loyalty (Reichheld *et al.*, 2000). The trust concept has been studied in a number of disciplines, and various definitions have been proposed (Lewicki *et al.*, 1998). Trust is consistently related to the vulnerability of the trustor (Bigley & Pearce, 1998; Singh & Sirdeshmukh, 2000), because without vulnerability of the trustor upon the trustee, trust becomes irrelevant. In business studies, trust has been found to be important for building and maintaining

long-term relationships (e.g. Geyskens *et al.*, 1996; Rousseau *et al.*, 1998; Singh & Sirdeshmukh, 2000). A commonly used definition of trust is that of Moorman *et al.* (1992), who define it as the willingness to rely on an exchange partner in whom one has confidence. This definition is in accordance with early research, which associated trust with a “confidence in the other’s intentions and motives”, a definition that still holds (Lewicki *et al.*, 1998). It is also echoed by recent research in offline and online services (e.g. Cheung & Lee, 2001), which defines trust as the “degree of confidence or exchange options” (Zeithaml & Bitner, 2000). E-trust will therefore be defined as the degree of confidence customers have in online exchanges, or in the online exchange channel. Electronic exchanges are believed to present numerous risks to customers (Grabner-Krauter & Kalusha, 2003), while trust appears to be especially important for creating loyalty when the perceived level of risk is high (Anderson & Srinivasan, 2003). The importance of trust in explaining loyalty is also supported by authors as Lim *et al.* (1997), Garbarino and Johnson (1999), Chaudhuri and Holbrook (2001), Singh and Sirdeshmukh (2000) and Sirdeshmukh *et al.* (2002).

2.14 Loyalty

Customer loyalty has been defined as “the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises” (Gremler & Brown, 1996). This definition incorporates action loyalty and commitment to repurchase (Oliver, 1999) with affective commitment, i.e. emotional attachment, identification, and involvement (Allen & Meyer, 1990). Commitment is believed to drive the expansion and enhancement of the relationship (Bendapudi & Berry, 1997) and to decrease the propensity to leave (Ganesh *et al.*,

2000). Loyal customers are more likely to spread positive word-of-mouth (Gremler & Brown, 1999), buy additional services and accept premium prices (Zeithaml *et al.*, 1996). Loyal customers are desirable because they are believed to be less motivated to search for alternatives and to possess a higher resistance to competitors' blandishments (Dick & Basu, 1994) and to adverse information from experts (Narayandas, 1998). Their tolerance for waiting when the service is temporarily unavailable is also higher (Narayandas, 1998), which is particularly important when an online service is inaccessible due to technical problems. Customer loyalty has generally been conceptualised as an outcome of the quality satisfaction- loyalty chain (Anderson & Mittal, 2000; Oliver, 1996; Rust *et al.*, 1995).

2.15 Trust

It has been claimed that the development of trust depends on service provider characteristics. Customers form trusting beliefs based on the perceived competence, benevolence and integrity of the provider (Mayer *et al.*, 1995). Trust embodies customers' beliefs of actually receiving a promised service, and a manifestation of consumers' "confidence in an exchange partner's reliability and integrity" (Morgan & Hunt, 1994). In order to use the service in the first place, consumers need to have some degree of trust in the provider's willingness and ability to perform the desired task (Doney & Cannon, 1997). Trust evolves gradually throughout the relationship (Sheaves & Barnes, 1996) as customers gain more experience and find that promises are fulfilled and expectations are met (Urban *et al.*, 2000). Consumers use different cues to form perceptions of trust. It has been argued that trust can stem from the reputation of the site, information provided to the customer (Zeithaml *et al.*, 2000), seals of approval (Urban *et al.*, 2000), evidence such as background information about the company

(Kaynama & Black, 2000), and the design of the user interface (Roy *et al.*, 2001). Without challenging the importance of reputation and company size as important antecedents of trust (Jarvenpaa *et al.*, 2000; Doney & Cannon, 1997), it should be noted that consumers cannot use these cues for many new and exclusive e-service providers. Instead, they will probably develop trust based on cues from the website, past experiences of service quality, and possibly recommendations from others. This brings us to the problem of the conceptualisation of trust. In traditional service research (Parasuraman *et al.*, 1988), consumer trust in services has been conceptualised as a service quality dimension among others. Contrary to these studies, we prefer to conceptualise trust as a mediator between service quality dimensions and customer loyalty. This is in line with Sharma and Patterson (1999), who claim that trust in services is built up when customers continuously experience high levels of process and outcome quality. Several authors have suggested that antecedents such as safety, credibility, security (Selnes, 1998; Ravald & Gronroos, 1996), and site usability (Roy *et al.*, 2001) precede trust, which also supports the conceptualisation of trust as a consequence of service quality and an antecedent of loyalty.

2.16 Satisfaction

According to Oliver (1999), satisfaction is defined as ‘pleasurable fulfilment’. A consumer senses that consumption fulfils some need, desire, goal, or so forth, and that this fulfilment is pleasurable. It is the consumer’s sense that consumption provides outcomes against a standard of pleasure versus displeasure. It is a state of experience that might vary in intensity but not in quality (Stauss & Neuhaus, 1997). The services offered in a portal were found to include news, e-mail, chat rooms, search engine, and so forth, and customer perceptions of the quality of the above services quality have been

theoretically represented as consisting of two dimensions. Berry and Parasuraman (1992) distinguished between a process and an outcome dimension, whereas Gronroos (1990) made a distinction between functional and technical quality. The process or functional quality refers to 'how' the service is delivered, while the outcome or technical quality refers to 'what' customers receive and the benefits of using the service (Riel *et al.*, 2000). Gronroos *et al.* (2000) proposed that for services offered on the Internet the traditional concept of service, consisting of the core service and of facilitating and supporting services, needs to be extended with a fourth factor, the user interface. As noted by Gronroos *et al.* (2000), it is often difficult to differentiate between facilitating and supporting services. Dealing with the dissatisfied customers needs to be in caution, because loyalty cannot be ensured even the high degree of satisfaction is obtained. As mentioned by Stauss and Neuhaus (1997), the ability to keep customers is related to the intensity of customer satisfaction.

CHAPTER 3

METHODOLOGY

3.1 Introduction

The purpose of this chapter is to describe the methodology used to collect data and also to analyze it in order to obtain answers to the research questions. All the methods and procedures used in this study are explained and presented in detail under the followings headings. Section 3.1 presents the introduction of this study. Section 3.2 then explains the Research Framework. The hypotheses present in Section 3.3. The Research Design will then be described in Section 3.4, Section 3.5 present Population and Sample Size, Section 3.6 presents Statistical Testing and Analysis. Measure e-SQ dimension is presented in Section 3.7 and Section 3.8 presents the measure for satisfaction and trust

3.2 Theoretical Frameworks

The framework postulates that a person's intention to Internet banking service quality is determined by four dimensions. They are (1) Website design (2) Reliability (3) Responsiveness (4) personalization. Figure (1) shows the research framework for the service quality dimensions of Internet banking services

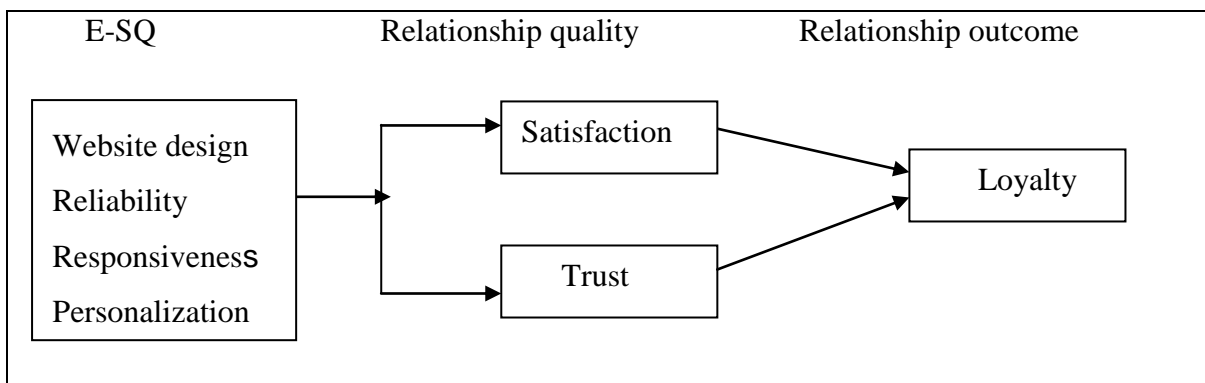


Figure 3.1 Service Quality Dimensions Theoretical Framework.