UNIVERSITI TEKNOLOGI MARA

THE RELATIVE IMPORTANCE OF TRUST AND USABLE WEBSITE DESIGN IN BUILDING E-LOYALTY INTENTION ON INTERNET BANKING: A CASE OF MAYBANK2U.COM

NOR AZIATI ABDUL HAMID

Master of Science

November 2005

UNIVERSITI TEKNOLOGI MARA

THE RELATIVE IMPORTANCE OF TRUST AND USABLE WEBSITE DESIGN IN BUILDING E-LOYALTY INTENTION ON INTERNET BANKING: A CASE OF MAYBANK2U.COM

NOR AZIATI ABDUL HAMID

Thesis is submitted in partial fulfillment of requirements for the degree of Master of Science

Faculty of Information Technology and Quantitative Sciences

November 2005

ABSTRACT

In e-commerce, loyal customers are considered extremely valuable. The high cost of attracting new customers on the Internet and the relative difficulty in retaining them make customer loyalty an essential asset for many banks. Since online transactions involve many uncertainties for the customer and most of the Internet banking offers the same product as the other competitor, it is crucial for banks to recognize the key factor that can tie their existing customer become a loyal customer an change the web surfers into purchaser. Despite of increasing usage of Internet Shopping and banking, the literature only portray little effort of empirical research has addressed the role of quality Internet websites design and customer online trust in forming consumers' intentions to revisits or repurchase particular products or at particular banks within the context of customer relationship management. This empirical study was performed to measure relative importance of two different factor that is most cited as a critical success factor for e-commerce environment; usable website design and trust elements on the website. The study specifically focuses on Maybank2u.com users and sample for the study was drawn among academician and students of three different faculties in **UiTM** Shah Alam. The results of the empirical analysis confirmed that the trust of the user increases when the user perceived that the website was usable and that there was a consequent increase in the degree of website loyalty.

Candidate's Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledge as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any other degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and be subjected to the disciplinary rules and Universiti Teknologi MARA.

Candidate's Name : NOR AZIATI BINTI ABDULHAMID
Candidate's Signiture :
Date : 23 November 2005

ACKNOWLEDGEMENT

It is with great relief that I finally write this thesis, and with a lot of gratitude o those that have helped me reach this point. The work presented in this study was done during January 2005 till November 2005 at **Universiti Teknologi Mara (UITM)**, Shah Alam. I spent almost one year in this study. During this period, I got deeper knowledge of how to maintain online customer loyalty (e-loyalty) through website especially in Internet banking environment.

This study would not exist without the help of my thesis supervisor, **Prof. Dr. Noor Laila Md Noor**. She inspired me to embark on my journey and has given me invaluable support throughout the process. I am greatly indebted for all the hours she spent reading my texts, give recommendations for me, or helping me in other ways. I greatly appreciate her expertise both in my field of research and concerning research methods. She always took time to help me; even she did not have the time.

It has been an honor to have **Prof. Dr. Yap Bee Wah** from **Faculty of Information Technology and Science Quantitative (UITM)** and **En Azme Khamis**, from Kolej **Universiti Teknologi Tun Hussein Onn (KUITTHO)** as the statistical examiner for my data analysis process and I thank him for taking time to help me get used with mathematical concept and helping me to interpret the data. I also want to extend my warmest thanks to **Puan Mardziah Hj Hashim** for reading and commenting my work at master's viva. You took a massive task when accepting to comment and your comments greatly helped me finalize my thesis. And then, I still have to thank the people who provide data and information through e-mail, even though I don't know their name, they still gave their help to me in accomplishing my journey.

I do not think that I would have written this thesis if I had not felt the strong support of my parents and family. I especially want to thank my mum, **Hjh. Rogaiyah Hj. Abdul Rahim**, my beloved husband, **Roslan Amat Zainal** and my cute little baby, **Siti Sarah Roslan**. To all my brothers; you're the greatest brothers I ever have. I sincerely apologize for the sacrifice that all of you have done to me. With all my heart, I thank you for all your love, support and especially for bringing such harmony to my life.

UITM, November 2005

Nor Aziati Binti Abdul Hamid

TABLE OF CONTENTS

LISTS OF TABLES

LISTS OF FIGURES

LISTS OF ABBREVIATIONS

ABBREVIATIONS

AGFI	: Adjusted Goodness-of-Fit Index
ATMs	: Automated Teller Machines
AVE	: Average Variance Extracted
AVR	: Automated Voice Response
B2B	: Business To Business
B2C	: Business To Consumer
CSR	: Customer Service Representative
EFA	: Exploratory Factor Analysis
FAQs	: Frequently Asked Questions
GFI	: Goodness-of-Fit Index
HCI	: Human Computer Interaction
IB	: Internet Banking
IS	: Information System
IT	: Information Technology
KMO	: Kaiser-Meyer-Olkin
MSC	: Multimedia Super Corridor
PCA	: Principal Component Analysis
PEOU	: Perceived Ease of Use
PU	: Perceived Usefulness
SEM	: Structural Equation Model
TAM	: Technology Acceptance Model
TPB	: Theory of Planned Behavior
TRA	: Theory of Reasoned Action
UI	: User Interface
WWW	: World Wide Web

CHAPTER 1

INTRODUCTION

1.0 Introduction

Customer's loyalty has been an area of great interest for companies. The rapid development of technology and Internet has diverted company's direction to retain e-loyalty. Customer loyalty has a direct impact on the revenue and profitability of a company. The website interface plays an imperative role in customer e-loyalty. An interactive and content full website creates added value and highly motivate customer repeated visits (Thelwall, 2000). This first chapter will begin by briefly discussing the concept of customer e-loyalty and importance of website design in Business to Consumer (B2C) and Business to Business (B2B) context and why customer e-loyalty and effective website design is essential for company's long-term profitability.

1.1 Background of the Research

The increasing popularity of the Internet has created great challenges for companies in various business sectors to promote and sell their products and services using this new distribution channel. One very responsive business sector to this change is the banking sector. To sustain business competitiveness, more and more banks or financial services companies are transforming from their traditional approach of "bricks and mortar" into a "clicks and mortar" one under the recent emergence of electronic commerce and business. A major force behind these developments is technology, which is breaching geographical, industrial and regulatory barriers, creating new products, services and market opportunities, and developing more information-and systems-oriented business and management processes.

For achieving different competitive strategies, which include cost containment, performance improvement, market penetration, and product transformation, banks and financial services companies are finding ways to utilize Internet technologies and to launch Internet banking services (Cronin, 1997). These companies are also keen to understand how their customers value their Internet banking services to help the banks devise strategic plans and capture market share. In other words, an important question for a successful launch of an Internet banking service is to ask what factors will impact the customer online loyalty.

With the potential of Internet to reach millions of customers and the opportunities to save transaction costs, banks in Malaysia are now urged to provide online banking services and to develop online relationships with potential customers in order to remain competitiveness in a turbulent market. Most industries have been influenced in some way or the other by electronic commerce, nowhere is the effect of e-commerce more apparent than in the banking industry (*emarketer*, 2000). According to the 11th Malaysia Internet Survey conducted by AC Nielson, Internet Banking is the one of the most popular service utilized by Malaysian surfers. The survey found out that 51 percent out of the total respondent base of 8000 used the Internet for online banking once a month. Services available through their online banking are online bill payment, fund transfer, check-book application, and downloading of current and loan account information into personal financial applications such as Microsoft Money or Quicken. The majority of local online banking users are young, Internet-savvy professionals, a demographic expected to grow over time. According to IDC Malaysia Research, the most Malaysians online consumers are aged 19 to 35 years. Morgan Stanley Dean Writer's Internet research concluded that the web is more important for retail financial services than for many other industries (Mukherjee and Nath, 2003). The new economy has opened up new paradigms, structures and strategies for retail banking, and banks across the world face new opportunities and challenges.

The physical separation of the bank branch and the customer, and that of the customer and the financial advisor, and the overall environment of perceived in security on the Internet provide unique challenges to Internet banks to find ways in which to initiate and develop e-business relationships. In spite of these limitations, the bank must develop a trustworthy relationship at the same time promote their Internet banking services and foster customer loyalty. The low level of customer loyalty is particularly significant on the Internet, where the opportunities for customer loss can occur at warp speed. A recent McKinsey study (2000), *ePerformance*, found that 98.7 percent of online visitors do not become repeat customers. Another study determined that most sites will lose 60 percent of their first-time customers in a six-week period (Lowenstein, 2001). Most e-commerce companies are ill-prepared to counter this. Most company strives for customer loyalty, and considerable efforts are paid to maintain a loyal customer base. However, although businesses are realizing the value of keeping customer loyalty, no one knows for sure how to do it. Businesses measure customer satisfaction, and hope that if the satisfaction scores are good, the customers will stay with the firm. But the truth is if that even satisfied customers leave for the temptation of competitors offers (Mittal and Lassar, 1998).

Customer retention is considered by both scholars and practitioners to be of the critical success factors for retail businesses with its implications for cost savings and profitability. The cost of acquiring new customers is five to seven times that of retaining existing ones (Khalifa and Liu, 2005). Customer retention is even more challenging issue in the context of Internet banking, where the switching costs for customers are minimal. It is therefore important to identify the major determinants of online customer retention.

In traditional businesses, the advantages enjoyed by a brand with strong customer loyalty include ability to maintain premium pricing, greater bargaining power with channels of distribution, reduced selling costs, a strong barrier to potential new entries into the product or service category, and synergistic advantages of brand extensions to related product or service categories (Reichfeld, 1996). Traditional boundaries of "bricks and mortar" stores have revised parameters in the world of Internet storefront. No longer are consumers interacting with a physical building, product, and personnel, but instead they navigate through a digital environment where loyalty development is different that in face-to-face environment. The advent and growth of "Business to Consumer" (B2C) e-commerce has magnified the importance of building a loyal visitor base to an e-commerce website (Gommans et al., 2001). Most B2C e-business models have relied initially on an intensive effort to generate a large enough customer base and subsequently on achieving profitability based on "lifetime revenue potential" from each loyal customer (Porter, 2001).

This study draws mainly on literature on customer loyalty (Dick and Basu, 1994; Jacoby and Chestnut, 1978; Gommans et al., 2001), website usability (Nielson, 2000; Shackel, 1991) and website credibility (Fogg, SooHoo, e.t al., 2003; Xue, Harker, Heim, 2000) and online trust (Gefen, D. et al., 2003; Mukherjee and Nath, 2003; Morgan and Hunt, 1994). It contributes to both those literature streams by building a bridge between them; by understanding which factors have negative effect on customer's online loyalty (e-loyalty), and vice versa. Customer loyalty is the central goal of relationship marketing and therefore the study draws upon relationship marketing literature. Due to the context of the study, it also positioned within the service marketing literature. The literature streams of the study are discussed closer at Chapter 2.

Retail banking was chosen as the context of empirical study as will further discussed in research scope, retail banking is an interesting context for studying customer e-loyalty. Firstly, the development of Internet banking will depend strongly on the number of consumers acquiring and retaining Internet access (Kingsley and Anderson, 1998). Secondly, the retail banking market has gone important changes during the last decade, where Internet technologies have been cooperated with their daily routines. In such situation, a study of customer e-loyalty should also have managerial relevance and knowledge contribution to the web designer and Information System practitioner in improving web-based applications designing.

1.2 The Problem Statement

Human beings are used to making buying decisions using their senses, especially their sight and hearing. They read body language, want to make eye contact and hear voice inflection. As more and more banks get done in Cyberspace, there will be less and less of in-person contacts made. Although, the chances of online banking development totally replacing in-person contact is slim, more and more clients will be found in Cyberspace, and the need to maintain them as clients is great. This can be very challenging since people do business with others that they know, like and trust.
A lot of those "feelings" come from in-person contacts. So how does bank retain client loyalty in Cyberspace?.

In Malaysia, commercial banks have been quick to realize the importance of this factor to competitive advantage. Although millions of dollars have been spent on building Internet banking systems in Malaysia, reports have shown that potential users may not use the systems or leave the systems after certain period of time (Sivanand, Geeta and Suleep, 2004). Before commercial banks can even begin an e-loyalty strategy, they must first perfect their products, web execution and system quality. A bad first experience on website can kill the millions they spent on e-loyalty

(Smith, 2000). This report pointed out the need for research to identify the factors that determine loyalty among Internet banking users. There are several reasons why this study has to be drawn up:-

- Customer loyalty is considered important because of its positive effect on long-term profitability. According to Reichheld et al. (2000) and Reichheld and Schefter (2000), the high costs of acquiring new e-customers can lead to unprofitable customer relationships for up to three years. However, few companies seem to succeed in creating e-loyalty, and little is known about the mechanisms involved in generating customer loyalty on the internet.
- Research concerning the antecedents of Internet banking loyalty is scarce and focused on more general issues (Mukherjee, A. and Nath, P., 2003). Nevertheless, a number of mostly practitioner-oriented studies examine how Internet companies can retain their customer's stickiness, but if stickiness does not involve a relationship, it does not mean e-loyalty (Smith, 2000).
- Despite the increase in the number of internet users recorded by various agencies, the level of increase of internet usage for banking purposes has not increased at the same rate. Therefore, several antecedents of customer loyalty have been proposed. Among those, trust and usability of website design has been brought forward as a precondition for patronage behavior (Pavlou, 2003; Dahlen et al., 2002; Flavian et al., 2005; Kuan et al., 2005). But there are little empirical research has addressed the combination of quality Internet websites design (Waite and Harrison, 2002; Sathye, 1999) and customer online trust (Sathye, 1999; Nor Azah Mohd Suki, 2002; Norhayati Abd Mukti, 2000) in forming consumer's intentions to revisits or repurchase at particular Internet banks within the context of customer relationship management. In one perception, customer loyalty seems to be influenced by website usability and the other perception, trust place an important for customer satisfaction and loyalty. As a website loyalty seems to depend on consumer skills in managing

and controlling the website and cognitive lock-in (Johnson, Moe, Fader, Bellman and Lohse, 2000), suppose that the consumer's convenient and positive prior experience when using the website, lessens the likehood of the consumer changing to another website (Johnson, Moe, Fader, Bellman and Lohse, 2000). But there is little empirical evidence to support the importance of usability factors on Internet banks websites. Most of the sholars only address the importance of trust as the main barrier of consumer particitipation in e-commerce (Quelch and Klein, 1996; Jarvenpaa et al., 2000; Jarvenpaa and Tractinsky, 1999; Lee et al., 2000; Chang and Cheung, 2005.

- The Internet banks in Malaysia are still lagging behind their customers' quality expectations (Norhayati Abd Mukti, 2000). Bruhn (1997) says that the typical Internet user wants to be respected as a communication partner, and wants his or her information needs to be satisfied individually, no matter who initiated the communication process. Financial service providers should offer more than just relevant information to become an often-visited portal. Incomplete, difficult to understand, or difficult to find product information may annoy the customer, can cause unwillingness to proceed and complete the transactions. 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 and Cai, 2001).
- The loyalty of consumers to a Web site is considered elusive and is a problem to banks, because of fiercely innovative competitor sites that provides equivalent products and services. These findings hold especially true for the financial service sector, where reducing the defection rate by 5 per cent can boost profits by up to 80 per cent (Reichheld and Sasser, 1990). Banks are expected now to master enhanced competencies and methodologies to retain the loyalty of consumers. However, understanding what needs to be done and determining how best to go about achieving it, are very different things.

Making the customers loyal to the website depends on the ability and how successful businesses humanize digital loyalty by using digital tools to build human relationships. Reichheld and Schefter (2000) suggest building loyalty on the Web does 'raise new questions and open new opportunities; it places the old rules in a new context'. The concept of e-loyalty extends the traditional brand and store loyalty concept to online consumer behavior. Although the underlying theoretical foundations of traditional brand and store loyalty and the newly defined phenomena of e-loyalty are generally similar (Gommans, Krishnan and Scheffold, 2001), there are unique aspects of it in the area of Internet based banking and consumer behavior.

In traditional marketplaces, customer services and brand equity i.e, quality, relevance, and popularity (Walker, D., 2002) place an important role to develop customer loyalty. In a new context of e-marketplaces, trust and usable storefront design are another critical success factors in order to attract and retain a good relationship with customer and positively will influences repatronize and repurchase intentions (Gefen, D., 2002; Xue e.t al, 2000; Gommans, Krishnan and Scheffold, 2001; Reichheld and Schefter, 2000; Devaraj, Fan and Kohli, 2003).

Therefore, it is relevant to find out the relative importance of two different perception on building customer online loyalty especially most of the businesses are now switch to click and mortar environments. The high costs involved in increasing the client base of a business are forcing companies to look for ways to retain their customers. Findings of this study will be useful for the banking sector in assessing the impact of information technology and in formulating appropriate strategies for building customer loyalty thereby enabling them to retain customers. Short-term loyalty can be bought; long-term loyalty must be earned. Short-term loyalty is typically bought through discounts for online shopping and extras like free shipping for a limited period of time. Long-term loyalty takes time because companies have to earn trust by proving value, dependability and respect (Smith, 2000).

1.3 Research Objectives

1. To determine what are the major website design factors that drive customer loyalty in cyberspace
2. To measure the association between trust and usable website design factor with customer's e-loyalty
3. To measure the relative importance between trust and usable website design Factor in building e-loyalty in Internet banking environment

1.4 Research Questions

1. What are the web design factors that drive customer loyalty in cyberspace?
2. Does the trust factor have positive relationship with customer's e-loyalty?
3. Does the usability factor have positive relationship with customer's e-loyalty?
4. Which is most important factor in building e-loyalty in Internet Banking environment- whether trust or usable website design?

1.5 Research Scope

There are huge numbers of e-commerce sites available but for this research purpose it will limit the scope of the study with focusing on online banking environments. Online banking was chosen as the context for the study due to several reasons:-

1. Most of the local commercial banks have aggressively pursued multi-channel strategies, and the online channel is growing in importance and adoption. While the channel is still in a growth mode, banks have a window of opportunity to figure out how to maximize the impact of their website to increase loyalty among existing customers while reaching out new ones.
2. Secondly, banking services are inherently relational in that they are contract-based and usually purchased in long-term relationships. Bank customers have traditionally been highly loyal to their banks, and percentage of bank