

# I-SERVICE QUALITY & ITS IMPLICATIONS ON CUSTOMER LOYALTY

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**ABSTRACT:** *The emergence of a new form of banking channel by means of Internet banking along with the maturing financial market and global competition has forced bankers to explore the importance of customer loyalty. Therefore, the felt need is to focus on the impact of internet-service (i-service) quality. The service quality dimensions that play a significant role in the equation are efficiency, system availability, fulfillment, privacy, peer pressure, bank's motivation, updated technical knowledge and status system. Banks aim to assess customers' expectations and satisfaction on the basis of the quality of products and services offered by banking institutions that was shared with the industry to improve the service quality of the sector. The aim of paper intends to test whether the bank customers derive service quality with the services provided to them, which will eventually lead to customer loyalty.*

**Key Words:** *Bank, Service quality, Loyalty, Usage, Frequency and Technology*

## INTRODUCTION:

Service quality is a comparison of expectations of the banking customers to meet up with the performance of the banks. A bank with high service quality will meet its customers' needs whilst remaining economically competitive. Improved service quality ought to increase the economic competitiveness of the banks. Customer loyalty is both an attitudinal and behavioural tendency of the online banking customers to favour one bank over all the others, whether due to satisfaction with the i-banking services, convenience or performance, or simply familiarity and comfort with the using of the online site of a particular bank. Customer loyalty encourages the customers to use the online banking services of the same bank more consistently, make use of the updated services, and also feel positive about the experience, helping to attract more customers to become familiarize with online banking services in the face of a competitive environment. Considering the competitive environment, there is a need for banks to plan their strategies that will differentiate them from another especially in internet banking portal. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proved that customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000; Caruana, 2002)

## REVIEW OF LITERATURE

The success of a service provider depends on the high quality relationship with customers (Panda, 2003) which determines customer satisfaction and loyalty (Jones, 2002 as cited by Lymperopoulos et al., 2006). Previous research has shown repeatedly that service quality influences organizational outcome such as performance superiority (Poreta & Thanassoulis, 2005), increasing sales profit (Levesque & Mc. Dougal, 1996; Kish, 2000; Duncan & Elliot, 2002) and market share (Fisher, 2001), improving customer relations, enhance corporate image and promote customer loyalty (Newman, 2001; Szymigin & Carrigan, 2001; Caruana, 2002; Ehigie, 2006). Furthermore, service quality and customer loyalty were found to be related to customer loyalty through reuse intentions (Levesque & Mc. Dougal, 1996; Newman, 2001; Caruana, 2002). Delivering quality service to customers is a must for success and survival in today's competitive banking. Bank mergers, deregulation and increased competitive pressures have also created dramatic changes in the banking industry. Currently, banks face the challenges of greater market satisfaction in order to cultivate customer loyalty (Lam & Bojei, 2007).

According to Portela & Thanassolis, (2006), not only empirical studies of the relationship between service quality and customer loyalty in banking system are limited, but also the existing studies on bank branches efficiency in general do not account for the changing role of bank branches. Service quality is of utmost importance in analyzing the performance of bank branches, since their survival depends on their service quality levels they provide (Portela & Thanassolis, 2006). Excellence in service quality is a key to achieve customer loyalty which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006).

## OBJECTIVES OF THE STUDY

- To study the relationship between i-service quality with respect to their online banking overall frequency of usage and customer loyalty
- To study the relationship between i-service quality with respect to their online banking frequency of more or less usage and customer loyalty

## METHODOLOGY

The sample size for the study was 200 customers of different banks in the city of Chennai who have been using online services of the bank. The tool used for the study is Multiple Regression Analysis. Random sampling technique was employed for the selection of sample.

## ANALYSIS

The first objective on the i-service quality and customer loyalty has been analysed using Multiple Regression analysis to determine the association of independent variables on customer loyalty in terms of overall frequency of usage, less frequency of usage and more frequency of usage by the online banking customers. The dependent variables of i-service quality are efficiency, system availability,

fulfillment, privacy, peer pressure, bank's motivation, updated technical knowledge and status system were assessed through E-S-QUAL scale (Parasuraman A., and Malhotra A.2005 Osipow (1989)). The independent variables of i-service quality constituting customer loyalty in terms of less length of usage and more length of usage with regard to customer loyalty were analysed using multiple regression analysis. The instrument contained 8 items to assess the association of i-service quality with that of the customer loyalty in terms of overall frequency of usage, less frequency of usage and more frequency of usage.

Multiple regression analysis was carried out to study the association of independent variables of i-service quality and customer loyalty in terms of the overall frequency of usage of internet banking transactions by the online banking customers and the significance was identified, the results of which are given below. The study has also identified a pattern of relationships between the determinants of i-banking loyalty and i-service quality comprehensively for better understanding of the loyalty phenomenon in i-banking. Such understanding is helpful to practitioners and academicians which in turn would act as a catalyst for the growth of banking industry in Indian context.

**TABLE SHOWING THE RESULTS OF THE REGRESSION MODEL BETWEEN I-SERVICE QUALITY WITH RESPECT TO OVERALL FREQUENCY OF USAGE AND CUSTOMER LOYALTY**

COEFFICIENT					
Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Std. Error	Beta		
(Constant)	1.328	.345		3.853	.000
EFFICIENCY	.125	.077	.109	1.616	.107
SYSTEM AVAILABILITY	.078	.072	.078	1.087	.278
FULFILMENT	.401	.083	.372	4.856	.000
PRIVACY	.222	.051	.247	4.356	.000
PEER PRESSURE	-.095	.027	-.178	-3.493	.001
BANK'S MOTIVATION	-.025	.026	-.044	-.929	.354
UPDATED TECHNICAL KNOWLEDGE	-.023	.026	-.042	-.882	.378
STATUS SYSTEM	-.040	.023	-.089	-1.729	.085

F =55.428; p= 0.000; R<sup>2</sup> = .440

ANOVA results indicated that the regression model is valid with an F score of 55.428 and significance value of 0.000. This indicates that regression model between independent variables of I-Service Quality and Customer Loyalty with respect to overall frequency of usage and customer loyalty is validated. From the above Table it can also be seen that the Fulfilment (t=4.856 and p=0.000) and Privacy dimensions (t=4.356 and p=0.000) have emerged as significant positive regressors of the dependent variable. Of the two, the most influential dimension in predicting the fulfilment with a beta value of .372. Hence the result helps to identify a pattern of relationships between the determinants of i-service quality and customer loyalty comprehensively for better understanding of the loyalty phenomenon.

The next significant predictor of the Customer Loyalty with respect to overall frequency of usage is the privacy of using the online website with the beta value of 0.247. The other six dimensions namely, efficiency, system availability, peer pressure, bank's motivation, updated technical knowledge and status system do not contribute to customer loyalty (p>0.05). This finding provides support to conclude that there exists a significant relationship between the overall frequency of usage and customer loyalty.

**TABLE SHOWING THE RESULTS OF THE REGRESSION MODEL BETWEEN I-SERVICE QUALITY WITH RESPECT TO MORE FREQUENCY OF USAGE AND CUSTOMER LOYALTY**

COEFFICIENT					
Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Std. Error	Beta		
(Constant)	-.008	.680		-.012	.991
EFFICIENCY	.137	.146	.090	.940	.349
SYSTEM AVAILABILITY	.196	.106	.179	1.855	.066
FULFILMENT	.521	.127	.391	4.109	.000
PRIVACY	.040	.104	.034	.385	.701
PEER PRESSURE	.083	.050	.136	1.647	.102
BANK'S MOTIVATION	.050	.049	.095	1.009	.315
UPDATED TECHNICAL KNOWLEDGE	-.061	.049	-.106	-1.236	.219
STATUS SYSTEM	.070	.039	.157	1.763	.080

F =45.169; p= 0.000; R<sup>2</sup> = .567

ANOVA results indicate that the regression model is valid with an f score of 45.169 and significance value of 0.000. This indicates that the regression model between more frequency usage and customer loyalty is duly validated. From the above table it can also be seen that the fulfilment (t=4.109 and p=0.000) and system availability dimensions (t=1.855 and p=0.66) have emerged as significant positive regressors of the dependent variable. Among the two, the most influential dimension in predicting the customer loyalty is the dimension 'fulfilment' with a beta value of .391.

The next significant dimension with a beta value of 0.179 is the dimension 'system availability'.

The other six dimensions namely efficiency, privacy, peer pressure, bank's motivation, updated technical knowledge and status system as stated above do not contribute to customer loyalty ( $p>0.05$ ). This finding provides support for construing a significant relationship between the more frequency of usage and customer loyalty.

**TABLE SHOWING THE RESULTS OF THE REGRESSION MODEL BETWEEN I-SERVICE QUALITY WITH RESPECT TO LESS FREQUENCY OF USAGE AND CUSTOMER LOYALTY**

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Std. Error	Beta		
	(Constant)	1.529	.405		
EFFICIENCY	.118	.082	.108	1.441	.151
SYSTEM AVAILABILITY	.024	.076	.025	.316	.752
FULFILMENT	.475	.091	.444	5.223	.000
PRIVACY	.171	.056	.193	3.046	.003
PEER PRESSURE	-.106	.033	-.193	-3.223	.001
BANK'S MOTIVATION	-.009	.031	-.017	-.307	.759
UPDATED TECHNICAL KNOWLEDGE	-.046	.029	-.088	-1.570	.118
STATUS SYSTEM	-.037	.025	-.088	-1.470	.143

$F=8.887$ ;  $p=0.000$ ;  $R^2 = .343$

ANOVA results indicate that the regression model is valid with an F score of 8.887 and significance value of 0.000. This indicates that the regression model between less frequency usage and customer loyalty is validated.

From the above table it can also be seen that the fulfilment ( $t=5.223$  and  $p=0.000$ ) and privacy dimensions ( $t=3.046$  and  $p=0.03$ ) have emerged as significant positive regressors of the dependent variable. Among the two, the most influential dimension in predicting the dimension 'fulfilment' with a beta value of .444. These results indicate regression model between less frequency usage and customer loyalty. The next significant dimension is 'privacy' with a beta value of 0.193.

The other six dimensions namely Efficiency, System availability, Peer pressure, Banks motivation, Updated technical knowledge and Status system as stated above do not contribute to customer loyalty ( $p>0.05$ ).

This finding provides support for the alternative hypothesis. There is a significant relationship between the less frequency of usage and customer loyalty.

#### FINDINGS:

- There exists a significant relationship between the overall frequency of usage and customer loyalty.
- There is a significant relationship between the more frequency of usage and customer loyalty.
- There is a significant relationship between the less frequency of usage and customer loyalty.

#### CONCLUSION:

The technological potential of the internet channel has revolutionized several aspects of service management providing the banking companies unprecedented opportunities to create value for customers which in turn will make them maintain their customer loyalty. Attracting new customers has found to be considerably more expensive. Hence, Loyalty is important for the profitability of i-services. To conclude, the impact of technology on the i-service quality-loyalty relationship customers' loyalty is harder to achieve when customers interact with technology rather than with bank employees.

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