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Factors Affecting Customer Loyalty of Using Internet Banking in Iran

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Abstract

This study tries to develop a model depended on the utilization of Information System, with the purpose to examine factors effecting customer loyalty in the direction of Internet banking websites. The study also tries to recognize the key factors among those examined: service quality, observed value, trust, and reputation of the bank. According to the findings, trust, habit and reputation are found to have a remarkable effect on customer loyalty in the direction of individual Internet banking websites in Iran. As compared to trust factors, reputation is the strongest effect. The results also showed that service quality observed value is not remarkably related to customer loyalty. Service quality is found to be an important factor in effecting the adoption of the technology, but did not have a remarkable effect in keeping of customers. The findings have assuming that the internet banking supporters on the areas to be focused on in keeping their customers.

Keywords: Internet Banking, Banking Website, Customer Loyalty, Iran

Introduction

Internet banking (IB) refers to the banking services presume that via a secure website operated by the bank supporter, thus assisting the use of the Internet as an isolated transport channel. Internet banking allows bank customers with suitable approach to manage their finances with minimum problems as it produces a fast and appropriate way to engage different banking settlement via the Internet banking website from home, office or elsewhere. Table 1 shows a list of banks in Iran that now offer an Internet banking service. Regardless Internet banking's, website loyalty among Internet banking consumers has become a question as there are many participating Internet banking website offerings in the Iranian market. This is of concern to banks because customer loyalty is important in that it has a positive effect on long-term profitability (Ribbink et al., 2004). According to Reichheld et al. (2000); Reichheld and Schefter (2000) the high costs of collecting new e-customers can lead to unprofitable relationships with new customers for up to three years. As a result, it is critical for online

companies to create and maintain a loyal customer base, and to recorder the profitability of each customer section (Reinartz and Kumar, 2002). However, few companies seem to succeed in creating loyalty, and are known about the mechanisms related in generating customer loyalty on the Internet (Ribbink et al., 2004).

Table 1. List of Internet Banking in Iran

Bank name
Bank mellat
Bank pasargad
Bank parsian
Bank tajaret
Bank eqtesad nvin

In the online environment the cost of acquiring and keeping a customer is usually higher than traditional channels (Reichheld and Schefter, 2000) and the customer's loyalty is relatively lower, as customers are more interested in advantages and simplicity of use when using Internet banking (Turban et al., 2000). As applicable research on loyalty in the Internet banking circumstances is limited, the purpose of this study is to examine the level of customer loyalty to Internet banking websites in Iran with the following research questions being addressed:

- 1. What factors control the loyalty of supporting customers in the direction of Internet banking services among the consumers in Iran?*
- 2. Which factors are keys in forming loyalty among Iranian consumers in the Internet banking environment?*

Literature Review

Customer Loyalty

Many studies have acknowledged the significance of loyalty in the electronic circumstances and have analyzed this characteristic in detail (Lynch et al., 2001; Reichheld et al., 2000; Srinivasan et al., 2002; Reichheld and Schefter, 2000). Customer loyalty has been defined as a deeply held responsibility to repurchase a preferred service constantly in the future, thereby causing repetitive same-brand or same brand-set purchasing, regardless situational effects and marketing efforts having the potential to cause changing behavior (Oliver, 1999). Subsequently Ribbink et al. (2004) stated that this general definition claims to online loyalty as well. The relationships between the previously reported factors with customer loyalty are further expanded. A more positive reputation tends to develop sales and market share (Shapiro, 1982) and to start greater customer loyalty (Robertson, 1993). Standifird et al. (1999) stated that the reputation of online suppliers is notably more important to online consumers than any offline circumstances. Eastlick and Feinberg (1999) state that the behavioral aims of catalog shopping customers are more affected by the reputation of the organization, since such a medium of exchange requires consumers to purchase without transport or tangible exchange.

Observed Value

Therefore delivering superior customer value is a key strategy for firms to gain competitive advantage and long term success (Parasuraman, 1997; Woodruff, 1997). Different researchers have

defined observed value as the customer's entire evaluation of the welfare they receive related to the surrender they make (Dodds et al., 1991; Slater, 1997; Woodruff, 1997). According to Parasuraman and Grewal (2000), there are four different types of observed value in their proposed model of customer loyalty: (1) purchase value, (2) settlement value, (3) in-use value, and (4) saving value. Observed value is suggested as an active construct and may change its central component(s) over time. Past literature showed that observed value contributed to customer loyalty (Dodds et al., 1991; Voss et al., 1998). Chen and Dubinsky (2003) produce a conceptual framework of observed value in a B2C e-commerce setting for complicating the relationship between observed value and key determinants. The model supports the significance of observed value in controlling a consumer's online purchase aim. Anderson and Srinivasan (2003) also suggested that when observed value was low customers would be more disposed to switch to participating products in order to increase observed value, thus a decline in loyalty.

Service Quality

In online environments, service quality is defined as a website make possible efficient and effective shopping, purchasing, and transport of product and services (Zeithaml et al., 2002). Santos (2003) suggests that e-service quality in terms of entire customer estimations and conception regarding the superiority and the quality of e-service transport in the virtual marketplace. A study by Parasuraman et al. (2005) resulted in the development of a service quality scale, the e-SQ scale, including of seven proportions: efficiency, system availability, fulfillment, privacy, responsiveness, compensation and contact but it is slightly different from the e-SQ scale developed by Zeithaml et al. (2001) which has 11 proportions. Furthermore, many other researchers developed a service quality scale (Ribbink et. al, 2004; Cristobal et. al, 2007). Zahorik and Rust (1992) state that modeling observed quality as an effecting factor of customer loyalty will provide remarkable recognition to any framework that includes customer loyalty as a dependent construct. Previous research has also confirmed that a relationship between observed quality and customer loyalty is positive (Cronin and Taylor, 1992; Harrison-Walker, 2001). According to Zeithaml et al. (1996), relationship between service quality and customer shows that service quality has an impact on individual consumer behavior, where superior service quality leads to favorable behavioral aims, while unfavorable behavioral aims are a result of minor service quality. Ruyter and Wetzels (1998) further suggested the significance of controlling the strength of the relationship between observed service quality and loyalty for a firm or different industry levels. However, according to Manhaimer (2007), consumer loyalty is not remarkable effected by observed product quality in retail industry for product with low levels of participation, and the purchase decision is effect by other factors. This study concluded that observed product quality is not a predicting factor of customer loyalty; it is possible for consumers to be loyal to different products with different qualities according to their needs and economic ability. Therefore we stated that high observed quality may lead to loyalty if it requires high product participation while, it is not supporting the Cristobal et al. (2007) finding.

Trust

According to previous research, trust has been defined as: (1) a set of specific beliefs dealing essentially with the strength, humanitarian, and ability of another party (Doney and Cannon, 1997; Gefen and Silver, 1999); (2) a general belief that another party can be trusted (Gefen, 2000; Hosmer, 1995; Moorman et al., 1992), sometimes also called trusting aims (McKnight et al., 1998); (3) affect reflected in "feelings" of trust and protection in the caring response of the other party (Rempel et al.,

1985). Some researchers have combined the first two definitions into one construct (Doney and Cannon, 1997). Other researchers have shared the first two definitions, declaring the specific beliefs as exists of the general belief (1999; Mayer and Davis, 1999; Mayer et al. 1995). According to the different definition of trust in previous literature, Gefen et al. (2003) adopted the conceptualization of trust as a set of specific beliefs which includes strength, humanitarian, ability and predictability to be applied in e-commerce, and specifically in the online shopping circumstances. Other researchers with the past literature it has been most broadly used their studies related to ongoing economic relationships that deal with buyer-seller and business interactions, as well as strength, humanitarian, competence and predictability (Doney and Cannon 1997; Gefen 2002; Lin and Wang 2006).The definition of trust as a specific set of beliefs is adopted in this study as the Internet banking website circumstances is a part of e-commerce which deals with buyer-seller and business settlement. Trust is expected to affect customers’ desire to purchase online; online customers generally stay away from electronic vendors whom they do not trust (Reichheld and Schefter, 2000). Chiou (2004) found that observed trust had direct and positive impacts on the loyalty of customers which was supported by the Corbitt et al. (2003). Moreover, Ribbink et al. (2004) in their findings showed that e-trust directly and positively affects e-loyalty. Lee and Turban (2001) predicted that lack of trust is frequently stated as a reason for not purchasing from online merchants.

Research Methodology Research Model

According to the literature, a conceptual model was developed which included of the customer loyalty as the independent variables (IV), and of customers’ loyalty behavior as the dependent variable (DV). The model focused on the factors effecting customer loyalty which include of the relationship of observed value, service quality, trust and reputation with respect to customer loyalty in the direction of Internet banking websites (Figure 1).

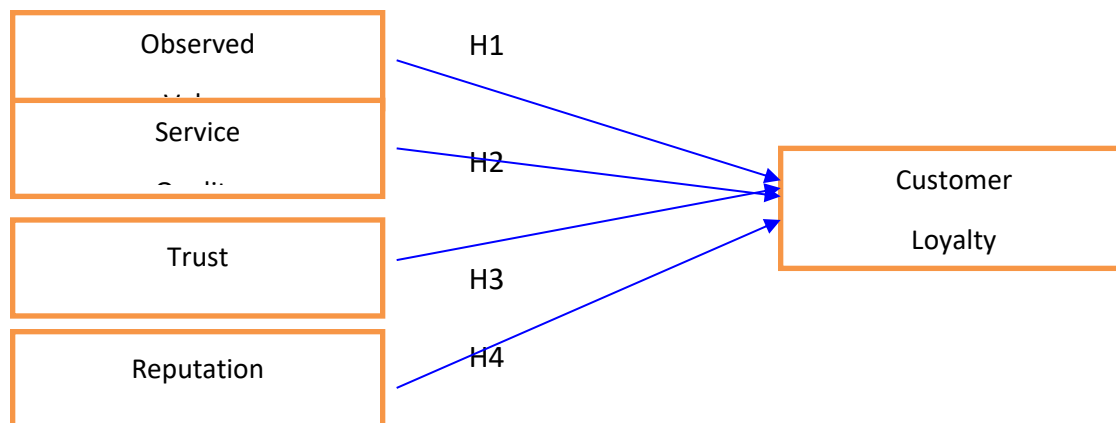


Figure 1. Conceptual Framework

As discussed earlier service quality is reported as the entire customer estimations and conception regarding the superiority and the quality of e-service transport in the virtual marketplace (Santos, 2003) and is related to web design, customer service, promise and order management proportions (Cristobal et al., 2007). Dean (2002) in his study found that observed service quality is positively related to customer loyalty. Meanwhile, Wolfinbarger and Gilly (2002) showed that observed quality is the second most important predictor of loyalty and aim to repeat a purchase. As a result, the first hypothesis is stated as follows:

H1: Service quality has a positive effect on customer loyalty in the direction of Internet banking websites.

According to the literature, observed value is related to the entire evaluation of the customer on the differences between the welfare they received and the surrender they make (Woodruff, 1997). Lin and Wang (2006) on them finding state that m-commerce, observed value is a remarkable predictor of customer loyalty. The remarkable relationship between observed value and loyalty is also supported by other researchers such as Hsu (2007) and Anderson and Srinivasan (2003) as mentioned in the previous section. Therefore, a second hypothesis is proposed:

H2: Observed value has a positive effect on customer loyalty in the direction of Internet banking websites.

Trust, refers to the consumer beliefs about certain characteristics of the supplier (Gefen et al., 2003). As reported in the literature, it shows that there is an effect of trust on customer loyalty. Lin and Wang (2006) also proved that trust has a positive effect on customer loyalty in m-commerce. Customers who cannot trust an m-vendor will not be loyal to that m-vendor, even though they are satisfied with the services assuming that. When studying e-loyalty within e-services circumstances, Cyr et al. (2007) indicated that higher levels of trust will result in higher loyalty in the direction of e-services website. Floh and Treiblmaier (2006) examined the significance of exists of online loyalty such as trust, quality of the Web site, quality of the service and entire satisfaction in the online banking environment. They found out that trust can be seen as a major exists of customer loyalty. Therefore, the third hypothesis is proposed as below:

H3: Customer trust has a positive effect on customer loyalty in the direction of Internet banking websites.

In the study a more favorable website reputation led to a greater degree of loyalty. Goode and Harris (2007) reported that favorable explanations of the online reputation of an online supplier are directly and positively related with the behavioral aims of consumers such as loyalty. It showed that online consumers are tending to be extremely cautious, distrust "new" online suppliers and use conceptions of "reputation" as representatives for trustworthiness. Other literature previously mentioned also supports the relationship between reputation and loyalty. Therefore, the following hypothesis is stated as:

H4: Reputation has a positive effect on customer loyalty in the direction of Internet banking websites.

Questionnaire Design and Measurement

According to the previous researches and the questionnaire of this study the following variable such as: service quality, observed value, trust, reputation and customer loyalty are used in current research. In order to measure Internet banking users' conceptions of service quality, this study adapted 12 questionnaire items from the Observed e-Service Quality (PeSQ) scale (Cristobal et al. 2007). These 12 measurement items are grouped into four proportions: (1) web design, (2) customer service, (3) promise, (4) order management. Then, observed value and trust are adapted from Lin and Wang (2006), with each including of 2 and 4 items measurement respectively. Finally, to measure customer evaluation of Internet banking website supporter reputation in controlling their choices of Internet banking website, (Casalo et. al, 2008) which include of 3 items measurement. As for customer loyalty, the construct is operationalized into a total of 4 items (Lin and Wang, 2006). All items were measured by five-point Likert scales ranging from strongly disagree (=1) to strongly agree (=5). The sampling size was 240 questionnaires and the target sample in this study was experienced

Internet banking users. The questionnaire survey was distributed in Iran (Kermanshah province), from the total of 240 questionnaires distributed during a one month data collection period, there were only 180 valid questionnaires received that could be used for further analysis, with a response rate of 81.43%.

Reliability and Validity Test

The values of Cronbach’s alpha higher than 0.70 (Hair et. al, 1998). This suggests that the items concerned sufficiently measure a single construct for each tested variable. Reliability measurements for each construct are shown in Table 2.

Table 2. Reliability Measurement

Variable	Number of items(N)	Cronbach’s Alpha
Observed Value	2	.643
Service Quality	12	.804
Trust	4	.698
Reputation	3	.689
Customer Loyalty	4	.617

For construct validity in term of the discriminant validity test, correlation analysis between the variables was performed. The result shows that correlations are low, with values no higher than 0.7, (Bagozzi, 1994). This indicates that the constructs are different from one another and is deemed to be at an acceptable level of discrimination. Consequently content validity is also founded.

Table 3: Pearson’s Correlation Coefficient between the Research Variables

Variables	Observed Value	Service Quality	Trust	Reputation Customer	Customer Loyalty
Observed Value	.495	1	.510	.482	.398
Service Quality	1	.495	.588	.635	.401
Trust	.588	.530	1	.508	.525
Reputation	.635	.588	.508	1	.552
Customer Loyalty	.401	.402	.535	.552	1

Table 3 shows the analysis of correlation between the variables. For construct validity in term of cross validity, confirmatory factor analysis was performed. KMO and Bartlett’s test, as well as factor loadings for each measurement item, were examined. Table 3 shows all measurement items of each construct are remarkable at level 0.01, (Sanzo et al. 2003) and the KMO index is more than 0.6, (Pallant, 2001). Moreover, Table 4 shows most of the individual factor loadings are more than 0.50, (Sanzo et al. 2003). These results confirm that the measurement items of the same construct are highly correlated.

Table 4. KMO and Bartlett's Test of Sphericity of Research Variables

Variable	KMO	Bartlett's Test of Sphericity		
		Chi-Square	df	p-value*
Observed Value	.627	265.166	3	0.000
Service Quality	.896	2157.789	131	0.000
Trust	.780	472.623	9	0.000
Reputation	.795	610.622	5	0.000
Customer Loyalty	.735	665.326	9	0.000

Indicates significant at the $p < 0.010$ level

In conclusion, deepened on the discriminant and convergent validity test, construct validity has been achieved in this study. In general, the measurement scales used in this study are broadly valid and reliable, which permits further evaluation of the relationships between the independent variables (service quality, observed value, trust and reputation) and the dependent variable (customer loyalty).

Table 5. Factor Loadings and Measures of Research Variables

Variable	Measure	Factor Loading
observed Value		
OV1	Service is good value for money	.855
OV1	Price/fee charges are acceptable	.778
OV1	service is considered to be a good deal/buy	.762
Service Quality		
SQ1	Full information on product features and services offered	.681
SQ2	Website information is regularly updated	.557
SQ3	The service is performed properly first time	.597
SQ4	The provider provides its customers with a tailor-made service	.524
SQ5	An image of reliability and trustworthiness in one's transactions is transmitted	.646
SQ6	The confidentiality of customer data is ensured	.645
SQ7	The operation carried out satisfactorily once the customer has confirmed the transaction	.711
SQ8	Clear information is provided on how to make the transaction	.681
SQ9	Security elements are incorporated in the website, and customer is made aware of these	.643
SQ10	Customer can to modify and/or defer at any time the transaction process without commitment	.443
SQ11	Contains information on product availability when dealing	.586
SQ12	services and its features are correctly presented	.515
Trust		
TR1	Based on my experience in the past, I know it is opportunistic	.753
TR1	Based on my experience in the past, I know its market	.784
TR1	Based on my experience in the past, I know it is predictable	.765
TR1	Based on my experience in the past, I know it is honest	.781
Reputation		
RP1	This website/provider has a reputation for being fair in its relationship with its users	.831
RP1	This website/provider has a reputation for offering good services	.862
RP1	This website/provider has a good reputation	.887
Customer Loyalty		
LOY1	I will deal from this website the next time I purchase the banking product	.743
LOY1	It would be difficult to change my beliefs about this website	.796
LOY1	I intend to keep purchasing the banking products from this website	.689
LOY1	My preference for this website would not willingly change	.746

Table 5 shows descriptive profiles of the sample (N=180), of two major items in this study: (1) demographic profiles and (2) Internet banking utilization profiles. The respondents rate of male were (51%) and female were (49%). The majority of the respondents belong to the age group between 25 years old and 35 years old (62%). Respondents who own a bachelor degree are in the majority (71.2%). Most of the respondents use an Internet banking website more than ten times per month

(38.6%) and 75.8% of the respondents had used an Internet banking website either a week ago or less.

Table 6. Descriptive Statistics of Research Variables

	Min	Max	Mean	Standard Deviation
Observed Value	8	23	13.23	4.413
Service Quality	60	121	80.15	4.714
Trust	20	40	25.13	5.026
Reputation	14	26	22.24	5.56
Customer Loyalty	10	37	23.35	4.67

Table 6 shows some reported results for the research variables used in this study. The table shows minimum, maximum, mean and standard deviation for the research variables of service quality, observed value, trust, habit, reputation and customer loyalty.

The mean scores of service quality is 3.986 (=75.89) in a five-point Likert scale that shows the respondents have positive estimations of the service quality of Internet banking website. Respondents also had higher conceptions of the value of Internet banking websites (3.88) for the observed value variable (=12.768) and the average means score for trust is 4.068 (=24.12), for habit it is 4.85 (=20.98). Finally, for the customer loyalty variable, the means score is 3.99 (=20.97). Thus, the result suggests that the respondents tend to be only slightly loyal to the Internet banking website, if at all. In order to examine the factors effecting customer loyalty in the direction of Internet banking websites in Iran, multiple regression analysis was performed.

Table 7. Multiple Regressions of IVs on DV (Customer Loyalty)

R	R ²	Adj. R ²	Standard Error of the Estimate
.643	.423	.422	3.375

Table 8. Significant of IVs on DV (Customer Loyalty)

	Sum of Squares	df	F	Sig
Regression	3032.45	4	51.95	.000
Residual	3389.88	212		
Total	6432.89	212		

Table 7 and Table 8 show that the regression coefficient is remarkable ($F(4,89) = 49.88, p < 0.01$). There is a correlation between the 4 independent variables (reputation, observed value, trust and service quality) with the dependent variable, customer loyalty ($R = .048$). Reputation, observed value, trust and service quality explain 42% of the variance in customer loyalty ($R^2 = 0.42$) and 44.8% of the variance of customer loyalty of the population (Adjusted $R^2 = 0.422$).

Table 9: Significant of IVs on DV (Customer Loyalty)

	Unstandardized Coefficients		Unstandardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.116	1.708		.655	.445
observed Value	.054	.072	.041	.765	.432
Service Quality	.026	.028	-.070	-1.048	.265
Trust	.318	.065	.281	4.512	.000
Reputation	.432	.079	.354	5.454	.000

Table 9 shows that trust and reputation correlate positively and remarkably with customer loyalty, but service quality and observed value are not correlated. Trust was found as a remarkable, positive predictor of customer loyalty ($\beta = 0.26$, $p < 0.01$) and reputation ($\beta = 0.34$, $p < 0.01$) also is a remarkable, positive predictor on customer loyalty. However, service quality ($\beta = -0.05$, $p > 0.01$) and observed value ($\beta = 0.03$, $p > 0.05$) was found not remarkably predicting customer loyalty. Besides that, findings show that reputation coefficients ($\beta = 0.33$) is the highest, follow by trust ($\beta = 0.27$) and habit ($\beta = 0.22$). This indicates that reputation is more predictive of customer loyalty than trust. According to the findings, service quality and observed value are not predictors of customer loyalty in the direction of Internet banking websites in Iran, thus, H1 and H2 are rejected (Manhaimer 2007; Cristobal et al. 2007) where higher level of service quality apparently do not promote customer loyalty. On the other hand, trust and reputation have a remarkable, positive effect on customer loyalty. Thus, H3 and H4 is supported in this study, with Beta values of 0.27 for Trust, 0.22 and 0.33 for Reputation against Customer Loyalty. The empirical findings of this study are in line with the evidence offered by Lin and Wang (2006); Casalo et al (2008). Major findings from these two studies have showed that trust and reputation play an important role in building customer loyalty in an Internet banking website circumstances in Iran. Additionally, when compared, independent variables of trust and reputation have a highly remarkable, positive effect on customer loyalty in the direction of Internet banking website. These are followed in significance by trust. Although trust are still necessary for customer loyalty to Internet banking websites, the results have shown that reputation has becoming a key factor for ensuring customer loyalty in Iran.

Conclusions

The analysis finds that hypotheses three and four are supported, while hypotheses one and two are rejected at the significance level of 0.01. Among the four independent variables, reputation is the best predictor of customer loyalty in the direction of an Internet banking website. Service quality and observed value is not a predictor of customer loyalty in the direction of Internet banking websites in Iran; customers tend not to be loyal although the Internet banking supporters provide high quality services and have obtained high customer observed value. Although it is not constant with most of the previous studies, there are few publications that support the negative findings which were produced by this study. From a managerial perspective, Internet banking supporters in Iran realize that providing good Internet banking services alone does not guarantee customer keeping. Service quality is not a major factor to differentiate competitive offerings.

According to the respondents, good service quality is expected to be offered by each Internet banking supporter in the first place. This conception will result in the relationship between service quality and loyalty is not so strong in Iran. However, for the Internet banking supporter, they should

not totally ignore these two factors as they are the fundamental assigns to be incorporated into Internet banking services to strategize the Internet banking business. It should be noted that service quality and observed value are fundamental assigns for keeping the users of the Internet banking that Internet banking supporters must facilitate. However for customer keeping strategy, Internet banking supporters in Iran should look for other factors that can help to create loyalty in order to support competitive advantage in long run. Consumers who place a high degree of trust in an Internet banking supporter are more likely to become a loyal customer to that particular Internet banking website. Customers who do not trust their Internet banking supporter will not use and remain loyal to that Internet banking website.

From a managerial standpoint, Internet banking website supporters should create a trust relationship with the customers by being honorable, sincere and keeping their promises to their customers. Moreover, it is important to emphasize on customers' welfare. The ability to meet customer needs and consistency in delivering services can also create trust in customer in the direction of the Internet banking website supporter. In conclusion, Internet banking website supporters must try to found an image which includes strength, humanitarian, competence and predictability in order to keep their customers loyal. Finally, the reputation of the Internet banking website or supporter has effect on customer loyalty in the direction of Internet banking website. In fact, reputation is the most important factor in Iran in keeping customer Internet banking website use, with a greater significance than trust factors. From a managerial standpoint it is important that Internet banking website supporters consider reputation as the most critical factor in encouraging loyalty among Iranian customers in the direction of their Internet banking websites. Continuous effort to build, increase or maintain the website or supporter reputation is to ensure customer loyalty. This can be done via campaigns or advertising highlighting the positive characteristics of both website and supporter.

A major limitation in this research is that the results of this study are deepened on analysis using cross-sectional data due to the time and cost constraint. Therefore, the effects between research variables in the research model cannot be examined thoroughly. A longitudinal study approach is suggested for future research projects. Secondly, the sample could not generalize of the actual population of Iran; the study was limited to west of Iran using a convenience sampling method. In addition, the current study did not include all possible variables which affect customer loyalty in the direction of Internet banking websites. The model serves as a basic overview of the loyalty concept that emphasizes the direct effect of the variables on customer loyalty. It needs to be further improved with other possible independent variables which remarkably effect customer loyalty. Therefore, for future research, the model should be improved by searching for additional variables that can improve the ability to predict customer loyalty in the direction of Internet banking websites in Iran.

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