

CHAPTER 1 INTRODUCTION

The Internet has become one of the premier channels for banking institutions to conduct business. Never before have consumers been able to conduct personal and commercial banking activities so quickly and efficiently with their banking institution. For the banking institutions, the Internet provides a means to virtually replicate the kinds of activities that would traditionally take place in a brick and mortar environment with fewer associated expenses.

During the Internet's early stages prior to its widespread usage, banking institutions were particularly keen on recognizing the benefits of the Internet and were early players in electronic commerce (Yan & Paradi, 1999). Over the course of only a few years, their websites shifted from being purely static and informational to dynamic and transaction-oriented offering a number of home banking services 24 hours a day (Mols, 1999).

1.1 Problem Statement

As consumers switch in increasing numbers to Internet Banking, the voice of the bank brand is shifting from the High Street to the Website (Accenture, 2005). In the past, Internet Banking has been adopted by banks mainly to decrease costs and increase revenue by reducing staff and branch networks. Today, Malaysian banks are beginning to see the Internet Banking as a strategic enabler of customer uptake and services, and many views Internet Banking as the key to expansion. However, despite the hype, a nearly stagnant total number of active Internet Banking users indicates that Internet

Banking in Malaysia has not caught on with consumers as fast as predicted. Customer satisfaction and loyalty continue to be the bane of Internet Banking existence (Szuts et al., 2008). In addition to this, 2005 Deloitte Employee Survey found that only 19% of bank customers can be characterized as truly loyal to their bank. Few online businesses seem to succeed in creating loyalty. Most banks operates their Internet Banking website very much in settings of a branch and little is known about the mechanisms involved in generating customer loyalty on the Internet (Ribbink et al., 2004).

Historically strong, customer satisfaction with bank websites is now declining. Hence, driving customer satisfaction will become increasingly challenging as consumers continue to display less brand loyalty to a single institution and retaining customers will continue to be one of the most important challenges facing the banking industry in the future (comScore, 2010).

While spending millions in strategizing and implementing acquisition and retention for their Internet Banking, statistics indicate that loyalty programs dole out rewards but fail to fully connect with consumers (CMO, 2010). To compete against a growing list of competitors in the financial services industry, banks need to understand how technology has changed customer behaviors and expectations with respect to banking (NST, 2006). In the past, consumers wanted banks to be secure, accurate and accountable. That has not changed, but today's consumers are more likely to resort to peers for advice and information on products and services; they are more interested in relationships than mere transactions; they view the web as the primary vehicle

for a number of lifestyle choices and activities and no longer content to consume passively what is offered to them. In banking, consumers increasingly want more control over their relationships with the bank; they choose when, how and where they do their financial activities and reserving branch visits for resolving only the most complex issues (Cisco, 2009).

Today's Internet Banking might be doing well as a product-centric website. However, as the needs of customers changed and competitors became more skilled at product development, in order to improve customer loyalty, banks see the need to seek opportunity to shift their online strategy to a more customer-focused approach.

1.2 Research Question

Like the rest of the banks in the world, Malaysian banks are looking at newer way to tap the mentioned paradigms shift of their vast retail consumer base with objective to increase the number of active Internet Banking users and most importantly to bring Internet Banking to the next generation (Cisco,2009).

Enhancing customer loyalty has become a popular topic for organizations. Customer loyalty is considered by many organizations as key to long-term profitability. It is defined as "a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future. This leads to "repetitive same-brand or same brand-set purchasing despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1997). Once loyalty is established, customers will not only

continue to buy the products and services in the future but also recommend to family and friends, and choose the product over competitors.

WOM referral attracts much interest today. It scales quickly due to the advent of social media. According to the Japanese Ministry of Internal Affairs (2009), the emergence of the Internet has increased the circulation of information by over 500 times in the last ten years. Consumers are becoming more accustomed to talking about brands and products, sharing knowledge and experiences, and using services to educate each other via the Internet. At the same time, commercial messages are no longer trusted as much as they were in the past. Instead, consumers are turning to the WOM web postings of other consumers.

Szuts et al. (2008) noted that within the banking industry, the emerging standard for defining customer loyalty involves the consumer's overall satisfaction, willingness to purchase additional product or service and willingness to recommend the bank to others. Casaló et al. (2008) expanded the model by including website usability and focused its contribution on satisfaction, loyalty and willingness to recommend to others – positive WOM as measures for their study in Internet Banking.

Given the above information, website usability and customer satisfaction have been regarded as a tool for survival that leads to customer loyalty and positive WOM in Internet Banking (Casaló et al., 2008). Is that the case with the Internet Banking in Malaysia? Specifically, is the usability of Internet Banking

website and customer satisfaction essential to enhance loyalty and promote positive WOM for Internet Banking in Malaysia?

1.3 Research Objective

The primary objective of this study is to provide information on factors influencing satisfaction towards an Internet Banking website which will lead to customer loyalty and positive WOM.

The specific objective of the research is to examine the relationship between website usability (independent variable - IV), customer satisfaction (independent variable - IV) and customer loyalty (independent variable - IV) on WOM (dependent variable, DV).

In spite of numerous studies on Internet Banking which are largely conducted from the perspective of technology, adoption and implementation, this study aims to make a contribution to Internet Banking research by highlighting the characteristic of an Internet Banking website that correlate with customer service dimensions and extending the applicability of existing literature to the Internet Banking field in Malaysia.

1.4 Organization of Research Report

The study contains five chapters and the summary for each chapter is described as follows.

The study begins with Chapter One which outlines the introduction of the study. It consists of research problem, research questions and research objectives. Significance of the study and organization of the study are also addressed.

Chapter Two introduces the previous literature related to website usability, customer satisfaction, loyalty and positive WOM. To describe the theories, significant literature and research articles have been used. The most central concepts of the theories are first defined, followed by a deeper discussion on the area when applicable, in which led to the formulation of theoretical framework and hypotheses.

Chapter Three presents a research model that suggests the integrative interrelationships among the research constructs in which it includes website usability, customer satisfaction, loyalty and positive WOM. In this part of the report, the development of hypotheses is addressed, the surveys methodology, questionnaire design and construct measurement and sampling are discussed and is completed by the data analysis procedures in which to be deployed in exploring the data gathered.

Findings experienced during the surveys with the participants will be documented in Chapter Four. In this chapter, the pre-analysis data screening results (normality and regression assumption test), the reliability test and validity assessment of the instrument are presented. The research outcomes which derived from multiple regression analysis are also reported here which consist of the findings on the factors influencing loyalty and positive WOM.

Chapter Five - the final part of this report will give a conclusion to the findings as well as implications of the study to financial service providers in Malaysia. Research limitations and recommendations are stated as well.

1.5 Chapter Summary

This section covers introduction, research problem and objective with purpose to describe a rationale of the study. The presentation of the research report is documented as well in this chapter.