

CHAPTER 2 LITERATURE REVIEW

2.1 Internet Banking

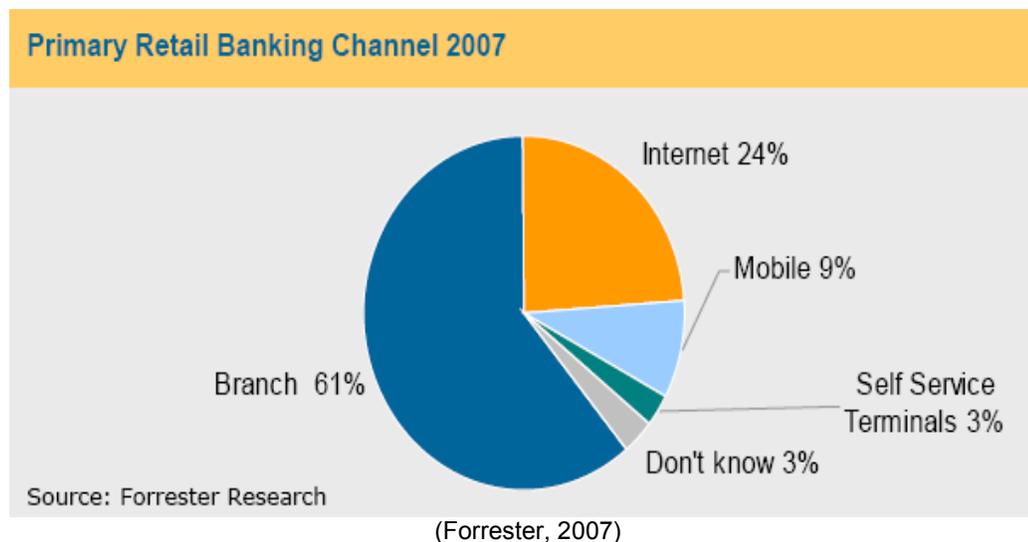
With the extensive technology innovation and telecommunications, we have seen new financial distribution channels increasing rapidly both in numbers and form, from ATMs, telephone banking to PC banking (Easingwood & Storey, 1996), and Internet Banking is the latest in the series of technological wonders of the recent past (Mols, 1999).

Following the boom of Internet, the Internet can no longer be considered a “fad” or the preserve of “techies” and “computer nerds”. Commercial uses of the Net have become the fastest growing part of the World Wide Web (WWW) (Hamid et al, 2007). About the same time, Internet Banking was thought to signal a revolution in banking distribution. Banks invested heavily in the development of the Internet channels (Accenture, 2005). Internet Banking has experienced explosive growth in many countries and has transformed traditional banking practice (Mols, 1999). Inevitably, Internet Banking will continue to revolutionize the current traditional banking industry and offers more opportunity to meet better consumer services through enhanced interaction, data mining and customization in the Internet Banking services (Hamid et al, 2007).

Online banking was first introduced in the early 1980s (Kalakota and Whinston, 1997), in which consumers were provided with an application software program that operates on personal computer (PC) which can be

dialed into the bank via a modem, telephone line and operated the programs remotely on the consumer PC. However, the lack of Internet users, and costs associated with using online banking, stunted its growth. It was only in the late 1990s that Internet Banking really caught on as the Internet explosion had made consumers more comfortable with making transactions over the web. During dotcom fallout, it became apparent that Internet Banking was not the panacea banks had thought it to be. Between 2001 and 2004 Internet Banking investment growth experienced a significant slowdown. Nevertheless the customer base for Internet Banking was growing steadily from 2000 to 2005 (Accenture, 2005). Based on Forrester Research, Internet was the dominant channels besides the branch in 2007. See Figure 2.1

Figure 2.1
Primary Retail Banking Channel 2007



With respect to Internet Banking, a common confusion exists between the terms of online banking, Internet Banking as well as PC banking. The terms Internet Banking and online banking are often used in the literature to refer the same things. According to Hamid et al (2007), online banking is another

term used for Internet Banking. Both share the similar meaning. Internet Banking or online banking can be defined as the service that allows consumers to perform banking transactions using a computer with an Internet connection (Lloyd, 2007). Thulani et al (2009) refer Internet Banking as systems that enable bank customers to get access to their accounts and general information on bank products and services through the use of bank's website, without the intervention or inconvenience of sending letters, faxes, original signatures and telephone confirmations. It is the types of services through which bank customers can request information and carry out most traditional retail banking services such as opening an account or transferring funds to different accounts, and new banking services, such as electronic online payments via a telecommunication network without leaving their homes or organizations (Aladwani, 2001; Daniel, 1999; Mols, 1998; Sathye, 1999). It provides universal connection from any location worldwide and is universally accessible from any Internet linked computer (Thulani et al, 2009; Perumal and Shanmugan, 2004; Bradley and Stewart, 2003 and Rotchanakitumnuai and Speece, 2003). At an advanced level, Internet Banking is called transactional online banking (Sathye, 1999). On the other hand, PC banking is defined as a home banking whereby consumers supplied with a financial software package on disks, allowing consumers to fill in details offline and then to send them into the bank over the bank's private network. Unlike PC banking, Internet Banking or online banking does not require proprietary software or access to a private network (Hamid et al, 2007).

ISACA (Information Systems Audit and Control Association) recorded that more and more banks are transforming their businesses by using Internet technology to develop or expand relationships with their customers. The extent to which the Internet is used in a bank depends on the relative maturity of the bank in regard to Internet technology. Banks offer Internet Banking in two main ways. An existing bank with physical offices, ordinarily termed a brick-and-mortar bank, can establish a website and offer Internet Banking to its customers as an addition to its traditional delivery channels. An alternative is to establish either a virtual, branchless or Internet-only bank. The computer server or bank database that lies at the heart of a virtual bank may be housed in an office that serves as the legal address of such a bank or at some other location. Virtual banks provide customers with the ability to make deposits and withdrawals via automated teller machines (ATMs) or through other remote delivery channels owned by other institutions (www.isaca.org).

Thulani et al (2009), Yibin (2003) and Diniz (1998) identify three functional types of Internet Banking that are currently employed in the market place i.e. Informational, Communicative and Transactional.

- Informational - This is the basic level of Internet Banking. Typically, the bank has marketing information about the bank's products and services on a stand-alone server.
- Communicative - This type of Internet Banking system allows some interaction between the bank's systems and the customer. The interaction may be limited to electronic mail, account inquiry, loan applications or static file updates (name and address changes).

- Transactional - This level of Internet Banking allows customers to directly execute transactions with financial implications. The basic transactional site only allows a transfer of funds between the accounts of one customer and the bank. The advanced transactional site provides a means for generating payments directly to third parties outside of the bank. This can take the form of bill payments via a bank official check or electronic funds transfer/automated clearing house entries.

Internet Banking has been regarded as the most important way to reduce cost and maintain or enhance services for consumers (Hua, 2009). By offering Internet Banking services, traditional financial institutions seek to lower operational costs, improve consumer banking services, retain consumers and expand share of customer. Internet is the cheapest delivery channel for banking products as it allows the entity to reduce their branch networks and downsize the number of service staff. The navigability of the website is a very important part of Internet Banking because it can become one of the biggest competitive advantages of a financial entity (Ortega et al., 2007). Internet Banking is a process of innovation whereby customers handle their own banking transactions without visiting bank tellers (Qureshi et al., 2008). Recent evidence suggests that an Internet-based consumer banking strategy may be effective, with reports of more profitable, loyal and committed consumers compared with traditional banking consumers (ABA, 2004; Fox, 2005). Thus, contemporary banks now regard the Internet channel as equally important to traditional channels of branches, automated teller machines (ATM), telephone banking and call centers (Gartner, 2003). In the new

banking environment, Internet Banking is increasingly managed as an operational activity and an important element of a multi-channel strategy (Black et al., 2002).

2.2 Internet Banking in Malaysia

Electronic revolution in Malaysian banking has already started since 1970s (Pang, 1995). However, early applications were supporting only internal transactions performed between bank's subsidiaries such as interbank balance inquiry and transfers. In 1981, the visible form of electronic innovation was the mere introduction of Automated Teller Machine (ATM). In the early 1990's, telebanking was introduced. Telebanking utilizes automated voice response (AVR) technologies, bank customers use a touch-tone telephone to perform banking transactions. Further advancement in the telecommunication and information technology, and the increased number in personal computer users encouraged Malaysian banks to offer PC banking or desktop banking. Desktop banking allowed the bank's customers to perform financial transactions at their convenience by connecting their personal computer to their bank's legacy system. However, it was more popular among banks' corporate customers than the retail customers (Guru et al., 2002).

In June 2000, Bank Negara Malaysia (BNM) or Central Bank of Malaysia gave the approval for domestic banks to leap into the Cyber Wagon. Effectively from June 1st, local domestic banks were allowed to offer full range of products and services over the Internet (BNM, 2000). Malayan Banking Berhad (Maybank) became the first bank to offer Internet Banking services,

followed by Hong Leong Bank and the trend was then followed by the others. Meanwhile, the locally incorporated foreign owned banks were only allowed to operate Internet Banking after January 1st, 2002 (Guru et al., 2003). Currently, only bank licensed under the Banking and Financial Institution Act 1989 (BAFIA) and Islamic Banking Act 1983 are allowed to offer Internet Banking services in Malaysia. To date, including Islamic bank, there are 24 commercial banks out of 25 bank institutions in Malaysia offering Internet Banking services.

Table 2.1:
Banks Offering Internet Banking Services in Malaysia

| | |
|-----|---|
| 1. | Affin Bank Berhad |
| 2. | Al Rajhi Banking & Investment Corporation (Malaysia) Berhad |
| 3. | Alliance Bank Malaysia Berhad |
| 4. | AmBank (M) Berhad |
| 5. | Amlslamic Bank Berhad |
| 6. | Bank Islam Malaysia Berhad |
| 7. | Bank Kerjasama Rakyat Malaysia |
| 8. | Bank of America Malaysia Berhad |
| 9. | Bank of Tokyo-Mitsubishi UFJ (Malaysia) Bhd |
| 10. | CIMB Bank Berhad |
| 11. | Citibank Berhad |
| 12. | Deutsche Bank (Malaysia) Berhad |
| 13. | EON Bank Berhad |
| 14. | Hong Leong Bank Berhad |
| 15. | HSBC Amanah Malaysia Berhad |
| 16. | HSBC Bank Malaysia Berhad |
| 17. | Malayan Banking Berhad |
| 18. | OCBC Bank (Malaysia) Berhad |
| 19. | Public Bank Berhad |
| 20. | RHB Bank Berhad |
| 21. | RHB Islamic Bank Berhad |
| 22. | Standard Chartered Bank Malaysia Berhad |
| 23. | United Overseas Bank (Malaysia) Berhad |
| 24. | Kuwait Finance House (M) Berhad |

Source: Bank Negara Malaysia Website

Maybank as the first bank to offer Internet Banking services through its financial portal, Maybank2u.com, captures 54% of the Internet Banking market share in Malaysia (Sin Chew Daily, 2010). Recent statistics from the ComScore (2009), a leader in measuring the digital world, on its First Public Report of Online Usage in Malaysia, indicated that Maybank2u.com led as the most visited local site with more than 1 million visitors, reaching nearly 12% of all Malaysians online and this confirmed Maybank2u.com's position as Malaysia's most popular Internet Banking destination. The online services cover most of its brick-and-mortar transactions, for instance, balance inquiry, funds transfer, payment, opening of account, personal profile update, online stock, renewal of insurance and etc. Aside, the portal also serves as a kiosk for top-up of mobile prepaid and e-commerce website. CIMB Bank Berhad and Public Bank offer their online presence through CIMBClicks.com and PBeBank.com respectively. CIMBClicks.com has outgrown other banks as the second largest Internet Banking site after Maybank2u.com with 475,000 active users recorded and the third most visited Internet Banking site is PBeBank.com, with 325,000 unique visitors using the website in the past one month.

Table 2.2:
Unique visitors for Internet Banking websites in Malaysia in June 2009

| Rank | Banking Websites | Unique Visitors (000) |
|-------------|-------------------------|------------------------------|
| 1 | Maybank2u.com | 1,186 |
| 2 | CIMBClicks.com.my | 475 |
| 3 | PBeBank.com | 325 |
| 4 | Citigroup | 164 |
| 5 | HSBC | 158 |
| 6 | RHBBank.com.my | 149 |

Source: comScore Media Metrix September 2009

Accordingly, since the introduction of this service in 2000, the number of Malaysians using Internet Banking has grown steadily to an estimated 7.5 million subscribers by September of 2009 (BNM & MCMC, 2009). This growth has coincided with the increase in Internet subscriptions in Malaysia.

Table 2.3:
Internet Banking Subscribers in Malaysia

| <i>as at end of period</i> | 2006 | 2007 | 2008 | 3Q 2009 |
|---|------|-------|-------|---------|
| No. of subscribers (million) | 3.2 | 4.6 | 6.2 | 7.5 |
| <i>Of which: Individual subscribers</i> | 3.2 | 4.5 | 6.1 | 7.3 |
| Penetration to population (%) | 11.9 | 16.6 | 21.8 | 25.9 |
| No. of broadband subscriptions ('000) | 897 | 1,116 | 1,714 | 2,116 |

Source: Bank Negara Malaysia and the Malaysian Communications and Multimedia Commission

2.3 Challenges of Internet Banking in Malaysia

Like other banks in the world, Malaysian Internet Banking model was originally built around 'need for convenience' – replacing identified brick-and-mortar services and providing an online means of reaching out to the bank, however, are increasingly faced with the challenge of creating an effective online banking service offering that consistently meets the requirements of their sophisticated customer base and is also secure, robust and future-proof.

Besides competitions among banks, The Banker's regular series (2007) published that by 2015, non bank institutions could also represent a significant threat to banks, eating into their traditional payments revenues and creating new payment mechanisms that bypass banks completely. PayPal, for example, which has attracted 145 million accounts in 190 countries in less than 10 years, cuts banks out of part of the payment process, enables individuals and businesses to send and receive payments online. Further,

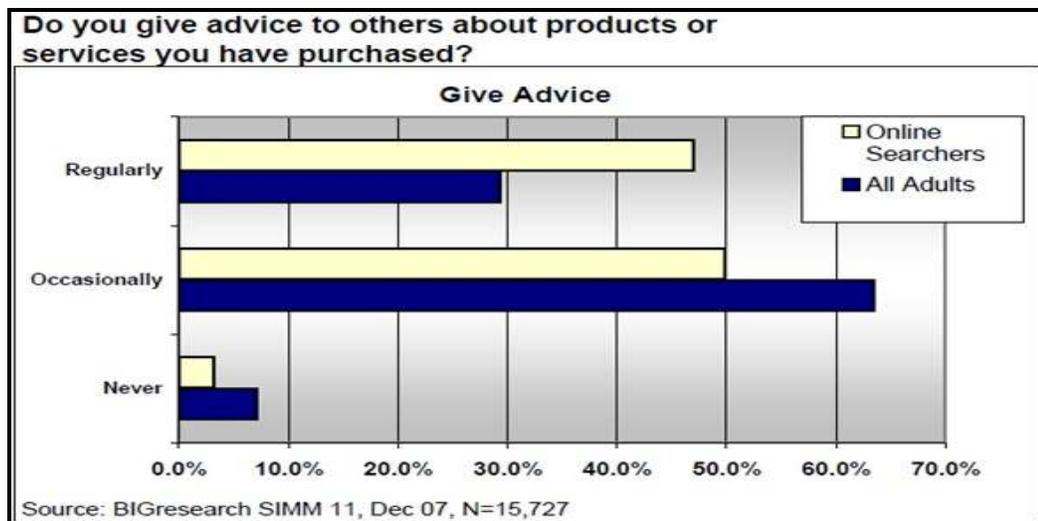
new non-traditional players such as supermarkets and telecommunication companies are entering the financial services markets. These new entrants bring large customer base and more innovative delivery channels for instance AEON Corporate, offers credit cards in which customers could use for online purchases and bills payment. Insurance companies, building societies and independent mortgage companies are leveraging on their large captive customer base by cross-selling a wide range of financial products. Virtual marketplaces are also increasing price transparency and pushing margins down. Websites are providing simple, easy-to-access comparisons of the fees, charges, interest rates and investment returns offered by the different providers of financial services.

In banking, Cicso (2009) reported that consumers increasingly want more control over their relationships with the bank; they choose when, how and where they do their financial activities; they don't want to visit the branch to obtain access to full-service banking services; they want to access full-service banking from their computers or mobile services, reserving branch visits for resolving only the most complex issues. And they want to feel they are being recognized as individuals, not just as account numbers.

In the past, consumers wanted banks to be secure, accurate and accountable. That has not changed, but today's online consumers 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 consume passively what is offered to them. They are more likely to resort to peers for

advice and information on products and services. According to an analysis of BIGresearch's most recent Simultaneous Media Survey (SIMM, 2007), consumers who regularly do their homework online before buying products in a store are a wealth of information and like to share their findings via WOM i.e. almost half (47%) give advice on a regular basis to others about products and services they've purchased, compared with 29.4% of all adults (Figure 2.2). To banks, this finding implied that online consumers become not only a potential subscriber to their online services but an influencer of others to purchase or use their banking services.

Figure 2.2:
Customer Engagement in WOM



Source: BIGresearch SIMM (2007)

In association with the findings, a survey by Keller Fay Group Research (2009), a full-service market research company reported that on a typical day, 35% of Americans have WOM conversations about financial services products or brands. Further, banks accounted for 44% of all financial brand-specific WOM, a much greater share of WOM than financial conglomerates (18%), investment firms (14%), general "stock talk" (10%), and credit cards

(8%). However, 36% of these bank conversations contained no recommendation, and only 26% contained a strong recommendation to buy or try the brand, 11 points lower than for other consumer categories. Lack of strong consumer recommendations suggest banks are yet to fully capitalizing on WOM. In other words, banks should be focusing more resources on leveraging their WOM opportunities.

2.4 Previous Studies

In the past, Internet Banking has been the focus of numerous academic papers as provision to increase consumer Internet Banking demand. Adoption, perception and usage of Internet Banking by consumers are the popular topics heavily examined in Internet Banking literature. Several converging reference domains and theories suggest numerous potential influences on consumer adoption of Internet Banking, including theories of consumer behavior in mass media choice and use, gratification theories, innovation diffusion, technology acceptance, online consumer behavior, online service adoption, service switching costs and the adoption of Internet Banking. Lichtenstein and Williamson (2006) summarized the approaches in Table 2.4.

Table 2.4:
Potential influences on consumer adoption of Internet Banking

| Approach | Influences | Source |
|---|--|---|
| Reception to mass media use: <i>Uses and gratifications</i> | Social escapism, information seeking, interactive control, socialization and economic motivations Security, privacy and trust | Cunningham and Finn, 1996; Korgaonkar and Wolin, 1999; Lin, 1999; Ruggiero, 2000. |
| Reception to mass media use: <i>Prospective gratification</i> | Habit strength, deficient self-regulation, self-efficacy | Bandura, 1997; LaRose et al. 2001; Limayem and Hurt, 2003. |

Table 2.4 continued

| | | |
|---|--|--|
| Diffusion of innovation | Relative advantage, compatibility, complexity, trialability, observability | Rogers, 1995. |
| Technology acceptance | Perceived usefulness, perceived ease of use | Davis (1989) |
| Online consumer behaviour and online service adoption | Channel knowledge, convenience, experience, perceived accessibility and perceived utility Time savings Site waiting time Security, privacy and trust Cost Service quality | Li et al., 1999; Bellman et al., 1999; Dellaert and Kahn, 1999; Huang, 2002; Miyazaki and Fernandez, 2001; Nissenbaum, 2004; Pew, 2005; Gefen et al., 2003; Meuter et al., 2000. |
| Service switching costs | Procedural, financial and relational | Burnham et al., 2003 |

Source: Lichtenstein and Williamson (2006)

Complementing the above, Centeno (2004) argued that speed, the convenience of remote access, 7/24 availability and price incentives are the main motivation factors for the consumers to use Internet Banking. Guerrero et al. (2007) examined the usage of Internet Banking by Europeans and their results indicate that ownership of diverse financial products and services, attitude towards finances and trust in the Internet as a banking channel influence clients' usage of Internet Banking. Durkin et al. (2008) made note on the simplicity of the products offered via Internet Banking facilitates the adoption of Internet Banking by consumers.

While the adoption of Internet Banking by consumers is heavily researched there are researches on the supply side of Internet Banking. The Woolwich Bank case study conducted by Shah and Siddiqui (2006) reveals that understanding clients, organizational flexibility, availability of resources,

systems security, established brand name, having multiple integrated channels, systems integration, systematic change management, support from top management, and good client services are the factors critical to success in Internet Banking. Howcroft et al. (2002) found that in order to be cost effective and successful in implementing Internet Banking, banks will need to provide value for money, error free, convenient and user-friendly services,

Berger (2007) argues that a sound understanding of client is required for improvement of e-banking. Thus, all relevant information about the clients should be taken into account and a client-centric strategy should be developed. Confirming Berger (2007), Bontis and Fitz-enz (2007) hypothesized customer capital as a driving force behind organizational performance. To sustain in long-term relationships, banking institutions have to embrace the concept of customer satisfaction. Sciglimpaglia and Ely (2002) suggested that banks are vulnerable to loss of customers to rivals with extensive online services. Customer account relationships are found to be predictive of electronic services use in general. And, interest in the use of specific online services is related to differing customer relationships. As supported by McMahon (1996), for banks to survive in the e-banking era, the retail banks will have to earn consumer loyalty through product features and services excellence. The satisfaction of customers is often associated with higher customer loyalty rates and increased economic returns that drive strategic business valuation (Anderson and Srinivasan, 2003). For successful delivery of financial services through Internet, Mols (1999) discovered that financial institutions have to satisfy a vast range of complex customers.

However, businesses also realized that satisfied customers are not always profitable. This has led to numerous researches examining the consequences of satisfaction such as reputation, loyalty and service recommendation (Athanasopoulos et al., 2001). Casaló et al. (2008) commented that increasing competitiveness in electronic commerce because of large number of agents involved in it, the reduced search costs and the high power obtained by the consumer with the appearance of the Internet, therefore, it is difficult to increase the client base of an online business and, as a result, the development of customer loyalty and positive WOM are two of the main objectives aimed at by today's online businesses. According to Reichheld & Sasser (1990), the profitability of a firm increases proportionally with the number of loyal customers, and up to 60% of sales to new customers can be attributed to WOM referrals.

In Malaysia, scholarly literature seemingly divides its research into two classifications. Firstly investigations into the understanding of why more users are accepting Internet Banking services and secondly the development of Internet Banking services. Among the Malaysian Internet Banking researches, Vijayan & Shanmugam (2002) researched on the service quality evaluation of five anchor Internet Banking websites in Malaysia. Sohail and Shanmugam (2003) assessed the customers' preferences for electronic banking and the factors, which they considered influenced the adoption of electronic banking. They recorded accessibility of Internet, awareness of e-banking and reluctance to change are found to be influencing Malaysian's use of Internet Banking. Adapting the diffusion of innovations theory (Rogers, 1983) and

motivation research (Vallerand, 1997), Ndubisi and Sinti (2006) found that attitudinal constructs such as importance of Internet Banking to customers' banking needs, compatibility, complexity, trialability, and risk play a significant role in Internet Banking adoption in their study to examine the determinant structure of customers' attitude system's characteristics on adoption of Internet Banking by Malaysian bank customers. For the interest to bank industry, Ong & Cheng (2003) investigated the critical success factors that bank should possess to ensure a successful implementation of e-channels in domestic commercial banks in Malaysia.

In corresponding to paradigm shift in customers' online behavior, Poon (2008), in his study of the determinants of users' adoption momentum of e-banking in Malaysia, has suggested that besides factors such as convenience, accessibility, feature availability, bank management and image, security, privacy, design, content, speed, and fees and charges, consumer-centric policies that integrate Internet Banking into interpersonal relationship with customers are vital to the electronic services patronage. Poon (2008) also suggested that to sustain in long-term relationships, banking institutions have to embrace the concept of customer satisfaction and accessibility, convenience, design and content are sources of satisfaction. According to Saleh (2009), customer satisfaction is positively related to loyalty in Malaysian banks who offer Internet Banking services. Ainin et. al. (2005) also found that many adopters of Internet Banking were encouraged by friends and family members to use e-banking. This has provided a foundation for further study on WOM in Internet Banking. However, focusing on the relationships between

customers and banks over the Internet, there is still lack of studies in Malaysia that analyze the formation of loyalty and WOM.

2.5 Theoretical Background

2.5.1 Customer Satisfaction

Satisfaction is a post-activity measuring index that measures the interior state of the customer's feelings about past purchases or services and experiences of shopping or using the services. Measuring the degree of satisfaction of customers is rather critical since satisfaction with the distribution service influences the customer's decision whether to continue using the channel.

The satisfaction of customers is an extremely popular subject in the extant management literature. Oliver (1997) defined satisfaction as the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over fulfillment. Some researchers (Mano and Oliver, 1993, Fornell, 1992, Westbrook and Oliver, 1991) defined customer satisfaction as an overall post-purchase evaluation.

According to Shanker et al. (2003), customer satisfaction is of two types; service encounter satisfaction and overall customer satisfaction. Service encounter satisfaction is transaction specific whereas overall customer satisfaction is the cumulative effect of time (Bitner and Hubbert, 1994; Oliver, 1997). The latter was further explained as non-economic satisfaction (Severt,

2002; Geyskens et al., 1999). This concept considers more psychological factor such as a partner fulfilling promises or the ease of relationships with the aforementioned partner (Bhattacharjee, 2001). Indeed, this psychological perspective fits this research context since the focal construct is the relationships between customers and banks over the Internet. In this line, satisfaction is understood as an attitude that evolves over time (Casaló et al., 2008; Eshghi et al., 2007) resulting from the interactions produced by the customer and the bank in the relationship. Thus, customer satisfaction is not the result of a specific transaction, but that of a global evaluation of the relationship history between the partner entities.

2.5.2 Outcome of Satisfaction - Loyalty

Customer loyalty is defined as “a deeply held commitment to re-buy or re-patronize a preferred product/ service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver, 1999). Shanker et al, (2003) commented that a true loyal customer was found to have commitment and attachment towards the retailer, and was not easily distracted to a slightly more attractive alternative. True loyalty indicates higher purchase intention, resistance to switch and willingness to pay more (Shankar et al., 2003). Keller (2009) defined loyalty as the repeated purchase behavior presented over a period of time driven by a favorable attitude toward the subject, including both attitudinal and behavioral aspects. This combined conceptualization of loyalty is strongly argued by Jacoby and Chestnut (1978), who criticized the

behavioral aspect of loyalty research which focused merely on repeat purchasing. Repeat purchase behavior only reflects the outcome of a decision process in which the emotional, attitudinal facet of loyalty is disregarded.

Flavián et al. (2007) suggested that loyalty could be considered as a non-random behaviour, expressed over time, which depend on psychological processes and closeness to brand commitment, and it has been analyzed from two different perspectives: attitudinal and behavioural (Bloemer and de Ruyter, 1998; Hallowell, 1996; Eshghi et al., 2007). This implies that the concept of loyalty includes a psychological link, based on customer feelings that motivate a general attachment to the products or services of an organization (Hallowell, 1996), and a behavioural component, based on aspects such as the frequency of visits to a store or the percentage of expense (Nilsson and Olsen, 1995).

Loyalty of the customers toward the exchange party generally encompasses brand loyalty (for a brand name product), vendor loyalty (for industrial goods), service loyalty (for services), and retailer loyalty (for a retailer/store) (Lim and Razzaque, 1997). Retailer loyalty, the loyalty towards a specific retailer, is of extreme interest to merchants, because high customer acquisition costs are difficult to regain without the commitment and repeat purchasing of the customer (Wallace et al., 2004). In this work, attitudinal and retailer loyalty will be the focus since the attitudinal loyalty refers to the customers' intentions to stay with and be committed to the organization (Casaló et al., 2008; Auh et al., 2007); and the research will be conducted in the context of online retailing.

The importance of loyalty has been a critical issue in the study of online retailing (Park and Kim, 2003; Yang and Peterson, 2004). In the perspective of online businesses, Anderson and Srinivasan (2003) stated online loyalty as “a customer’s favorable attitude toward an electronic business resulting in repeat buying behavior”. Online loyalty brings increased profitability to the online retailer through long-time (long-tail) customer commitment and reduced costs of acquiring new customers (Reichheld et al., 2000). Online loyal customers often are willing to pay premium prices and tend to refer new customers to the online retailer (Reichheld et al., 2000). Therefore, even though the cost of establishing online loyalty is larger than that of traditional brick-and-mortar retailers, profit growth accelerates at an even faster rate once the relationship has been built (Reichheld and Scheffer, 2000).

In explaining the establishment of online loyalty, satisfaction is found to play a pivotal role i.e. studies discovered that satisfaction influence loyalty (Anderson and Srinivasan, 2003). Oliver (1997) suggested that customer satisfaction can be thought of as a basis for loyalty. Researchers (Bontis et al., 2007, Spiteri and Dion, 2004, Anderson and Srinivasan, 2003) often associated customer satisfaction with higher customer loyalty rates. Satisfied customers tend to have higher usage of service (Ram and Jung, 1991), possess stronger repurchase intention, and are often eager to recommend the product or service to their acquaintances (Zeithaml et al., 1996) than those who are not satisfied. In addition, dissatisfied customers are more likely to search for alternative information and switch to another retailer, and is also more resistant to developing a close relationship with the retailer (Anderson and

Srinivasan, 2003). One survey investigation (Foresee results survey, 2005) concluded that highly satisfied online bankers were nearly 39 % more likely to purchase additional products and services from their bank than unsatisfied online banking customers. The relationship between satisfaction and loyalty has been found to be significant in numerous studies (Anderson and Srinivasan, 2003; Cai and Xu, 2006; Park and Kim, 2003; Rodgers et al., 2005). Recent online banking studies, including Casaló, Flavián, and Guinalú (2008), have found that customer satisfaction with previous online banking interactions have had a positive effect on customer loyalty.

Researchers also proposed that loyalty favours higher intensity in positive word-of-mouth (WOM) (Hallowell, 1996). Reichheld and Sesser (1990) proclaimed: "Yet another economic boon from the long-time customer is the free advertising they provide. Loyal customers do a lot of talking over the years and drum up a lot of business." Rust et al. (2000) commented the causal relationships between loyalty and WOM in his definition for customer loyalty as "customer's affective and cognitive end-state that should lead to repurchase or re-patronization, willingness to expand purchasing beyond the initially-purchased line of services or products, indifference to competitor's appeals, lower price-sensitivity, positive WOM, and other serendipitous effects on a customer's individual lifetime profitability and the overall profitability of the firm."

2.5.3 Outcome of Satisfaction – Word-of-mouth (WOM)

WOM is defined here as the extent to which a customer informs friends, relatives and colleagues about an event that has created a certain level of satisfaction (Anderson, 1998).

Abundant research demonstrates that WOM (WOM) is one of the most influential channels of communication in the marketplace. WOM is seen as more credible than marketer-initiated communications because it is perceived as having passed through the unbiased filter of “people like me” (Harris Interactive, 2007).

While WOM has always played an important role in the formation of consumer opinions, over the past decade it has become an even more powerful force, due to a technology-driven explosion in the number and types of informal communication channels. Email, the Internet, cell phones, PDAs, text messaging, instant messaging, and blogs have made sharing information and opinions easier than ever before.

Research and analyses of WOM is still an emerging field. Over the past few years, social scientists and marketing practitioners have made important strides in describing the components and structure of WOM interactions.

To grow their businesses, companies acquire customers in various ways, including marketing actions, such as broadcast media and direct mail (i.e., marketing-induced customer acquisition), and more spontaneous referrals

alike (i.e., WOM customer acquisition). In particular, the latter has recently gained more attention from both managers and academics (e.g., Godes and Mayzlin, 2004). Similarly, “the connected customer” has emerged as the overarching theme of the Marketing Science Institute’s (2006) “2006–2008 Research Priorities.”

WOM is informal advice passed between consumers. It is usually interactive, swift, and lacking in commercial bias. WOM is a powerful influence on consumer behavior. Keaveney (1995) noted that 50% of service provider replacements were found in this way. WOM may be positive (PWOM), encouraging brand choice, or negative (NWOM), discouraging brand choice. Researchers have claimed that PWOM is based on satisfaction and NWOM on dissatisfaction (e.g., Goldenberg et al., 2007; Richins, 1983),

PricewaterhouseCoopers (2008) indicated that about 75 to 100 million blogs and 10 to 20 million discussion boards in English can be found online. This outlet is popular for conducting global dialogues about products, services, and businesses, in which banks in Malaysia must be able to benefit from this platform for WOM communication.

Struebing (1996) stated that revenue streams can be generated by attracting new customers via WOM recommendations and increasing the percentage of repeat customers. Rust et al., (1996) showed that managers tend to believe that WOM from friends, family and colleagues who are satisfied with a company have a measurable impact on sales.

2.5.4 Antecedents of Satisfaction – Website Usability

Usability is the most traditional concept of study in human–computer interaction (HCI) research (Olson and Olson, 2003; Karat, 2003). Usability has been defined as a “the measure of the quality of a user’s experience when interacting with a product or system – whether a website, a software application, mobile technology, or any user operated device” (Anonymous, 2006). The importance of HCI and usability has become increasingly important with the development of the WWW and its role in e-commerce activities. In fact, Jakob Nielsen, a noted usability expert, suggests that organizations should spend 10 % of the development budget on usability (www.useit.com). Nielsen, in a study of 42 organizations who redesigned their website with usability as a primary concern, concluded that the sales conversion rates increased by 135% and that traffic on the website increased by 150% (www.useit.com/alertbox/20030107.html). These findings provide support as to the importance of developing websites that have high usability. Website usability can be defined as making the design simple enough so that customers, who by nature tend to be goal-driven, can accomplish their task as quickly and painlessly as possible (www.webcredible.com). Shneiderman (2005) suggests that usability can be a balancing act – inadequate functionality will render the application useless while complexity and clutter make an interface difficult to use. Nielsen (2003) states that it is more important for design to meet the needs of the customer rather than be attractive and fun. If the customer finds the site too difficult to use, there will not be a purchase or return visit (www.useit.com).

In their research on web customer satisfaction, McKinney et al. (2002) state that a website will be abandoned if the consumer has difficulty searching or retrieving their needed information, even if the website provides the information necessary to complete the intended task. They state that the website must compensate for lack of physical contact experienced by online shoppers and at the same time make the shopping experience easy and enjoyable. The user's impression of the website's usability impacts the user's impression of the products available at the site.

Although the HCI literature has examined several aspects of website usability (Turban and Gehrke, 2000; McKinney et al., 2002; Torkzadeh and Dhillon, 2002), it has only been recently that information systems literature has focused on website usability in the context of understanding B2C e-commerce. Two studies, Palmer (2002) and Agarwal and Venkatesh (2002), investigated the underlying dimensions of website usability. Palmer defined usability based on five dimensions derived from usability and media richness literature (download delay, navigability, content, interactivity, and responsiveness), while Agarwal and Venkatesh utilized the Microsoft Usability Guidelines to define website usability through five different dimensions (ease of use, made for the medium, emotion, content, and promotion). Each study resulted in an instrument that, it was suggested, could be used to assess a website's usability. Green and Pearson (2006, 2007) found that while both instruments (Agarwal and Venkatesh, 2002; Palmer, 2002) provided some degree of reliability and robustness in measuring website usability, a modified instrument consisting of navigation, customization and personalization,

download speed, accessibility, and ease of use provided a more valid and more robust measure of website usability. Interestingly, in their study, content was not a statistically significant predictor of website satisfaction or intent to return to the website. They concluded that content was not a necessary component of website usability – that users considered content to be part of usefulness. This differs from most previous research in this area, but intuitively makes sense. Based on previous work on website usability (Turban and Gehrke, 2000; Agarwal and Venkatesh, 2002; McKinney et al., 2002; Palmer, 2002) and the findings of Green and Pearson (2007), this study seeks to determine the relative importance of these five dimensions (navigation, customization and personalization, download speed, accessibility, and ease of use) in an individual's assessment of website usability.

Usability and design are important to human–computer interaction (HCI) because they influence user satisfaction and task performance when using a computer (Palmer, 2002). Usability refers to the extent to which the user and the system can communicate clearly and without misunderstanding through the interface (Benbunan-Fich, 2001). Good website design enhances usability, thus affecting the success of the websites. Ranganathan and Ganapathy (2002) argued that a website's design plays a crucial role in attracting, sustaining and retaining the interest of a customer in the website. Also, several studies have empirically verified that the design of a web affects users' satisfaction (Liu et al., 2008; Zviran, Glezer, & Avni, 2006). Hence, the design of the online banking website may have a positive influence on customer satisfaction (Yoon, 2010).

2.6 Chapter Summary

This chapter provides a foundation for the research and drawing on the above literature, the research question was reiterated as follows: “Will there be any significant relationship among website usability, customer satisfaction, loyalty and positive WOM engagement?”