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# THE ROLE OF E-COMMITMENT AS A MEDIATOR IN THE RELATIONSHIP BETWEEN E-SERVICE QUALITY AND CUSTOMER RETENTION

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## ABSTRACT

*The study finds out that longer the duration of banking relationship between the customer and the bank need not indicate commitment, as commitment is only a partial mediator in the relationship between e-service quality and customer retention. This confirms the findings of the study by Venetis and Ghauri (2004), where it was discussed that service quality is the most important factor in establishing long-term customer relationships and thus customer retention. Moreover, they similarly established that there is no significant correlation between the length of the relationship and customers' commitment, indicating that there is nothing intrinsically built during the relationship that makes clients more prone to stay or committed to the relationship. Ennew and Binks (1996) examined the links between customer retention/defection and service quality in the context of relationships between banks and their small business customers in the UK. Their findings support the hypothesis that retention is influenced by service quality, in terms of both functional and technical, and customer relationships.*

## KEYWORDS

e-service quality, e-commitment, customer retention, mediation, internet banking.

## INTRODUCTION

Customer service is the service provided in support of a company's core products. It includes answering questions, taking orders, dealing with billing issues, handling complaints and scheduling maintenance or repairs. Customer service can occur on site or it can occur over the phone or via the internet. There is usually no charge for customer service. Quality customer service is essential for building customer relationships. In case of online commercial transactions, customers can compare suppliers in real time, at any time, making it imperative that service providers do everything possible to upgrade and maintain service quality so as to ensure that customers not only remain loyal but are also retained in the long run. Building superior customer loyalty on-line and retaining these customers for the longer run is now the key to success of any business.

In the Indian banking system too, the IT revolution has had a great impact. The RBI in 1984 formed a Committee on Mechanization in the Banking Industry; followed in 1988 by a Committee on Computerization in Banks because of which computerization began from 1993; and, in 1994, the Committee on Technology Issues emphasized on Electronic Funds Transfer (EFT) system. Electronic banking refers to doing banking by using technologies like computers, internet and networking, MICR and EFT to increase efficiency, quick service, productivity and transparency in the transaction. In a highly service-oriented industry like retail banking, customers expect organizations to deliver service quality to their satisfaction. Therefore, to meet the growing service quality expectations of their customers, commercial banks have spent huge proportion of their budgets on service performance related expenditures.

## REVIEW OF LITERATURE

E-service, based on information technology, includes the information provision and system support, the logistic transportation of service and the trace and exchange of information. It is defined as: "...deeds, efforts or performances whose delivery is mediated by information technology. Such e-service includes the service element of e-tailing, customer support, and service delivery" (Rowley, 2006, p. 341). This definition reflects three main components- service provider, service receiver and the channels of service delivery (i.e., technology).

Lu, 2001 identifies a number of benefits to be obtained from e-services, some of which are:

- Accessing a greater customer base;
- Broadening market reach;
- Lowering of entry barrier to new markets and cost of acquiring new customers;
- Alternative communication channel to customers;
- Increasing services to customers;
- Enhancing perceived company image;
- Gaining competitive advantages;
- Potential for increasing customer knowledge.

Web sites play a significant role in the overall marketing communication mix (Berthon, Pitt, & Watson, 1996a). They complement direct selling activities, present supplemental material to consumers, project a corporate image, and provide basic company information to customers.

E-service quality, to some extent, refers to the effectiveness and efficiency of online browse, online purchase, and delivery of goods and services (Parasuraman, Zeithaml, & Malhotra, 2005). E-SQ can be defined as the extent, to which a Web site facilitates efficient and effective shopping, purchasing, and delivery of products and services (Zeithaml, Parasuraman & Berry, 2000). Customer perception about product/service is based on quality of service or product (Parasuraman, Zeithaml & Berry, 1988). For the purposes of data collection, the E-S-QUAL questionnaire prepared by Parasuraman et al., (2005), has been used, along with Loonam and Loughlin (2008b), for the measure Reliability.

Morgan and Hunt (1994) regard relationship commitment as the keystone of relationship marketing. They define commitment as "an ongoing relationship with another that is so important as to warrant maximum efforts at maintaining it". In a relationship marketing context, customer commitment is seen as an attitude that reflects the desire to maintain a valued relationship. In the context of relationship marketing, Gounaris, Tzempelikos, and Chatzipanagiotou, (2007), have studied that there are two main objectives applied in the banking context. The first one is that bankers should maintain loyal customers who contribute the profit to banks; the second is that bankers should provide continuous product/service with relative high quality, in order to establish customers' commitment, and then earn further benefit in turn from these customers. Gundlach, Achrol, and Mentzer (1995) argue that for gaining customer retention, share increase, and public support, the concept of commitment may become a central point of explanation in marketing. It is necessary to examine the reason why customer choose a particular service provider. As per the commitment theory of relationship marketing the reason for successful relationship development with a particular service

firm is due to the commitment and trust so, building commitment amongst customers for a bank is very essential for establishing long-term relationship. According to Morgan and Hunt (1994), organizations need to promote commitment in order to develop a cooperative network of customer relationships.

For the purposes of this study, e-commitment has been defined as the decision of the customer to continue using the services of his bank's website in the present and the near future as well as his decision to visit his bank's website first if he needs any banking services. E-commitment was measured on a 7 point Likert scale, with 1 being strongly disagree and 7 being strongly agree, on a scale developed by Hamadi (2011).

Customer retention is defined as the future propensity of a customer to stay with the service provider (Ranaweera & Prabhu, 2003). Customer retention has also been characterized as the degree to which a customer exhibits repeat purchasing and price tolerance behavior to a company (Ahmad & Buttle, 2002). Here, customer retention has been defined as the willingness of a net banking customer to remain with the bank even if internet banking charges increase, to pay higher fees than competitive bank websites, considering his bank's website as the first choice. It also defines the customer's loyalty of remaining with the bank even if he faces difficulties with the bank's website and not complaining to other customers and outside agencies if faced with difficulties with the bank's website. Customer retention was measured on a 7 point Likert scale developed by Zeithaml, Berry and Parasuraman (1996) with 1 being strongly disagree and 7 being strongly agree. Ranaweera and Neely (2003), concluded that customer perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact. Many scholars have used the term "future behavioral intentions" to describe the concept of customer retention (Zeithaml et al., 1996). Most studies about customer retention argue that retaining customers improves profitability, importantly by reducing the cost incurred in acquiring new customers (Reichheld & Kenny, 1990). It is generally found that due to the attachment and commitment to the organization those customers who are retained will remain loyal. These retained customers will in turn recommend others to purchase and repurchase the companies' product and services (Gremler & Brown, 1999; Oliver, 1999). Reichheld and Sasser (1990) stated that, longer the firm retains the customer, more profit customer generates. Many authors have also claimed that higher the retention rates, higher will be the net present value of the customers. This is a result of various factors like effects of the higher cost of attracting new customers, increased cost of purchases over a period of time, expanded number of purchases, positive word – of- mouth and mutual understanding between customers and firm.

According to Ahmad and Buttle (2002), service firms must improve customer service quality in order to retain customers. They further advocated retention measurement and preventing customer disloyalty by analyzing complaint and service data and identifying and creating deterrents to customer switching. Reichheld (1996) suggested that in order to succeed in retaining the customers, firms should adopt the strategies like defining and measuring retention and seeking loyalty by focusing on the quality of the service. Moreover, strategies should also include changing the channel of distribution, reducing the number of undesirable customers through filtering, offering the rewards to service personnel for retaining the customers, using coupons to distinguish and reward the customer who repurchase and designing the program to attract and retain the valued customers. Customer retention is the important factor that leads to increased profitability and revenue. Boles, Barksdale and Johnson (1997), proposed that retaining customers is not only cheaper than attracting the new one but it is also profitable for suppliers and buyers. Many authors have further added that companies that retain high percentage of customers can improve their retention and easily attract the new customers in future.

Outstanding service quality leads to the customer retention. According to the research of Zeithaml et al., (1996), service quality leads to continuing profits, increased expense, payment of cost and generation of referred customers. Further, author stated that certain behavior signals that customers are falsifying commitments with the firm. Customers demonstrate their favorable intentions such as admiring the company, conveying fondness, enhancing purchasing volume, paying premium readily, making positive comments about the firm to others and continue buying with the same firm. Parasuraman et al., (1988) found the positive and significant link between perceived service quality of the customers and their intention to refer the firm to the others.

Barnes and Howlett (1998) presented evidence that service quality is directly related to customer retention. Banks must identify factors that they need to improve on so as to increase customer retention. Banks need to come up with ways of rewarding the sales force for retaining customers. Organizations should endeavor to create value for their customers. For the banks to gain a sustainable competitive advantage, banks need to extend the quality of their services beyond the core services.

### IMPORTANCE OF THE STUDY

Venetis and Ghauri (2004) supported the claim that service quality has a strong positive impact on the desire of customers to stay committed to an organization and this in turn leads to the long term retention of customers. There is a positive relationship between commitment and retention (Bloemer and Odekerken-Schröder, 2003). The research gap is to find out, in the Indian internet banking sector, not only whether there exists a direct positive relationship between E-Service Quality and Customer Retention, Customer Retention and E-Commitment, but also whether E-Commitment strengthens the relationship between E-Service Quality and Customer Retention.

### STATEMENT OF THE PROBLEM

Studies in the area of banking have talked about the importance of e-service quality in establishing customer commitment, but the importance of this study lies in the fact that it focuses exclusively on internet banking among Indian banks. Unlike other studies, this study has aimed at establishing a direct relationship between e-service quality and customer retention. Moreover, this study also aims at finding out the possibility of e-commitment acting as a mediator in the relationship between e-service quality and customer retention.

### OBJECTIVES

1. To study the impact of service quality on E-Commitment and Customer Retention.
2. To understand the mediating effect of E-Commitment in the relationship between E-Service Quality and Customer Retention.

### HYPOTHESIS

H1: There is a direct positive relationship between E-Service Quality and Customer Retention.

H2: There is a direct positive relationship between E-Service Quality and E-Commitment.

H3: There is a direct positive relationship between E-Commitment and Customer Retention.

H4: E-Commitment strengthens (mediates) the relationship between E-Service Quality and Customer Retention.

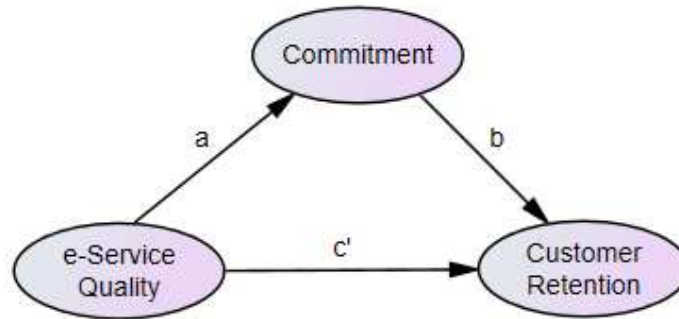
### RESEARCH METHODOLOGY

The data was collected with the aid of questionnaires. Responses from 385 completed and validated questionnaires were used for the purposes of statistical inferences.

### RESULTS AND DISCUSSIONS

Mediation effect can be called as an intervening effect. A mediator is a predictor link in the relationships between two other variables. In the present context of the SEM model, E-Commitment acts as a mediator between E-Service Quality and Customer Retention.

FIG. 1: MEDIATION MODEL FRAME WORK FOR E-SERVICE QUALITY AND CUSTOMER RETENTION WITH COMMITMENT AS MEDIATOR



A. Zero Order Correlation between e-service Quality to Commitment

FIG. 2: DIRECT RELATIONSHIP BETWEEN E-SERVICE QUALITY TO COMMITMENT

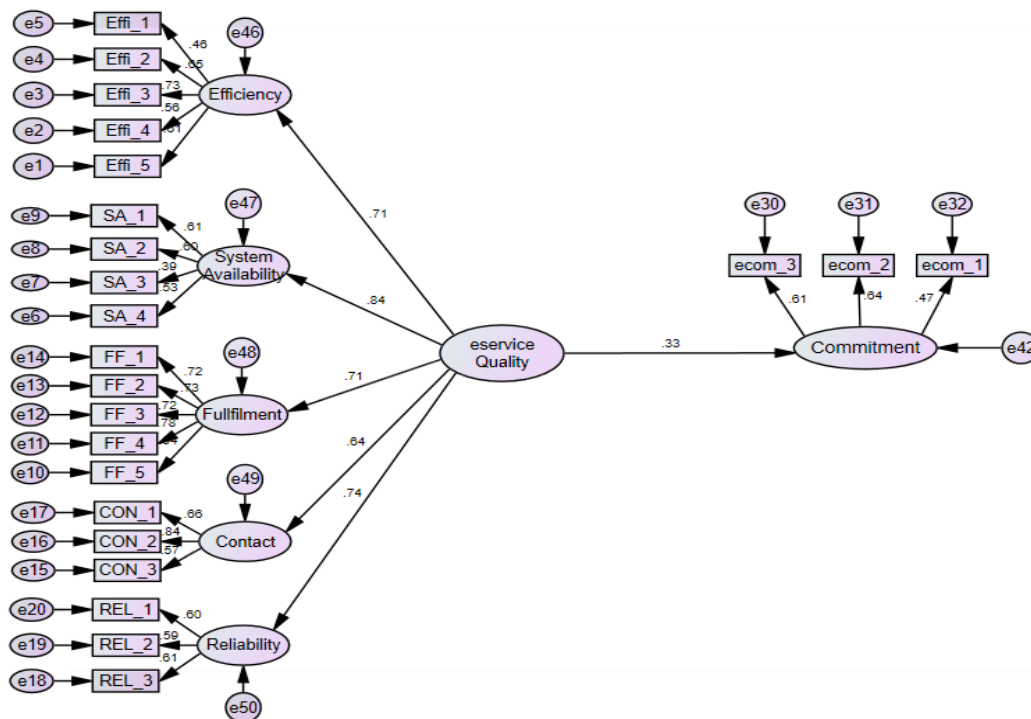


TABLE 1: DIRECT RELATIONSHIP BETWEEN E-SERVICE QUALITY TO COMMITMENT

			Standard estimate	S.E	C.R	P value
Commitment	←---	e-service Quality	0.332	0.119	4.108	0.000*

\*Significant at 5%.

Figure 2 and Table 1 shows that there is a direct positive relationship between e-service quality and e-commitment. This means, higher the e-service quality, higher would be the commitment of customers to the banking websites and the banks.

B. Zero Order Correlation between Commitment and Customer Retention

FIG. 3: DIRECT RELATIONSHIP BETWEEN COMMITMENT TO CUSTOMER RETENTION

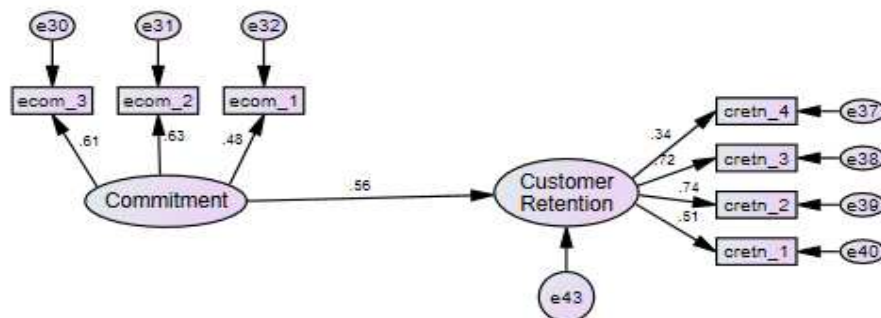


TABLE 2: DIRECT RELATIONSHIP BETWEEN COMMITMENT AND CUSTOMER RETENTION

			Standard estimate	S.E	C.R	P value
Customer Retention	←---	Commitment	0.558	0.087	4.320	0.000*

\*Significant at 5%.

Figure 3 and Table 2 shows that e-commitment has a direct positive relationship with customer retention. This indicates that higher the e-commitment, higher would be the long-term retention of customers.

C. Zero Order Correlation between E-service Quality and Customer Retention:

FIG. 4: DIRECT RELATIONSHIP BETWEEN E-SERVICE QUALITY TO CUSTOMER RETENTION

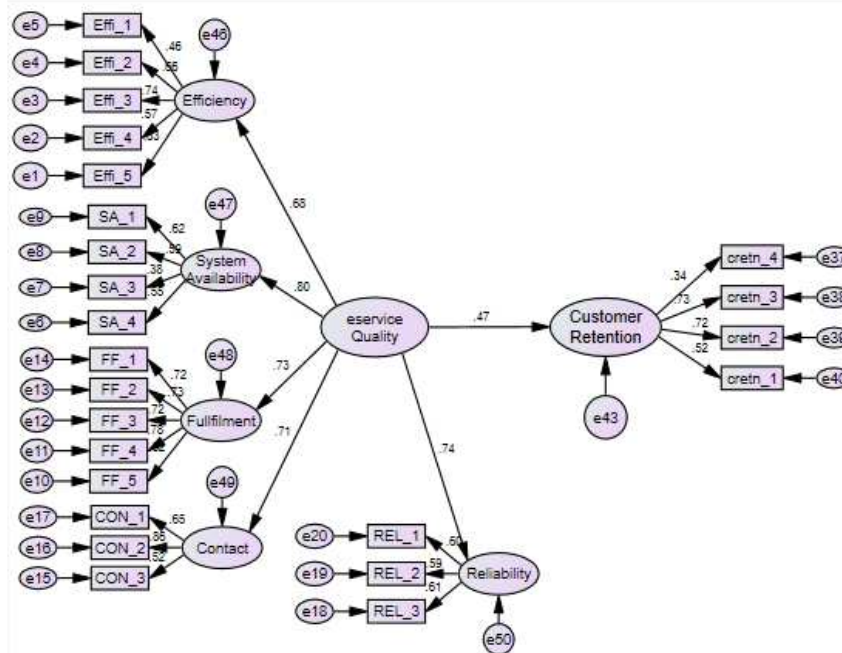


TABLE 3: DIRECT RELATIONSHIP BETWEEN E-SERVICE QUALITY AND CUSTOMER RETENTION

			Standard estimate	S.E	C.R	P value
Customer Retention	←---	e-service quality	0.470	0.102	4.608	0.000*

\*Significant at 5%.

Figure 4 and Table 3 indicates that there is a strong direct positive relationship between E-service quality and customer retention. Therefore, bettering the e-service quality of banking websites and rendering of online banking transactions increases the level of customer retention among e-banking customers.

D. MEDIATION Effect result

FIG. 5: MEDIATION OF COMMITMENT ON E-SERVICE QUALITY TO CUSTOMER RETENTION MODEL

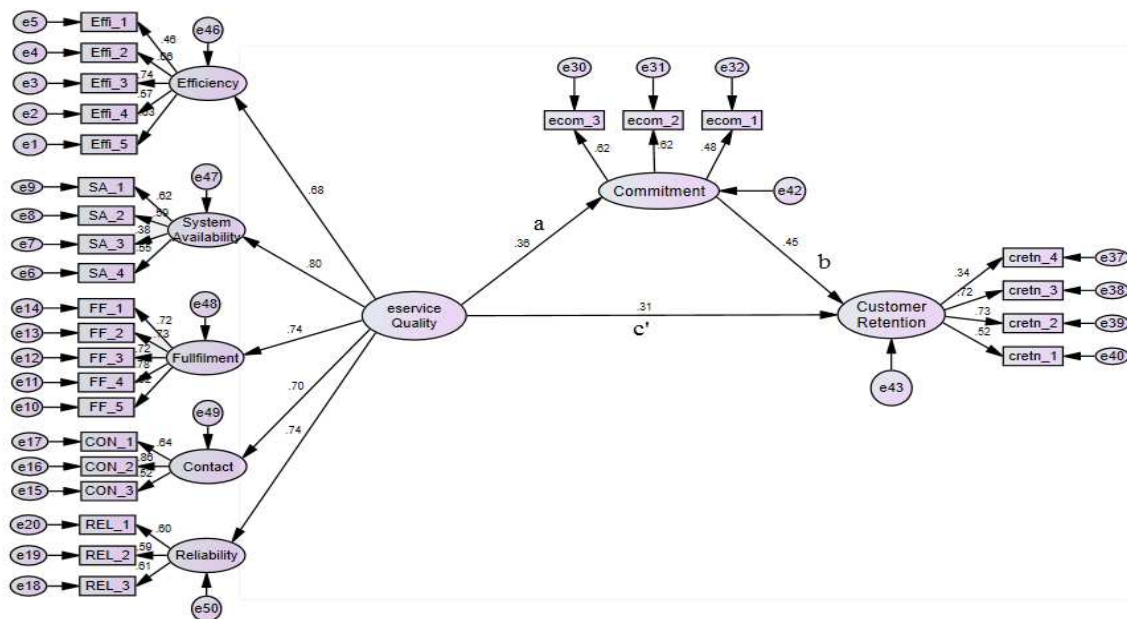


TABLE 4: TEST FOR MEDIATION EFFECT OF COMMITMENT ON E-SERVICE QUALITY TO CUSTOMER RETENTION

(Bootstrap samples =200 and confidence level = 95 %)

	$\beta$	Boot S.E	Boot LLCL	Boot ULCL	p-value
a	0.357	0.080	0.247	0.519	0.002*
b	0.447	0.077	0.311	0.572	0.014*
a*b (Indirect)	0.160	0.042	0.097	0.243	0.003*
Direct	0.313	0.084	0.160	0.430	0.014*
Total	0.473	0.080	0.350	0.610	0.006*

The indirect effect from e-service quality to Customer Retention via Commitment is =  $0.357 \times 0.447 = 0.160$ . This is found significant (p-value is 0.003) through bootstrapping (Table 4).

The direct effect from e-service quality to Commitment is 0.357. This is statistically significant (p-value is 0.002) (see Table 4). Similarly the direct effect from Commitment to Customer Retention is 0.447 and this path coefficient is also significant (p-value is 0.014). Hence, we conclude that only Partial Mediation occurs between E-Service Quality and Customer Retention when commitment acts a mediator. In essence, Commitment would help to a certain extent but does not completely strengthen in retaining the customer base. It is only a better service quality alone that would strongly influence in retaining the customers.

## FINDINGS

Hypothesis H1 has been proved that there is a direct positive relationship between E-Service Quality and Customer Retention.

Hypothesis H2 has been proved that there is a direct positive relationship between E-Service Quality and E-Commitment.

Hypothesis H3 has been proved that there is a direct positive relationship between E-Commitment and Customer Retention.

Hypothesis H4 has been partially proved. E-Commitment partially strengthens (partially mediates) the relationship between E-Service Quality and Customer Retention.

## RECOMMENDATIONS

For banking managers, it is important to realize that formal agreements with their banking customers have no positive influence in establishing and maintaining long-term relationships. It is necessary to note that other than commitment to banking websites, long-term retention of internet banking customers can be established only through improvement of e-service quality. This study can be extended to other service industries, considering with it variables such as e-satisfaction, e-trust and e-loyalty that may act as mediators in the relationship between e-service quality and customer retention.

## CONCLUSIONS

To conclude, longer the duration of banking relationship between the customer and the bank need not indicate commitment, as commitment is only a partial mediator in the relationship between e-service quality and customer retention. This confirms the findings of the study by Venetis and Ghauri (2004), where it was discussed that service quality is the most important factor in establishing long-term customer relationships and thus customer retention. Moreover, they similarly established that there is no significant correlation between the length of the relationship and customers' commitment, indicating that there is nothing intrinsically built during the relationship that makes clients more prone to stay or committed to the relationship. Ennew and Binks (1996) examined the links between customer retention/defection and service quality in the context of relationships between banks and their small business customers in the UK. Their findings support the hypothesis that retention is influenced by service quality, in terms of both functional and technical, and customer relationships.

## LIMITATIONS

One among the few limitations that the study faces has been with reference to the fact that various other factors that have an influence on the e-service quality – customer retention relationship, such as trust, satisfaction and loyalty are not considered as mediators. Secondly, sampling was based on judgment of the researcher, as well as among an urban banking population.

## SCOPE FOR FURTHER RESEARCH

The study was conducted only among internet banking customers. It can be replicated in other service sectors, such as hospitality, airlines and advertising services. This is because, in such service sectors, though all the service providers ensure that competitive services are provided to maintain long-term relationship commitment and customer retention, the customer stands to lose nothing if they were to switch service providers. It would also be valuable to find out, which dimensions of e-service quality contribute toward customer retention. Another aspect that needs to be investigated is whether switching costs act as a means of ensuring that customers are retained for a long time, even though service quality may be poor.

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