In this paper, we present a conceptual framework that helps to better understand and assess the impacts of information technology on customer loyalty in retail banking. To do so, we define the concept of customer loyalty and identify its antecedents. A conceptual framework describing the impacts of information technology on loyalty is developed based on the literature in marketing, social psychology, and communication. The framework suggests that electronic banking might have different effects on loyalty depending on the type of customer. Research in social psychology indicates that customers can be either communally-oriented or exchange-oriented. Loyalty is thus likely to be generated differently in each case: for communally-oriented customer loyalty is likely to be generated based on social and personal interactions, whereas for exchange-oriented customers, loyalty is enhanced by service efficiency and reliability. Because it reduces the amount of face-to-face interactions customers have with bank personnel, electronic banking is likely to lead to lower levels of loyalty for communally-oriented customers and to higher levels of loyalty for exchange-oriented customers.

INTRODUCTION

Today’s banking industry is increasingly turbulent and competitive. While some North American banks such as Citibank now derive more than half of their
income from abroad, several international banks (e.g., Hong Kong Bank, Banque de Paris) have recently entered the North American market. Similarly, London-based Standard Chartered Bank has recently either taken control or bought out banks in Thailand, New Zealand, and Australia. Over half of all banking sector assets are now under foreign control in Chile and Argentina (The Economist, 2000). Likewise, in Central Europe, foreign banks have increased their ownership in bank assets from 10% to more than 50% in the last five years (The Economist, 2000). In addition, numerous firms are now entering in the banking industry by offering financial products and services (e.g., Toyota’s credit card, GM’s auto financing, Merrill Lynch investments, Fidelity’s and Investors’ mutual funds).

To compete in such an environment, banks have adopted a strategy that focuses on trying to instill, build, and maintain the loyalty of clients through customer segmentation, product differentiation, cross-selling, product bundles, and establishing a long-term relationship through personal contacts. This strategy is expected to lead to increase post-purchase consumer communications (e.g., positive word of mouth) (Reichheld, 1996), decrease search motivation (Holbrook, 1978), diminish resistance to counter-persuasion (Wood, 1982), increase frequency of purchase (Reichheld and Sasser, 1990), lower price sensitivity (Krishnamurthi and Raj, 1991), and give more time for companies to respond to competitors’ actions (Aaker, 1991). The importance of establishing a relationship that fosters customer loyalty is reinforced by the fact that it can be five to ten times more expensive to win a customer than to keep an existing one (Rosenberg and Czepiel, 1984). In retail banking, the benefits associated with increasing customer retention includes a three year increase in average customer lifetime when customer retention increases by five percent, a reduction of defection rates, and an increase in account usage (Council of Financial Competition, 1995; Reichheld and Sasser, 1990; Rust and Zahorik, 1993). A significant association between customer-oriented measures such as satisfaction, repurchase intention, perceived quality, perceived value, and loyalty and financial performance measures such as ROA, market-to-book ratio, and price-earnings ratio (Anderson, Fornell, and Lehmann, 1994; Murphy, 1996).

In parallel, in an effort to offer better services and to reduce operating costs, banks invest important amounts of money into Electronic-banking (E-banking from now on). In 1998, U.S. banks invested $21 billion (US) in information technology (Ernst and Young, 1998). Worldwide, the global market for automatic teller machine (ATM) services and equipment is expected to rise from $5.6 billion (US) in 1999 to $13.3 billion (US) by 2002, and the number of ATMs is expected to surpass 1.15 million in 2004 (Cochran, 2000). Banks have also used information technology to facilitate Direct Deposit payment (automatic deposits/withdrawals into and from bank accounts), Pay-by-Phone Systems (payment of bills and transfer of funds by telephone), Personal Computer Banking (ability to conduct...
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