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## **Moderating Role of Brand Image With Relation to Internet Banking and Customer Loyalty: A Case of Branchless Banking**

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### **Abstract**

Purpose: Internet is of vital essence to excel and progress of organization growth. It has revolutionized the banking sector all over the world. A spectacular innovation in banking sector is to introduce Internet banking services. The aim of this study is to inspect the moderating relationship of Brand image between internet banking and customer loyalty. Design/methodology/approach: This study is conducted using positivism paradigm and deductive quantitative methods of inquiry. Data was collected in a survey from those customers who were using internet banking services in Pakistan. Questionnaire was adopted from research studies of Zeithaml et al. and Park et al. A theoretical framework is proposed to suggest the links among variables. The sample size selected for research constitutes of 437 respondents belongs to Lahore and Islamabad, from Pakistan. Simple and Moderating regression analysis is used to examine hypothesized relationship. Findings: There are two major finding the foremost, those banks who are providing internet banking services their customer are loyal with their banks, to prove this argument simple regression analysis employed result reveals that internet banking bring 94% change on customer loyalty. The second

magnificent finding is to check the role of brand image as a moderator. Results prevailed that there is significant quasi moderation exist between Internet banking, and customer loyalty and prove that, if the Brand image would strong the relationship between internet banking and customer loyalty will enrich. Research limitation/Implications: Further research is indicated, to identify impact of these variables on other services provider companies of Pakistan excluding banking sector. Banking sector of Pakistan should pay more attention to enrich their brand image to enhance the customer loyalty. Originality/Value: This study is unique as it is pioneer study with moderation effect of brand image and will be helpful for the mangers to understand the value of brand image in context of Internet banking and customer loyalty.

**Keywords: Internet banking; Brand image; Customer loyalty**

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## **INTRODUCTION**

In early days of conventional banking, there was a system of direct finance, when the owner of the companies deals directly with the suppliers or their customers. But with the passage of time it is updated into structured form to fulfill the need of industries and individuals. Wolf [1] states that “ today banks are dealing in various transactions like receiving, collecting, transferring, paying, lending, investing and many more in order to facilitate and achieve excellence in their consumer’s insights”.

A remarkable development started with electronic banking. Electronic banking contains different types of services like ATM, Mobile Phone Banking, Real Time online banking, Point of sale, Call center banking, Plastic card composition however, the present study will just focus on Internet banking which is most innovative and convenient service of Electronic banking, trend has changed, electronic banking is flourishing day by day, there are 22 banks in Pakistan who are offering internet banking moreover the usage of the transaction is in millions, Figure 1 shows the overall trend of internet banking it depicts 26.6% growth rate and the maximum transaction that has been done electronically were for the purpose of electronic bills. This change reflect the statement [2] “one of the major forces behind the changes happening to business is technology, that is creating new products, services market opportunities and developing more information and system oriented business and management processes”.

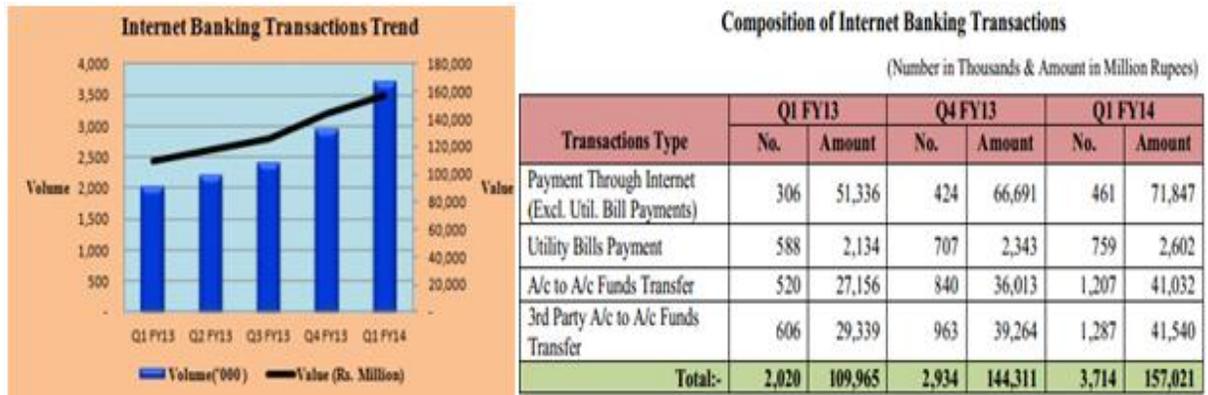


Figure 1: Trend of Internet Banking

According to Shariq [3], different researchers have defined internet services in different ways however, their implication is up to the product requirements. The focus of this study is on web based internet banking (WWW). Chaffey [4] also elaborate internet and its related services research narrate that internet banking is a physical network that work all over the world and it console the links of different computers, it gathers the information of customers needs and wants and enlighten the services, moreover this research is also prove that by using technology you can Loyal your customers. Bharadwaj [5] illustrate that, the importance of the information technology can't be ignored and in every segment of business.

Kardaras [6] argues that banking sector is the most important sector to analyze and get the maximum advantage by using E-commerce moreover it is important for enhancing the business. Furst [7] argues that internet banking is one of the splendid service.

Tan and Teo [8] also argue that internet banking is reliable source for customers and as well as convenient, research also described that the use electronic banking is low cost alternative. Market for internet banking is expanding day by day and in couple of year it is forecasted that, traditional banking will be slower as compare to internet banking, one another forecasting about the banking sector that those bank who are not providing internet banking services it is estimated that they will lose ten percent of their customer every coming year [9]. Banks are using World Wide Web for increasing their customer information and delivery channels and the advance stage of World Wide Web is internet banking where customer can make their transaction online without visiting bank this concept is also called branchless banking and it is the most power full service to enhance the customer satisfaction [10].

Internet banking involve a process where user use the internet and get directly access from bank account and perform banking transaction, user can create

account with provision of bank and later get access of their bank account once customer get the access from their own account then they perform transaction direct from their account it may be payment of utility bills or the transfer of funds [11].

Gerrard [12] illustrate that in USA more than thirty five million consumers are using online pc banking and the percentage of online banking is growing day by day hence, United Kingdom is also following the same trend and here more than seven percent of customers are using internet banking. Polatoglu [13] argue that in Norway and Germany more than eight percent customer are those who are using internet banking till the end of 2004 and this growth rate is increasing. Mattila [14] described the detail history of internet banking in Finland research shows that the trend of using internet banking in Finland is higher as compare to other countries. Technology is playing key role in every type of business and it is essential, without it to get competitive advantages is impossible [15]. Internet banking will change the way of services and interaction between mangers and customers [16]. By using technology you can monitor your customer in good way as compare to physically [17].

Internet is playing important role in our lives as Gupta [18] says, customer choose the internet banking because it is convenient and have speedy action. A website in internet banking plays a role of delivery channel that is very important in usability point of view [3]. Internet banking enhances the customer loyalty because it is convenient and accessible every time. Customer loyalty can be useful, Casaló [19] suggested that in order to develop loyalty ultimate objective is to enhance the future purchase of the company.

## **LITERATURE REVIEW**

### **Internet banking**

The ratio of internet users is growing day by day globally the trend of using internet is swelling. According to the international world statistics till 2009 there were more than 1500 million people who are using internet services all over the world, in new area people want easiness in every field of life and internet banking is the most popular service in banking sector. It has totally revolutionized the traditional banking system.

Mols [17] claims that internet will change the way of companies they do business. It will bring your customer closer and will create strong relationship. Kardaras [6] also explain the importance of the banking sector services according to the research e-commerce is best for banking sector to reduce the cost of the transaction as well as to bring easiness in banking operation. Shariq [3] explains that the use of internet and technology is the most important element to improve efficiency in business. Tan and Teo [8] illustrate that internet banking will grow

vigorously in coming years and it will transformed traditional banking into branchless banking. Orr [9] illustrate banks that are not providing internet banking they will lose their customer.

Reichheld [20] explains that if your company is providing better services on your website the chances of customer loyalty would be higher. Norsworthy [21] also explain that if you are using internet properly it would be powerful for your business and it will enhance the image and loyalty towards that particular brand. TarÃ„,Â±ÃŒEÂ• [22] illustrate that companies must know that how to hold the customer for their survival and the use of internet is the best way to attract your customer anywhere at any time, hence companies should review their policies of product development, they must get feedback about their online usage if your customers are giving you proper feedback it means you are gaining trust via use of internet services.

## **Customer loyalty**

Customer Loyalty aim is retaining and making the customers loyal towards a brand or a product [11,23]. Brown [24] narrate that customer loyalty have always been key factor for enhancing customer experiences, almost every entrepreneur has realized the importance of customer loyalty and know that it is tough to attain a new customer rather than to retain your customer via customer loyalty. Chaudhuri [25] customer loyalty directly impact on companies sales and for companies it is essential that they must prioritize their customer needs and wants to make them loyal with product. Customer loyalty is regarded as necessary for successful competition in all types of businesses, manufacturers, services and retailers. Dick [26] also narrate that customer loyalty is important for successful business and it is important for manufacturer, retailer and more important in online transaction, if you want to attain loyalty you have to explore psychological position of the customer towards a specific object.

Johnson [27] explains that you can see customer loyalty in different perspective moreover different business have different types of requirement to make their customer loyal. Andreassen [28] narrate that managers must focus on the development of customer loyalty because customer loyalty means that future purchase would be higher, the notion is simple, and if your customers are loyal with your products they will buy your products once and again. Edvardsson [29] explain that confidence about your product motivate your customer towards customer loyalty moreover the value you are giving to your customer will also enrich the customer loyalty. Hallowell [30] narrate that customer loyalty is the key factor for your business and if you are doing business online it is more important to gain customer trust for customer loyalty.

Flavián [31] explain that loyalty is close to psychological process and the commitment that your customers have with your product. Hallowell [30] described

the attitudinal and behavioral loyalty. Flavián [31] enlighten behavioral component of customer loyalty it based on the customer visit to a shop to make a purchase with a special frequency. Nilsson [32] is also describe behavioral and attitudinal loyalty however for internet banking researcher will chose attitudinal loyalty it is a state where your customer stay committed with your product otherness behavioral dimension is just a state of effectiveness Eshghi [33] also illustrate that attitudinal loyalty is best fit for internet banking, thus the following hypothesis generate

### **Hypothesis 1:**

H0: There is no significant relationship between internet banking and customer loyalty.

H1: There is significant relationship between internet banking and customer loyalty.

### **Brand image**

The brand is the identity of the product and image explains that is brand valuable or not.

Aaker [34] explain that brand is as important as product itself, it differentiate the product with other products, brand is an emblem and motivate the customer to buy the products, symbol may be called differently like logo according to the easiness or trademark moreover the key role of a brand is to distinguish a product with other on behalf of quality or service, it create trust between customer and manufacturer and give competitive advantages.

Kapferer [35] define that brand is an identity of a product, there are many angles to see a brand for customer it includes overall experience from their buying process. De Chernatony [36] narrate that for successful brand image it is important that companies must observe the needs of the customer deeply and it must be relevant what customer actually want. Aaker [34] explain in detail about brand image, research emphasize on identity of your product if the product has unique qualities it will attract the customer and will create good brand image, hence to maintain the brand identity it is important to maintain consistency about quality and services, research also explain that to attain customer attention via services and quality is the best tool to build strong image in customer minds.

Aaker [34] also narrate that if companies want good brand image they must be excellent in providing services, organizing, and must anxious about product delivery, moreover if companies want excellent brand image they must build brand identity. Ward [37] also enlighten that brand image is differentiate your product by making promise with customer to make product reliable, durable, and

quality effective, moreover research shows that those companies who are committed with services and are providing distinctive product feature get higher brand image like multinational companies mostly follow their rules and become famous in couple of years, on contrary those companies who ignore product delivery and customer satisfaction have lower brand image. Dick [26] narrate that if your customers are loyal with your product it must have favorable attitude during purchase of your product by following above arguments we can generate moderating hypothesis of Brand image with internet banking and customer loyalty.

## **Hypothesis 2:**

H0: The relationship between internet banking and customer loyalty is not moderated by brand image.

H1: The relationship between internet banking and customer loyalty is moderated by brand image.

## **METHODOLOGY**

For this research, author has selected deductive approach. Target Population was small and medium Enterprises employees who were using internet Banking Services. Sample size selected from 500 customers through structured questionnaire by visiting their places. Only 437 usable responses received. Data collected through close ended questionnaire, researcher has gathered the view of respondent on the use of Internet Banking with regard to the impact on customer loyalty. Primary and secondary data has been used in this research. For the development of instrument researcher has used previous researcher questioner. Internet Banking will be measured with 8-item Likert type scale (1=strongly disagree to 5 Strongly Agree). A sample item is "Internet banking has made communication with banks easier". The validity and reliability analysis of the instrument can be found by Eriksson [38]. Hence, Brand image measured with a 3-item Likert type scale (1=strongly disagree to 5 Strongly Agree). A sample item is "I feel that a company branding product possesses its practical function". The validity and reliability analysis of the instrument can be found by Hsieh [39]. Customer loyalty measured with a 5-item Likert type scale (1=strongly disagree to 5 Strongly Agree). A sample item is "I will use that company's Product in the future". The validity and reliability analysis of the instrument can be found in Hsieh [39].

## **Data analysis**

For the purpose of data analysis, a help was taken from the software which is SPSS (Statistical Package for Social Sciences) 16. Data was entered in software SPSS-16 and various tests were applied to check the validity and reliability of the instrument. Relationship between the dependent and independent variables was also checked and some other statistical tests were also applied to strengthen the

study, which were further presented in the result section.

## **MODERATED REGRESSION ANALYSIS (MRA)**

To check the moderation between variables, moderated regression analysis was carried out. In this technique the moderator variable plays a central role. A moderator variable can be defined as a variable that systematically modifies either the form and/or strength of the relationship between a dependent variable and independent variable [40]. Sharma [41] distinguish two methods to identify moderator variables

(1) Moderated regression analysis

(2) Subgroup analysis.

MRA involves the comparison of three regression model [40]. The full model contains three terms: the dependent variable, the hypothesized moderator variable and the interaction term of these two. The restricted model omits either the interaction term or the hypothesized moderator. Tests are carried out by comparing the restricted model to the full model. In subgroup analysis the hypothesized moderator variable is used to split the sample. After subdividing the sample, regression analysis is carried out between the dependent and independent variables. A number of authors have recommended the use of MRA, since subgroup analysis is characterized by several shortcomings [40]. In applying MRA we will need three regression models. In this particular case the following three regression models are relevant to examine the effect of Brand Image as moderator.

If models (2) and (3) are not significantly different ( $b_2 = 0$ ;  $b_3 = 0$ ), Brand Image is not a moderator (DBi). If models (1) and (2) are not significantly different, but they are significantly different from (3), then Brand Image (DBi) is a pure moderator ( $b_2 = 0$ ;  $b_3 \neq 0$ ). If models (1), (2) and (3) are significantly different from each other ( $b_2 \neq 0$ ;  $b_3 \neq 0$ ), then Brand image is a quasi-moderator [41]. Further explanation can find in Results section.

## **Validity and Reliability**

To check the reliability of the instrument, Cronbach's Alpha values have calculated with the help of SPSS software, values can be seen in results section.

## **Coding**

Data collection instrument was developed in which 14 statements were asked from the respondent on 5-point Likert scale (from Strongly Disagree to Strongly Agree) and they were asked to rate the statements as per best of their knowledge and feelings.

## RESULTS

### Interpretation of Table 1

As quantitative research depends upon the accuracy of data and of course a reliable data, so reliability must be checked for which researcher has calculated Cronbach's Alpha value. For a reliable instrument of data collection, the value of Cronbach's Alpha must be equal to or greater than 0.7 and here it is clear in Table 1 that, the value of Cronbach's Alpha for the variable of customer loyalty, the value is .752 and for the variable of Brand image, the value is .988 moreover for internet banking it is .776 which depicted that the instrument were reliable.

Table 1: Reliability of Instruments Cronbach's Alpha

Constructs	Valid N	Number of Items	Cronbach's Alpha
Customer loyalty	437	5	.752
Brand Image	437	3	.988
Internet Banking	437	6	.776

### Interpretation of Table 2

Above table shows the gender of the respondents. There were 52.6% Male and 47.4% Female.

Table 2: Gender of respondent

Valid	Frequency	Percent	Valid Percent	Cumulative Percent
Male	230	52.6	52.6	52.6
Female	207	47.4	47.4	100.0
Total	437	100.0	100.0	

### Interpretation of Table 3

Research has four categories of age Respondents, (1) “Less than 25 years”,(2) “26-35 years”, (3)“36-45 years” (4) “46 years and plus”. Total number of respondents who belonged to first category i-e “Less than 25 years” was 142. The purpose to choose this age group was to get answer from youngster. Young generation is more active in usage of internet banking. This category represents 32% of our total sample of 437 respondents. Second category was of the respondent whom age was “26- 35 years” and this category represents the major part of our sample. In third category, there were 155 respondents and they represents 35.5% of total sample of 437 respondents. The next category was of the respondents who were in the age of 36 years to 45 years. There were 90 respondents in this category and they are accounting for 20.6% of the total sample. Final category was comprised on the people who were above than 45 years. There were only 50 people and they represents 11.4% of the sample.

Table 3: Age of the Respondent

Variable	Categories	Frequency	Percentage
<b>AGE (N=437)</b>	Less than 25 years	142	32.5
	26-35 years	155	35.5
	36-45 years	90	20.6
	46 years plus	50	11.4

### Interpretation of Table 4

Another variable which has selected to demonstrate the demographic information of respondents was their qualification. This variable has comprised of 5 categories, “Below high School” “Attended High School”, “Attended College”, “Graduate” and “Post Graduate”. Collected data illustrated that there are 7 respondents who had attended just a high school and represent1.6% of total sample. In the next category of “Attended high school”, 24 respondents marked this option and they are 5.5% of the sample. Moreover those who attended College are 38 respondents and they are 8.7% there are 230 respondents who graduated and they are 52.6% while those who were post graduate 138 and they present 31.6% of the total respondents.

Table 4: Quailification of the Respondent

Variable	Categories	Frequency	Percentage
<b>Qualification (N=437)</b>	Below High School	7	1.6
	Attended High School	24	5.5
	Attended College	38	8.7
	Graduate	230	52.6
	Post Graduate	138	31.6

### Interpretation of Table 5

Simple Regression analysis has been employed in this study to check the level of dependency of customer loyalty which is a dependent variable and the independent variables is Internet Banking. By applying the regression analysis, the effect of internet banking on customer loyalty which is the dependent variable is measured. The value of constant is found as -4.358. Significance value is less than 0.01 which shows the positive and significant relationship of Internet banking on Customer Loyalty. Furthermore, ANOVA and F-test depicts the overall model fitness in which significance of F-test is less than 0.01 and on the basis of this value it can be concluded that model is good fit. Moreover, model summary shows that value of adjusted R square is 0.945 which show the combined effect of independent variables on customer loyalty and in other words it can be explained that independent variable i.e Internet banking, have a combined effect of 94% on Customer loyalty which is the dependent variable (Table 6).

Table 5: Regression Analysis

Regression	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	-4.358	.343		-12.707	.000
Internet Banking	.178	.038	.194	4.724	.000

Table 6: Necessary Stastics

R <sup>2</sup>	Adj. R <sup>2</sup>	F-Statistic	Prob. (F-Statistic)
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.945	.945	2.486E3	.000a
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### Interpretation of Table 7

Moderating Regression Equation

1.  $LOY_i = a + b_1 * IB$
2.  $LOY_i = a + b_1 * IB + b_2 * DB_i$
3.  $LOY_i = a + b_1 * IB + b_2 * DB_i + b_3 * (IB * DB_i)$

Brand image is a moderator variable for the relationship between Internet banking and customer loyalty, as the partial regression coefficient of the interaction term (IB\*DBi) is significantly different from 0. More particularly, Brand Image is a quasi moderator for the relationship between Internet Banking and Customer Loyalty, because the three models are significantly different from each other.

Table 7: Moderation of Brand Image with internet Banking and Customer loyalty

Hypothesis	Regression Equation	Adj R2	F
Model 1	$LOY = -1.160 + .869$ $-3.102^{***} + 61.354^{***}$	.896	3.764E3 <sup>***</sup>
Model 2	$LOY = .335 + .659 + .309$ $.866^{***} + 23.894^{***} + 8.631^{***}$	.911	2.237E3 <sup>***</sup>
Model 3	$LOY = 5.698 + .441 + -.162 + .019$ $4.447^{***} + 7.782^{***} - 1.432^{***} + 4.382^{***}$	.915	1.561E3 <sup>***</sup>

### DISCUSSION

The hypothesis made by researcher for checking of customer loyalty has proved through simple regression model and moderating regression model. Hypothesis mentioned above is accepted and shows significant impact on customer loyalty. Researcher took the descriptive statistic analysis first in which gender of respondent their age, region and education measured. Hence to check the reliability of the instrument researcher applied the Chronbach's Alpha test and found significant values, all values were more than .07 that shows instruments are valid and has worth for further statistical testing.

Researcher employed simple regression to check the direct impact of internet

banking on Customer Loyalty. The result shows that Internet banking has significant impact on Customer loyalty, to check the moderating relationship of Brand Image on internet banking and customer loyalty researcher employed moderation test, moderating hypothesis depicted that moderation exist between internet banking and customer loyalty, moreover the level of moderation was quasi, on behalf of these detailed analysis researcher conclude that for customer loyalty in banking sector brand image is as important as internet banking.

## **CONCLUSIONS**

This study covered factor like brand image as a moderator with relation to internet banking and customer loyalty. Studies are swelling with direct impact of brand image but no research has been done on brand image as a moderator. Two main issues have been concluded.

The foremost is to identify the importance of internet banking; through 1st hypothesis it has proved that there is significant relationship between internet banking and customer loyalty. Research give clear direction to banking sector that they must introduce internet banking services if they want to loyal their customers. Orr [9] illustrate that, the notion behind use of internet banking is increasing day by day on contrary traditional banking growth will be slow hence those banks who are not providing internet banking they will lose ten percent of their customer every year.

The second finding is to evaluate the impact of brand image as a moderating variable with relation to internet banking on customer loyalty. Research has proved that brand image has quasi moderation with relation to internet banking and customer loyalty. It has proved that if the brand image would higher it will enrich the relationship of internet banking and customer loyalty.

## **Implication /Recommendation**

After conducting this detailed research analysis it is very clear that for all private and Government Banks should introduce internet banking. Internet banking is the key service for customer loyalty within banking sector. Moreover Managers must acknowledge that if the brand image would high it will moderate the relationship between internet banking and customer loyalty.

## **Limitation**

Any preliminary attempt will involve a number of limitations. However, acknowledgment of these limitations gives new direction for future studies. One limitation may be the demographic regions, this research only explore the banking consumer of city Lahore and Islamabad. Further research may be conduct on other cities of Pakistani.