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Testing the predictive power of PLS through cross-validation in banking☆

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ABSTRACT

This paper aims to predict the relationship quality (satisfaction, trust, and commitment) of a customer with a Spanish saving bank by using both the quality of service operations and the usage of e-banking, on the relationship quality (satisfaction, trust, and commitment) of a customer with a Spanish saving bank. A competitive strategy follows testing three alternative models employing PLS path modeling with a primary dataset obtained through both an online survey and internal bank databases of almost one thousand customers. This study includes the predictive validation of models using hold out samples and testing for casual asymmetry. The results indicate that both the quality of service operations and the customer's use of e-banking successfully and independently contribute to predict the customer's relationship quality. The face-to-face service encounter is still the major contributor of relationship quality, but the use of e-banking tools also improves the relationship quality of customers in the banking industry. This model is consistent across a multi-group of customers.

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1. Introduction

Banks are constantly seeking new ways to add value to their services because financial services compete in a global marketplace with generally undifferentiated products. In this regard, technological changes are causing banks to rethink their strategies for services offered to customers, providing new ways to differentiate themselves from the competition (Hossain & Sherloy, 2010). The process of developing and enhancing relationships traditionally takes place through personal interaction. However, the information revolution provides alternative ways of creating and maintaining relationships with customers (Rust & Kannan, 2003). Indeed, the impact of technology on relationship quality (RQ) brings new opportunities for researchers and practitioners alike (Lang & Colgate, 2003). The former one channel branch network has changed to a “multi-channel” configuration where branches coexist with other service delivery channels (Martínez, Ortega, & Román, 2007).

By developing technological channels, banks can lower costs, attract new customers, and increase income from existing customers. At the same time, financial customers gain in convenience, since they can carry out operations without time and place constraints, as well as obtaining lower commissions or better interest rates. Nevertheless,

activities to promote e-banking should take into account that most customers do not rely on a single channel, but a combination of channels (Martínez et al., 2007).

Some evidence exists of the role that RQ plays in adopting e-banking. For instance, Rotchanakitumnuai and Speece (2003) find that trust is the key factor influencing the adoption of electronic banking. Similarly, as satisfaction has a significant impact on trust and commitment, they altogether enhance the likelihood to use e-banking (Rexha, Kingshott, & Aw, 2003). On the other hand, customers using e-banking represent a very attractive segment as they own more financial products than traditional customers. How does this usage level of e-banking affect the customer relationship with the bank? What is the relative influence of face-to-face operations when a multichannel setting is in place? Do significant differences exist between customers showing high levels of usage of electronic banking and those showing low levels of usage of this channel? Do any other differences exist among customers due to socio-demographic or economic variables? Actually, few authors have investigated whether the usage of IT-based channels may have detrimental or positive effects on a firm's RQ with its customers (Lang & Colgate, 2003).

The main research objective of this paper is to analyze the predictive role that both the use of e-banking and the quality of face-to-face service operations have in the prediction of the customers' RQ variables (satisfaction, trust, commitment). To address this research aim, the proposal of three alternative models follows a competitive strategy. The first model considers the customer's level of usage of e-banking as a mediator between the quality of service operations and RQ. The second model explores if the customer's level of usage of e-banking moderates the relationship between the quality of service operations and RQ.

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Finally, the third model examines what is the independent effect of the customer's level of usage of e-banking and the quality of service operations on RQ.

To carry out the above objective this paper used partial least squares (PLS) path modeling (Henseler, Hubona, & Ray, 2016), including the predictive validation of models using 10-fold cross-validation procedure and testing for casual asymmetry. Through this research design and procedures this study seeks to foster and enhance the use of PLS from a predictive point of view.

This paper proceeds as follows. Next, section two provides a brief overview of the literature on service quality, the use of e-banking, and relationship quality. Section three describes the data set and the research methodology. Section four summarizes the main results of this research. Finally, section five concludes with the major findings and a discussion of the study's limitations and practical implications.

2. Literature review

2.1. Service quality and the use of e-banking

Perceived quality is one of the highly debated topics in marketing theory (Spreng & Mackoy, 1996). In today's world, the key to sustainable competitive advantage for service companies lies in delivering high quality service that will result in satisfied and loyal customers (Shemwell, Yavas, & Bilgin, 1998), because service quality is an essential pillar in service value creation (Martin, Gremler, Washburn, & Cepeda, 2008). Since the competition finds it difficult to imitate service quality (Parasuraman & Grewal, 2000), this component represents a source of differentiation (Berry, 1995) and competitive advantage (Reichheld & Sasser, 1990).

Banks delivering superior service quality can have a distinct marketing edge since improved levels of service quality yield higher revenues, increased cross-selling ratios, higher customer retention (Bennett & Higgins, 1988), and an expanded market share (Bowen & Hedges, 1993). Banks should focus on delivering service quality as a core competitive strategy (Chaoprasert & Elsey, 2004) in order to improve customer loyalty (Newman, 2001), and attract new customers through positive word of mouth (Wang, Lo, & Hui, 2003).

Meanwhile, the recent technological revolution has changed the way to access many services and, in consequence, how customers evaluate service quality through electronic channels. In this sense, researchers nowadays try to conceptualize and measure electronic service quality in an attempt to understand how customers perceive and evaluate online services (Barrera & Cepeda, 2014). People currently use Information Technology in almost every field of life including the banking sector (Rasheed & Latif, 2011). A definition of e-service quality is "the customer's overall evaluation and judgment of the excellence and quality of e-service offering in the virtual marketplace" (Santos, 2003). When face-to-face encounters are difficult to arrange, the relationship develops through technological interfaces.

Studies show that availability, efficiency fulfillment, and privacy positively influence the intention to use e-banking (Akinci, Aksoy, & Atilgan, 2004; Liao & Cheung, 2002; Parasuraman, 2000). The physical separation of the bank office and the customer, as well as the overall environment of perceived insecurity when carrying out electronic transactions on the Internet, provide unique challenges to online banks in the developing of e-business relationships. Indeed, the use of technology also raises concerns of confidentiality, anxiety, and stress for some customers (Bitner, Brown, & Meuter, 2000).

2.2. Predicting relationship quality

Given that the core service offered by banks may be essentially the same, developing long-term relationships with customers can provide successful differentiation. In financial services, the view of loyalty is in relation to the length of time a customer remains with its service

provider, the number of services used and the frequency of service usage (Fragata & Moustakas, 2013). By keeping a loyal base of customers, banks obtain three benefits. Firstly, the cost of acquiring customers should decrease, since replacing deserters with new customers as a result of word-of-mouth is cheaper than attracting customers through marketing efforts. Secondly, loyal customers are less price-sensitive, which enables the obtaining of higher profit margins if necessary. Finally, a loyal customer is likely to respond better to a bank's cross-selling strategies, generating more profits for the company (Barcellos, Fossati, & Silva, 2009).

Banks understand that customers are likely to be loyal if they receive a superior value from them than from their competitors (Dawes & Swailes, 1999). On the other hand, banks can obtain higher profits if they are able to position themselves better than the competition within a specific market (Davies, Moutinho, & Curry, 1995). To enhance loyalty, banks must satisfy customer demands, which are increasing given the growing competition in internet banking. Indeed, both the banks providing e-banking services and their customers can benefit from a high quality relationship (Alawneh, 2012).

The focus of RQ is on long-term relationships rather than on short-term transactions. RQ refers to the overall assessment of the strength of a relationship between two parties (Palmatier, Dant, Grewal, & Evans, 2006). Commonly, RQ represents a multidimensional construct, and a high-order combination of customer satisfaction, trust and commitment (Hennig-Thurau, Gwinner, & Gremler, 2002; Ulaga & Eggert, 2006). According to Garbarino and Johnson (1999), satisfaction, trust, and commitment have different roles in determining the future of the customer relationship.

Satisfaction is "an evaluation of the perceived discrepancy between prior expectations and the actual performance of the product" (Oliver, 1999). The satisfaction component of RQ is about the users' evaluation of the relationship with the service provider. Similarly, dissatisfaction among customers using e-banking services might happen due to technological failure, technology design problems, or service design problems, which may result in a negative perception of the service's functional quality (Meuter, Ostrom, Roundtree, & Bitner, 2000). Dissatisfied customers are more prone to defect than satisfied customers (Barcellos et al., 2009).

Customer commitment is the enduring desire to maintain a valued relationship (Palmatier et al., 2006). A committed customer invests time and effort in the relationship with a service provider, shows affection for this relationship, and is willing to maintain it in the future. Committed customers are more likely to become long-term loyal customers, since a committed partner wants the relationship to endure indefinitely and is willing to work at maintaining it. Commitment has an instrumental component of some sort of investment, an attitudinal component or psychological attachment, and a temporal dimension indicating that the relationship exists over time (Morgan & Hunt, 1994). As commitment entails vulnerability, the parties only seek trustworthy partners.

Trust is the cornerstone of a strategic partnership. Trust exists when one party has confidence in an exchange partner's reliability and integrity (Morgan & Hunt, 1994). The literature on trust suggests that a trustworthy party is reliable, consistent, competent, honest, fair, responsible, helpful and benevolent. As a result, trust is an important indicator of RQ, since a relationship where one party is not willing to rely on its partner is limited (Moorman, Desphandé, & Zaltman, 1993). Trust is difficult to foster, and can be extremely hard to build after being damaged (Shneiderman, 2000). In the context of this study, trust refers to the customer's willingness to rely on the bank providing e-banking services to perform several transactions. Privacy is a key element in building trust in e-banking services (Kim, Ferrin, & Rao, 2009).

2.3. Model development

The major objective of this research is to combine the quality of service operations (i.e., the service delivery process at the bank's office)

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