

The Impact of Digitalization and Value Co-Creation on Customer Loyalty: The Mediating Role of Emotional Engagement in Banking Services

Shahid Mahmood^{1*}, Irfan Sabir², Shahjahan Masud²

¹University of Management and Technology

²University of Central Punjab

Abstract

The study examined the Digitalization of Banking Services (DBS) and Value Co-Creation (VCC) on Customer Loyalty (CL) and using Emotional Engagement (EE) as a mediating factor. The 232 managers and supervisors in the banking sector were sampled and the data were compiled using PLS-SEM to determine both the direct and the indirect relationship. The results illustrate that Value Co-Creation has a positive influence on Emotional Engagement and Customer Loyalty which indicates the significance of participatory service strategies in enhancing customer attachment and loyalty. Digitalization of Banking Services on the contrary has a positive effect on both Emotional Engagement and Customer Loyalty implying that too much automation can increase emotional involvement and increase the loyalty outcomes. The mediation analysis has shown that Emotional Engagement partially mediates the relationships between VCC and CL and between DBS and CL and highlighted the key role of emotions in transforming service experiences into behavioral outcomes. Correlation and path tests prove that relational and participatory strategies prove to be more effective than digitalization itself in building loyalty. The research makes an intellectual contribution to the literature by extending the literature on service relationship theories and models to represent the two-fold impact of digitalization and co-creation through the emotional engagements. In practical terms, the results also highlight why banks need to find a balance between technological effectiveness and engaging participation, so that digitalization does not interfere with, but intensifies relational interactions to increase the retention of customers over the long term.

Keywords: banking services, customer loyalty, digitalization, emotional engagement, value co-creation