



Relationship marketing and customer loyalty

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Abstract

Purpose – To examine the impact of relationship marketing strategy on customer loyalty.

Design/methodology/approach – A questionnaire derived from previous studies and the relevant literature was completed by 220 bank customers in Malaysia. Multiple regression analysis assessed the impact on customer loyalty of four key constructs of relationship marketing (trust, commitment, communication and conflict handling).

Findings – The four variables have a significant effect and predict a good proportion of the variance in customer loyalty. Moreover, they are significantly related to one another.

Research limitations/implications – The relationships investigated in this study deserve further research. Because the data analysed were collected from one sector of the service industry in one country, more studies are required before general conclusions can be drawn.

Practical implications – It is reasonable to conclude, on this evidence, that customer loyalty can be created, reinforced and retained by marketing plans aimed at building trust, demonstrating commitment to service, communicating with customers in a timely, reliable and proactive fashion, and handling conflict efficiently.

Originality/value – Reinforces and refines the body of knowledge relating to customer loyalty in service industries.

Keywords Relationship marketing, Customer loyalty, Banks, Malaysia

Paper type Research paper

Introduction

There is undoubtedly a growing interest in the subject of relationship marketing. The strong rivalry characterising today's business environment has resulted to the building of stronger firm-customer relationships. Webster (1992) noted that the phenomenon described by this concept is strongly supported by on-going trends in modern business. Ndubisi (2004) reported that more and more firms are capitalising on strong firm-customer relationship to gain invaluable information on how best to serve customers and keep them from defecting to competing brands. Hence, customer relationship building creates mutual rewards (Rapp and Collins, 1990) which benefit both the firm and the customer. By building relationship with customers, an organisation can also gain quality sources of marketing intelligence for better planning of marketing strategy.

It is important, therefore, to empirically examine the actual impact of the underpinnings of relationship marketing of customer loyalty. Such understanding will assist in better management of firm-customer relationship and in achieving higher level of loyalty among customers. The research study reported here investigates the impact of four underpinnings of relationship marketing – trust, commitment, communication, and conflict handling – on customer loyalty in Malaysia. However, Palmer (1997, p. 321) has cautioned that:



... relationship marketing means different things in different cultures and marketers should be as wary of prescribing universal solutions for exchange bases as they are of developing universal product and promotion for all markets.

Literature review

The relationship marketing concept emerged within the fields of service marketing and industrial marketing (Christopher *et al.*, 1991; Gummesson, 1991; Lindgreen *et al.*, 2004). Berry (1983) viewed relationship marketing as a strategy to attract, maintain and enhance customer relationships. Gummesson (1993) defined the term as a strategy in which the management of interactions, relationships and networks is a fundamental issue. According to Grönroos (1994), the aim of relationship marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. Rapp and Collins (1990) suggest, similarly, that its goals are to create and maintain lasting relationships between the firm and its customers that are rewarding for both sides. This is achieved by a mutual symbiosis and fulfilment of promises (Ndubisi 2003a, b). In other words, a key objective is to foster customer loyalty, which Oliver (1999) defined as a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior.

Blomqvist *et al.* (1993) proposed the following key characteristics of relationship marketing: every customer is considered an individual person or unit; activities of the firm are predominantly directed towards existing customers; implementation is based on interactions and dialogues; and the firm is trying to achieve profitability through the decrease of customer turnover and the strengthening of customer relationships.

The “underpinnings” of relationship marketing

The marketing literature has theorised key virtues that underpin relationship marketing, such as trust (Morgan and Hunt, 1994; Veloutsou *et al.*, 2002), commitment (Grossman, 1998; Chan and Ndubisi, 2004), conflict handling (Dwyer *et al.*, 1987; Ndubisi and Chan, 2005), and communication or sharing of secrets (Ndubisi and Chan, 2005; Morgan and Hunt, 1994; Crosby *et al.*, 1990). These have been linked in this study to customer loyalty. Ndubisi (2004) has suggested that companies should make sacrifices and worthwhile investments in building relationships with loyal, or at least potentially loyal, customers. It is argued here that the four identified underpinnings of relationship marketing are directly linked to and are capable of predicting customer loyalty.

Trust has been defined as “... a willingness to rely on an exchange partner in whom one has confidence” (Moorman *et al.*, 1993). A betrayal of this trust by the supplier or service provider could lead to defection. Schurr and Ozanne (1985) defined the term as the belief that a partner’s word or promise is reliable and a party will fulfil his/her obligations in the relationship. Other authors have defined trust in terms of opportunistic behaviour (Dwyer *et al.*, 1987), shared values (Morgan and Hunt, 1994), mutual goals (Wilson, 1995), uncertainty (Crosby *et al.*, 1990), actions with positive outcomes (Anderson and Narus, 1984) and making and keeping promises (Bitner, 1995).

Calonius (1988) emphasized that an integral element of the relationship marketing approach is the promise concept. He argued that the responsibilities of marketing do not only, or predominantly, include giving promises and thus persuading customers as

passive counterparts in the marketplace to act in a given way, but also in keeping promises, which maintains and enhances evolving relationship. Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld and Sasser, 1990), besides fanning the fire of trust. Indeed, one would expect a positive outcome from a partner on whose integrity one could confidently rely (Morgan and Hunt, 1994). Grönroos (1990) believed that the resources of the seller – personnel, technology and systems – have to be used in such a manner that the customer's trust in them, and thereby in the firm itself, is maintained and strengthened.

Commitment is another important determinant of the strength of a marketing relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Gundlach *et al.*, 1995; Morgan and Hunt, 1994; Dwyer *et al.*, 1987). Wilson (1995) observed that commitment was the most common dependent variable used in buyer-seller relationship studies. In sociology, the concept of commitment is used to analyze both individual and organizational behaviour (Becker, 1960) and mark out forms of action characteristic of particular kinds of people or groups (Wong and Sohal, 2002), while psychologists define it in terms of decisions or cognitions that fix or bind an individual to a behavioural disposition (Kiesler, 1971). In the marketing literature, Moorman *et al.* (1992) have defined commitment as an enduring desire to maintain a valued relationship. This implies a higher level of obligation to make a relationship succeed and to make it mutually satisfying and beneficial (Gundlach *et al.*, 1995; Morgan and Hunt, 1994). Since, commitment is higher among individuals who believe that they receive more value from a relationship, highly committed customers should be willing to reciprocate effort on behalf of a firm due to past benefits received (Mowday *et al.*, 1982) and highly committed firms will continue to enjoy the benefits of such reciprocity.

In this context, communication refers to the ability to provide timely and trustworthy information. Today, there is a new view of communications as an interactive dialogue between the company and its customers, which takes place during the pre-selling, selling, consuming and post-consuming stages (Anderson and Narus, 1990). Communication in relationship marketing means keeping in touch with valued customers, providing timely and trustworthy information on service and service changes, and communicating proactively if a delivery problem occurs. It is the communicator's task in the early stages to build awareness, develop consumer preference (by promoting value, performance and other features), convince interested buyers, and encourage them to make the purchase decision (Ndubisi and Chan, 2005). Communications also tell dissatisfied customers what the organisation is doing to rectify the causes of dissatisfaction. When there is effective communication between an organisation and its customers, a better relationship will result and customers will be more loyal.

Dwyer *et al.* (1987) defined conflict handling as a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise. How well this is done will determine whether the outcome is loyalty, "exit" or "voice". Rusbult *et al.* (1988) concluded that the likelihood of these behaviours in individual cases depends on the degree of prior satisfaction with the relationship, the magnitude of the customer's investment in the relationship, and an evaluation of the alternatives available. Ndubisi and Chan (2005) found a significant relationship between conflict handling and customer loyalty, indirectly through trust

and perceived relationship quality. The ability of the product or service provider to handle conflict well will also directly influence customer loyalty.

Thus, the research proposition is that:

... there is a significant positive relationship between customer loyalty and (a) trust, (b) commitment, (c) communication and (d) conflict handling.

Methodology

Figure 1 shows a schema relating the four research constructs to the dependent variable, customer loyalty.

Data was collected through a field survey of bank customers in Kota Kinabalu, Malaysia. All 20 banks in the city were invited to participate in the survey; 15 accepted the invitation. The sampling frame thus consisted of the customers of the volunteer banks only. Systematic quasi-random sampling selected every second customer to enter the bank on each day of the survey, starting with the first to come through the doors at start of business, at 9.30 am. This sampling method was chosen because it permits analysis of possible selection bias or error (Sher and Trull, 1996).

In the questionnaire completed by customers, items to measure the construct dimensions were adapted from previous studies: Churchill and Surprenant (1982) for the trust dimension, Morgan and Hunt (1994) for communication, commitment and conflict handling, and Bloemer *et al.* (1999) for loyalty. The eventual total of 20 items and 19 questions related to the five dimensions as follows:

Trust:

- the bank is very concerned with security for my transactions;
- the bank's promises are reliable;
- the bank is consistent in providing quality service;
- employees of the bank show respect to customers;
- the bank fulfils its obligations to customers; and
- I have confidence in the bank's services.

Commitment:

- the bank makes adjustments to suit my needs;

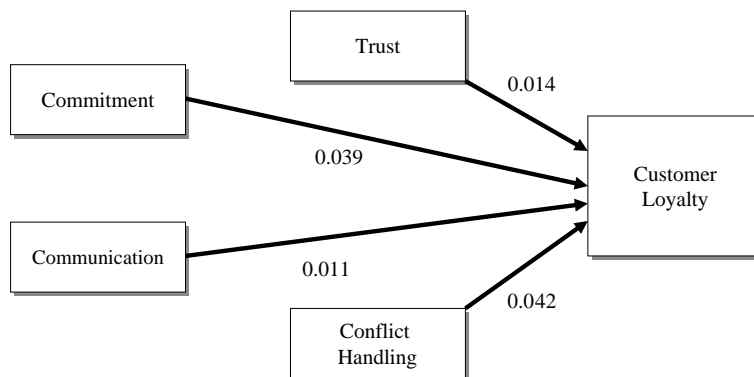


Figure 1.
The research framework,
with *p*-values

the bank offers personalized services to meet customer need;
the bank is flexible when its services are changed; and
the bank is flexible in serving my needs.

Communication:

the bank provides timely and trustworthy information;
the bank provides information when there is new banking service;
the bank makes and fulfils promises; and
information provided by the bank is always accurate.

Conflict handling:

the bank tries to avoid potential conflict;
the bank tries to solve manifest conflicts before they create problems; and
the bank has the ability to openly discuss solutions when problems arise.

Customer loyalty:

considering the bank as first choice among other banks in the area; and
the bank that first comes to my mind when making purchases decision on bank services.

All items were measured by responses on a five-point Likert scale of agreement with statements, ranging from 1 = strongly disagree to 5 = strongly agree. Multiple regression analysis was performed to predict the relationship between the four “underpinnings” of relationship marketing and customer loyalty, in this context.

Results

Demographic data show that a slight majority of respondents were female: 585, to 42 per cent male. Just less than three quarters (73 per cent) were under 40 years of age. Graduates accounted for 43 per cent of all respondents. Almost half (42 per cent) had been with their current bank for 11 years or more, 39 per cent for between 6 and 10 years, and only one in five (19 per cent) had been customers for 5 years or less. Loyalty is thus the starting point for relationship marketing, or at least inertia.

The internal consistency of the research instrument was tested by reliability analysis. The descriptive statistics of the variables and reliability estimates are shown in Table I.

The results of the regression analysis summarised in Table II show that trust, communication, commitment, and conflict handling contribute significantly to customer loyalty ($F = 21.12; p < 0.001$) and predict 29 per cent of the variation found. They also

Dimensions	Mean	Standard deviation	Cronbach's α
Trust	3.95	0.53	0.84
Commitment	3.67	0.73	0.84
Communication	3.90	0.62	0.78
Conflict handling	3.73	0.64	0.73
Customer loyalty	3.99	0.74	0.93

Table I.
Descriptive statistics and
reliability estimates

show a significant direct relationship between all five “underpinnings” and customer loyalty at 5 per cent significance level. Therefore, and given the representativeness of the sample, it is fair to conclude that Malaysian bank customers tend to be loyal if the bank is:

- trustworthy;
- committed to service;
- reliable and efficient in communicating to customers; and
- able to handle conflicts well.

The positive sign of the estimates shows that the greater the extent of these underpinnings, the higher the level of customer loyalty. All elements of the research proposition are thus firmly supported.

To sum up the findings: the greater the trust in the bank, the higher the level of the bank’s commitment, the more reliable and timely its communications and the more satisfactorily it handles conflicts, the more loyal its customers will tend to be.

Implications

Theoretically, the outcome of this research provides empirical evidence for the influence on customer loyalty of four underpinnings of relationship marketing: trust, commitment, communication and conflict handling. This study adds value to the literature by empirically linking a more comprehensive list of determinants to the dependent variable. It builds on past studies in this area, which had either investigated an incomplete list of potential underpinnings (Ndubisi, 2004; Wong and Sohal, 2002) or related them to relationship quality (Wong and Sohal, 2002) and customer satisfaction (Ndubisi and Chan, 2005) without taking into account the ultimate goal of any service provider, which is to build loyal customers.

As for the practical implications of the study, a first conclusion is that banks wishing to retain and develop loyal customers should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. It has been suggested (Ndubisi, 2004) that loyal customers are valuable communicators of favourable word-of-mouth about organisations or products to which they feel loyal. As evangelists, they can attract new customers for the organisation and may even increase their own consumption collectively to the benefit of its sales, revenue and profit. Loyalists can also serve as useful sources of new product ideas.

Variables	Beta coefficients	<i>t</i> -value (<i>p</i> -value)
Constant		3.287 (0.000)
Trust	0.187	2.469 (0.014)
Commitment	0.154	2.080 (0.039)
Communication	0.185	2.565 (0.011)
Conflict handling	0.152	2.050 (0.042)

Notes: $R^2 = 0.285$; $F = 21.12$; Sig. $F = 0.000$

Table II.
Relationship between RM
underpinnings and
customer loyalty

Trust is an important ingredient in firm-customer relationships and ultimately in the development of loyalty, in Malaysia and elsewhere. Therefore, banks should strive to win customers' trust. The ways in which this can be achieved include the giving and keeping promises to customers, showing concern for the security of transactions, providing quality services, showing respect for customers through front-line staff, fulfilling obligations, and acting to build customers' confidence in the bank and its services.

As for commitment as a critical factor in building customer loyalty, consisting in this study of accommodating to customers' needs, tailoring products to requirements, and being generally flexible in their customer relationships. Banks should recognise the potency of service commitment in keeping loyal customers, and act accordingly. They must show genuine commitment to customer relations, not lip service.

Effective communication predisposes customers to stay with a provider of banking services. Loyalty can be nurtured by providing timely and reliable information, for example about the uses and benefits of new banking services or about the status of transactions. It can also be reinforced by the provision of honest information on what the bank is doing about existing problems and what it does to forestall potential ones.

Lastly, customers tend to be loyal to banks that handle customer complaints (which will always happen, regardless) and other conflicts satisfactorily. It is therefore important that effective conflict resolution mechanisms are not only in place but are proactive, so as to pre-empt potential sources of conflict and address them before problems become manifest. Effective reactive solutions should also be marshalled decisively and in time to resolve problems and protect customers from avoidable losses. Sometimes, what may cause a customer to defect is not so much the occurrence of a problem as how it is handled. Banks should be willing to discuss problems openly with their customers.

Conclusions and future research

This study has demonstrated that measurement of the "underpinnings" of relationship marketing can predict customer loyalty, at least in the Malaysian banking sector. Therefore, researchers and strategists aiming to nurture loyal customers should pay close attention to issues of trust, commitment, communication and conflict handling.

The research reported here has not delved into the possible influences of socio-demographic factors on the relationship between relationship marketing initiatives and customer loyalty. Earlier studies have suggested that women tended to be more loyal than men (Ndubisi, 2005), and older people more so than younger age groups. Moreover, there is the tendency for higher-income customers to receive better attention from banks, at least in Malaysia, because of their higher net worth and the larger volume of business they generate for banks. This could make them more loyal than other customers. Future research studies might fruitfully investigate such moderating influences.

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