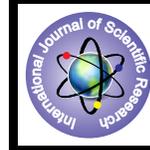


Commerce

KEYWORDS : relationship marketing, customer loyalty, customer retention, trust, commitment, communications, conflict-handling



Generating Customer Loyalty in an Emerging Competitive Market: a Banking Industry Study

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ABSTRACT

Existing streams of literature are integrated to propose a conceptual framework that highlights the impact of relationship marketing on customer loyalty and its outcomes. The framework aims to provide insights into the underpinnings of relationship marketing. Using empirical research, the study identifies three elements of relationship marketing like trust, commitment and conflict-handling as the antecedents of customer loyalty. Significant outcomes of customer loyalty are also identified. The findings of this study have important implications for firms aiming to build customer loyalty and retention. From a managerial perspective, this study sheds some light on the elements of relationships and outcomes that may be identified as critical for firms in a competitive environment.

Introduction

The concept of relationship marketing emerged within the broad areas of service marketing and industrial marketing (Christopher et al., 1991; Lindgreen et al., 2004). In an era of increasing competition, firms have resorted to using relationship marketing as a strategy to attract, maintain and enhance customer relationships and build loyalty (Berry, 1983). Relationship marketing aims to establish, maintain, and enhance relationships with customers, so that the objectives of the parties are met (Grönroos, 1994).

In a precise manner, loyalty can be defined as a customer's intention or predisposition to purchase from the same organization again (Edvardsson et al., 2000), that result from the conviction that the value received from one seller is greater than the value available from other alternatives (Hallowell, 1996). Developing customer loyalty has been an objective traditionally aimed at by managers, as this enables greater future purchase intention (Andreassen, 1999). Customer loyalty is considered to be a key factor in order to achieve company success and sustainability over time (Flavián et al., 2006; Keating et al., 2003; An and Noh 2009). Other benefits pointed out in favor of customer loyalty also that it leads to higher intensity in positive word of mouth communication (Hallowell, 1996), lower price sensibility (Lynch and Ariely, 2000) and more stable and bigger incomes (Knox and Denison, 2000).

Although a number of studies have examined the relationship between relationship marketing and customer loyalty, recent studies has pointed out that there is heterogeneity in the literature with regard to relationship marketing definitions, identified components, and therefore highlight the need for further research in this area (Myhal et al, 2008). Further most of these studies have been in the context of developed nations. Given that there are fundamental differences in the industry dynamics, market structures, and customer needs between developed and developing countries of the world, the larger aim of this study is to develop a conceptual framework and after testing the framework further empirically examine the impact various dimensions of relationship marketing on customer loyalty and the outcomes in the cultural context of Saudi Arabia, as there could be no universal solutions for prescribing relationship exchanges (Palmer, 1997).

Review of literature and development of conceptual framework

With increasing competitiveness of industries and globalization, there is a growing interest in the subject of relationship marketing (for a comprehensive review of literature on relationship marketing research, see Das, 2009). The focus of relationship marketing is on building long-term arrangement in which both, the seller and the buyer participate in interest in providing a more satisfying exchange.

Relationship marketing is about retaining customers by establishing, maintaining and enhancing relationships with custom-

ers and other parties (Sohail and Malikakal, 2011). Extant research has shown that a firm's level of relationship marketing activities is positively correlated to its performance (Buchanan and Gillies, 1990; Sharma and Sheth, 1997), as well as the level of strategic competitive advantage that is achieved in the market place (Kraljic, 1983; Ganesan, 1994; Sharma and Sheth, 1997; Germain and Droge, 1997).

The concept of relationship marketing has been looked at from different perspectives. It is viewed relationship marketing as a strategy to attract, maintain and enhance customer relationships (Berry, 1983). A service organization's long-term success is essentially determined by its ability to expand and maintain a large and loyal customer base. (Nadiri, 2011). Developing further, relationship marketing was defined as a defined term as a strategy by which the interactions, relationships and networks become fundamental issue (Gummesson, 1993). With the rapid growth of the internet and mobile platforms, relationship marketing is containing to evolve and grow as technology opens more collaborative and social communication channels. The overall goals are to nurture and retain existing customers, reduce the costs of marketing and build mutually satisfying relationships.

Relationship marketing

Extant literature has identified underpinnings of relationship marketing. We review literature on these elements.

Trust

Trust typically refers to situations that are being characterized by the following aspects: One party who is willing to rely on the actions of another party and the situation is directed to the future (Markova & Gillespie, 2007). Trust has been defined in numerous ways in the relationship marketing literature. It is the willingness to rely on an exchange partner in whom another has confidence (Hadjikhani and Thilenius, 2005; Moorman et al. 1992). another study defines trust as having the confidence that the other party will not exploit one's vulnerabilities (Hart and Johnson, 1999). Schurr and Ozanne, (1985) emphasize on elements of reliability and intention of the party to fulfill his/her obligations. According to Rotter (1971) trust is a generalized expectancy held by an individual or group that the word, promise, verbal, or written statement of another individual or group could be relied upon.

From the above definitions, we conclude that considerable importance is give on the element of confidence in defining trust. Just as we would expect the partner to perform actions that would result in positive outcomes, there is an element of confidence that they would not take unexpected action which would cause negative outcomes (Anderson and Narus 1990). Further, empirical findings also indicate that high trust levels are a good predictor of partner success (Schumacher, 2006).

Commitment

Commitment can be defined as the sacrifices made by the seller and buyer to maintain a relationship. Moorman et al.

(1992) define commitment as an enduring desire to maintain a valued relationship Berry and Parasuraman (1991) indicated that commitment is central in relationship marketing theory. Mutual commitment is very essential to build a long term relationship. Another strong definition of commitment emphasizes on the willingness to rely on an exchange partner on whom another has confidence (Hadjikhani and Thilenius, 2005). Wilson (1995) observed that commitment was found to be the most common dependent variable used in buyer-seller relationships (Wilson, 1995). Mowday et al., (1982) observed that commitment is higher among buyers who believe they receive more value from a relationship. Commitment is another important determinant of customer loyalty.

Communication

Communication is a process by which formal and informal sharing of meaningful and timely information between seller and buyers (Anderson and Narus, 1990). Relationship conflict can be reduced by using proper communication system (Moore, 1998). Communication, which enables information exchange, is important element of relationship marketing. Communication in relationship marketing refers to keeping in touch with customers, providing timely and trustworthy information, and communicating proactively if a delivery problem occurs (Ndu-bisi, 2007). Empirical evidence asserts that communication is a determinant of relationship marketing. The more breadth and depth that exists in communication patterns, the stronger is the partnership is likely to be (Lambert, et al, 1996).

Conflict Handling

Conflict handling refers to a supplier’s ability to avoid potential conflicts, solve manifest conflicts before they create problems and discuss solutions openly when problems rise (Dwyer et al, 1987). The manner in which a conflict is handled by the seller can have either constructive or destructive outcomes (Song et al, 2006). The contingency perspective of conflict handling (Rahim, 2000), reasons that sellers must first determine the right conflict management approach (van de Vliert et al, 1999). In general, the conflict management strategies aim to minimize negative outcomes and maximize positive consequences. This ability of the seller to handle conflict well is an important determinant of customer loyalty. Thus, we postulate that a significant positive relationship between customer loyalty and (a) trust, (b) commitment, (c) communication and (d) conflict handling.

Outcomes of customer loyalty

Research on customer retention has been receiving increasing attention from researchers (Thomas 2001; Reibstein 2002; Jones et al. 2000; Lewis 2004). For this study, we propose two outcomes.

Customer Retention

Customer retention refers to actions that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. Customer retention (CR) is concerned with maintaining the business relationship established between a supplier and a customer (Gerpott et al, 2001). A growing body of literature suggests that customer loyalty has positive impact on client retention (Sin et al. 2002; Rosenberg and Czepiel 1984; Reichheld and Sasser 1990),

Word of mouth (WOM)

Word-of-mouth communications (WOM) have been studied in two ways, as an input into consumer decision-making (Bloch et al, 1986; Feick and Price, 1987) and outcome of the purchase process (Holmes and Lett, 1977) As an outcome of the purchase process, marketing buzz is a term used in word-of-mouth marketing—the interaction of consumers and users of a product or service serve to amplify the original marketing message (Thomas Jr, 2006). Positive WOM communication is a direct outcome of customer loyalty (Srinivasan et al. (2002). Other studies have also concluded in their respective studies that customers are more likely to engage in positive word of mouth (Hagel and Armstrong (1997) and Dick and Basu (1994),

Research Framework

Following the foregoing review of literature, this study proposes a model that establishes the relationship between the four components that is, trust, communications, conflict-handling and commitment to customer loyalty and its outcome, which is customer retention and positive word of mouth communication. As a result, a conceptual model is developed as shown in Figure 1.

Research Methodology

Focus Group discussion

A focus group discussion was conducted. Prior to the conduct of focus group discussion, a list of items that customer loyalty, which were identified in the review of literature were developed. A group of eight graduate students was invited to participate in the focus group. They were briefed about the purpose of the meeting and the guidelines developed by Morgan (1988), was used in managing the focus group discussion. The list of items identified through a review of the literature was revealed to the participants. They were then asked to select and assess the variables they felt were relevant when getting satisfaction and building relationships with service providers. The discussion was moderated by the principal investigator lasted nearly two hours and the findings were used to refine the survey instrument design.

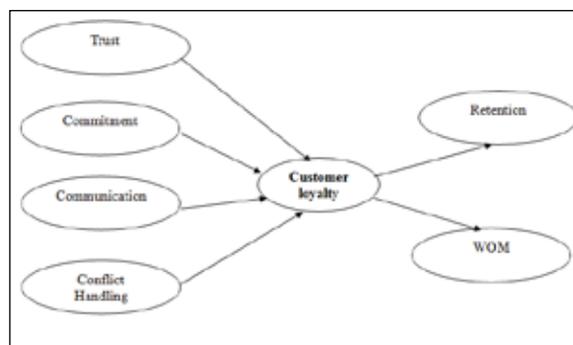


Figure 1: A Conceptual Framework

Questionnaire development

Based on the review of literature and input from the focus group discussion, a survey instrument was specifically developed for this study. The survey instrument consisted of a two part self-administered questionnaire. The first part was designed to capture information on the demographic characteristics of respondents. While the second part of the questionnaire sought information on constructs affecting customer loyalty namely trust, commitment, communication and conflict handling. Items on the outcome constructs of customer loyalty that is retention and word-of-mouth communication were also captured. The measurement items of these constructs are adopted from prior research, as discussed under literature review. All these questions measured on a Likert type scale, from 1 (strongly disagree) to 5 (strongly agree).

After developing the instrument, a pre-test was conducted on 20 randomly selected graduate students from diverse backgrounds in the university campus. This was done to ensure clarity and validity of the survey instrument. After obtaining feedback, it was decided to modify the wordings in three questions as they were found to be lacking clarity in meaning.

Study Setting and data collection

A survey was conducted in the three major cities. These chosen cities are spread across the three different regions: Jeddah in the western province, Riyadh in the central province, and the tri-cities of Khobar-Dammam-Dhahran in the eastern province. Banking industry was chosen as the setting for this study. Determining competitiveness of banking industry in emerging nations has been receiving greater interest in recent times (example, Ferreira et al, 2011; Omar, 2008)

The target population of this study was all adult individuals residing in Saudi Arabia. Because of difficulties in obtaining probabilistic samples in Saudi Arabia, a convenience sampling technique was used. The procedure laid out by Salganik and Heckathorn (2004) was employed. Although convenience sampling is not the best method, this is considered a necessary evil for data collection in Saudi Arabia (Sohail and Sahin, 2010). In the first stage of data collection, initial recruits were randomly selected by the authors from university students and residents of randomly selected housing compounds in the three chosen cities in Saudi Arabia. Those willing to participate were given questionnaires. The existing respondents, under the guidance of researchers, suggested other recruits. Overall 1500 questionnaires were distributed. All these efforts resulted in obtaining 345 usable responses.

All questionnaires collected were checked for completeness. To increase accuracy and precision, an editing process was undertaken by reviewing the questionnaire and screen out illegible, inconsistent and ambiguous responses. After this process, data cleaning was undertaken for a more thorough and extensive treatment of responses. All data was inputted using the SPSS package for the next step of analyses. After this round of elimination due to incompleteness, we were finally left with 345 usable questionnaires. This gives a response rate of 24 per cent which compares favorably with results of previous studies in Saudi Arabia (Sohail and Sahin, 2010)

Analysis and results

Before the process of empirically testing, appropriate reliability and validity tests of the measurement instrument were undertaken. Reliability refers to the instrument ability to provide a consistent results in repeated uses, whereas validity refers to the degree to which the instrument measures the concept the researchers wants to measures. This provides confidence that the empirical findings accurately reflect the proposed construct.

The overall model fit was evaluated using conventional fit indices including the χ^2/df ratio GFI, AGFI, CFI and RMSEA. The goodness of fit indices for the measurement model were above the conventional threshold values (χ^2/df ratio = 1.8, $p < .001$; GFI = .949; AGFI = .917; CFI = .973; and RMSEA = .047). The CFI, the NFI, and the NNFI were all above 0.90. The RMSEA (0.047) indicated a close model fit. The Chi square ration also indicated a very good model fit. In summary, these five fit indices collectively indicate a very good model fit. In addition, reliability was demonstrated through Cronbach's alpha reliability where values were above 0.70 (See Table 1). Content validity of the instrument is also assured as the measures were adopted from of well established empirical, prescriptive, conceptual or practitioner research studies.

Table 1: Reliability results

Dimensions	Mean (N=345)	S.D	Alpha's
Trust	3.79	.72	0.901
Commitment	3.32	.75	0.843
Communication	3.67	.76	0.882
Conflict Handling	3.51	.73	0.741
Reputation	3.93	.82	0.756
Retention	3.60	.99	0.819
WOM	3.63	.98	0.816
Customer Loyalty	3.70	.91	0.821

Note: Means Scores based on a five point scale, where 1= Strongly Disagree and 5= Strongly Agree)

Demographic Profiles

Table 2 shows the demographic characteristics of the 345 respondents. As for the age groupings, 56 percent are relatively young, under the between 18-25 years of age, 24 percent between 25-41 years and the remaining are above 41 years of age.

These samples are generally consistent with the overall age distribution of the population in Saudi Arabia. Regarding gender, an overwhelming number of respondents are males (91 percent). This is not surprising in a field study of this nature in Saudi Arabia, which is the difficulty of approaching females. Legally and socially, it is not appropriate to approach female strangers.

As for the educational attainment, about 37 percent were studying in Colleges, 35 percent had university degrees and about 16 percent were school dropouts. Approximately 45 percent earned less than SR 3000, and 27 percent were having an income of over SR 10,000 (SR, Saudi Riyal is the local currency SR 3.75=1 US \$). Finally, there was almost even distribution of years of banking usage in the three groups, less than 3 years, between 3 to 5 years and above 5 years.

Table 2: Demographic profile

	Frequency(n=345)	Percent
Age		
18- 25	195	56.5
25-40	83	24.1
41-55	67	19.4
Gender		
Male	317	91.9
Female	28	8.2
Geographic Location		
Eastern Province	133	38.5
Central Province	108	31.3
Western Province	104	30.1
Education		
High school or less	55	15.9
Some college	130	37.7
University Graduate	121	35.1
Master degree or higher	39	11.3
Monthly income		
Less than SR 3,000	155	44.9
SR 3,000 - SR 4,999	53	15.4
SR 5,000 - SR 9,999	45	13
SR 10,000 or more	92	26.7
Usage of banking service		
Less than 3 years	112	32.5
3 to 5 years	125	36.2
5 years or more	108	31.3
Total	345	100

Regression Results

Table 3 reports the results of the stepwise regression model. The F statistic for the first part of the regression model with customer loyalty as dependant variable was 38.75 (with a p value less than 0.0001). The results of the regression analysis indicate that only three of the four variables that is, conflict handling, trust and commitment had a significant effect on customer loyalty. Further, R² which is 0.463 indicates that 46.3 per cent of customer loyalty is explained by the model.

In the second model, customers' loyalty is a statistically significant determinant of customer retention. (B = 0.678; $p < 0.001$). The third model also establishes that word of mouth communication is dependant on customer loyalty. (B = 0.762; $p < 0.0001$).

Table 3: Summary of Multiple Regression Analysis

	Beta	t	Sig.
Model 1-(Constant)		.157	.714
Conflict handling	.362	4.60***	.000
Commitment	.165	2.40**	.017
Communication	.091	1.17	.242
Trust	.252	3.38***	.001
Dependent variable: Customer Loyalty R2=0.463; F=38.75***			
Model 2 -Constant		3.204	0.002
Customer loyalty	0.678	12.51***	0.000
Dependent variable: Customer Retention R2=0.459; F=147.63***			
Dependent variable: Customer Retention			
Model 3-Constant		2.771	0.006
Customer Loyalty	0.762	16.55***	0.000
Dependent variable: WOM R2=0.612; F=274.01***			

Notes: *** p <0.0001, ** p < 0.005, *p <0.05

Discussion and implications

Findings of the present study reveal that conflict handling, commitment, and trust are significant predictors of customer loyalty. These findings are supported by previous studies, for example, Coote (2003), which found that conflict handling, commitment and trust were significant predictors, while communication was not.

Customers are more loyal to banks that handle customer complaints and other conflict resolutions satisfactorily. Banks in Saudi Arabia must therefore develop effective conflict resolution mechanisms and resolve conflicts before they escalate to undesired behaviors. Banks should resolve conflicts in a timely and decisive manner. By developing a good system conflict handling mechanisms, banks will be able to solve customer complaints and have loyalty of customers.

Commitment is also an important contributor to customer loyalty. Banks should show a commitment in considering customer needs and customizing product offerings to customer needs. To develop loyalty of customers, banks should flexibility in building customer relationships. Finally, trust is also an important in building customer loyalty. Taking the social and cultural influences into account, banks should develop methods of gaining trust of customer, which will lead to having loyal customers. In this regard, keeping up promises made my banks and showing respect to customer can be considered important approaches to build trust. Banks should also strive to address the concerns relating to security of transactions, improving service quality and ensuring adequate steps are taken to boost customer confidence.

The element of communication however was not found to have any significant on customer loyalty. This probably may be be-

cause of the lack of effective communication skills by bank employees. As stated earlier, this finding is also supported by findings from a previous study (Coote, 2003).

Results on the effect of customer loyalty on relation outcomes revealed that customers' loyalty is significant determinant of customer retention and word of mouth communication. These findings are supported by extant literature indicating the positive impact of customer loyalty on customer retention (Sin et al. 2002; Reichheld and Sasser 1990). With growing competition in banking industry in Saudi Arabia, banks having loyal customers are better placed to retain them. Positive WOM communication is a direct outcome of customer loyalty (Srinivasan et al, 2002). This is also supported in the present study, as well as previous studies (Hagel and Armstrong, 1997; Dick and Basu, 1994).

Overall, building from past studies, the present study provides an empirical evidence of the influence on customer loyalty on relationship marketing elements identified for this study that is trust, commitment, communication and conflict handling. The study also provided empirical evidence of the outcomes of customer loyalty that is on the elements of customer retention and word of mouth communication. This study has a number of practical implications particularly for the banking industry which is striving to build customer loyalty and aim to retain and have a positive influence from them. Banks must be able to resolve conflicts, show commitment to customers and gain their trust. Timely communication it appears from the present study is not a significant predictor. Loyal customers are valuable communicators of favorable word-of-mouth, as proved from the present study supported in previous works (Ndubisi, 2004).

Conclusions and future research

This study attempted to look at the underpinnings of customer loyalty and their outcomes in the banking sector of Saudi Arabia. The study confirms the existence of conflict-handling, trust and commitment as the antecedents of customer loyalty. Therefore, firms aiming to build loyal customers should pay attention to these issues. The study also confirms the outcome of customer loyalty, which has a significant effect on customer retention and positive word of mouth communication. The findings of this study have important implications for firms developing strategies on build customer loyalty and retention. From a managerial perspective, this study sheds some light on the elements of relationships and outcomes that may be identified as critical for firms in a competitive environment.

While this study provides analyses of relation marketing elements of bank industry in Saudi Arabia, organizational justice in Saudi Arabia, there are several worthwhile directions for further work on this topic. One area is to examine the trends over time. It is suggested that longitudinal studies should be conducted in future to provide further insights into the trends and direction. Future research studies might fruitfully investigate the moderating influences of social and demographic factors on the relationship between relationship marketing elements and customer loyalty.

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