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Impact of marketing activities on relationship quality in the Malaysian banking sector

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ABSTRACT

The current study investigates the impact of marketing activities on relationship quality in the Malaysian banking sector. Analysis of survey results show that greater client and employees' relational orientation yields higher relationship quality and results in better relationship continuity. Results also show that committed client relationships lead to client satisfaction, loyalty, positive word of mouth and promotion However, mutual disclosure was found to have no significant relationship with relationship quality.This may indicate that bank customers in Malaysia do not feel that having close relationships with the bank will have any positive impact on relationship quality. This particular finding may serve as a warning signal to practitioners and scholars alike that thorough research must be carried out on the use of relationship marketing prior to implementation.

1. Introduction

Fierce competition among commercial banks has meant that even the most innovative products and services are duplicated by rivals, thus denying banks the opportunity to maintain sustainable competitive advantage (Gordon et al., 2008).The commercial banking environment in Malaysia is no different. According to Bank Negara Malaysia (Central Bank of Malaysia) there are 23 licensed commercial banks in the country (http:/www.bnm.gov.my).Of these banks, ten are Malaysian-controlled institutions, and thirteen are foreign-controlled institutions. These banks offer almost identical (standardized) products and services to their clients. Competition among these banks is fierce to the extent that innovative products and services have very short life cycle, as they are often copied by rival banks (http:/www.mifc.com). Attempts have been made by some of these banks to go beyond the core bank product and service by concentrating on what is called relationship marketing.However, with the proliferation of internet expansion and computer usage, Malaysian banks have been concentrating on the provision of e-banking services to clients. Although this trend is in harmony with knowledge economy, it is believed that obsession with e-banking by Malaysian banks is done at the expense of client-oriented traditional banking, as e-banking widens the gap between service providers and clients, thus resulting in much weaker relationship marketing (Al-alak and Alnawas, 2010).As e-banking services are getting standardized already,banks have to think of ways and means of enhancing their relationships with clients through innovative relational marketing activities as opposed to transactional marketing activities.

Since Berry (1983) introduced the concept of relationship marketing, many scholars and researchers (e.g. Gronroos, 1990, 1994; Gordon et al., 2008; Palmatier et al., 2009) have theorized and empirically tested the underlying principles of relationship marketing theory. Building a profitable and sustainable long term relationship with customers (de Wulf et al., 2001), increasing customers retention, developing and maintaining trust and commitment between sellers and customers (Gaur and Xu, 2009), achieving more customers satisfaction and high customers loyalty (Gaurav, 2008), cost reduction due to the better understanding of customers needs (Ndubisi, 2004),and expanding use of loyalty marketing programs to build long-term profitable relationships with customers that lead to growth(Ferguson and Hlavinka, 2007) are central to the relationship marketing theory. The application of relationship marketing theory has even extended into financial services, due to the deregulation policy (Yavas and Yasin, 2001), the removal of restrictions between banks, building societies and insurance companies (Speed and Smith, 1992), and the vast expansion in the adoption and use of information technologies (Bergeron et al., 2008). Yet, voices have been raised against

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overindulgence in IT-based relationship marketing programs as these programs may jeopardize the essence of relationship marketing-i.e. the personal, face-to-face service encounters between providers and clients that are believed to generate client satisfaction(Eisingerich and Bell, 2006). Furthermore, the state of maturity experienced by the banking sector coupled with the inability of the majority of commercial banks to differentiate their offerings have driven banks to pursue relational marketing strategies as opposed to the traditional transactional strategies (Jham and Khan, 2008).This paradigm shift from transactional strategies to relational strategies has obliged the banks to invest in relationship marketing strategies (Claik and Balta, 2006). As far as e-banking is concerned, banks have been keen to investigate the determinants of users' adoption momentum of e-banking in order to formulate appropriate strategies aimed at meeting the needs and wants of e-banking users and achieving better levels of customer satisfaction and higher loyalty(Poon, 2008).

Therefore, the primary purpose of this paper is to examine the marketing actions (antecedents) affecting relationship quality between Malaysian commercial banks employees and their clients, and the performances (consequences) influenced by relationship quality. It is expected that the higher the bank's relationship marketing efforts such as client orientation, relational orientation, mutual disclosure, and financial service providers' attributes, the higher the relationship quality between financial service providers and clients. As the relationship quality increases, it is likely to have a significant influence on the clients' behavior demonstrated through increased relationship continuity, and word of mouth. However, it is important to note that although the majority of studies attempt to establish a relationship between "higher relationship quality" and" increased relationship continuity" there are other factors that could influence the duration of the relationship. The existence of "behavioural loyalty" or so-called "spurious loyalty is also documented in the financial services literature and as such needs to be addressed too.

This research makes an important contribution to the literature on bank marketing since it is the only study to extend application of relationship quality to the banking context in Malaysia. The current study also contributes to the banking literature as it provides certain managerial implications. The study's results and recommendations may help management gain a better understanding of factors that contribute to the enhancement of mutually beneficial banking relationship marketing. This may in turn aid in the process of decision –making and strategy formulation.

2. Literature review

2.1. Relationship marketing

It is quite evident from the literature review covering relationship marketing that as a longer –term approach to marketing (Berry, 1983), relationship marketing is more concerned with the lifetime value of the customer than the value of a single transaction. Indeed, the orientation of relationship marketing is toward gaining a share of the customer, not a share of the market (Peppers and Rogers, 1994).It is assumed that establishing and maintaining relationships with customers will enhance customer retention (Gwinner et al., 1998),customer share development (Verhoef, 2003), and increased profit and recovery should a problem occur (Barnes, 1997; Jensen, 1997; Riley and Chernatony, 1997).In this context, relationship marketing can be viewed as an important business strategy (Verhoef, 2003; Gronroos, 1997).Berry (1983) first defined relationship marketing as business providing service to attract, maintain and enhance their relationships with the customers. He believes that the real focus of marketing is for firms to master ways and means of not only retaining customers but also ensuring that these customers are made to feel a sense of loyalty to their brands.

As related to the above argument, it has been suggested that firms' offering can be customized through a mutual relationship of communication and learning process between firms and their customers (Eisingerich and Bell, 2006). In the financial sector, where some clients have rejected the use of information technology as an alternative approach for personal contact (Prendergast and Marr, 1994), the role of clients have become more active in the service production/delivery process (Prahalad and Ramaswamy, 2000). It has also been concluded that the more the client participates in the financial institution service delivery process, the higher the opportunity to use cross selling and up selling with the client effectively (Salazar et al., 2007).This depends, however on the ability of banks to customize their relationship-building strategies to create value propositions as unique as the customers they serve (Ferguson and Hlavinka, 2007). Moreover, as financial service offerings are hard to be distinguished among competitors, clients have become more price conscious (Claik and Balta, 2006). Therefore, it is argued that relationship marketing could mediate such effect (Jham and Khan, 2008). Furthermore, since most services are delivered from frontline employees, then the quality of interaction which Craig and Ramaseshan, (1994) called 'the moment of the truth' becomes very important. Relationship quality- moment of truth- refers to customer perceptions and evaluations of individual service employees' communication and behavior, such as respect, courtesy, warmth, empathy, and helpfulness (Al-alak, 2006). This involves inducing feelings and emotional states through customer- employee interactions (or service encounters in the services sector). In the financial sector, whenever clients interact personally with financial service providers-that is 'moment of truth'-, they have the opportunity to evaluate, reevaluate or confirm previously held perceptions of their relationships with the service provider (Menon and O'Connor, 2007). This implies that relationships are more likely to develop in situations where the customer comes in more frequent contact with the service provider (Bove and Johson, 2000; Barnes, 1979; Doney and Cannon, 1997; Crosby et al., 1990), where the service is continuously delivered over an extended time period (Bennett, 1990; Berry, 1995) and where the customer perceives the relationship to be important (Ward et al., 1997).

2.2. Relationship quality

Crosby et al. (1990) studied the relationship quality in services selling and found that a strong buyer-seller relationship is contingent upon cooperative intentions, mutual disclosure and intensive follow up contact. Bergeron et al. (2003) investigated the role of client knowledge, service quality and expertise. The results of the study showed that the relationship between expertise and satisfaction was insignificant. Satisfied customers were less likely to purchase financial products in the future compared with trusting customers, while trusting customers were found to be generating less positive word of mouth in terms of recommending the bank to other people compared with satisfied customers. Eisingerich and Bell (2006) reported that clients' involvement in service delivery process means that clients would shoulder responsibility of both 'blame" and "credits" of the negative/positive service outcome and this in return could lead to a decrease in clients switching. Clients' involvement helped in developing a social relationship with financial service providers which resulted in reduced service failure. Ferguson and Hlavinka (2007) show that when banks use loyalty programs to engender trust and build confidence in the brand, the customer relationship will develop organically, and so will profits.Yazly (2009) quotes