Available online at www.sciencedirect.com

ScienceDirect

Procedia - Social and Behavioral Sciences 224 (2016) 408 – 415

Procedia
Social and Behavioral Sciences

6th International Research Symposium in Service Management, IRSSM-6 2015, 11-15 August 2015, UiTM Sarawak, Kuching, Malaysia

Banks' Lending Relationship Quality Index (LRQI) for the Small and Medium-sized Enterprises: A Review

Tury Retap[a], Firdaus Abdullah[b,]*, Jamil Hamali[c]

[a]*Malayan Banking Bhd, SME Business Centre, No.35, 37 &39, Jalan Kampong Nyabor, 96000, Sibu, Malaysia*
[b,c] *Faculty of Business Management, Universiti Teknologi MARA, Jalan Meranek, 94300 Kota Samarahan, Malaysia*

Abstract

Stiff competition in the service industry like banking sector has forced banks to search for the best approach to create, attract and retain a segment of satisfied customers. Relationship marketing is a comprehensive strategy used by many service providers to maintain an on-going long-term relationship with their existing customers. A good implementation of relationship marketing activities is evident from good relationship quality built between the customer and the service provider. Due to the above needs, development of a new measuring instrument (Lending Relationship Quality Index (LRQI) to assess the quality of lending relationship between the banks and their SME borrowings' customers, a nationwide survey is proposed to identify factors presumed to influence the quality of lending relationship from SME borrowings' customers perspective A sample size of 2,000 will be drawn from the SME customers having lending relationship with domestic commercial banks. The sampling procedures to be used for this study will be Convenient Sampling. The items in the questionnaire will be measured on a five-point Likert-type scale. Previous researches had focused on assessing relationship quality between the banks and their customers but have neglected to determine the quality of relationship in the context of lending between the banks and their SME borrowings' customers. The new measuring instrument will be empirically tested for multi-dimensionality, reliability and validity by using both exploratory and confirmatory factor analysis. The findings from this study will add value to the existing literatures on relationship quality by linking the proposed seven factors of lending relationship quality namely, trust, communication quality of relationship, amount of information sharing, long-term relationship orientation, satisfaction with the relationship, closeness and commitment as the independent variables to the dependent variables which consist of lending relationship quality and how it relates to satisfaction and retention.

Peer-review under responsibility of the Universiti Teknologi MARA Sarawak

Keywords: banks; customer relationship marketing, Lending Relationship Quality Index, SME

* Corresponding author. Tel.: +6-082-677-581.
E-mail address: fir@sarawak.uitm.edu.my

Peer-review under responsibility of the Universiti Teknologi MARA Sarawak
doi:10.1016/j.sbspro.2016.05.407

1. Introduction

Competitive environment is one of the antecedents of relationship marketing (Sheth and Parvatiyar, 1995). As such, relationship marketing tends to be more focused on establishing, keeping customers and enhancing the relationship with them (Storbacka, Standvik and Gronroos, 1994). Developing a strong customer relationship has been considered as an avenue for gaining competitive advantage (Reichheld, 1993) as the intangible aspects of a relationship are not duplicable by the competitors (Athanasopoulou, 2008). However, companies are striving to increase their market share. These challenges would require marketers' continuous effort to retain their satisfied customers and to seek new customers.

2. Lending Relationship Quality Index

The study of relationship marketing has attracted growing attention since 1990 as marketing approaches have inclined toward relational exchange approaches from discreet transaction approaches. Relationship quality is an extended issue of relationship marketing (Alwie and Bojei, 2010).Though relationship quality originates from service quality paradigm, the concept of relationship quality has been understood as the quality of relationship (Lehtinen and Jarvelin, 1995).The concept of lending relationship and relationship lending have been interchangeably used in the lending relationship literatures. It is a lending practice that involves the granting of credit if close ties exist between firms and banks (Stein, Memmel and Schmieder, 2008). Previous studies have emphasized different relationship contextual settings (Holmlund, 2007). Ndubisi and Wah (2004) had examined the relationship between the banks and their customers but not specific to lending relationship between the banks and their specific borrowers' segment (SME borrowers). Though quantitative credit scoring methods have been introduced, relationship-based marketing paradigm still have theoretical relevance as credit evaluation still involve discreet human interactions and contacts. It will remain an integral part of credit risk management processes (Moller and Wilson, 1995). As lending relationship quality aspects have been sidelined by previous researchers, this study will fill the void by identifying factors that presume to influence lending relationship quality and to develop a new lending relationship quality index uniquely designed to assess lending relationship quality for the SME sectors. The new measuring instrument will be empirically tested for multi-dimensionality, reliability and validity by employing both exploratory and confirmatory factor analysis. The findings from the study will add value to the existing literatures on lending relationship by hypothesizing the proposed seven factors of lending relationship quality namely, (1) Trust, (2) Communication Quality of Relationship, (3) Amount of Information Sharing, (4) Long-term Relationship Orientation, (5) Satisfaction With The Relationship, (6) Closeness and (7) Commitment as the Independent Variables to one Dependent Variable which is (1) Lending Relationship Quality index (LRQI) as exhibited by the proposed conceptual frameworks (Figure 1). The study will seek to determine how LRQI will relate to retention and satisfaction.

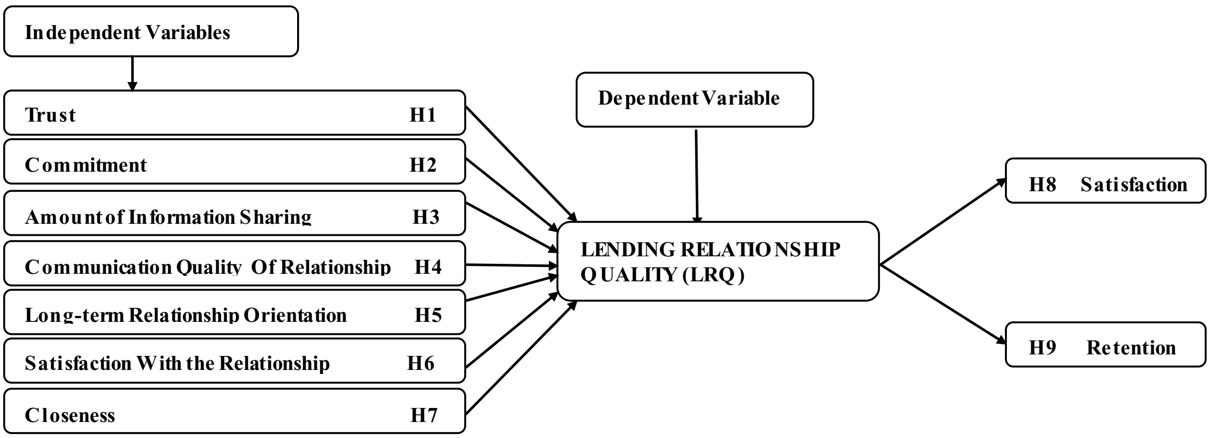

Fig. 1. Proposed conceptual framework.