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The Influence of Relationship Quality on Customer Loyalty in the Dual-Banking System in the Northern States of Peninsular Malaysia

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Abstract

While relationship quality has been known as one of the most influential predictors of customer loyalty, relational norms are also likely to have an impact on relationship quality and customer loyalty. However, limited research had been conducted on the relationships between relational norms, relationship quality, and customer loyalty in a single framework and in business-to-consumer context. Therefore, this study intends to investigate the relationships between relational norms and relationship quality, and between relationship quality and customer loyalty. Results indicate that a mediation effect of relationship quality exists on the link between relational norms and customer loyalty.

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Keywords: Customer loyalty; Dual-banking system; Islamic banks; Partial Least Squares; Relational norms; Relationship quality

1. Introduction

It is undeniable that the Malaysian Islamic banking industry which started almost four decades ago plays an important socioeconomic role within the nation's economy. The Malaysian Islamic banking industry is unique. Besides the full fledged Islamic banks, the industry also consists of the dual-window Islamic banks. Under this system, conventional banks are given the permission by Bank Negara Malaysia to offer and sell Islamic banking products through their subsidiaries by utilizing their existing infrastructure, staff, and branch network. As a result, the Malaysian Islamic banking is facing fierce competitions where the conventional and Islamic banks are competing to gain market share (Muhammad et al., 2015). As competition intensifies in this near-saturated banking industry, it is crucial for

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Islamic banks to retain current customer since the costs of retaining existing customers are lower than the costs of acquiring new customers (Reichheld and Sasser, 1990). In the competitive financial services landscape, it is appropriate to use relationship marketing strategy as a strategic tool (Liang and Wang, 2005). Review on past literature has noted the importance of relationship quality in predicting customer loyalty (Liu et al., 2011; Athavale et al., 2015). Numerous factors including price fairness, customer value, and communication had been found to have significant influence on relationship quality (Kim et al., 2006). Nevertheless, along with these “hard” factors, “soft” factors also play an important role. Morgan and Hunt (1994) examined the “soft” factors that matters in relationships and relational norms were identified to have strong impact on the customer’s quality of relationship. While relational norms are quite apparent in inter-firm relationships, in marketing they have received little attention among scholars (Berthon et al., 2003).

Although several research has examine the impact of relationship quality on customer loyalty and that of relational norms on relationship quality, however, less often they are studied in a single framework. Therefore, it is crucial to determine the contributions of relational norms and relationship quality to customer loyalty in the B2C settings. In addition, relationship quality has also been found to be a mediator variable in several studies (e.g., Crosby et al., 1990; Lin and Ding, 2006; Zhang et al., 2011). Thus, this study aims to examine the impact of relational norms on relationship quality among the dual-window Islamic banks and their customers and the effect of these two variables on customer loyalty. This study will also investigate the likely mediation effect of relationship quality on the link between relational norms and customer loyalty. It is important to examine these relationships as service providers can maximize the magnitude of relational norms and relationship quality in predicting customer loyalty.

2. Literature Review

2.1 Customer Loyalty

The most commonly used definition of loyalty in the context of consumption is given by Oliver (1997) as “a deeply-held commitment to rebuy or patronize a preferred product or service consistently in the future, thereby causing repetitive purchasing, despite situational factors that may cause switching behavior.” According to George and Stavros (2013) customer loyalty has consistently been recognized as a key determinant of customer retention. In the relationship marketing research, customer loyalty plays a central role due to its positive effect on long-term profitability (Floh and Treiblmaier; 2006). Customers who are loyal toward the firms’ products or services tend to repurchase more often and spend more money. As suggested by Reichheld and Sasser (1990), firms that aim to achieve superior performance and gain long-term profitability should focus on customer loyalty. This study conceptualized loyalty as an attitudinal loyalty due to the criticism on behavioral loyalty which lacks of conceptual basis of the causes of loyalty (Samaan, 2015). Customer loyalty in the Islamic banking system has been a major concern to practitioners due to the stiff competitions and the current focus on the relationships between consumers and organizations (Samaan, 2015).

2.2 Relational Norms and Relationship Quality

Relational norms exist in any relationship but their strength varies according to the position of the relationship on the relationship continuum (Chen and Lin, 2011). Norms can be used to govern a relationship when they become internal to a relationship and may apply to industry sectors, firm, to an individual business, or to each separate transaction (Ivens, 2006). Unlike norms that governed behavior in discrete transactions, relational norms are an endogenous form of behavior control that do not rely on market forces, but rely on cooperation, trust, common goals, and communication to coordinate the relationship (Morgan and Hunt, 1994). This study treated relational norms as a higher order construct consisting of flexibility, solidarity, and information exchange as suggested by Heide and John (1992). Flexibility refers to the service providers’ readiness to adapt to changes in circumstances that occur in their relationship and it can reduce the possibility of a broken relationship (Heide and John, 1992). Solidarity is a belief that parties in a relationship will support each other to maintain the relationship (Cannon and Perreault, 1999). Information exchange norm reduces the likelihood of being cheated because parties receive information to better cope with uncertainties (Heide and John, 1992). Ivens and Pardo (2007) found relational norms directly influenced relationship quality among German purchasing managers. In the pharmacy settings, Doucette (1996) found relational norms influenced relationship quality. Thus, the following hypothesis was developed:

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