

# THE EFFECT OF RELATIONSHIP MARKETING TOWARDS CUSTOMER'S LOYALTY MEDIATED BY RELATIONSHIP QUALITY (CASE STUDY IN PRIORITY BANK IN NIAGA)

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## Abstract

A large number of banks available make people be more freely in choosing the best bank for their needs. People can be more freely to switch from one bank to another this makes the loyalty level of bank customers decreased, even though the efforts and cost spent for maintaining the customers cheaper than the efforts and cost spent for getting new customers. Relationship is one of the answers to the problem, relationship marketing is a marketing principle which emphasizes and takes effort in maintaining good long term relationship with customers. This research aims to, analyze the influence competence, communication, and conflict handling towards relationship quality, mediated by relationship quality, and towards customer loyalty. The research was conducted by collecting quantitative data through questionnaires distributed to 130 respondents. The objects of this research were the priority customers at Niaga Bank, and it used purposive sampling technique. This research conducted by using Structural Equation Model method. The result of this research showed that, (1) relationship marketing which consists of competence component, communication, and conflict handling have significant influence and positively towards relationship quality, partially and simultaneously, (2) relationship marketing have significant influence and positively towards customer loyalty which is mediated by relationship quality, and (3) relationship quality have significant influence and positively towards customer loyalty.

Keywords: Competence, Communication, Conflic Handling, Relational Quality, Castomer Loyalty.

## Abstrak

*Masalah penelitian penurunan jumlah portofolio asset under manajemen terutama jumlah nasabah prioritas bank. Penelitian ini bertujuan untuk menganalisa kompetensi, komunikasi, penanganan konflik dan kualitas relationship yang mempengaruhi penurunan nasabah priotitas bank CIMB Niaga. Jumlah populasi sejumlah 907 responden, sampel penelitian sejumlah 130 responden. Alat analisa menggunakan Struktural Equation Modeling dengan lisrel. Hasil penelitian menunjukkan bahwa (1) kompetensi, komunikasi, dan penanganan konflik berpengaruh signifikan terhadap kualitas relationship marketing (2) kualitas relationship berpengaruh signifikan terhadap loyalitas nasabah (3) kualitas relationship meningkat, secara langsung maupun tidak langsung. Kontribusi teori bahwa teori yang dikembangkan oleh peneliti terdahulu sampai saat ini masih relevan.*

*Kata Kunci: Kompetensi, Komunikasi, Penanganan Konflik, Kualitas Rasional, Loyalitas Nasabah.*

## 1. Introduction

One of the main objectives of a company is retaining the customers, because loyal customers will commit to be loyal to a company and buy the product or services offered in the future. Loyal customers will also help promote the company. They will promote strong words of mouth (WOM), provide references and give advice to other recommend, so that loyal customers will provide several benefits such as increased sales through purchasing a wider and make more purchasing frequency. This thing can decrease the costs of the company to serve customers, and costs that required maintaining the customer is less than the costs to acquire new customers. As an effort to retain customers, companies need to keep fostering the quality of relational well to every customer, where customers are invited to build a closer relationship by creating two-way communication that can lead to trust, satisfaction, even a social bond that can ultimately lead to a commitment between customers and company.

In industries of the services sector, the relational marketing approach is suitable to use on a marketing strategy as appropriate to the nature of the service itself, especially in the banking industry.

Given the increasing fierce competition in the banking industry, relationship marketing is considered as a very precise method for developing long-term relationships with customers for the services offered at various commercial banks are relatively equal and similar. Therefore, a large number of banks in the world have been using and applying the principles of relational marketing approach with the emergence of private banks along with state banks; an intense competition has begun in the banking industry. Thus, there should be efforts to keep customers and build long term relationships with customers, due to the fact that a good relationship between the customer and the company will make the position a company to be strong and reduce competition or rivalry with others.

To maintain and strengthen the position a Bank in Indonesia, Bank should be able to maintain good relationship with customers and makes them become loyal which can result in increasing of sales and expansion market due to the reference of the loyal customers. One customer segments that need to be considered is the priority customers, this is because the customer segment has a huge potential to increase the portfolio of third-party funds that can be managed by the bank and is one

of the largest revenue greatest for transactions they did and purchase products that generate substantial revenue for the company. In this research, replication and modifications to the study of Ndubisi and Wah (2007) entitled "Supplier-customer relationship management and customer loyalty; the banking industry perspective". The study aims to examine the impact of the basics of relationship marketing, namely: commitment, competence, communication, and conflict handling with a customer loyalty mediated by trust and relational quality. The results showed that the relationship marketing strategy, namely: communication, commitment, competence, and conflict handling, directly and indirectly (through trust and relational qualities) relates to customer loyalty.

In addition, trust and relationship quality is directly related to loyalty, in this study the researcher will analyze the influence of relationship marketing, which is limited to the components of competency, communication and conflict handling on the loyalty of customers, especially in priority customers mediated by relationship quality. This study is only limited to the components of competency, communication and conflict handling.

Based on the background of the problems mentioned above, the purpose of this study was (1) to analyze the effect of relationship marketing to relationship quality in detailed (a) to analyze the effect on the quality of the relational competence; (b) to analyze the influence of communication on the quality of the relational; (c) to analyze the effect on the quality of the relational conflict handling; (2) to analyze the influence of relationship marketing on customer loyalty to be mediated by relationship quality; and (3) to analyze the influence of the relationship quality on customer loyalty.

## **2. Literature Review**

### **2.1 Relationship Marketing**

According Leverin and Liljander (2006), relationship marketing is a marketing which has meaning as a process in attracting, maintaining and improving relationships with important people or that has an influence on the company. Understanding of relationship marketing evolved from the basic idea that originally transactional marketing into a transaction that is intended to create and create the long-term relationship between customers, suppliers and marketers based on trust and commitment. Reicheld and Sasser (1990) conducted a study which shows that

acquiring new customers has cost five times more expensive than retaining existing customers, even in line with the duration of relational customers, the company can increase profits up to 100%, it is only to have a retention rate of 5%. Study about marketing has created several theories regarding to the basic keys of relationship marketing, namely, trust, equity, benevolence, empathy, commitment, conflict handling, communication, competency by Ndubisi, Wah and Chukwunonso (2004). Competence is defined as the perception of the buyer against the competence of technology and commercialization of suppliers. There are four issues related to the competence, namely: knowledge of the supplier on the market for buyers, the ability to help the buyer purchase plans, and the ability to provide promotional materials effective sales (Ndubisi et al., 2007)

Communication is all the formal and informal exchange that makes it meaningful and timely information exchange between buyers and sellers by Ranjbarian and Berari (2009). Communication refers to the ability to provide timely information and reliable. Nowadays there is a new view that considers communication as an interactive

dialogue between companies and customers that take place during the pre-sale, sale, consumption and post-consumption phase Ndubisi et al. (2007). Conflict handling is defined as cooperative action to minimize the negative result of the involvement of significant potential (Ndubisi and Wah, 2005). The solving conflict is also defined as the ability of sellers to minimize the negative consequences of the real or potential conflict. The solving of the conflict reflects the ability of sellers to avoid potential conflicts, resolve apparent conflicts before they create problems and the ability to openly discuss solutions when problems arise.

## **2.2 Relationship Quality**

Relationship quality by Ndubisi et al., (2007) has been discussed as a bundle of immeasurable value, which increases the service or product and produces an expected exchange between the buyers and the sellers. General concept about the quality of the relational outlines the overall climate and depth of a relation. Quality refers to customer perception of how either whole relationship to meet expectations, predictions, goals and desires of the customer about the entire of the relation. Relationship quality between consumers

and companies is defined as the degree of conformity of relationships to meet the needs of consumers who fall into these relationships. Some studies have found that when selling a personal emphasis on the relational quality, it can reduce the sense of insecurity and uncertainty experienced by the customer. It basically can produce customers' trust and confidence of customers in the sale and will affect the future of the customer interactions. It can be concluded that the quality of relation include satisfaction, trust and commitment, which have positive, effects on the aspects that purpose in the future.

### **2.3 Loyalty**

Loyalty is a deeply held commitment to buy again the product or service that is desired in the future even though there are situational influences and marketing efforts have the potential to cause switching behavior (Oliver, 1999). The customer's loyalty will help promote the company. They will do strong word of mouth, creating a business submission, provide references and to give advice to others or recommend (Bowen and Chen, 2001). With the activities for loyal customers, then there are some advantages as described above, but besides that

customer's loyalty will also increase sales through purchasing a wider and make more purchasing frequency.

### **2.4 Hypothesis Development**

Studies that conducted by Ndubisi et al, (2007) confirms that there is a relationship between competence, communication and conflict handling with relationship quality. In addition, the further result also pointed out that there is a significant relationship between conflict handling and the quality of the relational, relational perceived quality depends on the level of the bank's ability to handle conflict. Customers have good relationships with the bank when the bank can solve the conflicts in a timely and satisfactory. Research conducted by Bejou et al. (1996) found that the orientation of conduct seller, the seller of expertise, the duration of the relationships, and orientation towards customers and sales will increase customer satisfaction and confidence, it is proving a link between the competence of the relationship quality (satisfaction and trust). Research has been done Crosby et al. (1990) found that similarity, the perception of seller expertise and relational selling behavior will boost relationship quality (satisfaction and trust), and consequently will increase

sales effectiveness. Based on the results of these studies, the hypothesis is formulated as follows:

H<sub>1</sub>: There is an influence relationship marketing towards relationship quality.

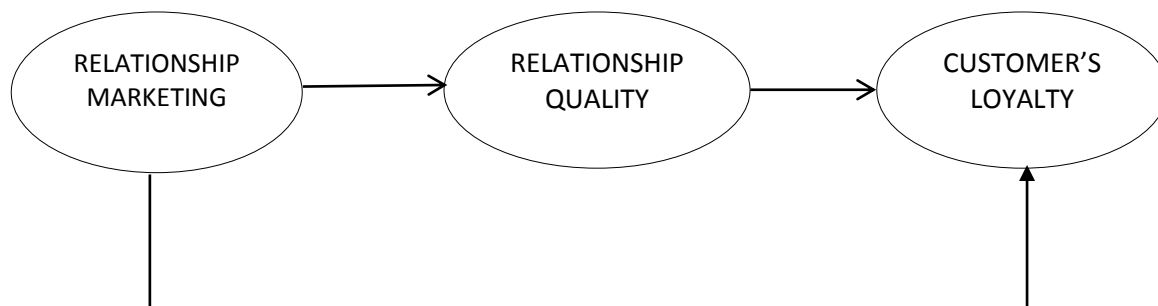
Studies that conducted by Oliver (1999); Ndubisi et al, (2007), Gundlach et al. (1995), Morgan and Hunt (1994), Dwyer et al. (1987), and Wilson (1999) have shown that there is a relationship between competence, communication, and conflict handing on relationship quality. Moreover research conducted by Oliver (1999), Ndubisi et al. (2004), Bejou et al. (1996) has shown there is a relationship between the quality of the relationship and customer loyalty. In addition, research Lin and Ding (2006), found that the relational selling behavior, perception of network quality, and service recovery affect loyalty through trust and satisfaction, this shows that the relationship marketing mediated relationship quality (trust and satisfaction) can affect customer loyalty. Based on research Wray et al. (1994), Bowen and Shoemaker (1998), Woo and Cha (2002),

Thurau et al. (2002), in Syah (2014), shows that there is a relationship between relationship marketing with customer loyalty mediated by relationship quality (trust and satisfaction). According to these studies, the hypothesis is formulated as follows:

H<sub>2</sub>: There is the influence of relationship on customer loyalty with the meditation by relationship quality

Then, research conducted by Oliver (1999); Bejou et al. (1996) and Ndubisi et al. (2007), have shown that there is a relationship between the relationship quality with customer loyalty, they concluded that the relationship quality of the customer - seller is an essential prerequisite for successful long-term relationship. It has been argued that for loyal buyers, companies must invest in building customer relationships and intimacy, build relationships and intimacy will also lead to a stronger loyalty. Based on the results of these studies, the hypothesis is formulated as follows:

H<sub>3</sub>: There is a relationship quality influence on customer loyalty.



**Figure 1: Framework of Thinking**

### 3. Research Method

In this study, relationship marketing is examined in competence, communication, and conflict handling components. Competence is defined as the buyer perception of technology competence and seller commercial. In this study, the author also employs some factors used in the study conducted by Ndubisi et al. (2007) to measure competence such as the seller's knowledge about market to the buyer, competence to give an appropriate suggestion in the operational business, competence to help the buyers in planning their procurement, and competence to provide effective selling promotion materials. According to Ndubisi et al. (2004), competence also refers to their bank capability of providing good service to customers. Communication in relationship marketing refers to the competence to give appropriate information reliably and timely. Communication is measured by factors such as giving reliable information,

providing information when a problem occurs, revealing information about quality assurance, giving procedural information to the customers, and opportunity to customer's feedback, this is consistent with the indicators used in Ndubisi et al. (2007).

Conflict handling is defined as the seller competence to minimize negative consequence of real and potential conflicts (Dwyer et al., 1987 in Ndubisi et al., 2007). Conflict handling is measured by factors such as seller's competence to avoid conflict, to resolve the real conflict before they create problem and competence to openly discuss solution when the problem emerged, this is in accordance to the indicators used in the study conducted. Relationship quality according to Jarvelin and Lehtinen, 1996 in Syah, 2014 refers to the customer perception about how good the relationship is meeting the expectation, prediction, goal and customer preference about all relationships. Relational quality

represents the relationship between customer and company, and this relationship depends on the level of customer satisfaction. Quality Relational dimensions in an interface service, he defined them as professional relationship and social relationship, the first relationship is based on competence demonstration of the service provider, whereas the second is based on the social interaction effectiveness of the service provider with the customers (Ndubisi and Wah, 2005). Crosby et al (1990) examined different relational quality aspects and perceived it as the buyer's trust to the seller and the satisfaction in the relationship by Ndubisi and Wah (2005). Loyalty variable is defined as the commitment firmly hold to repurchase the product and service preferred in the future although there are influence and situational marketing attempt which have potency to cause switching behavior (Oliver, 1999). Evanschitzky and Wunderlich, 2006 in Syah, 2014 noted that an act did not automatically encourage purchasing behavior for not all intentions were spelled out in an act (Abubakar et al., 2013). Therefore Abubakar et al. (2013), distinguished brand true loyalty and loyalty based on inertia. Brand true loyalty is the target of retail bank customer relationship. Those

concepts become the references in this study to determine indicators of customer loyalty.

### **3.1 Population and Sample**

Sampling techniques using non-probability sampling is a sampling technique does not provide the same opportunities to every member of the population to be elected as members of the sample. Sampling techniques using purposive sampling that take samples with specific criteria (Sugiyono, 2011). The population of the study is all priority customers in Niaga Bank Indonesia with the population number of 907 customers. In determining the number of samples and population, the researcher uses the theories by Hair, et al. (2007) as the references. In the questionnaires of this study there are 26 questions; therefore, the minimum number of respondents required is 130 respondents. In this study, the research defines sample that of all population of priority customers, Niaga Bank customers with the period of minimum 1 year will be chosen. The second stage of sampling determination uses probability-sampling with the sampling technique is simple random sampling. Number of research instruments 26 indicators, six indicators



consist of competence. Communication of six indicators.

### **3.2 Analysis Method**

Data processing in this study was using Structural Equation Modeling (SEM) shows that SEM model in this study is recursive and coextensive. In the model there are three latent variables, which are exogenous latent variable that is Relationship Marketing, and endogenous latent variable which is relationship quality intervening variable and Customer Loyalty dependent variable. The data type of this study consists of primary and secondary data. Meanwhile, data collection technique for primary data uses survey method with questionnaire as the instrument employing Likert Scale (1=strongly disagree, 5=strongly agree). Besides, secondary data is obtained by documentation study.

## **4. Result**

In the initial stage of this study, data validity test is conducted by using factor analysis. Based on the results of factor analysis, it is shown that the 26 indicators in the questionnaire of this study represent KMO score over 0,5 and MSA score over 0,5, which is the minimum requirement of data validity test, then it

can be concluded that the 26 indicators can be accepted, are appropriate, consistent, and sufficient to be used as measuring instrument or indicators in conducting this study, so that this study can proceed. The questionnaire can be perceived in the appendix. Reliability test is conducted by Cronbach Alpha test. Based on the result of reliability test above, the score of Cronbach Alpha is bigger than 0.6, which is over the requirement of reliability test, so that it can be concluded that the variable used in this study is reliable to be used as measuring instrument in this study.

The first step in the data analysis using structural equation modeling method is examining program output toward the possibility of offending estimate. According to the result of factor validity test, it is obtained that there are three invalid indicators. Those indicators, the first is Y1 indicator in relational quality constructs, that is a question of if Relationship Marketing shows a high professionalism in service. The second is Y= 5 indicator in relationship quality construct which is a question of whether the customer has a good relationship with their Bank, and the third is Z1 indicator in customer loyalty construct which is a question of whether the customer performs all banking administration with their Bank.

Thus, those three indicators are issued in the next structural equation modeling data processing.

The second step is Reliability Test which can be tested by using calculation of Construct Reliability and Variance Extracted. According to Bagozi and Yi (1988), a good reliability requirement has to have construct reliability  $> 0.6$  and variance extracted  $> 0.5$ . Based on the data processing it can be seen that all constructs have met the good reliability, which is to relationship marketing (X), relationship quality (Y), and customer loyalty (Z). Furthermore, goodness of fit analysis is conducted in all models. Based on the analysis, several tests show adequate goodness of fit such as noncentrality parameter and parsimonius normed Fit Index, but there are more tests with adequate goodness of fit. Hence, it can be concluded that the goodness of fit of all models has met the requirement. Afterwards, structuralmodel relationship test is conducted in thisstudywhich the resultscanbe seen in the following table:

Table 1 Structural Model Relationship Test

Hypothesis	Hypothesis Statement	T Value	Description
<b>H1</b>	There is influence of relationship marketing on relationship quality	8,43	Supported
<b>H2</b>	There is influence of relationship marketing on customer loyalty	5,15	Supported
<b>H3</b>	There is influence of relationship quality on customer loyalty	2,36	Supported

Based on the table above, it can be seen that according data processing the result of consecutive t-value for the relationship between relational marketing and relational quality, and relational quality and customer loyalty is 8,43 and 2,36 implying that it is bigger than 1,96, then it can be concluded that there is a significant and positive influence between relational marketing on relational quality, and relational quality on customer loyalty. These results support hypothesis 1 and 3. Through coefficient difference method, the result of hypothesis test shows there is an influence of mediating variable of relational quality between relationship marketing variable and customer loyalty. Mediating variable of relational quality is used to bridge the relationship between relational marketing and customer loyalty.

According to the test result, coefficient difference on structural model, it can be seen that relationship marketing directly influence customer loyalty, with t-value of 8,43 ( $>1,96$ ) between relationship marketing variable and relationship quality, and t-value = 2,36 ( $<1,96$ ) between relationship quality variable and customer loyalty. Therefore, it can be concluded that relationship quality fully mediates relationship marketing and customer loyalty. It can confirm that relationship marketing and relational quality is sufficient to increase customer loyalty. Based on the table above, it can be identified that t-value is 5.15 meaning that it is bigger than 1.96 (critical value), then it can be concluded that there is a significant and positive influence of relationship marketing on customer loyalty. This result supports hypothesis 2 that is there is an influence of relationship marketing on customer loyalty by the mediation of relationship quality.

#### **4.1 Discussion**

The result of this study which is consistent with the preceding study is expected due to the character of Malaysian Citizens (the country where this study is conducted previously) is similar to Indonesian citizens, the culture is also

similar. Relationship marketing is a marketing approach focusing on consumers, so that all marketing actions is performed as maximum as possible to be adjusted with the customers' needs and preferences, so that wherever this study is conducted it should be accepted and positively welcomed by the consumers. This study also shows that there is an influence of relationship quality on customer loyalty. This is consistent with the result of the study conducted by Rizan (2014) and Ndubisi et al. (2007), is expected due to the

The result of this study which is consistent with the preceding study is expected due to the character of Malaysian Citizens is similar to Indonesian citizens, the culture is also similar. If the relationship between the bank and customers runs smoothly also meets the customer's expectation and goal, as well as satisfying, then a good relational quality will be resulted, if the relationship between the bank and the customers is good, the customers will be glad to come to and have transaction with the bank and of course they will recommend the bank to other people, it can occur to banks everywhere.

The result of this study which is consistent with the preceding study is expected due to the character of Malaysian

Citizens is similar to Indonesian citizens. Relationship marketing is a marketing activity focusing on customers, so that all marketing activities are performed to build a good long-term relationship with the customers, if the good long term relationship is built, customer loyalty to the company must be established. This marketing concept can be applied every where for as long as the customers are concerned and prioritized, the good long term relationship will be built and the customer loyalty will follow.

#### **4.2 Implication Managerial**

Based on the result of the explanation above, there are managerial implications that can be implemented by the management of Bank in Indonesia. The given managerial implications are derived based on the data processing on the variable of relationship marketing, relational quality, and customer loyalty. Based on the data processing, it is found out that the relational marketing has a significant and positive effect on the relational quality; the relationship marketing has a significant and positive effect on the customer loyalty by the relationship quality mediation; and the relationship quality has a significant and positive effect on the customer loyalty.

Thus, if the relationship marketing is improved, will improve there relationship quality as well, and if the relationship quality is improved, it will improve the customer loyalty; so, if the relationship marketing is improved, it will indirectly improve the customer loyalty.

Therefore, the management needs to take into account the relationship marketing in this research, the relationship marketing is focused on the competence, communication, conflict resolution, and relationship quality factor. In order to improve the competence, communication skills, and ability in handling the conflicts of seller staff, it is necessary to improve the product knowledge, selling skills, and knowledge of the transaction flow and Standard Operation Procedure. Management can do socializing, refreshment, training, coaching, mentoring, briefings which are conducted continuously. Standard Operation Procedure is needed to be created clearly, orderly and safely for the company and customers, and also for accommodating the needs of customers properly. Management also must begin to pay attention to the promotion of products and the service of priority customers, so that the information can go through effectively to customers and prospective customers.

Management must also think about the products and services that fit the needs and desires of customers, so it can compete in the market.

## 5. Conclusion

There is a significant effect between the relationship marketing and the relationship quality. There is a significant effect between the relationship marketing on the customer loyalty mediated by the relationship quality. There is a significant effect between the Relationship Quality on the Customer Loyalty. The result supports the third hypothesis, and supports the previous research conducted by Ruswanti and Januarko (2016) and Rizan et al. (2014). This research is still far from the perfection and there are many limitations identified in this research. This research focuses only on the banking sector. The concentration may limit the generalization of the research findings. There are still many other service sectors that can be the object of the research for example, tourism, hospitality, healthcare, education, and others.

Therefore, the research sample for further research needs to be developed. In this research, the components of relationship marketing examined is only limited to variables of competence,

communication, and conflict management, but there are still many relationship marketing components that can be used as the research variables such as trust, equity, empathy and commitment. The relationship marketing can also be connected to a variable other than the variable of relational quality and customer loyalty. For example, relationship marketing can be linked to customer satisfaction. The relationship between the relationship marketing and the customer satisfaction is reinforced by the statement Ruswanti and Januarko (2015) who stated that the total customer satisfaction cannot be achieved even if only for a while, but the improvement efforts and satisfaction can be done with a variety of strategies such as the relationship marketing strategies.

The research on the relationship marketing and relationship quality is also expected to be conducted on a bank other than Niaga Bank, because different companies can have differences in the perception of customers; this needs to be proven and examined by the further research. The model of this research should not be limited to any service industry; further research must be able to examine whether the model of this research can also be applied and useful in

other industries besides the service industry, such as manufacturing industry. Coverage of samples for future researches can be characterized either by number or segmentation of the target sample. For future research, the sample will be expanded and the object of research can be coupled with other banks that have priority customers. Future research suggestions

bank customers to compare priorities between CIMB Bank and Mandiri Bank. In this research, the research uses the method of Linear Regression Analysis and Structural Equation Modeling. Further researches could use the same method or modified, adapted to the needs and the accuracy of the results desired.

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## APPENDIX

NO	INDICATORS	ANSWERS				
		STS	TS	N	ST	SS
		1	2	3	4	5
COMPETENCE						
1	Relationship Marketing of my bank has sufficient knowledge about the banking services that I need					
2	Relationship Marketing of my bank has sufficient knowledge about the stock market					
3	Relationship Marketing of my bank advises me about how to invest my money					
4	Relationship Marketing of my bank helps me to plan my investment					
5	My bank provides the effective sales promotion					
6	My bank makes customization of products to suit my needs					
COMUNICATION						
7	Relationship Marketing of my bank provides timely information					
8	Relationship Marketing of my bank provides reliable information					
9	Relationship Marketing of my bank provides the information if there is a new banking service					
10	Relationship Marketing of my bank fulfill its promises					
11	Relationship Marketing of my bank provides accurate information					
12	Relationship Marketing of my bank provides information when there is a problem with my transaction					
CONFLICT HANDLING						
13	Relationship Marketing of my bank tries to avoid a potential conflict between me and the bank					
14	Relationship Marketing of my bank tries to resolve the resource conflicts that exist before they become a problem					
15	Relationship Marketing of my bank has the ability to openly discuss the solutions when problems arise					
RELATIONSHIP QUALITY						
16	Relationship Marketing of my bank shows high professionalism in service					
17	My relationship with my bank meet my expectations					
18	My relationship with my bank meet my goal					
19	My relationship with my bank is pleasant					
20	I have a good relationship with my bank					

NO	INDICATORS	ANSWERS				
		STS	TS	N	ST	SS
		1	2	3	4	5
CUSTOMER LOYALTY						
21	I do all banking matters with my bank					
22	I never thought to be the priority of other bank customers					
23	I would recommend my bank to others					
24	Although getting a lower interest rate than other banks, I am not going to move to another bank					
25	I like to talk about the positive things about my bank to others					
26	I will decide my bank to be my primary choice in the future					