Developing an Instrument to Measure Relationship Marketing Outcomes: The Case of The Greek Banking Sector

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Abstract: *Contemporary economy force companies to depart from traditional marketing doctrines and adopt a customer-centric approach by focusing on managing customer relationships. Banks were among the pioneers in developing and implementing relationship marketing strategies, since they were between the first recipients of the radical changes that took place in global economy in recent years. This study is part of an ongoing research project aiming to develop an instrument to measure the outcome of the implementation of relationship marketing strategies by investigating how customers experience this approach. Field research was conducted among customers of Greek banks, utilizing an interviewer-administered questionnaire. Exploratory factor analysis was then performed on the collected data in order to identify latent factors among the questionnaire items. The results obtained were very encouraging, since 7 factors were extracted. Following an examination of the items' loadings on each factor, they were labeled as relationship value, crisis management, personalized sales, customer focus, flexibility, communication quality and reliability. Future work involves the verification and refinement of the emerged instrument's dimensions by executing field research in different business settings. Furthermore, the examination of the instrument's dimensions effects on typical relationship marketing performance indicators, such as customer satisfaction, loyalty and switching barriers, is also planned*.
Keywords: *relationship marketing, banking, performance monitoring, scale development*

1. INTRODUCTION

Contemporary economy, which is characterized by globalization, increasing competition and advances in communication and information technology, force companies to depart from traditional marketing doctrines and adopt a customer-centric approach by focusing on managing customer relationships (Bose, 2002). As a result of this, companies came to the conclusion that the focus of differentiation must shift from products and services towards customers (Teo et al., 2006).

Relationship marketing (RM) is an enterprise wide approach aiming to understand and influence customer behaviour through meaningful communications in order to improve customer acquisition and retention as well as profitability (Swift, 2001). It is consider as a radical shift of marketing theory and practice, which has been a topic of discussion and implementation among academics and practitioners since the early '80s, having its roots in services and industrial marketing (Egan, 2008). RM promotes a holistic approach by introducing the notion of customer life-cycle (e.g. acquisition, retention, expansion, recovery) and promoting the recognition of a wide range of company relationships (e.g. internal and external customers, suppliers, competitors, companies in other market segments). The aim is to develop and manage a wide range of mutually beneficial relationships.

RM strategies rely heavily on gathering and processing customer data in order to extract information that will help companies to identify ideal customers and customize their offerings. As a result of this, information technology plays a pivotal role as an enabler of successful RM strategies implementation. Customer Relationship Management (CRM) software systems are widely used since the late '90s as information –enabled relationship marketing solutions (Ryals and Payne 2001). However, as early efforts for the adoption of such systems have shown, successful CRM implementations can pose significant challenges. Digman (2002) emphasizes that "*the majority of CRM initiatives fail to meet expectations*", while Gartner Group (2003) adds that "*there is evidence that most CRM initiatives do not deliver the anticipated return on investment*". One of the most important lessons learned from early adopters is that there is a need to closely monitor the performance of RM strategy implementations, which are based on CRM systems and tend to be expensive.

Banks were among the service industry pioneers in developing and implementing RM strategies, since they were between the first recipients of the radical changes that took place in global economy during the past few decades (Durkin and Howcroft, 2003). They operate in a highly competitive environment, where the acquisition of new customers is often proved much more expensive than retaining and expanding the ones they already have. As a result of this, RM strategies based on CRM systems are common place in today's banking industry.

This study is part of an ongoing research project aiming to develop an instrument to measure the outcome of the implementation of RM strategies by investigating how customers experience this approach. The utilization of such an instrument would provide companies with a valuable tool that facilitates the monitoring of the performance of their RM strategies, which very often have been proved to be expensive.

2. BACKGROUND

Interest in RM began to grow in '90s. Research published at that time (e.g. Reichheld and Sasser, 1990) showed the great impact on profitability that can be achieved even by small increases in customer retention rates. This made the marketing community more conscious of the necessity to manage customer relationships in the long term. Today it is widely accepted that customers are at the core of a business and therefore a company's success depends heavily on effectively managing relationships with them.

According to Egan (2008), despite the fact that considerable research and practice took place during the past few decades, RM may still be regarded as an 'umbrella philosophy' with plenty of variations and definitions rather than a unified concept with commonly accepted objectives and strategies. Indicatively, RM has been defined by Swift (2001) as "*an enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability*", while Parvatiyar and Sheth (2001) defined RM as "*a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer*". Perhaps the most comprehensive definition of RM was given by Gronroos (1994), one of the RM theory pioneers, who defined RM as the marketing approach aiming to "*identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange of fulfilment and promises*". This definition implies that since each customer must be treated individually, the company must be in the position to recognize the relationship stage each customer is in and treat them in a different manner. The introduction of various consecutive relationship stages in RM thinking lead to the formation of the customer life-cycle concept. Various relevant models have been reported in literature, examples of which are the awareness, exploration, expansion, commitments and dissolution stages proposed by Dwyer et al (1987) and the suspect, prospect, first-time customer, repeat customer, client, advocate, member and partner stages reported by Kotler (1997).

Andersen et al. (2006) claim that the trust and commitment, which can be developed between banks and their customers, are considered to be the most powerful competitive advantage for banks, a fact that explains to a certain degree why financial institutions have moved from transaction-based banking to a relational approach. Their research showed that bank customers accentuate their annoyance from product focused strategies, since they expect a more advisory and caring treatment. Therefore, a customer relational approach in the highly competitive banking industry, where products and services tend to be more and more standardised, offers a differentiating factor. The improvements that can be achieved by banks adopting an RM approach can be summarised as follows (Bergeron, 2001):

- greater customer satisfaction due to better service offering,
- greater business coherence, since the bank defines objectives directly linked to customers,
- lower costs,
- increased service effectiveness resulting from the acquisition of complete and correct customer information,
- new business opportunities because of the establishment of long-term relationships with customers,
- more accurate and successful customer segmentation, which can distinguish groups of profitable and less profitable customers and thus create business plans for each case,
- acquisition of significant sales and marketing information reflecting customers' needs, thus helping to fulfil their expectations.

The bank customer life-cycle includes the following 4 stages (Abratt and Russell, 1999; Beatty et al., 1996):

1. *Creation of all the necessary preliminary internal conditions*. These will facilitate the development of customer relationships, by communicating the marketing objectives throughout the organisation, motivating employees to care for customers and satisfy their needs, and empowering them to have decision making responsibilities.
2. *Initiation of the relationship*. At this stage, the provided services may exceed or not the customers' expectations, thus influencing the process of relationship development positively or negatively.
3. *Enhancement of the relationship*. Customers interact with the bank and its employees and they perceive not only trust and friendship from this relationship but also functionality that can affect the strength and the possible continuity of the relationship.
4. *Relationship outcome*. The customer becomes satisfied and eventually committed to the relationship and, in general, to the bank.

One of the vital questions raised regarding the implementation of an RM strategy is how to measure its performance in order to monitor its effectiveness. Wang et al. (2004) pointed out that it is commonly accepted that a widely accepted way to measure RM performance is in terms of customer behaviours "*since they are the underlying sources of value of current customers of a firm and have the potential to increase the future revenue streams associated with them and those of prospective customers"*. Moreover, since one of the main RM objectives is to assure steady levels of revenues and maximization of customer lifetime value, customer behaviours, which could bring revenues to the firm, are believed to be strategically important (Bolton et al., 2002; Grant and Schlesinger, 1995).

3. RESEARCH METHODOLOGY

The research methodology was comprised of the following 3 stages:

a) Development of a questionnaire, aiming to capture the outcome of the implementation of RM strategies, by investigating how customers experience this approach.
b) Conduct of an interviewer-administered field research, using the questionnaire developed in stage 1.
c) Performance of Principal Components Analysis (PCA) on the survey results in order to identify latent factors within the questionnaire.

The questionnaire utilized in the research presented here was developed by adopting the scale proposed by Abratt and Russell (1999). Their core objective was to establish whether RM is appropriate to the marketing of financial services to private banking clients in South Africa, by measuring RM outcomes from the customers' perspective. They initially designed a 53-item instrument based on literature review and in-depth interviews with bank manages and academics. This was used to conduct a survey on both private and non-private banking customers. The statistical analyses of the survey data lead to the proposal of a 43-item scale. These items were allocated to 3 distinct customer life-cycle stages, namely *starting a relationship, early stages of a relationship* and *once a relationship has been established*. Moreover, they also denoted a pool of items, parallel to all the aforementioned life-cycle stages, as *general relationship marketing criteria*.

The rationale behind the choice of this particular scale lies on the fact that it measures RM outcomes from all basic customer life-cycle stages, which is a core concept of RM, and therefore it can provide a solid basis as a starting point.

After discussion with 3 managers of bank branches, it was decided to exclude 13 items of the initial 43 of the Abratt and Russell (1999) scale, as they were deemed to focus exclusively on private banking and did not fit the aim of the present research. The resulting 30-itemed scale was then pilot-tested with 10 bank customers. The results of the pilot test proved to be very satisfactory, since all the respondents found the questionnaire items understandable, while no blurring questions that would have to be rephrased were found.

The survey target sample consisted of customers of the 5 larger Greek banks, all of which employ CRM technology to manage customer relationships. All respondents were interviewed in Larissa, a city with intense economic, political and social life, located in central Greece. They were approached at local branches, while waiting to be served. It must be noted that since the majority of bank customers have accounts in more than 1 bank, the respondents were asked to answer the questionnaire having in mind the bank they were using more often for their transactions. The resulting sample comprised of 289 valid questionnaires. The demographic analysis of the sample showed that it was largely representative of the general population, since it included customers having various ages, educational levels and incomes.

4. DATA ANALYSIS AND RESULTS

PCA was conducted to identify latent factors within the questionnaire items. Seven factors with eigenvalues greater than one (Kaizer, 1960; 1974) were extracted from the data, as shown in table 1. These principal components accounted for approximately 64% of the total variation. Preceding PCA, the Bartlett sphericity testing on the degree of correlation between the variables ($p<0.001$) and the appropriateness of the sample according to Kaiser–Meyer–Olkin (KMO) verified the appropriateness of the sample (Norusis, 1990).

A cut-off of 0.50 was used for item scale selection and a normalized varimax rotation was adopted to bring about simple and interpretable structure. Six items did not load on any of the 7 emerged factors (<0.50) and were excluded from the final model. Following an inspection of the items' loadings on each factor, the 7 distinct principal components identified were named as *reliability* (7 items), *relationship value* (4 items), *personalized sales* (4 items), *crisis management* (3 items), *flexibility* (2 items), *customer focus* (2 items) and *communication quality* (2 items).

Table 1: Principal components analysis

	Item	Reliability	Relat. value	Person. sales	Crisis manag.	Flexibility	Customer focus	Commun. Qual.
1	The prices of the offered services and products are important	-	0.732	-	-	-	-	-
2	I want a better relationship with the bank	-	0.765	-	-	-	-	-
3	The quality of services affects the relationship with the bank	-	0.762	-	-	-	-	-
4	Client referred to client	-	0.709	-	-	-	-	-
5	The bank is available in crisis	-	-	-	0.725	-	-	-
6	I am confident in advice from bank	-	-	-	0.631	-	-	-
7	The bank can be counted on to do what is right	-	-	-	0.684	-	-	-
8	The bank provides me with value – enhancing services	-	-	0.533	-	-	-	-
9	The bank knows what is important for me	-	-	0.602	-	-	-	-
10	The bank provides me with cross-sale products	-	-	0.724	-	-	-	
11	The bank offers me a wide range of products and services	-	-	0.551	-	-		-
12	The bank focuses on individualized client services	-	-	-	-	-	0.627	-
13	The bank focuses to the client	-	-	-	-	-	0.679	-
14	The bank has skills to manage client's account	-	-	-	-	0.725	-	-
15	The bank is flexible	-	-	-	-	0.680	-	-
16	The bank responds quickly to any possible errors	0.656	-	-	-	-	-	-
17	The bank is reliable	0.799	-	-	-	-	-	-
18	There is mutual trust between me and the bank	0.704	-	-	-	-	-	-
19	The bank is consistent with the delivery of service	0.684	-	-	-	-	-	-
20	The bank is responsive to my requests	0.646	-	-	-	-	-	-
21	The clients' expectations from the bank are met	0.675	-	-	-	-	-	-
22	The bank delivers the services it promises	0.669	-	-	-	-	-	-
23	There is open communication between me and the bank	-	-	-	-	-	-	0.759
24	There is frequent interaction between me and the bank	-	-	-	-	-	-	0.827
	Eigenvalues	*9.075*	*2.203*	*1.497*	*1.258*	*1.148*	*1.055*	*1.004*
	Percent of total variation	*33.609*	*8.161*	*5.543*	*4.659*	*4.253*	*3.908*	*3.720*
	Cumulative Percent of total variation	*33.609*	*41.770*	*47.313*	*51.972*	*56.225*	*60.133*	*63.853*

Inter-item analysis was then used (Table 2) to verify the scale for internal consistency and reliability (Nunnally and Bernstein, 1994). More specifically, Cronbach's coefficient alpha (Cronbach, 1960) was calculated for each emerged factor, as recommended by Flynn et al. (1990). The values for 4 factors (reliability, relationship value, personalized sales and communication quality) ranged between 0.708 and 0.894. Therefore, all these 4 exhibited well over the minimum acceptable reliability level of 0.7 (Nunnally, 1967). On the other hand, the alpha values for crisis management, flexibility and customer focus were 0.659, 0.548 and 0.549 respectively. These relatively low values can be attributed to the fact that these factors comprise only 2 or 3 items.

Table 2: Internal reliability analysis

Dimensions	Number of items	Cronbach's alpha
Reliability	7	0.894
Relationship value	4	0.780
Personalized sales	4	0.727
Crisis management	3	0.659
Flexibility	2	0.548
Customer Focus	2	0.549
Communication quality	2	0.708

5. CONCLUSIONS

This study presented work aiming to develop an instrument to measure the outcome of the implementation of RM strategies in the banking industry. The research methodology involved the development of an initial questionnaire covering the whole customer life-cycle, based on work reported in literature, which was then utilized to conduct an interviewer-administered field research. This was followed by Principal Components Analysis on the survey results in order to identify latent factors within the questionnaire.

The results acquired were very encouraging, since 7 factors were extracted from the data. Following an examination of the items' loadings on each factor, the 7 distinct factors were labeled as *relationship value*, *crisis management*, *personalized sales*, *customer focus*, *flexibility*, *communication quality* and *reliability*. The Cronbach alpha reliability test, which was then carried out, showed that *relationship value*, *personalized sales*, *communication quality* and *reliability* had values well above the 0.7 limit, which is widely accepted in literature. These results are considered as significant findings, since these factors represent typical RM outcomes as perceived by customers. However, the remaining 3 of the extracted factors, namely *customer focus*, *flexibility* and *communication quality* failed to pass the reliability test, since their values were below 0.7. This problem could be possibly rectified by enriching the questionnaire with items aiming to capture the respondents' answers on issues relevant to the 3 aforementioned factors.

Future work involves the verification and refinement of the emerged instrument's factors by executing field research in different business settings. Furthermore, the examination of the instrument's dimensions effects on typical RM performance indicators, such as customer satisfaction, loyalty and switching barriers, is also planned

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