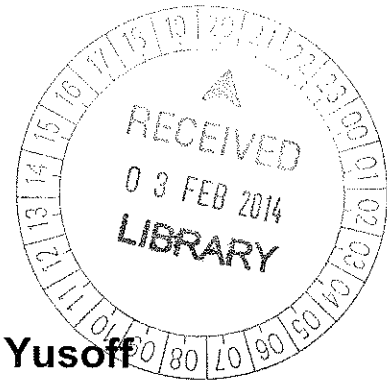# INTI INTERNATIONAL UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

THE IMPACT OF RELATIONSHIP MARKETING ON CUSTOMER LOYALTY IN MALAYSIAN BANKS

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Abstract

With a high competition in service market, firms seek to find the best way to create their loyalty customers. Then many service providers, especially banks, use relationship marketing as a strategic approach to maintain long-term relationship with customers. By conducting long-term relationship with customers, banks can identify and improve important and valuable activities, thus attracting more customers. By conducting customer loyalty with banks, banks can subsequently improve their position in current competitive market. In Malaysia, banks can compete against one another as it practices open enterprise policy, thus relationship marketing is critical important for Malaysian banks to gain competitive advantages. Therefore, this research aims to examine the impact of of relationship marketing on customer loyalty in Malaysian banks. There are six dimensions (Trust, Competence, Commitment, Conflict Handling, Communication and Empathy) of relationship marketing which examine the relationship with customer loyalty. Reliability Analysis, Correlation Analysis and Multiple Analysis were used to examine the relationship between dimensions of relationship marketing and customer loyalty. Moreover, the self-administration questionnaires were distributed to 250 Malaysian bank customers who were above 18 years old and had bank experience at least 1-3 times per month in Negeri Sembilan using convenience sampling method. In addition, the findings show that Trust, Competence, Commitment, Conflict Handling and Empathy have significant positive relationship with customer loyalty. Finally, recommendations are given to the people who are interested in this topic and for future researchers.

Keywords: Relationship Marketing, Trust, Competence, Commitment, Conflict Handling, Communication and Empathy, Customer loyalty, Malaysian banks

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Zhou Ruijie

August 2012

Declaration

"I hereby declare that this research project is of my own effort except those summaries and information of which the resources are clearly specified"

Zhou Ruijie

August, 2012

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List of Abbreviation

CL- Customer Loyalty

RM- Relationship Marketing

CRM- Customer Relationship Management

SPSS- Statistical Package for Social Science

CHAPTER 1

INTRODUCTION

1.0 Chapter Summary

This chapter provides a brief overview on the impact of relationship marketing on customer loyalty in the Malaysian banks. This chapter starts with a background of this study. The role of relationship marketing in this chapter introduces the importance of relationship marketing and the importance of relationship marketing to banking sector. Then, the development of relationship marketing introduces the evolvement of relationship marketing as one new marketing approach from the traditional marketing approach. Moreover, the role of customer loyalty introduces the importance of customer loyalty and the importance of customer loyalty to banking sector, as well as the relationship between customer loyalty and relationship marketing. Finally, the relationship marketing in Malaysian context introduces the evolvement of relationship marketing in the Malaysian banks and its importance. In addition, the research problem, questions, objectives and significance of this study are proposed and discussed. Assumption and limitation are proposed to complete this chapter. An outline of each chapter is explained briefly at the end of this chapter.

1.1 Background of Study

1.1.1 The Role of Relationship Marketing

The role of of relationship marketing is mainly to match customers' needs and service promise (Kotler and Keller, 2009), thus lead to maintain and enhance customer loyalty (Taleghani et al., 2011). Companies should create long-term profitable relationship with customers by maintaining current customers.

The relationship marketing phenomena arises out of a strong economic, technical and social tie between the organization or product and service providers and their customers. Good relationship marketing can help the organization reduce transaction costs and increase exchange efficiencies (Murphy, Laczniak & Wood, 2007). The concept of market orientation has played a more important role in marketing philosophy. Relationship marketing is part of marketing orientation that has been concerned by any business operators to sustain in the existing market. Relationship marketing emphasizes on the ways to maintain existing customers, not emphasizes on attracting new customers (Kotler et al., 2009).

With high competition in service market, firms seek to find the best way to create their loyal customers. Many service providers use relationship marketing to maintain long-term relationship with customers. Good relationship marketing strategy can help the service providers build good relationships between customers. Relationship marketing plays a critical role in service sector, is an intangible characteristic that cannot be evaluated by customers visually. Therefore, relationship marketing as an intangible characteristic can be indicated as successful by a good relationship quality between customer and service provider, ultimately lead to customer loyalty.

Nowadays, customers have more choices as there are a variety of goods and products. It is therefore costly for service providers to attract new customers and it will cost five times for attracting new customers than retaining existing customers (Tahmasbi and Noroozi, 2007). The lost in losing customer means that companies will lose the the total purchase in their whole life, not only the single item. Therefore, relationship marketing has become one new and important approach for bank industry to build closed and long-term relationship with customers in an increasing competition.

Mokhtari (2008), the author indicated that banks can increase their benefits significantly by maintaining and enhancing their important and first level customers by conducting effective relationship with them to achieve customer satisfaction, then leading to customer loyalty. There is also statistics from managers of large banks indicated that there is only 5% of customers can make up more than 85% profitability of banks.

Relationship marketing has been an approach to gain competitive advantages for banks in such strong competition. By conducting long-term relationship with the customers, banks can identify and improve important and valuable activities. Then banks can subsequently improve their position in current competitive market by attracting more customers and conduct customer loyalty with banks. Many banks around the world have gained benefits by implementing relationship marketing relationship approach. An unfriendly relationship with customers can cause the companies lose competitive position, therefore, relationship marketing can help the companies protect their customer and build long-term relationship in current competitive environment (Ranjbarian, Barabari, 2009).