

Relationship quality as a predictor of B2B customer loyalty

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Abstract

This study aims to provide a picture of how relationship quality can influence customer loyalty in the business-to-business (B2B) context. Building on prior research, we propose relationship quality as a higher construct comprising trust, commitment, satisfaction and service quality. We believe that these dimensions of relationship quality can reasonably explain the influence of overall relationship quality on customer loyalty. In addition, this study provides more insightful explanations of the influence of relationship quality on customer loyalty through two levels of relationship quality: relationship quality with employees of the supplier and relationship quality with the supplier itself as a whole. Aiming to fully explain the concept of customer loyalty, we follow the composite loyalty approach providing both behavioral aspects (purchase intentions) and attitudinal loyalty. We seek to address three main research issues: Does relationship quality influence both aspects of customer loyalty? If so, which relationship quality dimensions influence each of the components of customer loyalty? And which level of relationship quality (employee level versus organizational level) has more influence on customer loyalty? This study uses the courier delivery service context in Australia and targets Australian Small to Medium Enterprises (SMEs). We selected mail survey and online survey as the two methods of data collection, and together they received 306 usable respondents. Structural equation modeling yields insights into the influence of the dimensions and levels of relationship quality on customer loyalty. Results show that all four dimensions of relationship quality influence attitudinal loyalty, however, only satisfaction and perceived service quality influence behavioral loyalty (purchase intentions). Most remarkably, results indicate that only the organizational level of relationship quality influences customer loyalty. The employee level of relationship quality does not play a significant in influencing B2B customer loyalty in this study.

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1. Introduction

In a B2B environment, suppliers and/or service providers need to understand the nature and circumstances of their customers because of the unique characteristics of the customers acting as organizations. In a B2B service setting, in particularly the courier service context, business customers need customization of services, products and price structure. Each business customer also uses the service and products in a different fashion. In general cases, developing individual relationship with business customers offers supplier a secure loyal customer base and opportunities to reach a high level of profitability. As

business customers spend large amounts of money in their purchase of products and services, managing and maintaining loyal business customers can offer greater revenue for a supplier or a service provider. The importance and benefits of attracting and maintaining loyal customers has arisen from a general acceptance that profitability follows customer loyalty (Reichheld and Sasser, 1990; Jones and Sasser, 1995; Reichheld, 1996). In this sense, a complete understanding of the concept of loyalty highlights the need to build up customer loyalty as a long-term investment as well as the need for a customer relationship management between customers and the supplier.

With attempts to fulfill the needs of business customers, many supplying and selling firms see the importance of the strategic management of supplier and customer relationships (Eng, 2004) and engage in relationships with their business customers (Ryssel et al., 2004). Some authors (e.g., Woo and Ennew, 2004, 2005) view the quality of the business-to-business relationship

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as a crucial factor in building success in the market. Retaining customers over the long run yields greater profits. However, researchers have not widely explored either the development of loyalty or its potential application to the business-to-business settings. This study aims to add to the literature and provide a picture of how relationship quality can influence customer loyalty in a B2B context. We use the courier service delivery industry in Australia to test our hypotheses and choose to survey small and medium enterprises (SMEs) and measure their loyalty, perceptions of service quality, satisfaction, trust and commitment. We explore the contribution of relationship quality to a composite measure of customer loyalty – both behavioral loyalty and attitudinal loyalty, and investigate the relationship quality construct through the power of its four proposed dimensions, trust, commitment, satisfaction and service quality and two levels of relationship quality – relationship quality with employees (employee/interpersonal level) and relationship quality with the supplier itself (organizational/inter-firm level).

This article has the following organization. Section 1 provides some literature background to each construct we propose in this study, then Section 2 explains our conceptual model and draws the hypotheses. Section 3 describes our research design. Section 4 provides structural equation modeling results. Finally, Section 5 concludes with managerial implications in order to improve relationship quality and enhance customer loyalty for B2B customers, and provides the limitations of the research.

2. Conceptual background

2.1. Customer loyalty

Creating a loyal B2B customer base is not only about maintaining numbers of customer overtime, but it is also about nurturing the relationship with business customers to encourage their future purchase and level of advocacy. Equipped with the knowledge of their business customers' loyalty levels, a supplier will be able to figure how their endeavors to maintain good relationships can contribute to its profit levels. Many academics and practitioners consider customer loyalty to have a powerful impact on company performance. For example, some authors (Lam et al., 2004; Rust et al., 2000; Reichheld and Teal, 1996) believe that loyal customers offer a steady stream of revenue for a company by remaining with the brand/supplier and rejecting the overtures of competitors. Considering this with the nature of large purchase and transactions in a B2B setting; there are gigantic rewards for those suppliers who succeed in creating and maintaining loyal customers.

Researchers have studied the concept of loyalty largely in the consumer context (e.g. Brown, 1952; Cunningham, 1956; Dick and Basu, 1994; Farley, 1964; Fournier, 1998; Jacoby, 1971; Jacoby and Kyner, 1973; Oliver et al., 1997; Sirgy and Samli, 1985) and service market (e.g. Andreassen and Lindestad, 1998; Fisher, 2001; Selnes, 1993; Zeithaml et al., 1996). There have been few studies, however, of the concept of loyalty in the B2B context.

Authors have proposed a number of theories to link variables that one usually finds in relationship marketing and business

marketing to the loyalty construct. For example, Berry and Parasuraman (1991) and Czepiel (1990) provide propositions that building relationships with customers increases loyalty, favorable word of mouth communication, and purchases. In the B2B context, evidence shows that relationship elements affect customer loyalty. For example, Ricard and Perrien (1999) found that relationship practices have a direct impact on customer loyalty. Other authors also see the important of various drivers of loyalty. For example, Morris and Holman (1988) propose a framework of dyadic determinants of source loyalty whereas Jarvis and Wilcox (1977) propose additional antecedents of business-to-business loyalty such as perceived risks and absence of choice. Authors such as Chow and Holden (1997), Money (2004), Eriksson and Vaghult (2000), Boles et al. (1997), Lam et al. (2004), Bennett et al. (2005) and Gounaris (2005) provide empirical evidence linking several constructs such as relationship quality, trust, involvement, satisfaction, purchase development, organizational change, and switching costs to influence B2B customer loyalty and retention.

A literature search found three main streams of research of loyalty: behavioral loyalty (e.g., Tellis, 1988; Tucker, 1964), attitudinal loyalty (e.g., Bennett and Rundle-Thiele, 2002) and composite loyalty (e.g., Day, 1969; Jacoby, 1971; Jacoby and Kyner, 1973; Chaudhuri and Holbrook, 2001). In an early school of thought, Tucker (1964) argues that behavior (past purchases of the brand/product) completely accounts for loyalty. Jacoby and Chestnut (1978) observe that behavioral loyalty studies have focused on interpreting patterns of repeat purchasing in primarily panel data as a manifestation of loyalty. Consistent with this viewpoint, Uncles and Laurent (1997) suggest that such behavioral loyalty is stochastic. In terms of attitudinal loyalty, various authors identify attitudinal concepts as providing positive word of mouth (e.g., Zeithaml et al., 1996; Andreassen and Lindestad, 1998), recommending the service to others (Zeithaml et al., 1996), and encouraging others to use the service (Bettencourt and Brown, 1997).

The loyalty literature (e.g., Dick and Basu, 1994; Jacoby, 1971; Jacoby and Kyner, 1973; Jacoby and Chestnut, 1978) supports the utilization of a composite measure of loyalty having behavioral and attitudinal aspects. Day (1969) proposes a reconciliation of both behavioral and attitudinal components of loyalty and cautions that viewing loyalty solely in terms of purchase decisions may not distinguish between loyalty and spurious loyalty and indicates a need to extend typical definitions and measurement approaches of loyalty (Baldinger and Rubinson, 1996). Jacoby and Chestnut (1978), and Uncles and Laurent (1997) suggest that researchers should study the attitudinal components of loyalty for an additional understanding of the stochastic representation of behavioral loyalty. Following these suggestions, a composite approach to loyalty provides both behavioral aspects and attitudinal loyalty in order to fully explain the concept of customer loyalty. Many researchers (e.g., Bloemer and Kasper, 1995; Pritchard and Howard, 1997; Baldinger and Rubinson, 1996; Knox and Denison, 2000) follow Day's (1969) approach with attempts to explain loyalty. Basing their approach on the theory of composite loyalty, these authors explain the disadvantage of

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