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The influence of relationship marketing orientation on brand equity in banks

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ABSTRACT

During the last few decades, business philosophy has shifted from marketing orientation to Relationship Marketing Orientation (RMO). Service-oriented organizations, such as banks, increasingly apply RMO to enhance their brand management practices, such as brand loyalty and brand image. This in turn creates an identity for their brand name and adds value to it. The main purpose of this study is to investigate the influence of RMO on Brand Equity in the banking industry. This study also examines the influence of the dimensions of RMO (trust, bonding, communication, shared values, empathy and reciprocity) on the development of Brand Equity in banks. Social exchange theory underpins this examination of the relationship between RMO and Brand Equity. The sample comprised 1400 commercial bank customers from Sri Lanka, and the surveys were administered for data collection. There were two main stages to the analysis: testing the measurement model using confirmatory factor analysis and testing the hypotheses. The findings revealed that RMO positively influenced the development of Brand Equity in banks. Of the dimensions of RMO examined here, Trust, Communication, Shared Values and Empathy significantly enhanced Brand Equity. The implications of these findings for theory and practice have been suggested. The findings of this study have practical applications for enhancing the Brand Equity of banks and other financial institutions by strengthening their relationship marketing practices. This study also suggests some insightful directions for future research.

1. Introduction

During the past few decades, traditional marketing approaches have been challenged, and relationship marketing has been suggested as an alternative option. Relationship marketing has shifted the focus of marketing orientation from attracting short-term and discrete transactional customers towards retaining loyal customers (Taleghani et al., 2011). Relationship marketing focuses on retaining long-term and mutually beneficial relationships between buyers and sellers (Spekman et al., 2007; Alrubaiee and Al-Nazer, 2010). In this context, the term "mutual benefit" means that both parties to a transaction (the customer and the organization) achieve their objectives. To this end, Hur et al. (2010) remark that the main aim of relationship marketing is to enhance customer equity, which according to Rust et al. (2001), consists of three key drivers: brand equity, value equity and relationship equity. Amongst the three drivers, brand equity is considered to be more important than the others, because it plays a strategic role in an organization and contributes to gaining competitive advantage (Keller et al., 2011). Hence, organizations can use brand equity as a powerful tool to create sustainable competitive advantage.

Organizations seek ways to develop brand equity, which can be achieved by various marketing strategies. It is suggested that brand equity can be enhanced by adopting relationship marketing strategies (Chang and Tseng, 2005). During last few decades, new business practices and concepts have fundamentally reshaped the Marketing discipline. According to Gruen (1997), Racela et al. (2007), and Ferrell et al. (2010), business philosophy has shifted from marketing orientation to relationship marketing orientation (RMO). RMO focuses on the creation and maintenance of the relationship between the two parties to an exchange, i.e. supplier and consumer, through developing the desire to be mutually empathic, reciprocal, and to trust and form bonds (Callaghan et al., 1995; Sin et al., 2005; Hau and Ngo, 2012). Thus, in current

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business contexts, building brand equity through RMO seems an important strategy for achieving competitive advantage. The discussion above implies that the stronger a firm's RMO, the greater would be its brand equity.

To this end, Javalgi et al. (2006) remark that RMO is more relevant to service-oriented organizations than to product-oriented organizations. Normally, service providers maintain direct contact with their customers and have more focus on customer retention than do product-oriented organizations. In this respect, customer interaction with, and their dependence on, banks seem higher than those found in other service institutions. It is therefore suggested that RMO is an effective way for banks to establish a unique long-term relationship with their customers (So and Speece, 2000). The majority of the core services provided by banks are generic, so banks find it difficult to compete purely on their core services. Banks tend to differentiate themselves from other banks in terms of their support services, which strengthen their RMO. Many banks implement RMO by developing and strengthening closer relationships with their customers (So and Speece, 2000). As a result, in recent years, the importance of relationship marketing has grown and has been widely recognized in banks. Also, relationship marketing is considered an appropriate strategic base for competition amongst banks (Arasli et al., 2005; Kaur et al., 2009).

RMO contributes to building a long-term bond between customers and an organization. This in turn creates involvement in, and loyalty with, products marketed by the company. In this respect, it is suggested that products also include intangible aspects, such as brand name, quality perception and reputation. Amongst the intangible aspects, brand name is regarded as important (De Chernatony et al., 1992). Delgado-Ballester and Munuera-Aleman (2005) suggest that maintaining relationships with customers is the main antecedent and asset of brand image management. Similarly, Sweeney (2001) demonstrated that there is an association between relationship marketing and brand identity in service organizations.

The preceding argument implies that there is a relationship between RMO and brand equity in service-oriented organizations, such as banks, and this relationship is empirically investigated in this study. This study will have useful implications for theory as well as for the practice of banks and other financial institutions. Particularly, the findings of this study will enhance the development of brand equity of banks and other financial institutions by strengthening their relationship marketing practices.

2. Literature review

2.1. Relationship marketing orientation

Callaghan et al. (1995) developed the initial definition of RMO. RMO is centered on the creation and maintenance of the relationship between the two parties to an exchange, i.e. supplier and consumer, through developing the desire to be mutually empathic, reciprocal, and to trust and form bonds (Callaghan et. al., 1995; Morgan and Hunt, 1994; Wilson et al., 1995; Yau et al., 2000; Sin et al., 2005) conceptualized the basic components of RMO and developed a reliable and valid measurement scale for these components. They defined RMO as a multi-dimensional construct consisting of six behavioral components: trust, bonding, communication, shared values, empathy and reciprocity. They measured each of the six components with multi-item scales. This study adopts the RMO definition proposed by Sin et al. (2005). The components of RMO will be further discussed later on. It is suggested that RMO can be considered as reengineering brand management practices in an entity (Delgado-Ballester and Munuera-Aleman, 2005). This suggests that relationship marketing might contribute to enhancing brand equity. A brief discussion of brand equity follows.

2.2. Brand equity

Brand Equity is regarded as a key concept both in business practice and academic research, because successful brands give marketers competitive advantage. Brand equity has been examined from two different perspectives: financial and customers (Kim et al., 2005). The significance of understanding brand equity from the customer's point of view is explained by Keller et al. (2011), who suggest that positive customer-based brand equity can lead to greater revenue, lower costs and higher profits. Also, it has a direct effect on a firm's ability to charge higher prices, customers' willingness to seek new distribution channels, the effectiveness of marketing communication and the success of both brand extensions and licensing opportunities. Thus, understanding brand equity from the customer's point of view is important. Therefore, this study considers customer-based brand equity. Although there are several definitions of brand equity from different perspectives, the most widely accepted (Fayrene and Lee, 2011) definition of customer-based brand equity is proposed by Aaker (1991), who defines it as "a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers" (p.15).

Yoo and Donthu (2001) define brand equity as a multi-dimensional construct consisting of perceived quality, brand loyalty and brand image. Perceived quality is a key dimension of, and central to, brand equity. It determines the functional benefits associated with a brand which in turn enhances brand equity (Aaker, 1996). Brand loyalty is also a core dimension of brand equity. Keller (1993) suggests that brand loyalty results in favorable beliefs and attitudes about the brand, repeat buying behavior relating to the brand and favorable and unique associations with the brand. Consequently, brand equity can be enhanced. Another dimension of brand equity is brand image. Keller (1993) suggests that establishing a favorable and strong brand image in consumers' minds enhances brand equity. This means that a positive brand image both increases the probability of brand choice and protects the brand from competitive threats.

2.3. Underpinning theory

The social exchange theory developed by Homans (1958) assists in understanding individuals' social behavior relating to economic activities. The exchange of goods and services takes place between two parties who are rational entities acting in their own self-interests. Social exchange theory postulates that the two parties to an exchange, i.e. supplier and consumer, can also exchange resources through a social relationship, suggesting that the exchange of goods and services takes place not only for money, but for non-monetary benefits as well, such as love, esteem, affection and approval. Such exchanges are known as social exchange (Cropanzano and Mitchell, 2005).

Social exchange theory mainly focuses on two key sets of concepts: "exchange relationship" and "value and utility". This theory postulates that ensuring a smooth relationship between the parties to the exchange adds incremental value and utility to the brand name of a product (Yoo et al., 2000). Based on this theory, Lawler (2001) remarks that a successful (or unsuccessful) service encounter or a relationship with a service firm and its employees, will impact positively (or negatively) on a customer's view of the entire service firm. That is, if a customer has a pleasurable relationship with a service entity, he/she could develop a positive