Examining the Interrelationships of Relationship Quality, Customer Loyalty and Cross Buying Behaviour in the Hong Kong Retail Banking Industry

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Abstract

The purpose of this study is to develop a model that investigates the relationships between relationship quality, customer loyalty and cross buying behaviour of retail banking services in Hong Kong. Data were collected from a survey of more than 269 consumers and were analyzed using structural equation modelling via PLS. The results show that that the customers' cross-buying intentions are primarily associated with customer loyalty, whereas relationship quality was found to have a marginal effect on cross buying. However, relationship quality was found to have a strong influence on customer loyalty. The results of the study have important implications for academicians in understanding what drives cross-buying behaviour as well as retail bank practitioners to help design more effective cross-buying strategies in the Hong Kong context.

Keywords: Cross Buying Behaviour, Customer Loyalty, Relationship Quality, Banking

Introduction

The literature proposes that the relationship marketing approach remains a critical issue in the financial services context (Athanassopoulou 2006; O'Loughlin et al. 2004). Relationship marketing stresses the development and maintenance of long-term relationships between the firm and its customers (Sheth and Parvatiyar 1995). As a result of the intangible nature and complexity of the characteristics related to service delivery across multiple service channels in the financial services industry, combined with the fiercely competitive environment, it is important for banking firms to adequately manage relationships with customers (Liu and Wu 2008). Importantly, relationship quality is considered as an overall assessment of the strength of a relationship (Garbarino and Johnson 1999) and captures the essence of relationship marketing (Ural 2007). A strong relationship is an intangible asset, which cannot be easily duplicated by competitors (Wong et al. 2007). The retail banking sector is a competitive sector within the financial services industry, which requires firms to strengthen the relationship with clients in order to differentiate from competitors. In the multi-channel era, retail banks should more than ever develop a strong and sustainable relationship across all touch points with their clients. From the customer's perspective, the positive benefits of relationship marketing can only be carried out if customers are willing to engage in long-term relationships (Gwinner et al., 1998). For retail banks, researchers have concluded that it is five times more expensive to acquire new customers than to keep existing ones (Athanassopoulou 2006), the development of a strong customer relationship can improve customer loyalty, and potential opportunities for cross buying intentions, which in turn leads to increased profits for the firm (Athanassopoulou 2006; Liu and Wu 2008).

The objective of this study is to empirically investigate the interrelationships of important relationship marketing constructs such as relationship quality, customer loyalty and cross buying intentions of customers in the Hong Kong banking sector. Understanding relationship quality and its influence on favourable consumer behaviour outcomes can provide useful management insights into developing effective strategies that allow financial services companies to retain customers and enable them to purchase further financial service products. To the best of our knowledge, this study is the

first to consider relationship quality as a critical driver of customer loyalty intentions and cross buying intentions in the Hong Kong retail banking sector. To this end, this paper is structured as follows: in the next section, we describe the theoretical framework and develop the hypotheses. Further, we present the methodology followed by the analysis of data. Finally, we discuss the results and offer conclusions including future research directions.

Theoretical Framework and Hypotheses

The relationship marketing literature is abundant (e.g. Berry 1983; Morgan and Hunt 1994) and particularly in the financial services sector (e.g. Ricard and Perrien 1999). Relationship quality has been defined as a bundle of intangible values resulting in an expected long-term relationship between related parties (Fruchter and Sigue 2005). Hennig-Thurau and Klee (1997, p. 751) described relationship quality between customers and firms as the degree of appropriateness of a relationship to fulfill the needs of the customer associated with the relationship. In the banking context, Liu and Wu (2008) define relationship quality as a client's satisfaction with, and trust in, a bank. Crosby et al. (1990) suggest that relationship quality consists of two dimensions: trust and satisfaction. In addition, there seems to be an agreement on defining this concept as a second-order factor of trust and satisfaction in the banking literature (Crosby et al. 1990; Wong et al. 2007). The literature has brought trust as one of the main factors which play an important role in influencing a customer to develop and maintain relationship with the service provider (Liang and Wang 2006). In addition, satisfaction with the relationship is regarded as an important outcome of buyer–seller relationships (Liang and Wang 2006). Customer satisfaction still represents an imperative cornerstone for customer-oriented business practices across a multitude of firms operating in diverse industries (Szymanski and Henard 2001). Relationship satisfaction is defined as a consumer's affective state resulting from an overall appraisal of his or her relationship with a retailer (Crosby et al. 1990; Liang and Wang 2006). Research concerning the consequences of relationship quality in financial services is still in its infancy. Despite this, the findings to-date has shown that relationship quality influences purchase intention measured as the anticipation of future interaction with a bank (Rajaobelina and Bergeron 2009; Wong et al. 2007). However, Liu and Wu (2008) conceptualised relationship quality as separate attributes of satisfaction and trust. Nevertheless, findings from outside the financial services domain has found that when the quality of the relationship is high, customers are more willing to exhibit loyalty like behaviour and provide referrals and word of mouth behaviour (Finn 2005; Wong et al. 2007). Based on the above discussion, we propose the following hypotheses:

  H1: *Relationship quality has a significant positive influence on customer loyalty*
  H2: *Relationship quality has a significant positive influence on cross buying intentions*

Findings in the retail banking context are mixed about whether customer loyalty has a direct impact on cross-buying intentions. For example, Ngobo (2004) found repurchase intention only has a marginal effect on cross-buying intentions. However, Liang and Wang (2008) found that customer loyalty (including psychological attachment and attitudinal elements) was found to have a positive influence on cross-buying behavior. Their findings are consistent with similar investigations in retailing that loyal or committed customers are more willing to expand or broaden the relationship, to buy additional new products, or buy across different categories (Reinartz and Kumar, 2003; Reinartz et al. 2008; Verhoef 2003). However, prior empirical studies provide no specific evidence for the retail bank context in Hong Kong. For instance, Liang et al. (2008)'s research context was conducted in the online financial services context while other studies focused on the retail sector (e.g. Reinartz and Kumar, 2003; Reinartz et al., 2008) or insurance industry contexts (Verhoef 2003). Nevertheless, drawing upon the findings of the available studies investigating the impact customer loyalty has on

cross buying intentions, we argue that customers of Hong Kong retail banks who have higher levels of loyalty to their bank will be more likely to exhibit favourable cross-buying intentions. Thus,

H3: *Customer loyalty has a significant positive influence on cross buying intentions*

Financial Services in Hong Kong

The scope of retail banking services provided in Hong Kong is extensive where there is a high concentration of retail banks and other financial institutions which have been allowed to exist and develop (Jao, 1997). For example, retail banks provide services in investment, mortgage, deposit and personal finance, insurance-related products, and investment products. As a major Asian metropolitan city, Hong Kong is considered an ideal location for the regional offices of many leading financial institutions. It is characterized by free movement of capital, information and people, and a large number of sophisticated customers. These are favourable conditions for the introduction by international companies of new financial services, such as tailored debt programmes for major corporations from banks, equity and debt derivatives from investment banks, investment-linked insurance policies from life assurance companies, and so on. The total gross premium value of the industry grew by 14.6% between 2002 and 2003, to HK\$102 billion (US\$13 billion), which represented 8.3% of Hong Kong's Gross Domestic Product in the same year. On this basis, the industry clearly plays a vital role in the Hong Kong economy (Wong et al. 2007).

Method

Non-probability convenience sampling was used to collect data for the research which is a common sampling method adopted in consumer behaviour research in the banking context (e.g. Chau and Ngai, 2010; Soureli, Lewis and Karantinou, 2008). We collected information from adult consumers aged 18+ whom pursued tertiary level study and reside in Hong Kong. To complete the study, respondents were asked to focus on their main bank. The measurement of relationship quality adapted Rajaobelina and Bergeron's (2009) model which are reflected by two global constructs, satisfaction and trust, consisting of three items each. However, in specifying the operationalisation of relationship quality, we follow the decision rules outlined by Jarvis et al. (2003) who distinguish between reflective and formative multidimensional measurement models to avoid model misspecification which has become an important issue in scholarly research. Using their work as the foundation, we configure relationship quality as a Type II 2nd order model formed by the attributes of satisfaction and trust which adopt reflective indicators. This is because we argue that each first-order dimension (i.e. satisfaction and trust) possesses reflective indicators because we see the indicators of these specific attributes as *giving rise* (i.e. causality is from construct to measure) to its observable indicators (Fornell and Bookstein 1982). On this basis, each attribute should be internally consistent because all the measures are assumed to be equally valid indicators of the underlying construct with any two measures that are equally reliable are interchangeable. It is further argued that each attribute then forms the latent (unobservable) second-order construct of relationship quality (i.e. direction of causality is from measure to construct). Unlike a reflective model (e.g. Type I), the Type II model conceptualized in this study does not assume that the second-order latent constructs are all caused by a single underlying construct of relationship quality. Rather, it assumes that the attributes of satisfaction and trust have an impact on (cause) relationship quality (e.g. Type II). The measurement of customer loyalty intentions was adapted from Zeithaml et al. (1996), whereas, four items were adapted from Ngobo (2004) to measure cross-buying intentions. Age and gender information were also collected. All items were measured via seven-point scales ranging from strongly disagree (1) to strongly agree (7).

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Analyses and Results

A total of 269 usable responses were obtained. The sample consisted of 42% of males and 57% of females, which is consistent to the Hong Kong overall distribution of 47%:53% male to female ratio (Census and Statistics Department, HKSAR, 2010). To examine the dimensionality of the relationship quality construct with multiple dimensions component analysis was used. After careful consideration component analysis was undertaken via partial least squares (PLS) using PLS graph 3.0 (Chin and Fry, 2000). Given the theoretical formulation and the research context, PLSgraph was selected to assess the outer model. PLS is a technique capable of calculating key outer model output such as factor loadings, weights, average variance explained (AVE) and composite reliabilities (CR) to establish the validity and reliability of measure (Fornell and Cha, 1994). The results of outer model analysis indicated that the items in the model had component loadings ranging from 0.61 - 0.88 (all being above Shi and Wright's (2001) criteria of > 0.35). The results of the composite reliability analysis indicated reliabilities ranged from 0.84 to 0.91, which were all above the > 0.70 criteria, indicating good reliability of all scales. All constructs had an average variance explained (AVE) greater than or equal to 0.50. The results indicated that the loadings were acceptable for all items and all t-values were greater than the recommended cut off criteria of 1.96. Also, the 1st order attributes of satisfaction (0.43) and trust (0.62) which formed the relationship quality construct indicated that the weights were acceptable with all t-values > 1.96. The hypotheses were then tested via PLSgraph which computes and undertakes variance based structural modelling. The results for the inner model are shown below in Figure 1. The path coefficients between the exogenous and endogenous variables, AVA (average variance accounted), r-squared and critical ratios are acceptable. The AVA for the endogenous variables was 0.67 and the individual r-squares are greater than the recommended 0.10 (Falk and Miller 1992) for the predicted variables of customer loyalty and cross buying intentions.

Figure 1 – Model Results
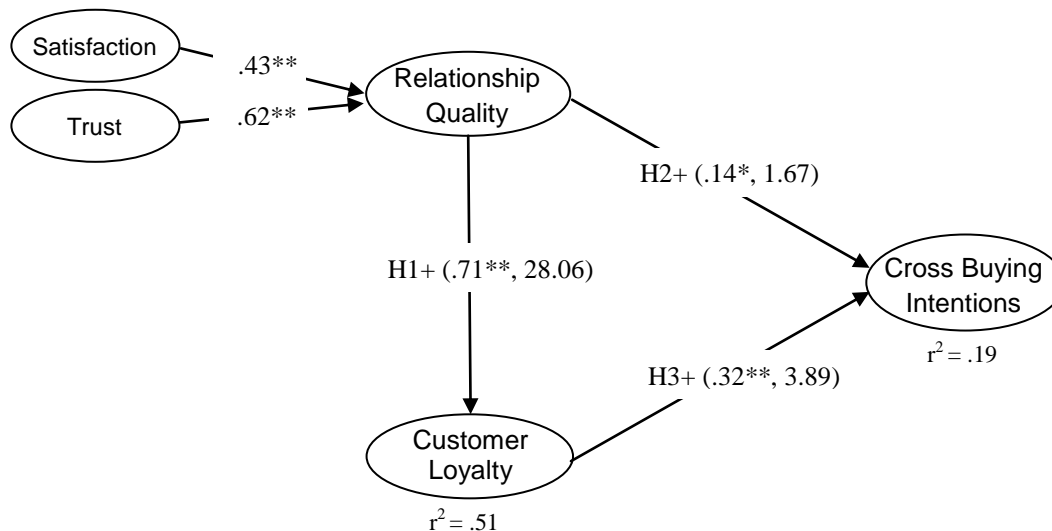
AVA= .67

** p < 0.01; * p < 0.05; t-values in parentheses, Average Variance Accounted for (AVA) = > .10

Discussion, Implications and Future Research Directions

In sum, the findings provide insights concerning the relationships among relationship quality, customer loyalty and cross buying intentions in the Hong Kong retail banking sector. The results of the study show mixed support for the hypotheses. First, the findings indicate that relationship quality has a strong, positive influence on the development of customer loyalty intentions, thus supporting H1. That is, when consumers evaluate the relationship quality with the bank to be high, the consumer forms favorable customer loyalty intentions towards the retail bank. Second, the findings indicate partial support for H2 (t > 1.65) of the positive influence relationship quality has on cross buying intentions. This finding is important given the emphasis in the literature placed on satisfaction and trust in customer relationships and profitability. It implies that other factors may be important for the consumer when it comes to cross-buying banking products. This result is consistent with previous studies showing that customers' experience with the service provider has a marginal effect on cross-buying behavior (e.g. Ngobo 2004). Finally, the findings also show that consumers who are loyal to the retail bank tended to show higher levels of cross-buying intentions than those who were not as loyal to their retail bank, supporting H3. This finding further reinforces the fundamental importance of creating loyal customers to generate greater share of wallet potentially leading to increased revenue and profitability.

On the basis of these collective findings, it appears that customer loyalty has a strong influence on cross buying intentions whereas relationship quality has a marginal effect. However, relationship quality was found to have a strong influence on customer loyalty indicating an important indirect influence on cross buying intentions. As such, the results reinforce other findings in the literature that it is easier to cross-sell to existing customers than to newly acquired customers within the Hong Kong retail banking context. Thus, loyal customers (and the degree of loyalty), are an important source (and starting point) for initiating cross buying programs and target marketing.

The present research has a number of limitations. The first is the approach used to measure cross-buying intentions. The question is whether customers would react similarly in a natural context. In the present study, respondents were allowed to respond without the consequence of actually cross-purchasing another service from the service provider. It is possible that the customers' intentions to cross-buy would be lower in an actual situation because of time and effort costs associated with transferring business from one provider to another or due to the fear of dependence. The second limitation is that the proposed model was not intended to be an exhaustive causal model of all antecedents of cross buying behaviour. Clearly, other factors contribute to the development of cross buying behaviour and should be included in future research. Therefore, future studies should expand the scope of the variables investigated in this study by examining some additional variables. For example, do the benefits of one-stop shopping explain cross-buying intentions within the Hong Kong context? Do the customer's evaluations of the retail bank's capabilities to offer different types of services explain cross-buying intentions? Does the customer's relationship with the retail bank brand (i.e. involvement, perceived reputation) play a role? Do personality traits (e.g. risk aversion) influence cross buying intentions? Such focus will provide greater insights into the cross buying behaviour of Hong Kong consumers in the retail banking industry for academicians and practitioners alike.

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