

Effects of Relationship Marketing on Customer Loyalty: Evidence from Petrol Service Stations in Uasin-Gishu County Kenya

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Abstract

In order to maximize business profit and general performance of the business, it is critical to keep a customer with “ultimate loyalty”. For this reason, any organization must strive to keep loyal customers as long as possible. This is the reason behind the popularity of customer loyalty programs developed by marketing practitioners. Yet, despite efforts for attracting and retaining customers by many organizations, customer attrition exists for every organization. The main reason is that most organizations are still employing the traditional methods to attract and maintain customers with little emphasis if any on developing long lasting relationships with customers. The main objective of this study was to determine the effect of relationship marketing on customer loyalty in Uasin-Gishu County with a view of making recommendations towards effective utilization of relationship marketing strategies to retain and maintain customers. The study employed mainly explanatory survey design. Simple random and systematic sampling techniques were used to select a sample of 354 customers of petrol service stations within Uasin-Gishu County who participated in the survey. Factor analysis was used to validate the preconceived variables while correlation analysis and Multiple Regression were utilized to test the hypotheses of this study. The findings of this study supported the hypotheses of the study using both correlation and regression analysis. For instance, the R of the independent variables (level of commitment, level of communication, level of trust, conflict handling capacity) on the dependent variable (level of customer loyalty) is 0.72; this showed that the level of customer loyalty was positively and highly affected by the level of trust, level of commitment, level of communication effectiveness and conflict handling capacity of the service providers. Consequently, the determinant of regression (R^2) is 0.519; it shows that 51.9% of the variation in level of customer loyalty was explained by the four independent variables. The regression model achieved a satisfactory level of goodness of fit in predicting the variance of level of customer loyalty in relation to the four predictor variables mentioned above. These findings hold implications that firms wishing to retain and develop loyal customers should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers.

Keywords: Customer Loyalty, Relationship Marketing, Trust, Commitment, Communication, Conflict Handling Capacity

Introduction

It is commonly accepted in the marketing discipline that it is far cheaper to retain an existing customer than it is to attract a new customer (Reichheld, 1993; 1996) and that loyalty can be linked to company growth (Reichheld,

2003). Given the importance of loyalty to marketers there is a large body of literature concerned with loyalty, a concept, which has also been referred to as retention (Rust and Zahorik, 1993; Narayandas, 1999; Eriksson and Vaghult, 2000) and commitment (Beatty and Kahle, 1988; Ulrich, 1989; van Birgelen *et al.*, 1997). There is undoubtedly a growing interest in the subject of relationship marketing. The strong rivalry characterizing today's business environment has resulted to the building of stronger firm-customer relationships.

Ndubisi (2004) reported that more and more firms are capitalising on strong firm-customer relationship to gain invaluable information on how best to serve customers and keep them from defecting to competing brands. Hence, customer relationship building creates mutual rewards (Rapp and Collins, 1990) which benefit both the firm and the customer. By building relationship with customers, an organization can also gain quality sources of marketing intelligence for better planning of marketing strategy.

It was important, therefore, to empirically examine the actual influence of the underpinnings of relationship marketing on customer loyalty. Such understanding will assist in better management of firm-customer relationship and in achieving higher level of loyalty among customers. This research study investigated the influence of four underpinnings of relationship marketing – trust, commitment, communication, and conflict handling – on customer loyalty in petrol stations Eldoret Town-Kenya. However, Palmer (1997, p. 321) has cautioned that; relationship marketing means different things in different cultures and marketers should be as wary of prescribing universal solutions for exchange bases as they are of developing universal product and promotion for all markets.

Statement of the Problem

Loyal customers are the lifeblood of an organization, regardless of its scale and business scope. In order to maximize business profit, it is critical to keep a customer with “ultimate loyalty” (Oliver, 1999).

Competition among petrol service stations in Kenya is intense as a result of ever increasing number of petrol service stations. This has resulted in attrition of customers among already existing stations as new stations poach. This competition has revolutionized strategies employed by firms to curb customer attrition. Pricing as an option is no longer a viable strategy because profit margins have consistently declined due to increase in international oil prices. The problem has been magnified by the homogeneity of petrol products thus a firm cannot differentiate its products from those of competitors. This has been further frustrated by customers who are now more knowledgeable of competitive offerings and will always seek to purchase at the lowest price possible (Newell, 2000).

This scenario presents management dilemma, therefore some firms have resorted to offering high quality service instead to improve on customer satisfaction. However, Keiningham and Vavra (2001) demonstrated that more satisfaction is barely enough to keep a customer until another more alternative becomes available; such customers have been referred to as ‘transaction buyers’. This is compounded further by assertions made by Baloglu (2002) that retailers should not mistake high levels of returning, repeat purchasing customers as indicative of loyalty. The question remains how can petrol stations develop and maintain customer loyalty? The solution seems to lie in relationship marketing as the only option remaining to these firms in dilemma.

A number of research studies have been carried out in this area of customer loyalty from relationship marketing perspective as a new and evolving concept. However much of the studies have been done in banking, insurance and supermarkets and most of these in foreign countries. This leaves a gap in knowledge which needs to be filled. Therefore there is a need to determine the effect of relationship marketing on customer loyalty.

Literature Review

The Concept of Customer Loyalty

The concept of loyalty first appeared in the 1940s. In its earliest days loyalty was proposed as a unidimensional construct, which was related to the measurement perspective previously taken by other researchers. Two separate loyalty concepts evolved. Namely, “brand preference” (Guest, 1944, 1955) which was later referred to as attitudinal loyalty and “share of market” (Conningham, 1956), which was later referred to as behavioural loyalty. Nearly 30 years after loyalty first appeared in the academic literature researchers (Day, 1969) proposed that loyalty may be more complex and that it may comprise both attitudinal and behavioural loyalty. This bi-dimensional concept has since been combined and referred to as composite loyalty (Jacoby, 1971). The composite definition of loyalty has become the basis for much loyalty research that has since been undertaken. The composite definition of loyalty considers that loyalty should always comprise favorable attitudes, intentions and repeat-purchase (Jacoby and Chestnut, 1978). Some researchers (Oliver, 1999) suggest that loyalty evolves and that there are stages of loyalty.

Loyalty is the key to the longevity of any brand and one type of loyalty, namely word of mouth has recently been correlated with company growth (Reichheld, 2003). It is possible that every customer has loyalty qualities or states in varying degrees, and that customer's have a different mix of loyalty qualities or states. Marketers can activate different loyal states or qualities in different ways. For example, word of mouth

behaviours may be encouraged through reward programs while attitudinal loyalty may be encouraged through emotive advertising. A wide range of loyalty measures have been inconsistently applied across many different loyalty studies. Word of mouth is the most commonly used measure of loyalty and Reichheld (2003) has demonstrated that word of mouth measures correlate to company profits and growth. According to Reichheld (2003), word of mouth is a strong indicator of loyalty and growth because when customers recommend your service they are putting their reputation on the line.

Customer loyalty, a key mediating variable in explaining customer retention (Pritchard and Howard, 1997) is concerned with the likelihood of a customer returning, making business referrals, providing strong word-of-mouth, as well as providing references and publicity (Bowen and Shoemaker, 1998). Loyal customers are less likely to switch to a competitor due to a given price inducement, and these customers make more purchases as compared to less loyal customers (Baldinger and Rubinson, 1996).

Trust and Customer Loyalty

Veloutsou *et al* (2002) theorized that level of trust as one of the key virtues that underpin relationship marketing and affect customer loyalty. Trust has been defined as “a willingness to rely on an exchange partner in whom one has confidence” (Moorman *et al.*, 1993). A betrayal of this trust by the supplier or service provider could lead to defection. Schurr and Ozanne (1985) defined the term as the belief that a partner’s word or promise is reliable and a party will fulfil his/her obligations in the relationship. Other authors have defined trust in terms of opportunistic behaviour (Dwyer *et al.* 1987 as Cited in Ndubisi, 2006), shared values (Morgan and Hunt, 1994), mutual goals (Wilson, 1995), uncertainty (Crosby *et al.*, 1990), actions with positive outcomes (Anderson and Narus, 1990) and making and keeping promises (Bitner, 1995).

Calonius (1988) emphasized that an integral element of the relationship marketing approach is the promise concept. He argued that the responsibilities of marketing do not only, or predominantly, include giving promises and thus persuading customers as passive counterparts in the marketplace to act in a given way, but also in keeping promises, which maintains and enhances evolving relationship. Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld and Sasser, 1990), besides fanning the fire of trust. Indeed, one would expect a positive outcome from a partner on whose integrity one could confidently rely (Morgan and Hunt, 1994). Grönroos (1990) believed that the resources of the seller – personnel, technology and systems – have to be used in such a manner that the customer’s trust in them, and thereby in the firm itself, is maintained and strengthened. *Thus this led to our first hypothesis that there is a significant relationship between level of trust and customer loyalty*

Commitment and Customer Loyalty

Commitment is another important determinant of the strength of marketing relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Gundlach *et al.*, 1995; Morgan and Hunt, 1994; Dwyer *et al.*, 1987). Wilson (1995) observed that commitment was the most common dependent variable used in buyer-seller relationship studies. In sociology, the concept of commitment is used to analyze both individual and organizational behaviour (Becker, 1960) and mark out forms of action characteristic of particular kinds of people or groups (Wong and Sohal, 2002), while psychologists define it in terms of decisions or cognitions that fix or bind an individual to a behavioural disposition (Kiesler, 1971 as cited in Ndubisi 2007).

In the marketing literature, Moorman *et al.*, (1992) have defined commitment as an enduring desire to maintain a valued relationship. This implies a higher level of obligation to make a relationship succeed and to make it mutually satisfying and beneficial (Gundlach *et al.*, 1995; Morgan and Hunt, 1994). Since, commitment is higher among individuals who believe that they receive more value from a relationship, highly committed customers should be willing to reciprocate effort on behalf of a firm due to past benefits received (Mowday *et al.*, 1982) and highly committed firms will continue to enjoy the benefits of such reciprocity. *Thus this led to our second hypothesis that there is a significant relationship between level of commitment and customer loyalty*

Communication Effectiveness and Customer Loyalty

In this context, communication refers to the ability to provide timely and trustworthy information. Today, there is a new view of communications as an interactive dialogue between the company and its customers, which takes place during the pre-selling, selling, consuming and post-consuming stages (Anderson and Narus, 1990). In relationship marketing communication means keeping in touch with valued customers, providing timely and trustworthy information on service and service changes, and communicating proactively if a delivery problem occurs. It is the communicator’s task in the early stages to build awareness, develop consumer preference (by promoting value, performance and other features), convince interested buyers, and encourage them to make the purchase decision (Ndubisi and Chan, 2005). Communications also tell dissatisfied customers what the

organization is doing to rectify the causes of dissatisfaction. When there is effective communication between an organization and its customers, a better relationship will result and customers will be more loyal. *Thus this led to our third hypothesis that there is a significant relationship between level of communication and customer loyalty*

Conflict Handling and Customer Loyalty

Crosby *et al* (2002) theorized that conflict handling capacity as one of the key virtues that underpin relationship marketing which affect customer loyalty. Dwyer *et al.* (cited in Ndubisi 2007) defined conflict handling as a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems do arise. How well this is done will determine whether the outcome is loyalty, "exit" or "voice". Rusbult *et al.*, (1988) concluded that the likelihood of these behaviors in individual cases depends on the degree of prior satisfaction with the relationship, the magnitude of the customer's investment in the relationship, and an evaluation of the alternatives available.

Ndubisi and Chan (2005) found a significant relationship between conflict handling and customer loyalty, indirectly through trust and perceived relationship quality. The ability of the product or service provider to handle conflict well will also directly influence customer loyalty. Customers will value a relationship in which service providers acknowledge when wrong and remedies the wrong. *Thus this led to our fourth hypothesis that there is a significant relationship between level of conflict handling and customer loyalty.*

MATERIALS AND METHODS

The study employed mainly explanatory survey design. Simple random and systematic sampling techniques were used to select a sample of 354 customers of petrol service stations within Uasin-Gishu County who participated in the survey. Factor analysis was used to validate the preconceived variables while correlation analysis and Multiple Regression were utilized to test the hypotheses of this study.

The study relied on primary sources of data in order to achieve the set objectives. Consequently, 354 structured questionnaires were administered in order to collect the prerequisite data of the study. The structured questionnaires were self-administered to customers of petrol service stations to gather primary quantitative data. Descriptive and inferential statistics were used in data analysis. Descriptive statistics was in form of indices that described the sample and include measures of central tendency, frequency tables a coefficient and a correlation table.

RESULTS AND DISCUSSION

Correlation Analysis Results

Correlation coefficient measures the strength of linear relationship between two variables, in the study; correlation coefficient measured the strength of linear relationship between the overall level of customer loyalty of the respondents and the four factors (level of trust, level of commitment, communication effectiveness and conflict handling capacity). The results show that the correlation between level of customer loyalty and four factors was positive and was significant at the 0.01 level (2-tailed).

Correlation between Level of Trust Factors and Customer Loyalty

The results of factor analysis extracted two factor from items used to measure the level of trust, this factors have been termed as factors 1 and 2. The correlation between level of trust (Factor 1) and level of loyalty was 0.481 while correlation between level of trust (Factor 2) and level of loyalty was 0.361 significant at the 0.01 level (2-tailed) (see table 1). These results support hypothesis 1 since there is moderately high positive association between the level of trust and customer loyalty.

These results of correlation reveal that factor 1 comprising of security concern, reliability of promise and consistency of service quality has a high positive association than factor 2 consisting of respect to customers, ability to fulfill obligation and confidence in service. The positive association between the level of trust and customer loyalty is a sign that if the level of trust is high it is expected that the level of customer loyalty will consequently be high as they move together in the same direction. The reverse is also true; at low level of trust the customer loyalty should also be low such that customers are less likely to patronize a service station which they do not trust the employees as well as the services being offered by the station. Therefore hypothesis 1 was supported by the results of this study.

Correlation between Level of Commitment and Customer Loyalty

The correlation between level of commitment and level of loyalty was 0.595. This result supports the hypothesis 2 since there is moderately high positive association highly significant at the 0.01 level (2-tailed) (see table 2). The positive association between the level of commitment and customer loyalty support Hypothesis 2 of this study, the more committed the customers are to the petrol station the higher the likelihood that they will be loyal to the station

Correlation between Level of Communication Effectiveness and Customer Loyalty

The results of correlation analysis indicated that there was moderate positive association between communication effectiveness and level of loyalty which was highly significant at the 0.01 level (2-tailed), the results are summarized in table 3. This result support hypothesis 3 of the study and holds implication that the petrol station that communicate to its customers in trustworthy and timely way was more successful in retaining customers than those with low communication effectiveness.

Correlation between Level of Conflict Handling capacity and Customer Loyalty

The results summarized in table 4.show that there is a significant association between conflict handling capacity and customer loyalty. The correlation coefficient was 0.589; this indicates a moderately high positive relationship highly significant at the 0.01 level (2-tailed), these results support hypothesis 4 of the study. A petrolstation that tries to avoid conflict, solve manifested conflicts and discuss solutions openly with customers according to the results of this study are better placed to attract and retain loyal customers

In summary the results reveals otherwise about the four hypotheses, there was a moderately high positive relationship between the four factors and customer loyalty.

Multiple Regression Analysis

Table 5-7 shows results of the regression analysis. To predict the goodness of fit of the regression equation, the multiple correlation coefficient (R), coefficient of determination (R^2), and F ratio were examined. From the findings of this study the R of the independent variables (level of commitment, level of communication, level of trust, conflict handling capacity) on the dependent variable (level of customer loyalty) is 0.72, this showed that the level of customer loyalty was positively and highly affected by the independent variables. Consequently, the determinant of regression (R^2) is 0.519; it shows that 51.9% Of the variation in level of customer loyalty was explained by the four independent variables. The F ratio on the other hand had a value of 80.537 (c) which was significant in that it showed that the results of regression did not occur by chance. The regression model achieved a satisfactory level of goodness of fit in predicting the variance of level of customer loyalty in relation to the four predictor variables mentioned above. From the findings it is evident that that the four independent variables or at least one of the four was important in explaining or contributing to customer loyalty.

The beta coefficient in the regression analysis is useful in explaining the relative importance of each of the independent variable in contributing to customer loyalty which is the dependent variable. In order of importance, level of trust ($\beta_1=0.285$, sig. =0.000) carried the heaviest weight for level of customer loyalty, followed by conflict handling capacity ($\beta_4=0.236$, sig. =0.000),level of commitment ($\beta_2=0.190$, sig. =0.000),level of communication effectiveness ($\beta_3=0.145$, sig. =0.008). These results mean that if the level of trust changed by a unit the overall level of loyalty would change by 0.285, consequently any unit change in level of commitment, conflict handling capacity, and communication effectiveness will result in 0.19, 0.236 and 0.145 Of level of customer loyalty respectively other variables held constant.

CONCLUSION

The purpose of this study was to examine factors that influence customer loyalty in petrol service stations in Uasin-Gishu County using the relationship marketing approach. Specific objectives of the study were four fold that includes: 1) to examine effect of level of trust on customer loyalty; 2) to examine the effect of level of commitment on customer loyalty; 3) to examine the effect of communication effectiveness on customer loyalty; 4) to examine the effects of conflict handling capacity on customer loyalty. To achieve the purpose and objectives of this study, a mixture of explanatory and descriptive designs were used. Simple random sampling of four petrol station whose customers participated in the survey while systematic sampling was applied to generate a representative sample of 354(of whom 304 participated) petrol service station customers operating small businesses in Uasin-Gishu County, Kenya. Quantitative data was gathered using a self-reporting structured questionnaire. Data was analyzed using descriptive statistics and inferences were drawn using factor analysis, Pearson correlation and multiple regression. Specifically, correlation analysis and multiple regression analysis were used to test the hypotheses of the study.

The results of regression analysis summarized in table 5-7 show that trust, communication, commitment, and conflict handling contribute significantly to customer loyalty ($F=80.537$; $p<0.001$) and predict 51.25 percent of the variation found. They also show a significant direct relationship between all the four relationship marketing variable and customer loyalty at 5 percent significance level. Correlation analysis results also confirm that there exist a positive association between the independent variables of this study and dependent variable and such factors as trust, commitment, communication effectiveness and conflict handling capacity are important factors in customer loyalty creation and maintenance in a business venture like petrol service station.

Theoretically, the outcome of this research provides empirical evidence for the influence on customer loyalty by four relationship marketing variables: trust, commitment, communication, and conflict handling. This

study adds value to the literature by empirically linking a more comprehensive list of determinants to the dependent variable. It builds on past literature in this area, which had either investigated an incomplete list of potential variables (Ndubisi, 2004; Wong and Sohal, 2002) or related them to relationship quality (Wong and Sohal, 2002) and customer satisfaction (Ndubisi and Chan, 2005) without taking into account the ultimate goal of any service provider, which is to build loyal customers. The study has also widened the scope of applicability of the relationship marketing concepts, most of past studies concentrated mostly on common services like the banking sector (Ndubisi, 2005), this study has provided evidence that relationship marketing also works in sectors like petrol service stations.

Therefore, and given the representativeness of the sample, it fair to conclude that petrol service station customers tend to be loyal if the service station is: trustworthy, committed to service, reliable and efficient in communicating to customers; and able to handle conflicts well. The positive sign of the estimates shows that the greater the extent of these variables, the higher the level of customer loyalty. All elements of research hypotheses are thus firmly supported. To sum up the findings: the greater the trust in the petrol service station, the higher the level of banks commitment, the more reliable and timely its communication and the more satisfactory it handles conflicts, the more loyal its customers will tend to be.

RECOMMENDATIONS

As for practical implication of the study, the first recommendation is that firms wishing to retain and develop loyal customers should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. It has been suggested (Ndubisi, 2005) that loyal customers are valuable communicators of favorable word of mouth about organization and its products to which they feel loyal. Such loyalists can attract new customers for the organization and may even increase their own consumption collectively to the benefit of its sales, revenue and profit. Loyalist can also serve as useful source of new ideas.

Recommendation for Future Research

The research reported here has not looked into the possible influences of socio-demographic factors on the relationship between relationship marketing initiatives and customer loyalty. Earlier studies have suggested that women tended to be more loyal than men (Ndubisi, 2005), and older people more so than younger age groups.

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APPENDIX 2: TABLES

Table 1: Correlation between Level of Trust Factors and Customer Loyalty

Level of trust factors	N=304	Trust Factor 1	Trust Factor 2	Customer Loyalty
Trust Factor 1	Pearson Correlation Sig. (2-tailed)	1	.000 1.000	.481(**) .000
Trust Factor 2	Pearson Correlation Sig. (2-tailed)	.000 1.000	1	.360(**) .000
Customer Loyalty	Pearson Correlation Sig. (2-tailed)	.481(**) .000	.360(**) .000	1

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Study (2013)

Table 2: Correlation between Level of commitment and customer loyalty

Variables	N=304	Customer Loyalty	Level of Commitment
Customer Loyalty	Pearson Correlation Sig. (2-tailed)	1	.595(**) .000
Level of Commitment	Pearson Correlation Sig. (2-tailed)	.595(**) .000	1

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Study (2013)

Table 3: Correlation between Level of Communication Effectiveness and Customer Loyalty

Variables	N=304	Customer Loyalty	Level of Communication Effectiveness
Customer Loyalty	Pearson Correlation Sig. (2-tailed)	1	.605(**) .000
Level of Communication Effectiveness	Pearson Correlation Sig. (2-tailed)	.605(**) .000	1

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Study (2013)

Table 4: Correlation between Level of Conflict Handling Capacity and Customer Loyalty

Variables	N=304	Customer Loyalty	Conflict Handling capacity
Customer Loyalty	Pearson Correlation Sig. (2-tailed)	1	.589(**) .000
Conflict Handling capacity	Pearson Correlation Sig. (2-tailed)	.589(**) .000	1

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Study (2013)

**Table 5-7: Regression Results of Level of Customer Loyalty Based on Independent Variables (N=304)
 Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.720	.519	.512	.46255

Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	68.925	4	17.231	80.537	.000(a)
Residual	63.972	299	.214		
Total	132.897	303			

Regression Analysis

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.468	.199		2.355	.019
Level of communication	.145	.054	.156	2.674	.008
conflict handling capacity	.236	.052	.253	4.553	.000
level of trust	.285	.061	.253	4.641	.000
level of commitment	.190	.051	.210	3.699	.000

Note:

Predictors: (Constant), level of commitment, level of communication, level of trust, conflict handling capacity

Dependent Variable: level of loyalty

Source: Survey Study (2013)

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