Relationship Marketing – Consumer Influence on Service Organizations

RAKESH KUMAR GIRI
Research Scholar, Department of Computer Science & Engineering, Sunrise University, Alwar, Rajasthan

***Abstract*— The effectiveness of relationship marketing in selling services depends largely on the customer's commitment to deepening and expanding the relationship with the financial and travel services organization. In this study, we seek to extend current thinking by proposing a model that explores the relative importance of customer education, engagement, and problem management in improving customer loyalty. To examine the relationship between these variables, we use data collected from 1,268 customers of a global financial company. Overall, the results support the hypothesized model and show that customer education is the strongest determinant of customer loyalty. Current results provide implications for multi-product financial institutions that are of both theoretical and practical interest.**

Index Terms- Customer Education, Customer Participation, Problem Management, Customer Loyalty, Relationship Marketing, Services Marketing

I. INTRODUCTION

Marketing scholars and practitioners have long exhorted firms to allocate resources towards developing long-term relationships with their customers. Central to the argument is that, through ongoing communication and mutual learning, a higher degree of customisation of a firm's offerings is possible, which leads to greater customer loyalty and more profitable relationships over time. As a consequence of this interest in customisation, the literature has begun to focus on to the benefits of customer participation in the service production process. Encouraging customers to be active 'co-producers', it is suggested, is an effective means of delivering superior service quality and increasing service productivity.[4,5] In the context of multi-product financial services firms, drawing the client closer to the service production and delivery process can lead to deeper relationships through increased mutual understanding, building of relationship switching costs and increased opportunities for cross-selling.

Although there is a growing body of literature underscoring the importance of customer participation in relationship marketing, our understanding of the factors that facilitate participation is less well developed. Equally, we are only beginning to understand the relational benefits of participation. In the current literature, there is an assumption that customer participation always facilitates better customisa-tion service offerings.[6] However, the assumption of increased customer loyalty as a result of increased participation may hold only when clients have the expertise to make valuable and meaningful contributions to service delivery. Accordingly, in this study, we seek to under-stand the role of client education initiatives in facilitating effective participation in the service process and its consequent effects on loyalty.

Helping to build customer skills for more effective participation is only part of the story, however. A relationship characterised by support and effective problem resolution is more likely to motivate customers to participate in service delivery. Customers are likely to value the 'safety net' of comprehensive problem resolution mechanisms and will as a consequence be more motivated to get involved in service co-production. Furthermore, problem resolution mechanisms imply a higher degree of social exchange and reciprocity in client–adviser relations — a factor likely to underpin greater loyalty among clients.[7]

Accordingly, in examining customer education and problem management in combination with customer participation, we strive to achieve several objectives. First, we seek to identify which relationship building strategy has the most significant impact on customer loyalty. Given the substantial costs involved in relationship marketing, it is critical to evaluate how financial services firms can use their resources most effectively to benefit from co-operative and loyal clients.

Second, we hope to advance current understanding of customer participation in service delivery by integrating the diverse literatures on customer participation, education and problem management. In doing so, we investigate the impact of problem management and customer education on customer participation in the service process and customer loyalty. For each of these relationships, we outline important insights for relationship marketing initiatives. Specifically, we argue that in the context of services high in credence properties, such as multi-product financial services, customer education becomes crucial to enhanced client participation and loyalty.

Finally, we aim to provide managerial recommendations relating to problem management, customer education and participation. Financial services firms may be facing more intense customer service pressure than ever before. The aim of our study is to inform the design of service strategies, and the management of relationship marketing initiatives of customer education, co-option and problem management. The significance of this study is further highlighted when one considers the substantial costs involved in relationship marketing and the increasing managerial focus on maximising customers' value in more co-operative and long-lasting relationships.

We organise the paper as follows. The next section provides a brief background to our study and develops a conceptual model, which presents five formal hypotheses to be empirically tested. This is followed by a section in which we outline the research design and method, an analysis of the data and a discussion of the results. We conclude with a discussion of the theoretical and practical implications of the findings, before offering suggestions for future research.

II. BACKGROUND

According to the services literature, effective relationship selling will be most critical when the service is complex, customised and delivered over a continuous stream of transactions,[8] (2) many buyers are relatively unsophisticated about the service[9] and (3) customers face uncertainty regarding technical outcomes.[10] Financial services in multi-product financial institutions possess all these characteristics. First, services are highly complex and highly intangible, having a long-time horizon of delivery. Furthermore, clients frequently lack the technical knowledge and experience to confidently evaluate whether investment advice resulted in maximum return at an acceptable level of risk. Taken together, the long or indefinite time horizon of service delivery and the potential for inconsistent performance in meeting expectations can contribute to a high level of uncertainty in the relational context.

Because clients' inability to evaluate technical service outcomes can bias or obstruct service quality perception and affect their degree of confidence in a firm, relationship quality from the customer's perspective can be achieved through the financial service provider 's ability to reduce perceived uncertainty.[10] One of the primary functions performed by financial service employees is service customisation. Advisers are specialised and trained in conducting detailed needs assessments and presenting personalised proposals to customers. Since interactions tend to be ongoing rather than single encounters, advisers have the opportunity to deepen relationships with clients to provide a means by which financial institutions can achieve more profitable positions in microsegments through enhanced customisation.

Customer participation in service production and delivery offers a potentially fruitful avenue for firms attempting to customise their offerings. Involving the client in service delivery will help develop social bonds between the client and adviser, increase the responsibility the client assumes for service outcomes and make the relationship more resistant to intermittent failures. The extent to which customer participation can be encouraged will depend on two main factors. First, customers require the expertise or skills to be able to help co-produce a service. Involvement theory would suggest that as a product category increases in relevance to customers, the more effort they are likely to exert in product search and selection.[11] To the extent that customer education increases the perceived relevance and importance of financial services to clients, the more we would expect to see customers participating in service development and delivery.

Second, customer involvement in service production requires a willingness to exert effort on behalf of the relationship. Social exchange theory would suggest that customers are more likely to reciprocate with such effort if they believe advisers have made equivalent contributions to the relationship.[12–14] Problem management procedures, and the procedural justice they imply, will be perceived as contributions to the relationship.

Relationship Marketing And Customer Relationship Management In Financial Services

In the financial sector, the concept of RM is understood to involve acquiring, retaining and improving customer profitability. RM is believed to be associated with positive outcomes for organisations such as greater profitability, increased customer loyalty, opportunities for strategic advantage, reduced costs of recruiting customers and more effective firm planning (Evans and Laskin 1994; Gouthier and Schmid 2003). There has been a lot of research carried out that evidences the profitability of retaining customers within the financial services industry sector (Mitchell 1995; Reichheld and Kenny 1990; Ryals and Payne 2001).

Financial organisations are organisations that have to leverage vast amounts of data and have become aware of the possibilities that CRM and RM strategies hold in order to build long-term relationships with their customers (Ryals and Payne 2001). Nevertheless, it has become evident from reviewing the literature relating to financial services that the terms 'RM' and 'CRM' have been used interchangeably. In fact, a lot of the literature within the financial sector refers to CRM using it synonymously with RM. This concurs with what Winston suggested that

"it is generally recognised that both terms are based on the principles of relationship marketing, and therefore tend to be used synonymously" (2004:315s).
Ryals and Payne argue that
"CRM is probably more advanced in financial services than in most other sectors, so organizations in these other sectors can learn from the financial sector's experiences" (2001:4).

Harrison (2000) said that the reason for this advance in the financial sector is that technological improvements and advances started relatively late compared to other industry sectors. This meant that consumers had to deal with the employees of a particular financial organisation face-to-face, where it was inevitable that personal relationships between the consumer and the organisation were established. Nevertheless, with the developments of technology in today's world, the personal relationships of the past have been neglected. Additionally, the nature of the financial product naturally incorporates information technology and, hence, the implementation of information technology systems within the financial industry sector seems inevitable.

The acknowledgement of increased profitability has led many financial organisations to implement relationship strategies. Thus, it has also been acknowledged that a short-term strategy usually results in a short-term response rate and the benefits do not last very long. Similarly, there may be benefits for the consumers in developing relationships with organisations. Sheth and Parvatiyar (1995b), for example, identify that buying from one organisation may simplify purchasing, reduce information collection and processing and limit risk by increasing psychological comfort (Sheth and Parvatiyar 1995b). Similarly, Dibb and Meadow (2001) developed a relationship model based on four bank case studies where they came up with two types of businesses; one that does not focus on RM strategies and one that is committed to RM strategies. For this type, they developed three scenarios that represent typical points on a continuous scale as this type of business increases their relationship marketing commitment. These scenarios are 1. Quick Fix; 2. Radical Fix; and 3. Strategy Set-up.
1. The *Quick Fix* scenario is when the business has realised that there are benefits from RM and therefore

tries to focus on the practices that already exist and to emphasise on these. The business tries to collect additional information about customers from the existing databases they have. However, customer contact is not proactively sought and in many cases, this database marketing does not produce the anticipated positive results. Reasons for this are, for example, the wrong use of the information available (Dibb and Meadows 2001)

2. The *Radical Fix* scenario involves the business carrying out radical changes to the existing practices, often involving substantial changes in investment, staff and technology. Sophisticated systems are set up to enable better use of customer data; staff deal more pro-actively and regular with customers allowing richer 'attitudinal and buying data' to be collected. With this data, customer 'life events' can be spotted more easily and the business can achieve better targeting (other channels may be added to the high street outlets, such as telephone banking) (ibid).

3. The third scenario of *Strategy Set-up*, mainly relates to organisations that aim for one-to-one, customer-driven marketing, which is fully supported by technology and staff, who are particularly customer oriented as opposed to transaction oriented. The emphasis lies on communication, with technology enabling staff a two-way exchange, being able to make decisions themselves and being rewarded for customer retention (ibid).

Dibb and Meadows (2001) claim that their model purely relies on the bank case studies they researched and that the validity and limitations of their model need to be explored further. They further point out that their model needs verification in other service sectors. Additionally, they emphasise that little information exists on what the customer actually thinks. They state that

"Even if suppliers ARE convinced about the value of such (in-depth relationships), a relationship, it is far from clear whether customers will feel the same" (2001: 190).

They furthermore add that their model has several implications for banks and their customers; therefore the company's angle, technology, the customers' and staffs' perspective need to be considered. When looking at the company's angle, it is possible that the business needs to change its strategies completely by committing to RM, which means that they need to move away from segmentation marketing and towards a one-to-one strategy. Both of these strategies can be regarded as long-term strategies, whereas database marketing and niche marketing are considered short-term strategies. RM is, however, advantageous over segmentation marketing in that it starts with the needs of small numbers of customers, as opposed to the whole market.

"A segmentation which takes a single product view of the customer is of little or no value to a retail bank seeking to move in this direction; what is required is an approach which takes a holistic view of the customer's needs- hence the move towards 'one-to-one' or relationship marketing" (Dibb and Meadows 2001:192).

Additionally, the technology factor is an issue that needs to be borne in mind as banks have traditionally implemented information systems that were transaction based. Therefore, a more customer-focussed strategy is required where systems are implemented that allow for gathering customer data allowing for a deeper understanding of the profitability and lifetime value of each customer. This requires a system which allows for behavioural and attitudinal data to be gathered. In relation to the customer's perspective, Dibb and Meadows (2001) point out that their model highlights the problems that arise when a business relies heavily on direct mail and conventional database marketing. Those are seen to be short-term strategies and while they may raise profits in the short-run, they are most probably going to undermine customer relationships in the long run. Therefore, the authors do not actually consider the customer's perspective from a customer's point of view. Rather their model looks at the organisations perceptions of customers' perceptions of RM. The last point their model considers is that of staff and their importance in connecting with the customers in order to retain them, rather than using a hard-sell-approach. Communication skills are pivotal and staff should be able to meet the new needs of customers on which they have received information.

Relationship Marketing And Customer Relationship Management In The Travel And Tourism Industry

The tourism industry is one of the main industries with worldwide opportunities and revenue generation (Suarez Alvarez *et al.* 2007), contributing to a country's economy as well as contributing to globalisation.

"Macroeconomic figures identify tourism as the biggest industry in the world, making up 11,7% of GDP and providing one in every twelve jobs on the planet" (Suarez Alvarez et al. 2007: 453).

Added to this is the fact that technological advances, particularly those in transport and information have contributed to making the tourism industry an important one with a more forceful competitive environment. These changes have led management to rethink the role of their marketing (Judson *et al.* 2007). The tourism industry has been characterised by major advances in information and communication technologies resulting in changes to how the tourism product is distributed. Traditionally, tour operators, travel or handling agencies were the main distribution channels for tourism products, whereas the development of the Internet and e-commerce have meant that consumers have quick access to high-quality information (Zolkiewski and Littler 2004). Therefore, the role that travel agents and tour operators have performed in the past has become less important due to the Internet having established itself as a distribution channel for tourism products. In fact, it has been stated that the Internet has 'cannibalised' the traditional tourism product distribution channels, representing a risk to travel agencies and tour operators (Suarez Alvarez *et al.* 2007). However, the Internet has allowed virtual agencies to establish themselves as an alternative channel for the distribution of tourism products, which has enabled organisations to cut down costs and develop complimentary services for their customers due to the ease of facilities that the Internet offers.

Thus, relationship strategies have been at the forefront of tourism and hospitality organisations because they offer competitive elements for traditional agencies, as well as virtual agencies, to manage their customers and survive in a highly competitive market. Nevertheless, travel agencies are not the only type of organisation within the travel and tourism sector that have looked closer into RM and CRM as a means of gaining competitive advantage. Within the hospitality industry as well, advances in technology have meant that travellers have become more sophisticated, less brand loyal and more price sensitive (Sigala 2005b). This has resulted in hospitality organisations focusing on CRM to attract guests in order to enhance profitability and guest loyalty. Sigala (2005b) pointed out that hotels need to implement CRM strategies in order to achieve increased guest loyalty. Such strategies need to seek, gather and store the appropriate information in order to then confirm and share it among the whole organisation and enable staff to create exceptional guest experiences. Sin *et al.* (2006) supported this and pointed out that it is 'logically appropriate' (2006:408) for the hotel industry to follow RM because of the nature of the product that they offer. Furthermore, personal relationships that a hotel establishes with its customers are important in order to increase customer loyalty and commitment to the particular hotel (Sin *et al.* 2006).

The travel and tourism industry has been characterised by implementations of CRM strategies because of information and communication technologies advancing. Frequent flyer and frequent traveller programmes are examples of how the industry has attempted to establish loyal relationships with their customers. However, the problem which has occurred is, that many travel and tourism organisations have purchased information and communication technology software (ICT) that do not match their CRM or RM strategies or they have allowed ICT software to drive their CRM/RM strategies (Sigala 2005b). As a result, a number of CRM/RM projects have failed due to a lack in knowledge of how to use the ICT software efficiently and effectively and to integrate it into an overall strategy.

Airline frequent flyer programmes or hotel frequent guest programmes, for instance, provide examples of the travel and tourism industry attempting to implement relationship marketing strategies and there is much potential in these strategies. However, in many cases, the collected customer data is handled or used wrongly leading to the failure of such strategies. Dev and Olsen (2000) for example, pointed out that, despite hotels collecting vast amounts of customer data, it rarely gets used appropriately and efficiently to establish valuable customer knowledge. Buttle (1996) also suggested that marketing problems are, by nature, information handling problems. Thus, it becomes evident that, in the travel and tourism industry sector, RM and CRM has faced major challenges and has been driven by organisational motivations of increasing profitability and efficiency. Most companies view customer service as an obligation rather than an opportunity to set themselves apart. This unwillingness to accept change explains why so many CRM projects fail. Despite this, the potential benefits of such relationships have been accepted, yet the implications of the customers' perspective have not been investigated and are missing from current literature (Sigala 2005a).

Model Development And Hypotheses

In this section, we present a model and a set of hypotheses that formalise our expectations for the impact of problem management and customer education on participation and loyalty (Figure 1). First, we expect customer participation to have a positive relationship with loyalty. Second, we propose customer participation to partially mediate the positive

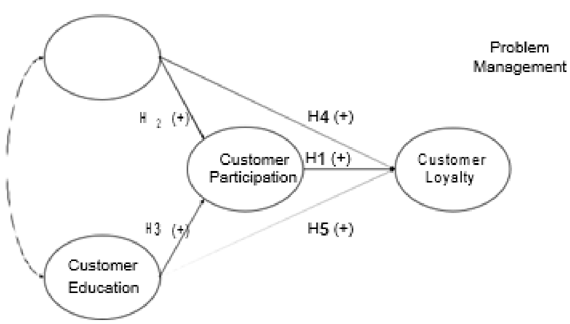

Figure 1 A model of customer education, participation, problem management and customer loyalty

impact of both problem management and customer education on loyalty. Following Baron and Kenny,[15] we define mediation as the 'generative mechanism' through which the focal independent variables are able to influence the dependent variable. More specifically, the model provides a framework for considering the indirect effects of problem management and customer education on loyalty through customer participation. Finally, we explore the direct effects of problem management and customer education on loyalty.

Customer Participation And Loyalty

In this study, we define customer participation as clients' willingness to make constructive suggestions to the firm on how to improve its service offerings,[16] while customer loyalty we define as consumers ' intent to stay with an organisation.[17,18] It has been noted that customers increasingly demand a role in production, and in order to satisfy them, companies must open up more of their processes to clients' active participation.[19] Furthermore, customers may be more willing to assume responsibility for jointly produced outcomes. Accordingly, clients tend to share the credit as well as the blame for service outcomes, as they become more involved in the service process.[15] Hence, increased customer participation can reduce customer switching behaviour and defections in financial service institutions.

Moreover, customer participation can be a vital source of cross-selling that allows firms to identify clients' unmet needs, enhance customisation and propose new business. In addition to improving a company's effectiveness in addressing clients' articulated needs, increased communication between customers and a service provider is likely to enhance the number of ways in which the firm can meet the unarticulated needs of its customer base as a whole. As financial institutions become more proficient in involving clients in the service customization process, customer loyalty is likely to increase. Moreover, customer participation can lead to the development of social bonds that make the client–financial service provider relationship more resistant to intermittent failures. Therefore, we hypothesise customer participation to be a significant determinant of customer loyalty in financial services fi rms:

H_1: *Customer participation will be positively related to customer loyalty.*

Problem management, customer education and participation

Problem management is likely to have a significant impact on customer evaluations of service quality, especially as customers become emotionally involved in the firm 's response to their concerns. We define problem management as a financial adviser 's response speed and recovery initiation, which communicate empathy, effort and respect to the customer.[20,21] In addition to technical service outcomes, customers have been shown to evaluate service encounters on the basis of interaction and the quality of interpersonal treatment and communication during the encounter.[22] Accordingly, a financial institution 's responsiveness to customers' concerns can enhance customer evaluations. Specifically, the fl exibility and speed with which concerns are dealt with has been identified as a vital dimension of procedural justice.[21]

The less flexible and the longer the length of time taken to resolve customers' concerns, the greater will be the client's perception that procedural justice has been violated. Owing to costs, such as time and effort, associated with participation,[23] customers are less likely to make constructive suggestions and work with the firm if they perceive their concerns not to be taken seriously. Moreover, the manner in which a financial institution approaches the concerns of its customers can provide insight into the character of the service firm. In other words, customers '

perceptions of problem management procedures are likely to have a material impact on the extent to which they actively participate in service production and delivery. Clients are likely to reciprocate and act 'co-operatively' toward financial institutions that address their concerns with respect and empathy. Therefore, we expect that customer participation in the service process will be influenced by customers' evaluations of problem management encounters:

H_2: *Problem management will be positively related to customer participation.*

Because of the highly complex and intangible nature of financial services, products are intrinsically difficult for customer to evaluate. Educated clients who seek to make informed decisions about service offerings, on the other hand, are more likely to feel comfortable making constructive suggestions and, thus, participate in the service process. Customer education refers to the extent to which service employees provide customers with the skills and abilities needed to utilise information.[24] More specifically, we define customer education as service advisers' willingness to explain financial concepts and the pros and cons of recommended investment opportunities to their clients.[25] Since clients' understanding of financial services plays an important role in their ability to appreciate, and contribute to, effective service delivery, customer education is likely to have a significant impact on customer participation.

By educating its customers, a financial service firm may not only enhance clients ' ability to participate in service delivery but also increase their understanding of, and ability to work with, the idiosyncratic nature of the firm 's processes. Equally, investments in client education are relationship specific and impossible to re-deploy to other customer relationships. Accordingly, customer education initiatives can serve as a strong signal of commitment to customers, strengthening the service provider–client relationship. Financial institutions' effort to educate clients may also yield meaningful information that can be fed into future product development that can more closely meet customer needs. Customers, in turn, are more likely to reciprocate with participation in the service process if they perceive that financial advisers are responsive and take their input to the service process seriously. Accordingly, we hypothesise:

H_3: *Customer education will be positively related to customer participation.*

Problem Management, Customer Education And Loyalty

Transaction cost reasoning suggests that making idiosyncratic investments in customers may cause clients to be more confident in a company 's interest, attention and commitment to the relationship.[26] Both problem management and customer education can involve substantial monetary and non-monetary costs (eg, time and effort) to service providers. To the extent that financial institutions ' commitments are perceived as sincere, problem management and customer education will have a positive impact on customer loyalty, increased transaction volume and increased breadth of products purchased.

Customers are likely to perceive an organisation's effort to explain financial concepts and manage customers' concerns as key elements of effective service delivery. For example, the willingness to help clients understand complicated financial techniques and become more financially literate would be seen as a genuine service augmentation. Similarly, problem management is likely to result in more frequent contact between exchange parties, enhancing information sharing. Increased communication between financial services firms and customers, in turn, can foster the development of similar goals, emotional contagion and reciprocity.[27] Failure to take customers' concerns seriously, on the other hand, is a leading cause of consumer switching behaviour in service organisations.[20] Therefore, we hypothesise that both problem management and customer education will have a positive influence on customer loyalty:

H_4:*Problem management will be positively related to customer loyalty.*

H_5:*Customer education will be positively related to customer loyalty.*

III. METHOD

Selection of sample

A global financial services organisation co-operated in the study. The firm offers a wide range of financial services, including fi nancial advising/planning, stock broking and fund management products. All products are delivered by certified fi nancial services advisers. The organisation provided contact details of 4,244 clients, randomly generated from the population of clients classified as 'high value'. The organisation assigns clients to a segment based on past and potential revenue generation. Accordingly, 'high-value' clients have a larger number of valuable transactions with the firm than 'low-value' customers. High-value customers are likely to interact more frequently with their financial advisers and, thus, can be in a better position to recall and comment on service outcomes and delivery customers. The sample was representative of the population of high-value clients using demographic and financial characteristics for comparison.

Questionnaire design and administration

Pre-testing of the questionnaire was conducted using a random selection of 20 clients from the sample. The questionnaire was also sent to a panel of experts comprising three managers from the organisation and marketing academics. This helped to establish face validity of the items in the questionnaire and led to suggestions for the modification of some scale items to suit the specific industry /firm context.

Following the administration of the questionnaire, a total of 1,268 usable questionnaires were returned, for a response rate of 30 per cent. Again, the final sample was representative of the 'high-value' client population based on ^{2} tests of difference on key demographic criteria (see Table 1 for final sample characteristics).

Measures

All constructs used a seven-point Likert scale with anchors of strongly disagree and strongly agree (7). A full list of items that comprise each measure is presented in Table 2.

Table 1 Sample characteristics (*n* = 1268)

Gender	*Percentage*	*Age group (years)*	*Percentage*	*Relationship duration (years)*	*Percentage*
Male	84	18–30	0.4	< 1	1.10
Female	16	31–45	8.8	1–5	33.1
		46–65	50.0	5–10	31.1
		66–80	35.5	10–15	13.3
		81+	5.3	15–20	10.2
				20+	11.2
	100.0		100.0		100.0

Table 2 Results of confirmatory factor analysis

Constructs	*Factor loading*	*t-value*
Problem management		

1. The length of time taken to resolve any concerns I have is adequate	0.81	40.47
2. My adviser is fl exible when dealing with any concerns I have	0.87	50.32
3. My adviser takes seriously any concerns I have	0.90	53.24
4. My adviser puts the appropriate amount of effort into resolving	0.93[a]	—
any concerns I have		
Customer participation		
1. I have a good knowledge of the different services offered by (*Business Name*)	0.58	16.12
2. I make constructive suggestions to (*Business Name*) on how to improve its	0.66	17.76
service		
3. When I experience a problem at (*Business Name*), I let someone know so they	0.77	19.21
can improve service quality	0.65[a]	
4. If an employee at (*Business Name*) gives me good service, I let them know it		—
Client education		
1. My adviser keeps me very well informed about what is going on with my	0.83	33.93
investments		
2. My adviser explains fi nancial concepts and recommendations in a meaningful	0.87	36.93
way		
3. My adviser always offers me as much information as I need	0.86	35.84
4. My adviser always explains to me the pros and cons of the investment he/she	0.82[a]	—
recommends to me		
Customer loyalty		

1. I try to use (*Business Name*) for all my investment needs (loyal)	0.63	22.17
2. I will invest more funds through (*Business Name*) in the future	0.88	32.23
3. The chances of me staying in this relationship are very good	0.93	33.92
4. The likelihood of me trying other (*Business Name*) services is very good	0.76[a]	—

Customer participation refers to clients' willingness to make constructive suggestions to the financial services fi rm on how to improve its service. We adapted a four-item scale from a study by Bettencourt[16] to measure customer participation. Customer loyalty is concerned with consumers' intention to stay with, and their commitment to, the organisation. The scale included four items and was constructed by combining the loyalty dimensions of the behavioural intentions scale by Boulding *et al.*[17] and Zeithaml *et al.*[18] Slight changes in wording were required to fit the fi nancial services context. In the context of this study, customer education refers to advisers' willingness to explain complex concepts to clients and provide appropriate information to aid customers' understanding of service offerings. The measure of customer education includes four items and was constructed by adapting the communication effectiveness scale of Sharma and Patterson.[25] Lastly, problem management is conceptualised as financial advisers ' responsiveness, which communicates empathy, effort and respect, for a customer's concerns. We used a four-item scale adapted from studies by Smith *et al.*[20] and Tax *et al.*[21] Slight changes in wording were required to fit the study context.

Measure validation

We employed exploratory and confirmatory factor analyses to test for the measurement properties of the scale items. First, we examined factor loadings (>0.40) and cross-loadings (< 0.40) to purify the measurement items for each construct. We then used a second principal component analysis in which four meaningful factors emerged that mirrored the predetermined scales.[28,29] There was no general factor in the unrotated factor structure, indicating that common method bias was not a significant threat to the interpretation of the results.[30] Furthermore, to help ensure unidimensionality, items in each multi-item scale were factor analysed separately and, in all cases, a single factor emerged. Principal component loadings are high and provide evidence for the unidimensional nature of the scale items.[31] Reliability estimates for the scales were uniformly high with Cronbach alpha coefficients ranging from 0.76 to 0.94.We further validated our measures via confirmatory factor analysis (CFA) using maximum-likelihood estimation with AMOS 5.[32] The results of the confirmatory factor analyses indicated that the measurement models provided very good fit to the data($^{2}{}_{(98)}$ = 517.09, GFI = 0.95, TLI = 0.96, CFI = 0.97, RMSEA = 0.06). The results of the CFA with factor loadings and *t*-values are summarised in Table 2.

We employed a set of established procedures to check for convergent validity[33,34] and discriminant validity[35–37] of our scales. Convergent validity was supported as the estimated coefficients of all the indicators were significant and the estimates for the average variance extracted (AVE) were higher than 0.50,[33] with the exception of customer participation (AVE = 0.45). We elected, however, to retain all four original items on the basis of strong *t*-values for each item and to maintain face validity of the scale. Discriminant validity was assessed by calculating the AVE for all pairs of constructs and comparing this value to the squared correlation between the two constructs of interest.[37] Discriminant validity was satisfied as the squared correlation between any pair of constructs was in all cases less than the respective AVE of each of the constructs in the pair.[37] See Table 3 for the results of these analyses.

IV. RESULTS

The hypothesised relationships were estimated as part of a structural model in AMOS 5.[32] Table 4 presents the standardised regression weights and measures of model fit. Standardised coefficients are directly comparable and, thus, give a better insight into the relative contribution of each variable. Finally, Table 5 depicts the direct, indirect and total effects of each independent variable on customer loyalty.

The results of the regression analyses provide support for all hypothesised relationships. Consistent with H_1, customer participation had a significant and positive influence on customer loyalty (= 0.12,$p < 0.01$). In accord with H_3, customer education displayed a significant, positive relationship with customer participation (= 0.47, $p < 0.01$). Both problem management (= 0.15, $p < 0.01$) and customer education (= 0.57, $p < 0.01$) exert a significant, direct influence on customer loyalty, providing support for H_4 and H_5, respectively. However, contrary to expectations, problem management was found to be insignificantly related to customer participation (= 0.04, p>0.05), which means that H_2 was not supported.

The direct, indirect and total effects of customer participation, problem management and customer education on customer loyalty are illustrated in Table 5. Problem management had a slightly stronger total effect on customer loyalty than customer participation. However, it was customer education that had by far the greatest impact on customer loyalty due to its large direct and indirect effects.

Table 3 Correlations[a], reliabilities and descriptive statistics (*n*=1268)

	1	*2*	*3*	*4*
1. Customer loyalty	1.00			
2. Customer education	0.76	1.00		
3. Problem management	0.69	0.85	1.00	
4. Customer participation	0.47	0.50	0.43	1.00
Mean	5.08	5.43	5.84	4.96
Standard deviation	1.30	1.23	1.10	1.02
Cronbach's alpha	0.86	0.91	0.94	0.76
Composite reliability	0.88	0.91	0.93	0.76
Average variance extracted	0.65	0.73	0.77	0.45

[a]All correlations are significant at the 0.01% level, using a one-tailed *t*-test.

V. DISCUSSION

Our model integrates customer participation, problem management, customer education and loyalty to (1) investigate the mediating role of customer participation, (2) to empirically test direct and indirect effects Effects of independent variables on customer loyalty on customer loyalty and (3) to comparerelationship marketing strategies' total effects in the context of multi-product financial institutions. The findings of this study shed some light on the nature of relationships between these four key elements of financial services marketing and, thus, have substantial implications for managers and researchers alike.

First, the study shows that customer participation has a significant, positive impact on customer loyalty. As clients participate and become more involved in the service process, they tend to share the credit as well as the blame for service outcomes.[15] The implication is that customers begin to assign responsibility to themselves for service outcomes, which can reduce customer switching behaviour. Because of timely interaction and enhanced communication between clients and their advisers, customer participation can also lead to the development of social bonds that make the client–financial service provider relationship more resistant to services failures so common to the financial services industry.

Table 4 Structural model results
Dependent variables Customer participation t-value

Exogenous variables				
Problem management	0.04	0.53	0.15	3.06
Customer education	0.47	6.41	0.57	10.22
Endogenous variable				
Customer participation			0.12	4.05
R^2	0.25		0.59	
$^2_{(98)}$, p < 0.01			517.09	
CFI			0.97	
AGFI			0.93	
PNFI			0.79	
RMSEA			0.06	

Table 5 Effects of independent variables on customer loyalty

Variable	*Direct effect*	*Indirect effect*	*Total effect*
Customer participation	0.12	—	0.12
Problem management	0.15	0.00	0.15
Customer education	0.57	0.06	0.63

Our research findings are consistent with notions of procedural and interactional justice,[20,21] where organisations' response to the concerns of their clients has a significant influence on customer defections. Furthermore, our results are consistent with notions relationship selling and partnership building.[39] Both client participation and education can result in more frequent and meaningful contact between customers and service providers. Enhanced information sharing, in turn, may increase the parties' mutual knowledge about each other, thereby fostering the development of similar goals, social attachment and reciprocity.

In summary, the findings (1) highlight the role of customer participation in partially mediating the relationships between problem management, customer education and loyalty, (2) underscore customer education's importance as a determinant of client loyalty and (3) examine the relative effects of relationship building strategies, such as problem management, client education and participation, on the longevity, depth and breadth of linkages with consumers.

Managerial implications

The empirical findings of this study suggest that, in managing client relationships, financial institutions should consider the relative effectiveness of individual relationship building strategies in fostering customer loyalty. Although a firm 's problem management initiatives do have a significant, positive impact on customer loyalty, our results suggest that priority should be given to customer education initiatives, while, at the same time, opening up the service production and delivery process to client participation. Potentially, this could be met

with resistance in many financial services firms, where time-pressed advisers perceive a large gap between their financial expertise and that of clients. Perhaps, through training and the reconfiguration of rewards, however,

financial services fi rms could establish a culture among client advisers that both client education an participation are expected and desirable. A first step might be to devise performance incentives that link customer feedback with rewards.

This is not to say, although, that problem management processes should not be supported. Advisers should be provided the behavioural latitude to respond to customer concerns in a timely and appropriate manner. By focusing on customer education, however, perceived problems with the service process are likely to diminish, especially as customers become more capable and begin to assume greater responsibility for the service outcome. The insignificant relationship between problem management and customer participation might suggest that firms should communicate more clearly the way customer participation can improve the process of problem resolution. Further, firms should feedback to customers how their participation in problem resolution leads to better service recovery. Ultimately, sensible allocation of resources to both customer education and problem resolution is likely to deepen relationships, facilitate better customisation of service products and enhance opportunities for cross-selling.

Limitations and directions for future research

First, drawing cause and effect inferences from cross-sectional data may be tenuous and the proposed model would clearly benefit from a longitudinal design to establish the hypothesised sequence of effects. Education contributes to customer expertise over time. It is likely that rates of customer learning and, thus, the impact of customer education will be non-linear. An intriguing avenue for future research would be the investigation of the nature of customer education's impact on consumer loyalty over time.

The parsimony of our proposed model suggests that some additional variables might help explain key relationships further. For instance, the examination of clients' availability of time, perceived cost of participation, knowledge of available alternatives and switching costs might further help to explain the customer loyalty decision. Future research may also use objective data to validate the scales and hypothesised relationships of our model.

We chose a single-industry approach to minimise systematic and random noise attributable to industry differences. Although single-industry studies may sometimes be preferable to establish the internal validity of a proposed model,[40] replication in different service contexts would provide greater confidence in the generalisability of the current results.

CONCLUSION

This study provides initial empirical evidence on the impact of customer engagement, education, and problem management on customer loyalty in the context of financial services and tourism. Financial services organizations and the travel industry can use the current findings to develop service marketing strategies to deepen and enhance customer relationships.

The implications of our study point to ways in which financial services firms can allocate relationship marketing resources to maximise returns in terms of customer loyalty, and fully unlock the opportunities of increased client participation in, and contribution to, effective service delivery.

REFERENCES

[1] Day, G. S. (2000) 'Managing market relationships', *Journal of the Academy of Marketing Science*, Vol. 28, No. 1, pp. 24– 30.

[2] Rust, R. T., Zeithaml, V. A. and Lemon, K. N. (2000). *Driving Customer Equity: How Customer Lifetime Value is Reshaping Corporate Strategy*. The Free Press, New York.

[3] Johnson, M. D. and Selnes, F. (2004) 'Customer portfolio management: Toward a dynamic theory of exchange relationships', *Journal of Marketing*, Vol. 68, No. 2, pp. 1–17.

[4] Prahalad, C. K. and Ramaswamy, V. (2000) 'Co-opting customer competence', *Harvard Business Review*, Vol. 78, No. 1, pp. 79–87.

[5] Lengnick-Hall, C. A. (1996) 'Customer contributions to quality: A different view of the customer-oriented firm', *Academy of Management Review*, Vol. 21, No. 3, pp. 791–824.

[6] Wind, J. and Rangaswamy, A. (2000) 'Customerization: The next revolution in mass customizationMarketing Science Institute Working Paper, No. 00-108, Marketing Science Institute, Cambridge, MA.

[7] Czepiel, J. A. (1990) 'Service encounters and service relationships: Implications for research', *Journal of Business Research*, Vol. 20, No. 1, pp. 13–21.

[8] Lovelock, C. H. (1983) 'Classifying services to gain strategic marketing insights', *Journal of Marketing*, Vol. 47, No. 3, pp. 9–20.

[9] Crosby, L. A., Kenneth, E. R. and Cowles, D. (1990) 'Relationship quality in services selling: An interpersonal influence perspective', *Journal of Marketing*, Vol. 54, No. 3, pp. 68–81.

[10] Zeithaml, V. A. (1981) 'How consumers evaluation processes differ between goods and services', *Marketing of Services*. American Marketing Association, Chicago,

[11] Clarke, K. and Belk, R. W. (1978) 'The effects of product involvement and task definition on anticipated consumer effort', in Hunt H.K. (ed) *'Advances in Consumer Research*', Association for Consumer Research, Ann Arbor, MI.

[12] Blau, P. (1964). *Exchange and Power of Social Life*. Wiley, New York.

[13] Walster, E. G., Walster, W. and Berscheid, E. (1978). *Equity: Theory and Research*. Allyn and Bacon, Boston, MA.

[14] Homans, G. C. (1961). *Social Behavior: Its Elementary Forms*. Harcourt, New York.

[15] Baron, R. M. and Kenny, D. A. (1986) 'The moderator– mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations', *Journal of Personality and Social Psychology*'. Vol. 51, No. 6, pp. 1173–1182.

[16] Bettencourt, L. (1997) 'Customer voluntary performance: Customer as partners in service delivery', *Journal of Retailing*, Vol. 73, No. 3, pp. 383–406.

[17] Boulding, W., Kalra, A., Staelin, R. and Zeithaml, V. A. (1993) 'A dynamic process model of service quality: From expectations to behavioral intentions', *Journal of Marketing Research*, Vol. 30, No. 1, pp. 7–27.

[18] Zeithaml, V. A., Berry, L. L. and Parasuraman, A. (1996) 'The behavioral consequences of service quality', *Journal of Marketing*, Vol. 60, No. 2, pp. 31–46.

[19] Firat, A. F. and Venkatesh, A. (1995) 'Liberatory postmodernism and the reenchantment of consumption', *Journal of Consumer Research*, Vol. 22, No. 3, pp. 239–267.

[20] Smith, A. K., Bolton, R. N. and Wagner, J. (1999) 'A model of customer satisfaction with service encounters involving failure and recovery', *Journal of Marketing Research*, Vol. 36, No. 3, pp. 356–372.

[21] Tax, S. S., Brown, S. W. and Chandrashekaran, M. (1998) 'Customer evaluations of service complaint experiences: Implications for relationship marketing', *Journal of Marketing*, Vol. 62, No. 2, pp. 60–77.

[22] Bitner, M. J., Booms, B. H. and Tetreault, M. S. (1990) 'The service encounter: Diagnosing favorable and unfavorable incidents', *Journal of Marketing*, Vol. 54, No. 1, pp. 71–84.

[23] Heskett, J. L., Sasser Jr., W. E. and Schlesinger, L. A. (1997). *The Service Profi t Chain: How Leading Companies Link Profi t and Growth to Loyalty, Satisfaction, and Value*. The Free Press, New York.

[24] Burton, D. (2002) 'Consumer education and service quality: Conceptual issues and practical implications',*Journal of Services Marketing*, Vol. 16, No. 2, pp. 125–142.

[25] Sharma, N. and Patterson, P. G. (1999) 'The impact of communication effectiveness and service quality on relationship commitment in consumer, professional services', *Journal of Services Marketing*, Vol. 13, No. 2, pp. 151–170.

[26] Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. The Free Press, New York.

[27] McFadyen, A. M. and Cennalla, A. A. (2004) 'Social capital and knowledge creation: Diminishing returns of the number and strength of exchange relationships', *Academy of Management Journal*, Vol. 47, No. 5, pp. 735–746.

[28] Podsakoff, P. M. and Organ, D. W. (1986) 'Self-reports in organizational research: Problems and prospects', *Journal of Management*, Vol. 12, No. 4, pp. 531–544.

[29] Carmines, E. G. and Zeller, R. A. (1979). *Reliability and Validity Assessment*. Sage Publications, Beverly Hills, CA.

[30] Neter, J., Wasserman, W. and Kutner, M. H. (1985). *Applied Linear Statistical Models: Regression, Analysis of Variance, and Experimental Design*. Richard Irwin, Homewood, IL.

[31] Asher, H. (1976). *Causal Modeling*. Sage Publications, Beverly Hills, CA.

[32] Arbuckle, J. L. (1994) 'Amos: Analysis of moment structures', *Psychometrika*, Vol. 59, No. 1, pp. 135–137.

[33] Bagozzi, R. P. and Youjae, Y. (1988) 'On the evaluation of structural equation models', *Journal of the Academy of Marketing Science*, Vol. 16, No.1, pp. 74–94.

[34] Gerbing, D. W. and James, C. A. (1988) 'An updated paradigm for scale development incorporating unidimensionality and its assessment', *Journal of Marketing Research*, Vol. 25, No.2, pp. 186–192.

[35] Anderson, J. C. and David, W. G. (1988) 'Structural equation modelling in practice: A review and recommended two-step approach', *Psychological Bulletin*, Vol. 103, No.3, pp. 411–423.

[36] Bollen, K. A. (1989). *Structural Equations with Latent Variables*. Wiley, New York.

[37] Fornell, C. and Larcker, D. F. (1981) 'Evaluating structural equation models with unobservable variables and measurement error', *Journal of Marketing Research*, Vol. 18, February, pp. 39–50.

[38] Harrison, T. (2002) 'Consumer empowerment in financial services: Rhetoric or reality?' *Journal of Financial Services Marketing*, Vol. 7, No. 1, pp. 6–9.

[39] Weitz, B. A. and Bradford, K. D. (1999) 'Personal selling and sales management: A relationship marketing perspective', *Journal of the Academy of Marketing Science*, Vol. 27, No. 2, pp. 241–254.

[40] McKee, D. O., Varadarajan, P. R. and Pride, W. M. (1989) 'Strategic adaptability and firm performance: A market-contingent perspective', *Journal of Marketing*, Vol. 53, No. 3, pp. 21–35.