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RESPECTING CUSTOMERS: ANALYZING AND DETERMINING ITS NATURE AND THE BOOMERANG EFFECT

Siti Haryati Shaikh Ali

*Nottingham University Business School, University of Nottingham (Malaysia Campus),
Selangor*

Malaysia

ctharyati@yahoo.com

Abstract

Recent growth of the service sector and increase competition have forced managers to look for new and cost effective ways to differentiate their services from competitors. Firms are recognizing the value of establishing quality relationships with their customers as means of retaining them. One of the ways in trying to establish close relationships with customers is by respecting them. The purpose of this paper is to examine the concept of respect and how it affects relationship quality and customer loyalty. The study draws from existing literature and empirical study of customers of dental clinics in Kuala Terengganu and Kuala Lumpur, Malaysia. The research hypotheses connecting the three dimensions of respect and customer loyalty were tested using structural equation modeling. The research also tested the mediation effect of relationship quality on customer loyalty. The results provide some support for most of the hypothesized relationships.

Key Words: interpersonal relationships, respect, loyalty, service

Topic Group: Business Strategy

INTRODUCTION

Today's rapidly changing environmental demands service companies to seek for more creative and flexible means to deal with competition. Managers are looking for new ways to differentiate their services from those of competitors. Besides looking for new ways, they are also looking for cost effective ways to experience the 'boomerang effect' or customer retention strategies. These include delivering the best quality of service and having long-term relationship. Previous research suggests as customer relationship with the company lengthens, companies can increase profit by almost 100 per cent by retaining just five per cent of their customers (Winsted, 2000). The question of how customers are treated plays an important role in building quality relationship and loyalty. One of the ways is to have good interpersonal relationships with the customers.

Good interpersonal relationship is considered as one of a key element of any service offering (Czepiel, 1990; Berry, 1995) and has a positive impact on customer-to-firm relationships. This paper is based the finding that closeness of interpersonal friendship is a potential antecedent of customer loyalty towards the firm (Butcher, Sparks & O'Callaghan, 2001). However, a big question mark remains – what is actually the right dimension to describe interpersonal relationship? In this paper, we are suggesting that 'respecting customers' as one of the dimensions in building good interpersonal relationship with customers. As "understanding how and why a sense of loyalty develops in customers remains one of the crucial management issues" (Rawlins, 1992), the general goal of this article is to explore the role of 'respect' in gaining and developing customer loyalty to the company. In doing so, the paper will identify the dimensions of respect and their importance in affecting customer loyalty. In addition, it will also estimate the moderation effect of different types of service on respect and customer loyalty.

THEORETICAL BACKGROUND AND HYPOTHESES

The term 'respect' is not uncommon to most of us. In fact, the word is used very extensively in our everyday lives and each time when the word 'respect' is mentioned, the term is used colloquially, as if everyone understands. However, in actual academic world, the term 'respect' is very complex. Even though the term *respect* is widely used in the society, its dimensions and consequences are unclear especially in marketing.

In marketing, the "*feeling of respect*" is strongly believed to be an important determinant of successful marketing relationship (eg. Berry, 1996; Bitran & Hoeh, 1990, Costley *et al.*, 2005). However, the concept is poorly defined (Dickert and Kass, 2009; Costley *et al.*, 2005). The concept of respect seems to be virtually ignored in the marketing literature (e.g. Winsted, 2000). Not only the concept is being ignored, it is also being poorly defined in the marketing circle (Costley, 2005). Most of marketing literature discusses 'respect' as overall reciprocal relationship and personal liking between customer and service provider. The relationship is known with various names; for instance friendship relationship (Rawlins, 1992), interpersonal obligation (Yau *et al.*, 1999) and social bonding (Mavondo and Rodrigo, 2001). Most of researches do not discuss the concept of respect per se, but rather an overall of mixed dimensions. For instance, interpersonal trust, degree of familiarity, self-disclosure and rapport have been acknowledged as proxies in building friendship relationships (Butcher *et al.*, 2001; Rawlins, 1992).

For the purpose of this paper, the care respect concept by Dillon (1992) is thought to be the best basis in conceptualizing respecting customers due to its unique blend of morality, compassion, responsiveness and caring for other individual (1992). The whole idea of care respect is what is known as "meeting the others morally" (Noddings, 1994). Dillon (1992) proposes a concept with three dimensions; namely attention and valuing of the particularity, understanding, and, responsibility. Dillon (1992) believes the combination of the three dimensions will produce a kind of respect that we (as individuals) owe to all people and not just our loved ones. Most importantly, it is also applicable in the context of service provider – customer interactions.

As mentioned earlier, Dillon's (1992) dimension of respect can be divided into three which include: 1) attention and valuing, 2) understanding and 3) responsibility. The first dimension of care respect requires attending to a particularity in the mode of appreciating and cherishing each person as an unrepeatable individual. It involves an acceptance of the

differences of others that goes beyond toleration. Attention here also carries the need to be sympathetic, concern to be involved in engagement with participation of the other. All in all, this dimension urges the need to value differences in others rather than viewing differences as a barrier to be overcome.

The second dimension, understanding is about trying to understand a person in his own terms. Understanding is not simply a precondition to care respect but also trying to understand a person own consciousness, his activities and his purposes (Dillon, 1992). According to this view, one should avoid making assumptions because that will diminish the other effort being put into understanding the other. At the same time it demands great efforts which are curbed by our limited abilities to understand others (Dillon, 1992).

Last but not least is responsibility. Care respect here highlights our individual responsibility as care respecer in a community. Among others, this dimension involves caring for people in the sense of helping them to pursue their end, acting to promote their goods and assisting them to satisfy their needs and wants (Dillon, 1992). Combining all elements, we believe that based on the social exchange theory, the concept of respect will result in a favorable outcome for the service provider in the form of customer loyalty.

In the stream of literature, the customer loyalty construct has been conceptualized and measured in very different ways. Most authors treat loyalty as a construct consisting of behavioural dimension (repeat purchase or consumption) (e.g. Baldinger & Rubinson, 1996) and intentional dimension (to recommend and intention to repurchase) (e.g. Wong & Sohal, 2003). On the other hand, there are authors who define as multidimensional in nature (Price & Arnould, 1999). Loyalty is also being described as a situation when repeat purchase behaviour is accompanied by a psychological bond (Jarvis & Wilcox, 1977); and repeat purchase intentions and behaviours (Peter & Olson, 1990). One thing for sure, customer loyalty has been regarded as the outcome for good business relationship (eg. Hennig-Thurau et al., 2002). This paper argues that 'respecting' will increase loyalty among customers however the level will differ depending on different type of service being offered.

From there, the following hypotheses were developed.

- H1a : There is a significant positive relationship between attention and relationship quality.*
- H1b : There is a significant positive relationship between responsibility and relationship quality.*
- H1c : There is a significant positive relationship between attention and relationship quality.*
- H2a : There is a significant positive relationship between attention and customer loyalty.*
- H2b : There is a significant positive relationship between responsibility and customer loyalty.*
- H2c : There is a significant positive relationship between respect understanding and customer loyalty.*
- H3 : There is a significant positive relationship between relationship quality and customer loyalty.*
- H4a : Relationship quality mediates the relationship between attention and customer loyalty*
- H4b : Relationship quality mediates the relationship between responsibility and customer loyalty*

H4c : Relationship quality mediates the relationship between understanding and customer loyalty

METHODOLOGY

The methodology in conducting the analysis are as follow:

Sample and Data Collection

Data was collected via structured questionnaire for over a two weeks period. Respondents were customers of various commercial banks and dental clinics in Kuala Lumpur, Malaysia. The respondents were chosen using a systematic random sampling technique. The customers have previously encountered service offered by those businesses and have developed a relationship with the service provider. The questionnaire items for respect were adapted from the concept by Dillon (1992) and Dickert and Kass (2009) whereas the items for customer loyalty were adapted from Ndubisi (2009). All measures used in this study were estimated on a seven point Likert scales ranging from 1 (strongly disagree) to 7 (strongly agree).

Validation and Analysis

Factor and reliability analysis were conducted to ensure the validity of the measures. In order to test construct validity of this study, factor analysis using SPSS was used. The construct validity of each category was evaluated using maximum likelihood rotation method (Hair et al., 1998). Promax extraction method was performed to identify the underlying dimensions of the data and those with high cross-loadings were removed.

RESULTS

All in all, 1200 survey forms were handed out and 663 (55 per cent) were returned. However, 100 were void because of incomplete data, resulting in 563 usable responses. The participants in this study were predominantly females (56.3 per cent), majority (45.2%) of the respondents were aged between 18 - 28 years old, Malay (29.5 per cent) and possessed a bachelor degree (22.7 per cent) and working in the private sector (20.3 per cent). Most of the respondents were middle income earners with their monthly salary below RM4000 (25 per cent).

Factor and Reliability Analysis

Table 1 below shows the results of the factor analyses of the key dimensions items and loadings. The results are based on parsimonious sets of variables guided by conceptual and practical considerations (i.e. the acceptance of factor loadings of 0.50 and above – this level is considered practically significant (Hair *et al.*, 1998).

Table 1: Remaining Factor for Analysis

F1 – Attention and Valuing to the particularity

- The service provider sees customers as they really are (AA2)
- The service provider values customers (AA3)
- The service treat customers well regardless of their background (AA4)

F2 – Understanding

- The service provider does not make any assumptions towards the customers. (AB9)
- The service provider is sympathetic to the customers. (AB10)
- The service provider is interested to relate his/her experience to the customers (AB11)

F3- Responsibility

- The service provider responds to me as part of his / her responsibilities (AC13)
- The service provider regards customers as important. (AC14)
- The service provider is happy to have me as customer (AC16)

F4- Relationship Quality

- My relationship with the service provider is what I really want (DA1)
- I have a very close relationship with this service provider (DA2)
- My relationship with the service provider meets my goals (DA3)
- My relationship with the service provider fulfils my expectations (DA4)
- Overall, I have a good relationship with the service provider (DA5)

F5 – Customer Loyalty

- I consider this bank / clinic as my first choice among other banks / clinics in the area (EA1)
- The bank / clinic is the first that comes to my mind when I am in need of service (EA2)

The internal consistency of the instrument was tested via reliability analysis. Reliability estimates (Cronbach's alpha) for the construct dimension are as follows: Attention & Valuing of the Particularity (0.76), Understanding (0.89), Responsibility (0.93) and customer loyalty (0.81) suggesting a higher degree of reliability. The results very much exceed 0.60 lower limit of acceptability (Hair, et.al., 1995).

Confirmatory Factor Analysis

In order to ensure the unidimensionality of the scales measuring each construct and to validate the measurement model, confirmatory factor analysis was conducted. The result of CFA for all the dimensions of respect is as follows.

The chi-square (χ^2) is 106.062 with 32 degrees of freedom ($p < 0.001$). The ratio of χ^2/df which is (3.314) somehow gives an indication that the model can still be improved. The same goes with comparative fit index (CFI) = 0.969, incremental fit index (IFI) = 0.969 and Tucker-Lewis index (TLI) = 0.947, which can be improved for a good model fit. Before testing the overall measurement model, the unidimensionality of each construct was examined one by one (Sethi and King, 1994) and unacceptable items were eliminated. The remaining items for CFA revealed a good model fit.

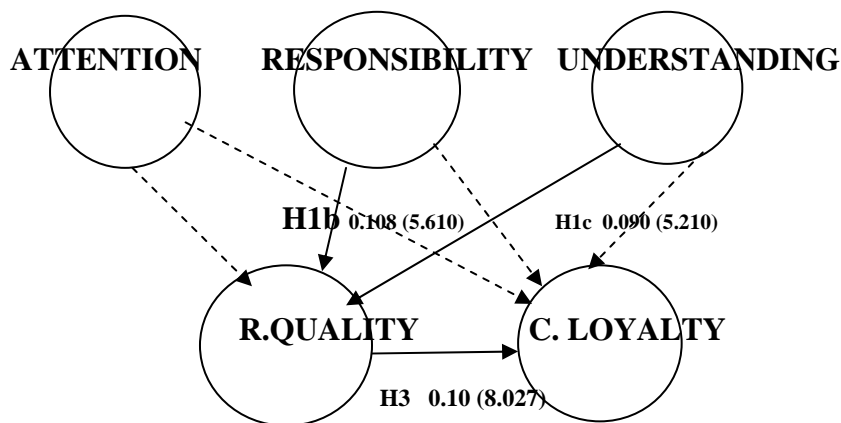
Structural Model

A structural model with six constructs was estimated. Fit indices provided by AMOS indicated that the model had an acceptable fit. Chi-square (χ^2) was 225.124 with 94 degrees of freedom ($p < 0.01$), CFI = 0.976, IFI = 0.976, TLI = 0.951, and RMSEA = 0.035. Values of CFI, IFI and TLI are ranged from 0 to 1, with values closer to 1, indicating a good fit (Byrne, 1989). The ratio of χ^2/df is 2.395, which is near to 2, indicates good model fit.

Hypotheses Testing

Figure 1 below shows standardized path coefficient and t-values. Only five out of ten new hypotheses which proposed relationships dimensions of respect and relationship quality, were supported. The result indicated a significant relationship between responsibility and understanding with relationship quality (H1b and H1c). The relationship was supported by a positive standardized coefficient of 0.065 ($t = 3.919$, $p < 0.05$) for H1b (responsibility) and positive standardized coefficient of 0.090 ($t = 5.210$, $p < 0.05$) for H1c (understanding). The result also showed significant relationships between relationship quality and customer loyalty (H3) with a positive standardized coefficient of 0.10 ($t = 8.027$, $p < 0.05$). The result has confirmed the direct relationship between relationship quality and customer loyalty. The findings have also confirmed the mediating role of relationship quality between responsibility and understanding with customer loyalty. The result is as shown below:

Figure 1: Standardized Theoretical and Path Coefficient



Note: Numbers in parentheses are t-values. Numbers outside parentheses are the standardized path coefficient. Dotted arrows indicate non-significant paths ($p > 0.05$).
* $p < 0.05$

Summary of the hypotheses testing result are as stated below:

Table 1: Standardized Parameter Estimates for Structural Model

Paths	Standardized Estimates	t-value	Hypothesis
(H1a) Attention → RQ	0.072	1.371	Not supported
(H1b) Responsibility → RQ	0.065	3.919	Supported
(H1c) Understanding → RQ	0.090	5.210	Supported
(H2a) Attention → Loyalty	0.097	2.878	Not supported
(H2b) Responsibility → Loyalty	0.089	1.392	Not supported
(H2c) Understanding → Loyalty	0.127	1.673	Not supported
(H3) Understanding → Loyalty	0.104	8.027	Not supported
(H4a) Attention → RQ → Loyalty			Not supported
(H4b) Responsibility → RQ → Loyalty			Supported
(H4c) Understanding → RQ → Loyalty			Supported

The result shows that there are relationships between responsibility and understanding with relationship quality. It is learnt that there is no direct relationship between respect and relationship quality. However, relationship quality plays an important mediation role between respect and customer loyalty.

CONCLUSION

From the results, it is clear that most of the dimensions of respect except attention and valuing of the particularity significantly affect loyalty. In other words, respect is a key dimension for relationship quality. Therefore, it does matter in the relationship between customers and service provider to show respect to customers. The first important dimension of respect is responsibility. The findings support the research by Gallagher (2007) who states that service providers need to not only recognize but also to be responsive to the customers. Understanding is another important driver of respect in building up loyalty among customers. Evidence from two service sectors (banking and clinics) in the Metropolitan City of Kuala Lumpur, Malaysia supports the notion of respect as a robust driver of customer loyalty. This result could mean that irrespective of the nature of the service, respect is an important factor shaping customer loyalty.

It is true after all that as competition in service industries increases, reflecting a new age of service commoditization (Pine and Gilmore, 1998), managers are looking for new ways to differentiate their service products. The whole research proved that respecting customers, proper conflict handling and rapport are indeed examples of cost-effective customer retention strategies. The idea is that a personal relationship whether in the form of friendship or simple camaraderie, creates in service customers a perception of high overall relationship quality with service providers.

IMPLICATIONS OF THE STUDY

The findings offer important implication for theory and management of services, especially on ways to improve the effectiveness of relationship between customers and service provider. The contributions described from the perspective of academic contribution and managerial implications.

Theoretically, in relationship marketing, attracting new customers costs organizations more than keeping existing ones (Reicheld & Sasser, 1990). However, retaining customers demands efforts and sacrifices. Hence, this study tries to prove that one of the ways is by respecting customers. Although the issues of respect has been discussed in other fields, their application in marketing (especially in services) is still new. Furthermore, most of those researches on respect in other fields are not empirically backed up. This study contributes in providing study with strong dimensions of respect in service marketing.

Secondly, this study also contributes to further understand the mediating function of relationship quality in the overall relationship. This suggests the inclusion of respect in the loyalty model is important as both direct drivers and indirect predictors via overall relationship quality.

In order to be successful in the long-term, the focus of management lies in instituting (maintaining) a customer orientation. For a short term perspectives, perhaps it is easier to focus on cost reduction and turnover. However, things are not as easy when the focus is to build long term quality relationship with the customers. In other words, in order to be

successful in the long run, the focus of management should be on how many satisfied and loyal customers are created rather than how many are served. The result of this research has shown that by having the correct way of how to respect customers will contribute in building quality relationship, which will lead to customer loyalty.

It does matter in the relationship between customers and service provider to show respect to customers. The significant result of how respect affects relationship quality and customer loyalty suggests that customers seek quality of relationship from service provider. Service providers should be aware that respecting customers is necessary to enhance the quality of relationship with customers. Apart from that, the results also indicate that respect significantly although not directly will affect customer loyalty. In fact, research by Mattila (2001) revealed that many loyalty programs run by companies have proven to be ineffective in generating true customer loyalty. Loyalty program alone is not enough. Companies should make customers feel respected and that they are special (Morais, Dorsch and Backman, 2004)

LIMITATIONS

This study itself opens avenues for further research to be conducted. This study has developed an initial model which needs further rigorous testing and refinement. First, the data were collected from customers of dental clinics and banks representing high contact service and low contact service business. As such, one type of business of each section may not represent the entire possible classification of service situations to yield more conclusive results. Future research should be replicated in other services and businesses in general. These efforts will result in more generalizable outcomes.

Secondly, this is limited to customers in Kuala Lumpur. Perhaps in the future, the study should be projected to the entire country or even other foreign countries with marked cultural differences from Malaysia for a bigger picture of customers' perceptions on relationship quality.

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