



**GRADUATE SCHOOL OF BUSINESS (GSB)
UNIVERSITI SAINS MALAYSIA**

DECLARATION

I hereby declare that the project is based on my original work except for quotations and citation which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at USM or any other institutions.

A handwritten signature in black ink, appearing to read 'Chai Har', is written above a horizontal line.

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FACTOR DETERMINING THE RELATIONSHIP
BANKING DECISION IN SME INDUSTRY
IN MALAYSIA

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ABSTRAK

Tujuan kajian ini adalah untuk mengenalpasti pengaruh nilai tanggapan, kualiti perkhidmatan tanggapan, amanah, imej dan keghairahan terhadap perhubungan komitmen dalam pertalian perbankan dalam industri Perusahaan Industri Kecil dan Sederhana di Malaysia. Faktor-faktor yang menentukan keputusan mengenai hubungan perbankan diramalkan dengan menggunakan data yang dikumpul daripada 148 responden melalui soal-selidik yang telah diedarkan kepada syarikat-syarikat dalam industri Perusahaan Industri Kecil dan Sederhana yang berlainan industri di Malaysia. Keputusan penyelidikan ini mendapati bahawa nilai fungsi tanggapan dalam konteks nilai tanggapan, kebolehpercayaan, responsive dan jaminan dalam konteks kualiti perkhidmatan tanggapan, amanah dan imej adalah merupakan pendorong utama perhubungan komitmen. Di sebaliknya, nilai hubungan tanggapan dalam konteks nilai tanggapan, ketara, dan empati dalam konteks kualiti perkhidmatan tanggapan dan keghairahan pula tidak mempunyai kesan ketara kepada perhubungan komitmen. Selain itu, kajian ini juga memberi bukti empirikal bahawa perhubungan komitmen adalah positif berkaitan dengan kesetiaan. Oleh itu, pengurus bank perlu lebih berusaha dalam program pemasaran hubungan dengan meneroka dan mengenal pasti latar belakang yang ketara menentukan keputusan hubungan perbankan di kalangan industri Perusahaan Industri Kecil dan Sederhana di Malaysia untuk mencapai kesetiaan pelanggan.

ABSTRACT

The purpose of this study was to identify the influence of perceived value, perceived service quality, trust, image and delight on relationship commitment toward banking relationship of SMEs industry in Malaysia. The antecedents for relationship commitment towards loyalty in banking relationship decision was predicted by using the data collected from 148 respondents represented SMEs from various industries in Malaysia. The results indicated that the perceived functional value from perceived value, reliability, responsiveness and assurance from perceived service quality, trust and image had a direct positive influence to relationship commitment. On the contrary, perceived relational value from perceived value, tangible and empathy in perceived service quality and delight had no significant effect to relationship commitment. Besides, this study also provides the empirical evidence that relationship commitment is positive related to loyalty. Thus, bank managers should exert in more effort in relationship marketing programme by exploring and identifying those antecedents which are significantly determine the relationship banking decision among SMEs in Malaysia in order to attain customer loyalty.

CHAPTER 1

INTRODUCTION

1.0 Introduction

The relationship between banks and small and medium-sized enterprises (SMEs) has long been a source of interest and concern in both academia and practice in view of SMEs are recognized as being increasingly important to the growth of the economy and represent an important pillar for nation's economy development (Ali and Nelson, 2006; Dhesi, 2011a; Shankar et al., 2010).

Majority of SMEs are predominantly dependent on bank financing and bank relationships. Banking industry has experienced intense competition in the banking market especially SMEs more demanding and more willing to switch banks if they are offered better service elsewhere in this turbulent market. In Malaysia, majority of SMEs have maintained multiple bank relationships (Dhesi, 2011a). Thus, at present banking industry aims to bring innovative financial services and diversifying their bank products and services to SMEs differentiate themselves from their competitors in order to achieve competitive advantage.

Banking products are easily copied and the processes are virtually identical, relationship banking is important for banks to better position themselves in their market and to secure continued banking relationships. Banks should be outperform and develop favourable image in the eyes of their SME customers as customers' image of a bank greatly depends on how the firm bank managed its relationships.

The importance of relationship banking is become crucial for banking industry especially in this turbulent and highly demanding market. Thus, this research exploring and integrating relationship banking by identifying the antecedents of relationship commitment in order to enhance loyalty among SMEs.

1.1 Definitions of SMEs in Malaysia

The definitions as well as the criteria used to classify SMEs have excessively changed over the years reflecting the importance of SMEs in Malaysia. Different agencies have different definition of SMEs. Definitions of SMEs found in Malaysia are mainly based on fixed quantitative criteria such as number of employees, amount of capital, amount of assets and sales turnover. According to SME Corporation Malaysia, the new definitions of an SME are redefined on 19 January 1998 as follows:

- a. A small-sized firm as "a firm with less than 50 full-time employees, and with an annual turnover of not more than RM10 million".
- b. A medium-sized firm as "a firm with between 51 and 150 employees, and with an annual turnover of between RM10 million and RM25 million.

Ministry of International Trade and Industry (MITI) revealed that this new definition is better reflect the importance of the SMEs because supporting SMEs in major industries as well as for the purpose of encouraging banks to lend money to SMEs. Later, the National SME Development Council has approved the common definitions of SMEs across economic sectors and financial institutions for adoption by all Government Ministries and Agencies involved in SME development on 9 June 2005.

Enterprises will be classified as SMEs if the firm meets either the specified number of employees or annual sales turnover definition as shown in the table below.

	Micro-enterprise	Small enterprise	Medium enterprise
Manufacturing, Manufacturing- Related Services and Agro-based industries	Sales turnover of less than RM250,000 OR full time employees less than 5	Sales turnover between RM250,000 and less than RM10 million OR full time employees between 5 and 50	Sales turnover between RM10 million and RM25 million OR full time employees between 51 and 150

	Micro-enterprise	Small enterprise	Medium enterprise
Services, Primary Agriculture and Information & Communication Technology (ICT)	Sales turnover of less than RM200,000 OR full time employees less than 5	Sales turnover between RM200,000 and less than RM1 million OR full time employees between 5 and 19	Sales turnover between RM1 million and RM5 million OR full time employees between 20 and 50

Source : SME Corporation Malaysia official website

1.2 Historical Development of the SMEs Sector in Malaysia

Significantly, SMEs sector forms an important part of the developed and developing economies. The SMEs sector in Malaysia plays a significant role in the contribution of national economy development from various aspects such as in terms of business units, employment opportunities and economic output, regional income generation, savings, training, stimulation of competition, aiding large firms, introduction of innovation and as a seed-bed for growth (Hashim, 2000). In general, the goals of developing SMEs especially in developing countries are to solve the unemployment problems, increase growth rate of real per capita income, balance income distribution and improve economic stability. Therefore, Malaysia as a developing country place high priority on the development of SMEs.

In Malaysia, the growth and development of the SMEs sector may be best observed in the National Economic Policy and the Malaysian Development Plans (the five-year plans). At present, SMEs are still making a major contribution to the Malaysian economy and potential for further growth in economy in future. In Malaysia, the government's expectations of the SMEs are high. Our government has taken new and more positive approaches to promote and develop a more vibrant, dynamic and strong SMEs sector. Moreover, attitude and perceptions towards SMEs in Malaysia has change over the years. More and more parties are starting to acknowledge their accomplishments, opportunities, potentials as well as problems.

According to SME Corporation Malaysia, the National Development Council has established policy guidelines for SMEs development. The guidelines are:

- a. SMEs would assist in the development of a balanced economy, use of advanced technology and help in providing a more equitable distribution of income;
- b. SMEs would complement as well as support the large scale industry, heavy industry and modern industry through a network of industrial linkages;
- c. SMEs would produce quality and high value-added products and services for both the domestic and export markets, as well as contribute significantly to the Gross Domestic Product (GDP); and
- d. SMEs would increase productivity through the use of modern technology and management which will help to increase the SMEs' competitiveness in the export market.

1.3 Overview of the Banking Sector in Malaysia

Banking in Malaysia has come a long way since the 19th century. Malaysia banking sector has been significantly transformed and reinvented over the years. The restructuring, consolidation and rationalisation efforts that were undertaken in the banking sector have placed the financial sector on a stronger foundation (Ali and Nelson, 2006; Shankar et al., 2010). Progressive deregulation and liberalization have increased the flexibility to financial institutions. New business opportunities have been created and competitions have been increased. Besides, the introduction of capital market intermediaries, investment banks and Islamic finance has resulted in a significantly more diversified financial system.

Changes of global economy and international financial landscape will continue to accelerate unlimited growth and expectations as well. The ability of banks in Malaysia to remain relevant in the future will vary depending on the strategies are taken to adapt current

business environment. Strategies are served with aim towards customer outreach and promoting financial inclusion such as consumer education programme, development of SMEs, increased public accessibility to financial information and greater access to advice and assistance. SMEs banking sector should be well-positioned to offer a wider range of innovative products and services to meet the requirements of increasingly more sophisticated SMEs customer in view of significant growth of development of SMEs sector.

1.4 Overview of SMEs Banking in Malaysia

SMEs business is becoming an important portfolio for banks in Malaysia. According to SMEinfo by Bank Negara Malaysia, at present, SMEs contributes about 32% of the country's gross domestic product and 59% of total employment. SMEs sector constitutes more than 99% of total business establishments in Malaysia and contributes 19% of Malaysia's exports in total. Significantly, SMEs have the wide potential to contribute substantially to the nation economy and can provide a strong foundation for Malaysia's future economy development.

SME contribution to GDP is expected to increase from 31% in 2010 to 40% by 2020 as value added growth of SMEs continued to outpace the overall economy. Clearly, promoting a viable SME sector is essential in the nation's stride towards broadening the sources of growth and sustaining the growth momentum. As at end of February 2011, SME financing outstanding stood at RM130 billion, accounting for 38.3% of total business loan (Azlan, 2011). It is explainable that banks are eyeing to have a bigger market share for the SME business in recent years by judging from above-mentioned figures. Banking industry has upped the momentum and opens up more avenues for SMEs to gain financing and enjoy better financial services. Local banks as well as foreign banks are actively participating in various government-initiated various investments and financial assistance lending programmes and the rolling out of more channels for SMEs to perform their banking needs.

Many SMEs in Malaysia are still not aware and understand how to fuel their expansion by getting various solutions and support from the banks. Banks is strive to work with various local associations and bank's relationship managers branch network expansion thought Malaysia to drive awareness and reach out to SMEs. Nowadays, SMEs will require a full and more innovative bundling of banking services including credit, trade and working capital, cash management, treasury and insurance apart from loans. Thus, banks need to offer one-stop-solutions to address business needs and financing needs of SMEs. As the SMEs tend to comprise family-run businesses, straightforward and convenient financing solutions are required in the business. Local banks as well as foreign banks improve their services in order to meeting the banking requirements of SMEs (Ali and Nelson, 2006; Dhesi, 2011a; Shankar et al., 2010).

Many banks realised that SMEs business is one of the main contributors to the bank revenue in view of its larger potential market share. At present, banks in Malaysia are well equipped with strong human capital, sufficient resources and effective lending scorecard for this SMEs business. Banks are committed to delivering simple, fast and convenient products and services to assist SMEs in their business dealings (Dhesi, 2011a).

Dhesi (2011b) revealed that banks now are aggressively cross-selling banks products and services to existing customers as well as developing new customers to boost the SMEs business. Specialist team is been set up to scrutinise the outcome of the process and procedures to ensure continuous improvement and always keep update and relevant to the current SMEs business market environment. In return, SMEs will make wise relationship banking decision to show their commitment and loyalty towards the bank which perform better.

1.5 Problem Statement

Recent years, in view of recognition of banks on the potential and bright future development of business, banking industry in SMEs has become competitive in Malaysia. By exploring new market opportunities in the fast developing SME sector, many banks have introduced one-stop solutions and innovative bundling of products and services.

The operation of the banking industry especially SMEs banking is expected to be more dynamic and competitive in line with the increasing deregulation, liberalization, and globalization. Attracting new customers has become as imperative as retaining existing customers as the aggressive and fierce marketing strategies adopted by either traditional or non-traditional financial institutions have resulted in the decline of relationship commitment and customer loyalty (Winsner and Corney, 2001). Banks need to exert extra efforts to improve their customer services, to enhance the ability to compete, to facilitate the offering of new products and services and to reduce transaction costs (Huang and Lin, 2005).

According to Dhesi (2011a), banks in Malaysia viewed that SME business is becoming an important portfolio although there are hurdles which many face in capturing and expanding their market share in this business. With today's increasing demand for SME financing, there is a need to intensify efforts to develop new and innovative products that are tailored to the specific needs of SMEs in Malaysia. Banks in Malaysia need to transform well in order to provide better customer engagement, improve product suite's strength, specialised lending programmes to SMEs and decentralisation that allows SMEs to apply loans from banks. Challenges faced by local banks as well as foreign banks in Malaysia include the ability to roll out simple and convenient products, the difficulties in reaching out effectively to the SMEs due to their highly dispersed population and in providing a full range of banking services apart from loans.

There are extensive researches focused on service quality, customer satisfaction and customer loyalty in the banking industry (Audhesh et al., 2004; Haque, 2010; Haque et al., 2010; Huang and Lin, 2005; Lassar et al., 2000; Shahid and Tan, 2001; Winsner and Corney, 2001; Yavas and Yasin, 2001) inclusive of those in Malaysia (Asyraf and Nurdianawati, 2007; Izah and Wan Zulqurnain, 2005; Mohd Rizal et al., 2007; Ramayah et al., 2003). However, most of these previous researches in customer loyalty intention have been conducted in Islamic banking, online banking or consumer banking in SMEs Malaysia.

The challenge of enhancing relationship commitment and increasing loyalty in SMEs industry is getting intense to banks in Malaysia. It also presents a challenge of a more in-depth understanding of the complex relationship between SMEs and banks in building strong relationship commitment and loyalty among them. It is therefore imperative and timely for this study to be conducted in the Malaysia banking sector, in light of the fact that SMEs banking is on the rise.

It has been argued that a more viable approach for banks is to focus on less tangible and less easy-to-imitate determinants of customer loyalty such as strong relationship commitment been developed. The occurrence of committed and often inherited relationship between banks and SMEs is increasingly in scarcity especially in the fast growing market place. Banks need to outperform among competitors in relationship building with existing and potential new clients to ensure relationship commitment and loyalty among SMEs. Perceived value, perceived service quality by using SERVQUAL dimensions, trust, image and delight would replicate in the SMEs banking industry to determine the relationship commitment level and loyalty level among SMEs bank customers.

1.6 Research Objectives

This study is designed to empirically explore the impact of perceived value, perceived service quality, trust, image and delight on relationship commitment as well as the loyalty level toward banking relationship of SMEs industry in Malaysia. Meanwhile, this research is attempting to achieve the following objectives :

- a. To explore the relationship of perceived value to relationship commitment
- b. To explore the relationship of perceived service quality to relationship commitment
- c. To explore the relationship of trust to relationship commitment
- d. To explore the relationship of image to relationship commitment
- e. To explore the relationship of delight to relationship commitment
- f. To explore the relationship of relationship commitment to loyalty

This research attempt to concentrate on the SMEs companies in Malaysia context in view of its fast changing industry and globalization have cause possibility of switching banks and customer turnover to be relatively high in this competitive industry.

1.7 Research Questions

In attempting to achieve the above objectives, the questions in this study consist of the following:

- a. To what extent perceived value is positively related to relationship commitment?
- b. To what extent perceived service quality is positively related to relationship commitment?
- c. To what extent trust is positively related to relationship commitment?
- d. To what extent image is positively related to relationship commitment?
- e. To what extent delight is positively related to relationship commitment?
- f. To what extent relationship commitment is positively related to loyalty?

1.8 Scope of the Study

The companies covered in this study are SMEs in the northern region Malaysia. The unit of analysis for this study is SMEs from various industries in the northern region Malaysia. The purpose of this research was to investigate the extent of relationship commitment SMEs in northern region Malaysia are maintain and invest in relationship banking with their servicing banks as well as loyalty level towards their servicing banks.

1.9 Significance of the Study

Developing a group of diverse and competitive SMEs sector in Malaysia is crucial towards achieving sustainable nation economic growth. SMEs can provide a strong foundation for Malaysia's future development. Most of banks are strengthening their brand promise and fortifying SMEs portfolio in developing SMEs banking business. However, banks are now faced the challenges to reach out all SMEs and meeting a highly demanding and sophisticated SMEs customers.

This study is considerable interest in banking industry in sustaining and further improving their market and economic performance in this competitive industry by focus on the relationship banking in SMEs industry. Banking industry have spent countless amount of money in promoting their services and retaining and developing customer by relationship marketing approach for their existing customers as well as new customers. Ultimately, the banking industry are aim to achieve their market and economic performance in long run especially in this emerging SMEs business.

The findings of this study will provide a rather clearer picture for them to understand the antecedents of relationship banking on loyalty among SMEs industry. Thus, the outperform banks will have better competitive advantage in sustaining customer base over other competitors. In theoretical perspective, expanding the research in the effect of perceived

value, perceived service quality, trust, image and delight in determining relationship commitment towards loyalty in banking relationships among SMEs industry would offer further insight and understanding to related research.

1.10 Definition of Key Terms

The following definitions are provided to clarify this research's use of key terms.

Small and Medium Enterprises (SMEs) refers to companies with an annual sales turnover not exceeding RM25 million and full-time employees not exceeding 150 (SME Corporation Malaysia official website).

Relationship banking may defined as the provision of financial services by a financial intermediary on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services (Boot, 2000).

Perceived value is viewed as the customer's overall assessment of the utility of a product based on the perception of what is received and what is given (Zeithaml, 1988). Dodds et al. (1991) further reinforce this trade off notion between the quality and benefits they receive in the product relative to the sacrifice they perceive in paying the price.

Perceived service quality refers to consumer judgment about a service provider's overall excellence. This judgment is the result of the difference between what a customer believes a service provider should offer and his perception of the actual performance of the service (Parasuraman et al., 1988).

Trust is the decision to rely on person, group, or organization under a condition of risk. This definition can be applied to persons, groups as well as organizations. These three different types of entities are capable of making trust decisions and exhibit the measurable actions. This definition sees different layers for trust: an inter-personal level, an intergroup level, and an inter-organizational level (Curall and Inkpen, 2006).

Image is a “gestalt” which reflecting a customer’s overall impression (Doyle and Fenwick, 1974)

Delight is the mixture of surprise and happiness when one exceeds customer expectations on key criteria, create memorable and emotional responses that more strongly drive overall satisfaction and repeat purchase intent (Berman, 2005).

Morgan and Hunt (1994) defined *relationship commitment* as an ongoing relationship with another that is so important as to warrant maximum efforts at maintaining it.

Loyalty refers to firm and not changing in support for an organization. This can be extended to resulting in repeat buying behaviour (Srinivasan et al., 2002).

1.11 Organization of Report

Chapter 1 discusses about the background of the research, problem statement, research objectives, research question, scope of study, significance of study and definition of key terms. Chapter 2 focuses on literature review related to the topic, in particular of the perceived value, perceived service quality, trust, image, delight, relationship commitment and loyalty intention of banking relationships in SMEs. Chapter 2 also cover theoretical framework and hypotheses development as well. Chapter 3 presents on discussion of the design of the study and methodology procedures. The research hypotheses have been tested and the findings have been discussed in details in Chapter 4. Lastly, Chapter 5 discussed the findings following by the implication of the study for both theoretical and managerial perspectives. Limitations of current research, suggestion for future research and conclusion also have been discussed in Chapter 5.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Most previous research in customer loyalty intention has been conducted in online banking or consumer banking in Malaysia. Study on relationship commitment and loyalty in SMEs in banking industry in Malaysia still lacking. This chapter reviews facts and findings from previous reports and studies most relevant to the present study. This chapter presents the theoretical framework and hypotheses that seek to answer the research questions stated in chapter 1.

2.1 Relationship Marketing Theory

The conceptual model has been developed based on the principles of Relationship Marketing Theory. The emergence of relationship marketing signified a paradigm shift in marketing theory and practice from the traditional transactional approach (Sheth and Parvatiyar, 2002). This new relationship orientation can obtain important benefits by adopting this relational approach especially seems appropriate for service and business-to-business companies (Gronroos, 2004 ; Sin et al., 2002; Yau et al., 1999).

Relationship marketing more broadly is an established paradigm in modern marketing practice (Egan, 2004; Veloutsou et al., 2002). It adopts a customer focus by focusing on main benefits include greater customer retention, increased loyalty, reduced marketing costs and greater profits (Berry, 1983, 2006; Berry et al., 1990; Christopher et al., 1991; Gronroos, 1994). The relationship marketing is an increasingly important strategy for retaining customers especially for those industries that greater interest been emphasized in relationship engagement with their service providers (Varki and Wong, 2003). The relationship marketing

theory can be applied in measuring the antecedents of relationship quality in the banking industry in Malaysia context.

2.2 Social Exchange Theory

According to Blau (1964), social exchange involves voluntary actions of individuals that are motivated by the return they are expected to bring from others. Thus, the level of inclination that individuals show to remain in an exchange relationship is proportional to the satisfaction that they achieve from the existing relationship. Thus, in the proposed model, relationship commitment is posited as driving loyalty. Perceived service quality and perceived value are presented as leading to greater levels of loyalty being indicators of rewards from the relationship.

Social Exchange Theory predicts social relationships to be based on each partner's motivational investment and anticipated gains. It also states that customers get involved in a relationship because they want something that they by themselves cannot achieve successively. Social Exchange Theory also postulates that customers will evaluate their relationship to determine whether they want to continue with the relationship or not. Many changes too have occurred in the characteristics and profiles of banking relationship activities while researchers are working on development and redevelopment of newer models to examine the banking relationships and loyalty (Jason Wai et al., 2010).

2.3 Commitment-Trust Theory

According to Morgan and Hunt's (1994), this theory was developed from the Social Exchange Theory on relationship marketing that all marketing activities are geared towards establishing, developing and maintaining long-term relationships. Harridge-March (2008) noted that relationship marketing suggests marketers should focus on building longer term

relationships, trust and loyalty with their customers and should move away from transactional marketing. An important function of marketing is to build, maintain, sustain and grow the firm's relationships with external nodes (Berry, 1983; Gronroos, 1994). Moorman et al. (1992) defined trust as "a willingness to rely on an exchange partner in whom one has confidence". Moorman et al. (1993) defined commitment as "an enduring desire to maintain a valued relationship".

Trust and commitment are frequently conceptualized as being key construct in current relationship marketing theory for successful long-term marketing relationships (Lewin and Johnston, 1997). The simultaneous presence of both commitment and trust will produce more efficient, productive, and effective outcome which leads to cooperative behaviours of relationship marketing success. Commitment and trust are viewed as determinants of the amounts of cooperation exhibited in a relationship (Anderson and Narus, 1990). Besides, various studies in the relationship marketing area have shown that trust to be crucial in influencing commitment (Anderson and Narus, 1990; Anderson and Weitz, 1992; Morgan and Hunt, 1994).

2.4 Relationship Banking

Relationship banking may be defined as the provision of financial services by a financial intermediary on the basis of long-term investment in obtaining firm-specific information through multiple interactions with diverse financial services (Boot, 2000). Petersen (1994) suggested that banks have advantages in gathering or producing information about their clients by three approaches include economies of scale, economies of scope and financial contracts are typically incomplete. Banks interested in relationship-based banking in view of informative characteristic of information production.

2.5 Perceived Value

Perceived value is viewed as the customer's overall assessment of the utility of a product based on the perception of what is received and what is given (Zeithaml, 1988). The concept of customer perceived value has been extensively investigated by marketing researchers (Hansen et al., 2008; Lee and Jun, 2007; Sanchez et al., 2010; Wang, 2010). Perceived value play a crucial role in explaining customer's relationship intention in previous business to business relationship marketing. The value perceived by SMEs customer is the customer's evaluation of its experience of interacting with its servicing banks. Previous studies have found that offering superior value to an enterprise customer can positively influence the customer's intention to create and maintain a long-term relationship (Hansen et al., 2008; Sanchez et al., 2010; Ulaga and Eggert, 2006).

A number of recent studies have attempted to construct customer's perceived value as a multi-dimensional construct by focusing directly on the benefits gained (Fiol et al., 2009; Khan, 2010; Li and Petrick, 2010). Lindgreen and Wynstra (2005) have argued that customer value has two research streams include a focus on value of goods and services and a focus on value of buyer-seller relationships. This study identifies SMEs customer's perceived value in banking industry from two dimensions: perceived functional value and perceived relational value.

2.5.1 Perceived Functional Value

The functional dimension of perceived value concerns about the utilitarian functions by which a product or service can satisfy a customer's practical needs. The perspective of perceived functional value is customer value perception are built on a product or service's composite attributes in order to deliver the utilitarian performance by assuming the customers are objective and rational. (Cheng et al., 2009; Khan, 2010; Lindgreen and Wynstra, 2005).

2.5.2 Perceived Relational Value

In contrast, the relational dimension of perceived value concerns about the feelings derived from the attributes of image, trust, and communication. The perspective of perceived relational value is by assuming the customer's value perception is built on its belief that its chosen supplier will perform actions that will result in positive outcomes for them (Khan, 2010; Lindgreen and Wynstra, 2005). However, Ulaga and Eggert (2006) suggested that the perceived relational value is referred to how customers assess benefits and effectiveness of working relationships with one supplier relative to alternative suppliers.

2.6 Perceived Service Quality

Parasuraman et al. (1991) defined service quality as "a function of the differences between expectation and performance along the quality dimensions". Perceived service quality is comparison between customers' prior expectations about the service and their perceptions after actual experience of the service performance (Asubonteng et al., 1996; Parasuraman et al., 1985).

There are various researches have been conducted in service industry especially for the banking industry in Malaysia (Asyraf and Nurdianawarti, 2007; Izah and Wan Zulqurnain, 2005; Ramayah et al., 2003). LeBlanc & Nguyen (1988) identified that service quality can be derived from customer satisfaction, contact personnel, physical facilities as well as the corporate image. The customers will immediately swift the service providers if the customers are not satisfied with the services rendered in any service trade even for banking sector. This is largely attributed to the homogenous and highly intangible features of the financial products.

Originally, Parasuraman et al. (1985) identified ten attributes that are important to increase service quality which include tangibles, reliability, responsiveness, competence, courtesy, creditability, security, access, communication and understanding the customers. SERVQUAL is developed by Parasuraman et al., (1988) by condensing the attributes to five main dimensions, tangibles, reliability, responsiveness, assurance and empathy is based on the conceptualization of service quality as the difference between consumer's perceived performance and expectation. The SERVQUAL instrument is a most useful tool to measure consumers' perceptions of service quality. It has five generic dimensions or factors and is stated as follows (Van Iwaarden et al., 2003):

2.6.1 Tangibles

The tangibles elements of the services always refer to appearance of the physical facilities tools and equipment, personnel, communication materials, other physical features used to provide the service in the service facility. Lehtinen and Lehtinen (1991) suggested that physical quality is divided into both physical product and physical support. Physical support refers to (a good or goods consumed during the service production process while physical framework refers to framework that enables or facilitates the production of the service. Parasuraman et al. (1991) found that the tangible is the least important dimension in all service industries. Lewis (1991) found that location, privacy and physical safety are considered to be important physical features and facilities within the "tangibles" dimension in a banking service.

2.6.2 Reliability

Cook et al. (2002) defined it as the ability to perform the promised service consistently, dependably, and accurately. Reliability has often been cited as the most important dimension

in assessing the service quality. Reliability is a fundamental requirement for business to stay competitive in the marketplace. There are very few publications focused specifically on the “reliability” aspect of a service quality.

2.6.3 Responsiveness

According to Berry et al. (1990), the interaction play a crucial role in the overall service product delivery and it is essential to customers' perception of service quality. Responsiveness describes as an interaction process of how quickly the service provider responds to customers especially for the speed and rate of communication and feedback. Unnecessary long delays can cause severe customers' frustration and weaken the relationship of customers.

2.6.4 Assurance

There are empirical evidence suggests that a very effective way to enhance service quality is by giving the assurance of service. Majority of customers will not express their dissatisfaction with a service encounter. The majority of customers who encounter problems will remain loyal to the service company if their problem is resolved by making active identification essential to detect problems (Fitzsimmons and Fitzsimmons, 2001; Goldstein et al., 2002).

2.6.5 Empathy

Past research has shown that the basis for effective communication is empathy within the retail service setting of customer care (Parasuraman et al. 1988). Empathy allows service providers on better understanding and prediction for developing effective communications and relationships among customers and service providers. Understanding a customer's

specific needs and having the customer's best interest would be able to impress customers the best quality and performance been delivered to them.

2.7 Trust

According to Roland and Werner (2010), there are many researchers have presented various attempts to define and conceptualize trust which are influenced by Rotter (1967). Rotter (1967) defined trust as expectancy held by an individual [...] that the word, promise, verbal or written statement of another individual [...] can be relied upon.

Trust in organizations is relevant and crucial for companies and their relationship with customers. Most researchers agree that trust can be understood as a relationship variable (Grayson et al., 2008; Roland and Werner, 2010). Reicheld (1996) stated that many organizations are fail to establish trust and reap the relationship and loyalty effects effectively though many of them are aware of the importance of customer relations.

2.8 Image

In the past, there are many conceptualizations of image have been advanced. Image has been treated as a "gestalt" which reflecting a customer's overall impression (Doyle and Fenwick, 1974). Image represents the perceptions reflected as existing associations in the consumer's mind. Thus, image could be considered as a type of brand image in which the name refers to the organisation as a whole rather than to its individual products (Rafael et.al, 2009).

A bank's image is of utmost importance and is dependent on how its customers are treated to a great extent during interactions with the bank's employees (Fatima, 2011; Nguyen and LeBlanc, 1998). Nevertheless, some previous researches prove that banks often show a weak image with little knowledge among customers (Debling, 2000; Harris, 2002). Hence, Fatima (2011) suggested that the bank's credibility and image can be embrace by having the

ability to inspire confidence and the level of knowledge necessary to provide sound business advice.

2.9 Delight

According to Rust and Oliver (2000), customer delight refers to a profoundly positive emotional state generally resulting from having one's expectations exceeded to a surprising degree. Customer delight occurs when the actual performance of a service exceeds the level of customers' expectation within the context of the confirmation/disconfirmation model of customer satisfaction.

Customer delight is what it is important for the future behaviors is the emotional response to an experience (Finn, 2006). He argued that that an unexpectedly high level of performance or a surprising experience establishes arousal. It may leads to a feeling of pleasure and in turn delights customers as discussed in the Oliver, Rust, and Varki model. Customer delight has been seen as a dissimilar concept to customer satisfaction but inter-related within the service marketing literature (Herington and Weaven, 2007).

2.10 Relationship Commitment

Commitment is frequently defined as a desire to maintain a relationship (Moorman et al. 1993; Morgan and Hunt, 1994). Dwyer et al. (1987) describe it as a pledge of continuity while Pritchard et al. (1999) describe it as resistance to change.

Commitment is an emotional link between the individual and the organization (Akehurst et al., 2009). Relationship commitment is defined as a continuing relationship with another party is so crucial in belief of an exchange partner. It warrants the maximum endeavors and to guarantee indefinite enduring relationship worth to work on that the committed party accepted (Morgan and Hunt, 1994). Gundlach et al. (1995) revealed that

relationship commitment is a strong indicator of the relationship quality and it is important in the success of relationship exchange.

2.11 Loyalty

Customer loyalty is defined as a held commitment to re-patronize or re-buy a preferred product consistently in the future (Ganesh et al., 2000; Jamal and Anastasiadou, 2009; Stank et al., 2003). Loyal customers tend to have a higher level of recommendation and repurchase intention (Chi et al., 2009; Kim et al., 2007; Yu and Dean, 2001).

Customer loyalty is the repeat purchase intention of a customer toward a service or product no matter the varying influencing situations or marketing activities. Loyal customers are more firm to demonstrate greater resistance to counter persuasion and negative word of mouth and might be less price sensitive (Oliver, 2010; Stank et al., 2003).

2.12 Conceptual Framework

This research discuss on the relationship of perceived value (perceived functional value and perceived relational value), perceived service quality (tangibles, reliability, responsiveness, assurance, empathy), trust and image with relationship commitment which contribute towards loyalty. The conceptual framework suggests the importance of relationship banking of SMEs in Malaysia context. The framework also investigates the real trigger of bank relationship commitment and loyalty performance.

A theoretical model of the effects of perceived value, perceived service quality, trust, image and delight on relationship commitment toward loyalty relationship banking of SMEs industry in Malaysia has been established. The variables identified in this study consist of perceived value, perceived service quality, trust and image as the independent variables while relationship commitment and loyalty as the dependent variable.

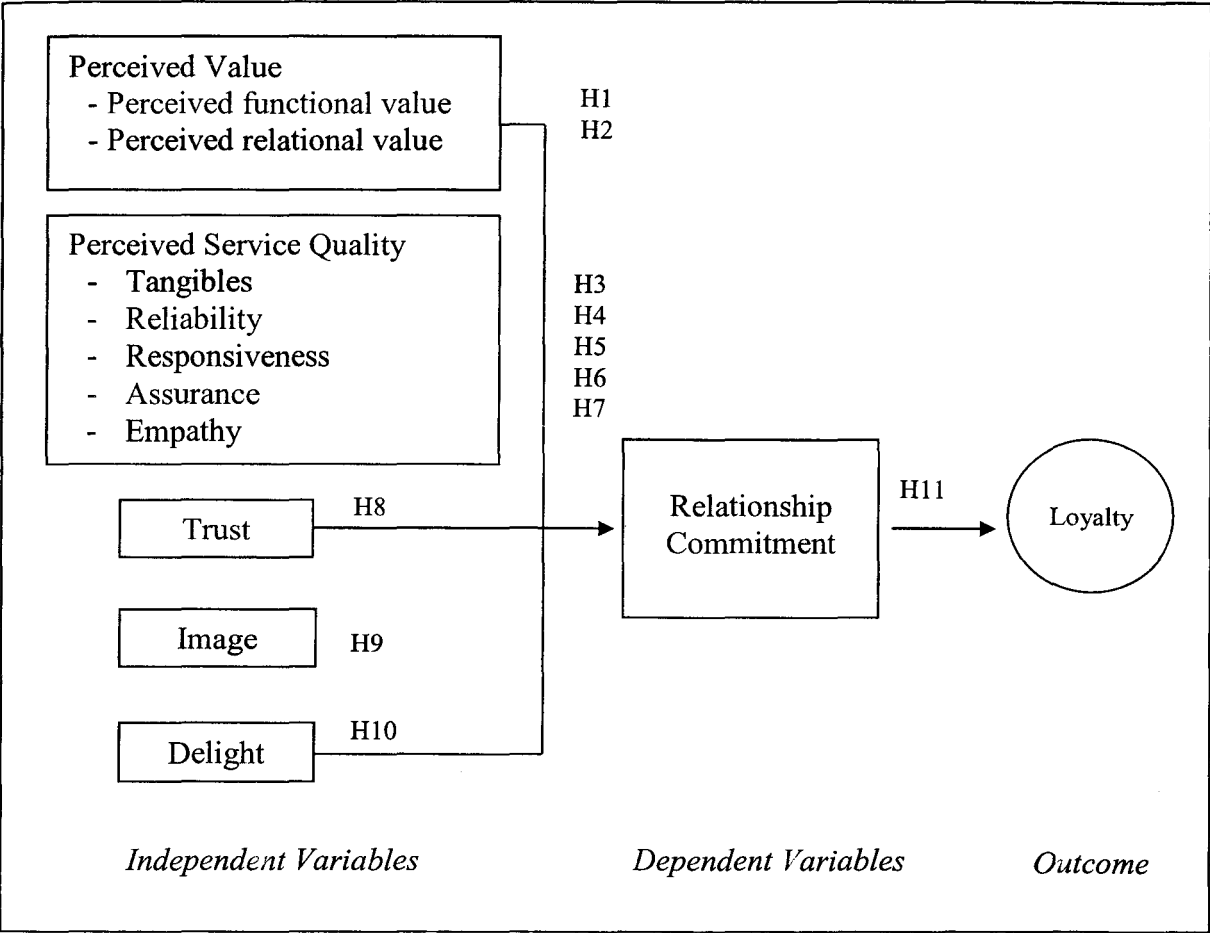


Figure 1.0 : *Conceptual Framework*

2.13 Hypotheses Development

The hypotheses for this study are derived from the theoretical framework depicted in Figure 1.0. There are positive relationship between perceived value, perceived service quality, trust, image and relationship commitment and loyalty in banking relationship from point of view of SMEs in Malaysia. The hypotheses are developed accordingly based on previous related literature and the list of the hypotheses going to be tested in this study will be discussed next.

Previous studies have proved that the customer perceived value plays a significant role in determining the customer’s relationship intention towards a company (Lam et al., 2004; Tai and Ho, 2010). In general, customers tend to invest more their relationship with a firm that they perceive as a worthy relationship investment and maintenance. This may developed by

evaluating the superior value created by firms in accordance with customers' perceived value. Obviously, customers will choose to stay on with the firm if they received greater value from the firm. Thus, raising the customer's perception of value in cultivating the customer's relationship intention is very important.

According to Yi-Ming Tai (2011), the findings indicated that functional and relational value an enterprise customers perceive have a significant effect on the customer's intention to maintain the relationship. By providing SMEs customers with valuable better services and leveraging on relationship building, it will further fostering SMEs customer commitment which can serve as the foundation to increase customer loyalty in SMEs banking. Thus, this lead to the first hypothesis for this study.

Hypothesis 1: Perceived functional value is positively related to relationship commitment.

Hypothesis 2: Perceived relational value is positively related to relationship commitment.

Perceived service quality refers to consumer judgment about a service provider's overall excellence (Parasuraman et al., 1988). The result of the difference between what a customer expects a service provider should offer (and his perception of the actual performance of the service been judged (Parasuraman et al., 1988). There are five dimensions of SERQUAL model, namely tangibles, reliability, responsiveness, assurance and empathy.

Riadh et al., (2011) suggested that the results support the finding of Dash et al. (2009) that bank customers attach high perceived service quality and SMEs bank customers expect certain benefits if they are to maintain a long-term relationship with a particular bank. Bank services are intangible and heterogeneous and more difficult to justify the perceived service quality.