

MEASURING THE MEDIATING EFFECT OF CUSTOMER TRUST - A CASE OF CORPORATE BANKING SECTOR

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Abstract

Understanding transformational leadership and relationship marketing is essential to exploit the future marketing strategies in the contemporary market environment, particularly in volatile and complex marketplace. This study attempts to explore and establish a link between these concepts through variables of transformational leadership; namely, intellectual stimulation and idealized influence with popular “trust-commitment” framework in relationship marketing. The corporate banking sector in Sri Lanka has been selected and one hundred salespersons were selected as a sample. It has been found that customer trust significantly mediates the relationship between the idealized influence behavior of a salesperson and customer commitment. Additionally customer trust significantly mediates the relationship between intellectual stimulation behavior of a salesperson and customer commitment. Thus the role of trust can be considered as important in the context of banking in bank-corporate client partnership strategy.

Keywords: Transformational Leadership, Relationship Marketing, Trust, Corporate Banking Sector

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1. Introduction

Relationship marketing can be considered as being important in a competitive environment. In the highly competitive markets place it is obvious that it can be seen new strategies are emerging to acquire and retain customers. One time sales transactions are being increasingly supplanted by novel marketing strategies aimed at building long term sustainable relationships with customers. In this context the concept of transformational leadership is considered as important. This study Literature in relationship marketing identify trust and commitment as key characteristics (Morgan and Hunt, 1994; Shemwell *et al.*, 1994; Strandvik and Liljander, 1994) and transformational leadership has been defined by using idealized influence or charisma, inspirational motivation, intellectual stimulation, and individualized consideration (Avolio and Bass 1991). Moreover, the relationship between transformational leadership and relationship marketing has also been established (Abeysekera and Wickramasinghe, 2012). Hence the following research problem has been advanced in this study.

“What is the mediating effect of customer trust in the relationship between idealized influence/intellectual stimulation and customer relationship commitment?”

The corporate banking sector is selected because recent research indicated that corporate banking

customers still prefer personal relationships as the principal means of communication and exchange between bank and client firm (Tyler and Stanley, 2001).

2. Lessons from Previous Studies

A. Relationship Marketing

Relationship Marketing refers to marketing activities that attract, develop, maintain and enhance customer relationships (Berry, 1983; Berry and Parasuraman, 1991; Grönroos, 1994). It has changed the focus of marketing orientation from attracting short-term, discrete transactional customers to retaining long-lasting, intimate customer relationships. The aims of relationship marketing include the delivery of sustained or increasing levels of satisfaction, and the retention of those customers by the maintenance and promotion of the relationship (Ravald and Grönroos, 1996). In relationship marketing, the managerial focus is on individual customer profitability and the benefits that can be derived from relationships with clients (Coviello *et al.*, 1997) In this situation, the emphasis is primarily on interactive marketing activities and on managing these interactive marketing dimensions (i.e.) with the aim of establishing, developing and maintaining co-operative customer relationships for mutual benefits (Grönroos, 2004).

In this context, managing the marketing-mix dimensions of product, price, promotion and place is less important than managing interactive marketing dimensions such as people, processes and physical evidence (Walsh *et al.*, 2004). It can be argued that relationship marketing not only focuses on the traditional four Ps' of product, price, promotion and place in marketing, but also show much more concern about the additional three Ps' in services marketing; namely, people, processes and physical evidence).

Thus relationship marketing strategies should enhance customers' perceived benefits such as perceived relationship, improvement and perceived economic benefits of engaging in relationships (O'Malley and Tynan, 2000). Contrary to employing the strategies that enhance customer perceived benefits, firms engage in activities which lower the perceived customer relationship benefits. For instance, it has been suggested that close customer relationships in banking are rare, and that they are being further weakened by the increase in self-service technologies (O'Loughlin *et al.*, 2004). Therefore, it is necessary to look for alternative new technologies as relationship facilitators (Sweeney and Morrison, 2004) and to use them strategically in customer relationship management (Payne and Frow, 2005).

Relationship commitment appears to be one of the most important variables for understanding the strength of a marketing relationship, and it is a useful construct for measuring the likelihood of customer loyalty, as well as for predicting future purchase frequency (Dwyer *et al.*, 1987; Morgan and Hunt, 1994). Meanwhile commitment is the most common dependent variable used in buyer-seller relationship studies (Wilson, 1995). Morgan and Hunt (1994) have regarded relationship commitment as the keystone of relationship marketing. Morgan and Hunt (1994) have defined relationship commitment as "an ongoing relationship with another that is so important as to warrant maximum efforts at maintaining it". On the other hand, the level of trust between exchange partners is an important criterion for understanding the strength of marketing relationships and has been defined in a variety of related ways. As suggested by Wilson (1995), trust is a fundamental relationship model building block and is included in most relationship models. Trust has been defined in diverse ways in relationship marketing literature, as "the belief that a partner's word or promise is reliable and a party will fulfill his/her obligations in the relationship" (Schurr and Ozanne, 1985). Both trust and commitment are invariably associated with the prerequisite that the relationship is of significant importance to one or both parties. (Morgan and Hunt, 1994). Since empirical studies (Morgan and Hunt, 1994; Lin, Weng and Hsiem, 2003; Tellefsen and Thomas, 2005) have identified trust as an antecedent of commitment.

B. Transformational Leadership

The idea of "Transformational Leadership" has become a popular concept among the practitioners in the last decades. In this age of rapidly changing business environments, leadership is more important than ever. The present organizational focus on revitalizing and transforming organizations to meet competitive challenges ahead has received increased interest among researchers in studying transformational leadership. Bass (1985) has defined a transformational leader as one who motivates followers to do more than they are originally expected to do.

Meanwhile Bass(1997) has observed that both sales persons and leaders attempt to change and influence the perceptions, cognitions, decisions and behaviors of customers and their followers respectively, and he went to the extent of referring to the behavior of salespersons characterized by transformational leadership behavior as transformational selling. Moreover, as outlined by Bass (1997) both selling and leadership involve influence, and so much of what is known about the new paradigm of transactional and transformational leadership can be suggested for enhancing the effectiveness of selling. Therefore, this study attempts to discuss the transformational leadership in the context of salesperson in the banking sector..

Literature suggests that transformational leadership consists of four factors – charismatic leadership or idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration (Avolio and Bass, 1991). Hence it is worthwhile to discuss each concept in more detail. Idealized influence is exercised by leaders who are role models for their followers. They show great persistence and determination in the pursuit of objectives, show high standards of ethical and moral conduct, sacrifice self-gain for the gain of others, and share the success and the limelight. As a result, the leaders are admired, respected and trusted, and followers identify with them and want to emulate (Avolio and Bass, 1991).

Inspirational motivation creates a clear picture of the future that is both optimistic and attainable. Leaders set high expectations, use symbolism to focus efforts, and communicate a vision to followers in simple language. Followers react willingly increasing their efforts to attain the vision (Avolio and Bass, 1991).

Intellectual stimulation describes leadership behavior which encourages followers to use their imagination and to re-think old ways of doing things. The leader provides a flow of ideas, questions assumptions, creates a broad, imaginative picture and encourages followers to come up with their own structures and solutions to problems. The message is that followers should feel free to try out new approaches, and their ideas will not be publicly

criticized because they differ from those of the leader (Avolio and Bass, 1991).

Individualized consideration means that the leader gives personal attention to followers, building a considerate relationship with each individual by focusing on that person's needs. The leader provides challenges and learning opportunities and delegates the authority to subordinates to raise their skill and confidence. In the process, the leader exhibits trust, respect, and some tolerance for mistakes that occur as learning proceeds. The result is that followers are more likely to be willing to develop competence and take initiative.

A primary measure of transformational leadership has been the Multi-factor Leadership Questionnaire (MLQ), developed by Bass and Avolio (1990). The MLQ comprises of *four* distinct transformational leadership factors; namely, idealized influence or charisma, inspirational motivation, intellectual stimulation, and individualized consideration. Accordingly to the operationalized the transformational leadership concept the Multi-factor Leadership Questionnaire (MLQ) was used in this study.

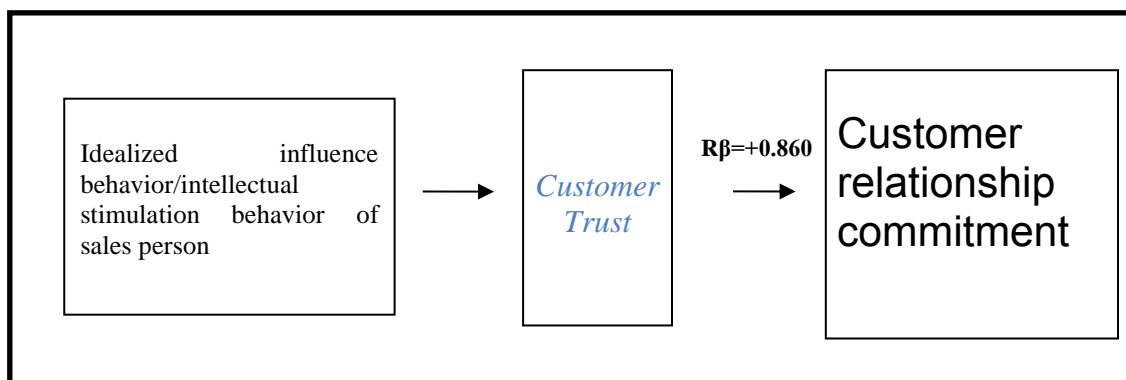
C. Relationship Between transformational Leadership and Relationship marketing

According to the study done by Abeysekera and Wickramasinghe (2012), some similarities between transformational leadership and relationship

marketing exist. The study examines the relationship between transformational leadership and relationship marketing in the context of selling. In particular, the usage of trust and commitment used by both theories has been discussed extensively. That study has established a link between transformational leadership and relationship marketing, while suggesting the use of these concepts side by side for better sustainable marketing. Furthermore, the associations can be established in between the variables of both concepts as well. Empirical studies (Morgan and Hunt, 1994; Lin, Weng and Hsiem, 2003; Tellefsen and Thomas, 2005; Jung and Avolio, 2000; Mukherjee and Nath, 2003) identify trust as an antecedent of commitment. Furthermore Vincent and Webster (2013) indicate that trust, and commitment can be combined as an overall assessment of relationship quality. Interestingly Conger et al., (2000) has found that idealized influence affects trust that is generally defined with respect to follower reactions to the leader, as well as the leaders' behavior. These results are supported by Jayakody and Sanjeevani (2006) who have argued that the idealized influence behavior of Salespersons positively influences customer trust in relationship marketing. Meanwhile Pillai *et al.* (1999), Conger *et al.*, (2000) have suggested a possible impact of intellectual stimulation behavior of leaders, on follower trust in the leader. This has been supported by Abeysekera and Jayakody (2011) as well.

Hence the following conceptual framework can be advanced from the literature:

Figure 1. Conceptual framework



3. Methodology

Transformational leadership was operationalized by using the items of Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1990). This mainly consists of Idealized influence or charisma, Inspirational motivation, Intellectual stimulation and Individualized consideration. Relationship marketing is operationalized by using the variables of relationship commitment and trust. Endogenous constructs of Morgan and Hunt (1994) were used to operationalize the variables.

According to the industry experts, around 800 CROs (Customer Relationship Officers) work in the corporate banking departments of 23 licensed commercial banks operating in Sri Lanka. Questionnaires were sent to 180 and a total of 100 CROs returned the questionnaire and all were suitable for the analysis. Thus two state banks and six private banks were selected. It was decided to select both state banks because the dominant nature of these two banks. According to the economic and social statistics of Sri Lanka (2007) out of 1,345 branches of commercial banks operated, 592 branches operated in

the Western province (44%). And out of 1,345 branches, 774 are represented by two state banks (57%).

The analysis performed by SPSS 13.0. Linear regression technique has been used to test relationship between variables.

4. Analysis

The researcher decided to examine the mediating effect of trust and relationship commitment by using the method suggested by Baron and Kenny (1986). In that study, the variable functions of a mediator, when it meets the following conditions were identified as follows:

a) Variations in levels of the independent variable significantly account for variations in the presumed mediator.

b) Variations in the mediator significantly account for variations in the dependent variable.

c) When above *a* and *b* are controlled, a previously significant relation between the independent and dependent variables is no longer

significant, with the strongest demonstration of mediation occurring when path *c* is zero.

According to Baron and Kenny (1986), to test the mediation, one should estimate the following three regression equations; first, regressing the mediator on the independent variable; second, regressing the dependent variable on the independent variable; and third, regressing the dependent variable on both the independent variable and on the mediator. These three regressions provide the tests of the linkages. To establish mediation, first the independent variable must affect the mediator in the first equation; second, the independent variable must be shown to affect the dependent variable in the second equation, and third the mediator must affect the dependent variable in the third equation. If all these conditions move in the predicted direction, then the effect of the independent variable on the dependent variable must be less in the third equation than in the second. Perfect mediation holds, if the independent variable has no effect, when the mediator is controlled.

Table 1. Results of testing mediating effect of Customer Trust in relation to Idealized Influence

Regression Equation	Independent variable	Dependent variable	Standardized coefficient β
Regression equation 1	Idealized Influence of Salesperson	Customer Trust	0.817
Regression equation 2	Idealized Influence of Salesperson	Relationship Commitment	0.811
Regression equation 3	Idealized Influence of Salesperson	Relationship commitment	0.320
	Customer Trust	Relationship commitment	0.840

Note. Survey data 2012

As depicted in Table 1, the standardized coefficient of idealized influence of a salesperson on customer relationship commitment in the third regression equation is 0.320, which is lower than the same coefficient in the second equation of 0.811. Since the results of the test meet all the other requirements suggested by Baron and Kenny (1986), and the effect of the independent variable on the

dependent variable is less in the third equation than in the second, it can be said that customer trust partially, but not completely mediates the relationship between idealized influence behavior of a salesperson and customer commitment.

It is worthwhile to discuss the same effect with intellectual stimulation as well.

Table 2. Mediating effect of Customer Trust in relation to Intellectual Stimulation

Regression Equation	Independent variable	Dependent variable	Standardized coefficient β
Regression equation 1	Intellectual Stimulation of Salesperson	Customer trust	0.770
Regression equation 2	Intellectual Stimulation of Salesperson	Relationship Commitment	0.736
Regression equation 3	Intellectual stimulation of Salesperson	Relationship Commitment	0.243
	Customer Trust	Relationship Commitment	0.840

Note. Survey data 2012

In Table 2, the standardized coefficient β of intellectual stimulation behavior of salesperson on customer relationship commitment in the third regression equation is 0.243, which is significantly lower than the same coefficient in the second equation which is 0.736. Similar to the first conclusion, it can be said that customer trust, partially, but not completely mediates the relationship between intellectual stimulation of behavior of a salesperson and customer relationship commitment.

5. Discussion and Conclusion

According to the findings of Table 1, customer trust is considered to be significantly mediating the relationship between idealized influence behavior of a salesperson and customer relationship commitment. Standardized coefficient of idealized influence of a salesperson on customer relationship commitment in the third regression equation is 0.320, which is lower than the same coefficient in the second equation of 0.811. The results of the test meet all the other requirements suggested by Baron and Kenny (1986). Furthermore, Jayakody and Sanjeevani (2006) have suggested that customer trust had slightly mediated the relationship between idealized influence behavior of a salesperson and customer commitment. But in this study it is observed that customer trust significantly mediates the relationship between idealized influence behavior of a salesperson and customer commitment.

Furthermore, as Table 2 depicts, the standardized coefficient of Intellectual stimulation behavior of salesperson on customer relationship commitment in the third regression equation is 0.243, which is significantly lower than the same coefficient in the second equation which is 0.736. Hence it can be concluded that customer trust significantly mediates the relationship between intellectual stimulation behavior of a salesperson and customer commitment. This is also in line with the study of Baron and Kenny (1986).

This study found that the relationship between transformational leadership and relationship marketing is significantly mediated by customer trust. Interestingly the relationship between each variable of the concepts has also been established. The argument of trust as antecedent for commitment (Morgan and Hunt, 1994; Lin, Weng and Hsiem, 2003; Tellefsen and Thomas, 2005; Jung and Avolio, 2000; Mukherjee and Nath, 2003) has been corroborated in this study as well.

Knowledge on relationship marketing can be broadened and deepened if it can be used for the full-range of leadership (Bass, 1997). Furthermore, by looking at relationship marketing in a different innovative angle with transformational leadership the same can be used as a framework for organizational decision making. Consequently, the focus of the study is to fill an empirical gap in the corporate banking

sector. A competitive bank's key corporate client strategy provides banks with significant benefits such as additional business from current clients, favorable word-of-mouth communications, reducing the level of price competition, increasing market attractiveness, and attracting tomorrow's customers. The validity of bank-corporate client partnership strategy depends on how effectively it is implemented. To achieve this training of salesperson is a must. Hence, the dimensions of transformational leadership can be used to train salespersons. However, this research only discusses the corporate banking sector in the commercial banks of Sri Lanka. Due to this restriction Because of this, the possibility of drawing generalization from the findings of the present study is limited. Hence this study can be further expanded into fields such as insurance and leasing.

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