The Economic Impact of Relationship Bonding Tactics: A Research Agenda

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Abstract:

The shifting of the transactional marketing paradigm into relational marketing has been paid more attention, particularly concerning the need to trace what the relational dimensions are that can bring superior financial performance. The research on relational marketing that focuses on relation quality is one area of research that is being developed from the relational marketing perspective.

Nevertheless, there are still few research projects that give a complete explanation of the impact of the relational quality (satisfaction, trust, commitment) on the company’s financial performance. Therefore, we need to explore and scrutinize the financial impact with respect to the relational quality of the company-customer relationship. The relational quality of the company-customer relationship is influenced by various customer-attracting tactics, which eventually have the potential to create a behaviour (the length of the relationship, cross purchase, up-grade, customer asset management (CUSAM)), as well as influencing a customer’s attitude (positive word of mouth (WOM), price insensitivity, a tendency to not move away to another company).

This conceptual paper is intended to retrace the financial impact (return on investment (ROI)) and the stakeholder’s value (Tobin’s Q) from the relationship bonding tactics with respect to the relationship quality and CUSAM through the development of a conceptual framework that is able to explain the phenomenon.

Keywords: Relationship bonding tactics, relationship quality, CUSAM, marketing-finance interface

JEL Classifications: M30, M31, M40, L21, L25.

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1. Introduction

The concept of relational marketing has been a steadily developing issue ever since Berry (1983) first asserted the need to develop a long-term relationship with customers through various marketing activities (Hennig-Thurau et al., 2002). Morgan and Hunt (1994) elaborate on the definition of relational marketing as a marketing activity that is directly related to creating, developing and preserving the success of the relational exchange. Another definition of the same matter, offered by Bruhn (2003), mentions that relational marketing comprises all activities for analysis, planning, realization and controlling, initiation, stabilization, and the strengthening of the relationship with the stakeholders, particularly the customers and the creation of mutual value. The core concept of both definitions is based and focused on the management of customers as the final purpose of relational marketing in order to achieve the optimum firm’s performance. It is expected that the optimum customer management will be able to create superior customer value. It is thought that, somehow, the creation of super customer value through relational marketing is an effort to regain the strategic role of the marketing function within the company (Nikolova et al., 2017).

However, a problem then occurs concerning which measures/parameters can be used to evaluate and determine whether the relationship development conducted by the company, both from the technical as well as the strategic perspectives, has succeeded or not. Rust et al. (2004), Halim (2010), Edeling and Fischer (2016) and Hamilton et al. (2017) all state that marketing discipline is currently undergoing a critical time, in which the practitioners and the academics of marketing are being pressured to prove the accountability of various marketing activities with respect to the company’s performance. A low marketing-expenditure accountability will impact and degrade the existence of the marketing function in the company. Furthermore, Rust et al. (2004) mention three main challenges that should be overcome in evaluating the productivity of the marketing functions, namely 1) what the long-term impact of the various marketing activities is, 2) the separation of the individual marketing activities from other activities, and 3) the utilization of a purely financial method is not sufficient to evaluate the marketing investment, indicating the need for a non-financial approach as an indicator and mover of the company’s financial performance (Thalassinos and Kiriazidis, 2003; Vovchenko et al., 2017).

Several efforts have been made to answer the challenges mentioned, such as the one offered by Rust et al. (2004), who describe the conceptual framework for measuring and evaluating the marketing investment, which is then expected to be able to help with strategic marketing decision-making; Reinartz and Kumar (2003) trace the impacts of the characteristics of the customer relationship to the profitable lifetime duration. Reinartz et al. (2004) have tested the impact of relationship management for the customers on the company’s economic performance, both perceptually and objectively. Srivastava et al. (1998 and 1999) explain the impact of the market-based asset management, that is, the effect of relational assets and intellectual assets
on the company’s financial performance, by utilizing the cash-flows approach (Rappaport, 1986; Thalassinos et al., 2012; Keisidou et al., 2013).

This article is intended to provide three contributions to the developing process for relational marketing studies: 1) tracing the relationship and the impacts of the customer bonding tactics with respect to the company’s financial performance; 2) elaborating on the correlation and impact of the relationship bonding tactic and relationship quality with respect to the customers’ behaviour and attitudes by using the CUSAM framework; 3) expanding the relational marketing studies by creating a conceptual framework on the relations among the relationship bonding tactics, relationship quality, behaviour and attitude, and financial performance.

The following framework (Figure 1) is expected to be able to provide a comprehensive explanation of the correlation among the various relationship bonding tactics with respect to the relationship quality and the CUSAM, and, eventually, it is expected to be able to identify the impacts on the firm’s financial performance and shareholder value. The conceptual framework is also expected to enable us to deepen the research into marketing-finance interfaces from the perspective of relational marketing, which will enable us to rediscover the core functions of marketing within a company.

Figure 1: The Conceptual Framework for the Relationship Bonding Tactic, Relationship Quality and CUSAM with Respect to Financial Performance and Shareholder Value.
In the first part, the article discusses the conceptual basis and the previous research on customer bonding tactics (relationship bonding tactics), the relationship quality (satisfaction, trust, commitment) and the consequences, CUSAM (length, depth, breadth), and financial performance measurement. The last part consists of the conclusion, the limitations of the model and the guide for further study.

2. Conceptual Background

2.1 Relationship Bonding Tactics

These tactics are defined as the effort made by the marketer to attract customers, preserve the customer relationship and keep the customers loyal to the company, which will eventually bring the maximum profit for the company (a profitable customer). A bond is the instrument used to interact in a relational exchange comprising physical, psychological, emotional and economic aspects (Liang and Wang, 2005). This tactic is expected to be able to improve the quality of the relationship between the company and the customer. De Wulf et al. (2001), as cited in Liang and Wang (2005) mentions four bonding tactics, namely tangible rewards, direct mail, preferential treatment and interpersonal communication.

Meanwhile Berry and Parasuraman (1991) explain three kinds of bonding that are often conducted in marketing activities, which are meant to keep a good relationship between the company and the customer. These are financial, social and structural bonding. These three tactics are also used in the Liang and Wang’s (2005) study and Wang et al. (2006). This article concentrates on using the three bonding tactics offered by Berry and Parasuraman (1991) for two reasons: 1) the three tactics mentioned already comprise the whole marketing activity, both economically and socially; and 2) the three bonding tactics are interconnected and integrated with one another. This has led the writer to draw the conclusion that the company-customer relationship bonding tactic is a marketing activity used to achieve, preserve and improve the sales level for the profitable customers, through improving the customers’ loyalty, satisfaction, trust and commitment to the company.

Wang et al. (2006) tested the impact of the customer-company relationship bonding tactics on the members of a renowned informatics institute in Taiwan (PC School) with respect to the relationship quality and loyalty moderated by the duration of the relationship (short-term vs long-term relationships) and the level of product involvement (high vs low involvement). Despite the overall model generally showing that the three tactics have a positive and significant correlation with the relationship quality and customer loyalty; specifically, the researchers tested the moderation effect of the duration of the relationship and the product involvement level. Their study results show several differences in the implementation patterns of the tactics, which are effective in various situations (with different durations and product involvement). For example, for a long-term duration, the structural bonding tactics (such as online education systems, education infrastructure and affiliation
with other industries) and the interactive social bonding tactics (the availability of consulting services, tutorials, directions, and personal communication from the salesperson or mentor) are the most effective tactics for influencing the relationship quality and loyalty of the customers, besides the financial bonding tactic. Furthermore, for the customers with short-term relationships, those three tactics also play similar roles, in that the most influential tactic is the structural bonding one.

These facts led the researchers to draw the conclusion that most Taiwanese companies simply prioritize the financial bonding tactic by giving a discount or a cheaper price without knowing in advance the factors needed by the market. With respect to the condition of high vs low involvement, it is also shown that a different relationship bonding tactic is appropriate; for instance, with high product involvement, the financial bonding tactic doesn’t significantly influence the quality of the relationship and the loyalty of the customers, but, instead, it does significantly impact those factors for the customers categorized as low involvement. This fact confirms and reasserts the findings of Liang and Wang’s (2005) study that the application of the relationship bonding tactic that influences the customer loyalty through the mediation of the relationship quality will be more effective if tested in various conditions (in a context-specific manner), since the factors such as product characteristics, duration of relationship and the types of the products have a significant effect that influences the bonding tactics regarding the relationship quality as well as customer satisfaction. Based on the elaboration above, the first proposition is as follows:

**Proposition 1**: The relationship bonding tactics used with the customer (both social and structural) have positive relations with the relationship quality, that is, their satisfaction, trust and commitment.

### 3. Financial Bonding Tactics

Financial bonding tactics are a bonding effort conducted by the company through stimulating the consumption rate of the customers via the price policy (Liang and Wang, 2005), which takes the form of discounts, sales promotions, ‘buy one, get one free’, sales and so forth. The financial bonding tactic is the instrument most often used by the marketers to stimulate the customers’ purchase rate. However, it is considered that this tactic is too easy for competitors to imitate, which means this is not a one-size-fits-all tactic, and thus some other alternatives are needed that are able to support and strengthen the financial bonding tactics. Several studies conducted also reveal that the policy to decrease a price or give a discount will benefit the company in short term, but, on the contrary, it has the potential to degrade the company’s image in the long term. Therefore, particularly for the financial bonding tactics, the author of this paper needs to suggest an additional proposition that will support the previous one:

**Proposition 2**: The relationship between financial bonding tactics and relationship
quality, namely satisfaction, trust and commitment, is expressed by a reverse U curve.

4. Social Bonding Tactics

These tactics are where a bonding occurs during the interaction between the seller and the buyer (Liang and Wang, 2005). Several studies elaborate on social bonding tactics such as preserving personal closeness with the customer, empathy, the will to help and give a solution that benefits the customer, affiliation, shared experience, friendship, the giving of a birthday card, the intensity of the contact and so forth (Liang and Wang, 2005). These social bonding tactics are expected to stimulate an increase in customers’ purchases through the refinement of the resulting quality of the relationship between the company and the customer. The social bonding tactic enables the marketer to improve the customers’ satisfaction and trust by continuously providing a personal service and keeping the stability of the relationship with the customers.

Figure 2: The Reverse U Curve Relationship Between Financial Bonding Tactics And Relationship Quality.

5. Structural Bonding Tactics

The structural bonding tactics are a company’s efforts to ease the interactions between the customers and the company, which take the form of the procedures, policies and infrastructure possessed by the company (Liang and Wang, 2005). For instance, the facility for Internet banking will make it easy for the customers to conduct transactions without limiting when and where they can do so. When this tactic is combined with the two previous tactics, it will strengthen and anchor the customers to the company.

Bansal et al. (2005) describe the effect of the customers’ anchorage by using the PPM model adopted from the demographic discipline (migration). They find that
customer bonding tactics, such as a high switching cost, low variety-seeking effort, low subjective norms and attitude, or a lack of previous switching, would lower the customers’ effort to switch to the other companies. This is called the mooring effect. Bansal et al. (2005) believe that the mooring effect in migration theory can form cultural factors, personal experience and psychological experience, which has the potential to prevent someone from switching from one area to another. This model can definitely be used through the implementation of the three customer bonding tactics integrated one another.

6. Relationship Quality

The definition of the quality of the relationship between the company and customer, up to now, has still left various delicate debates to be organized (Hennig-Thurau et al., 2002; Bruhn, 2003) describing the five attributes inherent in the concept of company-customer relationship quality: 1) perspective – company vs customer; 2) object of reference – personal customer vs aggregate customer; 3) time orientation – past-oriented vs time integrating; 4) transactional reference – aggregate vs intertransaction; 5) type of construct – derived vs independent.

Crosby et al. (1990) define the relationship quality from the customers’ perspective as the capability of a salesperson to decrease the uncertainty faced by the customers. The salespersons’ performance in the past influences the customers’ satisfaction in the future; this idea inspired Crosby et al. (1990) to formulate that the relationship quality is a higher order construct, comprising satisfaction and trust. In general, Hennig-Thurau and Klee (1997) describe the relationship quality as an effort of one party (company) to fulfil the customers’ needs by creating efficient interactions, decreasing the transaction-cost complexity, fulfilling social and emotional needs and so forth. Hennig-Thurau and Klee (1997) also mention that relationship quality is the derivation of various (higher order) constructs, comprising satisfaction, trust and commitment. Furthermore, Hennig-Thurau et al. (2002) explain several central concepts in the construction of relationship quality, such as cooperative norms, customer orientation, opportunism, seller expertise, willingness to invest, and expectation to continue.

However, so far, there has not yet been a clear consensus concerning the aspects the relationship quality consists of. Specifically, Hennig-Thurau et al. (2002) and Henning-Thurau and Klee (1997) state that, despite the lack of consensus regarding the dimensions that form the relationship quality, the previous studies indicate significant similarities by involving satisfaction, trust and commitment as the key components for explaining relationship quality (Baker et al., 1999; Crosby et al., 1990; Garbarino and Johnson, 1999; Palmer and Bejau, 1994). Georgi (2000, as cited in Bruhn, 2003) elaborates on the two dimensions that are able to explain relationship quality; that is, the customers’ trust of the company and familiarity felt by the customers based on past experiences with the company. In this paper, the author intends to use the definition of Hennig-Thurau et al. (2002), which states that
relationship quality is a meta-construct consisting of several key components (satisfaction, trust and commitment) that reflect the essence of the relationship between the company and the customers. The next section will address the concepts of those three key components of relationship quality, based on the previous studies.

Morgan and Hunt (1994) propose the satisfaction and commitment as mediators (the Key Mediating Variable, KMV, model) from various relational marketing activities. Their study is one of the monumental studies discussing the concepts of trust and commitment that are used in the subsequent studies. They find trust and commitment play a central role and are the primary concept from the perspective of relational marketing. Their study shows that the value gained (shared value) and communication positively affect the creation of trust, while an opportunistic attitude will bring about a negative impact while decreasing the customers’ trust, not creating cooperative customers, decreasing the customers’ opportunistic attitude and improving customers’ functional conflict. Furthermore, commitment (according to those who are affected positively by the values gained by the customers), the relationship benefit and the relationship termination cost / switching cost create a cooperative customer, who is reluctant to switch over, meaning the company keeps the customers. The cost of termination of the relationship can be categorized as the switching cost or can be included within the financial bonding tactics, while communication is a reflection of the social bonding tactics.

Hennig-Thurau and Klee (1997) specifically show a comprehensive conceptual framework for analysing the impacts of the customers’ satisfaction and relationship quality with respect to customer retention. The customers’ satisfaction in Hennig-Thurau and Klee’s (1997) article is influenced by compensatory attributes (rewards) and non-compensatory attributes. In addition, trust and commitment as indicators of relationship quality are affected by the perception of the overall quality. The relation of the customers’ satisfaction to the quality of the relationship indicated by trust and commitment is used to identify customer retention. One interesting point from the conceptual framework created by Hennig-Thurau and Klee (1997) is the involvement of the intra-psychological, contextual and situational variables that moderate the relation of customer satisfaction to customer retention. The following chart is a thinking flow and conceptual framework. Hennig-Thurau and Klee (1997) are considered to be one of the critical bases in writing this article. However, they only proposed the framework, and it has yet to be brought to the point of testing, so the next study should test the conceptual framework offered by them.

6. Satisfaction

Crosby et al. (1990) state that satisfaction is an emotional statement that occurs to respond to and evaluate the experience of interaction. Anderson et al. (1994) state that satisfaction is an accumulation of the overall evaluation from the purchase and consumption experience with respect to goods and services. In general, this article uses the definition of Anderson et al. (1994) in which satisfaction is an overall
evaluation outcome from the interaction experienced by the customers. Recently, the discussions concerning the customers’ satisfaction has shifted from the paradigm of transactional marketing to relational marketing. The concept of relational marketing, as mentioned previously, is the effort to gain customers, preserve the customer relationship and keep the customers loyal to the company.

Several other studies also indicate positive correlations among customer satisfaction and customer referrals, purchase intention, usage of service and relationship duration (Bettencourt, 1997; Zeithaml et al., 1996 both as cited in Verhoef et al., 2002). Various empirical studies prove the fundamental logics of the positive influence of customer satisfaction on customer retention (Anderson and Sullivan, 1993). By improving customer retention in relation to improving customer satisfaction, a company is expected to be able to increase its future income. Anderson et al. (2004) elaborate on several previous studies that are related to customer satisfaction with the measurement of the financial performance based on accounting measures, such as operating margin (Rust et al., 1994 and 1995 as cited in Anderson et al., 2004), ROI (Anderson et al., 1994; 2004), and accounting returns (Ittner and Larcker, 1998 as cited in Anderson et al., 2004). Anderson et al. (2004) have proven the existence of a positive correlation between customer satisfaction and shareholder value.

7. Trust

Morgan and Hunt (1994) state that trust is the key variable in mediating the relationship between a company and its customers, and, at the same time, is central to relational exchange. According to them, high customer trust correlates positively with commitment and the tendency to not switch to another competitor. In line with the definition from Moorman et al. (1993), Morgan and Hunt (1994) define trust as the intention to rely on, to count on or believe the considered to be a reliable company. Several pieces of literature state that trust is the outcome of a partner’s behaviour, which is considered as trustworthy, and is associated with the qualities of consistency, competence, honesty, fairness, responsible, willing to help and benevolent (Morgan and Hunt, 1994). Doney and Cannon (1997) define trust as the perceived credibility and benevolence of a target of trust. From the definition, we can conclude that two dimensions are emphasized by them, which are the perceived credibility and benevolence dimensions. Doney and Cannon (1997) propose five processes for trust building, namely the calculative process, predictive process, capability process, intentionality process and transferring process. The author intends to use the definition proposed by Morgan and Hunt (1994), which considers that trust is one of the central concepts of relational marketing, and it is also interconnected with other components such as satisfaction and commitment.

8. Commitment

The concept of commitment is one of the key components for determining the success of relational marketing, aside from trust (Morgan and Hunt, 1994).
According to Morgan and Hunt (1994) commitment and trust are the central keys to relational marketing’s success, since they fosters the marketer to: 1) work on investing in the relationship with the customers; 2) avoiding the short-term targets that will potentially occur and prioritize the long-term ones; 3) be prudent with respect to high-risk actions under the assumption that the partner is not going to act opportunistically.

Definitively, Morgan and Hunt (1994) define the commitment of a relationship as a partner’s trust to continue the relationship, which is considered to be important in the effort to preserve the relationship, and in which the committed party believes it to be the guarantee of a sustainable, long-term relationship. Moorman et al. (1993) define commitment as the intention to continuously preserve a valuable relationship.

Bansal et al. (2004) develop three components of commitment for understanding the switching behaviour of the customers. Those three components are: 1) affective commitment, reflecting emotional attachment or able to reflect as a psychological bonding; 2) continuance/calculative commitment, which is the intention to keep continuing a relationship with a company based on the social and economic cost considerations; 3) normative commitment, which is defined as a customer’s will to preserve the relationship if the customer has the same norm as the partner. By using a multidimensional construct approach for the commitment, the author applies these three components of commitment as a reflection of the need to consider psychological theories as well as organizational behaviour to expand the realm of marketing. It is well known that most studies on relational marketing use the concept of commitment as a unidimensional construct (Bansal et al., 2004).

9. Customer Asset Management (CUSAM)

CUSAM is one of the keywords that has been appearing recently in the context of relational marketing. The discourse on the question of how to get more customers, preserve the customer relationship and keep them in order to achieve the optimum company performance is an area of study that is growing fast. Bolton et al. (2004) explain the conceptual framework for CUSAM. Based on the Verhoef et al.’s (2002) discovery, Bolton et al. (2004) further explore the customer’s behaviour resulting from various marketing activities, which can finally be used to predict the customer lifetime value (CLV). The conceptual framework for CUSAM shows the various impacts of marketing activity on customer behaviour, regarding its relation to the company. The CUSAM proposed by Bolton et al. (2004) consists of the length, depth and breadth of the relationship between the company and the customers.

Length is perceived as the duration of the relationship between the customer and the company, and is concerned with customer retention. Verhoef (2002) discovered that the duration of the company-customer relationship moderates the relationship in various dimensions for the relationship quality with respect to the number of purchases and customer referrals. Therefore, length can be also defined as the
probability and the possibility of the customers continuing or terminating the relationship with the company. The study conducted by Bolton et al. (2004) indicates that the duration of the company-customer relationship mediates the relationship among the marketing instruments, the relationship perceptions (both of which are relationship-quality components), and the financial results for revenue and CLV. Meanwhile, depth reflects the frequency of the service usage during the whole period. It is also can be asserted that the behaviour of a loyal customer to up-grade and purchase a premium is sometimes assumed to have the intention of paying a premium price. Bolton et al. (2004) also propose that depth (frequency) is reflected in the purchase of up-grades and premiums, and mediate the relationship among various marketing instruments, the perception of the relationship and the financial outcome.

Furthermore, breadth reflects cross buying and add-on buying, or according to Blattberg et al. (2001), is the number of additional purchases of different goods/services during the whole time of the relationship with the company. Bolton et al. (2004) also offer the explanation that breadth (cross buying and add-on buying) moderates the relationship among the marketing instruments and the perception of the relationship with the company’s financial outcome. However, the author considers it is necessary to test this further or improve the proposition made by Bolton et al. (2004) to make it into a hypothesis. This is in order to prove or validate whether the CUSAM framework offered really moderates the relationship among the marketing instruments and the relationship quality with respect to the financial performance, and for which the impacts are to be expanded to the stakeholders’ value. From the previous elaboration, the author would like to make a proposition concerning the correlation of relationship quality with the customer attitude and behaviour.

**Proposition 3**: The relationship quality (satisfaction, trust and commitment) influences positively the customer attitude (CUSAM length, depth and breadth).

10. **Attitudinal Impact**

The previous studies mostly determine the impacts of various marketing activities with respect to the customers’ attitudes, which is considered to be able to improve the company’s performance, such as the concepts of purchase and attitudinal loyalty. The purchase/behavioural loyalty is the repetition of the purchase of a product. In other words, purchase loyalty is the customers’ will to purchase consistently based on the brand of a product, the consequence of which is that the more often the customer buys, the more increase there is in the market and the relative price, compared to other brands (Chaudhuri and Holbrook, 2001). Attitudinal loyalty is the average commitment level of the customers with respect to the brand (Chaudhuri and Holbrook, 2001), so that the higher the customers’ commitment to a brand or a company, the higher the market and relative price will be. According to the author, purchase loyalty can be presented from various customers’ behaviours in the
conceptual framework for CUSAM proposed by Bolton et al. (2004), so that, in addition, the framework is also considered to be necessary for identifying the impact of the behavioural loyalty on a company’s financial performance. A study conducted by Morgan and Hunt (1994) reveal the various outcomes of commitment and trust, such as acquiescence, cooperation, tendency to switch, uncertainty and functional conflict. According to them, the customers who believe in and are committed to the company are negatively correlated with the will to switch and the decrease in the customer’s uncertainty. On the other hand, the customers who trust and are committed will have a positive correlation with the acquiescence, cooperation and customers’ functional conflict. Zymanski and Henard (2001) tested the antecedent and the consequence of the concept of customer satisfaction by offering that there are three outcomes from satisfied customers, comprising not-complaining behaviour and customer loyalty. Meanwhile Garbarino and Johnson (1999) tested the effect of mediation for satisfaction, trust and commitment with respect to the customers within the categories of high vs low relational in the case of a theatre performance with respect to the intention to visit in the future (future intention).

Bloemer and Shroeder (2003) detail four outcomes from by customers’ commitment to the company, namely positive WOM, purchase intention, price insensitivity and reluctance to complain. According to them, a customer being committed to the company can result in the behaviour of not complaining, being insensitive to the prices changing (willingness to pay more), intending to make a repurchase, and creating a positive WOM communication or being willing to recommend the company to another person. Bansal et al. (2004) also tested the impacts of the three commitment components regarding the customers’ willingness to switch to another provider. The result shows that for all three commitment components (normative, affective and continuance), only the affective commitment, which doesn’t show any significant outcome with respect to switching intention, despite the value, is still negative. From the various studies described, the author is trying to draw a conclusion about the impacts of customer attitude on relationship quality (satisfaction, trust and commitment) in three major groups, which are positive WOM communication, the insensitivity of customers to price changes (price insensitivity or willingness to pay more) and reluctance to switch to another company/product/service (negative propensity to leave or switching intention). Therefore, the author would like to submit a proposition, as follows:

**Proposition 4:** The relationship quality (satisfaction, trust and commitment) influences positively the customer attitude (positive WOM, price insensitivity and propensity to leave).

11. **Financial Performance**

The basic thinking framework used to measure the company’s financial performance in order to recover the strategic function of marketing within the company can be
seen through the conceptual framework offered by Rust et al. (2004). They give a comprehensive conceptual framework for evaluating the correlation of the investment in marketing activities (marketing expenditure), both at the strategic and tactical levels, with the company’s financial performance as a measure of the marketing productivity. The focus of attention of Rust et al. (2004) in the article is identifying the impacts of various non-financial measurements of marketing activity as indicators of measurement and influencers of the financial performance of the company. Therefore, it can be said that it is not sufficient to measure the company’s financial performance only through a single financial/accounting approach, but, instead, one has to employ a more extensive and deeper non-financial approach (customer behaviour, market, etc.), which then can be used to measure the financial performance.

Reinartz and Kumar (2003) investigate the impact of the characteristics of customer relationship on profitable lifetime duration. They find that the characteristics of customer relationship, such as purchase amount, cross buying, focus of buying, average inter-purchase time (inverse U shape), product returns (inversely related), loyalty instrument and mailing, influence the profitable lifetime duration. The lifetime duration is measured using a negative-binomial-distribution approach (which starts with a net present value (NPV) calculation); this illustrates that the calculation method used (negative binomial distribution) is better and more reliable than the recency-frequency-monetary (RFM) or past-customer-value approaches.

Anderson et al. (2004) develop a specific theoretical framework concerning how customer satisfaction affects the customer’s future behaviour and level, and the time and risk for future cash flow. Empirically, they indicate a positive relationship between customer satisfaction and shareholder value. The measurement applied to shareholder value is Tobin’s Q, which was chosen after comparing it with other measurement methods.

Several methods for the financial performance measurement are described by Rust et al. (2004); these are ROI, as the classic and traditional measurement that is already well known and is used in financial studies; NPV; and economic value added (EVA), which is the financial impact from the outcome of a marketing activity that creates a financial position, such as profit and cash flow (Lehman, 2004). The impact of profit and cash flow then creates value for the company, illustrated by the market capitalization measure and Tobin’s Q.

In their study, Anderson et al. (2004) scrutinize the impact of customer satisfaction by using the American Customer Satisfaction Index (ACSI) for the shareholder value, and elaborate on several approaches for measuring a firm’s finances, such as ROI, return on assets (ROA), stock price, stock return and Tobin’s Q. According to Anderson et al. (2004), ROI and ROA possess strength in form of being able to be compared for companies in the same industry. However, the ROI and ROA are measures of accounting profit that possess several weaknesses. ROI, for example,
assumes that the previous investments have an impact on the current period’s earnings (while in reality it also affects the future earnings). In other words, ROI and ROA provide more of a backward paradigm, instead of being forward looking. ROI is also sensitive to the regulation of accounting and tax, and is relatively easier to manipulate than capital market data (Luo et al., 2010). Hence, the author uses ROI as a backward-looking measure (retrospective) and Tobin’s Q as a forward-looking measure (prospective).

Tobin’s Q is often used as a measurement of a company’s economic performance. Tobin’s Q is based on the company’s stock price and other forward-looking measures. Tobins Q also can adjust to the expected market risk and is relatively less influenced by the accounting regulations, making it easier to use to compare companies. By combining capital market data and accounting data, Tobin’s Q implicitly uses the correct risk-adjusted discount rate, connecting the equilibrium return and minimizing the distortion. However, the problem is how can such a thing be applied in the context of Indonesia, where the market is not efficient?

As previously described, the author intends to use two measurement approaches, that is the ROI and Tobin’s Q, which is in line with the study conducted by Luo and Donthu (2006). The argument behind the usage of the ROI and Tobin’s Q is that the author would like to compare and analyse the difference between both measurement methods, based on the backward-looking measurement (ROI) vs the forward-looking measurement (Tobin’s Q). More specifically, the writer also would like to show the impact of various marketing activities on the relationship bonding tactics mediated by relationship quality with respect to the measurement of financial performance based on the backward-looking and forward-looking measurements, by remaining aware of the strengths and weaknesses of both methods. Even though it is known that the ROI measurement is rather retrospective, while the Tobin’s Q is rather prospective, a further test is still needed to compare the measurement results for the ROI and Tobin’s Q to validate and strengthen the arguments in the previous studies (this was also conducted by Luo and Donthu (2006)). This has the consequence that, in measuring the company’s financial performance, the author intends to use both ROI the as a backward-looking approach and Tobin’s Q as a forward-looking one.

**Proposition 5:** The customer behaviour reflected by length, depth and breadth correlates positively with the company’s financial performance, which is represented by the ROI and the Tobin’s Q value.

**Proposition 6:** The customer attitude reflected by positive WOM, price insensitivity and propensity to leave correlates positively with the company’s financial performance, which is represented by the ROI and the Tobin’s Q value.

Despite the fact that the elaboration shows gaps in the previous research, the following section will conclude, critically, that the gap will be covered by the
conceptual framework proposed in this study.

12. Conclusion

The conceptual framework for the relationship bonding tactics, with respect to the customer-company relationship quality, CUSAM, and its impacts on financial performance and shareholder value, is a comprehensive framework that can be used to evaluate and design the bonding tactics appropriate to be used by a company to gain customers, preserve the customer relationship and keep its customers loyal to the company. The proposition for the conceptual framework is meant to complete and integrate several previous studies that are partially operationalized.

The research on the customer bonding tactics and the relationship quality is only because the traditional measurements of attitude and behaviour are considered to be insufficient for identifying the accountability of the marketing function. Furthermore, the recent research measuring financial performance and its impacts on customer value is still limited to the acquisition, maintenance and termination of the relationship with the customers without involving the dimension of relationship quality. Or, more specifically, it does not more deeply explore how the customer bonding tactics and relationship quality are able to improve financial performance as well as shareholder value.

13. Limitations

The conceptual model offered is not free from limitations. First of all, the model doesn’t involve the factor of competition. Secondly, the correlation between relationship benefits and relationship quality is not included within the model. Thirdly, the characteristics of the products/services, which definitely impact the pattern of interaction among the variables, are not included within the model. Fourthly, the business setting, namely business to customer (B2C) versus business to business (B2B), is not included within the model. Fifthly, the characteristics of a contractual relationship versus a non-contractual one are also neglected in the current model.

Therefore in order to further study the development of this model, the researcher would like to suggest new ideas and to include those five aforementioned elements in the model, so that it will corroborate the offered conceptual framework.

References:


