

Role of Relationship Marketing in Raising the Loyalty of Teachers of Private English Institutes in Korea

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Abstract

The purpose of this paper is to report on the components of relationship marketing that have been perceived by teachers as being related to the capacity for innovation of their private English institutes. The teachers' perception of the innovative capacity of their institutes is very important because it is an eventful precondition that increases the loyalty that teachers have towards their institute. The results from a multiple regression analysis showed that five components of relationship marketing, including trust, bonding, communication, shared values, and reciprocity, are closely related to a teacher's perception for the capacity for innovation of their institutes. However, one other component, empathy is not. The findings indicate that particular components are more important than others to improve teachers' perceptions for the capacity for innovation of their institutes, which in turn improves their loyalty to the institutes. Therefore, English institutes should selectively increase their investments on specific components of relationship marketing in order to increase the loyalty of internal stakeholders, as well as of external stakeholders.

Keywords: Capacity for Innovation, English Institute, Internal Stakeholder, Loyalty, Relationship Marketing

1. Introduction

Relationship marketing is characterized by building reciprocal, interdependent, committed, long-term relationships, and it has been a dominant topic in managerial and academic discussions since the 1990s¹. Relationship marketing is useful in building trust and commitment with external stakeholders in order to create strong relationships with loyal customers². Previous studies have reported that relationship marketing can create a competitive edge for an organization and can have a positive impact on organizational performance by strengthening the loyalty of external stakeholders to the firm.

Relationship marketing represents a new marketing paradigm by introducing a new theory that is built upon focus on relationships, and these relationships can be incorporated into traditional marketing management practices in order to produce better outcomes³. This paradigm drives managers to make accurate decisions with the goal of strengthening customer loyalty⁴.

Thus, companies should invest sufficient resources to relationship marketing activities in order to create more beneficial buyer-seller relationships⁵.

However, there is still much debate over whether relationship marketing can have an influence on internal stakeholders of organizations, such as managers and employees. As a result, practitioners seeking to implement a relationship marketing concept have had no specific guidance on how to effectively undertake relationship marketing within their firm, in order to improve the loyalty from their internal stakeholders. Given these problems, this study was designed to investigate teachers' perceptions of relationship marketing with respect to the capacity for innovation at their English institutes, which in turn, is intended to drive their loyalty in terms of retention behavior. Prior studies⁶ have suggested that the perception of teachers on the capacity for innovation of their institutes is an eventful precondition that strengthens teachers' loyalty to institutes.

The private English education industry in Korea has a fiercely competitive environment, and therefore, many

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institutes have implemented a variety of strategies to decrease the rate at which teachers switch to other institutes. Teachers are the key service providers and so are the most important outcome creators for private English institutes. Therefore, institutes have engaged in a variety of tactics to build teacher loyalty and to retain experienced, outstanding teachers. However, many of such tactics are ineffective and result in failure, and thus some teachers show behavior called “switching.” This behavior can act as a push factor for customers to leave for other institutes as they feel the other institutes have better teachers and can better meet their service expectations⁷.

This study addresses this gap by empirically examining the role that relationship marketing activities play in teachers’ perception of the capacity for innovation of their private English institutes. If teachers at the institutes perceive that relationship marketing is a precedent factor for a capacity for innovation, as we hypothesize in this study, then institutes might be able to use relationship marketing as a useful tactic to strengthen the loyalty of their teachers, as well as that of their customers.

2. Literature Review

2.1 Relationship Marketing

Modern-day firms understand the value of building long-term relationships with their customers. Accordingly, considerable evidence has been gathered that validates the profit impact emanating from strong relationships between the firm and its customers⁸. Relationship marketing is essentially for building relationships at every point of interaction with stakeholders, and it has the intention to create a variety of benefits for both the firm and its stakeholders. An investment in stakeholder relationships provides the basis for developing strategies that create stakeholder value, and such strategies therefore provide the foundation for building a sustainable competitive advantage, which in turn leads to a solid financial performance for the firm⁹.

Relationship marketing was initially defined as “attracting, maintaining, and enhancing stakeholder relationship¹⁰”. Later, Morgan and Hunt² stated that relationship marketing includes “all activities directed towards the establishment, development and maintenance of exchange relationships”. The best scenario thereof involves gaining a higher degree of satisfaction as early as possible, during the beginning of a relationship, and

providing continuity over time¹¹. Thus from a firm’s perspective, relationship marketing can be viewed as a philosophy for doing business successfully or as a distinct organizational culture/value that considers the buyer-seller relationship to be at the center of the firm’s strategic or operational thinking.

Relationship marketing has emerged as an academic field, and extensive research has studied the concept under a variety of constructs including networks and interaction, long-term interactive relationships, and interactive marketing¹². Relationship marketing has been used in research for firms to investigate, create, develop, and maintain committed, interactive, and profitable relationships with their selected partners over time¹³. The popularity of such a concept has increased, and marketers have started to recognize the importance of building relationships with their stakeholders that are more sustainable and longer-lasting. Previous studies agree that relationship marketing is not based on only looking at individual transactions or a simple series of transactions, but rather on looking at long-term, complex relationship between parties¹⁴. Such a practice focuses on improving the perception of internal and external stakeholders to the firm.

Although numerous empirical studies have been conducted, most have focused on specific sectors of the relationship between a customer and the firm, such as the influence of customer satisfaction on trust¹⁵, of trust on commitment¹⁶, and of commitment on an exchange partner’s intention to stay in a relationship¹⁷. On the other hand, no prior studies have reported on the influence that relationship marketing has on internal stakeholders. This study is designed to address an important gap in the literature by exploring the influence that relationship marketing of an English institutes toward its customers has on teachers’ perception of the capacity for innovation that their institutes have, which in turn can strengthen the loyalty that teachers show toward their institutes. Developing and maintaining the loyalty of internal stakeholders to their organizations requires knowledge of the components that contribute to establishing and maintaining such relationships.

2.2 Market Orientation and Capacity for Innovation

Market de-regulation, customer sophistication, and technological advances are causes that drive service

organizations to operate in an increasingly complex, unstable, and turbulent business environment¹⁸. These trends therefore cause for service innovation to be a constant activity at the heart of a firm's competitiveness in response to a turbulent environment that requires a continuous flow of new offerings by the firm¹⁹. The capacity for innovation of service firms refers to an offering – not previously available to a firm's customers – that results from either an addition to the current mix of services or from changes made to the service delivery process²⁰. In order to develop new, high-performing services, firms depend on many different key activities that are implemented by internal stakeholders²¹.

Market orientation is a central construct in marketing theory, and it was developed to explain firm performance. Since the mid-1990s, the processes that might give rise to an association between market orientation and a capacity for innovation have been a focus of interest²². Out of all the characteristics that researchers explore to explain the linkage between market orientation and performance, a capacity for innovation appears to be of particular importance²³.

Those researchers have given an increasing share of their attention as to how or when market orientation produces a capacity for innovation that in turn leads to a high level of financial performance. The theoretical conclusions of such research state that market orientation intensifies the innovative image of firms to both internal and external stakeholders, which in turn can strengthen the loyalty of internal stakeholders, as well as external stakeholders, because the loyalty of internal stakeholders is achieved through their experiences with the activities of the organization as compared to their expectations of such. Thus, in this study, we propose that relationship marketing by private English institutes can improve their teachers' perception on the capacity for innovation of the institute and in turn, can strengthen their loyalty.

3. Hypothesis Development

Several studies have demonstrated that the success of any service company depends on maintaining a long-term relationship with its customers by actively implementing relationship marketing. However, there is still much debate over what exactly constitutes relationship marketing. Many scholars have suggested that the precise meaning of relationship marketing is not always clear in the literature²⁴, and that the term has become a buzzword

with which the concept is being used to reflect a number of differing themes or perspectives²⁵. Thus, a classification and conceptualization of this construct is needed to ensure that our knowledge of relationship marketing grows in a cumulative way. This study is consistent with past literature on the topic²⁶ in that we conceptualize the main components of relationship marketing as trust, bonding, communication, shared values, reciprocity, and empathy between the customers and the company, and we then examine the effects of each component on the teachers' perception for the capacity for innovation at their institutes.

Trust is conceptualized as a willingness to rely on an exchange partner in whom one has confidence²⁷. Trust is a component of a business relationship, and it determines the level to which each party feels he/she can rely on the integrity of the promise offered by the other party. The inclusion of trust as a central variable in a relationship exchange has been widely examined in the marketing literature²⁸. Therefore, we hypothesize:

H1: A higher the level of trust between the customers and institute will result in greater probability for teachers to have a positive perception of the capacity for innovation of their institute.

Bonding is defined as the psychological process through which two parties build a relationship that can be of benefit to both²⁹, and it is the component of a business relationship that results in two parties acting in a unified manner toward a desired goal³⁰. Its application to relationship marketing consists of developing and enhancing stakeholders' loyalty, which results directly in a feeling of affection, a sense of belonging to the relationship, and indirectly in a sense of belonging to the organization³¹. Therefore, we hypothesize:

H2: The higher the level of bonding between the customers and institute, the greater the probability for teachers to have a positive perception of the capacity for innovation of their institute.

Communication is the formal as well as the informal sharing of meaning and timely information between the parties³². Communication influences the management of a long-term marketing relationship, and such an influence has been well documented. Morgan and Hunt²⁸ found that communication has a positive and an indirect impact on retailer-supplier relationship commitment in the automobile tire industry. Goodman and Dion³³ argue that the significance of effective communication for social and business relationships has universal acceptance, and

Coote et al.³⁴ described communication as “the glue that holds industrial marketing relationships together.” Selnes³⁵ states that communication is not only an important element in its own right, but it also influences the level of trust between the parties. Therefore, we hypothesize:

H3: The higher the level of communication between the customers and institute, the greater the probability for teachers to have a positive perception of the capacity for innovation of their institute.

Shared values are defined as the extent to which partners have common beliefs of which behaviors, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong²⁸. Shared values have long been considered to be important components when building relationships between parties³⁶, and therefore we hypothesize:

H4: The higher the level of shared values between the customers and the institute, the greater the probability for teachers to have a positive perception of the capacity for innovation of their institute.

Reciprocity is the component of a business relationship that causes either party to provide favors or to make allowances for the other in return of a similar favor or allowance at a later stage³⁷. The links of reciprocity to relationship marketing are considered to be the basis for an interface between exchange transactions and marketing activities³⁸. Therefore, we hypothesize:

H5: The higher the level of reciprocity between the customers and the institute, the greater the probability for teachers to have a positive perception of the capacity for innovation of their institute.

Empathy is defined as seeking to understand the desires and goals of somebody else³⁹. It is the component of a business relationship that enables two parties to see the situation from each other's perspective. Therefore, we hypothesize:

H6: The higher the level of empathy between the customers and the institute, the greater the probability of teachers' perception for the capacity for innovation of their institute.

4. Methodology and Result

This study conducted a survey in the form of a questionnaire to examine the roles that relationship marketing activities play in teachers' perception on the innovative image of their private English institutes. The questionnaire attempts to measure teachers' perception on the relationship marketing activities of their institutes,

particularly in each component of relationship marketing defined in this study. Thus, the survey was composed of six multi-item components of relationship marketing, as suggested by prior research, and the capacity for innovation of their English institutes. Each statement was followed with a response consisting of a 7-point scale, with '1' representing strongly disagree to '7' representing strongly agree. The value of each component for relationship marketing was measured by calculating the average score of the questions.

The questionnaire was administered to 131 teachers at private English institutes located at Seoul and Daejeon in South Korea. The respondents were briefed on the importance of the study and were told that the information was strictly confidential. The sample contained 8 males and 123 females. The profile of the sample is provided in Table 1, and it includes gender, age, level of education, and size of the institute.

The hypotheses presented in this study are tested using a multiple regression analysis that investigates teachers' perception of the importance of relationship marketing to a capacity for innovation of their institutes. Research has shown that institute size is a major determinant of teachers' emotions and loyalty to their institutes. Thus, we control for institute size in the regression analysis. We also control for some demographic characteristics of the respondents, including gender and age. The Variance Inflation Factor (VIF) was examined to verify that multicollinearity was not a problem. VIFs for all variables were well below the unacceptable level of 10. Thus, we conclude that multicollinearity was not a problem in the regression.

The descriptive statistics and Pearson correlations of the variables are presented in Table 2. Table 3 reports the

Table 1. Profile of sample

	Classification	Frequency	Percentage (%)
Gender	Male	8	6
	Female	123	94
Age	20–29	49	37
	30–39	65	50
	40–49	17	13
	50–59	2	2
Level of Education	High School	2	2
	Bachelor	113	86
	Master	16	12
Institute Size (No. of Enrollments)	Below 50	18	14
	50–100	37	28
	101–200	39	30
	201–499	37	28

Table 2. Descriptive statistics and correlations^a

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. Capacity for innovation	5.07	1.22									
2. Trust	5.16	1.05	-0.02								
3. Bonding	5.67	1.16	0.65	0.14							
4. Communication	5.42	1.05	0.59	0.10	0.73						
5. Shared Values	4.92	1.10	0.67	0.10	0.49	0.73					
6. Reciprocity	5.54	1.11	0.66	0.16	0.65	0.57	0.39				
7. Empathy	5.73	0.98	0.55	0.07	0.72	0.56	0.39	0.71			
8. Sex	1.94	0.23	0.20	0.24	0.14	0.10	0.16	0.27	-0.01		
9. Age	1.75	0.66	0.06	0.05	0.24	0.18	0.02	0.13	0.20	0.03	
10. Institute Size	2.73	1.02	0.21	0.03	0.12	0.10	0.06	0.14	-0.12	0.05	0.19

^a Correlations greater than .20 are significant at $p < 0.05$; $N = 102$

Table 3. Results of regression analysis

Variable	Regression Coefficient (T-test result)	VIF
Sex	.001 (.015)	1.456
Age	-.033 (-.568)	1.154
Institute Size	.103 (1.672)	1.295
Trust	.170 (3.008) **	1.083
Bonding	.350 (3.364) ***	3.670
Communication	.347 (2.803) **	5.195
Shared Value	.552 (6.300) ***	2.597
Reciprocity	.392 (4.048) ***	3.179
Empathy	-.064 (.575)	4.255
R ²	.734	
F-Statistic	24.873	

* $p < .05$; ** $p < .01$; *** $p < .001$

results of the regression analysis for the perception of a capacity for innovation of private English institutes.

The results showed that the first five components of relationship marketing significantly strengthen the evaluations of teachers on their perception of their institutes as innovators. Thus, the results indicate that trust, bonding, communication, shared values, and reciprocity between the institutes and external stakeholders all affect the loyalty of internal stakeholders to their institutes, when controlling for the effects of institute size and the demographic characteristics of the respondents. These results provide support for Hypotheses 1 to 5, and indicate that relationship marketing can be used as an effective tactic to strengthen the loyalty of the teachers to their institutes.

However, empathy is another component of relationship marketing, and it was not significantly related to teachers' perception for the capacity for innovation of their institutes. Thus, Hypothesis 6 was rejected.

In terms of the control variables, no significant relationships were observed between the size of the institutes and teachers' perception on the capacity for innovation of their institutes. Table 3 also reports that the two demographic characteristics of the respondents, sex and age, were not significantly related to their perception for the capacity for innovation of their institutes.

5. Conclusion

Although past studies have made some progress toward understanding relationship marketing, they have been criticized as being overly simplistic due to their use of a single-component perspective. To address this problem, we evaluate the effects on relationship marketing on teachers' perception of the capacity for innovation of their English institutes. The findings show that English institutes are able to selectively increase their investment in specific components of relationship marketing in order to efficiently improve teachers' perception on the capacity for innovation, which in turn strengthens their loyalty to the institute. In particular, the results indicate that five components of relationship marketing, including trust, bonding, communication, shared values, and reciprocity, can intensify teachers' perception of the capacity for innovation of their institute, while empathy does not. To

the best of our knowledge, this study is the first empirical study that explores the influence of relationship marketing on internal stakeholders. The major contribution of this study for both academics and practitioners is the identification of the relationship marketing components that are important to create and maintain a certain level of loyalty of internal stakeholders to the organization.

6. References

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