

## The Role of Relationship Marketing in Small and Medium Enterprises (SMEs)

(Peranan Pemasaran Hubungan dalam Perusahaan Kecil dan Sederhana (PKS))

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### ABSTRACT

*This study examines the role of relationship marketing on Small and Medium Enterprises (SMEs) in Indonesia. Relationship marketing is a concept in marketing management aimed at maintaining long-term relationships with customers. Meanwhile, SMEs occupy a crucial role in sustaining the economy of Indonesia. Therefore, by implementing the concept of relationship marketing, it is expected that customer loyalty on SMEs is formed and can maintain the sustainability of SMEs. The study used survey methods, with a sample pool of 183 SMEs customers. The analysis technique utilized structural equation modeling (SEM) and the data was processed using AMOS Basic. The results show that trust and relational commitment is significantly affected by communication and relational benefits. Meanwhile, trust and relational commitment significantly affect customer loyalty. The variables of similarity and frequency of interactions have no significant effect on either trust or relational commitment of customers of SMEs.*

*Keywords: Relationship marketing; SMEs; AMOS basic; trust; relational commitment*

### ABSTRAK

*Kajian ini menguji peranan pemasaran hubungan ke atas Perusahaan Kecil dan Sederhana (PKS) di Indonesia. Pemasaran hubungan merupakan konsep dalam pengurusan pemasaran yang bertujuan untuk menjaga hubungan jangka panjang dengan pelanggan. Sementara itu, PKS memainkan peranan yang penting dalam mengekalkan kemapanan ekonomi Indonesia. Oleh itu, dengan menerapkan konsep pemasaran hubungan, diharapkan kesetiaan pelanggan terhadap PKS dapat dibentuk dan sekaligus dapat mengekalkan kemapanan PKS. Kajian ini menggunakan kaedah soal selidik, dengan sampel pelanggan PKS sebanyak 183 orang. Teknik analisis yang digunakan adalah Model Persamaan Berstruktur (SEM) dan data diproses menggunakan AMOS Basic. Hasil kajian menunjukkan bahwa kepercayaan dan komitmen hubungan secara signifikan dipengaruhi oleh komunikasi dan manfaat hubungan. Sementara itu, kepercayaan dan komitmen hubungan secara signifikan mempengaruhi kesetiaan pelanggan. Pembolehubah kesamaan dan frekuensi interaksi tidak mempunyai pengaruh signifikan sama ada terhadap kepercayaan mahupun komitmen hubungan pelanggan PKS.*

*Kata kunci: Pemasaran relasional; Perusahaan kecil dan sederhana; PKS; AMOS basic; kepercayaan, komitmen hubungan*

### INTRODUCTION

Both profit oriented organizations and non-profit oriented organizations will always attempt to establish a good relationship that will last as long as possible with their customers. Small and Medium Enterprises (SMEs) are included among profit-oriented organizations. The facts show that in times of economic crisis (e.g., 1998 and 2008), SME sectors have proven that they are more capable to survive from the impact of such crises when compared against large companies. In Indonesia, SMEs are the largest contributors to employment because most SMEs are labor-intensive businesses, in contrast to large businesses which are typically capital-intensive.

In a similar fashion to Indonesia, an enterprise is considered an SME in Malaysia, in each of the respective sectors, based on the annual sales turnover or number of full-time employees. SMEs can be classified into two principal categories: manufacturing and service (Ramli, Palil, Hassan & Mustapha 2015). Additionally, since Senik, Isa, Sham and Ayob (2014) finds that SMEs make

significant contribution to the national economy of Malaysia, an understanding of the factors that encourage the internationalization of SMEs is urgently needed. Anggraeni (2014) proposes a comprehensive framework for sustainable entrepreneurial cycles that includes the creation of mission, values and strategy for a given SME.

One of the sustainability strategies of SMEs involves the implementation of the concept of relationship marketing. Relationship marketing aims to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met (Grönroos 1994). Meanwhile, Kotler and Keller (2016: 43) describe the objective of relationship marketing as aiming towards building mutually satisfying long-term relationships with key constituents in order to earn and retain their business. Meanwhile, Ismail (2014) argues that small businesses should look into the prospect of developing strong and close relationships, which is referred to as relationship quality.

Most of the existing research on relationship marketing focus on big companies in developed countries

(e.g., Dwyer, Schurr & Oh 1987; Morgan & Hunt 1994; Ganesan 1994; Doney & Cannon 1997; Chaston 2000; Luo & Donthu 2007) and nonprofit organizations (e.g., Garbarino & Johnson 1999; Sargeant & Lee 2004; MacMillan, Money, Money & Downing 2005; Handriana 2013). Meanwhile, research related to relationship marketing in the context of SMEs is still relatively limited (e.g., Bianchi & Saleh 2010; Percy, Visvanathan & Watson 2010; Butigan & Mahnic 2011; Ismail 2013). Therefore, the present researcher examines the implementation of relationship marketing in SMEs in a developing country.

Relationship commitment and trust are central to successful relationship marketing (Morgan & Hunt 1994). Ndubisi (2007) proposes that trust and commitment are key virtues that underpin relationship marketing; and are factors directly linked to and capable of predicting customer loyalty. Trust is the willingness to be vulnerable to the other party with the belief that the other party possesses virtues, reliability, competence, sincerity and openness (Tschannen-Moran & Ho 2000). Trust is also the willingness to rely on an exchange partner in whom one has confidence (Morgan & Hunt 1994).

Relational commitment is another important factor in the strength of relationship marketing that is useful for measuring the likelihood of customer loyalty and predicting future purchase intention (Morgan & Hunt 1994; Gundlach, Achrol & Mentzer 1995; Handriana 2013). Dwyer, Schurr and Oh (1987) define commitment as the seriousness to adhere to something that has been agreed upon, based on the willingness and readiness, either explicitly or implicitly, between transaction partners to continue functional relationships that have already been established.

Trust and relational commitment are expected to bring customer loyalty to SMEs in Indonesia. Thus, this study seeks to examine the role of relationship marketing in the context of SMEs by examining the relationships between the variables of communication, frequency of interaction, similarity, relational benefit, trust and relational commitment; the impact of trust on relational commitment and customer loyalty; and the effect of variable relational commitment on customer loyalty.

## LITERATURE REVIEW

### RELATIONSHIP MARKETING

Relationship marketing is a concept based on the theory of social exchange, which began to be discussed and researched in the 1980s. Cook (2000: 687) views exchange theory as being focused on enduring long-term social relations, as distinguished from one-shot transactions in the market realm. The shift in marketing practices from transactional marketing to relationship marketing is characterized by a change in the interaction between buyers and sellers. Chaston (2000) proposes that the change in interaction between buyers and sellers is due

to the incapability of transactional marketing concept to establish long-term loyalty. Transactional marketing consists of interactions of short duration, in contrast to relational marketing which seeks to establish long term relationships between stakeholders. Furthermore, Dwyer, Schurr and Oh (1987) opine transactional exchanges have a short duration, while relational exchanges are longer in duration and reflect an ongoing process.

According to Grönroos (1994), relationship marketing aims to establish, maintain and strengthen relationships with customers and other partners, with the advantage of realizing the objectives of each of the parties concerned. In relationship marketing, the relationship seems so close and mutual between the parties involved that Dwyer, Schurr and Oh (1987) refer to relational marketing as a form of “buyer-seller marriage.” The benefits of the relationship between husband and wife in marriage and between buyer and seller in relationship marketing both include cooperation; familiarity; joint creativity; coaching; individual growth; maintaining household appliances; social support; sexual preference and social proximity; shared responsibility; and the desire for mutual caring and attention. Meanwhile, Butigan and Mahnic (2011) argue that relationship marketing is more appropriate for SMEs than traditional marketing concepts; that relationship marketing and network marketing create an important framework for SMEs; and that a link exists between relationship marketing, personal networks and SMEs.

### TRUST

Doney and Cannon (1997) and Ganesan (1994) explain that researchers in the field of marketing view trust as being comprised of two components: sincerity and benevolence. Sincerity is a belief that the other party is reliable and able to fulfill its promises, while benevolence is defined as the belief that one party is really interested in the welfare of others and is motivated to seek mutual benefits. Meanwhile, Morgan and Hunt (1994) explain that, in relationship marketing, trust is the belief that the trusted party is reliable and possesses high integrity, which is associated with a number of qualities, including consistency, competence, sincerity, fairness, responsibility, helpfulness and virtuousness. Moorman, Deshpande and Zaltman (1993) describe trust as a willingness to rely on an exchange partner in whom one has confidence. In addition, the element of trust is fundamental to inter-organizational relationships (Ismail 2013). Trust is an important tool that should be utilized by a company to build a strong marketing relationship with customers.

### RELATIONAL COMMITMENT

Commitment plays a central role in relationship marketing literature, although it is defined in different ways. The concept of commitment is noted in literature concerning psychology, industry and organizations; and is understood as an interest to continue with activities that involve

keeping in touch with business partners. Meanwhile, Morgan and Hunt (1994) define relationship commitment as an exchange partner believing that an ongoing relationship with another is so important that it warrants maximum efforts to maintaining it. Meanwhile, Moorman, Deshpande and Zaltman (1993) define commitment as a passion that runs continuously in the long term to maintain a valuable relationship.

The emergence of a commitment to maintain relationship with exchange partners is guided by a simple positive evaluation by both parties (customer and service provider). The evaluation is based on an assessment of the benefits received by the sacrifices incurred in the short term that will impact the long-term benefits derived from a relationship (Dwyer, Schurr & Oh 1987). Commitment is central to the study of relationship marketing (Morgan & Hunt 1994; Gundlach, Achrol & Mentzer 1995). Additionally, Dwyer, Schurr and Oh (1987) emphasize that such commitment leads to the explicit or implicit promise of the continuity between exchange partners.

#### LOYALTY

Customer loyalty is one of the core objectives of business people. This is due to the expectation that, because of loyalty, the company is able to survive for long periods of time due to the existence of long-term advantages resulting from the mutual relationship, which is formed within a certain period of time. Kotler and Keller (2016: 153) argue that loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior. Customer loyalty is not formed within a short time, but through a learning process and premised on the customer's own consistent purchasing experiences of a customer over a period of time. The benefits to be gained by a company with loyal customers include, among others, reduced marketing costs; reduced transaction costs; reduced costs associated with customer switching; increased cross-selling that will also increase the market share of a company; more positive word-of-mouth information; and reduced costs associated with failure (Griffin 2003).

#### INTERRELATIONSHIP BETWEEN RESEARCH VARIABLES

##### COMMUNICATION AND TRUST

Kodish and Pettegrew (2008) have tested the importance of the role of communication in relationship marketing. Meanwhile, Morgan and Hunt (1994) describe communication as consisting of three sub-constructs: the frequency of communication; communication relevance; and timeliness of communication between organizations and customers. Morgan and Hunt (1994) find that communication has a positive effect on customer trust. This is also supported by the research findings of

MacMillan et al. (2005), which indicate that sharing information positively affects customer trust in the organization. Likewise, Doney and Cannon (1997) find that information sharing affects trust. Similarly, Anderson and Weitz (1989) find that communication is positively related to trust. Based on the explanations above, the following hypothesis is formed:

H<sub>1</sub> Communication significantly affects customer trust

##### COMMUNICATION AND RELATIONAL COMMITMENT

According to social behavior theory, interaction cannot be avoided. During exchanges, the buyer and the seller are expected to interact with each other until the seller has produced a good or performed a service for the other party. Furthermore, buyers and sellers are expected to communicate with others regarding the exchange(s) that took place (Thibaut & Kelley 1967: 10). Therefore, communication plays an important role in interaction. Homans (1958) argues that an exchange of goods is an example of social behavior and should be examined from four (4) theoretical perspectives: behavioral psychology; economics; propositions concerning the dynamics of influence; and propositions concerning small group structures.

Communication or interaction is one of the variables that plays a role in propositions concerning the influence process. Such a variable is intended to measure the frequency of verbal behavior which is valuable. Homans (1958) also explains that positive interaction/communication between exchange partners will accelerate the merging of the groups. Kodish and Pettegrew (2008) test the importance of the role of communication in relationship marketing and find that the predominant relational orientation of communication makes it a depository of concepts and ideas that can illuminate the nature of relationships and add to the conceptual and empirical basis of relationship marketing. Additionally, Smith (1998) finds that communication openness affects confidence/satisfaction and also has an effect on commitment. The above description led to the development of the following hypothesis:

H<sub>2</sub> Communication significantly affects customer relational commitment

##### FREQUENCY OF INTERACTION AND TRUST

Frequency of interaction is defined as the amount of interaction or the level of frequency of interactions among exchange partners (Doney & Cannon 1997). When a company maintains contact with a customer for business and social purposes, trust can be maintained because the buyer can understand the behaviour of the people in the company through various situations with the company that the buyer has experienced. The frequency of interaction can maintain confidence by providing information to help the buyer predict the behaviour of the people in the company (Doney & Cannon 1997). Building trust-based

relationships should be viewed as a major strategic plan and priority in international business-related managerial decision making (Ismail 2013). Empirically, the frequency of interaction of a company (e.g. salespeople with customers) show its influence on customer confidence in the company (Crosby, Evans & Cowles 1990). The intensive interaction between consumers and SMEs are expected to boost the confidence of consumers in SMEs. Thus, the following hypothesis is developed:

H<sub>3</sub> The frequency of interaction significantly affects customer trust

#### FREQUENCY OF INTERACTION AND RELATIONAL COMMITMENT

Relationship commitment has emerged in the marketing literature as a critically important element for maintaining long-term relationships (Lee, Mohamad & Ramayah 2010). The dimensions of commitment developed by Meyer and Allen (1991) in Meyer and Herscovitch (2001) include affective commitment, continuance commitment, and normative commitment. Affective commitment is an emotional attachment to an organization, including identification with, and involvement in, an organization. Continuance commitment is an awareness of the costs associated with leaving the organization. Meanwhile, normative commitment is a feeling of obligation to continue a relationship with a company.

Relational commitment is also described as the desire to continuously maintain relational values (Moorman, Deshpande & Zaltman 1992). Furthermore, Ring and Ven (1994) opine that the duration of the interaction becomes a predictor of relational commitment. Based on the discussion above, the following hypothesis is developed:

H<sub>4</sub> The frequency of interaction significantly affects customer relational commitment

#### SIMILARITY AND TRUST

In the 1990s, proponents of the French School of Proximity Dynamics contributed greatly to innovative literature. Proximity Dynamics theory proposes that similarity includes a number of dimensions and is not limited to geography (Boschma 2005). Another dimension of similarity is social proximity. Social Proximity is defined as an inherent social relation among the actors at the micro level.

Trust and its precursors can facilitate cohesion and collaboration between people through means other than interpersonal similarity (Mayer, Davis & Schoorman 1995). Homans (1968: 214) argues that, in social exchange, the commonality of values and backgrounds enable them to learn in the same activity. The values that are agreed upon are easy to divide; and may lead to close relationships, positive affection and attachment to the organization (Fairholm 1991 in Dyne, Graham & Dienesh 1994). Bianchi and Saleh (2010) and Nicholson, Compeau

& Sethi (2001) find that similarity has a significant effect on trust. The existence of similarities between a consumer and the people who own or manage SMEs in regards to preferences, values and mindset are expected to boost the confidence of consumers in SMEs. Hence, the following hypothesis is developed:

H<sub>5</sub> Similarity significantly affects customer trust.

#### SIMILARITY AND RELATIONAL COMMITMENT

Social exchange theory posits that similarity is the perception of one person that another has person shares something in common with. One way to test the effect of similarities in an exchange is by examining the rewards, costs and outcomes of an exchange (Secord, Backman & Slavitt 1976: 114-115). McFarland and Brown (1973), in Langeheine (1977), argue that there are two basic types of social similarity: Sorokin social closeness and Bogardus social closeness. In the Sorokin type of social closeness, high similarity will be determined by an individual (or group) that has similar attributes; similar patterns of social contact; and similar patterns of attitude. From this perspective, similarity exists due to the similarity between the people involved in an exchange. In the Bogardus type of social closeness, high similarity will be determined by an individual (or group) that engage in social interaction with, or simply acknowledge, another.

In a study on non-profit organizations, Notarantonio and Quigle (2005) explain that a donor would find commitment difficult if no familiarity exists with the people who will receive the donation. The findings is supported by Veitch and Griffitt (1973), who examine the relationship between similarity and relational commitment. Based on the description above, the following hypothesis is developed:

H<sub>6</sub> Similarity significantly affects customer relational commitment

#### RELATIONAL BENEFIT AND TRUST

Domenico, Tracey and Haugh (2009) propose that social exchange theory, which is rooted in the economic problems, assumes that individuals participate in social exchanges because of a need or desire to obtain intrinsic and extrinsic rewards that are impossible to be achieved without an exchange. The social elements of the exchange give benefits for all parties involved in the form of extrinsic and economic value, such as information and knowledge; and intrinsic value lacking a clear economic value, such as support or friendship (Blau 1964: 95). The first assumption of social exchange theory is that the parties involved in the exchange obtain benefits from their relationship that cannot be achieved by themselves in the absence of exchange (Lee, Mohamad & Ramayah 2010). The benefits obtained by customers in relationships with a company will eventually take the form of customer trust in the company. If customers feel that a lot of benefit is gained from their relationships with SMEs, it is expected that the

trust in SMEs among such customers in SMEs will also increase. Thus, the following hypothesis is developed:

H<sub>7</sub> Relational benefit significantly affects customer trust

RELATIONAL BENEFIT AND RELATIONAL COMMITMENT

Although benefit is an output of a relationship, Sweeney and Weeb (2007) argue that commitment is the result of benefit because it touches upon the commitment to behave in order to maintain a relationship (Garbarino & Johnson 1999). Chou, Chang and Yen (2011) describe that the benefits obtained from a relationship have a positive effect on relational commitment. Morgan and Hunt (1994) find that relationship benefit positively influences relational commitment. The relational benefits obtained by the customer, in the form of both material and nonmaterial benefits, will drive a strong relational commitment to SMEs because customers will always strive to maintain relationships with SMEs. Hence, the following hypothesis is developed:

H<sub>8</sub> Relational benefit significantly affects customer relational commitment

TRUST AND RELATIONAL COMMITMENT

Achrol (1991) explains that trust is a major determinant of relational commitment. Sargeant and Lee (2004) argue that commitment is a fundamental indicator of relational behaviour which is born of a complex set of determinants that includes trust. Because commitment is easily attacked and rare, commitment will not be established if people do not have confidence in an organization (Garbarino & Johnson 1999). In addition, trust has been conceptualized as the foundation of any business relationship (Ismail 2014). The studies conducted by Morgan and Hunt (1994), Smith (1998), Garbarino and Johnson (1999), Sargeant and Lee (2004) and Handriana (2013: 183) find that trust affects customer commitment. A sense of trust that has been embedded in the minds of consumers will form a sense of pride in becoming SME customers. The resulting in a sense of belonging, possibly even concern for the success of SMEs, is expected to improve customer relational commitment to SMEs. Hence, the following hypothesis is developed:

H<sub>9</sub> Trust significantly affects customer relational commitment

TRUST AND CUSTOMER LOYALTY

The relationship between trust and the intention to behave in the future is also explained by Sullvian and Peterson (1982) in Dwyer, Schurr and Oh (1987). When the parties trust each other, they tend not to leave a relationship that has been established. Therefore, the loyalty of the parties

involved in the relationship will remain intact. Similarly, Schurr and Ozanne (1985) illustrate that confidence will lead to a higher level of loyalty to negotiating partners. Likewise, Naskrent and Siebelt (2011) also state that trust is a variable that plays a central role in influencing customer loyalty. If the SME can meet the expectations of customers, then the SME will be considered trustworthy. Furthermore, if the SME can provide quality products and services, then the customers will become loyal to the SME. Thus, the following hypothesis is developed:

H<sub>10</sub> Trust significantly affects customer loyalty

RELATIONAL COMMITMENT AND CUSTOMER LOYALTY

Commitment to relate is defined as an enduring desire to maintain a valued relationship (Moorman, Deshpande & Zaltman 1992). The findings of Garbarino and Johnson (1999) show that trust and commitment are major intermediate constructs in the success of relationship, rather than satisfaction, among customers with high relational orientation. On the contrary, satisfaction is the main intermediary construct in relationship success, rather than trust and commitment, among customers who have a low relational orientation. Research conducted by Lacey and Morgan (2007) find that relational commitment has a significant effect on customers in improving their intention to become a regular customer. Commitment to SMEs on the part of customers will lead to repeat purchase behaviour; positive comments regarding SMEs; a willingness to buy new product variants produced by SMEs; and decrease the likelihood that the customer will switch to other products. Based on the above discussion, the following hypothesis is developed:

H<sub>11</sub> Relational commitment significantly affects customer loyalty

The research model is as follows:

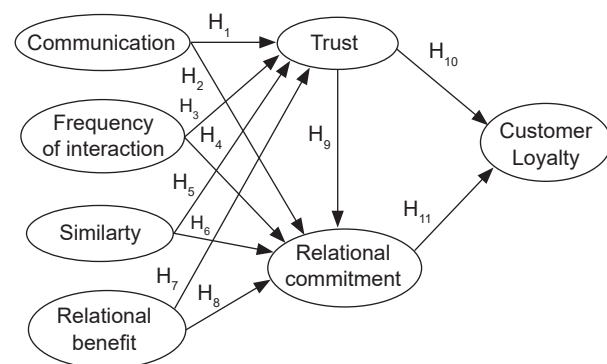


FIGURE 1. Research model

Source: Morgan and Hunt (1994), Lacey and Morgan (2007), Doney and Cannon (1997), Chou, Chang and Yen (2011), and Handriana (2013)

## RESEARCH METHODS

## RESEARCH VARIABLES AND OPERATIONAL DEFINITIONS

In this study, exogenous variables include communication, frequency of interaction, similarity and relational benefit. The endogenous variables consist of trust, relational commitment and customer loyalty.

The communication variable is defined as the perception of contributors on two-way communication between the customer and the enterprise (SME), which includes the listening process, the informing process, and interaction with people of the enterprise. The frequency of interaction variable is the amount or level of interaction frequency between the customer and the enterprise (SME). The similarity variable is customer perception, which is associated with the shared conviction concerning behavior, goals, and policies that exist in the enterprise (SME). Meanwhile, the relational benefits variable is defined as the benefits perceived by the customer concerning symbolic benefits, social benefits, personal benefits or emotional benefits that are derived from the enterprise (SME).

Furthermore, the trust variable is the customer's belief regarding the integrity and reliability of the enterprise (SME). The relational commitment variable is defined as an enduring desire on the part of the customer to maintaining a relationship with the enterprise (SME). The customer

loyalty variable is defined as the desire on the part of the customer to maintain a relationship with the enterprise (SME); to remain loyal; and make positive comments about the enterprise (SME). All of indicators in this study are measured by using the following 5-point Likert scale: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree.

## SAMPLING AND ANALYSIS TECHNIQUES

This study uses a survey approach, with a sample unit of individuals that are customers of SMEs in East Java, Indonesia and are at least 17 years old. The sample selection technique utilized is purposive sampling method. The analysis technique used is Structural Equation Modeling (SEM) with AMOS software. Finally, the data processing techniques use AMOS Basic.

## RESULT AND DISCUSSION

## NORMALITY TEST

During multivariate analysis using an SEM, a normality test is a prerequisite. The test results indicate that the data in this study are normal This is in accordance with the criteria described by Morgan, Leech, Gloeckner and

TABLE 1. Normality testing

Indicators	Skewness	c.r.	Kurtosis	c.r.
Communication 1	0.073	0.401	0.721	1.990
Communication 2	0.180	0.995	0.738	2.038
Communication 3	0.197	1.089	-0.498	-1.374
Communication 4	-0.058	-0.323	-0.279	-0.770
Communication 5	-0.155	-0.858	0.238	0.656
Frequency of Interaction 1	-0.467	-2.531	-0.264	-0.730
Frequency of Interaction 2	-0.242	-2.225	-0.430	-1.975
Frequency of Interaction 3	-0.447	-2.470	-0.196	-0.542
Similarity 1	0.189	-0.581	-0.059	-0.164
Similarity 2	0.096	1.046	-0.565	-1.561
Similarity 3	-0.105	0.531	-0.413	-1.140
Relational Benefit 1	0.228	1.257	-0.653	-1.804
Relational Benefit 2	0.314	1.732	0.700	1.934
Relational Benefit 3	0.013	0.116	0.069	0.318
Relational Benefit 4	0.145	1.336	0.422	1.946
Trust 1	0.071	0.393	-0.497	-1.372
Trust 2	0.160	0.883	0.071	0.197
Trust 3	0.012	0.064	-0.165	-0.455
Trust 4	-0.062	-0.573	0.230	1.058
Relational Commitment 1	-0.309	-1.706	0.303	0.835
Relational Commitment 2	-0.199	-1.098	-0.204	-0.564
Relational Commitment 3	-0.291	-1.605	0.452	1.248
Relational Commitment 4	-0.281	-2.482	0.130	0.595
Loyalty 1	-0.196	-1.084	-0.54	-0.149
Loyalty 2	0.056	0.312	-0.428	-1.181
Loyalty 3	-0.071	-0.393	-0.070	-0.194
Loyalty 4	-0.182	-1.004	-0.274	-0.758
Loyalty 5	-0.410	-2.265	0.725	2.003

Barrett (2004: 57) where data are considered to meet the normality test if they have skewness values between positive and negative one (<+ / -1.0).

FEASIBILITY OF RESEARCH MODEL

In regards to the SEM, the feasibility of the research model can be seen by evaluating the feasibility of the measurement model and the structural model. A measurement model is a SEM model that specifies the indicators for each construct; and enables an assessment of construct validity (Hair et al. 2014: 544). In testing the feasibility of the measurement model, validity tests and construct reliability tests are conducted. The validity tests are conducted on discriminant validity and convergent validity.

A structural model is a set of one or more dependent relationships linking the hypothesized model's constructs. The structural model is most useful in representing the interrelationships of variables between constructs (Hair et al. 2014: 546). In a structural model, the focus of an SEM analysis is testing the structural relationships by examining two issues: the overall and relative model fit as a measure of acceptance of the proposed model; and structural parameter estimates, which are depicted with one-headed arrows on a path diagram (Hair, Black, Babin & Anderson 2014: 642).

MEASUREMENT MODEL

Discriminant validity assesses the extent to which a construct does not correlate with other constructs.

Essentially, discriminant validity tests the degree to which a construct is completely different from the other constructs (Malhotra 2010: 321; Hair et al. 2014: 619). Meanwhile, Hair et al. (2014: 619) explains that discriminant validity is achieved when the Average Variance Extracted (AVE) is greater than the square correlation estimate. The results of discriminant validity test indicate that discriminant validity is achieved. The AVE is calculated using the following formula (Hair et al. 2014: 619):

$$AVE = (\sum \text{Standardized factor loading}^2)/n$$

where n is the number of indicators of the construct in question. The result of the calculation of AVE for each construct can be seen in Table 3. Meanwhile, Table 3 shows the correlation between the constructs examined and the square correlations between the constructs examined.

TABLE 2. Correlation and square correlation between constructs

Correlation	Correlation Coefficient	Correlation <sup>2</sup> Coefficient
Commu\nications<---->Frequency	0.181	0.033
Communication<---->Similarity	0.540	0.292
Frequency<---->Similarity	0.249	0.062
Communications <----->Benefits	0.354	0.125
Frequency<----->Benefits	0.079	0.006
Similarity<----->Benefits	0.559	0.313

TABLE 3. Calculation of Average Variance Extracted (AVE)

Constructs	Σ Stand. factor loading <sup>2</sup>	n	AVE	Result
Communication	1.954	5	0.391	Valid
Frequency of interaction	1.126	3	0.375	Valid
Similarity	1.421	3	0.474	Valid
Relational benefits	2.554	4	0.639	Valid
Trust	2.405	4	0.601	Valid
Relational commitment	1.950	4	0.488	Valid
Customer loyalty	1.083	5	0.381	Valid

Convergent validity is a construct validity test to measure the extent to which a construct is positively correlated with other constructs (Malhotra 2010: 321; Hair et al. 2014: 618). As stated by Hair et al. (2014: 619), convergent validity is achieved when the standardized loading estimate is > 0.5. The test results indicate that all of the relationships between the constructs and their indicators are > 0.5, which indicates the fulfillment of the convergent validity test.

The next step is to conduct a reliability test. A measuring instrument will need to fulfill the norms of

reliability, which means that the indicators contained in the study are reliable. Hair et al. (2014: 619) opines that the prerequisites of construct reliability are achieved when the Construct Reliability (CR) is > 0.7. The formula for calculating the CR is as follows:

$$CR = (\sum \text{Standardized Factor Loading})^2 / (\sum \text{Standardized Factor Loading})^2 + (\sum e_i)$$

where e<sub>i</sub> is the error. The analysis shows that the CR of the entire construct is > 0.7, as shown in Table 4.

TABLE 4. Testing of convergent validity

Relationship between Construct and Indicators	Factor Weight	Result
c1 ← Communication	0.512	Valid
c2 ← Communication	0.590	Valid
c3 ← Communication	0.714	Valid
c4 ← Communication	0.708	Valid
c5 ← Communication	0.577	Valid
f1 ← Frequency	0.598	Valid
f2 ← Frequency	0.626	Valid
f3 ← Frequency	0.613	Valid
s1 ← Similarity	0.518	Valid
s2 ← Similarity	0.737	Valid
s3 ← Similarity	0.781	Valid
b1 ← Benefit	0.594	Valid
b2 ← Benefit	0.820	Valid
b3 ← Benefit	0.908	Valid
b4 ← Benefit	0.839	Valid
t1 ← Trust	0.728	Valid
t2 ← Trust	0.794	Valid
t3 ← Trust	0.794	Valid
t4 ← Trust	0.779	Valid
r1 ← Relational Commitment	0.622	Valid
r2 ← Relational Commitment	0.709	Valid
r3 ← Relational Commitment	0.752	Valid
r4 ← Relational Commitment	0.702	Valid
lo1 ← Loyalty	0.642	Valid
lo2 ← Loyalty	0.610	Valid
lo3 ← Loyalty	0.547	Valid
lo4 ← Loyalty	0.592	Valid
lo5 ← Loyalty	0.649	Valid

TABLE 5. Calculation of construct reliability

Constructs	$(\sum \text{Stand. Factor Loading})^2$	$\sum e_i$	$(\sum \text{Stand. Factor Loading})^2 + (\sum e_i)$	CR	Result
Communication	9.616	1.051	10.667	0.902	Reliable
Frequency of interaction	3.375	1.414	4.789	0.705	Reliable
Similarity	1.777	0.729	2.506	0.709	Reliable
Relational benefits	9.992	0.474	10.466	0.955	Reliable
Trust	9.579	0.535	10.114	0.947	Reliable
Relational Commitment	7.756	1.010	8.766	0.896	Reliable
Customer Loyalty	3.236	0.981	4.217	0.767	Reliable

## STRUCTURAL MODEL

An SEM analysis involves testing structural relationships by examining two issues: overall and relative model fit as a measure of acceptance of the proposed model; and structural parameter estimates, which are depicted by one-headed arrows on a path diagram (Hair et al. 2014:

642). As shown in Table 4, the size of absolute suitability shows that the values of Goodness-of-Fit Index (GFI), Root Mean Squared Error of Approximation (RMSEA), Root Mean Square Residual (RMR) and Chi-Square/Degrees of Freedom (CMIN/DF) are within range, which indicates that absolute fit is good. As for the size of the additional suitability, all sizes are good. Meanwhile, in terms of the



size of the parsimony fit indices, the results indicate that the Adjusted Goodness of Fit Index (AGFI) value is good and that the Parsimony Normed Fit Index (PNFI) value is marginal. Thus, it can be concluded that the overall model utilized in this research is good and no modification of the research model is required.

In this study, 11 structural relationships between constructs are examined as defined by the research hypotheses. Using a two-sided T test with a significance level of 95 % or a  $\alpha$  of 5%, the influence of one construct on another construct is determined to be significant when the T value of statistics show a value of  $T > 1.96$ , as shown in Table 6.

TABLE 6. Goodness of fit

GOF Criteria	Results of Research Model	GOF Criteria	Results of Research Model
<i>Absolut Fit Measures</i>		<i>Incremental Fit Measures</i>	
Chi-square ( $X^2$ )	717.155	NFI	0.934
Degree of freedom	333	CFI	0.987
Probability	0.000	TLI	0.981
GFI	0.963		
RMSEA	0.080	<i>Parsimony Fit Measures</i>	
RMR	0.031	AGFI	0.933
Normed Chi-Square (CMIN/DF)	2.154	PNFI	0.823

TABLE 7. Calculation of structural model

Hypotheses	Causal Relationship	Non-standardized Regression Coefficient	Standardized Regression Coefficient	t Value	Result
H <sub>1</sub>	Communication→Trust	0.816	0.450	4.179*	Supported
H <sub>2</sub>	Communication→Commitment	0.392	0.253	2.057	Supported
H <sub>3</sub>	Frequency→Trust	0.057	0.040	0.467	Not Supported
H <sub>4</sub>	Frequency→Commitment	0.088	0.072	0.789	Not Supported
H <sub>5</sub>	Similarity→Trust	0.091	0.075	0.725	Not Supported
H <sub>6</sub>	Similarity→Commitment	0.078	0.075	0.686	Not Supported
H <sub>7</sub>	Benefit→Trust	0.729	0.478	4.505	Supported
H <sub>8</sub>	Benefit→Commitment	0.297	0.167	1.988	Supported
H <sub>9</sub>	Trust→Commitment	0.364	0.427	2.847	Supported
H <sub>10</sub>	Trust→Loyalty	0.348	0.069	2.434	Supported
H <sub>11</sub>	Commitment→Loyalty	0.451	0.548	3.062	Supported

Note: \* $p < .05$

DISCUSSION

The first supported hypothesis is H<sub>1</sub>. The results show that communication has a significant effect on customer trust/confidence in SMEs. Communication established between SMEs and customers is the basis for customers building trust in SMEs whose products they consume. Sargeant and Lee (2004) argue that in order to achieve its objectives, an organization can manage elements that lead to trust by presenting and developing them through communication with donors. The findings in this study are consistent with social exchange theory, including conclusions reached by Homans (1950) and Newcomb (1953) in Thibaut and

Kelley (1967: 73) concerning the formulation of theories that link communication and attitude. The findings of this study also support previous findings that communication affects trust (Morgan & Hunt 1994; Doney & Cannon 1997; Smith 1998; MacMillan et al. 2005; Handriana 2013: 178).

The testing of the influence of communication on relational commitment (H<sub>2</sub>) also shows that communication has a significant effect on the relational commitment that is built among customers in relation to SMEs. Thus, the findings of this study support the research conducted by Kodish and Pettegrew (2008) and Smith (1998). Commitment is one important component in the concept

of relationship marketing. Thus, SMEs should always establish good communication with their customers.

The third hypothesis states that the frequency of interaction affects trust, while the fourth hypothesis states that the frequency of interaction affects relational commitment. The results in Table 7 indicate that the two aforementioned hypotheses are not supported. The result of this study do not correspond with the findings of Crosby, Evans, and Cowles (1990), Ring and Ven (1994) and Doney and Cannon (1997). The results indicate that the frequency of interaction experienced by customers is not a basis for the establishment of trust and relational commitment to SMEs.

Likewise, the testing of  $H_5$  (i.e., the influence of similarity on trust) and  $H_6$  (i.e., the influence of similarity on relational commitment) also show that these hypotheses are not supported. The results obtained in this study differ from previous studies (e.g., Crosby, Evans & Cowles 1990; Doney & Cannon 1997; Morgan & Hunt 1994). The disparity between the results is probably caused by a difference in the objects of study, since previous research examined the issues in the context of B2B (Business to Business) relationships, while this study examines the issues in the context of B2C (Business to Consumers) relationship.

According to the results of this study, similarity does not influence trust and relational commitment. In contrast, the results of research examining relationship marketing in the context of nonprofit organizations indicates that similarity has a significant effect on trust and relational commitment (MacMillan et al. 2005; Handriana 2013). The disparity is due to the fact that the motivation of customers to establish relationships with non-profit organizations is based on the similarity of the values of the organizations with those of the customers. In addition, cultural, demographic and social background that differs between consumers and SMEs are also suspected to be the cause of similarity not being influential over relational commitment.

The testing of  $H_7$  (i.e., effect of relational benefits on trust) shows that the hypothesis is supported. The results of this study support the findings of research carried out by Morgan and Hunt (1994) and Lee, Mohamad and Ramayah (2010), which indicate that the relational benefit will eventually result in customer trust in SMEs. Thus, the SMEs should always increase the benefits offered to customers. The customer benefits that can be provided by the SMEs include product benefit, service benefit, personnel benefits and benefits for the image of SMEs.

The testing of  $H_8$  finds a significant effect of relational benefits on relational commitment. The results indicate that the relational commitment from the customers is affected by the benefits perceived by those who consume the products of SMEs. This finding is consistent with social exchange theory, which posits that individuals who participate in social exchanges are driven by the need or desire to obtain intrinsic and extrinsic rewards that are impossible in the absence of an exchange (Domenico,

Tracey & Haugh 2009). These findings also support the research findings of Morgan and Hunt (1994) and Reynolds and Beatty (1999).

The results of testing of  $H_9$  indicate that trust has a significant effect on relational commitment. The importance of trust in the relationship between customers and SMEs is due to the fact that trust is the key variable in relationship marketing. Thus, the findings of this study reinforce the importance of trust in relationships as noted in social exchange theory (e.g., Hoffman et al. 1999, in Luo & Donthu 2007). These findings also support the findings of Morgan and Hunt (1994) and Chou, Chang and Yen (2011).

Furthermore, the results of testing the effect of trust on customer loyalty ( $H_{10}$ ) shows that the hypothesis is supported. The results support the findings of previous research indicating that loyalty influences trust (e.g., Garbarino & Johnson 1999; Waters 2008; Camarero & Garrido 2011; Naskrent & Siebelt 2011). Loyalty is a key element in the business success of an SME. Therefore, in order to prevent customers from switching to a competitor, SMEs are required to maintain customer trust.

Finally, the analysis shows that  $H_{11}$  is supported. This finding is consistent with the argument of Naskrent and Siebelt (2011) that commitment is a core variable in influencing customers' loyalty. The findings of this study also support previous research conducted by Dwyer, Schurr & Oh (1987), Waters (2008) and Sirdeshmukh, Singh dan Sabol (2002). Thus, the findings of this study are consistent with social exchange theory, which posits that in any relationship, people are expected to have a commitment to social relations, groups and organizations (Blau 1964: 160). Therefore, since customers expect that SMEs will maintain the quality of products offered to customers and continuously strive to satisfy customers, it is also expected that the relational commitment of customers to SMEs will be preserved.

## CONCLUSION

In this study, seven of the eleven hypotheses are supported. Thus, the findings of this study support social exchange theory expounded by Thibaut and Kelley (1967), Blau (1964) and Homans (1968); and supports the concept of relationship marketing. The relationship marketing concept posits that trust and relationship commitment are the variables that play a central role in the relationship between individuals and organizations in regards to maintaining customer loyalty to SMEs.

Based on the research findings, SMEs can optimize their relationships with their customers by observing variables that influence trust and relational commitment. Trust and relational commitment of the customer are important elements in maintaining the relationship between SMEs and customers. The results of the analysis show that customer loyalty is influenced by customer trust and customer relational commitment. Customer trust and

relational commitment also affect customer loyalty. The findings indicate the importance of customer trust and customer relational commitment to the sustainability of SMEs.

#### THEORETICAL AND PRACTICAL CONTRIBUTIONS

The contribution of the results of this study to social exchange theory and the concept of relationship marketing is that the findings indicate that the theory and the concept are not only suitable for application in the context of large scale businesses, but also in the context of SMEs since the principal aim of relationship marketing is to establish, maintain and strengthen relationships with customers and other partners with the advantage of realizing the objectives of each party involved in an exchange (Grönroos 1994).

Based on the results of this study, SMEs can optimize their relationships with their customers by carefully observing the variables that influence trust and relational commitment. Trust and relational commitment become an important point in maintaining the relationships between SMEs and their customers. Results of the analysis indicate that customer loyalty is influenced by customer trust and customer relational commitment. Customer trust and relational commitment also affects customer loyalty. The findings indicate how important the position of customer trust and relational commitment is to the sustainability of SMEs.

#### LIMITATION AND FUTURE RESEARCH

The first weakness is related to the sampling technique used in this study. Because the *sampling frame* in these studies is not known with certainty, this study used a sampling technique with *non-random sampling (nonprobability sampling)*. The use of a *non-random sampling* technique requires that care must be taken when attempting to generalize the results of the research. The next weakness is associated with data collection. Due to the use of *cross-sectional* or *one-shoot* data collection, subsequent studies could be performed using different timescales to investigate the causal relationship between variables in order to obtain better results when testing the causal relationship between the research variables. Lastly, Percy, Visvanathan and Watson (2010) opine that successful practices relating to relationship marketing apply to large firms and cannot be generalized to small firms, so further research should be performed by examining the products/services offered by SMEs.

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