HOW ‘RELATIONSHIP MARKETING’ CONTRIBUTES TO GAINING CUSTOMER LOYALTY TO BANKING INDUSTRY IN SRI LANKA?

S.SIVESAN*; S.ACHCHUTHAN**

*Lecturer, Department of Marketing, University of Jaffna, Sri Lanka.
**Department of Marketing, University of Jaffna, Sri Lanka.

ABSTRACT

Relationship marketing is emerging as a new phenomenon however; relationship oriented marketing practices date back to the pre – Industrial era. This study expressed that how relationship marketing helps to build the customer loyalty. Relationship marketing has been measured through following indicators such as trust, communication, commitment, and conflict handling. Hundred and fifty questionnaire was administered to customers of banks but hundred and two questionnaire has been taken to evaluation. Relationship marketing contributes significantly to customer loyalty and predicts thirty percent of the variation found. Trust and communication in the relationship marketing contribute significantly to customer loyalty and customer loyalty is not contributed significantly by commitment and conflict handling in the relationship marketing. And also there is a significant mean different in customer loyalty among different age groups. This research focuses on banking services in one particular district of the country; therefore further research in other sectors may be necessary before generalization can be made on the entire service industry. Based on the finding of the study, there are a few key points that can be used to conclude this research paper. It is very important that the relationship marketing in the private commercial banks in Jaffna peninsula contributes to the customer loyalty. Mainly trust and communication dimensions in the relationship marketing contribute to the customer loyalty.

KEYWORDS: Relationship marketing, Customer loyalty and Trust.

INTRODUCTION

In the business world, relationship marketing is very powerful tool to gain and keep the customers. The concept of relationship marketing (RM) is widely understood, both academically and professionally. Main goals of relationship marketing are enhancing good relationship between customer and organization and convert indifferent customers into loyal ones (Berry and Parasurman, 1991). It involves a process of attracting, maintaining and enhancing relationships with customers and stakeholders (and, when necessary, terminating them) at a profit, so that the objectives of the parties involved are achieved through mutual exchange and the fulfillment of...
promises (Zineldin and Philipson, 2007; Das, 2009; Adamson et al., 2003; Gronroos, 1994, 2004; Kotler and Armstrong, 1999; Berry, 1995). Relationship marketing involves sustaining long-term relationships through the use of interactive databases and networking in order to retain valuable customers, on the basis of mutual benefit and fulfillment (wangpaichitr, 2010). One of the major developments within marketing has been the evolution from transaction to relationship marketing. Rather than solely focussing on the 4Ps - product, price, promotion, and place – numerous companies have changed their business processes so that they focus on the most important asset of their economical viability: their current and potential new clients. In other words, today's companies are seeking to acquire, develop, and retain profitable customer relationships (Wyner, 1999).

The banks are competing with each other to gain a great slice of the market share with a globalization effect. Therefore, the banks have to face difficulties to meet the high growth of customer expectations (Ramkelawon, 2010). In Sri Lanka, According to Abeysekera and Hewawasam (2010) banking sector is considered as main recipient in recent economic downturn. Therefore, better formation of strategies in banking sector is the most needed one especially in the recent information technology era. Furthermore, in Sri Lanka, the rapid growth of banking and other financial services provide the financial infrastructure facilities to the economic expansion and structural transformation. this is clearly reflected in the growth of assets in the financial sector and the contribution of the financial sector to gross national product in last ten years.

Private Commercial Banks are becoming the mainstream banking institutions in the South Asian Countries, mainly because, government owned banks have failed to meet the service expectations of general public due to their inefficient operation including administrative delay, traditional technology, slow processing of transactions etc (Fatima, 2009). Furthermore, Recently, more than ever before, strong competition, fragmentation of markets, short life cycles of products and increasing customer awareness and complexity are the big challenges to the banking sector (Taleghani 2011). In such situation, banks can use the relationship marketing strategy to create, maintain, and enhance strong relationships with their customers to secure their loyalty. Therefore, it is important, to empirically examine the actual impact of relationship marketing on customer loyalty. Such understanding or finding will help to banks to establish the better management of firm –customer relationship and to achieve the higher level of loyalty among customers (Ndubisi, 2006).

**RESEARCH PROBLEM**

In northern part of the Sri Lanka, especially in Jaffna district, after the thirty year ethnic war, private commercial banks (i.e. Commercial bank, Hatton national bank, Sampath bank, etc) are highly penetrated to the market through the opening of branches in several places of Jaffna peninsula. Meanwhile, they are facing more difficulties such as high competitiveness, high level preliminary expensive etc .they use different formation of strategies to compete in the highly competitive market. Most of the banks prefer the relationship marketing strategy to secure the customer loyalty. A Study on the relationship marketing and its impact on customer loyalty in an emerging market like Jaffna peninsula can be a fruitful empirical work, which may likely to differ from a developed market. Furthermore, there is not much widely empirical works on
relationship marketing and its impact on customer loyalty to banking sectors in Jaffna district. Therefore, it is important, to empirically examine the actual impact of relationship marketing on customer loyalty. Such understanding or finding will help to banks to establish the better management of firm–customer relationship and to achieve the higher level of loyalty among customers.


OBJECTIVES OF STUDY

The main objectives of the study is to find out the impact of relationship marketing on customer loyalty in private commercial banks in Jaffna district, Sri Lanka and sub objectives are:

To recognizes the level of customer loyalty in private commercial banks in Jaffna district;

To find out the relationship between relationship marketing and customer loyalty;

REVIEW OF LITERATURE AND HYPOTHESIS

Relationship Marketing has been thought of as a new paradigm in marketing over the last few decades. It has been believed by academics and practitioners that companies can achieve success in the long run by maintaining relationship with their customers and business associates (Nguyen, 2006). Christopher. (as cited in Ravesteyn, 2005) noted that Relationship marketing has emerged from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s. Baron and Harris (2003) differentiated the relationship marketing from transaction marketing as transaction marketing is about attracting customers using offensive strategies like encouraging brand switching or recruiting competitors’ dissatisfied clients and relationship marketing is about retaining customers using defensive strategies like minimizing customer turnover and maximizing customer retention. Grönroos (as cited in Ravesteyn, 2005) defined the relationship marketing as “Marketing is to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of all parties are met. This is done by mutual exchange and fulfillment of promises “this definition draws attention to the importance of retaining as well as attracting customers with the emphasis being placed on the development of long term relationships with existing customers and also other partner. According to the holistic marketing concept the relationship marketing has the aim of building mutually satisfying long term relationships with key parties such as customers, suppliers, distributors and other marketing partners (Kotler and Keller, 2007). In this research, we concerned the relationship marketing concept based on the customer point of view. Therefore, it is important, to empirically examine the actual impact of relationship marketing on customer loyalty. Such understanding or finding will help to banks to establish the better management of firm–customer relationship and to achieve the higher level of loyalty among customers (Ndubisi, 2006).
Baron and Harris (2003) summarized the seven key indicators of relationship marketing approach. Such as high level of trust between both parties, high level of commitment between both parties, long time horizon, open communication channels between both parties with information exchanged between both parties, having the customer’s best interest at heart, a commitment to quality from both parties, an attempt to favorably lock-in or retain the customer. And Ndubisi (2006) proposed the four key virtues that underpin relationship marketing, such as trust, commitment, communication, conflict handling. In this research, we also considered the four dimensions that underpin relationship marketing, such as trust, commitment, communication, and conflict handling to predict the customer loyalty in the private commercial banks in Jaffna peninsula, Sri Lanka.

Nowadays, the term “customer loyalty is long-familiar as a significant factor in a business of a successful organization. So many research evidences have shown that just having satisfied customers is not sufficient for organization. Because there is no guarantee that customers are satisfied with the purchase of the company (Taleghani et al., 2011 b). Reason is that it is relatively easy to imitate many services, and consequently easy for customers to switch loyalties. It may take only one bad ‘moment of truth’ in a service encounter to persuade a customer to go to a competitor (Baron and Harris, 2003).

Therefore, it is clear that the success of customer loyalty in a business organization is the backbone of a successful organization and also customer loyalty is significantly more important than customer satisfaction. Oliver (as cited in Das et al.,2009) defined it as a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situation influence and marketing efforts having the potential to cause switching behavior. Conceptually, loyalty has both an attitudinal and behavioral dimension. Attitudinal loyalty is reviewing the concept of good and favorable attitude towards a service provider like trust or emotional attachment. And behavioral loyalty emphases on customer behavior like repeat purchase, word of mouth (Das et al., 2009; Taleghani et al., 2011 b). Ravesteyn (2005) pointed out the two key advantages of customer loyalty the first one is that Once customers become loyal to the company, repeat sales and referrals will increase, which will lead to growth in revenues and market share. Existing customers, who are willing to give enthusiastic references and word of mouth referrals, create free advertising. Customers become advocates. The second one is that Loyalty provides the time to respond to competitive moves – it gives breathing Room to organization. The banks are fighting with each other to gain a great slice of the market share with a globalization effect. Therefore, Banks use the relationship marketing concept as strategy to build loyal with each customer, which leads to improved financial and market performance, and an increased competitive edge (Ravesteyn, 2005). Ndubisi (2006) concluded that if the bank is trustworthy, committed to service, reliable, efficient in communicating to customers and able to handle conflicts well. Bank customers tend to be loyal in Malaysia. And also Ndubisi (2004) suggested that the organization should maintain the good relationship with customers to get the loyalists. Loyal customers are the greatest asset to the organization. Because they can communicate through the favorable word of mouth about the organization or products to which they feel loyal and also attract new customers for the organization which lead to the benefit of its sales, revenue and profit. Useful sources of new product ideas can be also drawn from loyalists. And also, Afsar et al. (2010) concluded that when a customer is committed to a bank, his/her trust is grown up which automatically leads to the loyalty of the customer. In contrast, Das et al.
(2009) found that customer relationship management deployment might not be a profitable strategy for retail banks, particularly in an Indian context. These results were also supported by leverin and liljander (2006) who found that the implementation of a relationship marketing strategy in a retail bank did not result in the increase of loyalty with respect to the most profitable customer segment.

But in most cases in both developed and developing countries the relationship marketing in banking sector is positively related to the customer loyalty. In srilanka, banking sector is considered as main recipient in recent economic downturn. Better formation of strategies in banking sector is the needed one especially in the recent information technology era. As a result of the continuing movement towards deregulation and the associated increase in competition, Maintaining a long term customer relationship leads to get a moderate or greater share of financial market and of a corporation’s business (Abeysekera et al., 2010). In an Iran context, Taleghani et al. (2011 a) suggested that banks should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. However, much of the work and understanding of relationship or relational marketing to date focuses on the Western perspective, and hardly any work has been done in the Asian context (Nguyen, 2006). And also there are possible influences of personal demographical factors on relationship marketing dimensions and customer loyalty. Studies have suggested that Women tended to be more loyal than Men; older people have more level of loyalty than younger age groups moreover, higher – income customers to receive better attention from banks in Malaysia (Ndubisi, 2005). Therefore, it is important, to empirically examine the actual impact of relationship marketing on customer loyalty. Such understanding or finding will help to private commercial banks in Jaffna peninsula, Sri Lanka, to establish the better management of firm –customer relationship and to achieve the higher level of loyalty among customers. Following hypotheses were formulated based on the above review of literature.

H1: Relationship Marketing and customer loyalty are positively correlated
   H1_a: Trust and customer loyalty are positively correlated
   H1_b: Commitment and customer loyalty are positively correlated
   H1_c: Communication and customer loyalty are positively correlated
   H1_d: Conflict handling and customer loyalty are positively correlated

H2: Relationship marketing has impact on customer loyalty

CONCEPTUALIZATION

Based on the research question, the following conceptual model has been constructed. This model of relationship marketing in banking sector introduces new constructs and uniquely combines them in specifying that the customer loyalty is a function of trust, commitment,
communication, and conflict handling in the relationship marketing. In which, personal demographical factors are used as a moderating variable.

RESEARCH MATERIAL

DATA COLLECTION

Primary and secondary data are used for this study. Primary data are collected through the questionnaire, and secondary data are collected from texts, journals and magazines.

SAMPLE AND INSTRUMENTS

A survey instrument in the form of close-ended questionnaire was developed for the purpose of collecting the main data for the study. This study was conducted in private commercial banks in Jaffna peninsula. Systematic random sampling methods has been undertaken to select the customers. The study is limited to customers of private commercial banks in Jaffna peninsula. Convenience sampling method has been adopted to select respondents. Researchers issued one hundred and fifty (150) questionnaires to the selected customers and out of which hundred and two (102) only returned with their responses. The above table gives details about the distribution of questionnaires. The instrument used in this study is composed of 3 parts .The part 1 includes a number of demographic questions such as age, gender, occupation, income level. The second part deals with relationship marketing in the banking sector. This is measured by four dimensions from Ndubisi (2006), namely (1) trust (2) commitment (3) communication (4) conflict handling which comprised seventeen items. Part 3 includes customer loyalty in banking.
sector. This is measured by using two dimensions from Das et al. (2009) and Ndubisi (2006), namely (1) Attitudinal loyalty (2) Behavioral loyalty which comprised four items. All items were measured by responses on a five-point Likert scale of agreement with statements, ranging from 1 = strongly disagree to 5 = strongly agree.

RESULTS AND ANALYSIS

RELIABILITY

The internal consistency of the research instrument should be tested by reliability analysis (Ndubisi, 2006). Nunnally (as cited in Ahsan et al., 2009) suggested that the minimum alpha of 0.6 sufficed for early stage of research. The cronbach’s alpha in this study were all much higher than 0.6, the constructs were therefore deemed to have adequate reliability. The descriptive statistics of the variables and reliability estimates are shown in table No 01.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Cronbach’s alpha value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>.766</td>
</tr>
<tr>
<td>Commitment</td>
<td>.788</td>
</tr>
<tr>
<td>Communication</td>
<td>.722</td>
</tr>
<tr>
<td>Conflict handling</td>
<td>.773</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>.785</td>
</tr>
</tbody>
</table>

CORRELATION

Correlation test can be used to measure the hypotheses -01 and H1a-H12

<table>
<thead>
<tr>
<th>Variable</th>
<th>Relationship marketing</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship marketing</td>
<td>1</td>
<td>0.546**</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.546**</td>
<td>1</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Table 02 shows the relationship between the variables (Relationship marketing and customer loyalty). Correlation value is 0.546 which is significant at 0.01 levels. It indicates that as the
relationship marketing increases the customer loyalty increase. So, the hypothesis – 1 is accepted.

Correlation (matrix) analysis was applied to identify the relationship between Four main dimensions such as trust, commitment, communication, and conflict handling were used to measure the relationship marketing and customer loyalty. These variables and results are revealed in the table no- 03.

**TABLE NO- 03 CORRELATION MATRIX**

<table>
<thead>
<tr>
<th></th>
<th>Trust</th>
<th>Commitment</th>
<th>Communication</th>
<th>Conflict Handling</th>
<th>Relationship Marketing</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commitment</td>
<td>.584**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(.000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>.507**</td>
<td>.645**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(.000)</td>
<td>(.000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conflict Handling</td>
<td>.626**</td>
<td>.760**</td>
<td>.651**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship Marketing</td>
<td>.801**</td>
<td>.876**</td>
<td>.832**</td>
<td>.889**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>.511**</td>
<td>.569**</td>
<td>.493**</td>
<td>.511**</td>
<td>.546**</td>
<td>1</td>
</tr>
<tr>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td>(.000)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2 – Tailed)

Table no-03 shows the relationship between variable accordingly, conflict handling component for relationship marketing (RM) is highly correlated with customer loyalty with the correlation value 0.546 whereas, the correlation value between trust component of relationship marketing and customer loyalty is 0.511 which is significant at 0.01 level and other component communication and conflict handling are also correlated with customer loyalty. Hence the sub hypotheses (H1a to H1d) are also accepted.
REGRESSION ANALYSIS

The purpose of regression analysis is to find out the significant impact or influence of independent variable on dependent variable (Ndubisi, 2006). In this study, Relationship marketing is considered as independent variable or predictor variable, and the customer loyalty is considered as dependent variable. Table No 06 presents the results of the regression analysis.

TABLE NO 04: MULTIPLE REGRESSION ANALYSIS.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Beta</th>
<th>t-value</th>
<th>p-value</th>
<th>Model summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Adj R square</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>1.391</td>
<td>.167</td>
<td>0.308</td>
</tr>
<tr>
<td>Trust</td>
<td>.319</td>
<td>3.128</td>
<td>.002</td>
<td></td>
</tr>
<tr>
<td>Commitment</td>
<td>.047</td>
<td>.480</td>
<td>.632</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>.329</td>
<td>2.583</td>
<td>.011</td>
<td></td>
</tr>
<tr>
<td>Conflict handling</td>
<td>-.031</td>
<td>-.270</td>
<td>.788</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: Significant at 0.05 levels.

The results of the regression analysis summarized in table no 04 show that relationship marketing contributes significantly to customer loyalty (F=12.229; P < 0.05) and predicts 30 percent of the variation found. Trust and communication in the relationship marketing contribute significantly to customer loyalty. And also customer loyalty is not contributed significantly by commitment and conflict handling in the relationship marketing.

CONCLUSION AND RECOMMENDATION

Based on the finding of the study, there are a few key points that can be used to conclude this research paper. It is very important that the relationship marketing in the private commercial banks in Jaffna peninsula contributes to the customer loyalty. Mainly trust and communication dimensions in the relationship marketing contribute to the customer loyalty. Therefore the private commercial banks should strive to earn customers trust. By giving and keeping promises, showing concern for the security of customer transactions, providing quality services, showing respect for customers, fulfilling obligations to customers, and striving always to enhance customers’ confidence. Furthermore, Effective communication predisposes customers to stay with a provider of banking services. Loyalty can also be nurtured by providing timely and
reliable information. In contrast, customer loyalty is not significantly contributed by the commitment and conflict handling in the relationship marketing in this study. But both dimensions are the important predictor variables to predict the customer loyalty (Ndubisi, 2006; Taleghani et al., 2011). At the same time mean value of both dimensions are in a low level compare with the mean value of trust and communication dimensions in this study. Therefore, the banks should have proper strategy to handle the conflict. By trying to avoid potential conflict, trying to solve manifest conflicts before they create problems and holding the ability to openly discuss solutions when problems arise. Furthermore, the commitment is another critical factor to building the customer loyalty. So that banks should concentrate on customer commitment through offering the personalized and flexible services. Lastly, in the moderating effect of personal demographic variables, banks should concern the age wise segmentation. Persons who are 56 and more than 56 years old have lowest level of customer loyalty. Lack of knowledge in the banking technological aspects might be the reason for the least level of loyalty among customers who are 56 and more than 56 years old. Therefore the banks should provide the awareness programs on the “use of information technology in the banking sector” to especially the persons who are 56 and more than 56 years old.

In today’s technologically advanced world and due to arrival of internet, it’s much more difficult to retain a Customer. Several strategies have been attempted to retain customers (Afsar et al., 2010). Nguyen, (2006) recommended the strategies to develop the capability of relationship marketing in the banking sector especially in the Asian context.

1. Strategy development: It is imperative to develop an overall approach to managing customers. There is a need to link back to the overall corporate and marketing strategy of the company.

2. Customer information strategy (CRM): There is a need for detailed data identification, collection, analysis and interpretation of customer information to enable the detailed strategy to be implemented with confidence in the banking sector.

3. Reduce the customer list: There is a need to differentiate customers by value which will allow a firm to priorities its marketing efforts, allocating more resources to high value customers, while minimizing the resources applied to low value customers.

4. Planning and internal marketing: There is a need to draw together all the analyses of the different departments to produce a case for changing the way to manage customers plus the associated investment and profit implications, and developing a project plan to manage and monitor.

5. Technology: it can be used to speed up the routine aspects of business, freeing up people for more complex issues and increasing their job satisfaction. Consumers are happy because of the increased speed of response and the capability to access information as required.

LIMITATION AND FUTURE RESEARCH

This research focuses on banking services in one particular district of the country; therefore further research in other sectors may be necessary before generalization can be made on the
entire service industry. For the purpose of practicability and manageability, Convenience sampling method has been adopted to select respondents. Factors such as precision, confidence, time and cost constraints were taken into consideration in selecting sample size. Furthermore, this research mainly conducted based on the data collection, through the questionnaire. The other data collection methods had not been considered. As a result they may not be 100% accurate. In this study, relationship marketing contributes significantly to customer loyalty and predicts 30 percent of the variation found. Remaining 70 percent of the variation should be found. Due to that, an important future research direction is to find out the key factors to determine the relationship marketing in the banking sector in Jaffna peninsula through the factor analysis. Furthermore, relationship marketing research may include other less widely acknowledged relationship marketing variables, for example, friendship, recognition, thoughtfulness, understanding, benevolence, competence, and time to listen.

In the customer loyalty side, within the loyal category there are satisfied and un-satisfied customers. The satisfaction is not an essential requirement for loyalty. Sometimes unsatisfied customers are also loyal due to attachment and commitment with the supplier. This type of loyalty is sometimes called False Loyalty which stops him/her from switching or choosing another supplier. These hurdles are called switching cost. Therefore, future study direction is to examine the mediating role of customer satisfaction between relationship marketing and customer loyalty, and also the impact of the relationship marketing underpinnings can be investigated on other dependent variables such as customer retention, satisfaction, market share, profitability and firm performance.

REFERENCES


