THE IMPACT OF RELATIONSHIP MARKETING PRACTICE ON CUSTOMER LOYALTY

(SPECIFIC REFERENCE TO LOCAL COMMERCIAL BANKING SECTOR IN JAFFNA DISTRICT)

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ABSTRACT

Managing effective Relationship Marketing Practices are increasingly important in the banking industry. Since the length in years of customer relationships are one of the most important factors that contribute to the profitability. As a result Customer Satisfaction may be one important driver of Customer Retention

The goal of this research project is identify and assess impact relationship marketing practice on loyalty in local commercial banking sector in Jaffna.

The research was mainly based on data, collected from customers in Jaffna commercial banks. The results of the statistical analysis showed that is a strong positive impact of relationship marketing practices on customer on Loyalty. Therefore these findings will help the banks to establish a customer oriented strategy to retain their customers in future.

Key Works- Relationship marketing, Customer Loyalty, Banking Sector, Sri Lanka

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INTRODUCTION

Globalization and technology improvements have forced companies into tough competition. In this new era organizations are focusing on managing customer relationships, particularly customer satisfaction, in order to efficiently maximize revenues (Constantinos, 2003). Today marketing is not just developing, delivering and selling, it is moving towards developing and maintaining mutually long term relationships with customers (Buttle, 1996). This new business philosophy is called relationship marketing (RM), which has attracted considerable interest both from marketing academics and practitioners (Grönroos, 1994). In practice, however, the 'customer markets', with the latest relational concept customer relationship management, CRM, remain the primary focus and, as such, Peck (1999,) place them firmly at the centre of the six-market model of relationship marketing.

Customer oriented Relationship marketing programmes that enhance the flow of information between the bank and customers increase customers' positive feelings towards their bank, thereby also increasing satisfaction and relationship strength (Barnes and Howlett, 1998; Ennew and Binks, 1996). Although past studies provide knowledge regarding the nature and importance of banking relationships from a customer (O'Loughlin et al., 2004), business (Madill et al., 2002), and dyadic (Paulin et al., 1998; Akerlund, 2004) viewpoint, some questions remain unanswered. For example, information on extent to which specific relationship marketing programmes have succeeded in strengthening relationships in different segments. Relationship marketing can, but need not be, directed towards all customers of the bank. Most retail banks are characterised by having both profitable and unprofitable customers, where the former subsidies the latter (Carson et al., 2004; Zeithaml et al., 2001). Retaining the profitable customers has become increasingly difficult in a competitive environment where other financial institutions specialize in offering attractive services and prices to this lucrative segment. Since investments across all customer segments will not yield similar returns (Zeithaml et al., 2001), relationship marketing is often directed only at the most profitable segments defined by, for example, income and wealth (Abratt and Russell, 1999). There is, however, a lack of research on how relationship rarketing activities affect relationship outcomes in the target segment.

It is important, therefore, to empirically examine the actual impact of the underpinnings of relationship marketing on customer loyalty. Conversely, in common with most service industries, customer loyalty is an important aspect of stability and growth within the banking sector because maintaining an existing customer provides several economical benefits. Indeed, customer loyalty has become a key goal of most business (Berry & Parasuraman, 1991). Such understanding will assist in better management of firm-customer relationship and in achieving higher level of loyalty among customers.

However, Palmer (1997, p. 321) has cautioned that: "… relationship marketing means different things in different cultures and marketers should be as wary of prescribing universal solutions for exchange bases as they are of developing universal product and promotion for all markets". Accordingly this research study investigates the impact of four underpinnings of relationship marketing – trust, commitment, communication, and conflict handling – on customer loyalty of banking industry in Jaffna aspect.

In today's competitive environment, customer retention and profitability have become paramount for the success of banking industry. Many banks have now come to realize the benefits of creating lifelong associations with fewer, but more profitable consumers. Relationship marketing activities can have a major impact on an organization, by improving customer satisfaction and longevity, reducing marketing expenses, in addition to providing a competitive edge.

LITERATURE REVIEW AND PREVIOUS STUDIES

Interest in the economics of long – lasting customer relationship has growing since the last decade. Relationship marketing establishing, maintaining and enhancing relationship with customer and other partners at a profit, so that the objectives of the parties involved are met (Grontoos, 1994). This is achieved by a mutual symbiosis and fulfillment of promises (Ndubisi, 2003). The phenomenon described by this concept is strongly supported by on – going trends in

modern business (Webster, 1992). Nelson and Ndubisi(2007) argued that the goals of relationship marketing are to create and maintain lasting relationship between the firm and its customers that are rewarding for both sides, while Blobqvist el al (1993) offered key characteristics of relationship marketing ; every unit, activities of the firm are predominantly directed towards existing customers, it is based on interactions and dialogues and the firm is trying to achieve profitability through the decrease of customer turnover and the strengthening of customer relationships. Gummesson(1991) concluded that relationship marketing is a strategy where the management of interactions, relationships and networks are fundamental issues.

Marketing studies have theorized a number of key underpinnings of relationship marketing namely, trust (Morgan and Hunt,1994: Ndubisi et al.2004), equity (Ndubisi 2004), benevolence, empathy, (Ndubisi,2004) commitment (Morgan and Hunt, 1994), conflict handling(Ndubisi,2004), communication or sharing of secrets (Crosby 1990, Morgan and Hunt 1994) and competence (Ndubsi,2004). Kavali (1999) concluded that relationship marketing is about healthy relationship characterized by trust, equity and commitment.

In this part we can have a look on customer loyalty. Kotler(2003) define customer loyalty as the purchase from the company by its customers expressed as a percentage of their total purchases from all suppliers of the same product. Asker (1991) discussed the role of loyalty in the brand equity process and specifically noted that brand loyalty leads to certain advantages, such as reduced marketing cost and more new customers.

Therefore, loyalty is a concept that goes beyond simple purchase repetition behavior since it is a variable which basically consists of one definition related to behavior and another related to attitude, where commitment is the essential feature. (Josefa and Quintana,2002). According to most of researchers, the combination of components enables us to distinguish two types of customer loyalty concepts:

1) loyalty based on inertia, where a bran is bought out of habit merely because this takes less effort and the consumer will not hesitate to switch to another brand if there is some convenient reason to do so and

2) True brand loyalty , which is a form of repeat purchasing behavior reflect a conscious decision to continue buying the same brand, and it must be a accompanied by an underlying positive attitude and a high degree of commitment toward the brand.

CONCEPTUAL FRAME WORK

The research approach is deductive when a theory and the hypothesis (or hypotheses) are developed and a research strategy is designed to test the hypothesis, or it is inductive when the data is collected and the theory is developed as a result of the data analysis. The deductive approach owes more to positivism and inductive approach more to phenomenology, although it is believed that such labelling is potentially misleading and of no practical value (Saunders,2000). Accordingly this research is positivist deductive because the hypotheses are developed and a research strategy is designed to test the hypothesis.

Based on the previous research findings, the researcher develops a conceptual model, which adapted from theoretical model explaining further as below.
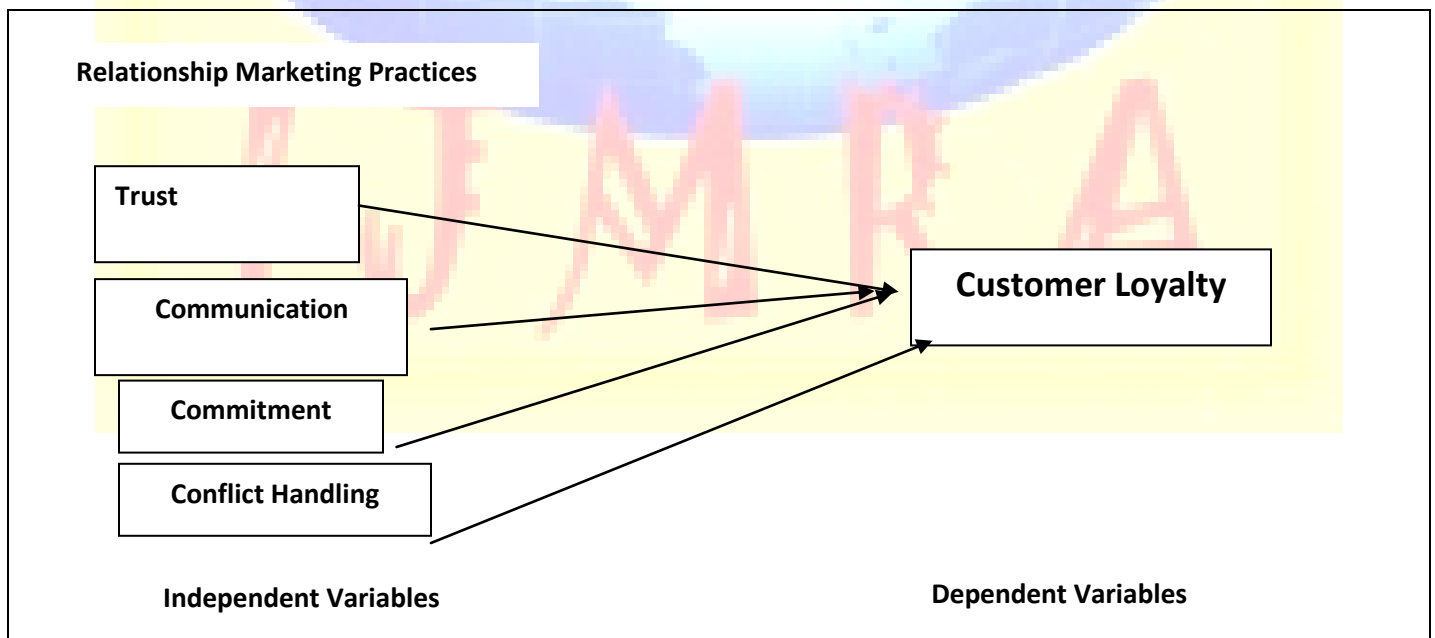
Figure 1: – Conceptualization

Variables and indicators adopted for the questionnaire development are as follows,

Identification of variables

- **Dependent variable**

Dependent variable is the variable of primary interest to the researcher (Sekeran, 2007). In this study, customer loyalty is the dependent variable.

- **Independent variables**

According to Sekaran(2007) an independent variable is one that influences the dependent variable in either a positive or negative way. In this research Relationship marketing practices are the independent variables.

OBJECTIVES

The main objective of the research is a District to examine the impact of relationship marketing practices on customer loyalty in banking industry in Jaffna. Due to the prevailing situation in the country, most of the private& foreign banks opened their branches in Jaffna, and still continuously opening branches in many parts of the peninsula. This trend becoming a threatening factor for the existing banks who running their banking business in the Jaffna peninsula without much competition for the last three decades. Hence this study is important and suitable for this time for the banking industry in Jaffna. Furthermore, this research is aimed at achieving following specific objectives

1. To investigate the degree of relationship marketing practices applied in Local commercial banking sector

2. To examine the nature of the customer loyalty of the local commercial banking   customers

3. To identify which element/s of relationship marketing practices are mostly practices in local commercial banks

HYPOTHESES

Hypotheses of this study are as follows,

H1: Relationship marketing practices using in the bank are positively influence on customer loyalty in commercial banks

H2: Satisfaction of customer about the services provided by the bank is positively affect on customer loyalty in commercial banks

METHODOLOGY

The population of the study consisted of the local commercial bank branches that have been in operation over the last two years in the Jaffna District. The branches of the foreign commercial banks are not included for the study, since the empirical domain of the study is limited to the local commercial banking sector. The study covers both private sector as well as state owned local commercial banks located in the Jaffna District in Sri Lanka. The list of registered local commercial banks in Sri Lanka whilst a comprehensive list of the number and location of branches belonging to each of the local commercial banks operating in the Jaffna District, was available on the web sites of the commercial banks. Based on this information a comprehensive sampling framework is developed as shown in the table 1.

Table 1- Sampling Framework (Population and Sample)

	Name of the Bank (LCB)	Ownership	Branches	Sample size of Branches	Sample elements
01	Bank of Ceylon	State	12	05	25
02	People Bank of Sri Lanka	State	13	06	30
03	Commercial Bank of Ceylon	Private	09	04	20
04	Hatton National Bank	Private	10	04	20
05	Sampath Bank	Private	08	04	20
06	Seylan Bank	Private	05	04	20
07	DFCC Vardana Bank	Private	01	01	05

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08	NDB Bank	Private	02	02	10
09	Pan Asia Bank	Private	01	01	05
10	Nation Trust Bank	Private	03	03	15
			64	34	170

Source: Website of the local commercial banks 2013.04.10.

DATA COLLECTION PROCEDURE

The study employed both primary and secondary data sources. The secondary data mainly consist of banks annual reports and the web sites. Further, international journals and proceedings of the conferences were helpful in formulating the research problem, reviewing extant literature and developing the structured questionnaire.

Primary dada collected using structured questionnaire. Questionnaires were personally distributed by the researcher to the bank customers to complete. Each completed questionnaire was checked immediately after the completion by each of the respondents. The completed questionnaires were checked once more prior to computer entry to find out if there were any problems such as non responded and missed questions.

VALIDITY AND RELIABILITY

Reliability

Polit and Hungler(1993) refer to reliability as the degree of consistency with which an instrument measures the attribute is designed to measure. The questionnaire which was answered by the customers of commercial banks in Jaffna revealed consistency in responses. Reliability can also be ensured by minimizing sources of measurement error like data collectors bias. Data collector bias was minimized by the researcher's being the only one to administer the questionnaires, and standardizing condition such as exhibiting similar personal attributes to all respondents, e.g., friendliness and support. The physical and psychological environment where data collected was made comfortable by ensuring privacy, confidentiality and general physical comfort.

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Validity

The validity of an instrument is the degree to which an instrument measures what is intended to measure (Polit & Hunder, 1993). Content validity refers to the extent to which an instrument represents the factors under study. To achieve content validity, questionnaires included a variety of questions to measure each variable.

Data Analysis

The Pearson simple correlation coefficients were calculated and are reported in the correlation matrix as shown in Table 4.7 below. According to Malhotra (2005) it is importance to have evidence of association among the constructs and variables of the study before formally assisting the relationships using the regression analysis. Therefore, a correlation analysis was performed for fulfill the purpose of identify the strength of association among the constructs and variables of the study.
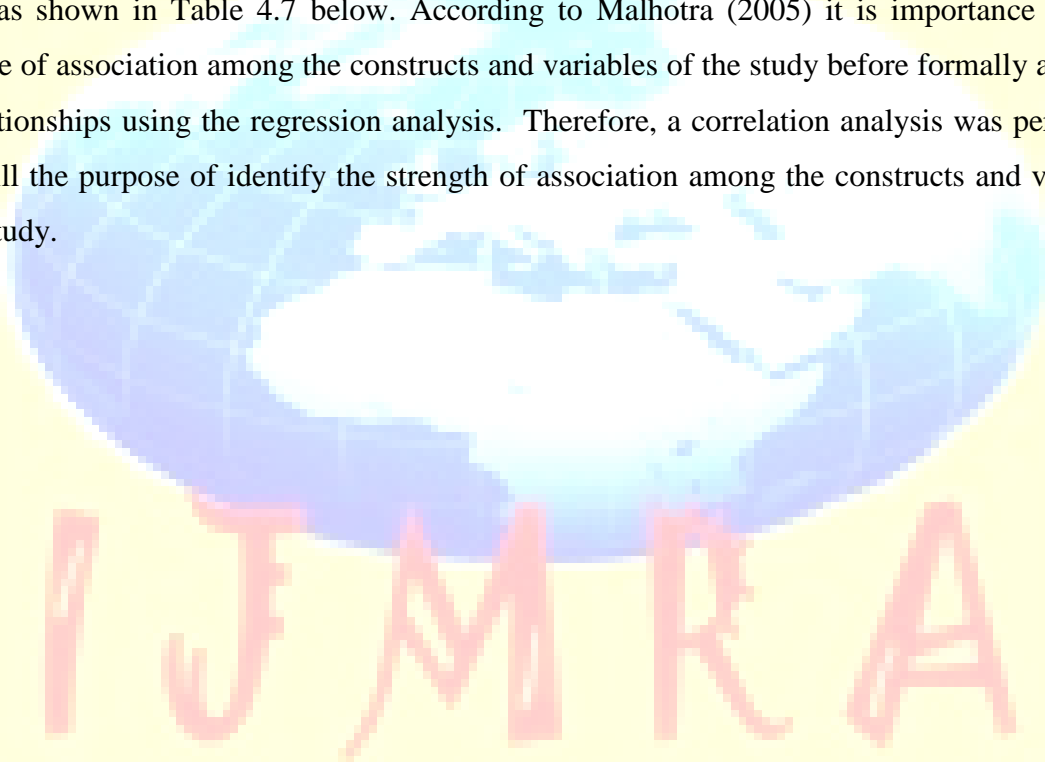
Table 2 Correlation

		Loyalty	Trust	Commitment	Communication	Conflict
Loyalty	**Pearson Correlation**	1				

	Sig. (2-tailed)					
	N	127				
Trust	Pearson Correlation	.826**	1			
	Sig. (2-tailed)	.000				
	N	127	127			
Commitment	Pearson Correlation	.812**	.486**	1		
	Sig. (2-tailed)	.000	.000			
	N	127	127	127		
Communication	Pearson Correlation	.727**	.534**	.372**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	127	127	127	100	
Conflict	Pearson Correlation	.825**	.642**	.630**	.452**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	127	127	127	127	127

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

*. Correlation is significant at the 0.05 level (2-tailed).

In the table 2, all factors were correlated with customer loyalty and amongst themselves. The factors with the highest correlation with overall customer loyalty were Trust (0.826),

Commitment (0.812), Communication (0.727) and conflict handling (0.825). The correlations between customer loyalty and all the factors of interest in this study were all positive indicating that there was a positive association and relationship between customer loyalty and all its determinants identified in this research.

Multiple regression analysis models

To assess the impact of the four dimensions identified in this study on overall customer loyalty, a multiple liner regression analysis was performed using the factors score values of the dimensions as independent variables and overall customer loyalty as dependent variable. The empirical results of this multivariate analysis are shown in Table 3 below.

Table 3 Predictor of Loyalty – Model Summary

Details	Trust	Commitment	Communication	Conflict Handling
Loyalty	16.405 (.000)	16.797 (.000)	19.325 (.000)	
Constant	3.112 (P=.823)	2.191 (P=.537)	1.233 (P=323)	1.185 (P=.231)
R	0.826	0.950	0.988	1.000
R^2	0.683	0.903	0.976	1.000
Adjusted R^2	0.680	0.902	0.975	1.000
Standard Error	0.50	0.32	0.16	0.00
F Value	269.113(.000)	578.234(.000)	1667.823(.000)	

Note: Figure in the Parentheses indicate P- value

The specification of the four variables such as Trust , Commitment , Communication and conflict handling in the above model revealed the ability to predict loyalty (R^2 = 0.683; 0.903; 0.976 and 1.000 respectively). In this model R^2 value of above four ratios denote that 68.3%; 90.3%; 97.6% and 100% to the observed variability in loyalty. The remaining 30.7%; 9.7% and 2.4% are not explained. An examination of the model summary in conjunction with ANOVA (F–value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. For model 1- F value is 269.113 and respective P value is 0.826, p < 0.01 which is statistically significant (0.000) level. Again considering model 2- F value is 578.234 and respective P value is 0.537, p < 0.01 which is statistically significant (0.000) level. On the other hand, model 3, F-value is 1667.823 and respective P value is 0.323, p < 0.01 which statistically significant (0.000) level. Model 4, respective P value is 0.231, p < 0.01 which statistically significant (0.000) level.

Conclusion and Practical implications

The core purpose of the study was investigated how relationship marketing practices implement in commercial banks in Jaffna affected their loyalty. The ultimate objective of the research is to examine the impact of Relationship Marketing Practices (RMP) on Loyalty in Jaffna licensed commercial banks. The regression result shows that there is a strong positive impact of RMP on Loyalty. It means that RMP has strong positive effects on the Loyalty in Jaffna licensed commercial banks. Hypothesis (H1) has been accepted.

The existing literature on the relationship marketing and customer loyalty has identified a positive relationship between relationship marketing and customer loyalty. But there is no clear evidence about relationship between Relationship marketing and customer loyalty on the service industry in developing countries. This study tried to integrate the relationship between relationship marketing and customer loyalty in Commercial Banking industry in Jaffna. Thus, it filled the theoretical gap with empirical findings by providing the answer – relationship marketing positively affect on customer loyalty in service firms in developing countries. Furthermore bonding also had the higher regression coefficient value. It shows, bonding with customers has the strong positive influences on Loyalty.

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