Influence of Relationship Marketing on Customer Retention in Sri Lankan Banking Industry

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Abstract

Banking sector has become turbulent with the immense competition; hence it is mandatory to retain customers to ensure long term survival. In contemporary business markets, Relationship Marketing (RM) is used as a new competitive weapon to conquer the minds of consumers. Most of the past studies have concentrated on the link between customer relationship management and customer retention or have treated the concepts separately. Relatively few studies have focused on the influence of RM on customer retention (CR). There is a lack of empirical evidences that directly treated this type of investigations especially in Sri Lanka. Through this study, researchers intend to measure "Influence of RM on CR with respect to the Banking Industry in Sri Lanka". The research objectives are to identify the salient dimension of RM and to examine the influence of RM on CR. This study is descriptive, correlational and conclusive in nature. People who are visiting a bank to get the service were considered as the population for this study. A sample of 250 people from Colombo and Kandy metropolitan area was selected by using the convenience sampling technique. Person who visits a bank to get the service was taken as the unit of analysis. Paired Sample T-Test, Mean Analysis and Regression Analysis were performed to assess the hypotheses. The results demonstrated that Organizational dimension as the salient dimension of RM. And also it is identified that there is a strong positive influence of RM on CR with reference to Sri Lankan banking industry. The findings of this study contribute to the existing literature in the aspects of consumer behaviour and psychology. And the inference of this research can be used in developing strategies to enhance the level of CR through means of RM especially in the areas of training and development, creating new roles and responsibilities dedicated to RM and maintaining an effective database system to support marketing information systems which will ultimately lead banks to increase the competiveness in the banking industry and finally it contributes to the economic stability and prosperity of Sri Lanka.

Keywords: Banking Industry, Relationship Marketing, Customer Retention

INTRODUCTION

The great Indian martyr M.K. Gandhi has mentioned in a speech in South Africa in 1890 that, "A customer is the most important visitor on our premises. He is not depending on us; we are depending on him. He is not an interruption to our work but the purpose of it. He is not an outsider but a part of it. We are not doing him a favour by serving him; He is doing us a favour by giving us the opportunity to do so." Therefore in contemporary business markets, Relationship Marketing (RM) is used as a new competitive weapon. Many organizations are focusing on conquering the minds of consumers, making them loyal brand followers and satisfying their individual needs with the help of aptly designed RM systems.The concept of RM was first introduced by Berry in 1983 as "attracting, maintaining and enhancing customer relationships in multi-service organizations." While recognizing the fact that customer acquisition as one of the prime duties of the marketer, this standpoint implies that retention and development of customer relationship were of equal or even greater importance than customer acquisition to the organization in the long run. According to Kotler and Keller (2006), Purpose of RM is to build mutually satisfying long term relations with key parties like the customers, suppliers and distributors in order to earn and retain their business. RM differs from other forms of marketing in that it recognizes the long term value of customer relationships and extends communication beyond traditional advertising and sales promotional messages (Bhardwaj, 2010).

Banking sector can be considered as the main recipient in recent economic downturn. There is a need for improved strategies in this sector. As a result of the continuing movement towards deregulation and the associated increase in competition, establishing a long-term relationship with clients becomes of great importance to the banks in order to acquire a moderate or greater share of the financial market. The economic expansion and structural transformation were highly facilitated by the rapid growth of banking and other financial services in Sri Lanka. This is clearly reflected in the growth of assets in the financial sector and the contribution of the financial sector to Gross National Product (GDP) in last ten years. Total assets of licensed commercial banks (LCBs) and licensed specialized banks (LSBs) grew by 17.3% in 2014 compared to 16.5 % in 2013. Financial service activities reported significantly higher growth rate of 15.8 % in 2015 4th quarter compared to the previous years (Department of Census & Statistics, 2015).

Problem Statement

Despite this significant contribution to GDP, and the increased competition due to the deregulation of financial sector, there is a dearth of studies undertaken to examine the marketing practices such as RM or relationship banking in corporate banking sector in Sri Lanka. As mentioned by Tyler and Stanley, 2001 banking customers still prefer personal relationships as the principal means of communication and exchange between bank and client firm. Emergence of private banks caused an increase in the intensity of competition in the banking sector in Iran and success achieved is attributed to the maintenance of long term customer relationships (Taleghani et al., 2011).Thus, many banks around the world have been successful in accomplishing benefits from the RM approach and its implementation. The unfriendly relationships with customers lead to the loss of competitiveness and removal of them from the scene and research findings confirm that close relationship between bank employee and customer, and also the market conditions are the most important indices that reflect the success or the failure in providing services to customers (Ranjbarian and Barabari, 2009).

Most of the literature that deals with assessment of the importance of RM was from Western countries. Although businesses in Sri Lanka have resorted to practice the RM concept, there is only a very few literature found in this arena when compared with west. More over relatively few studies focus on the influence of RM on Customer Retention (CR), especially in banking industry in Sri Lanka. Most of the researches were focused on the relationship between customer relationship management and customer retention (Verhoef, 2003; Lemon et al., 2002; Lombard, 2011). And ample of researches were focused on the two concepts, RM and CR separately (Gilaninia et al., 2011; Adamson et al., 2003; Abeysekara at el., 2010; Pegler, 2004; Ahmad and Buttle, 2001) without specifically concentrating on the relationship or the impact of the two concepts. Therefore, it is beneficial to identify the influence of RM on CR in order to contribute to the existing literature and to develop strategies in order to enhance CR in banks.

Therefore, through the current study, the researchers intend to fill the prevailing knowledge gap by studying, "How does Relationship Marketing influence on Customer Retention in Banking Industry in Sri Lanka?"

Based on the above broader research problem, research questions have been derived as, what is the salient dimension of RM? What is the influence of RM on CR? Accordingly the

Research objectives are set as, to identify the salient dimension of RM and to examine the influence of RM on CR.

The first segment of this study provides the theoretical background, the second segment elaborates the operationalization and methodology and the final segment devoted for analysis, discussion and conclusion.

LITERATURE REVIEW

Banking Industry of Sri Lanka

The Central Bank of Sri Lanka (CBSL) has pursued strict regulation on the banking sector during the global economic collapse. As a result there was not much impact on the banking sector of the country. The CBSL has a continuous supervision process which is an uninterrupted monitoring of banks to assess the trends of banks on an individual and a system wide basis. This process enables early identification of any potential risks. Spot examinations of banks are carried out on specific issues as and when required based on triggers identified through the continuous supervision process. Thus, the supervisory process is well equipped to proactively detect any build up in risks (CBSL, 2012). The banking sector accounted for 57.9% of financial system assets as at end December 2014, comprises LCBs and LSBs.

Banking Challenges

As mentioned by Wijewardene, 2010 banking industry is one sector which undergoes rapid changes and transformation. Hence, what we have today as banks is completely different from what we had as banks yesterday. Similarly, banks tomorrow will be completely different from banks today. Those who work in banks, called ‘bankers’, are like the space traveller who is totally confused by the new experiences he is witnessing every moment of his life. Similar to space travellers bankers too have to make extraordinary efforts to keep pace with the ever changing landscape of banking. It is only a visionary in banking who is able to correctly gauge what is happening and take appropriate actions to make him ready for the change.

Relationship Marketing Defined

It is important to note that there is a difference between a service interaction and a relationship. “A service interaction occurs when there is a client throughput via an individual service process, whereas a relationship exists when there is a client throughput because of an actual firm-client relationship" (Bruhn and Georgi, 2006, p.18). The most comprehensive definition for RM was the following proposed by Grönroos, 1994, p.4-20 "the objectives of RM are to identify and establish, maintain and enhance, and, when necessary, terminate relationships with consumers and other stakeholders at a profit so that the objectives of all parties involved are met".Walsh, Gilmore and Carson, 2004, p.469 define RM as "the activities implemented by banks in order to attract, interact with, and retain more profitable or high net-worth clients".

Dimensions of Relationship Marketing: The dimensions of RM as mentioned by Pop and Pelau, 2006 are Informational, Management, Instrumental and Organizational.The 'informational dimension' is the general communication of the company with the market, and with its customers, especially for gaining as much as possible information about the customer.The 'management dimension' of relationship marketing, includes all decisions about managing the relationship between the company and its customers.The 'instrumental dimension' refers to all instruments that the company uses in order to attach its clients to its products, services or trademarks for the long term. The 'organizational dimension' needs a certain structure in order to direct efforts towards managing relationships with the customers.

Customer Retention Defined

Many studies (Jones et al., 2000; Colgate et al., 1996) have shown that a firm's most important asset is its existing client base. "Customer retention refers to the longevity of a client's relationship with a product and/or service providing firm" (Menon and O'Connor 2007:157). "A firm with effective CR convinces their clients to stay with the firm" (Bruhn and Georgi, 2006, p.18). Buttle, 2004, p.298 states CR as "The number of clients doing business with a firm at the end of a financial year expressed as a percentage of those who were active clients at the beginning of the year".

Dimensions of CR: 'Trust' develops through past experience and prior interaction over time. 'Commitment' implies that there are mutual benefits and that the parties involved want to stay in the relationship and are prepared to put in effort and investments in terms of monetary and psychologically in maintaining the relationship (Morgan and Hunt, 1994). 'Switching Cost', according to Brink and Berndt, (2008, p.43) firms need to focus on customer migration in order to improve customer retention. Reichheld, 1993 suggests that personal relationships between sales persons and customers contribute to CR that is stated as 'Personalization'.

Influence of RM on CR

Karakostas et al., 2005 indicates that 71% of the firms’ respondents identify the implementation of RM efforts as possibly leading to higher CR rates. Peppard, (2000, p.321) indicates that CR would be maximized by matching product and service levels more closely to client expectations, which is possible through proper RM. According to the study of Eid, (2007, p.1034), “the relationship quality (thus the degree and extent of relationship marketing) of banks has a direct and positive effect on CR”.

METHODS

Research Design

Main objective of this research is to identify the influence of RM on CR. Hence, the researchers are interested in finding out the influence of independent variable (RM) on dependent variable (CR). As the researcher is trying to test hypotheses that were developed to explain the influence of independent variable on dependent variable, the type of the study is correlational. This study was conducted in the natural environment with less interference of the researchers. As the researchers wanted to find out the influence of variables, the data was collected in the natural setting under a field survey. Hence, the study setting is non-contrived. The data for this study was collected at a single point of time (Zikmund 1997, Sekaran 1999), thus the study is a single cross-sectional one. The study was based on both primary and secondary data. The data necessary for testing the hypotheses were basically on primary data and the definitions and discussions of concepts on the literature review were from books, journals, research articles and past researches. Primary data required to the study was collected mainly through a self-completion questionnaire from banking customers. People who are visiting a bank to get the service were considered as the population of this study. The unit of analysis is individual level. The person who visits a bank to get the service was taken as the unit of analysis. For the purpose of gathering data, sample of 250 people have been taken into account. The convenience sampling technique was used as the sampling technique for the study. Convenient sampling technique is a non-probability sampling technique where sample selects purely based on the convenience of recruiting. As per the economic and social statistics of Sri Lanka, Western and Central Provinces have the highest number of bank branches in the country 1037 and 298 respectively (Central Bank, 2014). Hence People from Colombo and Kandy Metropolitan Area were considered into the sample in order to enhance the generalisability.

Main techniques used for data analysis were paired sample t-test, mean analysis and regression analysis. Significance of the influence of RM on CR has been identified through regression analysis. Frequency analysis was used to explore the other demographic factors.

Conceptual Framework

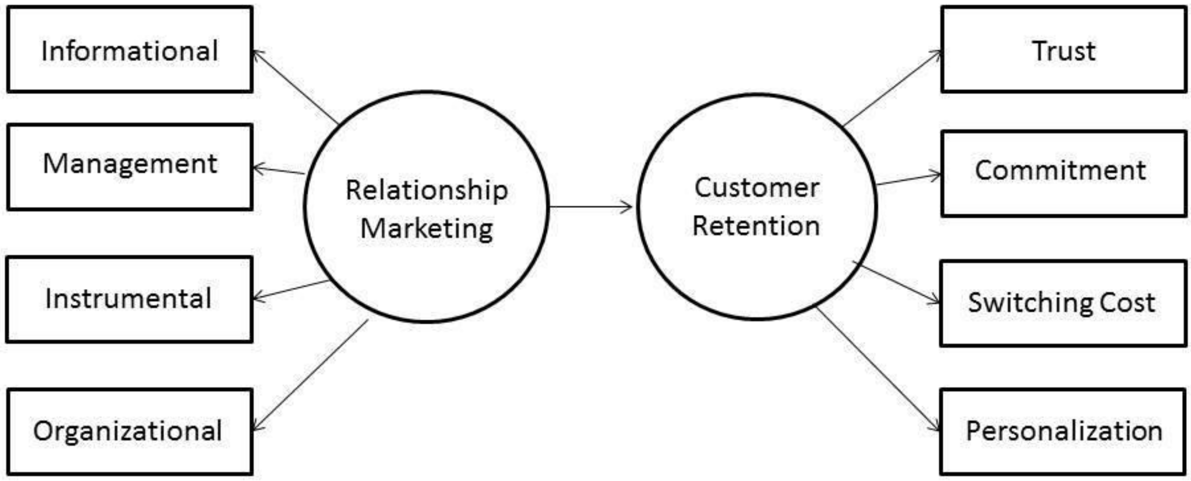

Figure 01: Conceptual Framework

Figure 1 demonstrates the relationship between independent and dependent variables, where RM is the independent variable CR is the dependent variable.

Operationalization

The RM construct was operationalized based on the research study of Pop and Pelau, 2004. Further, confirming the dimensions and items utilized by Pop and Pelau, it was evident that similar RM items have been employed by Kukat, 2005(as cited in Pop and Pelau, 2004). The conceptual domain of CR was captured based on number of studies employed by authors such as Ranaweera and Prabhu (2003a), Hansen et al. (2003), Brink and Berndt (2008).

As both RM and CR were recognized as multidimensional constructs, dimensions and items were arrived at priori and subsequently validated by testing against data. All the dimensions were measured by multiple items. Accordingly, informational (4 items), management (4 items), instrumental (3 items) and organizational (3 items) were used. And also, four first order factors have been employed initially for CR and were measured by multiple items as, trust (5 items), commitment (4 items), switching cost (3 items) and personalization (4 items). All items were tested on a five point Likert Scale. The response categories for each item were denoted by 1 (Strongly Disagree), 2 (Disagree), 3 (Neither Disagree nor Agree), 4 (Agree) and 5 (Strongly Agree).

Validation of Measurement Properties

Content validity: Measurements used in the survey have high content validity as they were developed based on extensive and rigorous literature review and it has been assured where all dimensions and items were arrived at priori and tested against data by using exploratory factor analysis through Varimax rotation.

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of sphericity has been performed to examine the appropriateness of the factor analysis. Since all KMO values are above 0.5, the factor analysis can be held appropriate (Malhothra, 2005). Average Variance Extracted (AVE) and Composite Reliability are required to ensure the convergent validity. Fornell and Larcker (1981) have claimed that convergent validity can be established if the AVE exceeds 0.5 for a factor and furthermore, Composite Reliability of the dimensions should be equal or greater than 0.7 (Nunnally, 1978; Sin et al., 2005). Since all AVE and Composite Reliability figures are above the tolerance levels, convergent validity is assured. In order to guarantee the internal consistency of the dimensions, Cronbach's Alpha (CA) has been calculated for the dimensions with more than two items. According to Sekeran and Bougie (2010), if the reliability value is less than 0.6 it is said to be poor and, those in the range of 0.7 are acceptable. According to the Table 1, values of each dimension are above 0.7 confirming that all the items are internally consistent.

Summary of validations and reliability

Table 01: Validity Indices and Reliability Statistics

Variable	Validity					Reliability	
	KMO	BTS	Sig.	AVE	CR	Cronbach's Alpha	Number of items
Informational	0.725	43.49	0.000	0.808	0.944	0.909	4
Management	0.547	27.27	0.000	0.658	0.884	0.826	4
Instrumental	0.695	12.69	0.005	0.714	0.882	0.778	3
Organizational	0.546	20.99	0.000	0.729	0.889	0.745	3
Trust	0.747	43.63	0.000	0.681	0.914	0.872	5
Commitment	0.761	25.22	0.000	0.697	0.901	0.851	4
Switching Cost	0.585	21.59	0.000	0.765	0.907	0.860	3
Personalization	0.654	26.40	0.000	0.654	0.882	0.822	4

DATA ANALYSIS

Sample Profile

Sample profile represents approximately equal numbers from both genders, where male and female representation is respectively 51% and 49%. Most of them are Single. The highest number of respondents are university students (54%) followed by postgraduate students (36%). When considering the Age composition, age group of 19-24 is the highest representation, where only 4% of the sample are above 65 years. Most of the respondents are professionals and senior officials with monthly salaries above Rs. 50,000.

Table 2: Demographic Variables

Variable	%	Variable	%
Gender		**Education**	
Male	51	Secondary	10
Female	49	University	54
		Postgraduate	36
Marital Status		**Education**	
Single	53	Senior officials /Manager	32
Married	47	Professionals	33
		Technicians	05
		Sales & service	05
		Other	25
Age		**Income**	
19-24 Years	38	Below 10,000	25
25-34 Years	24	10,001-20,000	06
35-44 Years	08	20,001-30,000	16
45-54 Years	13	30,001-40,000	04
55-64 Years	13	40,001-50,000	06
Above 65 Years	04	Above 50,001	43

Salient Dimension of RM is Organizational Dimension

The first research question of the study is "What is the salient dimension of RM? Accordingly, the first research objective is to identify the salient dimension of RM in Sri Lankan banking industry. Paired sample t-test was performed to test the first hypothesis that salient dimension of RM is organizational dimension. Except for Organizational and Informational pair the other two pairs were insignificant, indicating that there is no statistical significant difference between Organizational and Management pair and Organizational and Instrumental pair. Mean scores are stated in Table 3.

Table 3: Mean Values of Dimensions of RM

Dimensions	Mean
Informational	3.5450
Management	3.6250
Instrumental	3.7333
Organizational	3.7633

According to the results salient dimension of RM is Organizational dimension with the highest mean value of 3.7633. Hence there is enough evidence to reject the null hypothesis so it is accepted that the salient dimension of RM is Organizational dimension. As all the mean values are above 3, it can be identified that all the respondents are in the range between moderate to high signalling each dimension leads towards agree direction.

Influence of Relationship Marketing on Customer Retention

This is the second objective of the research study. The purpose is to examine the influence of RM on CR in banking sector in Sri Lanka. Statistical tools used to examine the relationship between RM and CR are, Scatter Plot Graph, Scatter Plot Graph with Line of Best Fit, Correlational Analysis and Bivariate Regression Analysis.

The scatter diagram, which is not presented here, showed that the relationship between RM and CR is linear with a positive slope. The relationship was further observed by performing the Pearson correlation analysis and the results showed that the correlation coefficient (r) between RM and CR is 0.935 and significant at p value of 0.000. However, since non-linear relationships cannot be captured by the correlation coefficient (r) (Malhothra and Dash, 2010) bivariate regression analysis was carried out by introducing RM as the independent variable and CR as the dependent variable. Results are given in Table 4.

Table 4: Coefficients of Relationship Marketing

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.647	.120		5.374	.000
	Relationship Marketing	.830	.032	.935	26.024	.000
a. Dependent Variable: Customer Retention						

The estimated regression equation is, **CR = 0.647+0.830 (RM).** Further, the calculated value of the t-statistic is 26.024 with 248 (n-2) degrees of freedom. From the t-distribution table, the critical value of t with 248 (n-2) degrees of freedom, for a two-tailed test is 1.97. Since calculated value of t is greater than the critical value, there is enough evidence to reject the null hypothesis, which reveals that the correlation between the two variables is statistically significant. Hence, there is a significant linear relationship between RM (X) and CR (Y). In addition, as the beta coefficient is a positive value of 0.935, it shows the relationship is strong positive.

Then the strength of the association is measured by the coeffient of determination, (r^2). According to the results given in Table 5 the value of R^2 is 0.874, which indicates that approximately 87% of the variance of CR is explained by RM. As this is a significant percentage, the model can be said successful in explaining variance in the dependent variable. However, it is obvious that there are other minor variables that contribute to CR and those variables would collectively account to only 13% of the variance of the CR. So it can be believed that RM acts as a dominant concept in developing CR.

Table 5: Model fit of Relationship Marketing and Customer Retention

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935[a]	.874	.872	.28823
a. Predictors: (Constant), Relationship Marketing				

DISCUSSION AND CONCLUSION

The results of the present study are consistent with the verdicts of Abeysekera and Hewawasam (2010) confirms that majority of the customers who deals with banks are males. The findings of influence of RM on CR is also in line with the findings of Rootman (2011) who endorses that there is a positive influence from RM on CR. Karakostas et al. (2005) indicates that 71% of the firm's respondents identify that the implementation of the relationship marketing efforts possibly leading to higher customer retention rates. As explained by Bergeron et al., 2008; Ackermann and Ravensteyn, 2005; Wilmshurst and Mackay, 2002; Mudie and Cottam, 1999 and specifically in service industries (Swartz and Iacobucci, 2000) there is a link between relationship marketing and customer retention.

Based on the analysis of this research study it can be concluded that there is a strong positive influence of RM on CR with reference to Sri Lankan banking industry. Among various factors of RM it has been identified in the analysis that organizational dimension plays the most vital role. Further the informational dimension also contributes a considerable support with the second highest mean value. Thus, it can be concluded that when it comes to Sri Lankan banking industry in order to retain customers for a long time with the bank it is imperative to practice RM within the bank since it has strong positive impact on developing CR and it represents almost every aspect of the CR concept. So, it can be concluded that if a bank fails to practice this prominent Relationship Marketing concept, the long-term survival and the industrycompetitiveness of that bank is at stake.

Through this research study it has acknowledged organizational dimension as the salient dimension of RM. Organizational factor means the structure of the company that directs the efforts towards managing the relationship with the customers. It is recommended to pay more attention on organizational dimension. That means banks must invest more on training and development of their staff to make them efficient and to treat customers in a pleasant and friendly way. So, that ultimately efficiency of the bank will increase with active and talented group of staff. Best performers should be rewarded and motivated in order to have a set of highly satisfied employees. If the service provider is satisfied he/she has the ability to provide high quality service, so that the customer will be satisfied with the overall service and retained in the long run with the bank. And also, it is recommended to create new jobs with new responsibilities, tasks and different functions. For instance, in the marketing department, the personnel responsible with the market research will be divided, and a new job responsible for the management of the customer relationships will appear with the designation of Relationship Manager.

Second important dimension of RM as identified in the analysis of the research study is informational dimension. So, it can be recommended that banks should also pay their attention on developing this informational aspect of RM. Informational dimension means the general communication of the company with the market, and with its customers, especially for gaining as much as possible information about the customer. In order to have significant increase in CR banks must practice a proper database management system. And also, bank should have the ability to collect prompt feedbacks from their customers. And also, banks should make the customers aware about the latest offers and services so that customers will always be updated.

Banks can exploit the modern technology to enhance their competitive position in the market. by promoting e-banking and m-banking services giving special benefits to customers who are utilising those methods. To keep up with current trends banking institutions must try to adapt their marketing strategies and tactics to accommodate most popular social networks such as face book and twitter. Online environment provides customers with comprehensive range of services, large volume of information in real time and great opportunities for exchange of services. Consumers have greater confidence in what they read on blogs, forums or social networks. Banks must add such kinds of modern touch to their services to enhance their brand image through ways of information dimension.

Every bank operates with the purpose of retaining more customers, hence it is recommended to incorporate concept of RM into the banking system and embed it within the bank culture to be succeeded in the industry.

The validity of bank corporate client relationship strategy depends on how effectively it is implemented. Thus, findings of this research will be helpful to develop strategies and to invest more on developing a friendly and pleasant environment and active and talented workforce in order to enhance the organizational aspect of RM and also to prepare training manuals to train the sales force in sustaining profitable relationships.

Even though this research has provided in-depth insight about the influence of RM on CR in Sri Lankan banking industry, when conducting the study certain limitations were also encountered. When it comes to the RM and CR it can be measured through wide variety of factors. But all those factors were not taken into consideration when conducting this research. Only the most prominent factors were taken; in a manner that would be applicable to Sri Lankan context. And, this can be further expanded into fields such as insurance and leasing as well. Future researchers are also encouraged to measure the factors of RM and the impact on CR as a dual perspective; which comprises of the bank managers' perspective as well without taking only the perspectives of banking customers.

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