THE IMPACT OF RELATIONSHIP MARKETING PRACTICES ON CUSTOMER LOYALTY –WITH SPECIAL REFERENCE TO LICENSED COMMERCIAL BANKS IN SRI LANKA

Y. Dhanushanthini[1] and R. Niranjana[2]

[1,2]*Department of Economics and Management, Vavuniya Campus of the University of Jaffna*

INTRODUCTION

Sri Lanka, situated in the Indian Ocean near India, is a small island with a population of around 20 million. The economy of the country was liberalized in 1977, thus becoming the first South Asian country to open its economy. This open economic policy resulted in the expansion of the banking sector, and by 2004, there were 22 commercial banks established in the country. Among them, 11 were foreign banks, and the others were local of which two were state owned banks (Central Bank of Sri Lanka, 2004, p. 125). The two state banks are the largest in the country, and all the banks operate in the corporate banking sector.

The total assets of licensed commercial banks are Rs.1058.6 million and with Rs.879 million fixed assets, domestic banking units have strong business power in Sri Lanka. Collectively the unit account for about 82% of commercial bank assets. Therefore the domestic banking unit (2 state banks and 9 domestic private banks) play a main role within the financial system, as they have the capacity to provide liquidity to the entire economy. Consequently, this study mainly focuses on the domestic banking unit of Sri Lanka.

Banks are also responsible for providing payment services, thereby facilitating all entities to carry out their financial transactions. On the other hand, banks can create vulnerabilities of systemic nature, partly due to a mismatch in maturity of assets and liabilities. Therefore, the soundness of banks is important, as it contributes towards maintaining confidence in the financial system and any failure may have the potential to impact on activities of all other financial and non-financial entities.

Banking customers take their finances seriously, and they expect their financial institution to do the same. In an industry of large, small, and in-between banking choices, what can really set your institution apart from the rest? Institutions that continue to grow market share keep their customers' needs as a priority. They consistently excel at personalized customer service and support.

The time has come for commercial banks to consider customer loyalty as a source of competitive advantage. It has been established that customers will not be impressed by only the core service attributes as other firms also provide similar offerings. The study of customer loyalty and business performance has been a focus in the customer relationship management. Therefore relationship marketing and customer loyalty plays an important role for an effective and efficient banking service. Thus, this research would have considerable value to identify the importance of relationship marketing for the banking industry in Sri Lanka to build consumer loyalty.

There are several studies which have been undertaken in the relationship marketing perspective by using different models in different countries, and these studies were also based on the effects of relationship marketing on the business performance of firms. Recently a few studies have systematically investigated how to employ marketing strategies to build customer loyalty. Also

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[1] dhanu1780@yahoo.com, niranju.12.r@gmail.com.

researches are rarely found which have been undertaken on the relationship marketing practices on building customer loyalty perspective to compete effectively. Therefore deficiencies persist in the understanding of the impact of Relationship Marketing practices (Trust, Commitment, Conflict Handling and Communication) on customer loyalty in order to achieve the competitive advantage. So this research addressed the theoretical as well as empirical gap between the Relationship Marketing Practices on customer loyalty. Based on that, the ultimate *objective of the research project is to examine the "impact of RM practices on Customer loyalty in Sri Lankan licensed commercial banks".* Further this study investigates the relationship marketing strategies of local commercial banks and examines whether - after its implementation - customer relationships were strengthened through perceived improvements in the banking relationship and consequent loyalty towards the commercial banks of Sri Lanka.

Research question

"What is the impact of Relationship marketing practices on customer loyalty in licensed commercial banks in Sri Lanka?"

Research Objectives

The objective of the research is to examine the impact of relationship marketing practices on customer loyalty in licensed commercial banks in Sri Lanka.

Literature Review

Interest in the economics of long – lasting customer relationship has grown since the last decade. Relationship marketing refers to establishing, maintaining and enhancing relationship with customers 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 a 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.

Copulsky and Wolf(1990) defined relationship marketing as a combination of the elements of general advertising , sales promotion , public relations and direct marketing to create a more effective and more efficient continuous relationship with consumers across a family of related products and services. They further explained , the relationship marketing process and key elements; 1) identifying and building a database of current and potential customers which records and cross –references a wide range of demographic, life – style and purchase information 2) delivering differentiated messages to these people through established and new media channels based on the consumer's characteristics and preferences and 3) tracking each relationship to monitor the cost of acquiring the customer and the life time value of his purchases.

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
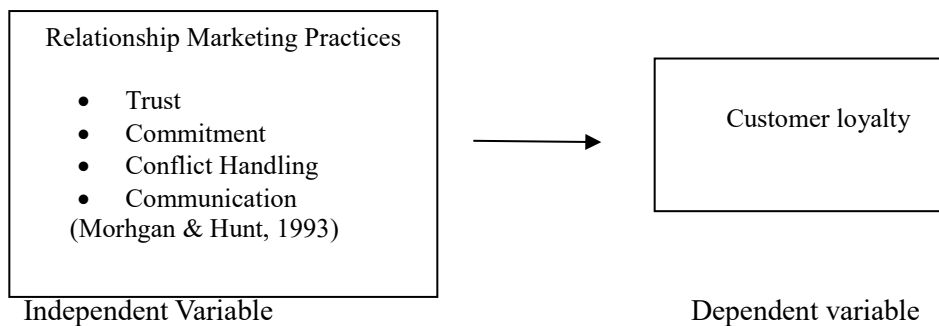
1994) and competence (Ndubsi,2004). Kavali (1999) concluded that relationship marketing is about healthy relationships characterized by trust, equity and commitment.

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.

In increasingly competitive markets, being able to build consumer loyalty is seen as the key factor in winning market share and developing a sustainable competitive advantage. Oliver (1990) defines brand loyalty as " a deeply held commitment to re – buy or re – patronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand set purchasing , despite situational influences and marketing efforts which have the potential to cause switching behavior. This emphasizes the two different aspects of loyalty described in prior studies – behavioral and attitudinal. It has been argued that for loyal buyers, companies must invest in relationship building and customers. Building such relationships and intimacy will also culminate in stronger loyal customers (Ndubisi, 2004).

The development of customer loyalty is one of the most important issues that organizations face today. Creating loyal customers has become more and more important. This is due to the fact that competition is increasing, as never before, which has a great impact on many companies. To deal with this high concentrated market, businesses are attempting not only to attach and satisfy customers but also to create a long term relationship with these customers (Remler and Brown,1996). Creating satisfied and loyal customers is a critical matter for many corporations' survival.

The above justification through literature paved the way for developing the following conceptual model.

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│   Relationship Marketing Practices │                      │                         │
│                                 │                        │    Customer loyalty     │
│     •   Trust                   │      ────────▶         │                         │
│     •   Commitment              │                        │                         │
│     •   Conflict Handling       │                        └─────────────────────────┘
│     •   Communication           │
│   (Morhgan & Hunt, 1993)        │
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 Independent Variable   Dependent variable

Hypotheses

H1 : Relationship marketing practises used in the bank have a positive influence on customer loyalty in commercial banks.

H*a*: There is a positive impact of customer trust on customer loyalty in Sri Lankan licensed commercial banks.
H*b*: There is a positive impact of customer commitment on customer loyalty in Sri Lankan licensed commercial banks
H*c*: There is a positive impact of better conflict handling methods on customer loyalty in Sri Lankan licensed commercial banks
H*d:* There is a positive impact of customer communication on customer loyalty in Sri Lankan licensed commercial banks

METHODOLOGY

Quantitative methodology has been applied and a questionnaire was used to collect data. Among the 22 licensed commercial banks (Central bank of Sri Lanka, 2009), this study is restricted to local banks in Colombo district, as a result two public banks and nine private banks come under the local commercial banks in Sri Lanka. 1000 household customers were selected as the best representative and had been selected from 100 licensed commercial banks based on non-probability sampling method (quota sampling). Before the final data collection a pilot study was undertaken prior to data analysis, and data purification process was conducted to ensure suitability of measures (Churchill, 1979). For ensuring the reliability of scale, Cronbach's alpha is computed. Further content validity and construct validity had been applied, under the construct validity convergent validity, discriminant validity and nomological validity also had been tested. Before the data analysis appropriateness of data distribution was tested. In that manner, normality test and multicollinearity test were undertaken.

Finally multiple regression analysis has been used as data analysis tools and used to test the hypothesis (H1), and step wise analysis used to test the sub hypotheses (Ha, Hb, Hc, Hd).

RESULTS AND DISCUSSION

Table 1
Correlation between Relationship Marketing and Customer Loyalty

Relationship Marketing Practices	Customer Loyalty
Trust	0.87**
Commitment	0.62**
Conflict handling	0.32**
Communication	0.26**

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

Based on the above table, that there is a positive relationship between relationship Marketing Practices and customer loyalty in commercial banking sector in Sri Lanka.

Table 2

Dimensions of RM on customer loyalty (H1)

Hypothesis	Independent variable	Depend. variable	Unstandardizd Coefficient Beta	Standardized Coefficient Beta	Sig.	Adjusted R^2
H1	Constant	Customer loyalty	0.618			0.652
	Trust		0.616	0.779	0.0	
	Commitment		0.522	0.607	0.0	
	Conflict Handling		0.149	0.329	0.0	
	Communication		0.057	0.152	0.0	

H*1*: There is a positive impact of relationship marketing on customer loyalty in Sri Lankan licensed commercial banks. Based on the table 2, Relationship Marketing has a positive regression coefficient value (β = 0.618) which has been significant at P-value of less 5% (P<0.05). At the same time regressed model sufficiently fits the data; accuracy of predictability of

the fitted model is medium and residuals also followed a normal distribution. It implies that relationship marketing with customers positively influences customer loyalty. At the same time adjusted R^2 (0.652) is at a moderate level, and this regression results show that the RM has strong positive effects on customer loyalty in Sri Lankan licensed commercial banks and 65.2% of change in customer loyalty is explained by RM in Sri Lankan licensed commercial banks.

These findings are in the line with Sweeney (2001) and Delgado et al (2005), who stated that there is a relationship between relationship marketing and loyalty. Based on that, the first hypothesis (H1) has been accepted. Further customer trust has strong positive effects on customer loyalty (78%), and commitment also have positive effects on customer loyalty (60%), at the same time conflict handling and communication also have an impact on customer loyalty, 32% and 15% respectively. But both (conflict handling and communication) don't have a strong impact on customer loyalty. In this manner, hypotheses Ha and Hb are accepted at the same time Hc and Hd are also accepted but partially.

CONCLUSIONS/RECOMMENDATIONS

This study tried to integrate the relationship between relationship marketing practices and customer loyalty, and found that "there is a strong positive impact of relationship marketing on customer loyalty in Sri Lankan licensed commercial banks". Thus, it has filled the theoretical as well as empirical gap between relationship marketing and customer loyalty. Besides, it shows that licensed commercial banks are implementing the relationship marketing on a moderate level in Sri Lanka. But Sri Lankan licensed commercial banks are implementing the relationship marketing practices on a moderate level. This shows that Sri Lankan licensed commercial banks have further room to improve their present level of relationship marketing practices.

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