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The Impact of Relationship Marketing Practices and Other Conventional Factors on Customer Loyalty

Specific Reference to Local Commercial Banking Sector in Sri Lanka

by

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Declaration

The work described in this thesis was carried out by me under the supervision of Dr. Fazeela Jameel Ahsan and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/ Diploma.

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Supervisor Approval

I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University for the purpose of evaluation.

Dr. Fazeela Jameel Ahsan

(Supervisor of the thesis)

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ABSTRACT

The relationship marketing concept has received much attention from both academic and practitioners in different industry in the global arena. Banking industry is also not excluded because it has a higher level of interaction with the customers, further becoming familiar with this concept would be very important and helpful for mangers in defining their strategies. In the highly competitive, complex and dynamic environment of the banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The traditional product-oriented bank is becoming increasingly customer-oriented in accordance with the basic principles of relational marketing, which focuses on customer loyalty as its main goal. The increasing importance of relational marketing in recent years, particularly in the servicing and manufacturing industries, has been accompanied by a bundle of works on customer loyalty. The purpose of this study is to explored and analyse the impact of relationship marketing dimensions on customer loyalty in the local commercial banking industry in Sri Lanka on customer point of view. In addition other conventional factors of customer loyally also examined. The study is observed basic relationship marketing elements of trust, commitment, communication and conflict handling and other conventional factors of customer loyalty i.e. switching cost, perceived quality and satisfaction. A quantitative research approach was used to get a better understanding of these issues. Based on detailed literature review, the research model was developed. All local commercial banks, Colombo District in Sri Lanka were selected for the study. The empirical data were collected through a survey conducted house hold customers with local commercial banks. The data was analyzed and hypotheses were tested using liner regression analysis. Findings of this study is shown that local commercial banks are implement relationship marketing practices but not at a higher level. It highlighted that the sector has further room to improve their present level of relationship marketing practices including there components – trust, commitment, communication, conflict handling. In addition, it was revealed that traditional factors positively affect to the customer loyalty of overall commercial banking sector in Sri Lanka. In order to improve the relationship marketing culture of their banks in long run, they can highly focus on customer oriented with providing more education and training on such practices at middle and lower managerial levels.

Chapter One

Introduction

1.1. Background of the study

There is undoubtedly a growing interest in the subject of Relationship Marketing. The strong rivalry characterising today's business environment has resulted to the building of stronger firm-customer relationships. Webster(1992) noted that the phenomenon described by this concept is strongly supported by on-going trends in modern business. Ndubisi (2004) reported that more and more firms are capitalizing on strong firm-customer relationship to gain invaluable information on how best to serve customers and keep them from defecting to competing brands. Hence, customer relationship building creates mutual rewards (Rapp and Collins,1990) which benefit both the firm and the customer. By building relationship with customers, an organization can also gain quality sources of marketing intelligence for better planning of marketing strategy.

Relationship marketing has been put forth as a way for firms to develop mutually beneficial and valuable long-term relationships with customers (Ravald and Grönroos, 1996). Relationship marketing is believed to work most effectively when customers are highly involved in the good or service, there is an element of personal interaction, and customers are willing to engage in relationship building activities (O'Malley and Tynan, 2000). 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 marketing activities affect relationship outcomes in the target segment.

In the highly competitive, complex and dynamic environment of the banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The traditional product-oriented bank is becoming increasingly customer-oriented in accordance with the basic principles of relational marketing, which focuses on customer loyalty as its main goal. In this sense, Gilmore (1997) considered that constant customer-oriented behavior is a requisite for improving the implementation of qualities in service marketing. Indeed, factors such as financial products and distribution have attained similar levels of development and technology and have thus been relegated to a