

The Market Orientation and Relationship Marketing in Private Local Commercial Banks in Colombo District, Sri Lanka

by

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ABSTRACT

The purpose of this study is to investigate the most important dimension of Market Orientation and the most important dimension of Relationship Marketing and further to find the relationship of Market Orientation and Relationship Marketing in selected Local Private Commercial Banks in Colombo District, Sri Lanka. Three hypotheses were formulated using deductive approach. Through a review of existing Market Orientation research, three of its dimensions i.e. Customer Orientation, Competitor Orientation and Inter-Functional Coordination were identified. Similarly Relationship Marketing dimensions i.e. Trust, Commitment, Communication, Conflict Handling and Empathy were identified. The study was conducted with 05 Local Private Commercial Banks in Colombo District, Sri Lanka.

Two sets of structured questionnaires were administered to cover the study. One set of structured questionnaire was distributed among 50 Branch Managers and the other set of structured questionnaire was distributed among 1000 customers. Compare Mean Technique and Pearson Correlation were used to test for the objectives and the hypotheses. The results of the study indicated that the most significant dimension of Market Orientation is the 'Customer Orientation' with a mean value 4.4690 while the most significant dimension of Relationship Marketing is the 'Commitment' with a mean value 4.3094. Further, it was identified that the Market Orientation is positively related to Relationship Marketing. Findings will help commercial banks in Sri Lanka to identify which areas of Market Orientation and which areas of Relationship Marketing to be improved. Finally recommendations, limitations and further research are discussed here.

Acknowledgements

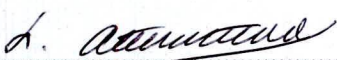
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I wish to record my appreciation of my parents, friends, respective bank managers and bank customers who provided me with assistance in various manners for the successful completion and presentation of this thesis. Last but not least I thank all the respondents for participating in this research study and for their cooperation in completing this in a successful manner.

Declaration by the candidate

I certify that the work described in this thesis was carried out by me under the supervision of Prof. Neville Warnakulasooriya 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.

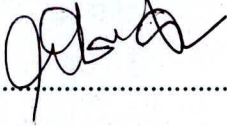

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Declaration by the Supervisor

I certify that the above statement made by the candidate is true and that this thesis is suitable for the award of the degree of Master of Science in Management.



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List of Abbreviations

ATM	- Automated Teller Machine
WOM	-Word of Mouth
MO	- Market Orientation
RM	-Relationship Marketing
CO	-Customer Orientation
COMPO	-Competitor Orientation
INTFCORD	-Inter-Functional Coordination
KMO	-Kaiser-Meyer-Olkin

Chapter 1 -Introduction

The first chapter in this thesis briefly describes the background of the selected area, the importance and the justification of the research problem, identified research problems, research objectives, research methodology and limitation of the study and the overall conclusion of the research study.

1.1. Background

The Relationship Marketing has been in the lime light in the global business industry in the recent past and the need has shown to concentrate on this area in Sri Lanka. In this competitive and changing environment, many service organizations have shifted away from transactional marketing towards Relationship Marketing.

Service Organizations are beginning to recognize the economic value of stable, long-term Customer Relationships based on a high degree of Customer Satisfaction, Trust, Commitment and Loyalty. In the recent past, banks have focused on 'Customer Orientation Culture' where customer needs and wants are the key area rather than on the product features. In a competitive market place, understanding customer needs have become an important factor. Many Sri Lankan banks have identified this gap and changing their corporate strategies accordingly. According to Abratt(1999), the Relationship Marketing is an appropriate framework within the private banking environment and it is moderated by trust, service quality and the bank being available at a time of crisis. According to his research studies it was revealed that the clients are more likely to be retained by the bank when they have a personal banker or a consultant. In the recent past, banks have invested funds to recruit Relationship Managers, form affinity member clubs, Loyalty Programmes etc.

“Having it your way”, is the essence of a customer oriented service strategy and it is widely held that a customer oriented firm is more likely to deliver exceptional service quality and create satisfied customers(Hartline et al., 2000).Service organizations future success will depend mainly on how they build long term relationships with their customers. According to Ferguson(2007), banks measure relationships by product penetration levels and transactional activity and stated that your customers frame the relationship in terms of trust and confidence. As the current market place become more competitive, customers may tend to become more and more demanding. In the event of such challenges the banks may face the aggressive competition, the continuous increase in customer expectations and customer subsequent demands as the quality of service improves. The service organizations like banks are unable to effectively cater to the needs of customers, if not the banks break from traditional customer serving strategies and proactively move towards relationship marketing strategies which will assist them in building and sustaining a competitive edge. If a bank can position itself favourably within a particular marketplace relative to competitors, then the bank will perceive as a competitive bank. According to Zineldin(2005), the competitiveness means, that a bank, in terms of its competitive position, its management and marketing strategies, its use of information technology, the quality of its product/service and its ability of managing long term customer relationships, must be increasingly responsive to the market considerations and customer orientation.

In the competitive marketing environment banks are striving to differentiate their services in various ways using new strategies and tactics. According to Leverin(2006), ‘Relationship Marketing’ need not to be directed towards all customers of the bank.

Banks are more concern on how to keep profitable loyal customers for a long time. Retaining profitable customers has become increasingly difficult in a competitive industry where the other banks offer similar products and services in the financial market. Therefore, Relationship Marketing activities should be focused particularly towards the most profitable customers in order to increase their satisfaction and loyalty towards the bank. However, you need to give a considerable service to other customers as well as 'Word of Mouth' (WOM) is another way of attracting new customers, retaining existing customers or customers switching to another bank. Ferguson et al., 2007, stated that 'think like your customers and do not lose sight of how your customers react when defining the word Relationship'. According to Kotler(2008), 'Relationship Marketing' is to place more emphasis on customer retention and attracting a new customer may cost five times as much as doing a good enough job to retain an existing one.

In order to differentiate and to be more competitive in the industry, banks need to identify the most important dimension of Market Orientation and the most important dimension of Relationship Market and improve in the areas which required improvement. Previous research studies on Market Orientation and Relationship Marketing were reviewed in order to identify the constructs and its dimensions for this study. This research study gives the thought to identify the most important dimension of Market Orientation and the most important dimension of the Relationship Marketing in the context of selected Sri Lankan Private Local Commercial Banks in Colombo District. Further to find whether there is a positive relationship between the Market Orientation and Relationship Marketing.

1.2 The background and the justification of the research problem

There is a need to move from transactional marketing to relationship marketing due to aggressive competition, continuous increase in customer expectations and customer subsequent demands as the quality of service improves.

According to Alan(2004), Market Oriented and Relationship Marketing Oriented strategies are both important to market leaders ,Market Oriented strategies are best for market challengers while Relationship Marketing oriented strategies are best for market followers. Abratt(1999), stated that clients are more likely to be retained by the bank where they have a personal banker or a consultant. In another study, Mascarehhas(2006), stated that lasting loyal customer should overlook company's faults of commissions and omissions. Smith(1991), stressed the importance of Relationship Marketing & stated that it will lead to maximize long-term profitability. The past research studies of Narver & Slater(1990), Jaworski & Kohli(1993) and Deshpande(1993) stated that the Market Orientation is important in service organizations.

According to Helfert(2002), the relationships are important and that the overall Market Orientations of firms need to be translated to a relationship level in order to be effective. Further, he identified the 'Market Orientation on Firm Level' dimensions as Customer Orientation, Competitor Orientation and Inter-Functional Coordination while 'Market Orientation on the Relationship Level' attributes as Resource Availability and Relationship Management Task Performance.

With the introduction of economic reform and the open market in 1977, the Sri Lankan Banks have become competitive than in the past and a need has aroused to move