RELATIONSHIP MARKETING AND CUSTOMER RETENTION:
AN EMPIRICAL INVESTIGATION IN BANKING SECTOR, SRI LANKAN CONTEXT

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Abstract

The purpose of this study is to discuss the impact of relationship marketing on customer retention in banking sector. The customer retention in banking sector has seen a major concern to practitioners due to severe competition and higher customer expectations. Relationship marketing has been measured through the indicators such as trust, bonding, reciprocity, empathy and responsiveness. Findings revealed that, Relationship marketing contributes significantly to customer retention and also there is a significant mean different in customer retention among different educational background. This research focuses on banking services in one particular district of the country; therefore further research in other sectors may be necessary before generalization can be made on the entire service industry. Based on the finding of the study, there are few key points that can be used to recommend policy makers, scholars and bankers in the field of banking and finance. In this view points, Researchers suggested that, banking sector should come up with proper attractive schemes regarding to the customer relationship marketing and customer retention.

Keywords: Customer Retention, Bonding, Empathy, Responsiveness, Trust, Reciprocity

1. Introduction

Today's banking industry faces several challenges, increased competition, stricter regulation, and customers who are increasingly sophisticated, price conscious and discriminating in evaluating banking services (Beckett et al; 2000; Calik and Balta, 2006; FandosRoig et al, 2006; Velnampy and Sivesan, 2012: Ozdemirand Trott, 2009.)The biggest management challenges in the new millennium of liberalization and globalization for a business is to serve and maintain good relations with the customer. Over the last two and a half decades, marketing has witnessed a paradigm shift. The literature shows that marketing has shifted from Transaction marketing to relationship marketin (Lindgreen, 2011).

The winner in the banking sector will be the player who can be aware of the customer, fulfill customer needs and attain high levels of customer retention, (Kamath, 2003). Numerous studies have recognized the need to sustain relationship with the customers. The benefits of retaining customers to the organization are higher margins and faster growth and the higher the profit (Velnampy, 2012) Strong relationships with business customers foster increased profit, improved communication, and an increase in satisfaction, creating Loyalty. (Petersen and Rajan, 1994). Successful customer retention lowers the need for seeking new and potentially risky customers and allows organizations to focus more accurately on the needs of the existing customers by building relationships (Dawes and Swailes, 1999). Athanassopoulos (2000) emphasized losing customers not only leads to opportunity costs because the reduced sales, but also to an increased need for attracting new customers which is five to six times more expensive than customers retention.

Berry (1983) viewed relationship marketing as a strategy to attract, maintain and enhance customer relationships. Relationship marketing is to establish, maintain and enhance relationships with customers and other partners at a profit, so that the objectives of the parties are involved are met (Gronroos, 1994).Therefore establishing, developing and maintain buyer / seller relationships has been central to marketing theory and practice and to corporate strategy (Lopez et al, 2006).

The research exposed the importance of customer relationship marketing. This study examines indicators which determine the customer relationship marketing of the private banking sector in Sri Lanka. Finding of this study are useful for private banks to enhance and build the high level customer relationship. Jaffna district is considered as the emerging district among other district in Sri Lanka. Especially in the post war context, Jaffna district has been already focused by the government for the renovation and development perspective. In this context, banking should be viewed as the fundamental need of the community, which will give the value in the long run to get the better society in terms of well financial culture, social status, better income level & standard of living etc.(Achuthan,2013).Further relationship marketing is a multifunctional and integrative approach, which describes marketing as "an integrative activity involving functions across the organization, with emphasis on facilitating, building and maintaining relationship over time"(Coviello 1997). Therefore, we need to empirically analyze the impact or influence of customer relationship marketing on customer retention among customers in Jaffna district, Sri Lanka.

2. Objectives of the study

The Objectives of the study were
1. To find out the relationship between customer relationship marketing and customer retention in the private banking sector
2. To find out how customer relationship marketing is practiced in the private banking sector
3. To find out how relationship marketing affects customer retention

3. Research Problem

Customer relationship marketing (CRM) is replacing the traditional 'four Ps' of marketing - product, price, place and promotion. Long-term relationships with customers are the key to stability in an increasingly dynamic market. Customer relationship marketing (CRM) has become the main strategy to retain customers for companies regardless of its size. Customer retention is the primary goal of any organization, especially bank. Full understanding of this issue is important for researchers and officials [Arbore, 2009]. A survey of 1,500 companies found that 91% of businesses plan or have deployed CRM solutions, however 41% of the firms with CRM projects were experiencing serious implementation problems (The Data Warehousing Institute, 2000). Therefore the present study is initialed to find out what extent customer relationship marketing impact on customer retention in banking sector.

4. Review of Literature and Development of Conceptual Framework

Study on customer retention and CRM has been conducted byMornay Roberts-Lombard, 2011. The results of the study indicated that, Organizations such as banks and short-term insurance organizations become more aware of the importance of customer relationship management and its potential to help them acquire new customers, retain existing ones and maximize their lifetime value. A close relationship with customers will require a strong coordination between information technology (IT) and marketing departments to provide a long-term retention of selected customers. The primary objective of this study is to investigate the influence of selected independent variables, two-way communication and conflict handling on intentional customer loyalty via CRM as the intervening variable at a South African short-term insurance organization. Primary data were gathered using a questionnaire, with items referring to CRM, customer loyalty, two-way communication and conflict handling. The sample consisted of 254 customers in four major centers in South Africa. Data were factor-analyzed. One independent variable, conflict handling exerted a statistically significant positive influence on the intervening variable (CRM), while two-way communication exerted a statistically significant negative influence on the intervening variable (CRM). The intervening variable (CRM) positively influenced the dependent variable (Customer Loyalty). If short-term insurance organizations communicate timorously and accurately, and are skilled in conflict handling, greater loyalty will be created among customers.

Velnampy and Sivesan (2012) investigated the study on Customer Relationship Marketing and Customer Satisfaction: A Study on Mobile Service Providing Companies in Sri Lanka.Although there are only five mobile service providing companies (Dialog, Mobitel, Airtel, Etisalate) in the Sri Lankan mobile service market, thecompletion between them is more intense than ever. They compete not only in infrastructure facilities like network, tower. They have invested the lot of amount of money to provide effective service for customers. This research clearly expressed that important of functionality of service in service quality and customer satisfaction. Customer relationship marketing has significant impaction customer satisfaction. However, proportion of impact CRM on customer was low level. Reason for that most of mobile service providing companies fails to build the trust among their customers. Companies spent lot of time and money to build and maintain their companies' infrastructure facilities but their fail to take fruit full effort to satisfy their customer needs with psychological view. According to this research, as to what mobile service providing companies have been doing, the priority should be given to how to reduce customer dissatisfaction and improve mobile service network facilities, service quality, customer retention, customer loyalty.

Based on the review of literature, we can construct the conceptual Model for this study.

CRM

Bonding

Empathy

Reciprocity
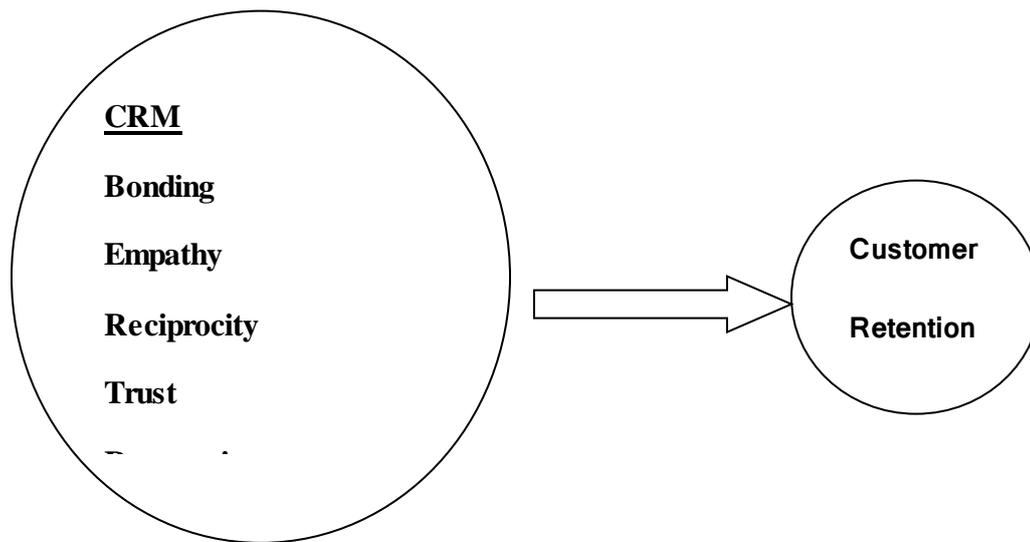
Trust

Customer

Retention

Figure No 01: Conceptual Framework

Source: Developed by Researchers

5. Hypotheses Development

The following hypotheses are developed for this study
H1: Relationship Marketing and customer retention are positively correlated
    H1a: Bonding and customer retention are positively correlated
    H1b: Empathy and customer retention are positively correlated
    H1c: Reciprocity and customer retention are positively correlated
    H1d: Trust and customer retention are positively correlated
    H1e: Responsiveness and customer retention are positively correlated
H2: Relationship marketing has impact on customer retention

6. Methodology

6.1 Data Sources
Primary and secondary data were used for this study. Primary data were collected through the questionnaire. Secondary data were collected from, texts, journals and magazines.

6.2 Sample and Instruments

A survey instrument in the form of close-ended questionnaire was developed for the purpose of collecting the main data for the study. This study was conducted in private commercial banks in Jaffna peninsula. The study is limited to customers of private commercial banks in Jaffna peninsula. Convenience sampling method has been adopted to select respondents. Researchers issued two hundred and fifty (250) questionnaires to the selected customers and out of which two hundred and forty (240) only returned with their responses. The instrument used in this study is composed of 3 parts .The part 1 includes a number of demographic questions such as age, gender, civil status, educational background, occupation. The second part deals with relationship marketing in the banking sector. This is measured by five dimensions from Gyasi (2012), namely (1) Bonding (2) Empathy

(3) reciprocity (4) trust (5) responsivenesswhich comprised nineteen items. Part 3 includes customer retention in banking sector which comprised ten items. All items were measured by responses on a five-point Likert scale of agreement with statements, ranging from 1 = strongly disagree to 5 = strongly agree.

7. Results and Analysis

7.1 Reliability

The internal consistency of the research instrument should be tested by reliability analysis (Ndubisi, 2006). Nunnally (as cited in Ahsan et al., 2009) suggested that the minimum alpha of 0.6 sufficed for early stage of research. The cronbach‟s alpha in this study were all much higher than 0.6, the constructs were therefore deemed to have adequate reliability. (Overall Cronbach alpha value was 0.948.) The descriptive statistics of the variables and reliability estimates are shown in table No 01.

Table No 01: Descriptive Statistics and Reliability Estimates.

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Bonding	18.6525	13.974	.852	.939
Empathy	18.6449	13.172	.920	.930
Reciprocity	18.5650	13.529	.904	.933
Trust	18.5976	13.031	.931	.928
Responsiveness	18.5171	12.874	.940	.927
Customer Retention	18.5042	12.776	.644	.975

Source: Survey (2015)

7.2 Multi-Co linearity

One major method has been used in order to determine the presence of multi-co linearity among independent variables in this study. This method involved calculation of a Tolerance test (Ahsan et al., 2009).The results of these analyses are presented in table No 02 Test of Co linearity.

Table No 02: Test of Co Linearity

Variables	Tolerance
Bonding	.187
Empathy	.100
Reciprocity	.141
Trust	.084
Responsiveness	.085

Source: Survey (2015)

According to the table No 02. Test of Co linearity, None of the tolerance level is < or equal to 1.Thus the measures selected for assessing independent variable in this study do not reach levels indicate of multi-co linearity and also the acceptable Durbin Watson range is between 1.5 and 2.5 .In this analysis, Durbin Watson value of 2.094, which is between the acceptable ranges, Show that there were no auto correlation problems in the data used in this research (Kandaiya, S., Achchuthan, S., &Umanakenan, R. (2014).

7.3 Correlation
Correlation test can be used to measure the hypotheses 1 and H1a- H1e.

Table No- 03 Correlation Analysis

Variables	Customer Relationship marketing	Customer retention
Customer Relationship marketing	1	.644**
Customer retention	.644**	1

Source: Survey (2015)

Table No 03 shows the relationship between the variables (Relationship marketing and customer retention). Correlation value is 0.644 which is significant at 0.01 levels. It indicates that as the relationship marketing increases the customer retention increase. So, the hypothesis – 1 is accepted.

Correlation (matrix) analysis was applied to identify the relationship between five main dimensions such as bonding, empathy, reciprocity; trust and responsiveness were used to measure the relationship marketing and customer retention. These variables and results are revealed in the table No- 04.

Table No- 04 Correlation Analysis

		Bonding	Empathy	Reciprocity	Trust	Response	Customer Retention	Customer Relationship Marketing
Bonding	Pearson Correlation	1	.879**	.863**	.849**	.824**	.542**	.922**
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	240	240	240	240	240	240	240
Empathy	Pearson Correlation	.879**	1	.882**	.917**	.922**	.610**	.965**
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.000
	N	240	240	240	240	240	240	240
Reciprocity	Pearson Correlation	.863**	.882**	1	.904**	.892**	.605**	.951**
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.000
	N	240	240	240	240	240	240	240
Trust	Pearson Correlation	.849**	.917**	.904**	1	.943**	.630**	.968**
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.000
	N	240	240	240	240	240	240	240
RESPO	Pearson Correlation	.824**	.922**	.892**	.943**	1	.677**	.963**
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.000
	N	240	240	240	240	240	240	240
Customer Retention	Pearson Correlation	.542**	.610**	.605**	.630**	.677**	1	.644**
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.000
	N	240	240	240	240	240	240	240
Customer Relationship Marketing	Pearson Correlation	.922**	.965**	.951**	.968**	.963**	.644**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	
	N	240	240	240	240	240	240	240

Source: Survey (2015)

Table No-04 shows the relationship between variable accordingly, responsiveness component for customer relationship marketing (CRM) is highly correlated with customer retention with the correlation value .677 whereas, the correlation value between trust component of relationship marketing and customer retention is 0.630 which is significant at 0.01 level and other component empathy and reciprocity are also correlated with customer retention. Hence the sub hypotheses (H1a to H1e) are also accepted.

7.4 Regression analysis

The purpose of regression analysis is to find out the significant impact or influence of independent variable on dependent variable (Ndubisi, 2006).In this study, Customer Relationship Marketing (CRM) is considered as independent variable or predictor variable, and the Customer Retention is considered as dependent variable.

Table No- 05 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.679a	.461	.450	.79417	2.094

Source: Survey (2015)

Table No- 06 ANOVA Table In the Regression Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	126.309	5	25.262	40.053	.000b
Residual	147.586	234	.631		
Total	273.895	239			

Source: Survey (2015)

Table No- 07 Coefficients table in the Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.369	.284		1.296	.196
	Bonding	-.059	.172	-.038	-.342	.733
	Empathy	-.108	.212	-.077	-.508	.612
	Reciprocity	.109	.190	.074	.576	.565
	Trust	-.092	.228	-.067	-.403	.688
	RESPO	1.049	.222	.776	4.729	.000

Source: Survey (2015)

According to the table 05 Model Summary, Adjusted R square is 0.450. It means that there is 45% of the impact of the independent variable (CRM) on the dependent variable (Customer Retention). From the table 06, ANOVA table in the regression analysis, Significant P value is 0.000. It is less than the significant level 0.01. Therefore, we can conclude that 45% of the impact is in the significant level. From the table 07, Responsiveness in the relationship marketing contributes significantly to customer retention. And also customer retention is not contributed significantly by bonding, empathy, reciprocity and trust in the relationship marketing.

8. Conclusion and Recommendation

Based on the overall study, customer relationship marketing is positively associated with customer retention. And also, dimensions in the CRM as bonding, trust, empathy, reciprocity and responsiveness have the significant relationship with customer retention. Meantime, CRM has the significant impact on customer retention. In contrast, dimensions in the CRM as bonding, trust, empathy and reciprocity are not in the position to influence the customer retention. According to the regression analysis, only the responsiveness has the significant impact on the customer retention. Therefore the private commercial banks should maintain the responsiveness by give sincere and detailed information about all the conditions of the service, willing to help the customers, Employees devote enough time to each customer to be able to answer his/her questions, give the customers fast and efficient service. At the same time, customer retention is not significantly contributed by the bonding, trust, empathy, and reciprocity in the relationship marketing in this study. But both dimensions are the important predictor variables to predict the customer retention (Sivesan and Achchuthan, 2012).

Therefore, the banks should have proper strategy to earn customers trust by giving and keeping promises, showing concern for the security of customer transactions and striving always to enhance customers' confidence. Further, the empathy is another critical factor to building the customer retention. So that banks should concentrate on empathy through offering the personalized and flexible services. also, banks should concentrates on following factors like keeping in touch with customers, keeping close cooperation with customers, building a long term relationship, solve the difficulties etc. to manage the another variables such as bonding and reciprocity. However CRM does have a direct and positive relationship with customer retention.

Customers' perception towards responsiveness as the tool for influence customer retention is in the crucial level. In this study, we also found that, customer retention is not controlled by other CRM factors like bonding, empathy, trust and reciprocity. Therefore, banking sector should concentrate the following areas.

1.   In the area of bonding, customers do not particularly feel so much bonded with Bank which therefore cause for a managerial look being taken at that. This comes in the form of keeping in touch with customers constantly and building close co-operation with the firm.
2.   Bank needs to improve upon the number of contact days it has with its clients. So clients can have ample time to discuss the challenges they face in accessing the services of the bank. This can possibly explain why a significant number of clients did not provide answers to how the bank dealings with customer concerns.
3.   The empathy aspect of the firm's relationship building is a bit questionable. Customers want to feel that Bank knows their problems and must show keen interest in helping them solve it. Customers want a follow-up individually as revealed in the survey. In some cases, Bank must offer personalized attention to clients who may so need. This will bring a feel of belongingness which eventually builds the brand loyalty the firm so desires.

This research has only been confined to the private commercial banks. Therefore same research can be extended to other service sector entities such as government banks, foreign banks, telecommunication, insurance etc. and also the impact of the relationship marketing underpinnings can be investigated on other dependent variables such as customer loyalty, satisfaction, market share, profitability and firm performance.

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