

**CUSTOMER REALTIONSHIP MARKETING AS A STRATEGY
FOR BETTER BANKING RELATIONSHIP -A COMARATIVE
STUDY OF STATE BANK AND PRIVATE BANK**

Nalin Abeysekera*

V. Kumaradeepan**

Abstract:

Since the end of the war in May 2009 the Central Bank has approved new bank 45 branches to be setup in the Northern peninsula. Already 11 banks have commenced operations. Hence it is clear that a bank operation in the war affected area is booming. It is worthwhile to compare this operation by looking at the perspective of private bank and state bank.

The purpose of this study was to find out how customer relationship marketing (CRM) can be sued as a strategy to compete in the market. This study found out how the concept of relationship marketing helps to increase the operation in the banking system. Primary data were collected from the customers of one state bank and private bank through questionnaire and interviews. The Sample was 100 customers who visit once in a week at least. Collected data has analyzed by using both quantitative and qualitative methods to find out the Relationship marketing orientation of customers. Relationship marketing has been operationalized by using the model of trust and commitment (Morgan and Hunt 1994).

It has found out there is a significance difference in “relationship marketing orientation” in state bank and private bank. Private Banks can be considered as more relationship marketing oriented than state banks. Additionally it has revealed that most of the female customers preferred

* Open University of Sri Lanka, Sri Lanka.

** University of Jaffna, Sri Lanka.

Customers relationship marketing (CRM) than male customers. Further it has disclosed there is an impact on duration which customers spend with the bank and CRM.

This research will highlight the importance of relationship marketing practice in both private and the state banking sector. This research can be expanded in other areas of services in business to business as well as business to customer.

Key Words- Customer Relationship Marketing (CRM), private and State Bank, Trust and Commitment, Customers

1. INTRODUCTION:

In modern days relationship marketing practices are common in general such as gift giving, sending birthday cards etc. Morris *et al.* (1998) showed that although relationship marketing is widely used, actual practice diverges across companies, from the concepts discussed in the literature. According to them, companies, which claim to use relationship marketing, do not always show the degree of commitment, which the literature might suggest. Sheedy (1997) indicated that in banking, relationship marketing has not always been carefully implemented. This would suggest that there is still a need to understand relationship marketing better in general and in banks in particular, and think of better strategies in implementing relationship marketing.

When the contribution of development of driving the relationship is taken into account, most of the literature indicated the human actors in development of market, and more broadly, exchange relationships. Deighton (1996) proposes that “the term interactive points to two features of communication: the ability to address an individual and the ability to gather and remember the response of that individual”. It is argued that the promise of interactivity lies in its ability to put a more human face on the marketplace without losing the scale of economies in mass marketing (Blattberg and Deighton, 1991). The development of close social relationships ultimately approaches what is known as “psychological loyalty”, i.e. loyalty which seems contrary to self-interest. According to the Solomon *et al.* (1985) “in pure service situations, customer satisfaction and repeat patronage determined solely by the quality of the personal encounter”. Dwyer *et al.*, (1987) similarly supports the importance of “socialization” in the relationship, arguing,

“Relational exchange participants can be expected to derive complex, personal, non economic satisfaction and engage in social exchange”.

Perrien *et al.* (1992) suggested that strong competitive pressure has forced financial institutions to revise their marketing strategies and to stress long-lasting relationships with customers. Most banks have tried to differentiate from other banks by offering supporting services, which is a first step towards relationship marketing. Many banks would also claim to have implemented relationship marketing more fully by developing closer relations with their clients. The economy of Sri Lanka has undergone considerable structural transformation particularly since 1977, benefiting from progressive economic liberalization. The dependence on the agricultural sector has declined and services and manufacturing sectors have become leading sectors in the economy, providing greater opportunities for both employment and income generation. (Economic independence of independent Sri Lanka, 1998) The economic expansion and structural transformation were highly facilitated by the rapid growth of banking and other financial services (Economic independence of independent Sri Lanka, 1998)

2. LITRATURE REVIEW:

The term “Relationship Marketing” has become a popular concept among the practitioners of marketing as well as academics during the last decades. Various academic and professional organizations defined relationship marketing in different ways. Grönroos (1990) has proposed a customer-oriented definition of marketing, which highlights a number of essential elements in business relationships. According to him “Marketing is to establish, maintain and enhance (usually, but not necessarily, long-term) relationship with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises” (Grönroos, 1990). Thus Relationship marketing differs from traditional mass marketing since it does not seek a temporary increase in sales, but attempts to create involvement and product loyalty by building a permanent bond with the customer. While it may be used to facilitate product repositioning, gain competitors’ customers, or help to launch new products, the ultimate goal is to increase sales in the long term.

Other than Grönroos, Morgan and Hunt's (1994) conceptualization of relationship marketing is widely accepted. According to them relationship Marketing required relationship commitment and trust. Trust and relationship commitment have been considered essential for understanding relationships in businesses. Furthermore it proposed that successful, continuing relationships are characterized by trust and commitment.

Relationship marketing can be better understood by comparing its counterparts known as transactional marketing. A variety of authors have attempted to differentiate transaction marketing (sometimes referred to as traditional marketing) from relationship marketing. For example, Christopher *et al.* (1991) explained that transactional marketing is focused on a single sale in the short term. Transaction marketing is said to be oriented towards product features with low emphasis in service, and involves moderate customer contact and limited customer commitment, when compared with relationship marketing which emphasizes product benefits with high service, customer contact, and customer commitment. Grönroos (1991) argues that transaction and relationship marketing differ in their time perspective, price elasticity, the dominating marketing function and quality dimension, measurement of customer satisfaction, the customer information system, functional interdependence, and the role of internal marketing. Grönroos(1991) further stated that the choice of approach used (either transactional or relational) may depend not only on the offer, but also on the type of customer served and the stage of business life cycle.

The literature also suggests that marketing management in the transaction context is primarily concerned with the product and achieving organizational objectives that emphasize product profitability (Coviello *et al.*, 1997; Webster, 1992). There marketing focuses on achieving profit maximization that revolves around the application of the firm's resources to markets, customers and products in the most efficient and cost effective manner. As Webster (1992) noted, "there is no need to consider people or social processes when the units of analysis are products, price, costs, firms and transactions". On the other hand refusing the idea of transactional marketing, relationship marketing is always concerned about the interactive marketing activities and managing these dimensions with the aim of establishing, developing and maintaining cooperative customer relationships for mutual benefit (Grönroos, 1997, 2004). As such, managing the marketing-mix dimensions of product, price, promotion and place is of less important in view

of managing interactive marketing dimensions such as people, processes and physical evidence. (Walsh *et al.*,2004) In other words relationship marketing will focus not only on traditional four Ps' of product, price, promotion and place but also on the additional three Ps' in services marketing.(four Ps' plus people, processes and physical evidence)

Relationship marketing strategies should enhance customers' perceived benefits such as perceived relationship improvement and perceived economic benefits of engaging in relationships (O'Malley and Tynan, 2000). Moriarty *et al.* (1983) identify six factors that they believe affect the perceived value of the banking relationship with the firm.

Competition: Firms having access to multiple banks that are able and willing to meet and satisfy their needs are likely to place less value on long-lasting specific banking relationships.

Need for credit: Firms requesting large amounts of bank credit are likely to place a greater value on banking relationships than do firms having access to the commercial paper market or having a primarily deposit relationship.

Need for non-credit products and services: Firms requiring complex non-credit product and service packages, for instance, international cash management systems, will place a greater value on long-lasting banking relationships since fewer banks will be capable of providing these packages.

Need for flexibility: Firms involved in unconventional or complex businesses, such as structuring and financing large investment projects in foreign countries, will place a greater value on banking relationships since these relationships assist them in obtaining the skills and customized services they require.

Financial health: Firms that are less strongly capitalized, that have poor earnings, and firms which are involved in risky business will appreciate and place a greater value on a banking relationship.

Attitude towards management of the financial function: Some large firms are capable of producing most of their financial services and may prefer to combine or integrate backward whenever possible and internally absorb functions previously performed by banks, while others prefer to concentrate their managerial resources on their own line of business and buying their

needs of financial services. Firms preferring to purchase financial services rather than produce them in-house are likely to place higher value on banking relationships.

As literature suggests, customer-company relationships are increasingly topical for business practitioners and researchers. The developing school of thought suggested that, rather than exchanges and transactions, it is the relationship with the customer that is the more appropriate unit of analysis for many businesses. Sometimes referred to as a "new marketing paradigm" the relationship approach views marketing as an integrative activity, which involves personnel from across the organization, with emphasis on facilitating, building and maintaining relationships over time (Brodie *et al.*, 1997).

Methodology

Relationship Marketing has been operationalized by using the endogenous constructs of Morgan and Hunt (1994). "The commitment-trust theory of relationship marketing", used (with modifications) as indicators of trust and relationship commitment. Primary data were collected from the customers of state bank and private bank through questionnaire and interviews. Both banks selected were in higher positions in rankings in banking sector in terms of customers and profitability in Sri Lanka. The Sample was 100 customers who visit once in a week at least collected data has analyzed by using both quantitative (questionnaire) and qualitative (interviews) methods to find out the Relationship marketing orientation of customers. SPSS 13.0 has been used to analyze the quantitative data.

3. FINDINGS ,CONCLUSION AND FURTHER RESEARCH:

As the descriptive statistics in table one shows a significant difference between state bank and private bank in relationship marketing, it was decided to examine whether the differences are significant or not. For this purpose independent sample T-test was performed. This test is used when there are two experimental conditions and different subjects were assigned to each condition. As Table one shows there is significant relationship between relationship marketing and the ownership of bank. Hence it can infer that relationship marketing is well practiced by private bank than in state bank. Hence this findings will go in line with the research conducted

by Abeyssekera and Jayakody(2009) where it has revealed that relationship marketing is well practiced by private banks than in western banks

Table one

Relationship marketing orientation of banks

State Bank		Private Bank		Independent Sample T-Test
Mean	Std. Dev.*	Mean	Std. Dev.*	
3.66	0.690	4.00	0.600	2.485**

Std. Dev.* - Standard deviation

**significance at 0.05 level

Note. Survey data

In interviews also it has been found that there is a significant difference in the relationship marketing practice in two banks. The relationship marketing orientation can be considered as more on private bank than in state bank. This may be due to the nature of ownership of banks as well as the human factor and how well employee prepares to treat their customers. Majority of the respondents were in the view that the most of the bank staff age is over 50 at state bank is poor in relationship marketing. Even some respondents commented not to visit because of the way the staff in that range treats to the customers.

Furthermore it has found that Relationship marketing considered as more important by female customers than male customers. Most of the customers concern about the relationship marketing as top priority in their transaction with the bank. And also the duration also can be considered as important. The customers who always willing to visit bank regularly are more relationship marketing oriented than others. This is unique in both state and private bank.

Banking sector can be considered as the prominent in Sri Lankan financial sector(Central Bank,2010), as literature suggested banking customers still prefer personal relationships as the principal means of communication and exchange between bank and client firm (Tyler and Stanley, 2001). It was revealed that private banks are more relationship oriented than state

banks. This is a very interesting disclosure because in Sri Lanka public banks play pivotal role in the banking sector (Jayakody and Sanjeevani,2006). But this study doubts the sustainability of that role in terms of relationship orientation. There is an immense competition in the banking sector because of the growing nature of the industry. According to the annual report of Central bank of Sri Lanka for 2009, GDP contribution of this sector is increasing as; in 2008 there was an increase of 6.6% in financial services and in 2009 it further increased by 7.5%.

The present study contributes to the practice of relationship marketing by shedding light on how salespersons can create and develop the practice of relationship marketing. Sheedy (1997) indicates that in banking, relationship marketing has certainly not always been implemented very carefully. This would suggest that there is still a need to better understand relationship marketing.

This study is limited to two commercial banks in Sri Lanka. To avoid the issue of generalizability future researchers should employ this study in many other fields of marketing including other sectors in banking (retail banking, foreign commercial banks etc), insurance industry as well as other services to empirically validate the findings of the study.

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