

Relationship Marketing and Customer Loyalty of Nepali Commercial Banks

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ABSTRACT

The study has been designed to understand the opinions of the respondents regarding relationship marketing practices on customer loyalty in Nepali commercial banks by semi-structured questionnaires. The study has focused on effect of relationship marketing practices variables in the customer loyalty of Nepali commercial banks. The study has used different factors like: trust, communication, conflict handling, and commitment towards customer loyalty. This study has found that the relationship marketing dimensions are responsible for creating customer loyalty. It has also drawn the conclusion that customers tend to believe on immediate response and the act of describing properly about offers and benefits to the customers is vital in sustaining customer loyalty.

Keywords: Communication, Conflict Handling, Customer Loyalty, Trust.

INTRODUCTION:

Relationship marketing is the process of building long-term mutually satisfying relationship with customers and other stakeholders. Relationship marketing builds satisfied and loyal customer. Relationship marketing is the process of creating, maintaining and enhancing strong value-laden relationship with customers and other stakeholders (Deborah et. al., 2016). Customer loyalty is positively related to customer satisfaction as happy customers consistently favor the brands that meet their needs. Loyal customers are purchasing a firm's products or services exclusively, and they are not willing to switch their preferences over a competitive firm. Banking industries are very competitive in nature. Banking industries in the context of Nepal are facing difficulties to provide unique services as required by customers. To overcome this challenge, banks can benefit from relationship marketing, where the focal point of the customer includes services aspect of the bank and the level of interaction when evaluating the service industries and their firms. Hence, the relationship between firms and customers are important as they influence the satisfaction, support and retention of banking customers. The previous studies have shown that there is a significant positive relationship between the client and level of service quality of banks (Rootman et, al. 2007). Relationship marketing has received much attention in both academicians and marketing practitioners for last few decades. Over the last decades, relationship marketing began to dominate the marketing field (Egan, 2003). Relationship marketing is concerned about building customer loyalty by providing value to all the parties involved in the relational exchanges, as customer loyalty is the final goal of relationship marketing (Peng and Wang, 2006).

Customer relationship management is about managing customer knowledge to be understood and serve them, and it is a multi-dimensional concept which places customers at the center of an organization where customer service is an important component of customer relationship management, however this notion is also concerned with coordinating customer relations across all business functions (Bose and Sugumaran, 2003). Customer relationship marketing plays a decisive role for strategic position of an organization and concentrates on the integration of customer information, knowledge for finding, retaining and making

customers loyal for long lasting relationships. Organizations should understand the reason why customers leave them and the way of retaining them (Raghu, 2005). Buyers and sellers in markets can achieve mutual benefits through developing relationships. However, a customer may not be 100 percent loyal to a vendor (Stone et al. 2000). There are often switching behaviors occurred in different stages of a relationship. Relationship marketing tactics are thus approaches to apply relationship marketing in practice (Tseng, 2007). Effective customer-oriented relationship marketing tactics may help marketers to acquire customers, keep customers, and maximize customers' profitability, and finally build up customer loyalty.

Palmer (1997) explained that the relationship marketing means different things in different cultures and markets. The marketers should be always cautious while prescribing the universal solutions for exchange bases as they are developing universal product and promotion for all markets. Marketing practitioners around the globe agree that acquiring the new customers alone are not more fruitful for long term success, but to keep current customer ensure long term success. Building and sustaining loyal customer is more important than anything else to firms (Kandampully and Duddy, 1999). Bruhn (2003) revealed that relationship marketing deals with planning. Understanding, analyzing, monitoring and controlling of measures that initiate, stabilize, intensify and promote business relationship with stakeholders, mainly with customers and the creation of mutually beneficial relationship. Oztaysi (2011) identified that in order to develop customer relationship management strategies, all companies should assess their customers' satisfaction level and this helps in developing effective relationships with customers. It is clear that a customer who has been loyal to the organization or a brand would have high amount of satisfaction from the purchases over time. Therefore, the higher the amount of satisfaction, organization or a brand provides large number of loyal customers it would have.

Kibeh (2013) found that the quality of a service was subjectively perceived by customers during the interactions with a firm and had critical impact on customers' evaluation of service quality. The study had found that the effective communication of pricing policies as well as flexible pricing for various services offered play a great role in customer loyalty. The study further concluded that a positive brand image made it easier for a firm to convey its brand value to consumers and also generated favorable customer loyalty among people. Husnain, M. and M Akhtar, W. (2015), concluded that the four variables had significant effect and predict good proportion of variance in customer loyalty. It was reasonable to conclude on this evidence that customer loyalty could be created, reinforced and retained by marketing plans aimed at building trust, demonstrating commitment to service, communicating with customers in a timely, reliable and proactive fashion, and handling conflict efficiently. Kehinde, O. J. and Ogunnaike, (2016) concluded that the domestic enterprises could explore relationship marketing dimensions such as building customer's trust, commitment to customers, interpersonal communication and service quality. Secondly, customers tend to stay in business once the owners of enterprises were interested in their welfare by ensuring that good quality products and services were offered to them to meet their respective needs and wants.

By keeping a view of this reality, the study focuses on relationship marketing and customer loyalty in Nepali commercial banks. The objective of the study is to identify and analyze the impact of trust on customer loyalty in Nepali commercial banks.

METHODS AND MATERIALS:

The study has been designed to understand the opinions of the respondents regarding relationship marketing practices on customer loyalty in Nepali commercial banks. The population of study is 28 commercial banks. The banks have been selected using convenience sampling. The semi-structure questionnaires were handed to each sample bank's customer who has account in the bank. The self administered questionnaires have been distributed to 200 respondents. The total usable responses have been confined to 140. The sample was collected by using convenience sampling method. The proxies of relationship marketing used were trust, conflict handling, communication and commitment. Correlation coefficient has been used to measure the association between relationship marketing and Customer loyalty.

$$r = \frac{N \sum XY - (\sum X)(\sum Y)}{\sqrt{[N \sum X^2 - (\sum X)^2][N \sum Y^2 - (\sum Y)^2]}} \quad (1)$$

Where, N= number of pairs of scores, $\sum XY$ = sum of the products of paired scores, $\sum X$ = sum of X score, $\sum Y$ =sum of Y score, $\sum X^2$ = sum of square of x score and $\sum Y^2$ = sum of square of Y score.

To measure the regression coefficient, the dependent variable is customer loyalty and independent variables

are trust, conflict handling, communication and commitment. The model has been presented as:

$$CL = \beta_0 + \beta_1 T + \beta_2 C_1 + \beta_3 C_2 + \beta_4 C_3 + E \tag{2}$$

Where, CL stands for customer loyalty, T for trust, C₁ for communication, C₂ for conflict handling, C₃ for commitment, β₀ for intercept of the development variables, E for error terms and β₁, β₂, β₃ and β₄ are the beta coefficient of the explanatory variables to be estimated.

RESULTS AND DISCUSSIONS:

The correlation coefficient between dependent variable that is customer loyalty (CL) with the independent variables such as Trust (T), C₁ (communication), C₂ (Conflict handling) and C₃ (Commitment) is shown in the table1.

Table 1: correlation matrix for the dependent and independent variable:

| Variables | Mean | T | C ₁ | C ₂ | C ₃ | CL |
|----------------|------|--------|----------------|----------------|----------------|----|
| T | 2.16 | 1 | | | | |
| C ₁ | 2.73 | 0.02** | 1 | | | |
| C ₂ | 2.59 | 0.38** | 0.89** | 1 | | |
| C ₃ | 2.56 | 0.26** | 0.04** | 0.78** | 1 | |
| CL | 2.41 | 0.78** | 0.46** | 0.49** | 0.21* | 1 |

Table 1 has shown that the average value of trust 2.16, average value of commitment 2.73, the average value of communication 2.59 and the average value of conflict handling condition 2.56 have been found respectively.

The result reflects that trust is positively correlated to customer loyalty. It means that higher the level of trust, higher would be customers’ loyalty. Similarly, commitment was found positively related to customer loyalty. It indicated that more the banks are committed in providing services to the customers, higher would be the customer loyalty. Likewise, communication was positively related to customer loyalty, which indicated that more the flow of communication between organization and the customers, higher would be the customer loyalty. Also, the result has shown that conflict handling was positively correlated to customer loyalty. It meant that better the conflict handling process, higher would be the customer loyalty.

Similarly, the regression analysis has been also conducted and the results are presented in Table 2. It presents the regression results of trust, commitment, communication, and conflict handling on customer loyalty. The results are based on panel data of 4 commercial banks with 140 observations by using linear regression model. The model is $CL = \beta_0 + \beta_1 T + \beta_2 C_1 + \beta_3 C_2 + \beta_4 C_3 + E$. The dependent variables are customer loyalty (CL) and the independent variables are trust (T), communication (C₁), conflict handling (C₂), and commitment (C₃).

Table 2: Regression analysis of trust, commitment, communication, and conflict handling on customer loyalty

| Model | Intercept | Regression coefficients of customer loyalty | | | | AdjR ² | F-value |
|-------|-----------|---|----------------|----------------|----------------|-------------------|---------|
| | | T | C ₁ | C ₂ | C ₃ | | |
| 1 | 13.10** | 0.21* | | | | 0.78 | 11.42 |
| 2 | 7.20** | | 0.75* | | | 0.79 | 20.21 |
| 3 | 8.40** | | | 0.29 | | 0.58 | 9.32 |
| 4 | 11.20** | | | | 0.28* | 0.67 | 12.11 |
| 5 | 10.25** | 0.22* | | | 0.024* | 0.52 | 8.72 |
| 6 | 6.21** | 0.27* | 0.63 | | | 0.87 | 51.23 |
| 7 | 3.28** | | 0.61 | 0.08 | 0.04* | 0.84 | 36.10 |
| 8 | 4.27** | 0.18 | 0.71 | 0.16 | 0.14 | 0.83 | 29.01 |

The table 2 has shown that beta coefficient of trust is positive and significant at 5 % level of significance. It indicates that higher the level of trust, higher would be the customer loyalty. The beta coefficient for communication is positive and significant with customer loyalty at 1 % of significance. The positive beta coefficient for communication indicates that more the flow of communication between organization and the customers, higher would be the customer loyalty.

Likewise, the result has shown that beta coefficient for conflict handling is positive at 5 % level of significance. This indicates that better the conflict handling process, higher would be customer loyalty.

Likewise; the results show that beta coefficient for commitment is also positive at 5% level of significance. It indicated that more the banks are committed in providing services to the customers, higher would be the customer loyalty. The study has mainly focused on effect of relationship marketing practices variables in the customer loyalty of the Nepali commercial banks. The study has used different factors like: trust, communication, conflict handling, and commitment. The dependent variable is customer loyalty. The result documented in this study is based on the 4 selected Nepali commercial banks.

CONCLUSION:

The major conclusion of the study is that commitment and communication are the major factors affecting customer loyalty in Nepali commercial banks. The study shows that communication and commitment have positive and significant impact on customer loyalty indicating better the communication system, higher would be the customer loyalty. Likewise, higher the level of commitment from banks on customer services, higher would be the customer loyalty. The study also concludes that relationship marketing dimensions are responsible for creating customer loyalty. This indicates that banks management should put emphasis on trust, communications, commitment, conflict handling, which are directly responsible for customer loyalty as shown in the study. Customer also believes that immediate response and describing properly about offers and benefits are vital in sustaining his/her life time loyalty. The flow of communication in the organization has positive relationship with customer loyalty. The finding consistent with findings of Boedkar (1997) and Macmillian et.al, (2005).The commitment is also positive on customer loyalty. The findings are similar to Lacey (2009). The trust has positive impact on customer loyalty. The findings are consistent with findings of (Ndubisi (2007). The study has opened the ground for further study. The study can be extended with additional variables such as quality, reliability, dependability and so on.

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