

# **RELATIONSHIP MARKETING: CUSTOMER COMMITMENT AND TRUST AS A STRATEGY FOR CORPORATE BANKING SECTOR IN SRI LANKA**

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Banking sector can be considered as main recipient in recent economic downturn. There is a need for better strategies in this sector. As a result of the continuing movement towards deregulation and the associated increase in competition, establishing a long-term institutional relationship with corporate clients becomes of great importance to the banks in order to gain a moderate or greater share of the financial market and of a corporation's business. In effect, because the bank provides its corporate client with additional facilitating and supporting services, the demand for banking products and services by a partnership relationship client will be less sensitive to price than is the demand by a short-term, non-relationship customer. This study examines the commitment-trust dimension of the relationship marketing paradigm in Sri Lankan's corporate banking sector. Random sample method has been used with questionnaire. The findings show that the marketing strategy and a long-term marketing orientation were positively correlated with customer commitment and trust. And To continue to be successful in the corporate sector, banks must invest in the long-term relationship marketing activities.

**Key words-Relationship Marketing, Trust, Commitment, Corporate banking sector**

## INTRODUCTION

The economic expansion and structural transformation were highly facilitated by the rapid growth of banking and other financial services in Sri Lanka. This is clearly reflected in the growth of assets in the financial sector and the contribution of the financial sector to Gross National Product (GDP) in last ten years. Despite of the global and local macro economic problems financial sector still maintain 8.7% as a share of GDP in 2008(Central Bank Report,2008). In the financial sector Licensed Commercial Banks (LCB) always play a significant role as in 2008,47.5% of the total assets of the financial sector(2277 billion out of 4792 billion total assets) owned by them. Further in the recent economic catastrophe, banking sector is the foremost recipient and they are struggling because of their high outlay.

Despite this significant contribution to GDP, and the increased competition due to the deregulation of financial sector, there is no evidence of major studies undertaken to examine the marketing practices such as relationship marketing or relationship banking in corporate banking sector in Sri Lanka. This is certainly disturbing 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).

Relationship Marketing refers to marketing activities that attract, develop, maintain, and enhance customer relationships (Berry and Parasuraman, 1991; Grönroos, 1994). It has changed the focus of marketing orientation from attracting short-term, discrete transactional customers to retaining long-lasting, intimate customer relationships. The objectives of relationship marketing include the delivery of sustained or increasing levels of satisfaction, and the retention of those customers by the maintenance and promotion of the relationship (Ravald and Grönroos, 1996). In relationship marketing, the managerial focus is on individual customer profitability and the benefits that can be derived from relationships with clients (Coviello *et al.*, 1997;Webster, 1992). In this situation, the emphasis is primarily on interactive marketing activities and on managing these interactive marketing dimensions (i.e.) with the aim of establishing, developing and maintaining co-operative customer relationships for mutual benefits (Grönroos, 1994).

In relationship marketing, managing the marketing-mix dimensions of product, price, promotion and place is less important than managing interactive marketing dimensions such as people, processes and physical evidence (Walsh *et al.*, 2004). In other words in relationship marketing it will not only focus on traditional four Ps' of product, price, promotion and place in marketing but also show much more concern about

additional three Ps' in services marketing.(In addition to four Ps' people, processes and physical evidence).

## **SCOPE OF THE STUDY**

Meanwhile banking sector is selected due to few reasons. 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.

Again within the banking sector corporate banking sector has been selected because recent research has shown that corporate banking customers still prefer personal relationships as the principal means of communication and exchange between bank and client firm (Tyler and Stanley, 2001). This research has further underlined the importance of the personal relationship by revealing that customers considered their banking relationship to be with their relationship manager rather than with the bank they represented (Tyler and Stanley, 1999). Research on relationship marketing in the banking industry was common by early 1990s (e.g. Perrien *et al.*, 1992). A recent review of development of the literature on marketing financial services to businesses (Tyler and Stanley, 1999) shows that much of this literature focuses on various elements of relationship marketing. An editorial in *Bank Marketing* (1998) cautions that “banks are slipping on almost every measure of relationship quality ... one reason is the vulnerability of relationships in an alternative delivery environment”.

## **THE OBJECTIVE OF THE STUDY**

Having considered the importance of relationship marketing, observing the possible positive impact the following research problem is advanced in the study.

“How the concepts of commitment and trust in relationship marketing can be used as a solution to overcome problems in banking sector in Sri Lanka?”

Hence present study examines impact of the relationship marketing orientation of customers on their sales person in Sri Lankan banking sector.

This paper briefly discusses relationship marketing. Then it provides details of theoretical background. Then it covers research methodology and the analysis. Further it discusses the findings and their managerial and theoretical implications. Finally it covers the limitations and the directions for further research.

## **THEORETICAL BACKGROUND**

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 co-operative customer relationships for mutual benefit (Grönroos, 1997, 2004).

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).

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).

On the other hand there is much attention in the marketing literature, which has been directed towards debating whether “transaction and relationship marketing are

mutually exclusive” and addressing the “paradigm shift” argument (Buttle, 1997; Gummesson, 1994). But now there is a growing recognition that, in practice, transaction marketing and relationship marketing activities may actually be used side by side in an effort to achieve different objectives. (Walsh et al ,2004).

Relationship marketing practices can be seen in business-to-business situations. In business-to-business situations, especially where the benefits exceed the risks, it is desirable for both the company and the customer to maintain a long-term relationship (Walsh et al ,2004). In business-to-business marketing the balance of power varies greatly from situation to situation. Power is also a matter of continuous negotiation. For example, the relationships between buyers and suppliers in distribution channels have sometimes been described as struggle for power, domination, and control (Hyvönen, 1990).

In this context, it is important to look at the role that the human element can play in relationship marketing, instead of further struggling with technology driven and company wide relationship marketing programs. Certainly, relationship marketing has already given an attention to human element. For instance the selling orientation-customer orientation (SOCO) scale, developed by Saxe and Weitz (1982), was based on the premise that in customer oriented salespeople strive to increase customers' long-term satisfaction. Selling oriented salespeople are considered to prioritize the achievement of an immediate sale at the expense of customer needs. Subsequent research has shown that the degree of customer orientation indeed has an effect on a firm's relationships with its customers (Clark, 1997). In a study of financial services, Bejou *et al.* (1998) found that customer oriented employees had a positive impact; while sales oriented employees had a negative impact, on customers' relationship satisfaction.

### **CUSTOMER TRUST AND CUSTOMER RELATIONSHIP COMMITMENT**

Morgan and Hunt (1994) define relationship marketing by using the concepts of commitment and trust. Commitment appears to be one of the most important variables for understanding the strength of a marketing relationship, and it is a useful construct for measuring the likelihood of customer loyalty as well as for predicting future purchase frequency (Dwyer *et al.*, 1987; Morgan and Hunt, 1994). While commitment is the most common dependent variable used in buyer-seller relationship studies (Wilson, 1995), Morgan and Hunt (1994) regard relationship commitment as the keystone of relationship marketing. They define commitment as “an ongoing relationship with another that is so important as to warrant maximum efforts at maintaining it”.

Morgan and Hunt (1994) conceptualize trust as “willingness to rely on an exchange partner in whom one has confidence”.The level of trust between exchange partners is an important criterion for understanding the strength of marketing relationships and has been

defined in a variety of related ways. As Wilson (1995) suggests trust is a fundamental relationship model building block and is included in most relationship models. Trust has been defined in diverse ways in the relationship marketing literature. Morgan and Hunt (1994) identifies trust as a key construct in their model of relationship marketing. For the operationalization purpose definition of Morgan and Hunt was taken because it has considered the exchange and confidence which would be important in relationship marketing as a base.

## **METHODOLOGY**

### **Operationalization**

Endogenous constructs of Morgan and Hunt (1994), "The commitment-trust theory of relationship marketing", used (with modifications) as indicators of trust and relationship commitment.

### **Definitions of Key Concepts**

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### **Sample and Data Collection**

It was decided to employ a survey to collect data as the questionnaire method is more appropriate.

Data for this study was drawn from the questionnaire. Questionnaire consists of two parts. Part one was covered the two dimensions of relationship marketing; relationship commitment and customer trust. Part two comprised of the background information about the respondents. This includes Gender, length of relationship with the salesperson, ownership of the specific bank which customer deals with, designation of customer, visits per month and the educational qualifications.

Before distributing the final questionnaire researcher did a pilot survey with thirty (30) customers fifteen (15) each from two (2) state banks and private banks. After the pilot survey certain modifications were carried out according to the findings. Pilot survey was conducted to check whether the questionnaire was understandable or needs improvements etc.

It was decided to restrict the study to local banks. Thus two state banks and five private banks were selected. It was decided to select both state banks because the largest proportion of salespersons attached to these two banks. Five major private banks were selected to make the sample representative and also because of the growing competition in the sector. According to the Economic and Social Statistics of Sri Lanka (2008) out of 1,345 branches of commercial banks operated, 592 branches operated in Western province(44%). And out of 1,345 branches 774 represented by two state banks (57%).

From these seven banks a random sample of 210 customers were selected. Customers' names and contacts were obtained from the salespersons of that specific banks and researcher personally administer the survey henceforth. A total of 150 customers returned the questionnaire and all were suitable for the analysis. 53% respondents were from state banks while 47% from the private banks. Hence it can be clearly seen that sample was evenly distributed among state and private banks.

The analysis was performed by SPSS 13.0. Linear regression technique has been used to test relationship between variables and test the hypothesis.

## ANALYSIS AND FINDINGS

### *Reliability Analysis*

In this study reliability was examined on all items. As a test of reliability Cronbach's Alpha was adopted to represent internal consistency. Table 1, shows the reliability test with all values greater than threshold of 0.60(Walsh, 1995). Hence it can be concluded that the items reliably measure the defined constructs and variables.

**Table 1**

### *Results of Reliability Test*

Variables	No. of items	Alpha
Relationship Commitment	5	0.810

Trust in Salesperson 5 0.782

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Note. Survey data

### Comparison between two types of banks for Relationship Marketing Orientation

As the descriptive statistics in table 2 shows a significant difference between state and private banks 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 2 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 banks than in state banks.

**Table 2**

#### *Relationship Marketing*

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State banks		Private banks		Independent
Mean	Std. Dev.*	Mea n	Std. Dev.*	Sample T-Test
3.22	0.595	4.00	0.611	2.145**

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Std. Dev.\* - Standard deviation

\*\*significance at 0.05 level

Note. Survey data

### DISCUSSION AND CONCLUSION

The duration of time spent with present CRO (Customer Relationship Officer) is given also can be considered as an important. According to that more (71% ) of have been with their customer relationship officer for more than two years. Hence this research has further underlined the importance of the personal relationship by revealing that customers considered their banking relationship to be with their relationship manager

rather than with the bank they represented (Tyler and Stanley, 2001). Thus by looking at relationship marketing in a different innovative angle can be used for the training of the corporate staff in the bank, making the staff aware of the true meaning of the relationship marketing with its essence etc. Consequently focus of the study is to fill the empirical gap in the banking sector as well.

Furthermore the relationship marketing practice in private banks with the state banks can be compared. According to the study it has been found that private banks are more relationship oriented than public banks. Hence this can be further discussed in future research. And also according to the findings the CEO and top managers in organizations always preferred to visit private banks than state banks. This will further question the relationship marketing orientation of state banking sector in Sri Lanka.

Another important piece of information is that the majority of customers who deals with the banks are males and most of the female like to visit their bank only once a month. This will shed light for future research as to find out any possible impact of gender involvement in banking in Sri Lanka.

There is an immense competition in the banking sector because of the growing nature of the industry. Each bank should develop and create differentiated products/services according to its resources and strengths. A competitive bank-key corporate client strategy provides banks with significant benefits such as additional business from current clients, favorable word-of-mouth communications, reducing the level of price competition, increasing market attractiveness, and attracting tomorrow's customers. The validity of bank-corporate client partnership strategy depends on how effectively it is implemented. For that training of salesperson is a must. Thus findings of this research will be helpful to prepare training manuals, training guidance as well as training programs.

## **LIMITATIONS OF RESEARCH**

This research only focuses on the banking sector in commercial banks in Colombo. Because of this, possibility of drawing generalization from the findings of the present study is limited. However, this can be further expanded into fields such as insurance and leasing.

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