

A MODEL BUILDING APPROACH TO MEASURE THE CUSTOMER LOYALTY AND SATISFACTION THROUGH RELATIONSHIP MARKETING IN INDIAN BANKING SECTOR

Dr. Shyam Sunder. T

Assistant Professor, Aurora's PG College Ganesh Nagar, Ramanthapur, Hyderabad-500013

ABSTRACT

Customer satisfaction is the main factor of success in many organizations. Various literatures indicate the relationship of customer satisfaction with loyalty, repeating purchases and increasing profitability of the organization. Relationship marketing is an approach whose main objective is to establish long-term and close relationships in order to fully understand customers and gain their satisfaction. This study tries to find out the impact of the relationship marketing on customer satisfaction and loyalty. This study concludes that relationship marketing significantly and positively impacts on customer satisfaction and make customers loyal which make business successful. Relationship marketing has more impact on the satisfaction compare to the loyalty. These studies also confirm the significant and positive impact of the satisfaction on the loyalty. **Keywords:** Relationship Marketing, Satisfaction, Loyalty

INTRODUCTION

Today firms with superior performance in different industries are moving to retain customers and gain their loyalty. Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. To attract and keep customers, a company must constantly seek ways to deliver superior customer value and satisfaction (Kotler & Armstrong, 2004: 17)¹. Customer satisfaction is the main factor of success in many organizations. Various literatures indicate the relationship of customer satisfaction with loyalty, repeating purchases and increasing profitability of the organization. Relationship marketing is an approach whose main objective is to establish long-term and close relationships in order to fully understand customers and gain their satisfaction.

The term 'Relationship Marketing' was popularized by Berry (1983)²; he defined relationship marketing as "the process of attracting, maintaining and, in multi-service organizations, enhancing "Customer Relationship". Gronroos (1990)³ defined relationship marketing as "the process of establishing, maintaining, and enhancing relationship with the 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". On the basis of the definitions cited above, it can be said that relationship marketing aims at building long-term strong relationship with customers to cultivate and foster customer loyalty that will benefit both the customers and the organization. Customer loyalty is defined by Oliver (1999)⁴ as a "deeply held commitment to re-buy or repatronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behavior."

Another term on which relationship marketing focuses is Customer satisfaction. Customer satisfaction is defined by Oliver (1997)⁵ as "a pleasurable level of consumption-related fulfillment. It is understood as the customer's emotional reaction to the perceived difference between performance appraisal and expectation". According to Yi (1990)⁶, "customer satisfaction is generally conceptualized as an attitude-like judgement following a series of purchases or consumer-product interactions".

¹ Kotler, P. & Armstrong, G. (2004). Principles of Marketing (10th Edition). USA: Pearson Education.

² Berry L. L. (1983) "Relationship Marketing" in Berry L.L. Shostack L.G. and Upah G.D. (Eds.) Emerging Perspective on Services Marketing, American Marketing Association Chicago IL U.S.A. pp 25-28.

³ Gronroos C. (1990) "Relationship Approach to the Marketing Function in Service Contexts: The Marketing and Organization Behavior Interface" Journal of Business Research 20 No. 1 pp 3 -12.

⁴ Oliver R.L. (1999) "Whence Consumer Loyalty"? Journal of Marketing Vol. 63 pp. 33-44.

⁵ Oliver, Richard L., Satisfaction: A Behavioural Perspective on the Consumer, New York: McGraw Hill, 1997.

⁶ Yi, Youjae.. "A Critical Review of Consumer Satisfaction." in Review of Marketing. Ed. Valarie A. Zeithaml. Chicago: American Marketing Association, 1990.

The first and most important marketing principle is to pay attention to the customer demand. Organizations cannot continue to exist regardless of customer demand. Considering customer demand and preference results in his/her satisfaction and loyalty and, hence, leads to increased reputation and profitability.

LITERATURE REVIEW

The study of Shaker, Ismail and Alsadi (2010)⁷ describe that relationship is the social process in which people interact with each other. This interaction based on different aspects of life. The interaction may be bases on blood, social pressure, feelings or emotion or due to rational factors. Companies use relationship marketing as a tool for the reason to retain customers for longer time (Lin & Wu 2011)⁸. The societal marketing concept and customer relationship marketing is develop for the reason to establish good relations with the consumers (Hauser, Simester&Wernerfelt 1994)⁹. According to Kotler and Keller (2009)¹⁰ customer relationship marketing is the process of attracting, building and retaining customers. Good relation play important role in happiness. Consumer happiness is strongly dependent relationship marketing (Cherrier and Munoz (2007)¹¹. Consumer happiness is a summary variable of the important experiences in consumption, and thus integrates satisfaction and regret with positive and negative affective experiences. Christopher et al. (1991)¹² considered relationship marketing as a tool to turn current and new customers into regularly purchasing clients and then progressively move them through being strong supporters of the company and its products to finally being active and vocal advocates for the company. Doyle (2002)¹³ argues that the three cornerstones of relationship marketing are: planning and controlling of customer satisfaction, building and maintaining stable relationships (customer loyalty) and customer value management. Barnes (1994)¹⁴ observed that the length of time a customer has been doing business with the firm is the only one indicator of loyalty. Loyalty is very closely related to the concept of a relationship. The foundation of loyalty is in sustained customer satisfaction: it is an emotional, attitudinal connection, not simply a behavioral one. To increase the loyalty, there is need for increasing the level of satisfaction overtime. To raise the satisfaction level there is need for adding value to the services provided. Adding value the customer feels that the he has got more than he has paid for it. Adding value can be simple as improving services with convenience and access. The end result of increasing the satisfaction and addition of value is loyalty in the form of (1) Repeat buying, (2) Referrals and (3) Increased share of wallet. Dick and Basu (1994)¹⁵ reported a high positive correlation between the constructs of satisfaction and quality and product loyalty. Likewise, with regard to service loyalty, perceived service quality as well as satisfaction have been identified as key antecedents in banking as well as in other service industries. Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organizations has remained underexposed. In the services context, intangible attributes such as reliability and confidence may play a major role in building or maintaining loyalty. Customer loyalty has been conceptualized as an interaction of attitude and behavior. They have argued that loyalty is determined by the strength of the relationship between relative attitude and repeat patronage.

⁷ Shaker, T. Ismail and Basem, Y. Alsadi (2010) "Relationship Marketing and Organizational Performance Indicators" European Journal of Social Sciences. Volume 12, Number 4 pp545-557.

⁸ Lin, J. S. C., & Wu, C. Y., (2011) "The role of expected future use in relationship-based service retention". *Managing Service Quality*, 21(5), 535- 551.

⁹ Hauser, J. R., Simester, D. I., & Werner felt, B. (1994) "Customer satisfaction incentives". *Marketing Science*, 13(4), 327-350.

¹⁰ Kotler, P. and Keller, K.L. (2009) *Marketing Management*. Pearson International Edition. 13th Edition. Pearson Education Inc. Upper-saddle River.

¹¹ Helene Cherrier and Caroline Lego Munoz (2007) "A Reflection on Consumers' Happiness: The Relevance of Care for Others, Spiritual Reflection, and Financial Detachment" *Journal for consumer research*. Issue 12 pp 1-19

¹² Christopher M.; Payne A.; and Ballantyne D. (1991) "Relationship Marketing: Bringing Quality Customer Service and Marketing Together" Butterworth Heinemann Oxford UK

¹³ Doyle, F. (2002), "Developing-seller buyer relationship Marketing, Vol. 51 No. 1, pp. 11-27.

¹⁴ Barnes J.G. (1994) "Close to the Customer but if it Really a Relationship" *Journal of Marketing Management* Vol.10 pp. 561-570.

¹⁵ Dick A.; and Basu K. (1994) "Customer Loyalty towards an Integrated Framework" *Journal of Academy of Marketing Science* Vol. 22 No. 2 pp 99-113.

Kotler (2010)¹⁶ argues that customer satisfaction management includes the comparison between the expected delivered value and the real delivered-value as well as the image of the company, the readiness to reaction, the dependability and the product attributes. Furthermore, Kotler, Armstrong, Saunders, and Wong (2001)¹⁷ conclude that customer satisfaction is completely dependent of the customer expectation and how the customer's actual perception of the product's performance matches the expectations. The customer will be satisfied if the performance matches or exceeds the expectations, and in contrary, the customer will be dissatisfied if the performance falls short of the expectation.

Methodology

This study uses SEM which allows for the simultaneous estimation and testing of the relationships of different latent variables. In SEM causal processes are presented by a series of structural equations which can be simulated graphically to aid in conceptualizing a theoretical framework (Byrne, 2001).

In this study, a survey was conducted of bank customers of Axis bank who located in the urban area of the Hyderabad city. 300 customers were selected for the survey. Single cross sectional descriptive research design was adopted for the study. Samples were selected on the basis of the convenience basis. Scale of relationship marketing orientation developed by Leo Y.M. Sin, Alan C.B. Tse, Oliver H.M. Yau, Raymond P.M. Chow, Jenny S.Y. Lee (2005) was adopted for the study.

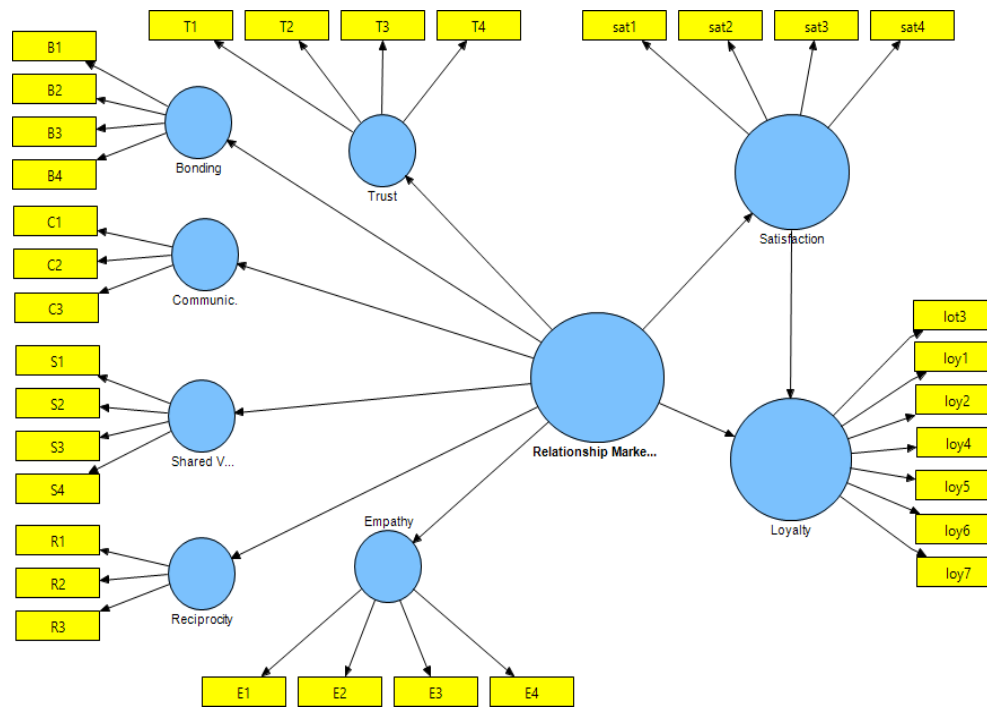


Figure 1 Measurement model

Measurement model provides the graphical representation provides the construction of the studied variables and also provides the relationship between them. Relation marketing is the second order which is measured through six first order variables namely Trust, bonding, Communication, shared value, Reciprocity and Empathy. Trust, bonding, shared value and Empathy measured through four observed variables where Communication and Reciprocity were measured through three observed variables each. Satisfaction and Loyalty are the first order latent variables in the proposed models which are measured through four and seven observed variables. Inner model proposed three hypotheses 1) there is significant impact of the relationship marketing on satisfaction 2) there is significant impact of the relationship marketing on loyalty and 3) there is significant impact of the satisfaction on Loyalty.

¹⁶ Kotler, P., Bowen, J.T. & Makens, J.C. 2010. Marketing for hospitality and tourism. Pearson Education Ltd.

¹⁷ Kotler, P. and Armstrong, G. (2001) Principles of marketing, 8th ed., Prentice-Hall, Upper Saddle River, NJ

Reliability and Validity

Reliability and validity is the most important aspect of the model testing. Cronbach's alpha indicates the reliability of the model and it varies between 0.7323-0.8925 and it is also above the standard value 0.6. Convergent validity was tested through the factor loading and Average variance extracted (AVE). The factor loadings for the structural model are far greater than the standard value 0.7. AVE of all latent variables is also adequate. Composite reliability also provides the evidence for the validation of the proposed model.

Table 1 Quality criteria for Model

	AVE	Composite Reliability	Cronbach's alpha
Bonding	0.9025	0.9737	0.8634
Communication	0.823	0.9328	0.8925
Empathy	0.8995	0.9728	0.8626
Loyalty	0.6944	0.9403	0.8244
Reciprocity	0.8255	0.9341	0.7939
Relationship Marketing	0.4449	0.9593	0.8556
Satisfaction	0.7636	0.928	0.7964
Shared Value	0.8626	0.9617	0.7465
Trust	0.8321	0.9519	0.7323

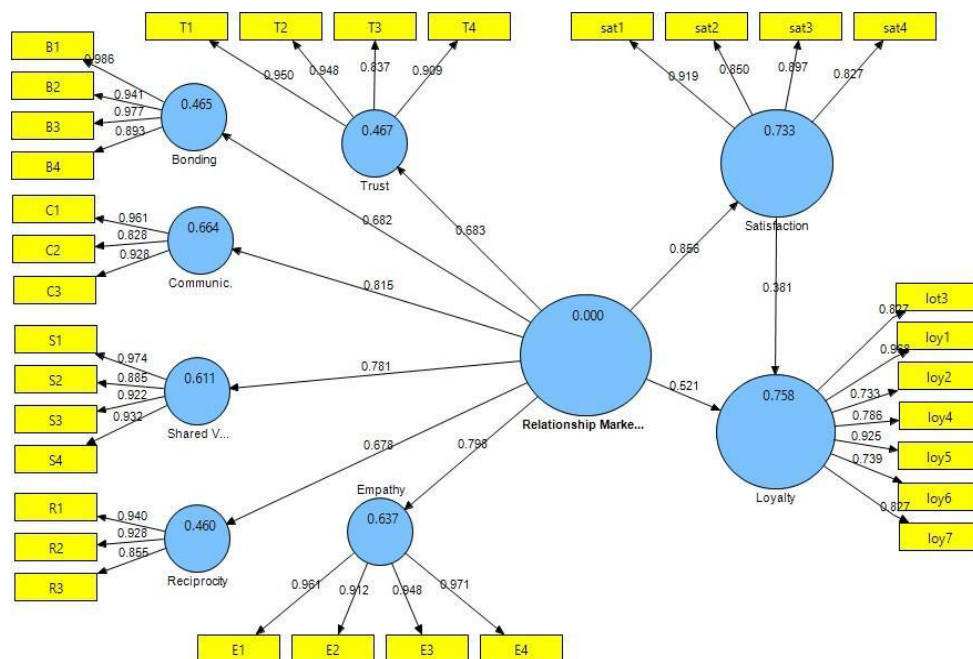


Figure 2 Structural model

Relationship marketing of the company is positively making impact on the satisfaction and loyalty. Beta weight of the relationship marketing on the satisfaction is 0.856 and beta weight of the relationship marketing on the loyalty is 0.521. Relationship marketing has the more significant impact on the satisfaction compare to the loyalty. Satisfaction also makes the positive impact on the loyalty with the beta weight of 0.381. Effect of satisfaction the loyalty is positive but low to moderate significant. Relationship marketing and satisfaction combine explain approximately 75.8% of the variance in the loyalty where relationship marketing alone explain 73.3% of the variance in the customer satisfaction.

The impact of all regressions found significant but whether this impact is statistically significant or not for that bootstrapping was performed which provides the information regarding the statistical significant of the structural impact.

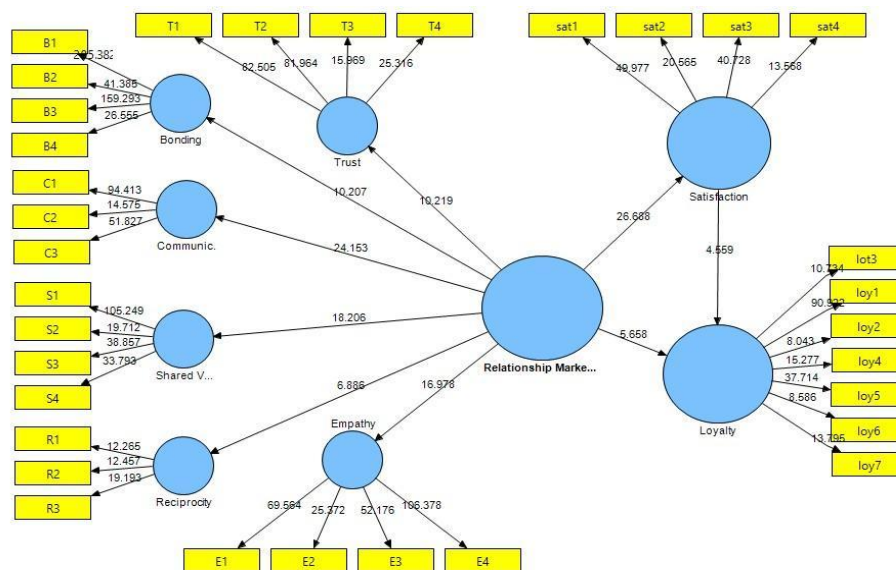


Figure 3 Bootstrapping

Bootstrapping provides the t statistic value for the shown impact on in the model all the indicators are loaded on the latent variability. T test value of the impact of relationship marketing on satisfaction is 26.668 and on loyalty is 5.658 where t test value of the impact of satisfaction on the loyalty is 4.559. Bootstrapping model indicate that all the t values are greater than the 2.33 which infer that all three proposed hypotheses are statistically significant at the 1 % of the level of significant.

Conclusion

Results reveal that relationship marketing significantly and positively impacts on customer satisfaction and make customer loyal which make business successful. Relationship marketing has more impact on the satisfaction compare to the loyalty. These studies also confirm the significant and positive impact of the satisfaction on the loyalty.

Current study provides numerous managerial implications. The main implication is that Relationship marketing is very important particularly in the service industry and has greater impact on the customer satisfaction. Companies should have more focus on the relationship marketing and make customer satisfied and loyal.

In this study only relationship marketing taken as study factors but it may be happen that there might be other factors that influence customer satisfaction and loyalty, such as physical aspect of the bank, brand credibility, technological aspect, and service quality. Therefore, future research could include specifically targeted constructs related to these factors in order to offer a more insightful understanding and an enhanced overview of customer satisfaction and loyalty.

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