

# RELATIONSHIP QUALITY AND CUSTOMER LOYALTY: A STUDY IN THE BANKING CLIENTS IN SRI LANKA

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## **ABSTRACT**

The objectives of the study is to explore the effect of relationship quality on the customer loyalty among banking customers and to identify the factors that mostly influence on the customer loyalty among banking customers. In order to meet the objective, researcher used a questionnaire survey to collect data from 225 banking customers in the Eastern province of Sri Lanka. Data were analyzed using multiple regression. Analysis revealed that trust, commitment, satisfaction and communication are important for banking sectors to create customer loyalty.

**Keywords:** Relationship Quality, Loyalty, Trust, Commitment, Communication

## **Introduction**

Relationship and customer loyalty are important determinant for business success today to have competitive advantage which may help grow in the industry. Researchers find that relationship quality is one of the critical success factors that positively influences on the competitiveness of an organization. Nowadays, due to intense competition within banking industry, customers switch from one bank to another to enjoy service experiences. Therefore, banks are immensely investing to improve the relationship quality and enhance their customer loyalty (Roberts et al, 2003) which in turn impact on the profitability of the firms. In the service industry, customer loyalty is another important factor that has received more attention from the managers (Bodet, 2008). Customer retention and customer satisfaction are important to address customer loyalty of a firm.

Thus, it is important to investigate the relationship quality of banking industry and its impact on the customer loyalty from the perspective of customers. Therefore, research questions of this study are what is the level relationship quality and how does it affect the customer loyalty among banking customers in Sri Lanka. What are the most important factors bankers should focus on? Hence, the objective of the study was to explore the effect of relationship quality on the customer loyalty among banking customers and to identify the factor mostly influencing on the customer loyalty among banking customers.

## **Review of Literature and Theoretical Framework**

Ward & Dagger (2007) emphasize that concept of relationship marketing is now very important for firms as it focus on long term marketing. This importantly focuses on relationship marketing that creates customer loyalty. According to Terblanche (2003), relationship marketing helps enhance productivity through efficiency and effectiveness of marketing by reducing costs and increase quality of marketing. In addition, relationship marketing emphasizes the creation of long-term relationship between firm and customers (Sheth and Parvatiyar, 1995). This is important because strong relationship is an intangible asset that cannot be imitated by competitors easily (Wong et al., 2007).

Relationship quality infers that “*how the relationship help fulfill the expectations, prediction, goals and desires of customers*” (Jarvelin and Lehtinen, 1996). Relationship quality is depending on the relationship marketing of an organization as it is an outcome derived from relationship that supports to meet needs and expectation of customers and organizations involved (Smith, 1998).

Many authors and researchers agree that trust, commitment, satisfaction and communication are the most important elements of the dimension of relationship quality. Relationship quality is not consistently defined by any researchers (Henning-Thurau et al., 2002). Relationship quality stresses that quality need to be considered in maintaining the relationship with customers and that helps reduce transaction cost. Many studies find that

relationship quality includes three dimensions such as trust, satisfaction and commitment (Kumar et al, 1995; Smith, 1998). Therefore, this study also incorporates these three dimensions as independent variables.

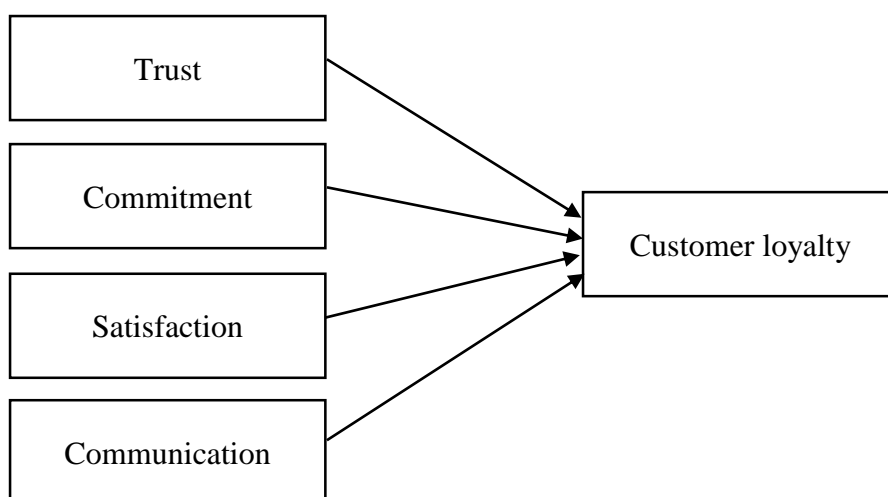
Trust is the first factor that influences and create relationship quality. Trust is actually important to create relationship and it is important for long term relationship (Johnson and Grayson, 2005). Since the outcome of the relationship is important and may have uncertainty for the party involved, trust is paramount in the business (Doney and Cannon, 1997). In the case of commitment, it is also very important factors that create long term relationship (Biedenbach and Marell, 2010). Commitment is vital for safeguard the investments in relationship. When customers feel that they get more value from the relationship, there will be higher the commitment (Botha and van Rensburg, 2010). The third factor is customer satisfaction. According to Hennig-Thurau and Klee, 1997, satisfaction is necessary for keeping customers. Satisfaction is important determinant of customer retention (Kotler, 1994). Customer satisfaction has been discussed linking with customer loyalty of the firm (Bitner, 1995; Crosby et al., 1990). Another factor that influence on the customer loyalty is communication. Communication is taking place between organization and its customers during preselling, selling, consuming and post consuming stages of the transaction. This is also applicable in the relationship too. According to Ndubisi and Wah (2005), trusted communication should be taken place, when there is a problem, solution should be given to customers. This will boost the relationship quality between organization and customers.

Kim and Yoon (2004) define the customer loyalty as customers' willingness to have relationship and sustain it with the service or product. Customer loyalty can be divided into two. One is behavioral and the other one is on the basis of attitudes (Guillen et al., 2011). Loyalty is also associated with behavioural loyalty i.e. a customer is ready to repurchase and continue his relationship with one organization (Rauyrueen and Miller, 2007). It was also found that the sales of product or service can be ensured by customer loyalty (Gerpott, et al., 2001). Customer loyalty is essential for an organization to the continuing existence and operation of the business (Chen & Hu, 2010). While customer loyalty is contributing to the increased sales, customer loyalty is also important for maintaining competitive advantage (Lin & Wang, 2006).

When analyzing the literatures on customer loyalty, there are many studies available with regard to relationship quality and customer loyalty. For example, Auruskeviciene et al. (2010) find that there is a positive relationship between relationship quality and customer loyalty in a professional service company. Relationship quality also positively impact on customer loyalty and thereby increase customer satisfaction (Haung, 2012).

By analyzing the literatures, the following conceptual framework is given.

Figure 1 Conceptual Model



Source: Review of Literatures

Based on the conceptual framework, the following hypotheses have been formulated.

- H<sub>1</sub>: Customer trust on the service of the bank is contributing to the customer loyalty in the banking sector.  
 H<sub>2</sub>: Customer commitment in service of the bank is positively impacting the customer loyalty in the banking sector.  
 H<sub>3</sub>: Customer satisfaction is leading to customer loyalty in the banking sector  
 H<sub>4</sub>: Communication at banks is positively contributing to the customer loyalty of the banking sector.

### Methodology

This study is quantitative in nature. Deductive approach of the research has been adopted for this study. Since it was difficult to get the list of customers of commercial banks, convenience sampling techniques was adopted. 350 questionnaires were distributed only 225 respondents sent duty filled questionnaires and were taken into account. This is shown in Table below.

Table 1 Questionnaire Distribution

Districts	Distribution	Returned	Response Rate
<b>Ampara</b>	152	98	64%
<b>Batticaloa</b>	90	51	57%
<b>Trincomalee</b>	108	76	70%
<b>Total</b>	350	225	64%

Data were collected in the Eastern province of Sri Lanka which includes Ampara, Batticaloa and Trincomalee districts. Response rate is 64 per cent. Research strategy used for this study was survey methodology. Hence, Questionnaire was used to collect the data. Questionnaire was prepared with the help of five-point Likert scale. Time horizon for this study was cross sectional.

Multiple regression was used to analyze the data. The multiple regression is given us under.

$$y = \beta_0 + x_1\beta_1 + x_2\beta_2 + x_3\beta_3 + x_4\beta_4 + e$$

Where y is dependent variable customer loyalty

$\beta_0$  is constant

$x_1$  is independent variable trust

$x_2$  is independent variable commitment

$x_3$  is independent variable satisfaction

$x_4$  is independent variable communication

e represents the error term.

### Results and Discussion

Pilot survey with 30 respondents were conducted and the Cronbach's alpha values are given in Table 2.

Table 2 Cronbach's Alpha Values

Variables	No. of Items	Cronbach's Alpha
<b>Trust</b>	4	0.75
<b>Commitment</b>	4	0.72
<b>Satisfaction</b>	3	0.84
<b>Communication</b>	4	0.86
<b>Customer loyalty</b>	4	0.79

0.75 for trust, 0.72 for commitment, 0.84 for satisfaction and 0.86 for communication and 0.79 for customer loyalty. This shows that there is an internal consistency. Factor analysis was carried out for data reduction purpose and all communalities for all items were more than 0.50 and therefore, it was taken for the analysis.

Respondents characteristics for the study taken are given in Table 3.

Table 3 Respondents Characteristics

Characteristics	No. of respondents
<b>Age</b>	
18-25	35
26-35	82
36-45	50
45-50	40
< 51	48
<b>Income</b>	
Below Rs. 50,000	45
Rs. 50,000 – Rs. 100,000	72
Above Rs. 100,000	122
<b>Educational Qualifications</b>	
Below GCE O/L	18
GCE O/L	48
GCE A/L	98
Degree	32
Postgraduate	27
Others	02

Multiple regression analysis was done and the results are given in Table 4.

Table 4 Multiple Regression Results

Predictive variable	$\beta$	$t$	IVF
<b>Trust</b>	.016	0.242	1.019
<b>Commitment</b>	.089	1.316	1.024
<b>Satisfaction</b>	.029	0.431	1.026
<b>Communication</b>	.083	1.223	1.019

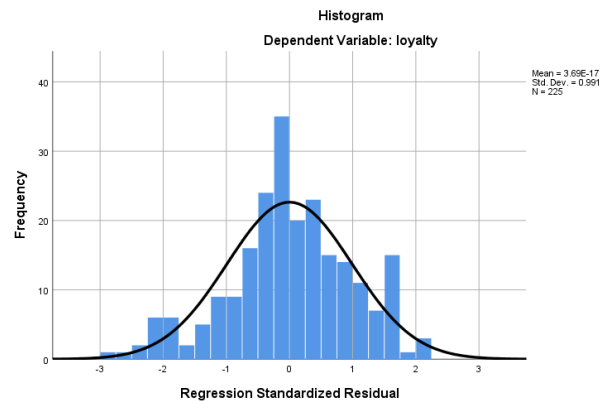
Note:  $F_{4, 220} = 649.634$ ,  $p < 0.05$ ,  $R^2 = 0.922$ , Adjusted  $R^2 = 0.921$ , Durbin – Watson = 1.928

$$\text{Customer Loyalty} = 1.159E - 17 + 0.016x_1 + 0.089x_2 + 0.029x_3 + 0.083x_4$$

Multiple regression results show that the model is best fitted and it can be concluded that all independent variables such as trust, commitment, satisfaction and communication are contributing to the customer loyalty of the banking industry in Sri Lanka.  $R^2$  value is 0.922 which shows that the explanatory power of the model is high and it infers that these independent variables have power to explain the customer loyalty. Durbin-Watson value is also close to 2 that also confirms the model.

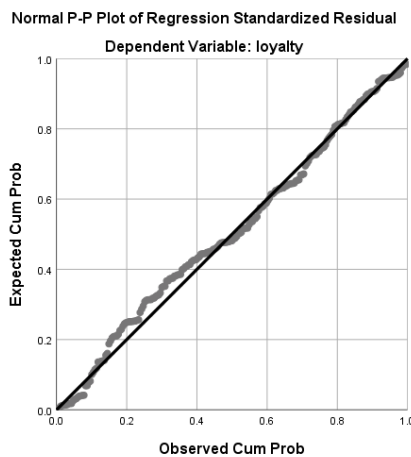
Adequacy of the model is also tested and confirmed that the model is consistent with assumption of normality. This is shown in Figure 2 and in Figure 3.

Figure 2 Residual Histogram



Probability plot has also been used to test the model. NPP also confirms its straight line and all values are around the regression line. This is shown in Figure 3.

Figure 3 Probability Plot



All hypotheses developed in this study are accepted in this study. This is shown in the following Table 5.

Table 5 Hypotheses testing

Hypotheses	Results
<b>H<sub>1</sub>: Trust -&gt; Loyalty</b>	Supported
<b>H<sub>2</sub>: Commitment -&gt; Loyalty</b>	Supported
<b>H<sub>3</sub>: Satisfaction -&gt; Loyalty</b>	Supported
<b>H<sub>4</sub>: Communication -&gt; Loyalty</b>	Supported

The mostly influencing variable is commitment ( $p < 0.05$ ,  $t = 0.242$ ). Relationship quality of the banking sector can be enhanced by investing more on the customer commitment. Banking sectors need to make customers to become committed. Customer commitment is very important for banking sector to create long term relationship. Banking sectors might create the relationship that can be valued more by the customers. This will result in the commitment of customers towards banking services. The second influencing variable is communication ( $p < 0.05$ ,  $t = 1.223$ ). Customer loyalty can be formed in the banking sector due to the communication between banks and customers. This can be marketing communication or communication during the service experience. Banks need to give more attention to the communication to create customer loyalty. The third factor is satisfaction ( $p < 0.05$ ,  $t = 0.431$ ). Satisfying the banking customers will be one of the determinants to keep them for a long time.

The fourth factor is trust ( $p < 0.05$ ,  $t = 0.242$ ). This is vital for creating the relationship that would be of quality. Banking sectors need to provide more importance to the trust too in their operation that will form customer loyalty.

## Conclusion

The objective of the study was to explore the effect of relationship quality on the customer loyalty among banking customers and to identify the factor mostly influencing on the customer loyalty among banking customers. Trust, commitment, satisfaction and communication are important factors for creating loyalty among bank customers. Analysis reveals that all four variables positively contributing to the customer loyalty of banking sectors in Sri Lanka. Therefore, it is important for banking sectors in Sri Lanka to focus and invest more on creating trust on the banking services, to make customers committed towards banks, to satisfy the customers well and to have good communication with customers are paramount for banking sectors to create customer loyalty so that enjoy the competitive advantage.

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