

Application of a Relationship Marketing Perspective in Public and Private Licensed Commercial Banks in Sri Lanka

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Abstract: During the past years, the traditional transaction approach to marketing has been challenged and relationship marketing is suggested as a better option. Relationship marketing has changed the focus of marketing to a new direction from short term orientation to a long term perspective. Because of the increasing competition, practitioners have again changed the business philosophy from relationship marketing to relationship marketing orientation to compete effectively giving their customers a little bit higher than expected. In that manner, they found, branding as a powerful tool that can be used to differentiate their products and services from their competitors. Normally service organizations, especially the banking sectors are relationship oriented and mainly focus on customer retention and a long term relationship with the buyer and the seller. As the result of the high competition, organizations are seeking to have the relationship marketing as a competitive advantage perspective. In order to enjoy the competitive advantage, organizations are concentrating on developing the competencies that help firms to satisfy their customer wants and needs more effectively and efficiently than competitors. The general objective of this research is to identify the impact of Relationship Marketing Orientation (RMO) on brand equity and to examine the existing RMO in both public and private licensed commercial banks, Sri Lanka. A conceptual model has been developed to link RMO and brand equity. Questionnaire was used to collect the data from 1000 household customers, who have been selected from 100 licensed commercial banks that comprised of public and private based on non probability sampling method (quota sampling method). Multiple regression, one sample t-Test and independent sample t-Test have been used for the analysis. Findings revealed that there is a positive and significant impact of RMO on brand equity in Sri Lankan licensed commercial banks.

Keywords: Brand equity, Licensed Commercial Banks, Relationship Marketing Orientation.

I. INTRODUCTION

In recent years, the traditional transaction approach to marketing has been confronted to a new point, suggested as “paradigm shift”. The “new paradigm” is commonly called as “relationship marketing”. The objectives of the relationship marketing include the increasing satisfaction level and the retention of those customers and customer loyalty by the maintenance and promotion of the relationship [33] and emphasize long-term, mutually beneficial relationships between buyers and sellers [13]. Mutual benefit of the relationship marketing means, both parties (customers as well as the organisation) engaging in the relationship marketing to achieve their objectives or benefits. From the customer's point of view [19], the authors have concluded the following advantages: increasing the confidence level through trustworthiness and reducing anxiety, social benefits through the development of friendship with employees, and offering special treatment such as extra services. From the organisational point of view, relationships marketing help to create loyalty, and a number of studies have demonstrated their positive effects on profitability [34].

Indeed it is increasingly acknowledged that the concept of developing effective customer relationship is of importance in a variety (but not all) of marketing situations [3] and will contribute to a firm's competitive advantage and retention and the loyal customer's positive word-of-mouth helps to gather new business [15, 17, 35] and to attract new customers [44] to the organisation.

Further, managing customer relationship focuses on customer retention and customer retention is deemed to be more profitable than customer acquisition [4, 21]. Thus organizations seek benefits in order to develop a relationship with their customers, so that they will be able to create a competitive advantage [32].

However the aim of the customer relationship marketing is to produce high customer equity [26, 36]. The authors contend that the customer equity consists of three key drivers: brand equity, value equity, and relationship equity. Among the three drivers of the customer equity, brand equity is considered as more important than the other drivers of customer equity [26], because brand equity, plays the strategic role in an organisation and is important in gaining competitive advantage and it has an impact in the strategic management decisions. Further brand equity exhibits the qualities required for creating a sustainable competitive advantage. It adds value for customers, helps create defensible competitive positions, and cannot be easily transferred to other organisations and brand equity increases the probability of brand choice, leads to brand loyalty and insulates the brand from a measure of competitive threats [31].

Moreover, brand equity is the added value to products and services. In the value added perspective, brand is considered as a mechanism for achieving competitive advantage to firms through differentiation, and strong brand equity improves the perception of the product performance and larger margins, generates greater loyalty, reduces the vulnerability to competitive marketing actions as well as to marketing crises, increases marketing communication effectiveness, and creates the opportunity to additional brand extensions [26]. Thus, organisations can use the brand equity as a powerful tool to create a sustainable competitive advantage and to compete effectively than competitors. Thus, organisations are seeking the ways to develop the brand equity. Advertising expenditures, sales force, public relations, slogans or journals, symbols and packages, warranties, and event marketing have been proposed as factors contributing to brand equity [1, 37, 23]. However, a marketing strategy is often considered essential for establishing brand equity [41]. Aakar [1, 2] also emphasized that each brand equity dimension could be achieved by a variety of marketing strategies. Marketing strategies are effective in building brand equity in western markets. Further, few studies have systematically investigated how to employ marketing strategies to build brand equity. Literatures also suggest that brand equity can be developed through the relationship marketing strategies [10].

Recently, business practices and concepts have been fundamentally reshaping the marketing discipline. According to the authors in [18, 19], the philosophy of business has finally shifted from marketing orientation to a relationship marketing orientation. Callaghan *et al.*, [7], outlined the RMO centres on the creation and maintenance of relationship between two parties of exchange, the supplier as an individual and the consumer as an individual through the possession of the desire to be mutually empathic, reciprocal, trusting and to form bonds. Thus in the current scenario, the

study of the building brand equity through the RMO becomes more important in order to achieve the competitive advantage.

There are several researches which had been undertaken in the relationship marketing perspective. But only few researches had studied the concept of RMO and these studies are also based on the effects of RMO on the business performance of firms across a range of multi industries.

On the other hand, a marketing strategy is often considered essential for establishing brand equity [41]. Recently, few studies have systematically investigated how to employ marketing strategies to build brand equity. But no researches have been undertaken in the relationship marketing orientation on building brand equity perspective to compete effectively. Therefore, deficiencies persist in understanding the impact of relationship marketing orientation on brand equity in order to achieve the competitive advantage. Based on that, this research addresses the theoretical as well as empirical gap between the relationship marketing orientation and brand equity.

At the same time, relationship marketing in service organizations is not an entirely new concept [39]. For example, Berry [6] defines the relationship marketing as attracting, maintaining, and in multi-service organisations, enhancing customer relationships. Besides, research on relationship marketing in the banking industry was common by the early 1990s [25, 29, 30] and several researches were conducted in relationship marketing perspective and brand equity perspective separately in both private and public commercial banks in many countries. In Sri Lanka also, many researchers studied the relationship marketing in commercial banks (B2B context). But no researches were undertaken regarding the relationship marketing orientation and brand equity perspective in licensed commercial banks in Sri Lanka (B2C context). Thus, the study again focuses the empirical gap in the application of relationship marketing orientation and brand equity in both public and private licensed commercial banks in Sri Lanka.

The objective of this research is to examine the impact RMO on brand equity in Sri Lankan licensed commercial banks and to examine the existing RMO in both the public and private licensed commercial banks, Sri Lanka.

The authors in [38] conceptualized the basic components of RMO to develop a reliable and valid measurement scale for these components based on past related literature [7, 27, 42] and hypothesized RMO in a multi-dimensional construct consisting of six behavioural components: trust, bonding, communication, shared value, empathy, and reciprocity.

On the other hand the importance of understanding brand equity from the customer's point of view is explained in [24] as: positive customer based brand equity can lead to a greater revenue, lower costs, and higher profit, it has direct implications for the firm's ability to command higher prices, customer's willingness to seek out new distribution channels, the effectiveness of marketing communications and the success of brand extensions and licensing opportunities. Thus understanding the brand equity from customer's point of view is necessary. While there are several other definitions of brand equity from different perspectives, one of the most generally accepted definition for customer based brand equity is developed by [1] "a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers".

According to the definition, brand equity could be classified into five categories: (1) brand loyalty; (2) brand awareness; (3) perceived quality; (4) brand image; and (5) other brand proprietary assets. Among the five brand equity dimensions proposed by the author [1], the first four reflect customers' evaluations and reactions to a brand; thus, they are the most popularly adopted dimensions to explore the findings of marketing and consumer behaviour research in relation to brand equity [5, 43].

However a marketing strategy is often considered essential for establishing brand equity. In that way [40] An author said that there are inter-relationships between brands and relationship marketing and illustrated this connection in a model and emphasized the two relationships are important; relationship between service organisations and brands and the relationship between relationship marketing and brands.

Further, relationship marketing theory and brand equity theory both are grounded on social exchange theory and the theoretical arguments for the relationship between relationship marketing and brand equity is explained based on this main independent (exchanges) and dependent constructs (value and utility) through the social exchange theory [16]. Based on that the following conceptual model is developed:

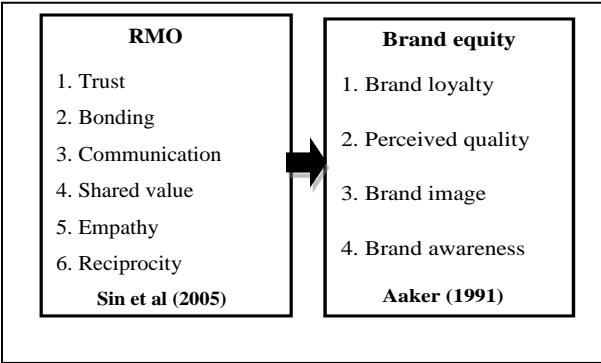


Figure 1: Conceptual model for the relationship between RMO and brand equity

Furthermore, relationship marketing has been advocated as an excellent way for banks to establish a unique long-term relationship with their customers [39]. Most of the core product/service in commercial banking is fairly generic, and it is difficult for most of the banks to compete purely on this core service. Most of the banks have tried to differentiate from other banks by offering supporting services, which is a first step toward relationship marketing. Many banks would also claim to have implemented relationship marketing more fully by developing closer and closer relations with their customers [39]. In Sri Lanka, many researchers studied the application of relationship marketing in licensed commercial banks and revealed that relationship marketing has existed in Sri Lankan licensed commercial banks. Based on that, the following hypothesis is developed.

H₁: There is a positive impact of relationship marketing orientation on brand equity in Sri Lankan licensed commercial banks.

However, many researchers have studied the application of relationship marketing in both, public and private commercial banks in the Sri Lankan context. The results of these studies suggest that there is a significant relationship between relationship marketing and the ownership of the bank. At the same time relationship marketing is well practiced by private banks than in public banks in Sri Lanka [28]. Further, Chandani [9] also reveals that the local commercial banks have adopted relationship marketing practices but not at a very high level and the private sector local commercial banks focused more on relationship marketing practices in carrying out their banking operations than public sector commercial banks in Sri Lanka. Moreover, Gwinner [20] also emphasized that relationship marketing is more in private than in public in the Sri Lankan corporate banking sector.

So far no researchers study the six dimensions of RMO developed by the researcher [38] in both, the public and private licensed commercial banks in Sri Lanka. Based on that the two following hypotheses are developed:

H₂: Relationship marketing orientation (RMO) has been existing in both public and private licensed commercial banks in Sri Lanka.

H₃: Relationship marketing orientation (RMO) exists more in the private licensed commercial banks than in the public licensed commercial banks in Sri Lanka.

II. RESEARCH DESIGN AND METHODS

Quantitative methodology has been applied and questionnaire was administered to collect the data. Among the 22 licensed commercial banks [8], this study is restricted to local banks in Colombo district, as a result two public banks and nine private banks have come under the local commercial banks in Sri Lanka. 1000 household customers were selected as the best representative from 100 licensed commercial banks based on non probability sampling method (quota sampling). Before the final data collection the pilot study was undertaken. Prior to data analysis, data purification process was conducted to ensure suitability of measures [12]. For ensuring the reliability of scale, Cronbach's alpha is computed. Further, content validity and construct validity had been applied, under the construct validity convergent validity, discriminant validity and nomological validity also had been tested. Before the data analysis, appropriateness of data distribution was tested. In that manner, normality test and multicollinearity test were undertaken.

Finally, multiple regression analysis had been used as the data analysis tools and used to test the hypothesis (H₁) further this study used the one-sample t-Test to identify the existing application of relationship marketing orientation in both public and private licensed commercial banks in Sri Lanka (H₂) and independent sample t-test is used to find out if there is any significant difference between the mean value of public licensed commercial banks and private licensed commercial banks in Sri Lanka (H₃).

III. FINDINGS AND CONCLUSION

Table 1: Dimensions of RMO on brand equity (H_1)

Independent variable	Depend. variable	Unstandardized Coefficient Beta	Standardized Coefficient Beta	Sig.	Adjusted R ²
Constant	Brand equity	0.718			0.889
Trust		0.676	0.779	0.000*	
Bonding		0.542	0.607	0.000*	
Shared value		0.149	0.329	0.000*	
Communication		0.057	0.152	0.000*	
Reciprocity		0.096	0.120	0.000*	
Empathy		0.059	0.112	0.000*	

* Significant at $p < 0.01$; Source: Survey data

The regression results show that the RMO has the strong positive effects on the brand equity in Sri Lankan licensed commercial banks and 88.9% of change in brand equity is explained by RMO in Sri Lankan licensed commercial banks. These findings are in the line with the researchers [14, 40], who stated that there is a relationship between Relationship marketing and brands. Based on that, the first hypothesis (H_1) has been accepted.

Table 2: One sample t-Test for RMO (H_2)

	\bar{X}	St.de	t	Sig.	95% Confidence interval for mean	
					Lower Bound	Upper Bound
RMO	5.07	0.682	-26.114	0.062	5.0309	5.0964

Source: Survey data

In this study, test value (known value) is considered as 5.5 (medium level of mean value, based on Evaluation Criteria). Further, the 95% confidence interval for the mean is (5.0309, 5.0964). Since this interval mean value contains below 5.5 of test value, there is significant evidence that the RMO mean value is below 5.5 or equal to the medium level. It shows that the relationship marketing orientation exists in both public and private licensed commercial banks in the medium level. This confirms the second hypothesis (H_2) that quotes as "Relationship Marketing Orientation is existing in both public and private licensed commercial banks in Sri Lanka".

Table 3: Independent sample t-Test for Relationship Marketing Orientation (H_3)

Ownership of the bank		N	\bar{X}	St.dev	t- test for equality of means	
RMO	Public bank	420	4.75	0.72	t	Sig.
	Private bank	580	5.39	0.61		
					13.6	0.00

Source: Survey data

In this study, t-value is 13.6 and it is significant at the 0.01 level. Thus, the researcher can conclude that public and private licensed commercial banks are significantly different in respect of the existing Relationship Marketing Orientation in Sri Lanka. Even though, considering the mean value of both, public and private licensed commercial banks, there is a higher level of relationship marketing orientation existing in private licensed commercial banks than in public licensed commercial banks. This confirms the third hypothesis (H_3) that relationship marketing orientation exists more in private licensed commercial banks than in public licensed commercial banks in Sri Lanka.

This study tried to integrate the relationship between relationship marketing orientation and brand equity in the licensed commercial banks in Sri Lanka and found that “there is a strong positive impact of relationship marketing orientation on brand equity in Sri Lankan licensed commercial banks”. Thus, it has filled the theoretical as well as empirical gap between Relationship Marketing Orientation and brand equity. Besides, it shows that licensed commercial banks are implementing the relationship marketing orientation on a moderate level in Sri Lanka, and at the same time having a high level of brand equity. Moreover, private licensed commercial banks are more orientated to relationship marketing and have the higher level brand equity than public licensed commercial banks in Sri Lanka. Thus, a higher level of Relationship Marketing Orientation leads to a higher level of brand equity. But Sri Lankan licensed commercial banks are implementing the Relationship Marketing Orientation on a moderate level. This shows that Sri Lankan licensed commercial banks have further room to improve their present level of Relationship Marketing Orientation.

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