

A COMPARISON OF RELATIONSHIP MARKETING IN PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

Relationship Marketing is a new phenomenon in marketing. It is a multifunctional approach, describing marketing as “an integrative activity involving functions across the organization, with emphasis on facilitating, building and maintaining relationship over time.” This trend has been catalyzed by the general shift to information highway, IT, database management, whereby marketers have leveraged this new technology to create closer ties with their customers. The overall objective of relationship marketing is to build and facilitate long-term/life-time customer relationships.

The present study examines Relationship Marketing in the context of banking. The primary objective of the study is to analyze customer perceptions of Relationship Marketing in public and private sector banks in India. It further discusses various barriers to the implementation of Relationship Marketing in Indian Banking Sector. The study is based on a survey of a random sample from the of customer databases of five public sector and five private sector banks. The data was collected using a structured questionnaire, pertaining to five dimensions of Relationship Marketing, viz. Trust, Bonding, Communication, Relationship Quality, and Conflict-handling, and the overall Customer Satisfaction with the service.

The findings of the study indicate that Relationship Marketing in both public sector and private sector banks has to go a long way to go to become effective. There was found to be a significant gap between expectations and perceptions in the Bonding, Communication, and Conflict-handling aspects of Relationship Marketing. Further, Communication and Conflict-handling aspects were found to be significant drivers of overall Customer Satisfaction.

KEYWORDS: Relationship Marketing, Trust, Bonding, Communication, Relationship Quality, Conflict-handling, drivers of Customer Satisfaction.

INTRODUCTION

New age marketing is aimed at winning customer forever, when companies greet the customers, create the product to suit to their needs, and work hard to develop lifetime customers through the principle of “consumer delight.” The success of any business depends solely on the quality of product and/or service and customer organization relationship. Instead of running after the customer, there is a need to run with the customer. Customer’s active participation and attitude is also essential to project success as quality of service depends upon the customer’s disclosure of his/her exact requirements, cooperation, prompt

decisions and actions at every stage. While customer's attitude and perceptions have changed, many organizations are yet to respond to the change in the desired manner, though, they have recognized the need to be more relationship-oriented.

Even though marketing has always been based on relationships, Relationship Marketing is thought to be a new phenomenon in the province of Marketing. The advent of mass marketing and mass production obscured the idea of Relationship Marketing for quite a long time. However, with fierce competition, eroding brand loyalty, and heightened expectations of the customers, there has been a trend in favour of Relationship Marketing. Relationship Marketing is especially immensely used by B-to-B marketers. However, Relationship Marketing as a marketing approach is still ambiguous to many practitioners.

Berry and Parasuraman (1991) defined Relationship Marketing as a marketing approach that concerns attracting, developing, and retaining customer relationships. Coviello (1997) further elaborated Relationship Marketing to be a multifunctional and integrative approach, "an integrative activity involving functions across the organization, with emphasis on facilitating, building and maintaining relationship over time." The overall objective of relationship marketing is to facilitate and long term customer relationships, which leads to changed focal points and modifications of the marketing management process. The common superior objectives of all strategies are enduring unique relationships with customers, which cannot be imitated by competitors and therefore provide sustainable competitive advantages, (Berry and Gresham, 1986).

Some of the tools used in Relationship Marketing include financial bonds, social bonds, promises, trusts, commitment, and structural bonds. Financial Bonds attempt to tie the customer primarily through financial incentives that may be in the form of lower prices for greater volumes purchases or lower prices for customers who have been with the firm for a long time. For example, In airline industry and related travel service industries like hotels and also in car rental companies, "Frequent Flier Programs" provide financial incentives and rewards for travelers who bring more of their business to a particular airline. Unfortunately, financial incentives do not generally provide long term advantages to the firm, especially if it is not combined with another relationship strategy, so they don't serve to differentiate the firm from its competitors in the long run. For instance, many travelers belong to several "Frequent Flier Program" and don't hesitate to trade-off among them and there has been considerable switching every month among the major telecommunication suppliers.

Social bonds are investments of time and energy that produce positive interpersonal relationships between partners, although this can be range from formal organizational contacts to informal, personal contacts. They are are more personal than organizational. Social exchange is viewed as a dynamic process and plays a central role in ongoing exchange episodes by fostering symbiotic adaptation. Such a bond can be strengthened through multilevel contacts between parties. The most important elements of social bonds are promise, trust and commitment.

An integral element of the relationship marketing approach is the promise concept. Grönroos. (2009) argued that marketers should not only give promises and then persuade the customers for a certain desired outcome. Apart from making only promises they should attract new customers and initially build relationships. However, if promises are not kept, the evolving relationships cannot be maintained and enhanced. Fulfilling promises is equally important as

means of achieving customer satisfaction, retention of customer base. And long term profitability.

Trust can be defined as “a willingness to rely on an exchange partner in whom one has confidence.” Trust can lead to the commitment to a relationship that results from an exchange partner exerting all his/her efforts to preserve an important relationship. The resources of the seller – personnel, technology and systems – have to be used in such a manner that the customer’s trust in the resources involved and, thus, in the firm itself is maintained and strengthened. This means that there has to be belief in the other partner’s trustworthiness that results from the expertise and reliability of that partner. Maintaining and strengthening trust is essential to the long-term success of a relationship. Where trust is absent relationship will deteriorate.

Another key element of social bond is commitment. Both affective commitment (which is based on a sense of liking and emotional attachment to the relationship) and calculative commitment (which is based on cognitive evaluation of the worth of the relationship) are constructive for developing mutually beneficial relationships, with affective commitment being the more effective.

Structural bonds are developed when two organizations adapt to each other in some economic or technical way such as products or process adjustments. These bonds are forged when two parties adapt themselves to the other by making investments that are difficult to retrieve when the relationship breaks down, and are often strengthened through joint investment in products and process development.

Lindgreen (2001) provided a comprehensive framework of Relationship Marketing, where he identified objectives, defining constructs, and instruments as three major conceptual constructs of Relationship Marketing. This framework can be represented using a simple analytical model as shown in Fig. 1 below.

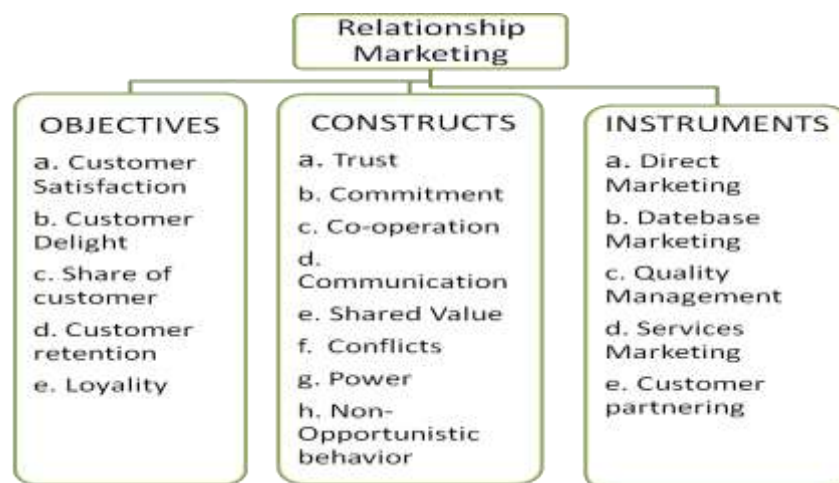


Figure 1: breakdown of Relationship Marketing into objectives, defining constructs, and instruments

LITERATURE REVIEW

There is a vast literature on Relationship Marketing, discussing the benefits of Relationship Marketing, the dimensions of Relationship Marketing, and strategies for implementation of Relationship Marketing.

Jain et al (2002) argued that, though Customer Relationship Management (CRM) has emerged as a core business process for maintaining and enhancing competitive edge in modern business warfare, in spite of meticulous planning and implementation, a large number of CRM programs fail to accomplish their goals. They suggest that a deeper understanding of the behavioral dimensions of relationship marketing and careful evaluation can help organizations to make their relationship building efforts more effective. Service providers need to be customer-oriented and trained in displaying a genuine care and concern for customer welfare. A relationship based on mutual trust and faith lasts longer.

Mittal (2006) discussed the evolution of relationship marketing approach as a evolution of a revolution in the marketing. He suggests that marketing is no longer just about developing, selling and delivering products; it is increasingly concerned with customers. In fact, relationship marketing is based upon the premise that it makes economic sense to satisfy and retain customers as the strength and duration of relationship is directly proportional to the resultant profitability.

Shaineesh and Mohan (2001) addressed certain issues in Relationship Management such as quality and customer centric processes; employee empowerment; technology selection; customer knowledge strategies and individualization of market programs.

Rich (2000) highlighted that the evolution from transaction marketing to relationship marketing in recent years has resulted in the need for more rigorous databases and greater utilization of current computerized tracking systems, with long-term perspectives of the dyadic exchange process to enhance sales results. He suggested that the role of trust and culture in the Relationship Marketing process would require a deeper understanding of the customer; for example, seeking knowledge of a customer's personal feelings concerning their comfort level with various communication approaches could enhance the reception of messages crafted for them.

Sheedy (1997) proposed that Relationship Marketing emphasizes long-term relationships between providers and customers, rather than individual transactions. For example, commercial banks have pursued Relationship Banking programmes to target key corporate and institutional clients, and this has been extended to other customer groups including retail customers. Relationship Banking can be described as the antithesis of "transaction banking." The objective is to increase long-term profits by maintaining and enhancing client relationships.

Colgate and Alexander (1998) suggested that Relationship Marketing is becoming increasingly important within the banking industry. In particular, competition is driving banks to look at forms of defensive marketing rather than offensive marketing strategies. Maintaining and enhancing relationships with personal customers is one way banks have sought to use defensive marketing and increase customer retention. However, at the same time that banks are looking to create more effective and efficient relationships with their

customers, competitors from outside the industry are seeking to establish their own financial service relationships with these customers. They argued that customers greatly value their relationships with their banks. They found that customers are increasingly concerned about having a high quality experience of banking. They expect atmosphere and entertainment and prefer banks with a personality rather than those perceived as offering a commodity. Quality of service is becoming an increasingly important differentiator between banks.

Though Relationship Marketing is a well-studied area, there is little literature on Relationship Marketing in India, and especially on Relationship Marketing in Indian banks. The present study addresses this gap.

METHODOLOGY

This study examines the linkage between Relationship Marketing and the customer satisfaction variables in the Indian banking sector (between public and private sector bank). In order to do so, a survey was conducted in Bangalore city to understand customer perceptions of Relationship Marketing dimensions and customer satisfaction in five Indian public sector banks and five private sector banks. The specific objectives of the study were to find out whether customers believe that their banks are relationship centric or not, to compare the Relationship Marketing orientation of public and private sector banks, and to study and compare the customer's satisfaction of public and private sector banks. The data collected through a structured questionnaire, comprising questions pertaining to the dimensions of Relationship Marketing, including Trust, Bonding, Communication, Relationship Quality, and Conflict-handling, and Customer Satisfaction. The data was collected from a sample of 40 customers of the five public sector banks and 40 customers of the five private sector banks under study.

FINDINGS

The descriptive statistics for the expectation and perception levels of the Relationship Marketing variables and the perception level of Overall Satisfaction are given in the table below.

<i>Dimension</i>	<i>Expectation</i>		<i>Perception</i>		<i>t-stat</i>	<i>p-value</i>
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>		
Trust	3.68	1.053	3.54	0.751	1.021	0.1550
Bonding	3.75	1.037	3.30	0.824	3.459	0.0005
Communication	3.89	0.955	3.48	0.880	3.401	0.0005
Relationship Quality	3.91	0.957	3.78	0.951	0.337	0.3685
Conflict Handling	3.86	1.003	3.26	0.983	4.093	0.0000
Overall Satisfaction			3.36	0.836		

There were found to be above average levels of expectation and perception in all of the dimensions of the Relationship Marketing variables and in Overall Satisfaction. The dimension with highest expectation level was Relationship Quality, followed by Communication, Conflict-handling, Bonding, and Trust. On the other hand, the dimension with highest perception level was Relationship Quality, followed by Trust, Communication, Bonding, and Conflict-handling.

The paired-samples t-test was performed to compare the perception levels with the expectation levels (i.e. gap analysis). The results showed that there was a statistically significant gap between expectations and perceptions in Bonding, Communication, and Conflict-handling. The gap between expectations and perceptions of Trust and Relationship Quality were not statistically significant.

Multiple linear regression was performed to identify the impact of perceptions of the Relationship Marketing variables on Overall Satisfaction. The model was statistically significant, explaining 60.0% of the variation in Overall Satisfaction. The coefficient table is shown below.

	<i>Coefficient</i>	<i>Beta</i>	<i>t-stat</i>	<i>p-value</i>
Trust	0.199	0.179	1.447	0.152
Bonding	0.101	0.099	0.702	0.485
Communication	0.366	0.385	2.965	0.004
Relationship Quality	-0.030	-0.122	-1.573	0.120
Conflict-handling	0.186	0.219	2.058	0.043
(Constant)	0.557		1.850	0.068

Dependent variable: Overall Satisfaction

The only significant Relationship Marketing variables having a statistically significant impact on Overall Satisfaction were Communication and Conflict-handling. The other variables did not have a statistically significant impact on Overall Satisfaction.

The descriptive statistics for the expectation and perception levels of the Relationship Marketing variables and the perception level of Overall Satisfaction in public and private sector banks are given in the tables below

(expectations)

<i>Dimension</i>	<i>Public Sector</i>		<i>Private Sector</i>		<i>t-stat</i>	<i>p-value</i>
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>		
Trust	3.68	0.797	3.68	1.269	0.000	0.5000
Bonding	3.55	1.154	3.95	0.876	-1.747	0.0475
Communication	3.83	1.010	3.95	0.904	-0.583	0.2805
Relationship Quality	3.98	0.891	3.85	1.027	0.582	0.2815
Conflict Handling	3.85	1.027	3.88	0.992	-0.111	0.4610

(perceptions)

<i>Dimension</i>	<i>Public Sector</i>		<i>Private Sector</i>		<i>t-stat</i>	<i>p-value</i>
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>		
Trust	3.48	0.862	3.61	0.625	0.780	0.2190
Bonding	3.07	0.849	3.54	0.735	2.640	0.0050
Communication	3.25	0.890	3.72	0.813	2.480	0.0075
Relationship Quality	3.85	0.821	3.72	0.762	0.734	0.2337
Conflict Handling	3.06	1.069	3.46	0.856	1.846	0.0345
Overall Satisfaction	3.01	0.818	3.71	0.704	4.102	0.0000

The independent-samples t-test was performed to compare the perception levels and the expectation levels of public and private sector banks. The results showed that there was a statistically significant higher level of expectation of Bonding in private sector banks than in public sector banks. On the other hand, there was a statistically significant higher level of perception of Bonding, Communication, and Conflict-handling in private sector banks than in public sector banks. Interestingly, there was a higher level of perception of Relationship Quality in public sector banks than in private sector banks, but this was not statistically significant. Finally, there was a statistically significant higher level of Overall Satisfaction in private sector banks than in public sector banks.

The descriptive statistics for the expectation and perception levels of the Relationship Marketing variables and the perception level of Overall Satisfaction for private sector banks are given in the table below.

<i>Dimension</i>	<i>Expectation</i>		<i>Perception</i>		<i>t-stat</i>	<i>p-value</i>
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>		
Trust	3.68	0.797	3.61	0.625	0.546	0.2940
Bonding	3.95	0.876	3.54	0.735	2.685	0.0055
Communication	3.95	0.904	3.72	0.813	1.717	0.0470
Relationship Quality	3.85	1.027	3.72	0.762	0.794	0.2160
Conflict Handling	3.88	0.992	3.46	0.856	2.386	0.0110

For private sector banks, the dimensions with highest expectation levels were Bonding and Communication, followed by Conflict-handling, Relationship Quality, and Trust. On the other hand, the dimensions with highest perception levels were Communication and Relationship Quality, followed by Trust, Bonding, and Conflict-handling. The results of the paired-samples t-test showed that there was a statistically significant gap between expectations and perceptions in Bonding, Communication, and Conflict-handling in private sector banks. The gaps between expectations and perceptions of Trust and Relationship Quality in private sector banks were not statistically significant.

Multiple linear regression was performed to identify the impact of perceptions of the Relationship Marketing variables on Overall Satisfaction in private sector banks. The model was statistically significant, explaining 44.7% of the variation in Overall Satisfaction. The coefficient table is shown below.

	<i>Coefficient</i>	<i>Beta</i>	<i>t-stat</i>	<i>p-value</i>
Trust	0.183	0.163	0.738	0.465
Bonding	-0.123	-0.128	-0.619	0.540
Communication	0.339	0.392	1.918	0.064
Relationship Quality	0.236	0.256	0.986	0.340
Conflict-handling	0.053	0.065	0.323	0.749
(Constant)	1.163		2.139	0.040

Dependent variable: Overall Satisfaction

The only significant Relationship Marketing variable having a statistically significant impact on Overall Satisfaction in private sector banks was Communication. The other variables did not have a statistically significant impact on Overall Satisfaction in private sector banks.

The descriptive statistics for the expectation and perception levels of the Relationship Marketing variables and the perception level of Overall Satisfaction for public sector banks are given in the table below.

<i>Dimension</i>	<i>Expectation</i>		<i>Perception</i>		<i>t-stat</i>	<i>p-value</i>
	<i>Mean</i>	<i>Std. Dev.</i>	<i>Mean</i>	<i>Std. Dev.</i>		
Trust	3.68	1.269	3.48	0.862	0.860	0.1975
Bonding	3.55	1.154	3.07	0.849	2.296	0.0135
Communication	3.83	1.010	3.25	0.890	2.979	0.0025
Relationship Quality	3.98	0.891	3.85	0.843	0.670	0.2535
Conflict Handling	3.85	1.027	3.06	1.069	3.346	0.0010

For public sector banks, the dimensions with highest expectation levels were Relationship Quality, followed by Conflict-handling, Communication, Trust, and Bonding. On the other hand, the dimension with highest perception levels was Relationship Quality, followed by Trust, Communication, Bonding, and Conflict-handling. The results of the paired-samples t-test showed that there was a statistically significant gap between expectations and perceptions in Bonding, Communication, and Conflict-handling in public sector banks. The gaps between expectations and perceptions of Trust and Relationship Quality in private sector banks were not statistically significant.

Multiple linear regression was performed to identify the impact of perceptions of the Relationship Marketing variables on Overall Satisfaction in public sector banks. The model was statistically significant, explaining 71.1% of the variation in Overall Satisfaction. The coefficient table is shown below.

	<i>Coefficient</i>	<i>Beta</i>	<i>t-stat</i>	<i>p-value</i>
Trust	0.279	0.294	1.479	0.148
Bonding	0.127	0.132	0.531	0.599
Communication	0.306	0.333	1.875	0.069
Relationship Quality	-0.030	-0.172	-1.637	0.111
Conflict-handling	0.129	0.168	0.927	0.361
(Constant)	0.383		1.195	0.240

Dependent variable: Overall Satisfaction

The only significant Relationship Marketing variable having a statistically significant impact on Overall Satisfaction in public sector banks was Communication. The other variables did not have a statistically significant impact on Overall Satisfaction in public sector banks.

DISCUSSION

The findings of the study show that overall the gap of perceptions among the customers of private and public sector banks is quite wide with respect to the Relationship Marketing implementation, especially in terms of Bonding, Communication, and Conflict-handling.

The findings clearly show that the Relationship Marketing approach is not effectively implemented in public sector banks. The poor implementation of Relationship Marketing approach in public sector banks is reflected in the poor perception of Conflict-handling, Bonding, and Communication dimensions, and has resulted in poor Customer Satisfaction. Thus, the public sector banks must work hard to improve their Relationship Management systems, especially in these areas.

The private sector banks must also work to improve their Relationship Marketing systems. Though they have fared better than public sector banks in terms of the different dimensions of Relationship Management, they still have to improve their systems especially in terms of Relationship Quality.

Relationship Marketing requires a drastic change in organizations. Firms may have to move from processing customers in groups to serving individual needs. To do so, the organization must be redesigned and decentralized, giving line managers the chance to respond to customer issues. Other changes in policies and procedures to improve the way in which customer needs are addressed may also be needed. Human resource policies should focus on encouraging employees to build relationships. Employees should be encouraged to consider the long-term effects of how they treat customers, rather than viewing the customers as a one-time buyer. Salespeople, in particular, play a key role in developing customer service that leads to loyalty.

However, the biggest change that is required is that of top management. The greatest challenge for the top management is to install among its employees, a deep sense of commitment towards the customers. In order to foster a customer-centered organizational culture, top management must be customer-focused and convey that attitude to employees. Employees, in turn, must be trained in customer service. Firms can offer incentives to encourage good service, but they must also empower employees to address customer concerns this will not only help to improve customer service, but also make employees more satisfied with their work.

Along with these changes, organizations need to establish an effective customer service system that not only responds to customer complaints, but also encourages customers to complain. Such a service quality information system enables managers to hear and understand customer complaints, track performance, reward good service and determine what is important to customers.

There are some limitations in the present study. The sample size of the study was relatively small, and the coverage of private and public sector banks was limited. There is great scope to extend the present study and consider individual banks. In particular, the banks themselves should regularly conduct customer satisfaction surveys. With better understanding of customers' perceptions, the banks can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out path future progress and improvement.

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