Customer loyalty in banking sector: a study from relationship marketing perspective

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KEYWORDS	ABSTRACT
Trust, communication, commitment, perceived security, perceived privacy, customer satisfaction, customer loyalty, banking	Relationship marketing plays a pivotal role in services sector. Relationship marketing in banking gaining considerable importance for long term relationship with its customers. However, research on relationship in banking industry is limited. The present study focused to study the effect of of relationship marketing – trust, communication and commitment – and perceived security and perceived privacy on customer satisfaction and customer loyalty. Data were obtained from banking customers using self-administered and structured questionnaires based on convenience sampling technique. A total sample of 218 responses received and were analyzed using structural equation modelling with the support SPSS AMOS 20 version. Results of the study indicated a positive effect of trust, communication, commitment, perceived security and perceived privacy on customer satisfaction. Further, customer satisfaction proves a positive effect on customer loyalty. The concludes with limitations, scope for future research and implications.

1 Introduction

It is inevitable for companies to build strong relationships with its customers to sustain in the long run. This is due to changes in technology (Verma et al., 2016).and rapidly changing environment. Relationship marketing plays a crucial role and adds value to the organization and to the customers. Many banks are facing challenges with extreme tough competition and customers' switching behaviour from one bank to another. It has become essential for companies to satisfy customers so that they are retained for long term. Most of the bank offer similar products (Caroline and Elizabeth, 2014). A customer who is not happy with a bank may move to another bank for better service. In such an environment, banks need to offer superior solutions to gain news customers while retaining existing customers at the same time. Acquiring new customers is five times costlier than retaining existing customers Kotler (2006). Hence, the banks need to adopt and update relationship marketing for sustained relationships with its customers (Magasi, 2016).

Relationship marketing is an approach where the customers are the centre point for the growth of the organisation. Relationship marketing provides value to both customers and the organisation in the long run (Yeh, Wang, Hsu, & Swanson, 2018). Relationship marketing is based on the concept customer loyalty. It's a challenging task for the companies to retain and augment customer relationships. Long term relationship is the key for customer loyalty (Sayil et al., 2019).

Relationship marketing plays a pivotal role in banking industry (Izogo, 2016; Van Esterik-Plasmeijer & Van Raaij, 2017).

The present research aimed to study the various dimensions and their effect on customer satisfaction and loyalty in the banking sector. A research model was designed and tested the relationships. First section of the paper deals with review of literature. Next section deals with research methodology followed by data analysis and discussion. The paper concludes with implications and recommendations for future studies.

2 Review of literature and hypotheses development

2.1 Trust

Trust is an important influencer of relationship with customers. Morgan and Hunt (1994) defined trust "as a state that exists when one party has confidence in an exchange partner's reliability and integrity." It is the customers' confidence that the firm provides hassle-free service (Randall et al., 2011). Trust has been studied extensively as a critical factor in relationship marketing (Kuo, 2011; Narteh et al., 2013). Research proved a positive relationship between customer trust and customer satisfaction (Narteh et al., 2013; Kayeser Fatima & Abdur Razzaque, 2014).

H1: Trust has a positive effect on customer satisfaction

2.2 Communication

Communication is essential element in customer relationship in banking industry. Communication is the ability of an employee to give important and purposeful information to customers. Communication augments customer service in the long run. Information exchange is vital in relationships (Metcalf, Frear, and Krishnan, 1992). It's a key element in sustained relationships (Rule and Keown, 1998). Communication is key aspect in relationship marketing (Husnain & Akhtar, 2015; Abtin & Pouramiri, 2016). Previous research indicated a positive relationship between communication and customer satisfaction (Halimi et al., 2011).

H2: Communication has a positive effect on customer satisfaction

2.3 Commitment

Moorman et al. (1993) conceptualized commitment as "an enduring desire to maintain a valued relationship." High level of employee obligation leads to superior customer relationships (Morgan & Hunt, 1994). Commitment has been proved to be an effective aspect in relationship marketing (Morgan & Hunt, 1994; Egan, 2004). High degree of commitment is a primary cause of successful and strong customer relationship (van Vuuren et al., 2004). Commitment has been widely researched in the context of relationship (Kuo, 2011; Christian et al., 2017). Researched observed a positive relationship between commitment and customer satisfaction (Aissa & Thabit, 2019).

H3: Commitment has a positive effect on customer satisfaction

2.4 Perceived security

Security has been gaining significance in banking industry. The absence of security features forms a critical barrier for adoption of banking services. Organizations incorporate several security features to improve customer satisfaction. Security helps in organizational growth. Adequate security features augment customer satisfaction in banking industry. Literature provided evidence for positive relationship between perceived security and customer satisfaction (Fathi & Rezaei, 2012). Salimon et al. (2015) in their study indicated a positive effect of perceived security on customer satisfaction in online banking context.

H4: Perceived security has a positive effect on customer satisfaction

2.5 Perceived privacy

Perceived privacy is conceptualized as a person's ability to have control on the personal information shared. Privacy is the protection of consumer data collected by a business firm in online banking industry (Bakar et al., 2017). In the present digital era, banks offer various services to customers via smart gadgets. Hence, the customers are conscious about the privacy issues. Consumers are concerned about their personal information collected by banks (Yoon & Steege, 2013). Research proves that privacy is the major cause of customer dissatisfaction in banking industry (Poon, 2007). Dehghanpouri et al. (2020) in their study proved a positive relationship between perceived security and customer satisfaction in banking sector.

H5: Perceived privacy has a positive effect on customer satisfaction
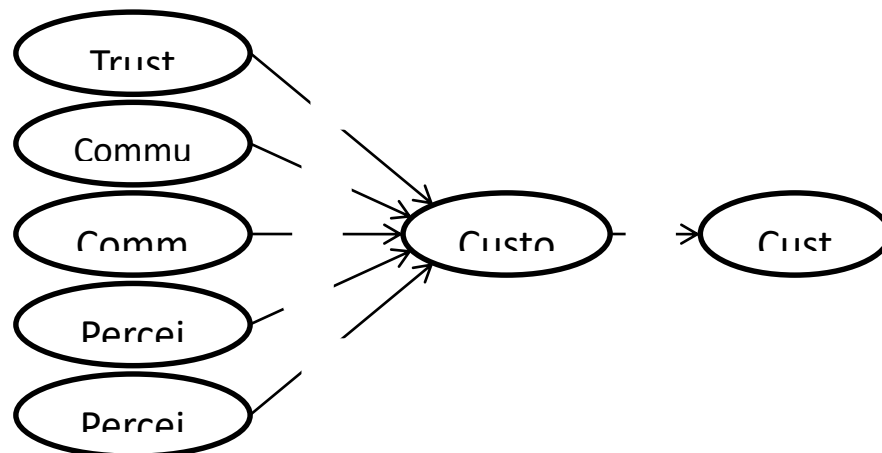
2.6 Customer satisfaction and loyalty

Satisfaction is the overall evaluation of customer experiences with a product or service over a period of time (Verhoef, 2003). Customer satisfaction is the overall response of customer in respect to what the customer expects and what the perceived performance of a product or service. Customer satisfaction is assessed post consumption of a product or service (Fornell, 1992). Yang & Chao(2017) performed a study in airfreight forwarding industry and shown a positive relationship between customer satisfaction and loyalty. Further, Christian et al. (2017) in their research study indicated a positive effect of customer satisfaction on customer loyalty.

H5: Customer satisfaction has a positive effect on customer loyalty.

Research model

Based on extensive literature a research model with seven factors was formulated.

Fig 1 Research model

3 Research methodology

The present research was focused to study various factors influencing customer satisfaction and customer loyalty from relationship marketing perspective in banking sector. The dimensions studied were: trust, communication, commitment, perceived security, perceived privacy, customer satisfaction and customer loyalty. The research model was verified empirically.

3.1 Sample

Respondents include for the study were banking customers. Customers holding a bank account were included in the study. A structured questionnaire with 22 items was developed to obtain data. Questionnaires were sent via google forms to 380. 236 responses were received out of which 218 responses were completely filled. 18 responses were partially filled which were omitted for data analysis. Response rate was 57.36 per cent. Responses were collected from Hyderabad, India. Data

were collected using convenience sampling technique. Convenience sampling covers most of the population Etikan et al., 2016).

3.2 Measures

Current study adopted measurement items from well established studies. The qeustionnarie items were modified to fit the current research study. A five-point Likert scales ranging from 5 – strongly agree to 1- strongly disagree was employed for data collection. 22 questionnaire items were used to capture data from customers having a bank account. Trust was measured based on a 3 item scaled developed by Chiu et al., 2005; Ndubisi & Kok Wah, 2005. Commitment was taken from a study by Ndubisi & Kok Wah, 2005. Communication was measured based on a four item scale developed by Ndubisi, 2007; Ndubisi & Kok Wah, 2005. Perceived security was assessed based on a scaled proposed by Brown & Buys, 2005. Perceived privacy was drawn from a 3 item scale developed by Liao & Wong, 2008; Yousafzai et al., 2009. Customer satisfaction and customer loyalty scale were extracted from Mohsan et al., 2011.

Data analysis

4.1 Descriptive statistics

From a sample of 218 responses, 121 i.e. 54.59 per cent were male while 45.41 percent were female. 36.24 per cent respondents in the age group between 18 and 25 while 33.48 per centage respondents in the age bracket of 26-35. Majority of the respondents i.e. 43.58 per cent are under graduates. With respect to marital status 58.26 respondents were married. 24.77 per cent of the respondents having monthly income of 60,000-one lakh.

Table I Demographic profile of the respondents

Measure	Category	Frequency	Percentage
Gender	Male	121	54.59
	Female	97	45.41
Age (years)	18-25	79	36.24
	26-35	73	33.49
	36-45	51	23.39
	Above 45	15	6.88
Education	High school	8	3.67
	Intermediate	34	15.60
	UG	95	43.58
	PG	72	33.03
	Other	9	4.13
Marital status	Married	127	58.26
	Unmarried	91	41.74
Family Monthly income	Less than 20,000	35	16.06
	20,000-40,000	46	21.10
	40,000-60,000	49	22.48
	60,000-One lakh	54	24.77
	Above one lakh	34	15.60

Table II Factor loadings, Cronbach's alpha, CR and AVE

Construct	Code	Loading	Cronbach's Alpha	AVE	CR
Trust			0.923	0.741	0.898
	TR1	0.927			
	TR2	0.903			
	TR3	0.867			
Communication			0.918	0.736	0.918
	COM1	0.907			
	COM2	0.893			
	COM3	0.86			
	COM4	0.826			
Commitment			0.888	0.752	0.902
	CMT1	0.846			
	CMT2	0.853			
	CMT3	0.869			
Perceived security			0.896	0.689	0.897
	PS1	0.816			
	PS2	0.852			
	PS3	0.866			
Perceived privacy			0.814	0.768	0.912
	PP1	0.903			
	PP2	0.903			
	PP3	0.903			
Customer satisfaction			0.915	0.697	0.881
	CS1	0.904			
	CS2	0.91			
	CS3	0.861			
Customer loyalty			0.894	0.681	0.859
	CL1	0.923			
	CL2	0.914			
	CL3	0.867			

Table III Inter correlations

	COM	TR	PS	PP	CS	CL	CMT
COM	**0.859**						
TR	0.184	**0.894**					
PS	0.413	0.265	**0.860**				
PP	0.270	0.175	0.388	**0.889**			

CS	0.370	0.117	0.439	0.227	**0.877**		
CL	0.002	0.172	0.064	0.056	0.151	**0.879**	
CMT	0.320	0.459	0.431	0.234	0.036	0.082	**0.854**

Table IV Measurement model and structural model

Index	$x2/df$	GFI	AGFI	TLI	CFI	NFI	RMSEA
Cut-off value	< 3	> 0.8	>0.8	> 0.9	> 0.9	> 0.9	<0.08
Measurement model	1.712	0.913	0.889	0.941	0.947	0.913	0.062
Structural model	1.654	0.901	0.863	0.938	0.932	0.906	0.053

Table V Hypotheses results
The table below displays the results of hypothesized relationships.

Hypothesis	Path	S.E.	P-value	Result
H1	TR □CS	0.38	0.023	Supported
H2	COM□ CS	0.03	0.01	Supported
H3	CMT □ CS	0.029	***	Supported
H4	PS□ CS	0.031	***	Supported
H5	PP □ CS	0.041	0.003	Supported
H6	CS□CL	0.027	0.002	Supported

*** $P \leq 0.001$

Findings
Data analysis was carried out using SPSS AMOS version 20. Confirmatory factor analysis was conducted to assess model fit, reliability and validity. Cronbach's alpha was noticed to be above 0.70 of all constructs ensuring construct reliability (table II). Average variance extracted for all constructs lie in between 0.681 and 0.768 (table II) ensuring convergent value as recommended by Fornell and Larcker (1981). Discriminant validity was assessed using inter-correlations matrix. From table III, it is observed that the values endorse discriminant validity.
Measurement model and structural model were examined for model fit. From table XXX, all the fit indices meet the criteria for model fit as recommended by Bagozzi and Yi (1988), Hu and Bentler(1999), Fornell and Larcker (1981).

Discussion
The present study aimed to examine the relationship between various dimensions of relationship marketing and customer satisfaction and loyalty. Empirical results of the study show a positive relationship between factors of relationship marketing and customer satisfaction in banking industry. Trust, communication, commitment, perceived security and perceived privacy exerted a positive effect on customer satisfaction. In turn, customer satisfaction shown a positive effect on customer loyalty. The results are displayed in table V.
The results of the present research are consistent with the previous results. Trust has a positive effect on customer satisfaction. This result is in line with the study by Narteh et al., (2013). Communication has a positive effect on customer satisfaction which in congruent with the results

of the study by Halimi et al. (2011). Commitment has a positive effect on customer satisfaction which is similar to the results of the study by Aissa & Thabit (2019). Further, perceived security is positively related to customer satisfaction which is align with the results of the study by Salimon et al. (2015). In addition, perceived privacy has a significant positive effect on customer satisfaction which is same as the results produced by Dehghanpouri et al. (2020). Finally, customer satisfaction has shown a positive effect on customer loyalty which is in congruent with the results of the study performed by Christian et al. (2017).

Implications

Relationship marketing is a key factor for long term customer relationship and sustained growth in banking sector. It is inevitable for banking industry to adopt and execute relationship marketing effectively. Strategies to be defined for better customer relationships for the growth. Relationship marketing is directed related to customer satisfaction. The present study provides insights on the factors influence customer satisfaction and loyalty. Trust, communication, commitment, perceived security and perceived privacy are crucial for customer satisfaction. Marketing strategies need to be revolve around these factors. Further, the study adds to the existing knowledge of relationship marketing in banking sector.

Limitations and future research

The present study has limitations which may be addressed in future studies. The study was conducted with a small size (n=218) hence the results cannot be generalized. Future studies may focus with large sample size for better validation of the research model used in the current study. The study was conducted in a metro city. Studies conducted in rural, semi urban and urban locations may yield different results due to change in demographic characteristics. The degree of relationship marketing dimensions may vary in banks located in rural areas. The present study was cross sectional in nature. Longitudinal studies may produce varied results. The present study was limited to banking industry, future studies may be conducted in other service industries. The study employed various dimensions of relationship marketing such as trust, communication, commitment along with perceived security, perceived privacy to study customer satisfaction in banking industry. Further studies may include factors related to attitudinal dimensions and word of mouth.

Conclusion

The present examined the effect of various dimensions of relationship marketing along with perceived security and perceived privacy on customer satisfaction in banking sector. A research model developed and empirically tested. The research indicated that relationship marketing dimensions have a significant impact on customer satisfaction in banking industry. Trust, communication, commitment, perceived security and perceived privacy have shown a positive effect on customer satisfaction. Further, customer satisfaction has exerted a positive effect on customer loyalty.

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Fig 2 Measurement model