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Relationship Marketing and Bank Performance: an Applied Study on Commercial Banks in Southwestern Nigeria.

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Abstract

This paper examines the effect of relationship Marketing process on Bank performance of selected Commercial Banks in Southwestern Nigeria. It examines the management and performance of marketing relationships from the perspectives of direct marketing, internal marketing, banks' relationship quality and customer's relation benefits in Nigeria context. The research design used was a descriptive design. The data for the study were gathered, through questionnaire adapted from Ismail (2011), from three out of six states in the Southwestern geo-political zone of Nigeria. Multistage Random sampling technique was used. High rate of return of 91% was achieved because it was a self-administered questionnaire using drop and collect method. The reliability test of instrument was done using Factor Loading and Cronbach Alpha. Data collected were analysed using both descriptive and regression analysis statistics. The Statistical Package for Social Scientists (SPSS) 17.0 version was used in data analysis. The finding reveals a positive and significant relationship between Relationship Marketing and Bank Performance indicators. The Relationship Quality and Relation Benefits were found to be positively and significantly determinants of Bank performance. The findings revealed further that Direct Marketing and Internal Marketing are insignificant predictors of bank performance. The policy implication of this study recommends that the issue of job security that has bedeviled banking sector as a result of indiscriminate retrenchment must be looked into by the banks' helmsmen. This will lead to orgainisation commitment among the employees that seems to be lacking among the employees of Nigeria Banks. This will enhance the bank performance.

Keywords: Bank Performance, Marketing Orientation, Relational Benefits, Relationship Marketing, Relationship Quality, Nigeria

1. Introduction

Relationship marketing is all about acquiring new customers and retaining existing customers. The concept of relationship marketing has received a great deal of attention from Scholars in the field of marketing. The concept has been investigated from many perspectives and examined in many ways indicating its conceptual and practical importance. Relationship marketing concept is based on the paradigm of a true balance between "giving and getting" as a key benefit to encourage an active role and is conducive in delivering two- way value, where loyalty is based on trust and partnership, will prove to be one of the most significant policies to be pursued in development and sustenance of competitive advantage (Ismail, 2009, Gronroos, 1994). According to Christopher et.al (2002), the real purpose of business is to create and sustain mutually beneficial relationships, especially with selected customers. With the main proposition which assume that successful relationships is the two-way flow of value.

Positive relationship has been established between relationship marketing and organization performance. Relationship marketing usually results in strong economic, technical and social ties among the stakeholders parties thereby reducing their transactions costs and increasing exchange efficiencies included in relationship marketing which are not only buyers or sellers exchanges but also business partnerships, strategic alliances, and cooperative marketing networks. The relationship typically involves seller- customer exchange, but it could involve any stakeholder's relationship (Morgan and Hunt, 1994; Gronroos 1994).

Ismail (2009) opines that relationship marketing emphasizes that relationships are partnerships with emphasis on social bonding, co-operation, and joint problem solving, sharing resources and activities, and basing relationship on common goals. He, however, challenged that the benefit should be relational and dyadic too. Most of the studies have been emphasizing the effect of relationship marketing on organization performance neglecting customer benefits. Moreover, relationship marketing emphasizes that long-term relationships are mutually beneficial. In any genuine relationship, both parties involves should be beneficiaries of the outcome of such relationship. Ismail (2009) observed that if genuine partnerships, as relationship marketing suggests exist, relational quality and relational benefits must be of great value.

Drawing inspiration from similar study conducted by Ismail (2009) in Jordianian Insurance companies, this study examines the management and performance of marketing relationships from the perspectives of direct marketing, internal marketing, banks' relationship quality and customers' relational benefits in Nigeria context.

2. Conceptual and Theoretical Framework

Marketing as a distinct discipline was borne out of economics around the beginning of this century and has been developing over the year. The primary focus was on transactions and exchanges. However, marketing as a field of study and practice is still in the process of reconceptualization in its orientation. Axioms of transactional marketing are the belief that competition and self-interest are the drivers of value creation and maintaining an 'arm's length relationship' is vital for marketing efficiency. Development of relationship marketing, therefore, is a significant shift in the axioms of marketing: competition and conflict to mutual cooperation, and choice independence to mutual interdependence (Sheth and Parvatiyar, 2000). There has been a shift from transactions to relationships in marketing orientation. (Kotler 1990). The emphasis on relationships as opposed to transaction based exchanges has redefined the domain of marketing as predicted by Sheth, Gardener and Garett (1988).

Every marketing transaction involves a relationship between the buyer and seller in a transaction-based situation, the relationship may be quite short in duration and narrow in scope, on the other hand, the customer-seller bonds developed in a relationship marketing situation last longer and cover a much broader scope than those developed in transaction marketing. Customer contacts are more frequent, a company emphasis on customer service contributes to consumer satisfaction in relationship marketing. (Armstrong and Kotler, 2007).

Brodie et. al, (1997) suggested relationship marketing be applied at four levels. At the first level, relationship marketing is a technology-based tool of database marketing. At a second level, relationship marketing focuses on relationships between businesses and its customers with an emphasis of customer retention. At a third level, relationship marketing is a form of 'customer partnering' with buyers cooperatively involved in the design of the product or service offering. At a fourth and broadest level, relationship marketing was seen as incorporating everything from databases to personalized services, loyalty programs, brand loyalty, internal marketing, personal/social relationships and strategic alliances.

Relationship marketing orientation involves a company integrates customer service and quality with marketing, the result is a relationship marketing orientation. Relationship marketing creates a new level of interaction between buyers and sellers. Rather than focusing exclusively on attracting new customers, marketers have discovered that it pays to retain current customers as the cost of retention is lower compare to the cost of acquiring a new customers. It has been established that strong economic, technical and social ties among the stakeholders' parties reduce transactions costs and increase exchange efficiencies. These are the benefit of relationship marketing. Also, included in relationship marketing which are not only buyers / sellers exchanges but also business partnerships, strategic alliances, and cooperative marketing networks (Morgan and Hunt, 1994; Gronroos 1994).

Jobber and Fahy (2006) view relationship marketing as the process of creating, developing and enhancing relationship with customers and other stakeholders. Relationship marketing refers to the development, growth, maintenance of long- term, cost- effective exchange relationship with individual customers, suppliers, employees, and other partner for mutual benefit (Boone and Kurtz, 2007). Developing excellent service quality creates the opportunity to build an ongoing relationship with customers. The idea of relationship can apply to many industries. It is particularly important in service industry of which banking is central because of direct contact between the banks and customers.

2.1 Direct Marketing

Relationship marketing is always concerned about the direct marketing (otherwise known as interactive marketing) activities and managing these dimensions with the aim of establishing, developing and maintaining co-operative customer relationships for mutual benefit (Grönroos, 1997**,** 2004). Direct marketing refers to buyers- seller communications in which the consumer controls the amount and type of information received from a marketer. Interactive techniques have been used for more than a decade; point-of-sales brochures and coupon dispensers are a simple form of interactive advertising. Today, however, the term also includes two-way electronic communication using a variety of media such as the internet, CD-ROMS, and virtual reality kiosks (Boone and Kurtz, 2007).

2.2 Relationship Quality

Relationship quality is all about customer satisfaction, trust and commitment. It can be regarded as a variable composed of several key components reflecting the overall nature of relationships between companies and costumers. There has not been a common consensus regarding the conceptualization of relationship quality but there has been considerable speculation as to the central components of this all important variable in measuring relational quality. Components of relationship quality proposed in past research include cooperative norms (Baker, Simpson, and Siguaw 1999), opportunism (Dorsch, Swanson, and Kelley 1998), customer orientation (Dorsch, Swanson, and Kelley 1998; Palmer and Bejou 1994), seller expertise (Palmer and Bejou 1994), and conflict, willingness to invest, and expectation to continue (Kumar, Scheer, and Steenkamp 1995). From the previous studies, there is general consensus that customer satisfaction with the service provider's performance, trust in the service provider, and commitment to the relationship with the service firm are key components of relationship quality (Baker, Simpson, and Siguaw 1999; Crosby, Evans, and Cowles 1990; Dorsch, Swanson, and Kelley 1998; Garbarino and Johnson 1999; Palmer and Bejou 1994; Smith 1998). In summary, variables such as satisfaction, trust, and commitment are core components in relationship quality research; however, these variables are treated as interrelated rather than independent.

2.3Relational Benefits

Relationship marketing strategies should enhance customers' perceived benefits such as perceived relationship improvement and perceived economic benefits of engaging in relationships (O'Malley and Tynan, 2000). The Relational Benefits approach assumes that both parties in a relationship must benefit for it to continue in the long run. For the customer, these benefits can be focused on either the core service or on the relationship itself (Hennig-Thurau, Gwinner, and Gremler 2000). Benefits customers are likely to receive as a result of having cultivated a long-term relationship with a service provider are referred to as relational benefits (Gutek et al. 1999; Gwinner, Gremler, and Bitner 1998; Reynolds and Beatty 1999a). These relational benefits are benefits that exist above and beyond the core service provided. According to earlier researchers, relational benefits include confidence benefits, social benefits and special treatment benefits (Barnes, 1994; Berry, 1995; Bendapudi and Berry, 1997 and Gwinner, Gremler, and Bitner, 1998). According to them confidence benefits refer to perceptions of reduced anxiety and comfort in knowing what to expect in the service encounter, social benefits pertain to the emotional part of the relationship and are characterized by personal recognition of customers by employees, the customer's own familiarity with employees, and the creation of friendships between customers and employees; and special treatment benefits take the form of relational consumers receiving price breaks, faster service, or individualized additional services.

2.4 Internal Marketing

This has to do with organization employees job satisfaction (Ahmed, Rafiq, and Saad 2003; Hwang and Chi 2005), work motivation (Bell, Menguc, and Stefani 2004) and organizational commitment (Caruana and Calleya 1998; Mukherjee and Malhotra 2006).

Few studies have explicitly examined customer-related outcome of internal marketing, such as service quality (e.g., Bell and Menguc 2002; Bell, Menguc, and Stefani 2004). Earlier research on internal marketing concurs on three important themes. First, it is crucial that employees are "well-attuned to the mission, goals, strategies, and systems of the company" (Gummesson 1987), second, internal marketing builds on the formation of a corporate identity or collective mind (Ahmed and Rafiq 2002). Third, internal marketing must go beyond short-term marketing training programs and evolve into a management philosophy that requires multilevel management to continuously encourage and enhance employees' understanding of their roles and organizations (Berry, Hensel, and Burke 1976).

2.5 Performance

All relationship marketing activities are ultimately evaluated on the basis of the company's overall performance. However, as a firm's profitability is influenced by a number of variables largely independent of relationship marketing activities that may include leadership style, capital base and technological know-how, it seems appropriate to conceptualize relationship marketing outcomes on a more concrete level when investigating possible antecedents (Ismail, 2009). Performance indicator such as target goals, sales goals, customer retention (customer loyalty and positive customer word-of-mouth communication), better reputation in quality product and new product development and employee satisfaction measured by employee turnover rate are found appropriate in this context.

3. Methodology and Model

3.1 Method and Methods

The research design used was a descriptive design. As at 2012, there are 21 licensed commercial banks in Nigeria. All these banks have their branches in South-western Nigeria. These commercial banks serve as population for the study. There are six states in the south-western geo-political zone of Nigeria out of which three states were selected and 10 branches were randomly selected to cut across major banks in the selected states namely Osun, Oyo and Ondo State. Multistage Random sampling technique was used. The data for the measures of the variables are collected through questionnaire adapted from Ismail (2009) using five-point likert scale to measure the level of agreement or disagreement with the scale range from 1 as "strongly disagree" to 5 as "strongly agree. The survey instruments were distributed on five copies of questionnaire per branch; totalling 150 while 137 were returned and found useful for the analysis. High rate of return of 91% was achieved because it was a self-administered questionnaire using drop and collect method. The reliability test of instrument was done using Factor Loading and Cronbach Alpha. Data collected were analysed using both descriptive and regression analysis statistics. The Statistical Package for Social Scientists (SPSS) 17.0 version was used in data analysis.

3.2 Model specification

Theregression model will be of the form:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \ldots + \beta_nX_n + \varepsilon_I \quad \ldots\ldots \text{Eq.1}$$

Where

- Y is dependent variable,
- α is an intercept.
- ß1… ßn are the coefficient of the independent variables X1 to Xn. Substituting both dependent and independent variables in equation 1 above, we have the following equation

Specifically, for this study the expression is appropriate:

$$BP_i = \alpha + \beta_1RQ_i + \beta_2RB_i + \beta_3IM_i + \beta_4DM_i + \varepsilon_{it} \quad \ldots\ldots \text{Eq.2}$$

Where

BP = Bank Performance

RQ = Relationship Quality

RB = Relational Benefits

IM = Internal Marketing

DM = Direct Marketing

ε_I = Error term

3.Empirical Results and Discussion

4.1 Reliability Test

The level of reliability of the instrument that is the consistency of the variables is checked with the Cronbach's alpha statistics. Cronbach's alpha is an index of reliability associated with the variation accounted for by the true score of the "underlying construct" (Nunnaly, 1978). Cronbach's Alpha's can only be measured for variables which have more than one measurement question.

The rotated component matrix was used to extract the factors that measure relationship marketing using the principal component analysis and Varimax rotation methods. The results were extracted as Table 1. The Cronbach's alpha's values vary from 0.555 to 0.869 as shown in Table 2. Nunnaly (1978) has stated that 0.5 is a sufficient value, while 0.7 is a more reasonable Cronbach's alpha.

4.1 Descriptive Statistics

Table 3 shows the descriptive statistics of the independent and dependent variable. The mean for Bank Performance is 28.54 which show much favorable bank performance. However, from the descriptive analysis, it is stated that internal marketing has the highest mean value of 44.48 compared to the rest of the mean values where Direct Marketing, relationship quality and relational benefit has the mean value of 23.2, 18.88 and 13.37 respectively.

4.3 Regression Analysis

Equation 2 in the model specification above was analysed to determine the contribution of the independent variables to the variance in the dependent variable using Statistical Package for Social Scientists (SPSS) version 17.0. Multiple regression analysis helps us understand how much of the variance in the dependent variable is explained by a set of predictors. In Table 4, the R square value indicated that 77.3% of the variance in bank performance was explained by the contributions of internal marketing, Direct Marketing, relationship quality and relational benefit as shown in table below. Durbin-Watson statistics of 1.738 which is close to acceptable standard of 2.0 shows that there is no autocorrelation problem in the model.

Regression-coefficient is an extension of bivariate correlation. It indicates the degree of each predictor (explanatory variables) contribution to the variation explained in the dependent variable. At a significant level of 5%, only relationship quality and relational benefits were found to be significant predictor. The standardized coefficient has been used to assess the effect of each predictor. The higher the absolute value of Beta, the more important variable is in predicting the bank performance. Relational benefit explains the most variance in bank performance with coefficient value of 0.644. This shows that Relational benefit explains 64.4% of variation in Bank Performance while relationship quality explains 47.3% as it has a coefficient value of 0.473 as shown in Table 5.

The result revealed that top management and marketing managers place more premiums on relational benefits followed by relationship quality for better Bank performance than other relationship marketing construct.

5. Conclusion

This study shows the importance of relational benefits and relationship quality criteria and their influence on Banks performance of commercial bank in South-western Nigeria as these variables are significant in this study. The findings revealed further that direct marketing and internal marketing are insignificant as determinants of bank performance. These two variables that are not significant in this study need to be worked on in line with literature, they portray a good area that banks can be improved on. Job security that leads to organisation commitment seems to be lacking among the employees of Nigeria Banks. To be "target" driven at the expense of staff, job security, staff training and job satisfaction will not assist the management of the Banks in optimising their performance. Hence, indiscriminate retrenchment of staff on the flimsy excuse of not meeting up with seemly unachievable target need be minimized rather achievable goal and target will be a motivator.

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Table 1: Rotated component matrix for relationship marketing criteria

	Questions	**Component**								
	Direct Marketing.	1	2	3	4	5	6	7	8	9
	Direct Mail				.916					
2.	Telemarketing (both inbound and outbound)							.691		
3.	Direct response advertising (coupon response or "phone now").					.630				
4.	Catalogue marketing.			.704						
5.	Electronic media (internet, e-mail, interactive cable TV).		.496							
6.	Inserts (leaflets in magazines).	.836								
7.	Door-to-door leafleting.	.909								
Internal Marketing										
8.	Job security							.674		
9.	Organizational commitment						.800			
10.	Marketing training programs						.584			
11.	Freedom in job.			.681						
12.	Clarity of tasks.					.517				
13.	Work motivation					.764				
14.	Rewards and incentives				.575					
15.	Decentralized communications			.727						
16.	Equity of salaries.				.653					
17.	Involving employees in decision making				.916					
18.	Friendly contacts with personnel							.691		
19.	Clarity of employee role					.630				
20.	Job satisfaction			.704						
Relational Benefits										
21.	Core service benefits for customers		.496							
22.	Supplementary service benefits for customers	.836								
23.	After sale service benefits for customers	.909								
24.	Benefits for employees.		.590							
Relationship Quality										
25.	Customer satisfaction with the service provider's performance									.843
26.	Trust in the service provider		.546							
27.	Commitment to the relationship with the service firm		.777							
28.	After sale services								.901	
29.	Additional and more services than other customers.		.780							

Bank Performance										
30.	Target goals have been achieved.	.772								
31.	Sales goals have been achieved.	.870								
32.	ROI goals have been achieved.	.540								
33.	Our product(s) have a higher quality than those of other banks.									.780
34.	We have a higher customer retention rate than other banks.		.633							
35.	We have a better reputation among major customer segments than other banks.		.771							
36.	We have a lower employee turnover rate than that of other banks									
37.	We have been more effective in new product development than other banks.									

Source: Author computation using SPSS17.0 2012

Table 2: Cronbach Alpha

Relationship Marketing	Cronbach's
Criteria	**Coefficient Alpha**
Direct Marketing (DM)	0.754
Internal Marketing (IM)	0.728
Relational Benefits (RB)	0.869
Relationship Quality(RQ)	0.555
Bank Performance (PF)	0.806
Overall	0.935

Source: Author computation using SPSS17.0 2012

Table 3: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DM	137	8.00	35.00	23.2044	5.51487
IM	137	19.00	58.00	44.4818	7.67167
RB	137	4.00	20.00	13.3650	4.31290
RQ	137	8.00	25.00	18.8832	3.30344
PF	137	14.00	40.00	28.5401	6.03667

Source: Author computation using SPSS17.0 2012

Table 4: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.879[a]	.773	.766	2.91910	.773	112.404	4	132	.000	1.738

a. Predictors: (Constant), RQ, IM, RB, DM

b. Dependent Variable: PF

Table 5: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.388	1.696		2.587	.011
	DM	-.155	.147	-.141	-1.051	.295
	IM	-.014	.063	-.018	-.226	.822
	RB	.902	.149	.644	6.033	.000
	RQ	.865	.104	.473	8.321	.000

Dependent Variable: PF