

AN INVESTIGATION INTO THE APPLICABILITY OF CUSTOMER RELATIONSHIP MARKETING IN THE BANKING SECTOR

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Abstract

The banking sector is one of the most stable, successful and probably the most important business aspect in the world of commerce and industry. It facilitates smooth flow of businesses by providing a secure mode of financial transactions that help most companies and corporations roll. Without it and its facilities, the economy could crumble and economic collapse could soon follow. This paper examines a crucial portion of this industry's daily driver – that one thing that can be considered responsible for its longevity and partly an aspect of every bank's success, Customer Relationship Marketing or CRM. The author will attempt to slice through this area and examine its facets through the initial works already done in this field, along with the challenges that rational behavior poses.

Keywords: Customer Relationship Marketing; Customer Satisfaction; Banking Sector.

1. Introduction

Service oriented industries have adopted a marketing scheme differently from product-oriented industries. The former, including the banks, has adopted relationship marketing strategies in forwarding their corporate interests, and for banks, this means keeping their clients not only at a bay, but also in a closer, more intimate relationship (Yoganathan, et al., 2015). The growing competition in the field of banking services likewise dictate the banks' increased eagerness to keep old clients and halt any possibilities of shifting (Machanda, 2014). Banks are continuously enhancing this relationship with the clients, thus forming a relationship-based market strategy we have seen grow over the past decades (Gilaninia, et al., 2011). Relationship marketing will be defined and examined, as well as the challenges that this approach faces taking into account the client's rationale behavior when confronted with issues of loyalty, retention or changing bank. In exploring the concept of relationship marketing, the paper will dig deep on why relationship marketing has been utilized in the banking industry.

2. Defining Relationship Marketing

The concept of relationship marketing has grown out of the bankers' desire to obtain concrete data on what the client wishes, not just the holistic preference of the majority but of the very individual themselves, designed to achieve full client satisfaction. For banks, and other service-oriented industries, the clients' satisfaction over their services dictates whether they will succeed or otherwise (Gilaninia et. al. 2011). In the service industry, the clients are the only source from where companies derive substantial income, hence this devotion of banks towards client retention and loyalty.

Though bank officers are really client-centered, relationship marketing is more than just the satisfaction of the clients. An underlying interest of the banking professionals prompts these corporate individuals to prioritize clients' needs. Looking at the bigger picture, relationship marketing is about forwarding mutual interest of both the bank and the clients (Kehinde, Adegbuyi & Borishade, 2016). For the bank, client satisfaction is merely

a means to an end. To increase profitability, those in the service industry must please their clients, and even bend backwards if necessary.

Pleasing a client goes through a chain of processes. For a bank to improve client satisfaction, he must gain access to the clients' preferences, needs and other demands. But to get a clear insight of these preferences, the bank needs to establish and maintain close relationship with the client (Nauroozi & Moghadam, 2015). Though banks can directly ask the clients for information, the close relationship built on trust and confidence gives candor, hence making it easier to extract information the client is otherwise reluctant to provide. Gilaninia et al, (2011, p. 509), accurately encapsulated the relationship that exists between client and bank officers, thusly, "*Relationship marketing contains all steps that company takes to identify and provide better services to our valuable customers. The relationship marketing is the process to identify and create new value for customers, in which the mutual benefit has been considered*".

The relationship that banks try to foster with their clients could be considered an investment for their future needs. Banks are building long-term relationships with their clients (Kehinde et.al. 2016). In other words, longevity of the relationship may be equated to profitability on the bank's part. Moreover, building good working relationship with the clients have long been considered more economical than to pour manpower resources just to get new ones (Chaman, et al., 2013). For one, old clients have already established a good record with the bank through previous transactions. Trust and confidence have already been built making subsequent business dealings less tedious.

3. Why Banks Utilize Relationship Marketing

Compared to other industries where products are offered, those in service industry like banks could hardly make their services distinct from the rest (Yoganathan et. al. 2015). The competitors likewise offer the same services they offer, albeit in different terms, rates and conditions. Clearly, relationship marketing is also brought by the competition in the industry (Manchanda, 2014). Apart from the technicalities that govern these services, there is no other aspect where these banks could compete on. Furthermore, competition on rates, terms and other conditions could only bring the banks so far. At some point, banks would reach their ceiling, thus resulting to almost uniform terms as that of the competitors.

If you are in manufacturing industry, there are tons of ways you could make your product distinct from the rest in market. But the same is not true with the service industry. This is why banks compete on the quality of services they offer, which is almost always defined on how they treat their clients and the kind of working relationship built on the process (Yoganathan et. al. 2015). For bankers, customer satisfaction is the way to distinguish their services from rest. That personal feeling that clients experience from dealing with you would define not only your work ethics but also the quality of your services in general. Bank officers are trained to establish good relationship, for this serves as the crux to gain understanding of how clients think, what they prefer and how they want to get things done (Nauroozi & Moghadam, 2015). It will give them raw data on how to manage their malleable services to suit one's preferences. No amount of survey or formal studies or observation could replace the kind of information the bank employees derive from forging long-term, professional and quality services to their clients. As Nauroozi and Moghadam correctly put it, "*The first and most important marketing principle is to pay attention to the customer demand*" (2015, p.96). The demand is what keeps banks earning. But this

demand – the exact demands from the clients, may not always be apparent, that the only and best way to get a clear view is forging close relationship with them.

The idea of using this close relationship to forward business interest may be viewed from different light. Under the social exchange theory, the relationship between the businessman and the customer is more than just the monetary aspect of their dealings. It is also about the that positive feeling that both parties derive from each other, i.e., that feeling brought by good relationship forged in the process (Yoganathan et. al. 2015). This is far different from the logical, and somehow reductionist and myopic perception towards business dealings, like that of the bank-client relationship where the considerations are purely monetary and business. Viewed in this light, the close relationship forged as well as the subsequent satisfaction that clients derive from the bank personnel, are likewise given great considerations along with other technical aspects of availing bank services such as rates and other terms and conditions. Put it the other way, the close relationship corresponds to the emotional-behavioral aspect of the transaction in order to compliment the intellectual-logical part, or those pertaining to rates and terms when one avails of a bank service.

4. Pursuing Customer Loyalty

Loyalty is the end result any bank personnel in charge with client relations wish to achieve. It is the end goal of establishing good relationship with their clients – satisfy their banking needs in order to keep them as clients. But loyalty is anchored on four aspects from where relationship marketing has been tailored: trust, commitment, communication and conflict management (Chaman et. al. 2013; Gilaninia et. al, 2011; Nauroozi & Moghadam, 2015).

Trust is the foundation of a good relationship. It is trust that makes a client rely on the bank and its officers for his or her banking needs (Nauroozi & Moghadam, 2015; Kromidha & Kristo, 2014). Commitment would be the desire of the party to make good of his duties in order to keep the relationship smooth and in good condition (Gilaninia et. al. 2011). On the part of the bank personnel, it is their desire to stay true and bind themselves in the fulfillment on what the client expects from them. On the other hand, client commitment is a good prognosis of expected profits for the bank. Bank officers, early on, would have a good view of the earning potential (Nauroozi & Moghadam, 2015).

The third aspect of loyalty and customer retention is the communication between parties. This entails delivering the proper and accurate information to the clients to allow the latter to have an informed choice when venturing into new bank service (Gilaninia et. al. 2011). This prevents any element of surprise on the process. Enhanced communication requires the bank to be truthful and honest on all charges and fees that come with a certain bank service. Concealment of any material information such as hidden charges would dramatically affect the way a clients view the bank and its personnel.

Excellent communication between the parties will not only mean sufficient, honest and true information given to the client. This likewise, implies, that the client has unimpeded capacity to communicate his or her desires to the bank personnel. After all, the very idea of forging good relationship with the clients is for the bank to obtain as much information as possible pertaining on the clients' preferences and choices, thus enabling bank officers to accommodate such desires in tailor-fitting their services. A client who feels extremely comfortable with a bank is one aspect that cannot be quantified accurately.

Conflict management is the last aspect of client loyalty – the ability of the bank to control whatever negative impact a misconception a client may have in the process (Gilaninia et.

al. 2011). No matter how candid the parties are, miscommunication and misunderstanding on the technical part of the bank service really happens. If left uncontrolled, this could lead not only to unsatisfied customer, but a disappointed one as well, a scenario that no bank wishes to encounter with any of their profitable clients. Conflict management also pertains on the ability of the bank officers to foresee potential areas of conflict and misunderstanding (Nauroozi & Moghadam, 2015). In other words, this factor to customer loyalty pertains to both reactive and preventive aspects of conflict management.

5. Challenges Facing Relationship Marketing

Relationship marketing is designed to foster customer loyalty by enhancing their client satisfaction over their services. However, there are challenges that this approach encounters. The most prominent of which is the fact that clients maintain more than one bank, and keeps good relationship with all of them. Accordingly, consumers in the banking industry are utilizing different banks in order to widen their options and be able to obtain the best that the industry could offer (Kromidha & Kristo, 2014). This reality runs counter to the very purpose of relationship marketing, which is to maintain good relationship in order to prevent the client from going to competitors.

The challenge for relationship marketing is the wise consumerism that is also apparent in the banking industry, which is most likely catering to the professionals, businessmen and other educated individuals who know very well how to get the best deals. The fact that clients are fully satisfied with the services of a particular bank is not even a deterrent for that client to sever ties with other banks (Kromidha & Kristo, 2014). He wants to keep his options available to assure himself of the best deals. Clients, nowadays, are keeping a good second or third options –always open to better deals with other banks despite satisfactory service of his main bank.

It is apparent that clients, like banks to their services, are likewise flexible and ready to make a shift if offered better options. If banks are always ready to make adjustments just to please a client, the latter is as flexible as well.

Conclusion

Relationship marketing to service industry like banks is designed to foster loyalty. And to keep clients loyal, areas like trust, commitment, communication and conflict management have to be improved on. Just like in any relationship, trust will bring the parties a long way. It paves way for longer business relationship and could increase bank profitability at the same time.

However, though relationship marketing is clearly utilized to prevent clients from changing banks, the thing that this approach fails to consider is the rational behavior of educated clients – that is, that these clients are wise consumers who know very well how to use the industry competition to their advantage. Clients do keep more than one bank in order to keep himself filled with other options available, ready to make a jump given a better deal. This takes place no matter how satisfied a client is to his main bank's services.

Viewed this way, the rational behavior of clients defeat the very purpose of relationship marketing – that is, to enhance their relationship with them to keep clients at a bay, thus giving them fixed market for new services in the future.

This is not to say that relationship marketing is futile right from the start. What is stated is merely the challenge that rational behavior poses over this marketing strategy. Relationship marketing had long been proven effective in keeping clients. The trust,

communication, commitment and conflict management are good reasons for clients to keep their main bank, though this is not always the case.

Recommendations

It is submitted that although clients are rational beings, the facets of loyalty are nonetheless effective tools to keep clients. Bank professionals are therefore urged to utilize not only relationship marketing but also competitive terms and conditions for their various banking services, bearing in mind that there are clients who are swayed with better deals than with good relationship. Banks should always consider that clients have second or third options that they could readily avail if given better terms.

Though rational behavior tells us that keeping a second or third options at hand are good ways to get the best deals, it is nevertheless suggested that further localized studies be conducted to determine with statistical certainty the portion of clients who are keeping other banks as a ready alternative.

Similarly, separate study is desirable to determine how many percent among these individuals are actually utilizing their second or third options, and what are the exigencies that push them to do so. This will allow bank professionals to alter their marketing scheme, particularly on how they utilize relationship marketing.

Lastly, it submitted that banks, including those in the academe conducting studies in the area, should change the way they view their clients. Customers should be viewed as rational beings that forward their self-interests. Banks should not only view their clients as a market that could deliver considerable amount of profits, but rather as partners to whatever endeavor the clients are into. This way, banks would be able to put themselves in the shoes of their client, their interests and what would be best for them.

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