The Effect of Relationship Banking On Customer Loyalty in Kermanshah City Melli Bank

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ABSTRACT: One of the aims of the relationship banking strategy has always been to establish a high level of customer loyalty. Management needs to realize the effects of customer loyalty on business growth and profits. The study will attempt to confirm the importance of building close relationships and measure the impact this has on customer loyalty. The main focus of present research is the effects of the relationship banking on customer loyalty in Kermanshah city Melli Bank. The statistical population is composed of the people sited above. Researcher – made questionnaires were used to collect the necessary data. The sources of data were taken out of 150 customers. Sampling was made by the method of cluster in year of 2012. This research studies the effects of six independent variables (service quality, perceived quality, satisfaction, commitment, trust, switching cost) on dependent variable, that is, the loyalty. To evaluate the given hypothesis, such tests as Kolmogorov-Smirnoff, kruskal wallice, Mann-Whitney, wilcoxon and SPSS and Amos softwares were used. The results made statistically indicate that all variables are effective in establishing the customer loyalty.

Keywords: Relationship Banking, Customer Loyalty, Relationship Marketing, building Relationships, Profit, Services, Products, Market, Cross Sale, Customer Life Time Value.

INTRODUCTION

In the past, different views existed on the relevance and importance of relationship banking as part of the relationship banking. The old view was that customers purely used their banks for transaction and viewed the bank as a “utility”. The new view is that over and above the transactional side of banking, a relationship side also exists which fulfills certain needs of the customer (Cram, 2001).

The importance of both transactional and relation banking has been accepted. However, the value and characteristics of relationship banking is still being debated and developed (Howcroft et al. 2003). One of the aims of the relationship banking strategy has always been to establish a high level of customer loyalty (Abratt & Russell 1999). There are opposing view on the existence of customer loyalty. Those that support the view that customer loyalty exists have implied that customer loyalty results in numerous benefits, which include increased profits and customer retention (Murray, 2004). Relationship banking as part of marketing strategies is an imperative in the highly competitive banking industry. Management needs to understand the economic value of building long-term relationships with their high-value customers. Customer retention of profitable customers is not negotiable, as all institutions and niche banks want this profitable share of market. Banks need to own the relationship with the client and use this as competitive advantage over other banks. (Abratt & Russell, 1999). Obtaining a new customer is always expensive, so, by retaining a customer the costs can be economized on. These findings prompted business decision makers and executive to search for new innovative strategies to keep their existing customers loyal towards their products and services, and also to further increase the base of loyal customers (Darrel et al., 2003). Srinivasan (2007) says that these are two main categories of loyal customers. The first category is of loyal customers. Within the loyal category there are satisfied and unsatisfied customers.

The satisfaction is not an essential requirement for loyalty, so satisfied customers do not have to be loyal but there is a correlation between the satisfied customers and loyal customers. Sometimes unsatisfied customers are also loyal due to attachment and commitment with the supplier. And satisfied customers, if lack the trust, commitment and attachment with the suppliers, products and services will always deflect once they find a competitor with better quality of products and services. This type of loyalty is sometimes called false loyalty in which unsatisfied customers remain loyal to their suppliers. The reason for this false loyalty is the
factors due to which the customers feel hurdles and obstacles in his/her way, which stops him/ her from switching or choosing another supplier. These hurdles are called switching costs. In today's technologically advanced world and due to arrival of internet, it's much more difficult to retain a customer. In Iran, firms must understand gradually the necessity of pay more attention to their customers, try to fulfill their needs and wants satis factorily and more and more seek customers loyalty. With regard to emergence of private banks together state banks and increasing competition among them, relationship banking is considered a solution to the problem of all banks. With the use of this approach, it is possible to build a long time relationship with customers and identify, support and improve the activities that are important for customers and thereby attract more customers and make them loyal to organizations.

In direction of this goal, Iran's banks are continually doing their best to present alternatives and programs to build and retain long- term relationship with their customers and ultimately make them loyal, but planning for this case it is necessary to know about the strengths and weaknesses of building relationship With customers and making loyal them and as well as studying the degree of importance of actions taken from their point of views.

Literature and research background

Seyed Javadin (2006) has conducted a research with the title of "the study of factors influencing on the aim of using customers from electronic-banking (Saman bank case study). This research is done in order to identify the factors influencing on "aim" of using customers from electronic – banking with the use of Davis' technology acceptance model. According to technology acceptance model, the behaviour of using an information technology is related to "aim" of using of particular system and the aim of using also in turn is determined by means of the degree of utility of the technology from a consumer's point of view and his perceptions about the ease of using the system. In fact, Davis says that a person's perceptions about the utility of a specific technology and the ease of using it are important in acceptance of that technology. Kini and Chobineh (1998) in their research with the title of "The importance of trust in Electronic commerce" found these results:The trust and safety are necessary for a long time success and a prospect future for Electronic commerce.

Tavani (1999) in his research by the name of "online frontage" states the findings of his research as follows: Trust makers and law passers build online trust.

Relationship banking

relationship banking is a valuable strategy that promotes competitiveness and provides sustainable success for banks (Abbrat & Russell, 1999). The utilization of relationship banking as a business strategy to increase customer retention, create customer loyalty and ultimately increase long- term profits is a relatively young tactic, originating in the 1980 s and gathering pace during the 1990 s (Levitt, 1981; Rauch 1993; Cheese, 1994).

Loyalty

loyalty means to create commitment in customers to deal with a special organization and buying goods and services on and on (Alahi & heidari, 2005) loyalty happens when customers strongly feel that their special organization in the best way fulfill their needs. Of course, the aim of establishing loyalty program is to create a win/ win situation for customers and firms as well. Acompany tries to have satisfied customers in order to attract their loyalty towards company's goods and services.

Trust

trust has been defined as the willingness to rely on an exchange partner in whom one has confidence (Ostrom and Laco bucci 1999). Chaudhuri and Holbrook (2002) define brand trust as customer's willingness to rely on the ability of the brand to perform its stated function. In social psychology, trust is considered to consist of two elements: trust in the partner's honesty, and trust in the partner's benevolence (Wetzels et al, 1998). Honesty is the belief that a partner stands by his word, while benevolence is the belief that the partner is interested in customer's welfare, and will not take actions with negative impact on the customer.

Commitment

commitment is one of the most important variables to understand the power of marketing and useful tool for measuring the possibility of customer loyalty and the predict of a customer's future purchases. It is supposed that commitment is the most common dependent variable which is used in the research related to the relationship between a seller and a buyer. Commitment is frequently defined as a desire to maintain a relationship (Moorman et al 1992).
Perceived quality

A concept which is very closely related with satisfaction and loyalty is perceived quality. Perceived quality from goods and services appears in two forms: subjective and objective. Olsen (2002) says that the quality of goods or services concentrates on fulfilling consumer's expectation and perceptions and is an affective and cognitive response which precedes his total satisfaction. Customer satisfaction, As defined by Geise & cote Customer satisfaction is an effective response from consumer and his/her perception about supplied goods or service with different intensities in special times. Each customer is either satisfied or unsatisfied after buying a product or receiving a service. Satisfaction is a positive feeling that is ultimately established in consumer or receiver of goods or services. In fact, it is caused by satisfying customer's expectations and supplier performance.

Switching cost

A switching barrier is any factor that makes it difficult or costly for customers to change providers (Jones et al 2002). Another brand loyalty determinant is known as switching costs, which can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Shergill and Bing, 2006). For this reason, a switching cost can be seen as a cost that deters customers from demanding a rival firm's brand (Aydin and Ozer, 2005).

Service quality

refers to customers' cognitive judgment in regard to service provider behavior during a buy. A perception of service quality is considered as a determinant in guiding a business customer. Service quality has been found to have a profound impact on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perceptions of the way the service has been performed (Chumpitaz et al., 2004).

Hypotheses

There is a positive and significant influence between relationship banking and customer loyalty in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between commitment with customers loyalty in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between customer satisfaction with customer loyalty in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between customer satisfaction with customer loyalty in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between switching costs with customer loyalty in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between perceived quality with customer satisfaction in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between service quality with customer satisfaction in branches of Kermanshah city Melli bank.
There is a positive and significant influence in relationship banking between customers satisfaction with commitment in branches of Kermanshah city Melli bank.

RESEARCH METHODOLOGY

Methodology based on the type of data is descriptive survey in which the relationship among the present variables by use of correlation test is explained. In order to study the relationship among dependent, independent variables and research hypotheses by use of SPSS software Spearman correlation coefficient test is used. In order to test cause and effect relations among variables and studied components, multiple regression and ultimately to determine an optimum model, structural equations Amos software of relations among variables were modeled.

In order to examine a special model comparing to the other feasible models from the point of view how good it works, NFI, RFI, IFI, RMR, GFI, AGFI and RMSEA amounts were used. The used sampling method in this research is cluster sampling because the number of customers is unlimited and population size is not determined.
**Conceptual model**

![Conceptual model diagram](image)

**Hypotheses study**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Research hypotheses</th>
<th>Sig</th>
<th>Correlation coefficient</th>
<th>Test result</th>
</tr>
</thead>
<tbody>
<tr>
<td>First hypothesis</td>
<td>There is a positive and significant influence between relationship and customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.774</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Second hypothesis</td>
<td>There is a positive and significant influence between trust in relationship banking with commitment in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.664</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Third hypothesis</td>
<td>There is a positive and significant influence between commitment in relationship banking with customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.726</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Fourth hypothesis</td>
<td>There is a positive and significant influence between customers satisfaction in relationship banking with customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.675</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Fifth hypothesis</td>
<td>There is a positive and significant influence between switching costs in relationship banking with customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.669</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Sixth hypothesis</td>
<td>There is a positive and significant influence between perceived quality in relationship banking with customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.855</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Seventh hypothesis</td>
<td>There is a positive and significant influence between service quality in relationship banking with customer loyalty in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.713</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Eighth hypothesis</td>
<td>There is a positive and significant influence between customer satisfactions in relationship banking with commitment in branches of Kermanshah city Melli bank.</td>
<td>0.000</td>
<td>0.700</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

**Structural equations final model**

In the final model, the effects of variables such as customer's satisfaction, perceived quality, service quality, commitment, trust and switching cost and customers loyalty are simultaneously studied.
For final model, the rate of chi-square statistic $x^2 = 366.593$ is freedom degree 14.

In order to study the model appropriateness, NFI, RFI, IFI, CFI amounts can be used. The closer the amounts to 1, the more appropriate the model is. As we observe in table (2), amounts indicate that model is nearly appropriate.

<table>
<thead>
<tr>
<th>Model</th>
<th>NFI</th>
<th>RFI</th>
<th>IFI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final model</td>
<td>0.564</td>
<td>0.346</td>
<td>0.574</td>
<td>0.570</td>
<td>0.041</td>
</tr>
</tbody>
</table>

**Exploratory model**

in this part, a model will be presented which its rate of chi-square statistic is less and its model appropriateness criteria are better than the final model, so, an exploratory model is used.
The rate of chi-square statistic is equal with $x^2=58.075$ and model freedom degree is equal with 9. CFI, IFI, RFI, and NFI amounts are as follow: The closer the amounts to 1, the more appropriate the model is. As we observe in table (3) the obtained amounts are very appropriate. Therefore, the presented model is very appropriate.

Table 3. the table of model appropriateness criteria, exploratory model

<table>
<thead>
<tr>
<th>Exploratory model</th>
<th>NFI</th>
<th>RFI</th>
<th>IFI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>0.931</td>
<td>0.839</td>
<td>0.941</td>
<td>0.940</td>
<td>0.019</td>
</tr>
</tbody>
</table>

CONCLUSION AND RECOMMENDATION

As we said before all the hypotheses have been confirmed by use of spearman test. The effects among variables such as customer's satisfaction, Perceived quality, service quality, commitment, trust, switching cost, and customer loyalty simultaneously are examined. In this model, customer satisfaction and changed commitment variables have the role of independent and dependent variables. Therefore, the fitting of this model by use of SPSS software is impossible.

The Amos software was used to fit this model. The switching cost has had the most impact on customer loyalty with 34%. Considering, there is a positive correlation between customer satisfaction and service quality. managers must ensure that all main services are available in each branch of bank. For example, the ATMS should be prompt, managers try to minimize in convenience at ATMS for customers and there should be spacious parking facilities for customers' vehicles.

Considering, there is a positive correlation between trust and commitment, customers must believe firmly that their respective banks deliver what they promise in their advertisement and they are not opportunistic but honest.

In order to increase customers loyalty, managers must always consider the needs of the customers. The loyalty comes in the customers once their stated as well as unstated needs are fulfilled by the managers of the bank.
REFERENCES


