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Influence of Relationship Marketing in Banking Performance

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ABSTRACT

Background: Relationship marketing focuses on prioritizing customer value over products by fostering long-term, cooperative relationships built on trust, commitment, and effective communication. It involves continuous and mutually beneficial interactions, emphasizing the importance of establishing, developing, and maintaining successful exchanges.

Method: A cross-sectional study in five of Nepal's 27 'A'-graded commercial banks (20%) used convenience sampling to survey 150 respondents in Kathmandu Valley. It explored the impact of relationship marketing on financial performance (ROA). Data analysis in SPSS 20 included descriptive and inferential statistics, with significance set at $p < 0.05$.

Results: Relationship marketing's regression coefficient is -0.838, showing a significant negative impact on ROA ($p = 0.0076$). R-squared (70.2%) and adjusted R-squared (60.3%) indicate a moderate explanatory relationship with ROA.

Conclusion: there is significance relationship between increased competition and relationship marketing is accepted. This suggests that relationship marketing is for ensuring returns rather than bringing competitiveness.

Keywords: Customer satisfaction, Tangibility, Reliability, Responsiveness, Assurance, Empathy.

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INTRODUCTION

Relationship marketing is a concept that has gained popularity over the recent years. Banks are beginning to understand the value that customers rather than products, generate from them. According to Ajike and Egwuonwu (2014), relationship marketing is a long term continuous series of transactions between parties which occurs when each trusts each trusts each to deal fairly, reliably and helpfully. Due to increased competition today's companies are beginning to understand the value that customers, rather than the value the products generate for them. Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relationship exchanges (Zoubi, 2016). Relationship marketing theory suggests that successful relationship marketing results from certain aspects of cooperative relationships that characterize successful relational exchanges (Madhavaram & Granot, 2014). Relationship marketing competence as a firm's ability to identify, develop, and manage cooperative relationships with key customers characterized by trust, relationship commitment, and communication (Alrubaiee & Al-Nazer, 2010). Traditionally banks operated in relatively stable environment for decades, but today the industry is faced with increased competition due to problem of employee retention in Nepalese commercial bank (Chalise, 2019). This has created problem of building a long-term relationship with consumers to earn a favor from them. Since, to and fro movement of employee brings chaos in banks working environment. The reason for such problem in relation marketing is due to unchanged mindset of merchants. Since, they are rumoring around same rational

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of traditional marketing which aims in acquiring customers and employee without retaining them for longer timeframe customer interactions (Sheth et al.,2015). This raises the question that whether or not relation marketing contribute to attaining and retaining customers in the Nepalese bank. The success of any organization depends on its management strategy for implementing competitive tools for quality management (Pradhan, 2017). Relationship marketing address to marketing components and determine various marketing activities for proceeding, maintaining and coordinating effective relationship among customers (Zoubi, 2016). Relationship marketing theory suggests that successful relationship marketing results from certain aspects of cooperative relationships that characterize successful relational exchanges (Madhavaram & Granot, 2014). Brar and Kumar (2017) conducted the study on ―How do consumers react to price increases and this paper explore the role of perceived fairness and consumer satisfaction on the repurchase intention after a price increase. Mahtab and Abdullah (2016) described in their article argues that the truly most productive and desirables assets are not buildings and fixtures but a profitable customer base in banking industry. Fathima and Damodaran (2018) in his article observed that in banks a number of business grievances arise every day because of the volume of growth in business, number and varieties of transaction, and the different types of customers who transact with banks every day. The only way to solve the problem as suggested by the author was to use relationship marketing. Madan, Agrawal and Matta (2015) on their paper explores the kind of relationship marketing strategies that the banks are pursuing in today's high competitive environment and what is the effect of these strategies on service quality as perceived by the customers on a comparative basis the private sector banks gave a positive result in relation management of demand and supply, customer complaints, customer retention and customizing relationships. Sajtos, Brodie and Whittome (2016) together presented an article in which the main focus of the study was to understand how customer relationships either buffer or magnify the impact of service failures on customer's satisfaction and also to learn about the conditions under which a service organization is more or less vulnerable to the effect of such service failure. Munyoro and Nyereyemhuka (2019) in their study on Customer Relationship Management in the third millennium in the banking industry focused mainly on pro-viding a high level insight of the fundamental principles through customer relationship management helps to enhance banking financial performance. Unlike other importance relationship marketing also helps in establishment of global village, core dream of today'smodern society (Rimal, 2019). The results and findings from the research and literature review represent a remarkable difference between the perceived levels of customer loyalty. This is because public sector banks have not yet forayed into the world of home banking; internal banking and only recently they have attracted using ATM network. In private banks innovative electronic banking has already replaced the traditional banking system. Khadka and Maharjan (2017) made the purpose of the study was to highlights the reasons for the lack of success of the current crop of CRM tools and review the strengths and

weaknesses for the current approaches to CRM. The studies stressed on the point customer needs are dynamic, and there should be new methods to capture them. This means, new dimensions have to be added to the set of IT based CRM tools. A bank's financial activities inherently bond it with society, making Relationship Marketing crucial for ensuring equity value, as revealed by significant statistical analysis of various hypotheses (Chalise, 2021). A mix of quantities and qualities inputs will provide an insight into the requirements of customers. Computers and packages are only tools. The organization should decide the purpose and make use of a mix of CRM tools. This is an indication that relationship banking affects financial performance of banking sector. In light of potential change having every now and then in banking sector, the changing dynamics in the financial services sector the uphill task of retaining key value customers, acquiring new customers, building their confidence and maintaining a robust financial performance as became essence (Haque & Wani, 2015). Thus banks has to know how cost of acquiring new customers resulted to increased relationship marketing in the Nepalese commercial banks which could be topic of discussion on current scenario. This again created the buzz and competition which brings competitiveness in banking sector. The rapid growth of Nepal's banking sector has intensified competition among commercial banks, pushing them to adopt innovative strategies to retain customers and stay competitive. Relationship marketing has become essential in fostering long-term customer loyalty and differentiating services. Additionally, the high cost of acquiring new customers has made retention-focused strategies more cost-effective and critical for profitability. This research explores how increased competition and acquisition costs influence the adoption of Relationship Marketing strategies among Nepalese commercial banks, providing in sights to enhance customer retention and banking performance.

METHOD

An analytical cross-sectional study was conducted in the 5 commercial banks out of 27 ‘A’ graded commercial banks in Nepal. This sample encompasses about 20% of the total population of private commercial banks in Nepal. Convenience sampling method (either corporate or branch offices located inside Kathmandu Valley) is selected for study and Questionnaire were distributed to 150 respondents, and all the responses are properly filled which made researcher convenient to draw conclusion. This research consists of two variables. Relationship marketing is independent variable and financial performance is dependent variables. The relationship marketing consists of two component increased competition and cost of acquiring new customer. Increased competition are ongoing phenomenon in banking industry which has to be handle well for enrichment of financial performance (Sajtos & Brodie, 2016). Likewise, financial performance is measured through return on assets (ROA). The assets are live wire of any organization. The enlargement in volume of assets suggests the enrichment of banking performance (Palmatier & Steinhoff, 2019). Hence, ROA is addressed as factors for ensuring financial performance (Pradhan, 2023). Collected data was entered and analyzed by using SPSS 20 software. Data was analyzed by using descriptive and inferential statistical tools. In the descriptive statistics for continuous variable mean and standard deviation were calculated while in the inferential statistics to find the relationship between continuous variable correlation matrix was performed. While to find the mathematical relationship between dependent and independent variable regression analysis were performed. P-value <0.05 was considered as statistically significant.

Table 1. Descriptive Analysis on the Basis of Sample Bank

Bank Name	MEAN	
	IC	CANC
Nepal SBI Bank	3.77	3.44
Civil Bank	3.91	3.553
Kumari Bank	3.69	3.533
Nepal Investment Bank	3.61	3.267
Mega Bank	3.45	3.133

RESULTS

Nepal SBI Bank: The dimension of increased competition has the highest mean value of 3.767, which indicates that the Nepal SBI Bank emphasized increased competition on priority basis. However, cost of acquiring new customer has the lowest mean value of 3.440 that shows bank is more focused on enhancing competitiveness rather than acquiring new customers. **Civil Bank:** The dimension of increased competition has the highest mean value of 3.907, which is the highest maximum value as compared to other banks. This indicates that the Civil Bank emphasized increased competition. It shows that Civil Bank take increased competition more seriously. In this bank also mean value of acquiring new customer is low which indicate bank are not focused on enlarging number of customer flow towards bank. **Kumari Bank:** The dimension of increased competition has the highest mean value of 3.693, which indicates that the Kumari Bank emphasized increased competition on priority basis. However, here also mean value for cost of acquiring new customer is 3.533 showing similar phenomenon as other banks. **Nepal Investment Bank:** The dimension of increased competition has the highest mean value of 3.613, which indicates that the Nepal Investment Bank also emphasized on increasing competitive value. However, cost of acquiring new customer has the lowest mean value of 3.267 that shows a weakest part of the bank. **Mega Bank:** The increased competition has the highest mean value of 3.453, which indicates that, the Mega Bank enhance competition through priority basis. On the other hand, cost of acquiring new customer has lowest mean value of 3.133 that shows a weakest part of the bank. Among sample bank, Civil Bank highly focused on dimension of increasing competitiveness and is focused on enhancing competition. Likewise, among all sample banks, Civil bank has priorities on increasing competition and acquiring new customers. The result shows that banks are focused on increasing competition but actual benefit is on adding new customers which has been the aspect of second choice of all banks.

Descriptive Statistics

This section basically focuses on the descriptive analysis of data that is collected through the questionnaire. The descriptive analysis includes a measure of central tendency (that includes mean, median, mode) and a measure of variability (that includes standard deviations, skewness, and kurtosis). Five point Likert scale questions were used to measure the perception where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree. Table 2. shows that the average-mean for increased competition is 3.69. That means we can conclude that the average respondents agrees that the need assessment for training is important. Out of all factors among the increased competition, the highest

Table 2. Increased Competition

Statement	n	Min.	Max.	Mean	SD
IC1	150	1	5	4.19	1.223
IC2	150	1	5	3.63	1.013
IC3	150	1	5	3.44	0.952
IC4	150	1	5	3.62	0.953
IC5	150	1	5	3.55	1.033
Average	150	1	5	3.69	1.035

Where,

IC1 =Retaining and growing Relationships with existing clients.

IC2 = The bank has a keen interest on client service and customer satisfaction.

IC3 = The bank encourages cross marketing and cross selling of bank products to clients

IC4 = The bank has adopted an open door policy to its customers

IC5 = The banking hall is comfortable and relax-

Table 3. Cost of Acquiring New Customers

Statement	n	Min.	Max.	Mean	SD
CANC1	150	1	5	3.43	1.08
CANC2	150	1	5	3.47	0.97
CANC3	150	1	5	3.42	1
CANC4	150	1	5	3.1	1.07
CANC5	150	1	5	3.51	1.13
Average	150	1	5	3.39	1.05

Where,

CANC1 = Attracting New clients and Developing new business.

CANC2 = Bank works on introducing new products or upgrade its current products to suit the market.

CANC3 = Networking is one of the means that the bank uses to target new clients and develop new business for the bank

CANC4 =Bank encourages targeted business development

CANC5 = Thebankengagesinmarketingresearchinordertokeepupwithmarkettrends and have consumer insight.

rated sub-factor was ICI1 with 4.19. That means the respondents strongly agreed that the retaining and growing relationships with existing clients. Table 3. shows that the average-mean for the cost of acquiring new customers is 3.385. That means we can conclude that the average respondents agrees. Out of all factors among the cost of acquiring new customers, the highest rated sub-factor was CANC5 with 3.507. That means the respondents agreed that bank engages in marketing research in order to keep up with market trends and have consumer insight. Table 4, IC and CANC are independent variables whereas RM is dependent variables. IC, and CANC have significant positive correlation with the RM with 99% confidence level. The correlation coefficient between RM and IC is 0.766. It means IC has positive correlation with RM. Their corresponding p-value is 0.000 which less than alpha 0.01. Therefore there is significant relationship. The correlation coefficient between RM and CANC is 0.650. It means CANC has positive correlation with RM. Their corresponding p-value is 0.000 which less than alpha 0.01. Therefore there is significant relationship.

Table 4. Correlation Analysis between Independent and Dependent Variables

Variables	CANC	RM
IC	0.708**	0.766**
p-value	<0.001	<0.001
CANC	1	0.650**
p-value		<0.001

**. Correlation is significant at the 0.01 level (2-tailed).

Table 5. Regression Analysis

	Beta	t-value	p-value
(Constant)		3.48	0.04
RM	-0.84	-2.62	0.08
R-square	0.70		
Adjusted R-square	0.60		
F	7.07		
p-value	0.01		

Table 5. explains variability in the outcome that is ROA. Linear regression was used to explore the impact of independent variables. $\hat{Y}= -0.838X$.

Where,

ROA (Dependent variable)

X1 = Relationship Marketing (RM)

The regression coefficient of relationship marketing in regression coefficient analysis is -0.838. That means one unit increase in relationship marketing will decrease ROA by 0.838 units. The corresponding p-value is 0.0076 which is less than alpha 0.05. Therefore, we can conclude that there is significant relationship between relationship marketing with Bank's financial performance ROA. Moreover, the value of R-square value as evident from Table 4.is 0.702 which means 70.2% variation in ROA is explained by relationship marketing. Similarly, adjusted R-square is 0.603 which means 60.3% variation in ROA is explained by relationship marketing. This shows moderate relationship between all variables of relationship marketing and ROA.

Table 6. Summary of Hypothesis

Hypothesis	P-value	Remarks
Ho_1: There is significance relationship between increased competition and relationship marketing.	<0.001	Accepted
Ho_2: There is significance relationship between cost of acquiring new customers and relationship marketing.	<0.001	Accepted
Ho_3: There is significance relationship between relationship marketing and Return on Assets (ROA).	0.0076	Accepted

The researcher has found that there is significance relationship between increased competition and relationship marketing which is accepted. This suggests that relationship marketing is for ensuring returns and bringing competitiveness. The similar result is found in research conducted in 2009 AD conducted on banks of India (Kanagal, 2009). Likewise, the hypothesis stating significance relationship between cost of acquiring new customers and relationship marketing is also accepted. Since, acquiring customer is the primal aspect of relationship marketing. The key aspect of relationship marketing is to establish bond between existing customers and build long term relationship with new customer. Hence, second hypothesis is also accepted. Similar, results has been occurred on prior research conducted in priority banks in Niaga (Ruswanti & Lestari, 2016).

The researcher also found significance relationship between return on Asset (ROA) and relationship marketing which is accepted. As relationship marketing is all about developing ideas and innovating new concept. It also helps to create profitability. It also mitigates the uncertainty of gaining revenue. However, this research clearly indicate that relationship marketing helps in enriching the returns i.e. ROA. So, bank has to bring strong determination on implementation for relationship building strategies. The relationship marketing is new paradigm in Nepalese market and through questionnaire survey speculation of outcome is drawn. This has enhanced the validity and reliability of research outcome. As it has become successful strategies in developing countries, Nepal also can gain fruitful result through relationship marketing in days to come.

CONCLUSION

The researcher has found that there is significance relationship between increased competition and relationship marketing is accepted. This suggests that relationship marketing is for ensuring returns rather than bringing competitiveness. The similar result is found in research conducted in 2009 AD conducted on banks of India (Kanagal, 2009).

Likewise, the hypothesis stating significance relationship between cost of acquiring new customers and relationship marketing is also accepted. Since, acquiring customer is not the primal aspect of relationship marketing. The key aspect of relationship marketing is to establish bond between existing customers which can be done through training and development (Chauhan, 2019). Hence, second hypothesis is accepted. Similar, results has been occurred on prior research conducted in priority banks in Niaga (Ruswanti & Lestari, 2016). However, this research clearly indicates that relationship marketing help in enriching the ROA. So, bank has strong determination on implementation for relationship building strategies.

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