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How Customer Relationship Marketing Affect on Customer Loyalty and Customer Satisfaction: A Case of Banking Sector Karachi, Pakistan

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Abstract:

Financial institutions always consider the need and demand of its customers in order to become successful and compete today's competitive environment. The main purpose of this research is to determine the impact of customer relationship marketing on customer satisfaction and customer loyalty. The study was conducted in Karachi, Pakistan. The data were collected from 200 customers who had an account in banks and visiting bank counters. The data was analyzed on SPSS 20. The results of the study found that customer relationship marketing have a positive and strong impact on customer satisfaction and customer loyalty.

Financial institutions play an important role in Pakistan's economy. As competition increases rapidly, people are becoming more conscious about services. They make decisions on the basis of their perceptions. Customer relationship marketing plays a vital role in retaining and satisfying customers. Customer relationship marketing enhances the loyalty and satisfaction level of customers. For financial institutions it is very necessary for relationship managers to understand their needs and demands because in today's competitive environment they have many choices to switch.

1. Introduction

Financial institutions are those institutions such as Bank whose primary function is to collect money from public and then invest it in financial assets such as Stock, Bonds, loans and mortgages, leases and insurance policies. There are hundreds of banks operating in Pakistan in a competitive environment and all banks are regulated by State Bank of Pakistan. In Pakistan there are 5 public sector banks, 5 Islamic banks, 17 Private Banks, 6 foreign banks, 8 developmental financial institutions, 4 specialized banks, and 10 Micro finance banks are operating. Financial institutions, always consider the needs and demands of their customers first in order to survive and compete successfully in today's competitive environment. To become successful and profitable, financial institutions must have to follow customer relationship marketing in order to satisfy them and gain their loyalty. There were many studies conducted in the past decades about customer relationship marketing but none of them discussed the variables that are discussed in this research i.e. customer satisfaction and customer loyalty in Banking sector of Pakistan.

1.1. Problem Statement

The main purpose of this research is to determine the impact of customer relationship marketing on customer satisfaction and customer loyalty in banking sector of Karachi, Pakistan. As customer relationship marketing is increasing day by day but in spite of this some financial institutions are not focusing on customer relationship marketing and they are facing many problems.

1.2. Significance of the Study

The research will be significant in a way that it gives a conceptual understanding of the impact of CRM on customer satisfaction and customer loyalty. The study will provide the information to other researcher to develop more comprehensive and through studies on factors affecting on customer satisfaction and customer loyalty in banking sector of Pakistan.

1.3. Objectives of the Study

The main objectives of the study are described as follows:

- To measure the overall satisfaction of bank customers.
- To measure the overall loyalty of bank customers.
- To determine the importance of customer relationship marketing.

1.4. Limitation of the Study

- The research was conducted with limited number of bank customers within a short time period.
- I could not choose other variables like profitability, customer retention, switching cost, trust etc.

1.5. Scope of the Study

The study will be conducted in public sector, private sector and cooperative sector of banks customers in Pakistan. This study revolves around customer relationship marketing, customer satisfaction and customer loyalty.

2. Literature Review

According to (M. Taimoor Hassan, 2012) Customer's loyalty factors which includes customer satisfaction, switching cost, customer perception, trust and commitment highly affected by customer's loyalty in Islamic banks. They have conducted a research on customer's loyalty in Islamic banks, in Bahawalpur region with a sample size of 125 respondents from 20 Banks in the region. The greater the customer would satisfy, the more the customer loyalty would be increased. Even if switching cost is low customers will remain loyal to the bank. Customers' loyalty depends upon their perception. Success philosophy of Islamic banking directly based on the long-term commitment and the dealing with Islamic banks. Trust is one of the most important factors among all of the factors of customer loyalty. When the trust develops customers will become loyal to the bank. Customers are highly loyal towards those Islamic banks those are following Islamic principles and deal their customer according to it.

(Choi Sang Long1, 2013) The study was done at departmental store of Tehran, Iran, with 300 respondents. According to this CRM factors, including employee's behavior, customer service quality, and relationship development and interaction management) are directly dependent on customer loyalty and customer satisfaction. Employees' behavior and relationship with its customers play a vital role in building customer loyalty and satisfaction. Satisfaction increased automatically when employees develop an effective and friendly relationship with its customers. In order to become successful, organizations must have to focus on behavior of their employees and relationship development. Employees must have effective, attractive communication skills, so they can deal effectively with their customers and can easily convince them. Employees can attach with their customers by continuously informing them about their promotions, discounts and other facilities. Organization must train their employees in order to reach maximum number of customers and by fulfilling the needs and wants of their customers. Through CRM organizations can build strong relationship with its customers and in return, customers will always being attach and loyal with the organization.

The study focused on service quality offered by Colleges in Faisalabad, Punjab. The sample size was 185 out of which 150 questionnaires were returned back and it was filled by students of different colleges of Faisalabad (Tariq Khalil Bharwana, 2013). According to this, service quality level of colleges play an important role in enhancing reputation of colleges and satisfaction of students. Dimensions of service quality level include reliability, responsiveness, assurance, empathy and tangibles. College management must focus on service quality dimensions in order to increase the level of customer satisfaction because service quality dimensions have a direct impact on customer satisfaction. Colleges can improve their reputation by implementing these dimensions and they can make effective plans and strategies and through it will also receive a productive result and can compete with others.

(Fasih, 2014) Pointed the service quality provided by the banks and customer satisfaction and loyalty towards the bank. Both private and public sector from banks of Lahore, Punjab were selected with a sample size of 270 customers of multiple banks. It concluded that service quality and all its dimensions played a crucial and favorable association with customer satisfaction and loyalty. Service quality is an outstanding approach for increasing customer satisfaction and loyalty in a competitive environment. As the research was taken in a developing country where customers are not facilitated much. So banks must provide the best quality to its customers because customers are not remains loyal to one particular financial institution until or unless it does not provide the best quality service. Financial institutions must have to satisfy the needs of its customers in order to have loyal customers.

(George K. Amoako, 2012) Explored the impact of customer relationship management (CRM) on customer loyalty in the hotel industry. The research has taken place at the Golden Tulip hotel, Accra. Questionnaire was filled by both individual and cooperate clients of the hotel. Sample size of 50 questionnaires is designed for both clients out of whom 45 were completed. Majority of people choose the hotel due to its excellent services while other chooses it from hearing newspaper advertisement. Cooperate clients were also satisfied from the hotel services. By applying effective (CRM) strategy Golden Tulip hotel retain its customers and the customers become loyal toward it. They build trusty and friendly relationship with its customers and customers repurchase services at the hotel because of its helpful staff.

The research was conducted in Sri Lanka with sample size of 107 respondents from three different mobile service providers such as Airtel, Dialog and Mobitel. Mobile service providers must have to provide the best quality service to its customers and must satisfy their needs. They should build high level relationship between relationship marketing and customer value creation (Sivesan, 2012).

The research was take place in Lanzhou city, Gansu with the sample size of 400 respondents. (Li, 2013) The focus of the study is to find out the possible precedents of customer loyalty among Belle shoe store customers. It indicates that image, price, reliability, empathy, tangibles, responsiveness and assurance have a strong association with customer satisfaction and customer loyalty. Chinese shoemaker would understand its customers in a more better way and could improve their product quality by improving strategies and gain more and more customers to extend their business.

(Huang, 2011) Pointed the effects of relationship – oriented promotions on customer loyalty. The study was examined in the airline industry of Taiwan. The sample size of the study was 200 respondents. Relationship – oriented promotions play a significant role on customer satisfaction and trust. Airlines should used high relationship – oriented promotions for building trust, satisfaction, and commitment and to retain the profitable and loyal customers. Majority services give large number of promotions to its customers but

ignore to build effective relationship with their customers. In order to retain customer loyalty airlines must offer relationship – oriented promotions to its customers.

Customer satisfaction is positively associated with customer loyalty and negatively associated with customer intentions to switch (Faizan Mohsan, 2011). The research was conducted in Pakistan with a sample size of 120 customers visiting bank counters and has an account over there. Satisfaction is about how customers' needs and demands are met while loyalty is about how customer repeats the purchases of product/services. It is possible that a customer who is satisfied with the service may be loyal towards it but it is impossible that customer without satisfaction loyal towards the organization. Consequently customer satisfaction is very important for financial institutions. Organizations should continuously try to ensure that their customers are satisfied.

(Vahid Pezeshki, 2005) Determined the impact of customer relationship marketing on profitability. Profitability is highly based on customer relationship marketing principal includes customer satisfaction, customer loyalty and customer retention. In order to make the organization highly profitable customers should be given the best services and effective & friendly relationship from the organizations.

Today relationship marketing has become the most crucial aspect in banking success. Customers expect higher quality of service from banks which leads to improve customer satisfaction and retention level. The study focused on determining the main factors that result to customer satisfaction in retail banking in western Maharashtra in India. Sample size was 600 out of which 200 customers from public sector, 200 customers from private and 200 from cooperative banks (Ahmad, 2013).

(Naznin Alam, 2014) Explored the effect of service quality and consumer satisfaction with CSR actions on consumer purchase intention and consumer loyalty. There is a significant relationship between customer satisfaction and service quality while there is no relationship between purchase intention and customer satisfaction.

The study aims to determine the patient loyalty influenced by service quality. The research was examined in private hospitals in Denpasar with a sample size of 100 respondents. According to (Ida Ayu Werdiningsih Kesuma, 2013) service quality positively influence customer loyalty. The private hospitals in Denpasar fulfill patients' expectations. The higher the service quality the more the customer would be loyal and through implementing CRM the mediated service quality would be improved.

According to Rashid (2012), As customer relationship management has become popular day by day. CRM has become a significant and a niche for firm performance. The study determined the linkage between the CRM dimension and hotel performance. There is a strong relationship between CRM and hotel performance because if the hotel management does not build friendly and effective relationship with its customers they never become successful. So hotel management should pay more attention towards its customers.

Relationship marketing is about developing a strong personal relationship with your customers in order to develop customer satisfaction, trust and maintaining successful relational exchanges (Nakhleh, 2012). By focusing on mobile service provider, the purpose of the study was to determine the effect and relationship on customer satisfaction, loyalty and trust. Firm can retain their customers loyal by developing effective relationship marketing.

3. Methodology

Primary data was collected in this study. Survey method is used for this study using questionnaire as data collection instrument. The sample size was 200 respondents. Quantitative techniques are used in the research study. The five point likert scale was developed to find out the impact of customer relationship marketing on customer satisfaction and customer loyalty. The scale ranging from 1 to 5 where 1=strongly agree, 2=Agree, 3=Neutral, 4=Disagree and 5=strongly disagree to get responses. 200 questionnaires were distributed to various banks customers who had a bank account and visited bank counters. SPSS 20 was used for analyzing data collection.

3.1. Research Model

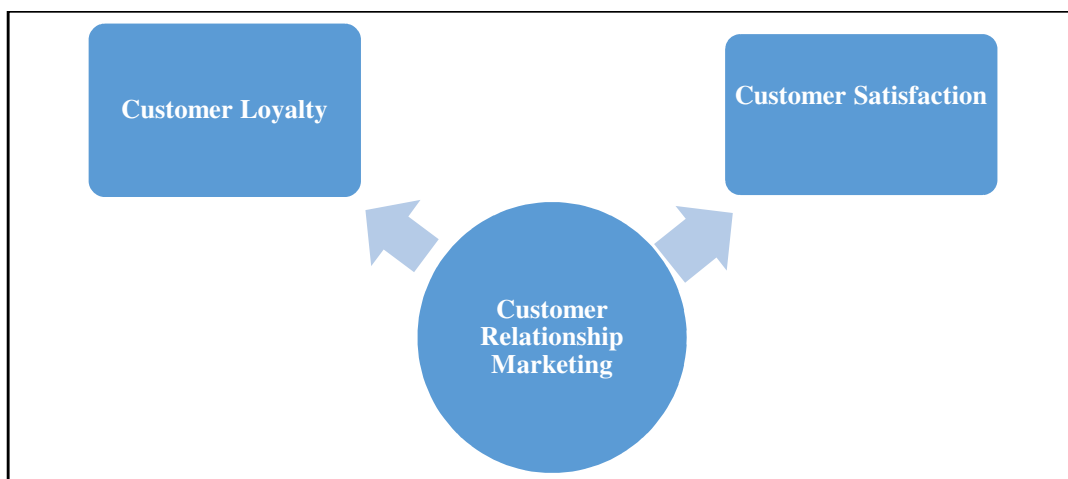


Figure 1

4. Data Analysis

4.1. Relationship between Customer Satisfaction and Customer Relationship Marketing.

Cross tabulation							
Count							
		Overall, you are satisfied with the performance of relationship managers.					Total
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
As a customer you feel satisfied with the behavior of your bank employees.	Strongly agree	12	13	4	2	0	31
	Agree	13	83	22	3	2	123
	Neutral	4	13	16	3	0	36
	Disagree	1	3	1	2	0	7
	Strongly disagree	1	0	1	1	0	3
Total		31	112	44	11	2	200

Table 1: As a customer you feel satisfied with the behavior of your bank employees.
 * Overall, you are satisfied with the performance of relationship managers.

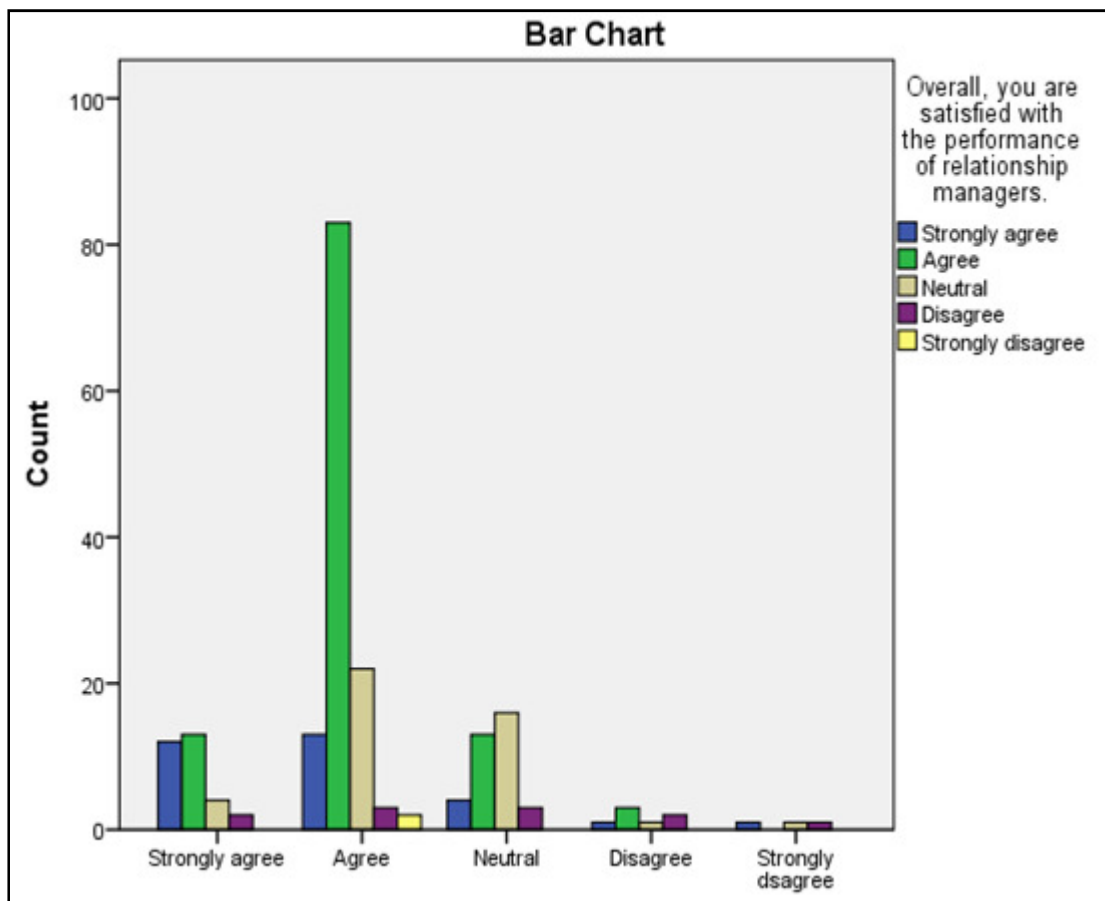


Figure 2: As a customer you feel satisfied with the behavior of your bank employees

The result reveals that majority of people who had a bank account are agreed that they are satisfied with behavior of their bank employees. Out of 200 respondents 31 people strongly agreed, 123 people said that they are agreed with the behavior of their bank employees, 36 respondents neither agreed nor disagreed, 7 people disagreed and 3 people strongly disagreed with the behavior of bank employees. Similarly majority of respondents are satisfied with the performance of relationship managers. The results conclude that there is a strong and positive relationship between customer satisfaction and customer relationship marketing. Customers would not satisfy until the relationship managers not deal effectively.

4.2. Customer Relationship Marketing Affects Customer Loyalty.

		Count					Total
		Overall, you are satisfied with the performance of relationship managers.					
		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	
Customer relationship marketing actually participates to enhance your loyalty towards the organization	Strongly agree	13	23	3	2	0	41
	Agree	15	66	24	4	0	109
	Neutral	2	17	15	3	1	38
	Disagree	0	5	1	2	1	9
	Strongly disagree	1	1	1	0	0	3
Total		31	112	44	11	2	200

Table 2: Customer relationship marketing actually participates to enhance your loyalty towards the organization
 * Overall, you are satisfied with the performance of relationship managers. Crosstabulation

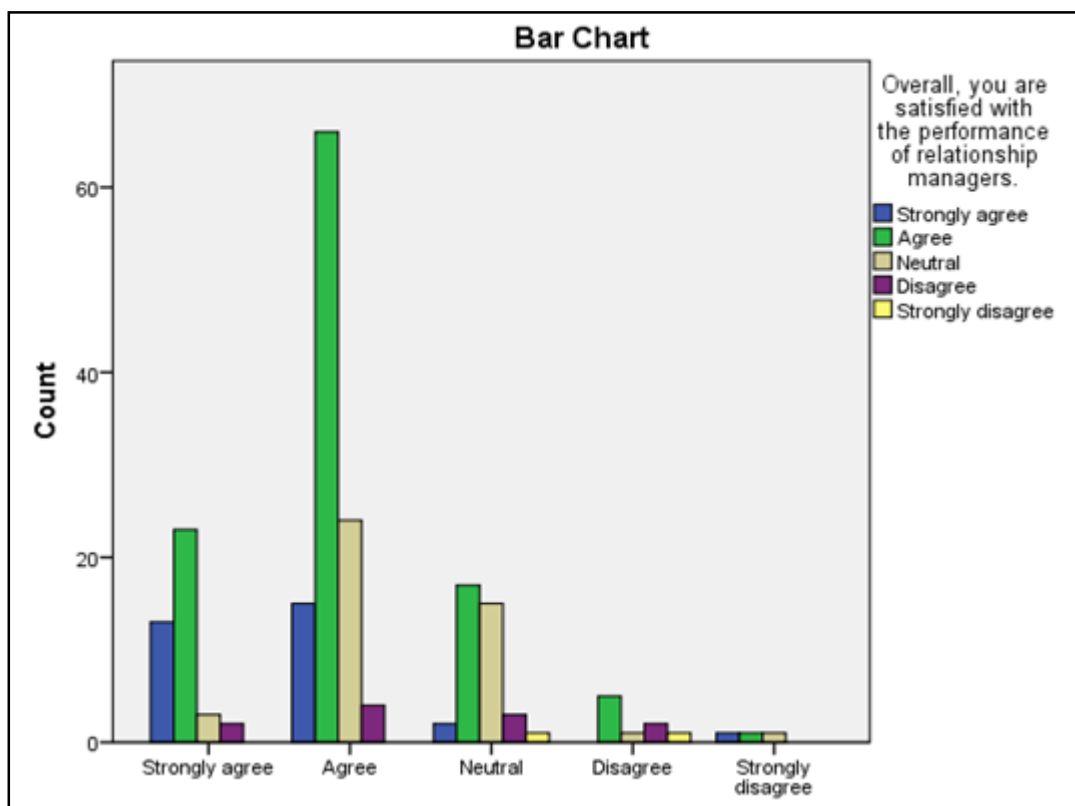


Figure 3: Customer relationship marketing actually participates to enhance your loyalty towards the organization

In order to find out the loyalty factor, two questions were taken into considerations: one is Customer relationship marketing actually participates to enhance your loyalty towards the organization and another is overall, you are satisfied with the performance of relationship managers. The result shows that out of 200 respondents' 109 respondents were agreed with the fact that customer relationship marketing participates to enhance loyalty toward the organization, while 41 respondents strongly agreed and 38 respondents neither agreed nor disagreed and few respondents disagreed and strongly disagreed. It means that the majority of people agreed with the fact and customers are loyal towards those organizations who build effective relationship with their customers.

5. Conclusion

This study demonstrated the impact of customer relationship marketing on customer satisfaction and customer loyalty. Customer relationship marketing is an effective and strongest approach in maintaining and creating relationship with customers and very necessary for financial institutions. The main objective of this study is to find that how customer relationship marketing effects customer loyalty and customer satisfaction. The result and analysis found that there is a positive and strong impact of customer relationship marketing on customer satisfaction and customer loyalty.

Customer relationship marketing is an effective and strongest approach in maintaining and satisfying customers. Customers are loyal towards those organizations that satisfy their needs and understand them. The more the customer will satisfy the more they would be loyal towards the organization. Today, customers have range of choices in products and service. They make their choice on the basis of their perceptions. So, financial institutions must have to understand its customers first in order to retain them.

Customer relationship marketing gives the way to retaining customers. Relationship managers of financial institutions must have to develop a strong personal bonding with its customer's through effective interaction. Once this personal and emotional relationship is built, it is easy for the organization to identify their needs and understand them. Also, it helps the organization to serve them in a better and more effective way.

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