Impact of Relational Benefit on Customer Loyalty with the Mediating Role of Customer Satisfaction: A Study of Selective Banks of Pakistan

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**ABSTRACT**

**Objective:** The research paper opens up to Relationship Marketing approach with the objective to find an array of factors facilitating Customer Loyalty in Banks: Customer Relational Benefit has been studied to increase Customer Satisfaction and thus, Customer Loyalty as well.

**Methodology:** This study focuses on and talks about empirical findings from 422 customers of different banks situated in Multan. AMOS and SPSS were used to analyze the data. Descriptive statistics, frequency distribution, correlation, confirmatory factor analysis and structure equation modeling tools were used to analyze the data.

**Findings:** The key finding in this Research Paper indicates that customer relational benefits & customer satisfaction are key players that enhance and retain the customer loyalty.

**Implications:** This study provides a comprehensive guide line for managers to access and retain the loyal customers.

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**Introduction**

Banking sector happens to be the vital sector of a society as they play a pivotal role in a country’s economy empowerment. Due to changing External and Internal Environmental factors, banking sector dynamics are evolving to their accord (Athanasoglou, Brissimis, & Delis, 2008; Gentle, 1993) .As someone has well said, *Customer is your King*; the statement holds especially true for all Service Organizations converging into Banking Sector. Globalization invites to additional competition which reinforces Banks to focus all synergies to Customer needs and demand fulfillment. Virtualization,
global networking and Technology competitiveness has empowered Customers through information transparency about Banking products and services. Thus, Customers now own the key attention of all Banks. With intense competition and market saturation, Customer relationship management has been of utmost importance these days. Customer Relationship Management incorporates all strategies and tactics for analyzing, occupying and retaining customers throughout the customer lifecycle.

The study of Hafeez and Muhammad (2012) depict that Banks stand as crucial institutes in adjusting the surpluses coming from investors and deficits for borrowers to maintain economic balance. Expansionary and Contractionary Monetary and Fiscal policies, issuance of bonds, development of saving and governmental plans and a lot more is facilitated to National Growth of developing countries through banks (Ariss, 2010). State Bank Pakistan (SBP) playing the role of utmost importance in Pakistan. The four types: Public, Private, Foreign and Islamic banks also create vacancies for employment. These institutes have been effected by Environmental crises of politics, socioeconomics, professional and capital deficiency ever since 1947 (Burki & Niazi, 2010). In the study conducted by Hussain (2004), he states that financial sector contributes to 95 percent which puts a direct impact on national economic growth. But Bad debts weakens customer-bank relationship: as banks are profit oriented like all other organizations (Arby, Malik, & Hanif, 2010). In order to achieve and maintain competitive edge, customer relationship management is using marketing automation capabilities and Relational benefits for capturing customer satisfaction and loyalty.

The main objectives of the current study is to explore and explain customer loyalty, judge the perception of service provider about Relational benefits offered by banks and conclude this research paper by offering a roadmap for bank managers and employees in order to capture and retain customer loyalty. Using the research questions of how to enhance customer loyalty, customer perceptions about bank’s relational benefits and how to retain customer loyalty, this research paper focuses on capturing and retaining customer loyalty and its management with the help of relational benefits of bank.

**Literature Review**

With increased market saturation and intense competition, measurement of behavioral study of customers has become grim. Customer behavior varies for tangible and intangible services. Since bank efficiency and effectiveness is dependent upon customer satisfaction (Siddiqi, 2011), Bank officials create and evaluate positive and negative combinations of services to enhance customer loyalty keeping risk and return considerations in focus with loyal customers (Szüts & Tóth, 2008). Product and service combinations are catered to with respect to customers’ view that builds perceived value worth (Ramaseshan, Evanschitzky, & Johnston, 2008). This also improves bank performance, customer involvement developing a brand image and a sustainable long term customer loyalty (Tu, Wang, & Chang, 2012). According to Kotler, Keller, Manceau, and Hémonnet-Goujot (2015) relationship marketing is the continuous engagement of organization to meet customers’ needs with the intention of securing customer loyalty and long term customer retention. Relational benefits approach is the most auspicious approach used by service organizations like Banks that reinforces Relationship Marketing. The Customer retention promise accomplished through Relationship Marketing has been of high consideration and appeal to Service Sectors (Krasnikov, Jayachandran, & Kumar, 2009; Palmatier, Dant, Grewal, & Evans, 2006; Verhoef, 2003)

**Relational Benefits**

The kinds of combinations of Relational benefits offered by Banks determine the strength of its relationship marketing. These benefits are offered to retain profit oriented, long term, mutual relationships built on trust between customers and service provider bank. Morgan and Hunt (1994),s Commitment trust theory fosters the concept of Relationship Marketing; that by acquiring mutual benefits, a bond of confidence is developed by customers towards bank which is the building block RM concepts. Main types of Relational benefits are confidence, social and special treatments. When customer has inadequate knowledge about services best suited to his needs, relational benefits are offered for him to confide in Bank, reducing the mental risk and thus, avoiding switching
costs (Reynolds & Beatty, 1999) Time energy and efforts in regard to all ethical and moral consideration are offered through Social benefits. Bank and Customers nurture a friendly relationship through special treatment: price adjustments, delivery of fast and diverse services.

**Customer Satisfaction**

Customer satisfaction is a result of consumption experiences (Anderson, Fornell, & Lehmann, 1994; Yi & Zeithaml, 1990). According to Williams and Buttle (2011), word of mouth (WOM) marketing is very common. Customers who are satisfied tell and share their experiences with others. According to Shank (2012), there is a significant direct relationship between customer satisfaction and profitability. According to A (2002) the elements of customer satisfaction response in regard to all ethical and moral consideration can be of pleasure or disappointment in relation to what their expectations and evaluations (Fornell, Rust, & Dekimpe, 2010). Customer satisfaction is used as a key performance indicator (KPI) for businesses (McColl-Kennedy & Schneider, 2000). Customer satisfaction criteria in Pakistani banking industry towards service quality generally includes the association between customers & service providing organization through efficient and effective service, confidentiality, competitive pricing, friendly behavior of bank personnel on continuous basis (Hokanson, 1995).

Higher profitability due to increased customer loyalty minimizes marketing cost, increases sales, cuts down switching attitudes, eventually reducing operational cost. Satisfied and thus loyal customers pertain bountiful knowledge of offered services and products thus less time and energy is spent convincing them to purchase products and cost less to the business. Satisfying and retaining loyal customers in longer run allows bank to converge all resources on capturing new customers thus, expanding organization’s market share. In this point of time with intense market competition and high customer focus, banks are reviewing all policies with respect to individual and corporate clients. Other than that, they have kept a close eye on all relational benefits that can be a distinctive marketing edge, increasing revenues and adding to customer (Bennett, 1996).

**Customer Loyalty**

Oliver (1999) describes loyalty as a strong commitment towards a product, strong preference of buying it again in future despite of the situational factors. Researchers identify commitment as behavior. The kinds of attitudes that effect commitment and feelings belong to cognitive behavior of customers (Hallowell, 1996). This commitment conceptualization of customer loyalty can be divided into three factors: behavioral conceptualization of retention to a bank, attitudinal conceptualization that defines physiological commitment and two-dimensional conceptualization which includes both behavioral and attitudinal conceptualization.

Yi and La (2004) suggested service providers to use three measure to ensure customer loyalty: repeated purchase intention, willingness to recommend a service provider, and tendency to resist switching. Despite using one Customer loyalty conceptualization that restricts to a sole approach, a combination of behavioral and attitudinal approaches are brought into use for Example, (Day, 1969; Dick & Basu, 1994; Jacoby, 1978; Jacoby & Kyner, 1973; Jones & Farquhar, 2003). This collaborative two dimensional approach is of high interest in theoretical literature.

Four types of loyalty are taken in accord to differentiate between customer loyalty, customer attitude and behavior (Dick & Basu, 1994). These four types of loyalty include the following:

- **True loyalty**: customers present favorable communication between relative attitude and repeat benefaction.
- **Superior loyalty**: customers present low comparative attitude accompanied by high repeat benefaction.
- **Latent loyalty**: customers present high comparative attitude, with low repeat benefaction.
- **Low or no loyalty**: customers present weak or little levels of both comparative attitudes combined with low repeat benefaction.

After conducting a comprehensive literature review of relational benefits, customer satisfaction, loyalty through relationship marketing, following hypothesis have been developed;
**Theoretical Model**

| Perceived Relational Benefits | Customer Satisfaction | Customer Loyalty |

**Model 1.** The Research Model  
Source: authors’ compilation

**H1:** Perceived relational benefits have positive impact on customer satisfaction.  
**H2:** Customer Satisfaction has a mediating impact on perceived relational benefits.

In order to test the hypothesis, data and information was collected from different types of account holders from selective banks keeping time and financial constrains in regard. *Five hundred sixty-six questionnaires* were distributed personally among the sample of population and 422 questionnaires were received back. They calculated response rate of 74%, which is sufficient sample size. Optimal guideline was provided to respondent until all questionnaires were completed and retrieved. After the collection of data, the data was entered in SPSS (version 19) to analyze independent variable and dependent variable.

To review the data from respondents’ descriptive statistics, reliability and validity, correlation performed in SPSS& AMOS to analyze the data with respect to demographic and other variables (Janssen et al., 2008). Reliability measures the degree of internal consistency between multiple measurements of variable (Hair et al., 1995) and was checked using Chronbach Alpha. Three types of Validity were calculated: content validity measures the accuracy of items; convergent validity measures the extent in which two different indicators of variable confirm each other and discriminate validity indicates the squared correlation between two constructs.

Confirmatory factor analysis conducted using AMOS 20 to check reliability and validity. Structure equation modeling technique was used to check the good fit of model. The confidence interval of the study is 95% with 5% of significance level. This study provides a comprehensive road map to access and sustain the customer loyalty. The results depicted positive correlation between customer satisfaction and customer relational benefits with the value of .49. Customer loyalty and customer relational benefits (.42) positively correlated with each other’s. There is also significant positive correlation between customer loyalty and customer satisfaction. All variables in this study are positive correlated with each other at the 0.01 level. After conducting a comprehensive literature review, it is necessary to bridge the gap between theory and practice to provide practical roadmap for accessing the customer loyalty in Pakistani banking sector. Customer relational benefit is an important factor that plays a key role in enhancing customers’ loyalty.

Purposive sampling was used in this study by identifying needs of selected groups pertaining important characteristics. This sampling technique uses experienced individuals with specified skills to give response. According to Tabachnick, Fidell, and Osterlind (2001) that sample size would be i.e $N \geq 50 + 8M$ (where $M$ is the number of predictor variable. There are five important factors, which served as a guide to select the sample from population. First, to determine goals, second; to consider desired precision value, third; to determine the confidence level, fourth factor is degree of variability of sample attributes and fifth, the response rate.

The questionnaire used in the study consisted of 77 questions with a five-point Likert scale. Independent variable, Customer relational benefit consists of thirteen items and this questionnaire was used previously by Hennig-Thurau, Gwinner, and Gremler (2002). Customer satisfaction has nine constructs and these were used by (Anderson & Sullivan, 1993; Zameer, Tara, Kausar, & Mohsin, 2015). Dependent variable customer loyalty consists of eight items and were used by Kashif, Wan Shukran, Rehman, and Sarifuddin (2015), Fandos Roig, Garcia, and Moliner Tena (2009), Gerrard and Barton Cunningham (1997). Due to the sensitivity and some restriction, only volunteer customer
selected to participate in this research.

Pilot study was conducted to check the reliability of this questionnaire. First, Cronbach alpha was analyzed. Fifty-seven questionnaires were first distributed among the customer of different banks for piloting testing in several phases. After retrieving all questionnaires, back reliability was measured. Three types of errors occurred in measuring reliability: subject error, bias error and observer error. The reliability of questionnaires depicted that Customer Relational benefit has thirteen items with (0.841) value of cronbach alpha. Customer satisfaction has nine items with the cronbach alpha of (0.799). Customer loyalty has eight items and its reliability value is (0.822). The overall cronbach alpha of this questionnaire is 0.854, which is reliable and acceptable.

Results described the regression weight and hypothesis. Hypothesis 1 customer relational benefit has positive impact on customer satisfaction accepted because standardized estimate value is .093 which is acceptable and p-value <.05. H2 indicates that customer satisfaction has positive impact on customer loyalty is also accepted because it has significant positive estimated value .765 and p value <.05. So above table describe the regression weights and hypothesis testing. Result shows that all hypothesis is accepted having the positive value.

Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>StdDev</th>
<th>CRB</th>
<th>CS</th>
<th>CL</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td></td>
<td></td>
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<td>CS</td>
<td>3.63</td>
<td>.68282</td>
<td>.497**</td>
<td></td>
<td>1</td>
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<tr>
<td>CL</td>
<td>2.12</td>
<td>.49990</td>
<td>.428**</td>
<td>.765**</td>
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</table>

Table 1. Data Analysis & Discussion

<table>
<thead>
<tr>
<th>Number of Items (N=77)</th>
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</thead>
<tbody>
<tr>
<td>Dimension</td>
</tr>
<tr>
<td>Customer Relational benefits</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
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<tr>
<td>Customer Loyalty</td>
</tr>
</tbody>
</table>

Table 2. Reliability of Instruments using Pilot Testing

<table>
<thead>
<tr>
<th>Variables</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
<th>Label</th>
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</thead>
<tbody>
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<tr>
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<td>24.398</td>
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</tbody>
</table>

Table 3. Regression Weight and Hypothesis testing of Structure Equation Model

Structure Equation Modelling

Limitation and Future Research Direction

Although every research has strength but limitation exists side by side(Van Dolen, De Ruyter, & Lemmink, 2004)

The data was collected from Multan only that is not sufficient sample to draw efficient conclusion. More regions and areas should be included for more specific and efficient results. Convenient sampling
technique was used in this study for collecting sample.

There might exist a chance of error in sample distribution.

AMOS does allow to conceptualize model. So, discriminate validity was not measured.

This study provides a comprehensive guideline for CRM but many other aspects still exist that have to be considered in future research. Cultural aspect of organization can also be helpful to access the customer loyalty.

Comparative study is preferred in future to access customer loyalty among different banks. The model of this study can also be practiced in other service providing industries and manufacturing sectors. New variables can also be tested along with the developed model.

**Conclusion & Recommendation**

The finding of the study indicates that customer relational benefits and customer satisfaction are important predictors of customer loyalty. Finding proves that:

Our developed hypothesis is positively related and there exists a strong impact of customer relational benefit on customer satisfaction.

Customer satisfaction has positive correlation with customer loyalty Hennig-Thurau et al. (2002).

Banks have allocated resources for increasing customer relational benefits to enhance the customer satisfaction Xu, Goedegebuure, and Van der Heijden (2007)

Results of regression weights and standardized coefficient indicate that these variables have positive impact on customer loyalty.

Perception of customers about customer relational benefits is although positive but mostly practices are not being implemented in banks.

If relational practices are adopted and implemented can be used as a competitive advantage for Banks for capturing and retaining them.

This research provides a comprehensive roadmap to managers and practitioners to develop policies, strategies, and allocate resources to sustain and retain customer relationships.

The paper helps managers to know the important factors that are helpful for retaining customers. As the customers perceive high relational benefits, they become satisfied which is very important for loyalty. Service providers strengthen the relational benefits to greater satisfaction level. Managers should be aware that introducing relational benefits is mandatory to enhance the quality of relationship that customers have with them. Managers have to focus and be careful about the benefit that bank is offering and the benefit that competitor is offering.

In this reference, Crosby, Evans, and Cowles (1990) indicates that relationship quality is the best forecaster of a customer’s preferences of maintaining future relation with banks. This may indicate that managers should try to adopt better relational benefits that enhance the competitive edge in the market. Furthermore, it has been confirmed by the results of this study that once customers become emotionally attached to their relationship with a bank, it becomes harder for them to change their banks. Thus, knowing how customers feel about their relationships will help managers to develop appropriate strategies that focus on relational benefits to enhance the satisfaction and loyalty. Then managers will know which strategies they need to adopt and update, they will be able to enhance the satisfaction that leads to customer loyalty.
Just as the theory explains in Relationship Marketing, a small increase in loyal customers result in substantial increases in profitability (Bowen & Shoemaker, 1998; W. G. Kim & Cha, 2002; Tepeci, 1999). However, developing and sustaining loyalty is becoming increasingly difficult to achieve (Liang & Wang, 2005). Which is why the study was conducted to provide Relationship Marketing Model; through which customer loyalty can be secured in competitive Pakistani Banking sector. Within the context of Pakistani Banking Sector, this linkage between relational benefits with mediating effect of customer satisfaction on customer loyalty is a fist.

One of the main reasons why this model has a significant impact on research is because the relational exchanges if variables were widely accepted and acknowledged in Literature review but empirical evidence about the cause-effect of this construct has remained under-researched. The other three components that strengthen Relational construct through methodological processes are trust, satisfaction and commitment. Moreover, this study furthers the literature by investigating the two constructs: relationship quality and customer in one single model. Reliabilities and validates of each construct has been accessed through CFA and confirm the correspondence rules between both empirical and theoretical concepts (Bagozzi, 1984; S. H. Kim, Holland, & Han, 2013). This framework is designed for Pakistani Banking Sector only and the world altogether, thus the current study will serve as the basic guidelines for the effective implementations of CRM practices in the banks and as new addition in the field of CRM.

References


