Impact of Relationship Quality on Customer Retention –
A Study with Reference to Retail Banking in India

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ABSTRACT

The purpose of this research is to investigate the impact of relationship quality (RQ) on retention of customers in retail banking in India. Relationship quality refers to the customer’s perception of his or her overall relationship with the organization. Because of stiff competition in banking today, the retention of customers is critical to success. This study explores the association between relationship quality and customer retention and investigates the moderating effect of variables such as age, gender, duration of relationship, and type of bank on the association between relationship quality and retention. A structured questionnaire was designed and administered to a sample of 600 existing bank customers in Chennai, India. The study population was selected using the multi-stage random sampling method. Usable data from 413 respondents were then analyzed using partial least squares structural equation modeling. The results revealed that relationship quality has a significant positive impact on customer retention. The antecedent commitment displayed a stronger impact on relationship quality than two other antecedents; namely, satisfaction and trust. Furthermore, the variables age and type of bank were found to moderate the association between relationship quality and retention. This research can be used in the banking sector to better understand the retention behavior of customers. Retaining existing customers is one of the key strategies of banks to gain business advantage. In order to retain customers, managers should focus on increasing the quality of their relationship with bank customers.

Keywords: Indian banking sector, moderation effect, relationship quality, retention

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1. INTRODUCTION

In today’s competitive business environment, losing a customer is very costly. Service industries, especially banks, are facing stiff competition in a market where retaining customers is part of their core strategy to gain competitive advantage. Previous studies have found that it costs more to acquire a new customer than to retain an existing one (Gallo, 2014).

Service quality is one of the measures used to analyze the performance of service industries such as banks. Service quality is the customers’ belief or attitude about the degree of service excellence (Al-Hawari et al., 2009). Service quality is measured using the scales reliability, assurance, tangibles, empathy, and responsiveness (RATER model), as proposed by Parasuraman et al. (1988).

Another dimension used to measure performance in service industries is relationship quality. The term can be defined as the quality of interaction between the organization and its customers (Giovanis et al., 2015). Previous research has shown that relationship quality can even replace service quality and customer satisfaction (Giovanis et al., 2015). There are circumstances in which customers are willing to place relationship quality over service quality. Relationship quality can be viewed, therefore, as a vital factor in determining customer retention in an organization.

Although the association between relationship quality and customer retention can be understood intuitively, few researchers have attempted to measure the impact of relationship quality on customer retention. The current study addresses this issue in the context of the banking industry.

1.1. Theoretical Background

The concept of relationship marketing is derived from social exchange theory. Kingshott (2006) found that relationships are interpersonal and are built on trust, interdependence, moral obligation, and reciprocity. In business-to-customer relationships, customers expect the business to exhibit respect for customers and to consider them as co-creators of value. In relationships where customers are treated this way, the bond between them and the organization improves and lasts for a longer period. Previous research has shown that the relationship between customers and the organization is extended even beyond the closing of the sale (O’Malley & Tynan, 2000; O’Malley et al., 2008). Customers are willing to extend their relationship with the organization if they feel positive about their transactions with the organization. Customers’ perception about the relationship will help them
in making their next choice. Maintaining a healthy relationship with the customer is essential, therefore, for the sustainability and survival of any organization.

In this context, it is important to measure the perception of customers about their relationship with the organization. Relationship quality is one of the dimensions used by social science researchers in relationship marketing to measure the perception of customers about their relationship with the organization. Relationship quality can also be defined as a multi-dimensional construct that explains the nature of the relationship between companies and consumers (Hennig-Thurau et al., 2000).

The evolution of relationship quality can be traced to Crosby et al. (1990), who explored it using trust and satisfaction as antecedents. Later, Wray et al. (1990) extended the study of relationship quality using neural network as well as trust and satisfaction as antecedents. Henning-Thuru (2000) used commitment as an antecedent to measure relationship quality. Later, Molinear et al. (2007) constructed relationship quality with trust, commitment, and satisfaction as antecedents for relationship quality and used structural equation modeling for validating their results.

From these prior studies, it is clear that trust, commitment, and satisfaction are the building blocks of relationship quality. The current study follows the suggestions provided by Tung et al., (2013) and posits relationship quality as a formative second-order construct with trust, commitment, and satisfaction as antecedents. This study extends the theory of relationship marketing by addressing the impact of relationship quality on retention, which is an issue that is rare in relationship marketing theory. This study also investigates the moderating effect of age, gender, duration of relationship, and type of bank on the association between relationship quality and customer retention.

1.2. Purpose of the Research

The concept of mass marketing is changing to cater to the needs of customers on an individual basis. Today’s customers not only are well-informed, but also have more bargaining power because of increased consumer diversity, greater individualization, more value consciousness, greater information availability, improved technological aptitude, and an overall decrease in loyalty. Faced with stiff competition, banks are increasingly aware of the importance of retaining customers in order to remain competitive. Maintaining a quality relationship with customers is one of several ways to gain competitive advantage. Banks can even attempt to strategize relationship quality as their core competency. When
relationship quality is strategized as core competency, it cannot be easily mimicked by competitors of the bank. Thus, maintaining a healthy relationship with customers enables banks to retain their customers and also helps them to remain competitive in the industry. When customers maintain a quality relationship with an organization, they tend to buy more products from the organization and to talk positively to others about the organization, thus serving as advocates. Relationship quality, therefore, can help not only bankers but also customers.

Given these facts, we undertook this research study to investigate the impact of relationship quality (RQ) on retention in the context of retail banking. Our study explores the moderating effects of gender, age, duration of relationship, and type of bank on the association between relationship quality and customer retention. We chose the above-named moderating variables because we believe that they can affect the strength of the association between relationship quality and retention differently. Gender is considered a moderating variable in many behavioral studies. Men and women consider relationship quality from different viewpoints. Age is another moderating variable in consumer behavior research studies. Innocenti et al. (2013) suggested that human motives and needs change with age. The longevity of a relationship with a bank can influence the retention behavior of a customer. The findings of our study will be beneficial to customers, bankers, academicians, and policymakers.

In India, there are two main types of banks: public-sector banks and private-sector banks. There is a general perception that these two types of banks have noticeable differences in the way they deal with customers, which directly influences the retention behavior of their customers.

2. LITERATURE REVIEW

Relationship quality is an emerging topic in the field of services marketing. The topic caught the attention of researchers two decades ago. Since 1990, many researchers have analyzed the construct of relationship quality. A summary of their findings is presented in this section on literature review.

2.1. Conceptual Development and Hypotheses Formation

This section discusses relationship quality, relationship quality and retention, and the moderating effects of age, gender, duration of relationship, and type of bank.
2.1.1. Relationship Quality

Crosby et al. (1990) used structural equation modeling to develop a model for relationship quality. In their study, they used data from whole life insurance companies. They found that a strong customer-salesperson bond will increase sales effectiveness.

Wray et al. (1994) investigated the buyer-seller relationship in the financial services industry using neural networks. After analysis, they ranked the factors for customer satisfaction and for customer trust. They found that the major factors contributing to customer trust are the sales orientation, customer orientation, ethics, and expertise of the salesperson.

Storbacka et al. investigated the links among service quality, customer satisfaction, relationship strength, relationship longevity, and customer relationship profitability. Regarding the link between relationship strength and relationship longevity, they examined the possible outcomes if the relationship strength is strong and the relationship longevity is short and found that poorly managed critical episodes or insufficient service recovery may lead to relationship termination.

Relationship quality can be defined as a bundle of intangible value that results in an expected interchange between buyers and sellers. (Johnson, 1999). It has also been defined as a customer’s perception of how well the whole relationship fulfils the expectations, predictions, goals, and desires of the customer (Jarvelin & Lehtinen, 1996).

Wong et al. (2002) found that service quality has a direct impact on relationship quality at the person-to-person level (salesperson) and the person-to-firm level. Keating et al. (2003) explored the difference between relationship quality and service quality. Roberts et al. (2003) found that relationship quality is a distinct construct from service quality and also argued that relationship quality can predict the behavior intentions of customers better than service quality.

Ulaga et al. (2006) found that relationship value is an antecedent to relationship quality and to behavioral outcomes of relationship marketing. They established models of the buyer-seller relationship and found that, in a business-to-business relationship, trust does not appear as an antecedent of behavioral outcomes.

Wong et al. (2007) found that relationship quality acts as a mediator between information sharing and the willingness to refer the services to others. Oly et al. (2007) examined the impact of relationship marketing on the quality of the firm-customer relationship and also investigated the levels of contribution of trust,
commitment, conflict handling, and communication on relationship quality. Their study found that there is a significant positive relationship between trust, commitment, and conflict handling on relationship quality.

Vesel et al. (2010) investigated relationship quality in retail relationships influenced by its antecedents, loyalty programs and personal interaction quality. Their findings suggest that loyalty programs are required for improving quality relationship and that personal interaction is an important factor for relationship quality. Giovanis et al. (2015) found that relationship quality can even replace service quality as a key superior performance driver.

<table>
<thead>
<tr>
<th>Author</th>
<th>Determinants</th>
<th>Analytical Tool Used</th>
<th>Industry in Which Study Was Conducted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crosby et al. (1990)</td>
<td>Trust, satisfaction</td>
<td>Structural equation modeling</td>
<td>Whole life insurance</td>
</tr>
<tr>
<td>Wray et al. (1994)</td>
<td>Trust, satisfaction</td>
<td>Neural network</td>
<td>Financial services</td>
</tr>
<tr>
<td>Bejou et al. (1996)</td>
<td>Trust, satisfaction</td>
<td>Artificial neural networks</td>
<td>Financial services</td>
</tr>
<tr>
<td>Hennig-Thurau (2000)</td>
<td>Trust, satisfaction, commitment</td>
<td>Structural equation modeling</td>
<td>Consumer electronics manufacturer</td>
</tr>
<tr>
<td>Wulf et al. (2001)</td>
<td>Trust, satisfaction, commitment</td>
<td>Structural equation modeling</td>
<td>Food and apparel retailer</td>
</tr>
<tr>
<td>Lang &amp; Colgate (2003)</td>
<td>Trust, satisfaction, commitment, conflict, social bonding</td>
<td>MANOVA</td>
<td>Banking sector</td>
</tr>
<tr>
<td>Lin &amp; Ding (2005)</td>
<td>Trust, satisfaction</td>
<td>Structural equation modeling</td>
<td>Internet service provider</td>
</tr>
<tr>
<td>Molinear et al. (2007)</td>
<td>Trust, satisfaction, commitment</td>
<td>Structural equation modeling</td>
<td>Travel agency</td>
</tr>
</tbody>
</table>
Hoppner et al. (2015) investigated the cross-cultural implications of reciprocity in relationship marketing. Regarding reciprocity, the authors addressed the effect that equivalence (what is being exchanged) and immediacy (when the exchange occurred) has on relationship quality with satisfaction and performance. They found that uncertainty avoidance positively moderates the effect of equivalence on relationship quality. Following Tung and Carlson (2013), they constructed relationship quality as a formative second-order construct. The formative constructs included the measures that are part of the underlying latent variable instead of being influenced by the underlying measures. Here, trust, commitment, and satisfaction were considered to be the measurable first-order constructs that combine to form the second-order construct relationship quality.

Trust is considered a vital factor in any kind of relationship. From the literature, trust can be defined as a willingness to rely on an exchange partner in whom one has confidence (Moorman et al., 1993). Trust can also be defined as the belief that a partner’s promise is reliable and the belief that a party will fulfill his or her obligations in the relationship (Schurr & Ozanne, 1985). Dimitriadis (2011) investigated the possibility of using trust in the technology channels of Internet banking and telephone banking and found that different segments of trustors react differently in terms of intentions to use these types of banking. A high relationship quality involves a high level of trust (Chakrabarty et al., 2008).

Commitment can be defined as the enduring desire to maintain a valued relationship (Moorman et al., 1993). Commitment implies an obligation to make a relationship mutually satisfying and beneficial (Morgan & Hunt, 1994). In social sciences research, commitment is the emotional link between customer and organization (Ou et al., 2011), and is used to analyze both individual and organizational behavior. In psychology, commitment is classified as affective commitment and calculative commitment. Affective commitment is the customer’s willingness to maintain a relationship with a firm and is based on emotions like feeling a strong sense of belonging and emotional attachment to the organization. Calculative commitment is a state of attachment to a party due to rational cost-benefit analysis. Giovanis et al. (2015) found that affective commitment and calculative commitment are the main determinants of customer loyalty.

Satisfaction is a construct that is accepted by researchers as a strong predictor for variables such as positive word-of-mouth, repurchase intentions, and cross-buying. Satisfaction can be defined as an emotional state of mind that a customer attains when his or her expectations are met (Vesel, et al., 2010). Tontini et al. (2015) found that there is a non-linearity between dimensions of quality and
customer satisfaction. The dimension *service accessibility/speed* has a one-dimensional impact on customer satisfaction. The other dimensions of quality such as fault recovery, buying reliability, and service flexibility have a nonlinear impact on customer satisfaction. Mishra et al. (2015) examined the influence of personality traits and customer relationship proneness with relationship satisfaction and found that customer relationship proneness positively influences relationship satisfaction. In a highly service-oriented industry like banks, satisfaction is a key element in determining several desired customer behaviors.

### 2.1.2. Relationship Quality and Retention

In the face of stiff competition in the retail banking industry, customer retention has become a prime issue. Gallo (2014) found that, depending on the type of industry, it costs approximately 25 times more to acquire a new customer than to retain an existing one and that increasing the customer retention rate by 5% increases profits by 25% to 95%.

In their study of the impact of service quality on retention, Al-Hawari et al. (2009) found that traditional service quality has a significant impact on customer retention and that automated service quality has no positive significant influence on customer retention. Retention is not just the willingness of customers to stay with a particular bank for a longer period. It also includes critical measures such as positive word-of-mouth, cross-buying, intention to switch banks, and the perception of customers about efforts taken by the bank to retain them. Retention of existing customers helps an organization in several ways. First, it lowers costs to the firm, especially the cost of obtaining new customers. Second, it increases the market share of the organization, and, third, it increases the profitability of the organization.

With regard to retention, there are three types of measures: (1) behavioral measures, (2) composite measures, and (3) attitudinal measures. In behavioral measurement, repeat purchase is the only dimension available thus far to measure retention in the context of behavior. Attitudinal measures are also used, therefore, to measure the psychological attachment of the customer to the bank. The behavioral intention, however, cannot be excluded completely from the construct retention. Thus, retention is considered a composite measure consisting of both behavior and attitudes.

The current study defines *retention* as the degree to which a customer exercises price tolerance, repeats purchase behavior, and possesses a positive attitude toward an organization (Al-Hawari et al., 2009). There are several research
studies in service marketing that measure the association between service quality and retention. Very few research studies have explored the association of service quality to relationship quality. Because of the paucity of studies on the association between relationship quality and retention, the current study is designed to address this issue. We argue that the perceptions of customers regarding the relationship quality with their bank influence their retention behavior. Hence, we posit the following hypothesis:

\( H_1: \text{Relationship quality has a direct positive impact on retention.} \)

2.1.3. Moderating Effect of Age

Age is considered a moderating variable in several consumer behavior research studies. Innocenti et al. (2013) found that human motives and needs change with age and that elders react differently than younger people with regard to the same practices. Bal et al. (2008) proposed that, as people grow older, they can better manage their emotions and are less likely to breach their contracts. Similarly, we believe that the age of bank customers can have a moderating effect on the association between relationship quality and retention behavior. Hence, we posit the following hypothesis:

\( H_{2a}: \text{Age significantly moderates the association between relationship quality and retention.} \)

2.1.4. Moderating Effect of Gender

Gender is used in behavioral studies as a moderating variable. Previous research suggests that men and women have a different perception about the importance of relationships. Li and Yang (2015) proposed that men and women can differ in their perception of the relationship between image, satisfaction, and behavioral intentions. Because men and women see relationship quality from different viewpoints, there can be a difference in their retention behavior. Hence, we posit the following hypothesis:

\( H_{2b}: \text{Gender significantly moderates the association between relationship quality and retention.} \)

2.1.5. Moderating Effect of Duration of Relationship

Gounaris and Venetis (2002) found that time is a critical factor in customer bonding and trust. The duration of a relationship can play a vital role in the association between relationship quality and retention behavior. The longevity of a relationship with a bank can influence the retention behavior of customers. Hence, we posit the following hypothesis:
**H2c:** Relationship duration significantly moderates the association between relationship quality and retention.

### 2.1.6. Moderating Effect of Type of the Bank

In India, there are two types of banks: public-sector banks and private-sector banks. The majority of public-sector banks are held by the government, and the majority of private-sector banks are held by private institutions. There is a general perception that public- and private-sector banks have noticeable differences in the way they deal with customers. This perception directly influences the retention behavior of their customers. Based on this rationale, we formulate the following hypothesis:

**H2d:** Type of bank significantly moderates the association between relationship quality and retention.

### 3. RESEARCH METHODOLOGY

We developed a structured questionnaire using established scales and administered the survey to a study population that included existing bank customers in Chennai, India. We used multi-stage random sampling to select the banks. We divided Chennai into three regions: north, central, and south. From each region, we selected one public-sector bank and one private-sector bank. We used multi-stage random sampling also to select the respondents. We distributed 600 questionnaires to bank customers in the three regions and received 413 valid, usable questionnaires, for an effective return rate of 68.33%.

The latent variables used for measuring relationship quality are trust, commitment, and satisfaction, as shown in Figure 1. The literature review supports the view that the cost-effective way to retain customers is to improve trust and implement switching barriers (Ranaweera et al., 2003).

In the current study, perceived level of trust is measured using a four-item scale. Commitment is measured using a five-item scale. Commitment is broadly classified as calculative commitment and affective commitment. **Calculative commitment** refers to the relationship between the organization and the customer, in which the customer decides to stay in the organization because of high switching cost, customer inertia, or the lack of market alternatives (Menon & O'Connor, 2007). **Affective commitment** measures the relationship between the customer and the organization in which the customer decides to stay in the organization because of shared values. Affective commitment is due to the emotional attachment between the customer and the organization. In the current study, **satisfaction**...
represents relationship satisfaction. The level of relationship satisfaction is measured using a two-item scale. Relationship quality is measured as a second-order construct in which trust, commitment, and satisfaction act as antecedents.

![Conceptual Framework for Current Study](image)

**Figure 1: Conceptual Framework for Current Study**

The dependent variable, retention, is measured using a five-item construct, in which positive word-of-mouth, cross-buying, intention to switch banks, and the frequency and volume of transactions are considered as determinants.

Structural equation modeling is used to estimate the impact of relationship quality on retention. There are two approaches to estimate the relationships in a structural equation model: (1) covariance-based structural equation modeling (CB-SEM), and (2) partial least squares structural equation modeling (PLS-SEM) (Hair et al., 2011). In the current study, PLS-SEM is used for two reasons. First, the relationship quality in this research is hypothesized as a second-order formative construct. PLS-SEM can handle formative constructs effortlessly, compared with CB-SEM, but CB-SEM has its own limitation in handling formative second-order constructs (Hair et al., 2014). Second, the fundamental assumption of CB-SEM itself is that all variables have to be normally distributed, whereas PLS-SEM does not assume any particular distributions and it is a non-parametric method (Hair et al., 2014). In the current study, not all the indicators are normally distributed. Since there are some indicators with non-normal distribution, PLS-SEM is used in this research.
4. DATA ANALYSIS

This section discusses the characteristics of the sample respondents, descriptive and percentage analysis, reliability and validity analysis, and hypothesis testing.

4.1. Sample Characteristics

The demographic profile of the sample respondents is presented in Table 2. As indicated, the majority of respondents were male and under the age of 39 years. Most were customers of public-sector banks for less than three years.

Table 2
Demographic Profile of Sample Respondents (N=413)

<table>
<thead>
<tr>
<th>Item</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>298</td>
<td>72.1%</td>
</tr>
<tr>
<td>Female</td>
<td>115</td>
<td>27.9%</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under age 39</td>
<td>291</td>
<td>70.5%</td>
</tr>
<tr>
<td>Over age 39</td>
<td>122</td>
<td>29.5%</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completed school</td>
<td></td>
<td>22.0%</td>
</tr>
<tr>
<td>Up to undergraduate</td>
<td></td>
<td>33.8%</td>
</tr>
<tr>
<td>Post-graduate</td>
<td></td>
<td>32.0%</td>
</tr>
<tr>
<td>Past post-graduate</td>
<td></td>
<td>12.2%</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 3 lakhs/year</td>
<td></td>
<td>32.4%</td>
</tr>
<tr>
<td>3-5 lakhs per year</td>
<td></td>
<td>29.8%</td>
</tr>
<tr>
<td>5-10 lakhs per year</td>
<td></td>
<td>24.7%</td>
</tr>
<tr>
<td>More than 10 lakhs/year</td>
<td></td>
<td>13.1%</td>
</tr>
<tr>
<td><strong>Primary Bank Used</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td>216</td>
<td>52.0%</td>
</tr>
<tr>
<td>Private sector</td>
<td>197</td>
<td>48.0%</td>
</tr>
<tr>
<td><strong>Duration of Relationship with Bank</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 3 years</td>
<td>219</td>
<td>53.0%</td>
</tr>
<tr>
<td>More than 3 years</td>
<td>194</td>
<td>47.0%</td>
</tr>
</tbody>
</table>
4.2. Measurement Model Assessment

The reliability of the constructs was measured using Cronbach’s alpha. According to Fornell and Larcker (1981), the Cronbach’s alpha value and composite reliability value should exceed 0.70 in order for the latent constructs to have internal consistency. In the current study, all of the latent variable constructs have composite reliability and a Cronbach’s alpha value greater than 0.70; hence, reliability is confirmed.

The convergent validity of the latent variables can be assessed using average variance explained (AVE) and the measurement model output of the partial least squares structural equation modeling. In this study, the test results of cross-loadings of the individual items indicate that all the items have factor loadings greater than 0.7. Moreover, it was found that the AVE of the constructs are greater than 0.50 (Table 3), thus establishing convergent validity (O’Leary-Kelly et al., 1998, Fornell & Larcker, 1981).

Table 3
Factor Loadings, Composite Reliability, Cronbach’s Alpha, and AVE of Constructs

<table>
<thead>
<tr>
<th>CONSTRUCT and DESCRIPTION</th>
<th>Loading</th>
<th>t - Statistic Value</th>
<th>Composite Reliability</th>
<th>Cronbach’s Alpha</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMITMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel “emotionally attached” to the bank.</td>
<td>0.8423</td>
<td>22.98</td>
<td>0.915</td>
<td>0.8831</td>
<td>0.6838</td>
</tr>
<tr>
<td>I have a strong sense of belonging to the bank.</td>
<td>0.8926</td>
<td>39.523</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I feel happy being a customer of the bank.</td>
<td>0.8597</td>
<td>60.931</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I have received more benefits in this bank than in other banks.</td>
<td>0.7856</td>
<td>17.185</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It is more convenient for me to use this bank than other service providers.</td>
<td>0.7459</td>
<td>25.052</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SATISFACTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In general, I am satisfied with the relationship with my bank.</td>
<td>0.9071</td>
<td>113.435</td>
<td></td>
<td>0.8842</td>
<td>0.7394</td>
</tr>
<tr>
<td>In general, I receive high quality service from my bank.</td>
<td>0.8729</td>
<td>58.774</td>
<td></td>
<td></td>
<td>0.7925</td>
</tr>
</tbody>
</table>

---Continued---
The square root of the average variance extracted was found to be greater than the corresponding values of intercorrelation between the constructs (Table 4), thus establishing discriminant validity (Fornell & Larcker, 1981).

Table 4
Intercorrelations of the Latent Variables for First-Order Constructs

<table>
<thead>
<tr>
<th></th>
<th>Commitment</th>
<th>Satisfaction</th>
<th>Trust</th>
<th>Retention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>0.8269</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.3896</td>
<td>0.8902</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>0.4431</td>
<td>0.6355</td>
<td>0.7718</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>0.5551</td>
<td>0.6605</td>
<td>0.5646</td>
<td>0.7432</td>
</tr>
</tbody>
</table>

*Square root of the AVE on the diagonal*
The multicollinearity issues were tested using variance inflation factor (VIF). It was found that the VIF for all constructs was less than 5, which confirms that there are no multicollinearity issues in the model (O’Brien, 2007).

4.3. Assessment of the Structural Model

The structural model in this study was assessed using multiple indices such as path coefficient (β coefficient), R² value, and bootstrapped critical ratios (t-statistic values). According to Chin (1998), standardized β values should be greater than 0.20 to have a meaningful conclusion in the path model. From the structural model output of PLS-SEM, this study found that all the β coefficient values are greater than 0.20. The R² value of the dependent variable retention was found to be greater than 0.50. The bootstrap resampling procedure was followed to generate t-statistic values with 400 cases and 5,000 samples. The results indicate that the t-statistic values of the path model are greater than 1.96, which shows that the β coefficients are statistically significant. The β coefficient of the path model relationship quality and retention was found to be 0.714 with a highly significant t-statistic value of 26.643 (Table 5). Thus, the results support Hypothesis H1, which posits that relationship quality has a significant positive impact on retention.

The individual impact of trust, commitment, and satisfaction on retention was analyzed using PLS-SEM, and the R² values were found to be 0.32 for trust, 0.31 for commitment, and 0.44 for satisfaction. The combined impact of trust, commitment, and satisfaction formulated as relationship quality showed a higher R² value for retention (0.509), which means that 50.9% of the variance explained in retention is due to relationship quality.

<table>
<thead>
<tr>
<th></th>
<th>Outer Weights</th>
<th>t-Statistic</th>
<th>p-Value</th>
<th>Confidence Intervals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>LOWER</td>
</tr>
<tr>
<td>Commitment -&gt; RQ</td>
<td>0.577</td>
<td>25.810</td>
<td>0.000***</td>
<td>0.5347</td>
</tr>
<tr>
<td>Satisfaction -&gt; RQ</td>
<td>0.259</td>
<td>19.582</td>
<td>0.000***</td>
<td>0.2348</td>
</tr>
<tr>
<td>Trust -&gt; RQ</td>
<td>0.392</td>
<td>20.750</td>
<td>0.000***</td>
<td>0.3564</td>
</tr>
<tr>
<td>RQ -&gt; Retention</td>
<td>0.714</td>
<td>26.643</td>
<td>0.000***</td>
<td>0.6587</td>
</tr>
</tbody>
</table>

***- Significant at 1% level.
4.5. Predictive Relevance of the Structural Model

To assess the predictive relevance of the structural model, we used a blindfolding procedure to measure the Q square value of the higher-order construct, relationship quality. The Q square value shows how well the path model can predict originally observed values (Geisser, 1974; Stone, 1974). In this study, we found that the Q square value for relationship quality is 0.439. Q square values larger than zero indicate that the model has predictive relevance (Chin, 1998). To measure the size of the effect that the \( R^2 \) value plays, as suggested by Hair et al., 2011, we found that the value of \( f^2 \) is 0.18, which indicates that relationship quality has a medium-size effect on retention.

The objective of our study was to investigate the interactions between trust, commitment, and satisfaction with relationship quality and their combined effect on customer retention. From the model, it is clear that trust, commitment, and satisfaction act as latent variables for measuring relationship quality and that there is a direct positive relationship between relationship quality and retention. The results also indicate that commitment has a high outer weight of 0.577 and has a greater impact on relationship quality than trust or satisfaction.

4.6. Moderation Analysis

Multi-group analysis was performed to test the moderating effect of the variables age, gender, duration of relationship, and type of bank. The difference in the path coefficient of the partial least squares structural equation model for the different categories of sample respondents was analyzed using procedures suggested by Keil et al. (2000). The results show that there is difference in the strength of relationship \( \beta \) coefficient (Table 6). The results support hypotheses \( H_{2a} \) and \( H_{2d} \) which posit that age and type of bank significantly moderate the association between relationship quality and retention (t-statistic value > 1.96 and p-value < 0.05). The results, however, do not support the other two hypotheses, \( H_{2b} \) and \( H_{2c} \) (t-statistic values < 1.96 and p-value > 0.05). It is clear, therefore, that gender and duration of relationship do not significantly moderate the association between relationship quality and retention.
Table 6
Moderation Results of Stated Hypothesis with Beta Coefficients and t-Value

<table>
<thead>
<tr>
<th>H*</th>
<th>Moderator</th>
<th>Classification</th>
<th>Beta (β)</th>
<th>SE</th>
<th>t-Value</th>
<th>p-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$H_{2a}$</td>
<td>Age</td>
<td>Less than or equal to 39 years</td>
<td>0.677</td>
<td>0.030</td>
<td>2.780</td>
<td>0.00600</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 39 years</td>
<td>0.784</td>
<td>0.021</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$H_{2b}$</td>
<td>Gender</td>
<td>Male</td>
<td>0.711</td>
<td>0.027</td>
<td>0.409</td>
<td>0.68269</td>
<td>Not Supported</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>0.73</td>
<td>0.026</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$H_{2c}$</td>
<td>Duration</td>
<td>Less than or equal to 3 years</td>
<td>0.704</td>
<td>0.028</td>
<td>0.549</td>
<td>0.58276</td>
<td>Not Supported</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 3 years</td>
<td>0.725</td>
<td>0.024</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$H_{2d}$</td>
<td>Bank type</td>
<td>Private sector</td>
<td>0.684</td>
<td>0.015</td>
<td>2.311</td>
<td>0.02129</td>
<td>Supported</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public sector</td>
<td>0.772</td>
<td>0.026</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*H = Hypothesis

5. DISCUSSION AND MANAGERIAL IMPLICATIONS

This section summarizes the research questions addressed in the current study and discusses its managerial implications.

5.1. Discussion

The concept of relationship quality has been studied in relationship marketing research for the last two decades. Findings indicate that the sales volume of any business can be increased by attracting new customers, reducing loss of customers, and doing more business with existing customers (Vesel & Zabkar, 2010). By maintaining a quality relationship with its customers, a bank can do more business with existing customers and also reduce the loss of customers. When customers become advocates of the bank, they can attract new customers. Hence, relationship quality can pave the way for bank profitability.

The current study addresses three research questions:

- What are the factors that affect relationship quality?
- What are the consequences of relationship quality?
• What are the moderating effects of the variables of gender, age, type of bank, and duration of relationship on the relationship between quality and retention?

With regard to the first question, this study identifies customer trust, commitment, and satisfaction as the variables that affect relationship quality. From the structural model, it is clear that the construct commitment has a higher outer weight than the other two constructs and is therefore a major contributor to relationship quality.

Regarding the second question, study results indicate that relationship quality can positively impact customer retention and thereby increase positive word-of-mouth, cross-buying intention, and financial transactions with the bank. The bootstrapped results of partial least squares structural equation modeling indicate a strong positive relationship between relationship quality and retention. Maintaining a good relationship quality with customers, therefore, can increase retention of bank customers. Moreover, the R² value (0.509) of the path model between relationship quality and retention indicates that the 50.9% of the variance in retention can be explained by relationship quality. The impact of relationship quality on retention, therefore, is 50.9%.

The third question involves the moderating effects of several variables. Study results indicate that the variable duration of relationship with the bank does not have a moderating effect on the association between relationship quality and retention. This finding indicates that bank customers do not consider longevity of relationship as a vital criterion for being retained by the bank. On the other hand, study results show that the variable type of bank has a moderating effect on the association between relationship quality and retention. This finding is especially true for public-sector banks, which have a slightly higher β coefficient of 0.774, compared with private-sector banks with a β coefficient of 0.684. The R² value of the dependent variable retention for private-sector and public-sector banks is 0.468 and 0.595, respectively. These finding indicate that customers are more willing to be retained by public-sector banks than private-sector banks.

In the current study, the variable gender does not show a moderating effect on the association between relationship quality and retention. It can be inferred, therefore, that men and women do not differ much in their retention behavior. On the other hand, the variable age shows a significant moderating effect on the association between relationship quality and retention. The β coefficient value of the bank customers over the age of 39 years is 0.784, compared with 0.677 for
bank customers under the age of 39. This finding indicates the older age category can be retained more easily by the bank than those customers younger than 39 years of age. Banks must therefore design different strategies to retain customers in different age categories.

5.2. Managerial Implications

The current study contributes to the field of relationship marketing in the retail banking sector in at least two ways:

- By examining the direction and magnitude of the predictor variable *relationship quality* on the dependent variable *retention*
- By analyzing the moderating effect of different variables on the association between relationship quality and retention

The theoretical contribution of this study is the finding that relationship quality is a multi-dimensional higher-order construct consisting of trust, commitment, and satisfaction as antecedents. The finding supports the results of previous studies that indicate also that relationship quality is a function of trust, commitment, and satisfaction.

To gain competitive advantage in today’s business environment, banks must invest in their core competency. In the recent past, banks have invested in technology aspects such as online and mobile banking and android mobile applications. These technological aspects can be imitated easily by other banks, but core competency is something that a competitor cannot imitate so easily. Hence, banks can achieve a competitive advantage by investing in quality relationships as their core competency. When the relationship between customers and the bank is maintained properly, the customers will become advocates of the bank through positive word-of-mouth feedback.

The findings of the current study provide an important message for bankers, policymakers, bank customers, and academicians by helping them understand the importance of customer trust, commitment, and satisfaction and how customers are willing to maintain a relationship with a bank. Since the service industry is evolving rapidly, individual attention is required in highly service-oriented industries such as banking. Focusing on individual customers by enhancing the relationship quality will provide a competitive advantage for banks. To this end, banks can provide customer relationship training to relationship managers and can measure their performance using a relationship satisfaction scale. From the viewpoint of customers, the ease of maintaining a relationship with the bank will
be enhanced and they will feel more empowered. The current study, therefore, will be beneficial not only to bankers but to customers.

6. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The current study uses bank customers as its sample population, which limits generalization of the results to other industries. In the future, researchers can concentrate on extending this approach to other service sectors such as the insurance, telecommunications, healthcare, tourism, and hospitality industries. Future studies can measure the relationship and calculate the impact between the building blocks of relationship quality (namely, trust, commitment, and satisfaction) and the dependent variable retention for various industries and thus develop an integrated view about such industries. Such studies can also explore a comparative analysis of the beta coefficients between relationship quality and retention with respect to various service industries.

Cross-sectional data was used in the current study. Future research should use longitudinal data to build on the findings of this study; to assess the effect of the constructs of relationship quality such as trust, commitment and satisfaction on customer retention; to measure relationship velocity (defined as the rate of change in relationship with respect to time); and to reveal the dynamics of the relationship between customers and banks over a period of time.

The proposed model is not an exhaustive one that has all the consequences of relationship quality. The after-effects of relationship quality are not restricted to customer retention alone but have other consequences as well. Future research can focus on measuring the association of relationship quality with bank performance. The association of relationship quality with the financial performance of banks can also be measured, as well as the association of relationship quality with the marketing performance of the banks. Future research can also explore the impact of relationship quality in improving the financial and marketing performance of banks.

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