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PERCEPTIONS OF INNOVATION BASED RELATIONSHIP MARKETING (PIRM) IN THE SRI LANKAN RETAIL BANKING SECTOR: A QUALITATIVE STUDY

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Abstract:
The purpose of this research is to investigate the "Perceptions of Innovation based Relationship Marketing" (PIRM) model based on evidence from four retails banks in Sri Lanka. From the bankers' perspectives, the PIRM model focuses on how product innovation, process innovation and organizational innovation lead to improving relationship marketing. This research used qualitative methods using sixteen in-depth interviews in four retail banks in Sri Lanka. Four bankers were interviewed from each bank. The theory building case study approach has been adopted together with cross-case synthesis. The qualitative thematic analysis showed that bankers rely on three dimensions of innovation: product innovation, process innovation and organizational innovation, perceiving those to promote the improvement of relationship marketing. From the retail banking perspective, the PIRM model may enable better understanding of customer retention and acting as a way of promoting innovative sustainable competitive advantage.

Keywords: Innovation, PIRM, relationship marketing, Sri Lankan retail bank sector

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1. Introduction

Over the past decade, banks revamped their value propositions dramatically based on innovative banks facilities. Meanwhile, banks also enhance their relationship marketing capabilities by providing personalised services to the customers (Komulainen and Saraniemi, 2019). Nowadays, these two phenomena of 'innovation' and 'relationship marketing' can been seen implicitly or explicitly in many banking organizations. However, previous research explores the concept of 'relationship innovation' or 'relationship-based innovation' (Ruiz-Molina, Gil-Saura and Servera- Frances, 2017), however, the inverse effect is not yet addressed in the literature (Panditharathna and Bamber, 2016). Specifically, there is no direct evidence available in the literature that innovation facilitates relationship marketing to flourish (Panditharathna and Bamber, 2018).

Relationship marketing has been one of the prominent speciality areas of marketing in the last few decades (Sheth, 2017). However, it is claimed that the concept of relationship marketing which yields value for both suppliers and customers has now come to a mature level in its life cycle (Palmatier, 2008; Sheth, 2017). Confirming the above statement, scholars who have participated in recent international colloquiums on relationship marketing (2015, 2016 and 2017) have held detailed discussions about the validity of relationship marketing under the ever-evolving marketing sphere. They propose either marketers should go back to the roots, where transactional marketing is dominant, or improve the notion of relationship marketing with new features. However, most scholars propose that exploring possible ways of improving the notion of relationship marketing would be the feasible solution. In such a situation, innovation can play an important role in the matter of advancing the relationship marketing domain (Panditharathna and Bamber, 2016). Heinonen (2014) stresses that nowadays banks should pay more attention to understanding their customers focusing on "*service quality, satisfaction, and loyalty in different distribution channels, such as internet and mobile banking*" (p. 450).

Leiva, Culbertson and Pritchard (2011, p. 265) argue that "*innovation has become a critical factor for organizational survival*". Thus, "*organizations need to be reactive in fulfilling their customers' changing demands and proactive in implementing changes to become more efficient and reduce costs*" (Leiva et al., 2011, pp. 265-266). In order to attract and retain customers, banks should consider investing in the areas of product, process, market and organizational managerial level innovation (Yordanova, 2013). Product innovation plays a crucial role in the marketplace, where consumers make their purchase decisions based on the merits and quality of the products (Geroski and Mazzucato, 2002). According to Schumpeter (1934), process innovation refers to the introduction of a new production method that includes a novel way of handling a commodity commercially. Process innovation can also be intended to decrease unit costs of production or delivery, to increase quality, or to produce or deliver new or significantly improved products (Organization for Economic Cooperation and Development (OECD), 2005). Contrarily, organizational innovation is strongly linked with all administrative efforts to renew organizational routines, procedures, mechanisms and systems in order to renew teamwork, sharing of information, coordination, collaboration and learning (Günday *et al.*, 2011). The outcome of organizational innovation brings new knowledge to the organizations so that existing customer relationships can be stabilised. Probably, innovation may have numerous influences on relationship marketing because product innovation is based on meeting customers' preferences by designing a new or considerably improved product, whereas process innovation relates to the enhancement of operations and supply chain (OECD, 2005).

The context of this research study is Sri Lanka which has a legacy of rich culture and is well-known for its hospitality and humble people. Based on such cultural characteristics, everyday banking involves a healthy relationship with customers. However, although the Sri Lankan banking sector is built on traditional principles, there is a growing phenomenon in the industry where innovative products and services are promoted by the banks (Central Bank of Sri Lanka, 2015). Moreover, the positive contribution of the Sri Lankan government to building, reconstructing, renovating, and eliminating the marks of destruction and devastation in public spaces is impressive since the country has emerged from the brutal war (Jayasuriya, 2016). In the recent past, the banking sector has shown a technologically oriented trend that has gradually transformed the brick-and-mortar style banking to digital banking (Central Bank of Sri Lanka, 2017). Due to the adoption of digital technology, customers are able to share the common facilities such as ATMs and cash deposit machines (CDM) with other banks in the industry (Seelanatha, 2010).

Simon and Yaya (2012) claim that organizations have been forced to become more innovative to provide a quality service and respond more effectively to consumers' needs and preferences. Nowadays, it is crystal clear that organizations need to differentiate themselves from their rivals in the market by crafting innovative strategies that create an edge over their competitors. The role of innovation can act as an enabler for enhancing customer relationships (Panditharathna and Bamber, 2016) in the Sri Lankan retail banking sector. The ultimate goal of this study is to build a research model which explains bankers' perceptions of innovation-based relationship marketing particular to the Sri Lankan retail banking sector.

The reminder of this study continues with literature review in which highlights main aspect of relationship marketing, innovation and the Sri Lankan retail banking context together with research gaps in the literature. The rest of the paper has devoted to present research methodology, empirical findings, discussion, limitations of the study, and conclusion, respectively.

2. Literature Review

2.1 Relationship Marketing

Even though the exact date of the conception of relationship marketing fundamentals is debatable, Berry (1983) was considered the first to mention the notion of relationship marketing in the service marketing context. Under the purview of marketing, relationship marketing was considered a marketing paradigm (Brodie et al., 1997; Grönroos, 1994; Harker and Egan, 2006; Sharma and Sheth, 1997; Sheth, 2000; Varey, 2002) which enables organizations to build a long-lasting relationship with their customers (Asif and Gouthier, 2014; Athanasopoulou, 2009; Deb, 2014; Palanisamy and Manohar, 2016), suppliers (Christoph et al., 2016) and other stakeholders (Buttle, 1996; Payne, 2000). The formation and shape of relationship marketing have been well-defined by many scholars within different contexts and industrial sectors (Agariya and Singh, 2011).

Though there can be many antecedents and consequences of relationship marketing, literature identifies the most prominent antecedents as: trust (Morgan and Hunt, 1994), commitment (Morgan and Hunt, 1994), reciprocity (Dwyer, Schurr and Oh, 1987), shared value (Evans and Laskin, 1994), empathy (Berry, Zeithaml and Parasuraman, 1990) and bonding (Callaghan et al., 1995). On the other hand, consequences of relationship marketing (Figure 2.5) are: customer loyalty (Ndubisi, 2007), customer retention (Coviello et al., 2002; Grönroos, 1991; Magasi, 2015; Verhoef, 2003), customer satisfaction (Ndubisi and Wah, 2005), relationship quality (Crosby, Evans and Cowles, 1990; Ravald and Grönroos, 1996; Vesel and Zabkar, 2010), long-term relationship orientation (Ravald and Grönroos, 1996) and competitive advantage (Guo, Holland and Kreander, 2013).

In this current study, relationship marketing has been assumed to equate with customer retention, as customer retention has been regarded as a preliminary reason for adopting relationship marketing (Coviello et al., 2002; Grönroos, 1991). Customer retention is "*an imperative for competitiveness within organizations and an important nexus their profitability and income*" (Bó, Milan and Toni, 2018, p. 1).

2.2 Retail Banking

To be competitive in the market, many banks have transformed from conventional bricks and mortar banking into clicks and mortar banking (Chau and Lai, 2003). Banks invest in digital banking platforms to achieve more revenue paths, minimise costs and address competitiveness concerns (Safeena *et al.,* 2011). On the other hand, consumer adoption of internet banking depends on the client's demography, motivational level and attitudes to adopting new technological changes (Safeena *et al.,* 2011). Some banks opt to adopt bricks and mortar banking facilities in order to expand their geographical presence, others may promote digital platforms in order to connect with clients (Karthikeyan, 2016). Safeena, Date and Kammani (2011) claim that internet banking is a modern-day technological wonder. Hence, automated teller machines (ATMs), tele-banking, internet banking, credit cards and debit cards are now widely used and are complementary to traditional banking (Safeena *et al.*, 2011).

Considering the public-sector banks in India, Gupta and Khanna (2015) conclude that public sector banks should place more emphasis on innovative channels if they really want to cope with competition and customer retention. Banks should realise the situation where many customers do not engage with traditional banking because of problems with travel distance, inconvenient banking hours for many people, the documentation required by the banks for account opening, and the long queues at cash counters in branches (Mustafa, 2013). Moutinho *et al.* (1997) show that ATMs can provide many front office functions for under half the cost, with a four-to-one advantage in productivity over conventional banking.

Mobile banking, as another digitally enabled banking platform, which is an innovative banking channel that potentially provides access for services anytime, anywhere via a mobile device (Luo *et al.,* 2010). Hence, mobile banking has emerged as an alternative mechanism, not just as an application, in the developing world, where it has become a premier banking channel for larger populations (Afshan and Sharif, 2016). Interestingly, mobile banking supports traditional banking by enhancing the quality of service, whilst decreasing service costs (Afshan and Sharif, 2016). Moreover, Lee *et al.* (2003) reveal that innovative features are directly linked to the consumer adoption of mobile banking activities. Wijland, Hansen and Gardezi (2016) demonstrate that many banks have secured their market position by attracting and retaining customers who are mostly from the younger generations. Baptista and Oliveira (2015) explain that mobile banking has been widely acknowledged by customers due to the advancement in technology-related smart devices. Thus, mobile banking is considered an innovative channel which provides customers with value in time and place (Lin, 2011).

Cruz *et al.* (2010) find that the costs and perceived risks are the main reasons why customers do not adopt mobile banking, followed by a lack of relative advantage, unsuitable devices, complexity, lack of information and lack of observability. Therefore, Cruz *et al.* (2010) recommend that bankers must consider those reasons when they decide to take on mobile banking (Cruz *et al.,* 2010). In addition, Domeher, Frimpong and Appiah (2014) explain that bankers need to emphasise the relative importance of perceived usefulness, perceived risk and customers' level of education when they draft online banking strategies. Anand and Sreenivas (2013) extrapolate that online banking can target untapped segments of the market through awareness campaigns and advanced security factors. Martins, Oliveira and Popovič (2014) reveal that by introducing internet banking platforms, bankers can reduce the cost associated with managing branches, while customers may receive faster service and online exclusive offers. However, the unwillingness of some customers to adopt digital banking innovation has led to the inability of banks to fully maximize the opportunities that have been made available (Martins *et al.,* 2014).

2.3 Innovation

There are many types of innovation discussed in the literature such as product innovation, process innovation, organizational innovation, incremental innovation, disruptive innovation and open innovation. Product innovation is the introduction of goods or a service that is new or whose characteristics or intended uses have been significantly improved (OECD, 2005). Christensen, Cook and Hall (2005) argue that if marketers can understand their customers, products can be designed (innovated) which specifically solve identified 'problems'. From the process innovation point of view, there is an increasing tendency amongst banks, to move away from traditional banking channels to innovative banking facilities that deliver superior benefits to their customers (Komulainen and Saraniemi, 2019).

Organizational innovation can be defined as the implementation of a new organizational method in a firm's business practices, workplace organization or external relations (OECD, 2005). Organizational innovation can improve the quality and efficiency of work, enhance the exchange of information and improve firms' ability to learn and utilize new knowledge and technologies (OECD, 2005). Organizational innovation is strongly related to the management efforts in renewing organizational routines, procedures and other mechanisms that encourage teamwork, information sharing, effective coordination and collaboration and learning (Günday *et al.,* 2011). Organizational innovation, which Lin and Chen (2007) collectively term as administrative innovation and strategic innovation in their research study, is found to be the most crucial factor in expanding a company's sales. Administrative innovation includes improvements in organizational structures, innovative policies and the transformation of management systems. On the other hand, strategic innovation is concerned with organizational strategies that focus on continuous competitive advantages for the companies involved (Lin and Chen, 2007). Hence, strategic innovation may consider alliances with competitors, alliances across industries, alliances with suppliers, outsourcing and the redefining of the firm's core competencies (Lin and Chen, 2007).

2.4 The Sri Lankan Context

Situated in the southern tip of India, Sri Lanka is a tropical island which is potentially one of the major economically lucrative countries in the world (BBC, 2018). Sri Lanka can be categorised as a lower middle-income country, with a population of 21.4 million people, with a USD 4,065 per capita income in 2017 (World Bank Report, 2018). During the last three decades, Sri Lanka has not been able to exploit many opportunities in terms of economic and social development due to the North and East separatist war and Southern political violence (Fernando, Bandara and Smith, 2013). Since the civil war ended in 2009, the economy has grown on average at a rate of 5.8 percent a year, reflecting a peace dividend and a commitment to reconstruction and growth (World Bank Report, 2018). The peace process has brought about the development of tourism, banking and other services sectors (Athukorala, 2016). Moreover, the positive contribution of the Sri

Lankan government to building, reconstructing, renovating, and eliminating the marks of destruction and devastation in public spaces is impressive since the country has emerged from the brutal war (Jayasuriya, 2016). Currently, the economy of Sri Lanka is transforming from being a predominantly rural-based economy to a more sophisticated industrial-oriented economy that caters to manufacturing and services (World Bank Report, 2018).

2.5 The Sri Lankan Banking Sector

The financial sector in "*Sri Lanka has played an imperative role in supporting the economic development of Sri Lanka in the recent past*" (Ariyadasa *et al.*, 2017, p. 2106). The banking system, as a key player in the overall financial sector, accounts for almost half of the financial system's assets and represents a lending mechanism for both government and people (Ariyadasa *et al.*, 2017). The Sri Lankan banking sector has been transformed because of deregulation and liberalisation measures being taken to stimulate and facilitate greater competition and react better to trends in the global banking (Perera, Skully and Nguyen, 2012; Seelanatha, 2010).

Although, the prolonged ethnic conflict between the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE) slowed down the growth of the banking sector, the Sri Lankan licensed commercial banks (LCBs) appear to have become healthier in recent years (Ariyadasa *et al.*, 2017). Improved resilience for facing external and internal shocks, innovative and futuristic banking products, and expanded access to finance and consumer protection are some of the key drivers to promoting a strong and dynamic banking sector through business excellence (Central Bank of Sri Lanka, 2013).

The LCBs which play a central role within the financial services sector, have the capacity to provide liquidity and are responsible for payment services, thereby facilitating all entities to carry out their financial transactions (Jayamaha, 2012). Almost all the banks in Sri Lanka mainly provide banking solutions to retail customers and corporate customers around the country (Randiwela and Fernando, 2015). Retail banking products can be by way of a deposit product, loan product, or in the form of another facility which is also an innovative product, the ATM, a development due to technological advancement in the banking industry (Randiwela and Fernando, 2015).

3. Material and Methods

The aim of this study is to derive a model which shows the interaction between relationship marketing and innovation (Innovation-based Relationship Marketing - IRM) as perceived by Sri Lankan retail bankers. As literature provides limited support for getting reasonable insight, this research conducts entirely using qualitative research methods. Qualitative research methods aid researchers to emerge hidden insight of the data. Hoepfl (1997) argues that qualitative analysis needs some level of creativity due to the following factors: a) the challenge of organising raw data into logical, meaningful categories, b) examining them in a holistic fashion and c) finding a way to communicate this interpretation to others. Yin (2014) recommends five case study analysis methods: pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis. Therefore, the study adopts multiple case study design by using within-case analysis and cross-case analysis. Four banks (Banks A-D) were selected as case organizations to represent the range of retail banks in Sri Lanka.

3.1 Research Procedures

Each of the four banks provided four retail bankers for the research. In-depth interviews, document analysis, and promotional details in the banks' websites have been referred to the case study. In-depth interviews were held with informants from the bank head offices and selected branch networks. Respondents were selected through convenience sampling and (in keeping with local cultural norms) included friends, batchmates, and other personal: the cultural norms of Sri Lankan business require that meetings can only usually occur with existing network members or arranged via an introduction from an esteemed network colleague. Furthermore, Rubin and Rubin (2011) confirm that the interviewee recruitment process becomes effective if the interviewer knows the interviewees very well. Participants have been recruited from almost every retail banking segment, customer experience executives, customer experience managers, customer relations executives, relationship executives, relationship managers, product development executives, branch managers, and employee relations officers. Moreover, informants consist of earlier career bankers as well as experienced bankers who spend their most of career lives with banking. The main reason for selecting a mixed group of informants is that the insights can be mainly matched with the research aim. The demographic profiles of the interviewees are shown in table 1.

Table 1: Interviewee Profiles

Bank	Interview Code	Position	Age	Gender	Years of Experience
A	A1-P	Manager: Product Development	52	Male	28
	A2-P	Relationship Officer	35	Male	07
	A3-P	Relationship Officer	32	Male	12
	A4-P	Manager - Card Centre	41	Male	18
B	B1-P	Branch Manager	36	Female	16
	B2-P	Product Development Officer	30	Male	11
	B3-P	Manager: Advertising & Promotions	33	Female	14
	B4-P	Front officer	23	Male	03
C	C1-P	Assistant Relationship Manager	28	Female	06
	C2-P	Manager: Bancassurance	40	Male	15
	C3-P	Branch Manager	34	Male	12
	C4-P	Vice President - Employment Relations	36	Male	12
D	D1-P	Employee Relations Officer	27	Female	06
	D2-P	Front Officer	21	Female	02
	D3-P	Branch Manager	36	Male	15
	D4-P	Manager: Product Development	37	Male	17

In total, 16 banking staff. The respondents included five females and eleven males with an average age of 33.8 years and with an average of 12.1 years of experience (interviewee A1-P was significantly older (52 years) with significantly more experience (28 years) than the rest of the respondents). An open-ended questionnaire was employed to collect the data from the sample. Informants were informed of the research aim, research objectives, research questions, and data privacy policy. Moreover, informants were encouraged to sign a consent form which explains the terms and conditions, informants' rights, responsibilities, and ethical clearances. Probing questions that were not included in the original questionnaire were asked as each interview progressed. As per the rules of member checking, the transcribed data was sent to each interviewee to review the validity and accuracy of the information. In total, 14 transcripts were returned with minor amendments, and two left were left unchanged: in those cases, the interviewees confirmed that they accurately recorded what was said during the interviews. The analysed data was also sent to the relevant interviewees for the purpose of verifying the meaningfulness of the case study.

In a first round of understanding and on initial investigation of the interview data and the secondary data, descriptive coding (Saldaña, 2015) was applied for innovation, relationship marketing and SCA, as illustrated in Table 2. The descriptive coding acts as the "*first cycle coding which is the way to initially summarise segments of data*" (Miles, Huberman and Saldaña, 2014, p. 86).

Table 2: Initial Code Generation Matrix

Initial Theme	**Coding Type**
Innovation	
Product Innovation	Descriptive
Process Innovation	
Organizational Innovation	
Relationship Marketing	Descriptive

After the initial coding, second cycle coding (Saldaña, 2015) was conducted to find more specific niches of each initial coding. Miles *et al.* (2014) claim that "second cycle pattern coding is a way of grouping summaries into a smaller number of categories, themes or constructs (p. 86). Table 3 shows the second cycle coding (Saldaña, 2015) which is mainly employed in In Vivo coding. The combined coding of descriptive and In Vivo coding shaped the PIRM model.

Table 3: Secondary Code Generation Matrix

Theme	**Initial Coding Type**	**Secondary Coding Type**
Innovation		
Product Innovation	Descriptive	
New Product Innovation		In Vivo Coding
Modified Product Innovation		In Vivo Coding
Process Innovation	Descriptive	
Bricks & Mortar Banking		In Vivo Coding
Digital Platforms		In Vivo Coding

Organizational Innovation	Descriptive	
Organizational Culture		In Vivo Coding
Organizational Learning		In Vivo Coding
Relationship Marketing	Descriptive	
Customer Retention		In Vivo Coding

4. Results and Discussion

Interviews took place in English and were transcribed into narrative stories. Both primary data (interview) and secondary data (annual reports and monthly publications) were involved in representing each organizational case. Hereafter, "P" is used to denote the source as primary data and "S" denotes a secondary data source, which is always attached with In Vivo coding (D1-P = bank D first interviewee, primary data source, D-S = bank D secondary data source). Exemplar responses from various respondents are indicated below for each of the themes and sub-themes.

4.1 Product Innovation

- **New Product Innovation**

The Manager - Product Development (A1-P) comments on the importance of having new financial products:

> *"To meet our customer expectations, we need to have a set of new products. Also, due to the changes in business environment, there is a need to introduce state-of-the-art products. So, we can stay stronger among competitors if we have new products in hand".*

Bank A introduced a next-generation paperless savings account which can be fully activated in a few minutes and embedded with instant features and facilities for the customers (A-S, 2015).

The Relationship Officer (A2-P) explains the introduction of new products which are attributed to product innovation:

> *"By introducing newly developed products, we can easily approach the customers. This will also help us to satisfy customer requirements in an effective manner. In the past, we did not want to do much innovation, but now it is inevitable".*

The Manager - Card Centre (A4-P) also discusses the concept of new product innovation:

> *"Our bank holds a reputation in the industry as some products which we introduced first time in the market even no one had thought about so far. From that strong leadership in new financial products, we are able to satisfy our valued customers".*

- **Modified Product Innovation**

The Manager - Product Development (A1-P) shares his views on modified product innovation:

> *"The modified products are imperative with the latest development of the industry.; without them, our rivals will take over our customers and finally we may lose our market. As such, innovation helps us to better satisfy customer requirements".*

Home loan products have been revamped in order to disburse the loans within 15 days. This requires just two visits to the bank and can be considered a revolution in the home loan industry (A-S, 2015). Furthermore, personal loans in the bank are very popular credit products as they consist of tailor-made schemes for the diverse segment of clientele (A-S, 2015). Saving products have also been reintroduced using a digital facility; customers do not want to carry the passbook to the bank. and the new easy banking at any branch is being seen as an unparalleled revolution in the banking industry (A-S, 2015).

The Relationship Officer (A3-P) expresses his view on product innovation in terms of modified products:

> *"We offer customised products mainly because of the seasonality, economic conditions, competition and ever-changing customers' requirements. Customising the products happens continually in our bank rather than introducing new products at all the time".*

The Manager - Card Centre (A4-P) explains the concept of modified financial products:

> *"We also introduce improved products which are mainly a modification of previous version. This may come with a promotion sometimes. As an example, the retailers who accept our cards tend to offer various concessions for card transactions, sometimes maybe a discounted price or a free insurance premium. So, the improved products give us an edge to reach customers in a very economical and straightforward manner".*

4.2 Process Innovation

- **Bricks and Mortar Banking Innovation**

The branch network is one of the major process innovation priorities in bank B. It has branches in every major centre in Sri Lanka, with a staff of over 2000 (B-S, 2015). The Branch Manager (B1-P) comments on bricks and mortar banking innovation:

> *"Our innovation in physical presence is very important. It means we still have to think about the innovation aspect of the branch network where our valued clients always meet. We have streamlined the processes for customer convenience ranging from front office to back office".*

Bank B has restructured the personal banking division with front and back office reporting lines (B-S, 2015). Following that, some of the back-office functions have been converted into an automation system which enables them to disseminate circulars electronically and activate retrieval on demand (B-S, 2015). In addition, selected sensitive back office functions (customer data, setting standing orders) are centralised (B-S, 2015). Bank B has extended its business hours based on local customs and the requirements of customers and introduced 365-day banking centres.

The Product Development Officer (B2-P) shares his view on bricks and mortar banking innovation:

> *"What I believe in as a banker, <u>front and back office process improvement</u> is still valid for the Sri Lankan market due to many factors. Personal interaction is a top priority in Sri Lankan culture, which bankers have to be especially keen on. Apart from that, through the <u>front and back office process improvement</u> we try to save time and cost for the bank through service quality improvement, customer convenience, elimination of non-value adding activities".*

The initiatives among bricks and mortar banking innovation in bank B includes establishing a credit administration unit to streamline back-office credit functions in the branches (B-S, 2015). Furthermore, in line with their innovation strategy, the bank has refurbished most branches with modern layouts availing greater convenience and offering superior customer service (B-S, 2015). As per another initiative, the bank has relocated the branches under new and existing regional area offices aligned with the competition (B-S, 2015). Furthermore, the bank has set up a branch supervision unit to bring uniformity and control among branches (B-S, 2015).

The Front Officer (B4-P) shares his views on bricks and mortar banking:

> *"My job is a part of <u>bricks and mortar banking</u> where we make decisions mostly mixed with innovative idea because innovation is a precondition in modern day bricks and mortar banking".*

Currently, the bank reviews all current processes in the bank to re-engineer and improve efficiency levels, enabling a faster and superior customer service (B-S, 2015). All branches are linked on a real-time basis with a core banking system to deliver a trusted and quality service to valued customers (B-S, 2015).

- **Digital Banking Platforms Innovation**

Even though bricks and mortar banking activities are important, there is a trend in the industry to move towards digital platforms, especially to SMS banking, mobile banking, internet banking and customer kiosks (B-S, 2015). Being one of the pioneer banks in Sri Lanka to launch web-based banking solutions to its clients, bank B has upgraded its internet banking system from time to time in the past, to provide more banking services to its valuable customers (B-S, 2015). A significant feature of every digital platform innovation is that the customer does not want to physically visit a branch (B-S, 2015).

The Branch Manager (B1-P) describes the digital banking innovation as:

> *"Recent development of technological capabilities allows banks to introduce new customer touch points, especially <u>innovative e-banking</u> facilities. It is clear that the younger generation has a huge propensity to convert to e-banking facilities, more than the mature generations. We have introduced online payment facilities, balance enquiry functions and many other services through e-banking. What we believe as a bank is, we must rely on multiple channels which may support us to reach the customer's vicinity".*

The first ever multilingual phone banking product in Sri Lanka was launched by bank B in 1998 (B-S, 2015). The facility is provided to customers free of charge for a lifetime. Account holders of the bank can register and use this facility in their preferred language of Sinhala, Tamil or English (B-S, 2015). Phone banking provides customers with account services, activation of cards, report of lost/stolen cards, interest rate inquiries and many other services (B-S, 2015).

The Product Development Officer (B2-P) explains his view on digital banking platform innovation:

> *"<u>Online banking</u> is one of the emerging trends in the Sri Lankan banking sector. <u>Online banking</u> finds convenience, time and place advantage over traditional banking methods. We have developed a customer friendly <u>online banking</u> platform which has complementary features to traditional banking. Moreover, we provide services on online banking by adding innovative features and promoting it by various sales tools".*

The new internet banking system enables customers to carry out their online transactions more conveniently and speedily (B-S, 2015). Furthermore, internet banking provides advanced functions such as placing fixed deposits, opening up savings accounts, fund transferring to other bank accounts, enhanced security with the introduction of a two-factor authentication/SMS-based one-time password (OTP) system to enhance transaction security (B-S, 2015).

Bank B initiated the SMS banking facility in 2004, enabling its customers to do their banking transactions via mobile phones instead of visiting the bank physically (B-S, 2015). However, the bank has revamped and upgraded the SMS banking system to meet the current requirements of the customers (B-S, 2015). The main facilities included in SMS banking are; clients get immediate notification of their credit/debit card transactions, standing order reminders and loan payment reminders. This facility is also considered to be a fraud prevention method for account holders (B-S, 2015).

The Front Officer (B4-P) explains his view on digital banking platforms innovation:

"We encourage our valued clients to use internet banking which will be an added advantage. If customers do not want to stick to banking hours, they can use this anywhere, anytime".

The bank's website was revamped and relaunched in an innovative manner, by way of crowdsourcing, a world's first by a bank, where customers were invited to cut the ribbon and launch the site online (B-S, 2015). The site has all the latest features and is mobile responsive. Some unique features are an online chat service, interactive calculators, online applications and secure socket layer certification (SSL) (B-S, 2015). Bank B implemented Sri Lanka's first ever social banking app through the Facebook platform, through which the bank proves itself as a truly digitally and socially engaged bank in Sri Lanka (B-S, 2015).

4.3 Organizational Innovation

Bank C's corporate culture and values are derived from its new vision which is 'to be the leading financial solutions provider sustainably developing individuals and businesses' (C-S, 2015). In addition, the bank demonstrates a team culture, where every individual is directly involved and accountable in realising the bank's overall vision (C-S, 2015).

- **Organizational Culture Innovation**

The Assistant Relationship Manager (C1-P) talks about the organizational innovation:

"If we want to be an innovative organization, strategic leadership is needed. As our strategic leadership provides the guidance for innovation, staff are well motivated for that".

The Manager - Bancassurance (C2-P) expresses his view on organizational innovation as:

"Generally, our bankers have good demand (are well-respected) in the industry. This is mainly because we trust in employees who grow themselves exponentially".

The bank's culture is embedded with values of professionalism, teamwork, openness, diversity, respect for individual values and recognition; each individual is respected, rewarded and recognised for his/her competence, capabilities and knowledge (C-S, 2015). The bank attracts the best of talent, develops a professional and collaborative work environment, promotes a culture of diversity and inclusion and provides opportunities for employees to work to their full potential and realise their personal career goals (C-S, 2015).

The Vice President - Employment Relations (C4-P) explains his idea about organizational innovation:

"From my domain in the bank, recognition of employees is a must for organizational innovation. If we can reward for innovative ideas, the encouragement of employees goes high. Happy internal customers help to create and earn external customers".

- **Organizational Learning Innovation**

The Manager - Bancassurance (C2-P) talks about the organizational innovation:

"From another perspective, I believe that organizational innovation can happen through the organizational learning process in which many innovative ideas come up".

The bank encourages internal mobility of staff and facilitates their move within and across divisions (C-S, 2015). Mandatory product knowledge quizzes are conducted via e-learning on a quarterly basis for the frontline staff to ensure that they have the requisite knowledge to perform their job functions effectively (C-S, 2015). It is encouraging to note that over the period the number of employees passing the assessment has steadily increased (C-S, 2015). However, the bank oversees new methods of engaging staff and will encourage them further with collaboration and innovation (C-S, 2015)

The Branch Manager (C3-P) talks about his view on organizational innovation as:

"Not only skilful staff, but also management competency provides a great influence on succeeding with the organizational innovation activities".

The Vice President - Employment Relations (C4-P) explains his view on organization innovation:

"Another key indicator of organizational innovation is knowledge sharing. It stimulates the internal people to explore new knowledge. As a result, this may count as a good input for organizational innovation".

4.4 Relationship Marketing

Commenting on her (D2-P, the Front Officer) knowledge about relationship marketing, she shares:

"Relationship marketing helps us to build a long-term relationship with customers. In other words, relationship marketing creates a win-win situation for both customers and the bank. Moreover, relationship marketing gives us tactics which may be employed during the relationship building and maintaining process".

Stating his idea about relationship marketing, the Manager - Product Development (D4-P) clarifies that:

"Relationship marketing is useful for enhancing the <u>interaction with our customers</u> who give us long-term profitability. However, this should not prompt opportunistic behaviour on our side to have the all the benefits. We are more likely create a win-win situation where both customers and the bank benefit. One of the major outcomes of relationship marketing is <u>customer retention,</u> which provides us with the required motivation to stay connected with customers".

4.5 Product Innovation and Relationship Marketing

The Assistant Relationship Manager (C1-P) discusses the combined concept of product innovation and relationship marketing:

"Product innovation ensures the highest customer satisfaction and retention. Product innovation has an impact on relationship marketing because if a customer matches with a new or a modified existing offer, his or her tendency to stick with the bank goes high".

The Branch Manager (C3-P) explains his idea about the relationship between product innovation and relationship marketing:

"As far as we fulfil our customers' needs through innovative products, we can enjoy a sustainable relationship with our valued customers. Customers nowadays are very dynamic and self-aware, so we need to understand and cater to their demands so that we can continue to build a long-term relationship".

4.6 Process Innovation and Relationship Marketing

The Manager - Bancassurance (C2-P) mentions the relationship between process innovation and relationship marketing:

"Processes that we have created and are going to be created are helpful for customer convenience and satisfaction. And then, in the long term, customers return to create a long-term relationship with our bank".

The Branch Manager (C3-P) comments on the idea about the relationship between process innovation and relationship marketing:

"Though we approach our customers either through conventional banking or digital banking, only one basic idea lies behind this. The idea is to build up a continuous relationship with customers. By looking at it from that angle, process innovation will enhance the capability of relationship marketing".

The Vice President - Employment Relations (C4-P) confirms the relationship between process innovation and relationship marketing:

"The success of the bank depends on the long-term relationship with our clients. Because of our internal process inefficiencies, we don't want our customers to waste their valuable time. That's why our processes are re-engineered with state-of-the-art techniques so that our service becomes available all the time. With the innovation, I can say that customers feel more attached to the bank through relationship marketing benefits".

4.7 Organizational Innovation and Relationship Marketing

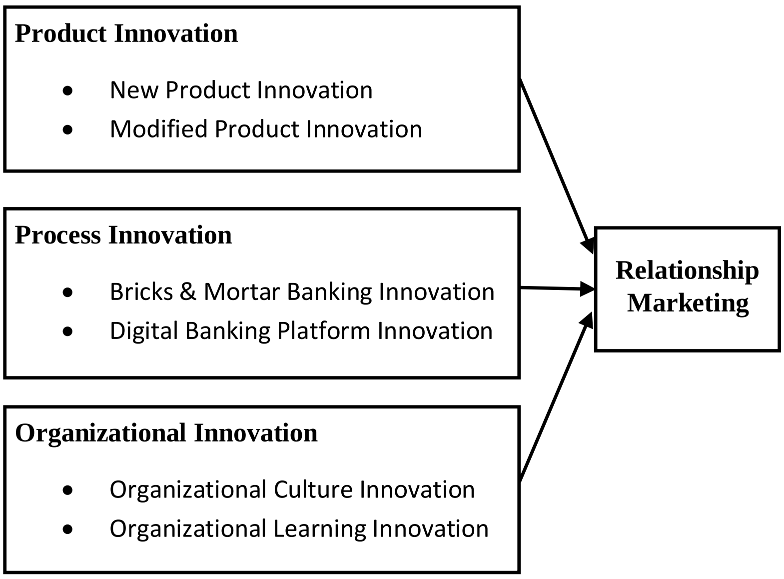
The Assistant Relationship Manager (C1-P) talks about the combined concepts of organizational innovation and relationship marketing:

"As an innovative bank, we accept the changes that come from innovation. These changes finally turn out to be an effective mechanism in order to create a long-term customer relationship".

The Manager - Bancassurance (C2-P) talks about the combined concepts of organizational innovation and relationship marketing:

"As I explained earlier, organizational learning fosters organizational innovation. So, the learning impact helps us to better understand our clients and create a sustainable relationship- meaning that organizational innovation improves the relationship marketing efforts".

Figure 1: Perceptions of Innovation-based Relationship Marketing (PIRM) Model



The PIRM models shows that retail bankers in Sri Lanka perceive that sustainable competitive advantage is promoted by relationship marketing, which in turn is promoted by three types of innovation: product innovation, process innovation and organizational innovation, with each of those types of innovation having two sub-themes, as shown in figure 1.

Considering the findings from the multiple case studies, it can be concluded that within the banking sector in Sri Lanka, the concept of PIRM is being implemented, both intentionally and unintentionally. As per the underlying principle of PIRM, relationship marketing, supported by innovation, will be one of the dynamic ways of achieving SCA. Individually, innovation and relationship marketing are sources of SCA; however, PIRM will be much more solid than the individual application of innovation and relationship marketing. According to the qualitative findings, each bank confirmed the importance of the PIRM concept in order to achieve a SCA. Based on bank A's results, respondents admit that PIRM is a kind of modern concept that helps to achieve SCA. Placing more emphasis on the PIRM concept, bank B equates the concept of PIRM with a double-bladed sword which can be used collectively. Respondents from bank C comment that the PIRM concept allows them to distinguish their products, processes and organizational systems from their close competitors. Thus, PIRM has a positive impact on the SCA. According to bank D, PIRM has great potential to excel in competitive advantage in the long run. In addition, respondents from bank D claim that PIRM should be much stronger than conventional methods of achieving SCA.

With the current advanced technologies, changing customer needs, shortening product life cycles and increasing global competition, product innovation becomes a difficult process (Günday *et al.*, 2011). As a result of product innovation, organizations can introduce innovative products or services (Johne, 1999), redesign, improve current products or extend current product lines (Kuczmarski, 1992). The decision to concentrate the empirical investigation in the retail financial market stems from the crucial importance of developing new offerings for the survival and wealth of financial companies nowadays (Avlonitis and Papastathopoulou, 2000). Cooper and De Brentani (1991) argue that new service products are key to the future growth and prosperity of financial institutions. Although innovation has been a "*critical part of the financial landscape over the past decades, its determinants remain poorly understood*" (Heffernan, Fu and Fu 2013, p. 3400). Thus, a new era of relationship marketing has emerged as having a long-term orientation and representing a win-win situation for the dyadic relationships of buyers and sellers (Agariya and Singh, 2011).

The Sri Lankan banking industry is experiencing a major transformation, with institutions adopting structures that keep them up to date in order to meet the demands and requirements of the customers (World Finance, 2017). When it comes to the banking scenario, two main processes are important: bricks and mortar banking and digital banking platforms. Though digital platforms are dominating the market, bricks and mortar banking is still accepted by the customers. Following initiatives in conventional banking, many retail financial institutions employ front line employees (FLEs) who continue to interact with customers (Gannage, 2014). Gannage (2014, p. 1) explains that "*the FLEs possess knowledge and skills and are privy to the resources of the firms in which they are employed*". FLEs act as mediators who solve specific customer issues "*by suggesting a* *new, previously unconsidered combination of products, discuss ways to integrate a new product with existing products or inspire customers with creative ideas*" (Maria Stock, Jong, and Zacharias, 2017, p. 223). Thus, "*innovative FLEs can create superior, pleasurable experiences for customers, featuring helpful services and novel approaches to leveraging the firm's offers*" (Maria Stock *et al.*, 2017, p. 223).

On the other hand, innovation in back-office functions is also critical to maintaining the banking function in a bank. The key back office functions are administrative activities, record maintaining, accounting and IT services. Polatoglu and Ekin (2001) demonstrate that internet banking lowers operational costs while increasing customer satisfaction and retention in the Turkish retail banking sector. According to Lambert (2009), relationship marketing is a strategic, process-oriented, cross-functional, and value-creating approach that interacts between buyers and sellers. Over the years, "*relationship marketing began to diverge rather than converge into a cohesive marketing practice or a discipline*" (Sheth, 2017, p. 3).

6. Recommendations

This research has got a few research limitations. Even though there are many types of innovation that may potentially influence relationship marketing, only product, process and organizational innovation have emerged from this research. This research adopts mainly cross-sectional research data (apart from secondary data for the case study), whereas panel data may be better placed to validate the actual implementation of PIRM within the Sri Lankan retail banking sector. Finally, PIRM has been considered from the provider's perspective; future endeavours should be also considered from the customer perspective. Future research should focus on investigating 'why' the PIRM model consists of such elements (new product innovation, modified product innovation, bricks and mortar banking innovation, digital banking platform innovation, organizational culture innovation and organizational learning innovation). Future research should also consider applying the research questions to other functional areas of the banking (corporate banking, micro-financing, insurance) business. The PIRM model should be tested in a developed country, ideally in the UK, to find out the robustness of the model. Finally, the PIRM model should not be limited to the banking sector; there is a need to find ways of applying it to other service sectors in the country. It may well be that the PIRM model could be applied to other banking functions, such as corporate banking, investment banking and micro-financing. Here, discussion of the PIRM concept has been limited to the bankers' and the banks' perspectives; future research should consider the customers' perspectives as well.

7. Conclusion

Even though a few research studies advocate the interaction between relationship marketing and innovation (Greer and Lei, 2012; Lagrosen, 2005; Lin *et al.*, 2010), the potential effects of PIRM, which explains the interaction between innovation and relationship marketing, have not yet been comprehensively addressed in the literature so far. Thus, the lack of any comprehensive theory for PIRM can be highlighted as an important shortcoming in the literature. The research confirmed that Sri Lankan retail bankers perceive innovation-based customer relationship marketing to be important and identified connections between the different forms of innovation and relationship marketing that they perceived as leading to sustained competitive advantage. Banks have reacted to challenges posed by new operating environments by creating fresh products and services and expanding the already existing ones, which has allowed them to diversify the product mix of their portfolios. Banks may use the PIRM model for training purposes to identify their strengths and weakness and to enable better customer retention. We aim to develop a psychometric Likert type questionnaire that encompasses all sub-themes of the PIRM model and that will be useful in assessing the relative importance of each sub-theme and the weight of the interactions between them. Such a questionnaire would also be useful for banks assess their own PIRM profiles. The connection of innovation with relationship marketing will lead to a new marketing phenomenon which may build a more comprehensive body of marketing knowledge (Panditharathna and Bamber, 2017).

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Research Status
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