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A Study of Customer Relationship Management (CRM) Practices in the Banking Sector in Maharashtra State



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ABSTRACT

The present economic conditions in India combined with globalization, promises extraordinary growth prospects. The banking industry has a very vital role to play in the given scenario. However, for a particular bank to succeed and grow, it has to make all its resources revolve around its customer. Now the time has come for the banks to focus on the needs of their customers and devise better means of fulfilling them. They will have to formulate marketing strategies in a way to not only acquire new customers but also retain them for the lifetime. Customer Relationship Management has emerged as a popular business strategy in today's competitive environment. It is a discipline, which enables the banking sector to identify and target their most profitable customers. It has been invented as a unique technique capable of remarkable changes in the total output of companies. Services are then provided in a timely manner using the channels that are preferred by the customers. Effective Customer Relationship Management focuses on the development of business strategies and aligns an organization to serve customers.



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A] INTRODUCTION

Peter F. Drucker the great management guru defined the modern concept of business as "To create customers". This is perhaps the shortest definition of the modern business or the changing concept of business but definitely not the simplest of definitions, for the phrase, to create customers, though sounds simple but has great implications. Here the customer is not the buyer who is one of the two parties in the sales transaction as a 'One-off' case but a person whose loyalty towards the organization has to be ensured. Peter F. Drucker has also quoted that "There are only two functions which generate revenue. These are marketing and innovation rest are all costs". We are in the age where business organizations are convinced that they have to innovate or perish. Therefore innovations can be seen in all the areas of organizational functions and more prominently in the field of marketing wherein marketing has taken a 'customer-centric' approach. Hence marketing is now oriented towards the strong and lasting relationship with individual customers. The strategy and process of acquiring, retaining and developing the close profitable relationship are called Customer Relationship Management (CRM).

REVIEW OF LITERATURE

This section deals with the gist of the available literature related to CRM or Relationship Management in Banking services or service sector written by both national and international authors and published in research journals, magazines, white papers, bulletins, books, etc.

D Ghosh Roy (2000) in his article titled "Relationship Marketing: Branch Level Perspective" has pointed out that the three levels of relationship marketing, i.e. Retention, Relationship and Bonding when practiced, helps a branch banker the utmost benefit from the existing customers in his branch. The article brings forth the fact that the higher the level in which relationship marketing is practiced, the greater the opportunity to create loyal customers and the most profitable of all customers. Further, the author highlights at level one relationship marketing the emphasis are on financial incentives, and it is the most easily imitated by competitors. At level two it adds the personal dimension to the relationship between the branch banker and his clients, and this is not so easily copied by the competitors. And at level three it adds structural solutions to customers' banking-related problems and will have the competitive edge. The author is of the opinion that those branch bankers who

provide all the three types of bonds the financial, social and structural and who generally deliver a high level of service will create more and more loyal customers.

Koushiki Choudhury, Avinandan Mukherjee and Ashish Banerjee (2001) in their research paper titled “Relationship Marketing Strategies and Customer Perceived Service Quality-A Study of Indian Banks” have observed that relationship marketing implies attracting, maintaining and enhancing customer relationships. It is beneficial because acquiring new customers is more costly than retaining existing ones, long-time customers tend to be less price-sensitive and provide free word-of-mouth advertising. The authors highlight that one of the determinants of the success of the relationship marketing strategies of a firm is how the customers perceive the resulting service quality. In India, with the onset of financial deregulation, banks are functioning increasingly under competitive pressures. In this era, in order to prosper, it will be imperative for banks to focus on developing long-term relationships with their customers. The paper explores as to what kind of relationship marketing strategies Indian banks are pursuing in today's highly competitive environment, and what is the effect of these strategies on service quality as perceived by the customer. The authors have developed a conceptual model of the impact of relationship marketing on customer perceived service quality.

Vinod Dumblekar (2001) in his research paper “Building Customer Relationships through Call Centers in Banking and Financial Services” is of the opinion that CRM is a philosophy that directs the organization to build its processes around its customer's needs. The Call Center is a CRM-embedded automation that builds long-term, strategic relationships with its customers. It assures high volume performance for organizations, and fast, consistent services for their customers. Banks and other financial services providers can benefit more than other industries because they deal in information and funds that are electronically transacted. The Call Center is a strategic investment, and therefore must be driven by top management. However, process changes, technology integration and absorption and regular cultural training are vital for the success of the investment⁴.

Anjana Grewal (2001), in her research paper titled “Winning Strategies and Processes for Effective CRM in Banking and Financial Services” has presented a case study on relationship management practices developed in a leading foreign bank in India in the early nineties. It is a practical paper providing insights on what makes it happen. A model has been developed thereafter. The model outlines ten stages of effective customer relationship

practices in financial services. These stages span across defining the customer relationship, understanding transaction behaviour and business volumes for different customers, developing a customer profitability model, creating the organizational structure to support relationship management practices, developing training programmes, relationship pricing and continuously evaluating the role of relationship managers.

BJ NEED AND IMPORTANCE OF THE STUDY

Customer Relationship Management (CRM) has become a globally recognized business practice and yet it is still loosely defined and rarely well defined. CRM means many different things to different people. It is possible to develop a greater understanding of it by looking at its origin and principles that drove its development. It was in 1990's that relationship marketing emerged when the true value of retention and the use of lifetime value as a business case were recognized. The present-day shows many practitioners in the CRM marketplace who understand the key concepts of CRM. However, the feedback from the clients and what we see in the marketplace paints a slightly different picture. In terms of what the future holds can be summarized as follows:

- Customer will play a significant role in managing the relationship
- Service model will continue to change
- The Web will create globalization
- Technology will consolidate
- Do we have what it needs to get there?
- Can end to end customer processes be developed?
- Is the best use of customer knowledge being made?
- Need to be proactive instead of reactive
- Recognize customer individuality

C] STATEMENT OF THE PROBLEM

In a market-driven economy, the consumer has occupied the central position. A large number of activities are directed towards attracting the customers. All industries are paying special attention towards customer relationship and have changed their mode of operation of dealing with their customers. Customer Relationship Management (CRM) gained recognition in the mid-1990's, primarily driven by its perception as Information Technology (IT). However not enough attention has been given to the fundamental drivers of CRM success: Strategy, metrics, and the organization. Hence this research study titled "**A Study of Customer Relationship Management Practices in Banking Sector in Maharashtra State**", which strives to explain how successful CRM works and why it is important to give customer utmost importance. It establishes a relationship and explains how the customer is important for the Banking Sector.

D] OBJECTIVES OF THE STUDY

1. To determine the approach being adopted by the Banking Sector in the research area for building the lifetime relationship with the customers.
2. To find out whether the different service organizations believe that their processes are customer-centric.

E] HYPOTHESIS OF THE STUDY

1. There is a significant difference in the customer centricity of the CRM processes implemented by different banks.

F] RESEARCH METHODOLOGY

In view of the objectives and hypotheses presented earlier the methodology adopted for the present study is elaborated as under:

Survey Method: The survey method was adopted in order to elicit relevant information pertaining to the CRM practices implemented in the banking. To begin with, a pilot survey was conducted to clarify and finalize the key issues. After the pilot survey, the selected banks were visited and responses were collected. A well designed comprehensive questionnaire was the research instrument that was self-administered. A separate survey of the customers was

also conducted. Information from the customers of these was also obtained with the help of a well designed self-administered questionnaire.

F.1] SAMPLE DESIGN

This study pertains to the study of CRM practices in the banking. The geographical scope of the study is the entire state of Maharashtra, the state was divided into following regions:

- a) Metropolitan area of the state i.e. Mumbai city
- b) Cosmopolitan area of the state i.e. Pune city
- c) Marathwada area i.e. Aurangabad city
- d) Vidarbha area i.e. Nagpur city

Using **Convenience Sampling Method**, five banks were selected for the study as shown in table 1.1 and using **Random Sampling Method** 250 customers selected for the study.

Table No. 1.1: Selection of Sample for Survey of Managers & Officers

Service Category (1)	Total Number of Organizations / Groups (2)	Number of Organizations Selected (3)	Number of Regions (Cities) (4)	Sample Size (3x4)
Banking	Public Sector Banks: 21 Private Banks: 22 Total: 43	05	05	25
Total Sample Size				25

Total Number of Managers/Officers surveyed: 25

Table No. 1.2: Selection of Sample for Survey of Customers

Service Category (1)	Number of Organizations Selected (2)	Number of Customers Selected (3)	Number of Regions (Cities) (4)	Sample Size (2x3x4)
Banking	05	50	05	1250
Total Sample Size				1250

Total Number of Customers surveyed: 1250

F.2] VALIDITY OF SAMPLE

1. The customer rating scale reliability was tested during the pilot survey of 100 customers using SPSS version 16.0 software. The results are: Cronbach alpha value = 0.8855, Correlation between 1st half and 2nd = 0.7758, Split-half reliability = 0.8739

2. Similarly for the management rating scale reliability was tested during the pilot survey of 10 managers/officers. The results are: Cronbach alpha value = 0.8930, Correlation between 1st half and 2nd = 0.9161, Split-half reliability = 0.9561

From the above results, it can be seen that the Cronbach alpha value is greater than 0.70. Hence the primary statistical data is reliable and valid for further analysis.

G] RESULTS AND DISCUSSIONS (TESTING OF HYPOTHESIS)

Hypothesis 1: There is a significant difference in the customer centricity of the CRM processes implemented by different banks.

To test this hypothesis, the one way ANOVA test is applied and the results are presented in the following table.

Table 5.74: Results of ANOVA Test between Customers belonging to different Banks (SBI, BOM, PNB, HDFC & ICICI) with respect to their Customer Centricity Scores

Source of variation	Degrees of freedom	Sum of squares	Mean sum of squares	F-value	P-value
Between banks	4	27874.72	6968.680	150.9257	0.0000*
Within banks	1245	57485.30	46.173		
Total	1249	85360.02			

*p<0.05

From the results of the above table, it can be seen that the customers belonging to different banks (SBI, BOM, PNB, HDFC and ICICI) differ statistically with respect to their customer centricity scores (F=150.9257, p<0.05) at 5% level of significance.

Hence, the set hypothesis is accepted.

It means that the customers belonging to different banks (SBI, BOM, PNB, HDFC, and ICICI) have different customer centricity scores.

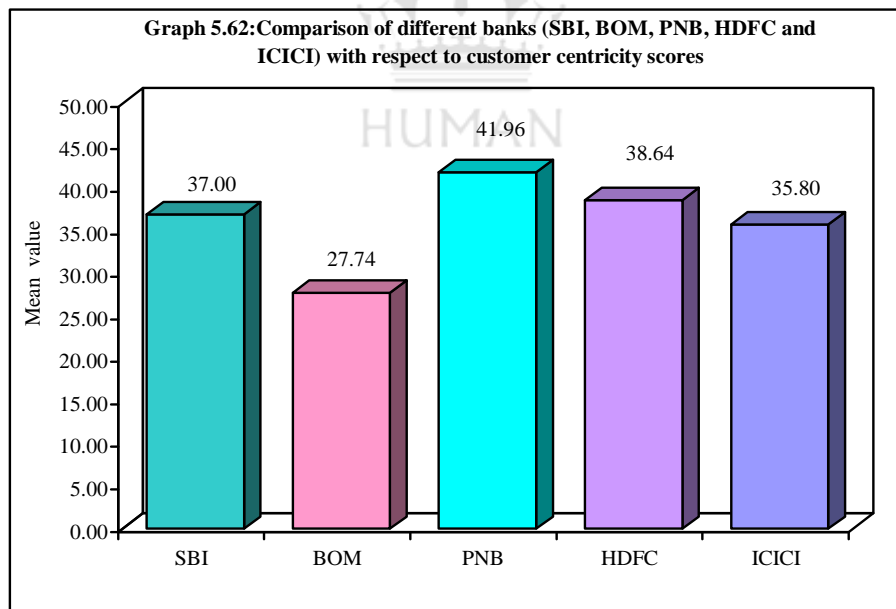
In the above test, since the value of F is significant, it is necessary to make a pairwise comparison of customers belonging to different banks (SBI, BOM, PNB, HDFC, and ICICI) with respect to their customer centricity scores by applying the Tukey's multiple post hoc procedures and the results are presented in the following table.

Table 5.75: Pairwise comparison of different banks (SBI, BOM, PNB, HDFC and ICICI) with respect to customer centricity scores by Tukey's multiple post hoc procedures

Banks	SBI	BOM	PNB	HDFC	ICICI
Mean	37.0000	27.7400	41.9600	38.6400	35.8000
SBI	1.0000				
BOM	0.0000*	1.0000			
PNB	0.0000*	0.0000*	1.0000		
HDFC	0.0542	0.0000*	0.0000*	1.0000	
ICICI	0.2785	0.0000*	0.0000*	0.0000*	1.0000

*p<0.05

The mean scores are also presented in the following Graph.



From the results of the above table, it can be seen that,

1. The customers belonging to SBI and BOM banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to SBI have rated the processes of their bank to be more customer centricity as compared to that of BOM.

2. The customers belonging to SBI and PNB banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to PNB have rated the processes of their bank to be more customer centricity as compared to that of SBI.
3. The customers belonging to BOM and PNB banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to PNB have rated the processes of their bank to be more customer centricity as compared to that of BOM banks.
4. The customers belonging to BOM and HDFC banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to HDFC bank have rated the processes of their bank to be more customer centricity as compared to BOM.
5. The customers belonging to BOM and ICICI banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to ICICI banks have rated the processes of their bank to be more customer centricity as compared to BOM banks.
6. The customers belonging to PNB and HDFC banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to PNB banks have rated the processes of their bank to be more customer centricity as compared to HDFC banks.
7. The customers belong to PNB and ICICI banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to PNB banks have rated the processes of their bank to be more customer centricity as compared to ICICI banks.
8. The customers belong to HDFC and ICICI banks differ significantly with respect to their customer centricity scores at 5% level of significance. It means that the customers belonging to HDFC banks have rated the processes of their bank to be more customer centricity as compared to ICICI banks.

It can be inferred from the above observations that the processes of PNB have been rated as most customer-centric as compared to that of SBI, HDFC, ICICI and BOM by the customers. Followed by HDFC, SBI, ICICI, and BOM.

I] SCOPE FOR FURTHER RESEARCH

Customer Relationship Management (CRM) being a relatively new discipline provides ample scope for further research studies. Some of the aspects of CRM that can be investigated are as follows:

- Development of metrics for measurement of CRM success at all levels of an organization.
- Development of a scale to measure the depth of relationship, stages of relationship development and underlying dimensions of the business relationship.
- Identifying the ideal timing (stage of a relationship) for undertaking cross-selling and up-selling.
- Each stage of the customer lifecycle also provides the opportunity for research.

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