CRM: A Competitive Tool for Indian Banking Sector

Dr. Madhu Jasola, JK Business School, SCO-25, Sector-14, Gurgaon-122001
e-mail: mjasola@yahoo.com, madhu.jasola@jkbschool.org

Shivani Kapoor, JK Business School, SCO-25, Sector-14, Gurgaon-122001
e-mail: kapoor_hbti@yahoo.co.in, shivani.kapoor@jkbschool.org

Abstract

Customer Relationship Management has emerged as a popular business strategy in today's competitive environment. It is a discipline which enables the companies to identify and target their most profitable customers. CRM involves new and advance marketing strategies which not only retain the existing customers but also acquire new customers. It has been invented as a unique technique capable of remarkable changes in total output of companies. While the concept of relationship marketing was formally introduced in early 90s when financial services, airlines and other service institutions stated to 'reward to retain' the existing customers by introducing loyalty programs, CRM is only a product of the late nineties. The purpose of this paper is to find the differences in an organization's services employing CRM vis a vis others, as perceived by the customer. It also tries to find out the relationship between perception and satisfaction, commitment and loyalty which underlines the significance of CRM in Indian banking sector.

Introduction

CRM has developed into a major corporate strategy for many organizations. It is concerned with the creation, development and enhancement of individualized customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life time value.

It is said that CRM is not a product or service, it is an overall business strategy that enables companies to effectively manage relationships with their customers. It provides an integrated view of a company's customers to everyone in the organization. With the intensified competition, companies realized that they have to treat their customers with respect. Customers have a lot more choices and they do not have to be loyal to any company. Companies are now trying to figure out ways to manage customer relationships effectively, not only to acquire new customers but also to retain their existing customers.

Shani and Chalasani (1992) define relationship marketing as an integrated effort to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period. Narrow functionally based traditional marketing is being replaced by CRM. A narrow perspective of CRM is database marketing emphasizing the promotional aspects of marketing linked to database efforts (Bickert 1992).

Berry (1995) stresses that attracting new customers should be viewed only as an intermediate step in the marketing process. Developing close relationships with these customers and turning them into loyal ones are equal aspects of marketing. Thus he proposed relationship marketing as attracting, maintaining and in multi service organizations- enhancing customer relationships. Berry's notion of customer relationship management resembles that of Gronroos (1990), Gummesson and Levitt (1981). Another important facet of CRM is customer selectivity. As several research studies have shown not all customers are equally profitable for an individual company (Storbacka 2000).

While ample literature is available on CRM today, hardly any information is forthcoming on the gains from CRM, whether for the organization or the customer, in concrete terms. No study has yet reported in precise form and figure, as to what and how much an organization, employing the CRM philosophy has benefited out of it, while the claims are many. Still more scarce is literature on what is in it for the customer. Is the customer gaining anything out of the exercise (CRM)? Does he feel that the

services handed out to him by a business corporation using CRM as a strategy is any better than others in the industry? In order to seek an answer to this question a survey on customer perceptions of service quality was carried out. The paper reports findings of the said survey.

Methodology

Considering that CRM is vastly employed in the service sector the banking sector was chosen for the purpose of the study. Two banks, one employing CRM and one not employing CRM were taken up in the present survey. Following interviews with the management, it was learnt that since CRM is taken as a catchword by business today, many organizations are vying to introduce it to differing extents.

Subsequently, a preliminary survey was conducted with about 30 customers in two banks. On the basis of the available information, an exhaustive questionnaire was developed. The instrument developed to measure customer perceptions related to bank's services included 23 items on reliability, responsiveness, empathy, tangibles, assurance in the lines of the SERVQUAL except that- 1) some items were dropped and replaced with new ones , which were more relevant to the study, 2) instead of using two questionnaires (as traditionally done; one for expectations and one for performance, the difference between first and second is said to be the service gaps) only one set was used and designed in such a way that it brought out the gaps between expectations and performance directly, as perceived by the customers. (This approach is not only simpler and more efficient, but also, has been held to be more authentic as direct gap measures have been found to be more significant predictors of satisfaction in numerous studies). Thus the items prepared on a 7 point scale read as, 'better than excellent banks' and 'worse than excellent banks'. Additionally, some items (again on a 7 point scale) were developed with a view to assess customer satisfaction, loyalty and commitment.

After initial testing, the instruments were finalized and administered on 120 customers (both individual and organizational customers) of the banks (equal number from each bank). The data relating to perceptions were subjected to factor analysis. All items except one, (i.e. 22) were found to be loaded in 5 factors (loading on

a factor>.35; Eigen value=1). Items loading on more than one factor were rearranged on the basis of the theoretical constructs- See tables (1-6).

Findings

Overall, customer perceptions are far more positive in the context of the bank employing CRM as compared to that not employing CRM. No noteworthy differences were found between perceptions of individual and organizational customers. The detailed report is as under.

Customer Perceptions of Service Quality

Factor 1 (Reliability): In all the items under reliability, two thirds of the respondents strongly believe that CRM bank is better than excellent banks while the corresponding figure for the other bank is only about one-fifth (Table 1).

The items falling in under the factor are-

1. CRM bank users (5.58) believe more strongly as compared to non-crm bank users (4.95) that the bank always abides by its promises of service quality and delivery; the difference is statistically significant (prob < .000).

2. CRM bank users (5.72) believe more strongly as compared to non-crm bank users (4.82) that the bank performs the services right at first time; the difference is statistically significant (prob < .000).

3. CRM bank users (5.5) believe more strongly as compared to non-crm bank users (4.88) that the bank provides the services at the time it promises to do so; the difference is statistically significant (prob < .003).

4. CRM bank users (5.7) believe more strongly as compared to non-crm bank users (4.93) that the bank has an easy to access communication network and means for all its customers irrespective of their location; the difference is statistically significant (prob < .000).

Factor 2 (Responsiveness): In all the items under responsiveness, atleast half of the respondents strongly believe that CRM bank is

better than excellent banks while only about one-fifth feel thus about non CRM bank (Table 2).

The responses on items falling under the factor are as follows-

1. CRM bank users (5.75) believe more strongly that the employees of the bank give prompt service. While non-crm bank users (4.58) tended to disagree; the difference is statistically significant (prob < .000).

2. CRM bank users believe more strongly as compared to non-crm bank users that behavior of the employees of the bank instills confidence in customers (5.73, 4.92); the difference is statistically significant (prob < .000).

3. CRM bank users believe more strongly as compared to non-crm bank users that the employees of the bank are consistently courteous (5.63, 4.8); the difference is statistically significant (prob < .000).

4. CRM bank users believe more strongly as compared to non-crm bank users that the bank has employees who give personal attention (5.43, 4.85); the difference is statistically significant (prob < .004).

Factor 3 (Empathy): In all the items under empathy, about two thirds of the customers interviewed believe that CRM bank is better than excellent banks while only one-third believe so in the case of non CRM bank (Table 3).

The responses on items falling under the factor are as follows-

1. CRM bank users believe more strongly as compared to non-crm bank users that when you have a problem the bank shows a sincere interest in solving it (5.63, 4.92); the difference is statistically significant (prob < .001).

2. CRM bank users believe more strongly as compared to non-crm bank users that employees of the bank are always willing to help (5.75, 4.7); the

difference is statistically significant (prob < .000).

3. CRM bank users (5.6) believe more strongly as compared to non-crm bank users (4.58) that employees of the bank are never too buys to respond to requests; the difference is statistically significant (prob < .000).

4. CRM bank users (5.65) believe more strongly as compared to non-crm bank users (5) that the bank has your best interests at heart; the difference is statistically significant (prob < .000).

5. CRM bank users (5.75) believe more strongly as compared to non-crm bank users (4.83) that the bank has guidance signs indicating as to which counters are offering which services; the difference is statistically significant (prob < .000).

6. The responses of crm bank users and non-crm bank users are somewhat similar (5.53 and 5.13) on the item that the bank understand your specific needs but the difference is not significant (prob < .075).

Factor 4 (Tangibles): In the items under tangibles, about half of the respondents strongly believe that CRM bank is better than excellent banks while the corresponding figure for non CRM bank was one-third (Table 4).

The responses on items falling under the factor are as follows-

1. The responses of crm bank users and non-crm bank users are somewhat similar (4.95 and 4.9) on the item that the bank has places to sit and wait but the difference is not significant (prob < .83).

2. CRM bank users (6) believe more strongly as compared to non-crm bank users (4.62) that the bank is neat and clean; the difference is statistically significant (prob < .000).

3. CRM bank users (5.75) believe more strongly as compared to non-crm bank users (5.12) that employees of the bank

are neat in appearance; the difference is statistically significant (prob < .001).

Factor 5 (Assurance): In all the items under assurance, more than two thirds of the customers strongly believe that CRM bank is better than excellent banks while only about a quarter of those in non CRM bank are of this opinion (Table 5).

The responses on items falling under the factor are as follows-

1. CRM bank users (5.75) believe more strongly as compared to non-crm bank users (5.02) that the bank has cordial front ranking staff (security personnel etc); the difference is statistically significant (prob < .000).

2. CRM bank users (6) believe more strongly as compared to non-crm bank users (5.1) that you feel safe while doing transactions with the bank; the difference is statistically significant (prob < .000).

3. CRM bank users (5.93) believe more strongly as compared to non-crm bank users (5.12) that employees of the bank have the knowledge to answer questions; the difference is statistically significant (prob < .000).

Miscellaneous: In all the items under miscellaneous, about two-third of the respondents strongly believe that the bank practicing CRM is better than excellent banks while about one fifth of non practicing CRM customers believe so (Table 6).

The responses on items falling under the factor are as follows-

1. CRM bank users (mean 5.9) believe more strongly as compared to non-crm bank users (mean 4.85) that physical facilities at the bank are visually appealing; the difference is statistically significant (prob < .000).

2. CRM bank users (5.92) believe more strongly that the bank insists

on error free records. While non-crm bank users (4.72) tended to disagree; the difference is statistically significant (prob < .000).

Individual customer and Organizational customers

When the data was split into individual and organizational customers (IC & OC respectively), it was noticed that the two did not differ in their perceptions on most of the items/factors. However, the mean score of individual customers were generally higher than those of the organizational customers (overall means IC ==118.62, OC=113.88), and this differences was a little more pronounced in the CRM bank customers (IC==128.07, OC=122.27) as compared to non-CRM banks (IC==109.17, OC=105.5).

Satisfaction

CRM bank users (mean 5.62) are more satisfied with the banks, services as compared to non-crm bank users (mean 4.73);the differences is statistically significant (prob<.000).

Loyalty

1. CRM bank users (mean 5.75) agree more strongly as compared non-crm bank users (mean 4.65) that in comparison to other banks where they also hold some accounts they would like to deal more with this bank; the difference is statistically significant (prob <.000).

2. CRM bank users (mean 5.9) agree more strongly as compared non-crm bank users (mean 5.02) that in comparison to other banks where they also hold some accounts they would like to continue their transaction with this bank in times to come ; the difference is statistically significant (prob <.000).

3. CRM bank users (mean 5.77) agree more strongly as compared non-crm bank users (mean 5.1) that they would like to transact more with this bank in comparison to other banks because of the good service quality delivered ; the

difference is statistically significant (prob <.001).

4.   CRM bank users (mean 5.63) agree more strongly as compared non-crm bank users (mean 4.78) that if the bank offers more value added services in future times they will buy them; the difference is statistically significant (prob<.000).

5.   CRM bank users (mean 5.72) agree more strongly as compared non-crm bank users (mean 4.77) that if the bank offers a differently category of financial or non financial services they will buy them; the difference is statistically significant (prob <.035).

Commitment

1.   CRM bank users (mean 5.87) agree more strongly as compared non-crm bank users (mean 5.28) that they have a deep trust in the bank ; the difference is statistically significant (prob <.001).

2.   CRM bank users (mean 5.17) agree more strongly as compared non-crm bank users (mean 3.72) on the item that they do not know what they would have done without this bank ; the difference is statistically significant (prob <.000).

Cross Analysis Between Perceptions & Other Variables

1. Perceptions & Other Variables

i) Perceptions and Satisfaction

Perception was found to be significantly correlated with satisfaction (r=.331, p<.05). That is, satisfaction is higher when perception with regard to the bank is more favorable.

ii) Perceptions and Loyalty

Perception was found to be significantly correlated with loyalty(r=.351, p<.05). That is, repeat purchase intention is stronger when perception with regard to the bank is more favorable.

iii) Perceptions and Up-buy

Perception was found to be significantly correlated with up-buy (r=.36, p<.05). That is, intention   to buy upgraded service is stronger when perception with regard to the bank is more favorable.

iv) Perceptions and Cross Loyalty

Perception was found to be significantly correlated with cross loyalty(r=.369, p<.05). That is, cross buying intention is stronger when perception with regard to the bank is more favorable.

v) Perceptions and Commitment

Perception was found to be significantly correlated with commitment (r=.497, p<.05). That is, commitment is higher when perception with regard to the bank is more favorable.

2. Satisfaction & Other Variables

i) Satisfaction and Loyalty

Satisfaction was found to be significantly correlated with loyalty (r=.327, p<.05). That is, loyalty is higher when the customer is more satisfied .

ii) Satisfaction and Commitment

Satisfaction was found to be significantly correlated with commitment (r=.242, p<.05).That is, commitment is higher when the customer is more satisfied .

3.   Loyalty and Commitment

Loyalty was found to be significantly correlated with commitment (r=.318, p<.05). That is, higher the commitment higher will be the loyalty.

It was further observed that most of the above correlations were far stronger among individual customers as compared to organizational customers, perhaps for the reason that while the individual runs his own account and is responsible for himself and free to take decisions regarding future operations in the bank, the latter is not; while he operates the account, it is his

supervisor who possesses the authority to decide such issues (Table 7).

Discussion and Conclusion

In a nutshell, it is observed that customers in the CRM bank rate its services far more favorably than those in the non-CRM which is an indicator of the superior level of services in the former. This could be further attributed to CRM- a closer understanding (of) and individualized service to the customer. And highlights the impact of CRM on (perceived) service quality. Furthermore, there does not appear any major difference in perception among the individual and organizational customers, except for a relatively lower rating by the latter which perhaps, suggests that they come forth with higher expectations. However, since the difference is not significant, it may not be noteworthy in terms of organizational strategy, on the part of the (bank) management.

Also, there is a direct relationship between perception and satisfaction, commitment and loyalty which underlines the significance of CRM in service industry. For those planning to up-sell and cross-sell, raising customer perceptions is all the more important. And employing CRM may only strengthen the relationship between perceptions and up-buying and cross-buying which is all in support of introducing CRM in service sector.

Table 1

Customer Perception of Service Quality (Reliability)

SNo. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. The bank always abides by its promises to service quality and delivery.	PC	6	40	42	12	100	5.58
	NC	22	53	23	2	100	4.95
2. The bank performs the services right at first time.	PC	3	33	52	12	100	5.72
	NC	25	52	20	3	100	4.82
3. The bank provides the services at the time it promises to do so.	PC	13	30	42	15	100	5.5
	NC	22	55	20	3	100	4.88
4. The bank has an easy to excess communication network & means, for all its customers, irrespective of their location.	PC	2	40	45	13	100	5.7
	NC	17	63	20	__	100	4.93

Table 2

Customer Perception of Service Quality (Responsiveness)

SNo. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. Employee of the bank give you prompt service.	PC	7	28	45	20	100	5.75
	NC	27	55	18	__	100	4.58
2. The behavior of the employees of the bank instills confidence in customer.	PC	7	30	45	18	100	5.73
	NC	21	58	18	3	100	4.92
3. Employees of the bank are consistently courteous with you.	PC	5	37	48	10	100	5.63
	NC	27	45	23	5	100	4.8
4. The bank has employees who give you personal attention	PC	8	43	42	7	100	5.43
	NC	27	47	18	8	100	4.85

Table 3
Customer Perception of Service Quality (Empathy)

S. No. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. When you have a problem, the bank shows a sincere interest in solving it.	PC	10	30	43	17	100	5.63
	NC	22	48	25	5	100	4.92
2. Employees of the bank are always willing to help you.	PC	6	32	42	20	100	5.75
	NC	30	52	13	5	100	4.7
3. Employees of the bank are never too busy to respond to your requests.	PC	7	38	42	13	100	5.6
	NC	29	52	17	2	100	4.58
4. The bank has your best interest at heart.	PC	3	40	45	12	100	5.65
	NC	20	48	27	5	100	5.00
5. The bank has guidance signs indicating as to which counters are offering which services.	PC	3	35	45	17	100	5.75
	NC	28	45	22	5	100	4.83
6. Employees of the bank understand your specific needs.	PC	10	28	47	15	100	5.53
	NC	19	37	37	7	100	5.13

Table 4
Customer Perception of Service Quality (Tangibles)

SNo. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. The bank has places to sit and wait.	PC	23	38	27	12	100	4.95
	NC	23	50	25	2	100	4.9
2. The bank is neat and clean.	PC	2	20	55	23	100	6
	NC	34	43	20	3	100	4.62
3. Employees of the bank are neat in appearance	PC	3	37	42	18	100	5.75
	NC	16	50	22	12	100	5.12

Table 5

Customer Perception of Service Quality (Assurance)

SNo. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. The bank has cordial front ranking staff(security personnel etc.)	PC	11	27	37	25	100	5.75
	NC	16	55	22	7	100	5.02
2. You feel safe while doing transaction with the bank.	PC	2	20	55	23	100	6
	NC	14	55	28	3	100	5.1
3. Employees of the bank has the knowledge to answer your requests.	PC	__	30	47	23	100	5.93
	NC	21	58	18	3	100	5.12

Table 6

Customer Perception of Service Quality (Miscellaneous)

SNo. / Statement		VP –U (%)	Fair (%)	Good (%)	V. Good (%)	Total (%)	Mean Score
1. The physical facilities at the bank are visually appealing.	PC	2	28	48	22	100	5.9
	NC	25	52	18	5	100	4.85
2. The bank insist on error free records.	PC	2	25	53	20	100	5.92
	NC	20	60	5	15	100	4.72

Table 7

Individual customers and organizational customers: Correlational differences

Correlation between Variables	Individual Customers	Organizational Customers
Satisfaction & Loyalty	.49	.18
Loyalty & Commitment	.45	.20
Satisfaction & Commitment	.34	.12
Satisfaction & Perception	.34	.28

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