Chapter I

INTRODUCTION

1.1 Background of the study

Customer Relationship Management (CRM) is an emerging trend in the business community. It is one of the fastest growing business practices in today’s environment. It is different from the conventional marketing where the client and the producer position each other to achieve short term business goals. It enables the business community to view their customer’s requirements in a more personalised way. Marketers began to realise that building up healthy and long term relationship with customers is the only way to stand out in the ‘crowd’ and to survive. Hence they started adopting Customer Relationship Management practices.

CRM involves the activities a business perform to identify, acquire, develop and retain increasingly loyal customers by delivering the right product/services, to the right customer, through the right channel at the right time. For a successful company or organisation, customers are the most important people, whose needs and expectations are to be properly taken care of. Many big organisations are investing in managing the relations through Customer Relationship Management. It helps the organisation to meet the customer requirements, by using appropriate processes and procedures. The key goal of Customer Relationship Management is to efficiently and effectively increase the acquisition and retention of customers by selectively building and maintaining mutually satisfying relationship with them. The CRM practices have direct impact on customer satisfaction ratings and can lead to customer retention and loyalty.

This research involves a detailed study of the Customer Relationship Management practices of select Commercial Banks (CBs) and Housing Finance Companies (HFCs) in Kerala.

Since the population is increasing day by day, housing problems of people are also increasing. Lack of adequate funds for the purchase of house, construction, alteration of house and purchase of plot for the construction of house are the major problems faced by people. Housing finance is a need for the society. As per the RBI
monthly Bulletin May 2013, Urban India in 2012 had an estimated short fall of about 19 million houses. Most of the housing shortage is obviously for the people belonging to economically weaker section (56%) and low income group (39%). In the earlier days there were no solutions for the lack of funds other than some individual money lenders. In due course of time, specialized agencies for lending housing finance came into existence. The history of Housing Finance Institutions (HFIs) started with the establishment of Housing and Urban Development Corporation (HUDCO) in the year 1971. Housing Development Finance Corporation (HDFC) which started in the year 1977 was the first private sector retail Housing Finance Institution. In 1988, National Housing Bank (NHB) was started, as an Apex regulatory and supervisory body/refinancing agency for housing finance. In late 1980s and in early 1990s, public & private sector banks and Housing Finance Companies promoted by Insurance Companies entered into the Housing Finance sector. In late 1990s, Commercial Banks actively entered into direct lending for housing finance. Now various Financial Institutions such as Commercial Banks, Housing Finance Companies, Co-operative sector Institutions, Non-Banking Financial Institutions, Governmental and Non-Governmental agencies are operating in the Housing Finance sector.

From 2008 onwards, players in Housing Finance sector realized that, housing finance is not a commoditized business and that it needs more attention towards the customer viewpoint or the business need to be more customer centric. As a result, players in this industry started adopting Customer Relationship Management techniques to attract and retain their customers with the purpose of providing best service to their customers. Through this, they aimed at increased customer satisfaction and customer loyalty.

1.2 Statement of the problem

In recent years, many organisations have started recognising the need to be more customer centric (Bull, 2003). Hence CRM is an area receiving a higher level of priority by organisations. Hen Kotler and Amstrong (2004) defined CRM as the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. According to Fayerman (2002),
Customer Relationship Management is a customer oriented business strategy that aims to increase customer satisfaction and customer loyalty by offering more responsive and customized service to each customer.

In the case of Housing Finance sector of Kerala, Commercial Banks and Housing Finance Companies are the major players in lending housing finance. Commercial Banks and Housing Finance Companies differ with regard to their customer base. Their CRM practices are also different. From the literature review, it was found that not many studies have been done so far in the area of understanding the CRM practices of Commercial Banks and Housing Finance Companies operating in Housing Finance sector. The relevance of CRM in Housing Finance sector is increasing. So there is a need to do a study on the CRM practices of Commercial Banks and Housing Finance Companies in Kerala. For this, it is necessary to understand the role of select Commercial Banks and Housing Finance Companies in providing housing finance in Kerala. The profile of customers availing housing finance from select Commercial Banks and Housing Finance Companies in Kerala is to be prepared. The Customer Relationship Management (CRM) practices followed in select Commercial Banks and Housing Finance Companies should also be identified for this purpose. Hence the problem of the research can be stated as “What are the Customer Relationship Management practices followed by select Commercial Banks and Housing Finance Companies in Kerala and how these practices can be improved?”

1.3 Scope of the study

As per 2011 senses, population of Kerala is more than 3 crores. But the number of house holds is only 83 lakh. It is estimated that housing needs for the additional requirement for new population during the 12th plan period is 6.5 lakhs. In addition to this there is a need for reconstruction of 5.5 lakh units of dilapidated houses. To fill up the gap between demand and supply with special focus on weaker sections of the society, the state government is providing support through its various programmes. Housing Finance sector in Kerala consists of Housing Finance Institutions and Governmental and Non-Governmental agencies. A large number of Housing Finance Institutions have been providing assistance for house construction
along with the agencies in the Housing sector. Housing Finance Institutions include HUDCO, GIC Housing finance, HOUSEFED, Co-operative Banks, Commercial Banks and Housing Finance Companies. The agencies include Kerala State Housing Board, Kerala State Co-operative Housing Federation, Kerala State Development Corporation for SC/ST, SC/ST development department, Fisheries department, Directorate of Sainik Welfare, Labour department, Rural development department (including Kudumbasree, which implements Ashraya housing scheme for destitute), Kerala State Co-operative Housing federation and Kerala Police Housing & Construction Corporation.

This research covers the role of Commercial Banks and Housing Finance Companies in providing housing finance in Kerala, the profile of customers availing housing finance from select Commercial Banks and Housing Finance Companies and the comparison of the Customer Relationship Management practices followed by the HFIs from the perspective of customers and employees.

For the purpose of this study, State Bank of Travancore, Union Bank of India, Federal Bank Ltd and North Malabar Gramin Bank (It has to be noted that North Malabar Gramin Bank was later renamed as Kerala Gramin Bank) were selected from among the Commercial Banks and HDFC Ltd and LIC Housing Finance Ltd were selected from among the Housing Finance Companies. Here after in this thesis State Bank of Travancore will be referred as ‘SBT’, Union Bank of India as ‘Union Bank’, Federal Bank Ltd as ‘Federal Bank’, North Malabar Gramin Bank as ‘NMGB’, Housing Development Finance Corporation Ltd as ‘HDFC Ltd’ and LIC Housing Finance Ltd as ‘LIC HFL’.

Factors such as Customer focused information technology (CFIT), Customer focused organisational climate (CFOC), Relationship marketing (RM), CRM strategy and Knowledge management (KM) were considered. Under Customer focused information technology, User friendly website and IT enabled communication services were included. Customer friendly employees, Customer orientation and Simplicity of doing business are the factors considered under Customer focused organisational climate. Relationship marketing consists of factors like Trust, Competence, Commitment to customers, Customer interaction and
Conflict handling, Customer acquisition/expansion strategy, Customer retention strategy and Value creation strategy were coming under CRM strategy. Customer preferences and expectations were studied under Knowledge management. This study was done by collecting data from the customers and employees of select HFIs located in select districts of Kerala.

1.4 Significance of the study

The relevance of Customer Relationship Management in Housing Finance sector is increasing. CRM helps Housing Finance Institutions in tracking customer interests, needs, likes, dislikes, tastes and preferences on a continuous basis and helps in the formulation of dynamic marketing strategies. CRM help in improvements of customer service to facilitate long term sustained customer satisfaction. CRM paves the way for increased customer satisfaction, improved customer loyalty and enhanced customer retention.

Many organisations have recognized the increased importance of CRM. Hence they resort to innovative CRM practices. But there is a serious dearth of research based on empirical data about the CRM practices in Housing Finance sector especially in the context of Kerala. This research aims at comparing the CRM practices of select Commercial Banks and Housing Finance Companies in Kerala. The outcomes of the study would help to enhance the body of knowledge pertaining to the CRM practices in Housing Finance sector and HFIs can decide their CRM strategies accordingly. Hence the study is significant in the context of Housing Finance sector in Kerala.

1.5 Objectives of the study

The objectives of this study are:

i. To study the role of select Commercial Banks and Housing Finance Companies in providing housing finance in Kerala.

ii. To understand the profile of customers availing housing finance from select Commercial Banks and Housing Finance Companies in Kerala.

iii. To make a comparison of the CRM practices in Commercial Banks and Housing Finance Companies selected for the study.
iv. To study about the CRM practices of select Housing Finance Institutions from the employee’s perspective.

v. To give suggestions to improve the CRM practices of Commercial Banks and Housing Finance Companies considered for the study.

1.6 Variables used for the study

The Researcher has reviewed journal articles, books and Ph.D theses to identify the variables to be included in the study. Based on this, following major variables were identified. Under each major variable, a number of minor variables were also identified. The table given below shows the major and minor variables used for the study.

<table>
<thead>
<tr>
<th>SI No</th>
<th>Major Variables</th>
<th>Minor Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Customer Focused Information Technology</td>
<td>Computerised decision support system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>User friendly website</td>
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<tr>
<td></td>
<td></td>
<td>IT enabled communication services</td>
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<td>2</td>
<td>Customer Focused Organisational Climate</td>
<td>Customer friendly employees</td>
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<tr>
<td></td>
<td></td>
<td>Customer services</td>
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<tr>
<td></td>
<td></td>
<td>Customised products and services</td>
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<td></td>
<td></td>
<td>Simplicity of doing business</td>
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<tr>
<td>3</td>
<td>Relationship Marketing</td>
<td>Trust</td>
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<tr>
<td></td>
<td></td>
<td>Competence</td>
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<td></td>
<td></td>
<td>Commitment to customers</td>
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<td></td>
<td></td>
<td>Customer interaction</td>
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<td></td>
<td></td>
<td>Conflict handling</td>
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<td>4</td>
<td>CRM Strategy</td>
<td>Customer acquisition/expansion strategy</td>
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<td></td>
<td></td>
<td>Customer retention strategy</td>
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<td></td>
<td></td>
<td>Value creation strategy</td>
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<tr>
<td>5</td>
<td>Knowledge Management</td>
<td>Customer preferences and expectations</td>
</tr>
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<td></td>
<td></td>
<td>Customer information management</td>
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<td></td>
<td></td>
<td>Dissemination of customer information</td>
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</tbody>
</table>

Source: Compiled from Literature reviewed
1.7 Research model

1.8 Hypotheses

1. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Customer focused information technology.

2. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Customer focused organisational climate.

3. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Relationship marketing.

4. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Knowledge management

5. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Customer satisfaction.

6. \(H_0\): There is no significant difference between the customers of CBs and HFCs regarding their opinion about Customer satisfaction.

7. \(H_0\): There is no dependence between Customer satisfaction and various services provided by Commercial Banks.

8. \(H_0\): There is no dependence between Customer satisfaction and various services provided by Housing Finance Companies.

9. \(H_0\): There is no significant difference among the customers of HFIs regarding their opinion about Customer loyalty.

10. \(H_0\): There is no significant difference between the customers of CBs and HFCs regarding their opinion about Customer loyalty.
11. \( H_0 \): There is no dependence between Customer loyalty and various services provided by Commercial Banks.

12. \( H_0 \): There is no dependence between Customer loyalty and various services provided by Housing Finance Companies.

13. \( H_0 \): There is no significant difference in the mean values of set of variables describing Customer focused information technology of employees of HFIs.

14. \( H_0 \): There is no significant difference in the mean values of set of variables describing Customer focused organisational climate of employees of HFIs.

15. \( H_0 \): There is no significant difference in the mean values of set of variables describing Relationship marketing of employees of HFIs.

16. \( H_0 \): There is no significant difference in the mean values of set of variables describing CRM strategy of employees of HFIs.

17. \( H_0 \): There is no significant difference in the mean values of set of variables describing Knowledge management of employees of HFIs.

1.9 Operational definitions

i. Customer Relationship Management

Customer Relationship Management is a comprehensive process of acquiring, retaining and partnering with selective customers to create superior value for the company and with the customer.

ii. Commercial Banks

Commercial Banks refer to both scheduled and non-scheduled Commercial Banks which are regulated under Banking regulation Act 1949. Scheduled Commercial Banks are grouped under following categories.

a. SBI and its associates

b. Nationalised Banks

c. Foreign Banks
d. Regional Rural Banks

e. Private Sector Banks

A Scheduled Commercial Bank is a bank that is listed under the second schedule of the RBI Act 1934.

iii. Housing Finance Companies

Housing Finance Company is a company registered under the Companies Act, 1956, which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly.

iv. Housing Finance Institutions

In this study the term ‘Housing Finance Institutions’ (HFI) refers to the Commercial Banks and Housing Finance Companies which provide housing loan. It includes SBT, Union Bank, Federal Bank, NMGB, HDFC Ltd and LIC HFL selected for the purpose of the study.

v. Housing Loan

Housing loan is the loan availed by the individual customers for the construction of a house or flat for residential purpose/repair and renovation of existing flat/house, purchase/alteration of a house or purchase of a plot for the construction of a house.

vi. Customers

In this study, customers means those who availed housing loan from Commercial Banks and Housing Finance Companies. It includes customers who availed housing loan from SBT, Union Bank, NMGB, Federal Bank, HDFC Ltd and LIC HFL.

vii. Customer Focused Information Technology

Customer focused information technology is the Information Technology that is deployed for better management of customer relationships. It includes front office applications that may support sales, marketing and service; a data storage and back office applications that may integrate and analyse data about customers.
viii. Customer Focused Organisational Climate

Organisational climate is the feeling in the air that one gets from walking around a company. Organisational climate reflects shared beliefs and values in an organisation in terms of its system, practices and leadership style. It represents the shared beliefs and values among company employees regarding the organisation’s focus on customer value and customer service as key to success.

ix. Relationship Marketing

Relationship marketing is an interactive process/strategy used to establish, maintain and enhance relationship with customers and other partners at a profit so that the objectives of the parties involved are met. It includes organisational trust, competence, commitment, communication and conflict handling.

x. Customer Relationship Management Strategy

CRM strategy refers to the strategies that firms use to identify, acquire and retain profitable customers.

xi. Knowledge Management

Knowledge management includes knowledge learning and generation; knowledge dissemination and sharing; and knowledge responsiveness. Knowledge can be understood as what has been learned from experience or empirical study of customer data.

1.10 Limitations of the study

This study was done by collecting data from 720 customers and 180 employees of select Commercial Banks and Housing Finance Companies located in randomly selected districts across the three regions of Kerala. Hence the findings of this study are applicable only to the Commercial Banks and Housing Finance Companies considered for the study.
1.11 Scheme of presentation of thesis

The thesis is presented in nine chapters. The scheme of presentation is as follows:

Chapter I- Introduction

This chapter details about background of the study, statement of the problem, scope, significance, objectives, variables, hypotheses, operational definitions, limitations and scheme of presentation of the report.

Chapter II- Review of Literature

This chapter covers the literature reviewed by the researcher. The researcher has reviewed journal articles, books and Ph.D theses relating to Customer Relationship Management and housing finance. Customer focused information technology, Customer focused organisational climate, Relationship marketing, CRM strategy, Knowledge management, Customer satisfaction and Customer loyalty are the major variables used for the study. The reviews of journal articles, theses and books done for the study are presented in this chapter.

Chapter III- Theoretical Frame work

The theoretical concepts related to Customer Relationship Management are included in this chapter.

Chapter IV- Housing Finance Industry – A Profile

This chapter describes about the evolution and development of Housing Finance Industry, Regulatory bodies of housing finance in India, Indian Housing Finance Industry, Housing Finance Industry in Kerala and the Housing Finance Institutions selected for the study.

Chapter V- Research Methodology

The purpose of this chapter is to explain the methodology used for undertaking the study. The nature of the study, sample design, sources of data, methods of data collection and analysis done on the data collected are included in this chapter.
Chapter VI- Data Analysis and Interpretation

This chapter has two parts: Part I and Part II. Part I deals with the analysis of the Profile of Customer respondents’ and their opinion about organisation’s CRM practices. Part II deals with analysis of the profile of employee respondents’ and their opinion about organisation’s CRM practices. The statistical tools used were Descriptive Analysis, Independent Samples ‘t’-test, Multiple Linear Regression, One-way ANOVA and MANOVA.

Chapter VII- Findings

This chapter describes the findings of the study. It contains two sections. First section of the chapter contains the findings from the analysis of profile of customer respondents’ and their opinion about organisation’s CRM practices. Second section deals with the findings of the analysis of the profile of employee respondents’ and their opinion about organisation’s CRM practices.

Chapter VIII- Future Scope and Conclusion

Future scope and conclusion based on study findings are included in this chapter.

Chapter IX – Suggestions

This chapter contains the suggestions based on the findings of the study.
Reference


4. Working Group on Rural Housing for 12th Five Year Plan, Ministry of Rural Development, India