CHAPTER-1

1.1 Background and Nature of the Problem:

This first chapter of the dissertation presents the background of the “A comparative study of relationship management among selected commercial banks in Nairobi (Kenya) and Pune (India).” It specifies the problem of the study describes its significance and presents the hypothesis to be tested. The project is titled “relationship management” as the term identifies relationships as not only having marketing functionality, but highlights the importance of management systems and process underpinning effective relationships.

Liberalization, privatization and globalization have changed customer relationship management in banks. The process of globalization and our move towards global standards have changed the perception of customer service and the bank’s endeavor to serve the customer better has resulted in innovative banking services. Banks are looking for more and more interaction with customers to build customer relationship. However, to deliver an improved and in-depth understanding of customer’s wants and needs a fully integrated customer management system, along with a complete transparency, is required. In the emerging market scenario, for survival and growth, it is critical for a bank to align its vision, mission, goals and objectives with customer’s satisfaction. (Kotler, 2005 Pg. 93). The future of any business lies in its excellent management of relationships. Customer focus ought not to be viewed as just a business strategy but should become a corporate mission. Once good services are extended to customers, the loyal customers will work as ambassadors of the bank and facilitate growth of the business. To support this, good referral programs would be a necessary to the bank. One of the best ways which banks can make their referral program work is rewarding those customers who take the initiative of referring other customers.

Good customer services in banks should have three basic tenets courtesy, accuracy and speed. Quality products and services is the
dynamic factor for customer satisfaction. The banking industry is still a long way from strategic business marketing excellence. Most banks are still in the second era, focused on professionalizing their basic product tailoring and their customer classification skills. Their aim is to become excellent sellers of excellent financial products and services. Most banks are product oriented instead of customer-oriented: they focus on their own needs instead of customer needs. The banks focus ought to be building long-term relationships with their customers. Some of the ways are; improving the quality of the sales force and forming partnerships with the customers.

Relationship management resolves around customer service, quality and marketing. Relationship management will fail if quality products or services are not provided. A sound effective customer service will boost relationship management. On the contrary a poor customer service will generate more enemies than loyalists. Relationship management has to be highly customized and personalized in terms of product and service offerings (Dr. N.K Seghal 2007). Developing close relationships with customers and other trading partners offers unique opportunities to create superior value and gain competitive advantage. However, the practical barriers to developing such relationships are often considerable, and evidence shows that firms frequently fail in these efforts. For example, one recent report finds that 50% of inter-firm alliances break down prematurely, and that significant financial damage is inflicted on both parties in the process (MSI Report No. 16-125).

There has been a shift from a transaction to a relationship focus in marketing. Customers become partners and the firm must make long-term commitments to maintaining those relationships with quality, service and innovation. Relationship management essentially represents a paradigm shift within marketing away from acquisitions-transaction focus towards a retention-relationship focus. It is a philosophy of doing business, a strategic orientation, that focuses on keeping and improving relationships with current customers rather than acquiring new customers. This philosophy assumes that customers
prefer to have an ongoing relationship with one organization than to switch continually among providers in their search for value. Hence, many businesses are working on effective strategies for retaining customers. Banks frequently focus on attracting customers but pay little attention on what they should do to keep them. A firm ought to use information about individual customers more effectively than competitors do. Customers form, and therefore desire to commit to relationships with firms whose knowledge of their needs enables them to deliver highly personalized and customized offerings. Customers are likely to stay in the relationship if they feel that the company understands their changing needs and is willing to invest in the relationship by constantly improving and evolving products and service mix. Hence, the primary goal of relationship management is to build and maintain a base of committed customers who are profitable for the organization. Customers take value to represent a trade-off between the give and get components. Consumers are more likely to stay in a relationship when what he gets (quality, satisfaction and specific benefits) exceeds what he has to give that is (monetary and non-monetary costs). When companies constantly deliver value to the customer, clearly the customer benefits and have an incentive to stay in the relationship. Bain and Company show with figures that the percentage of increase in total firm profits when the retention or loyalty rate rises by 5% points. The increase is dramatic ranging from 35% to 95%. The increase was calculated by comparing the net present value of the profit streams for the average customer life at current retention rates with the net present values of the profit streams for the average customer life at 5% higher than retention rates. The sole existence of banks is to develop and provide offering that satisfy consumer needs and expectations thereby ensuring their own economic survival. Hence, service providers choose experience and evaluate their service offerings. To add on being wrong about what customers want can mean losing a customer’s business when another bank hits the target exactly. Being wrong can also mean spending
money, time and other resources on things that do not count to the customer. Being wrong can even mean not surviving in a fiercely competitive market. The bank ought to have to know; the type of service they are offering, factors that influence customer expectations of services and current issues involving customer service expectations. (Bitner, Valerie, Dwayne and Ajay 2008) suggest that customer's main expectations of a service are quite simple and basic simply put customers expectations and service first. They expect companies to do what they are supposed to do. They expect fundamentals, not Fancies, performance, not empty promises. "Customers want services to be delivered as promised. Unfortunately, many service customers are disappointed and let down by companies inability to meet these basic service expectations. As a fact customer loyalty results from the customer’s assessment of his entire experience not just one encounter. A bank is a financial provider. One of the original big ideas in marketing is that, for firms to stay in existence they should not focus on selling products but on fulfilling needs (Levitt 1960). A customer centric organization should consist of structural aspects that ensure that organizational actions are driven by customer needs and not by internal concerns of fundamental areas. In addition, employee evaluation schemes and incentives should be designed to encourage behaviors consistent with a customer relationship-oriented culture by augmenting the organizations ability to focus on customer interactions and by ensuring that expertise from different functional areas are deployed to promote the quality of customer experience. Customers expect the bank to offer them with good service regarding their financial matters. They trust the bank to offer good services regarding their deposits and withdrawals. That whenever they want their money they should be able to withdraw it in case of interest rates on their savings they ought to receive them too, and also good terms on loans and other services and products being offered. To add on they want satisfaction that is to be contented, delighted and relieved by the services offered by the banks. Customer satisfaction increases loyalty and profits to the banks.
Loyalty works alongside rewards. When a company designs, a loyalty program rewards come along with it. (Denise and Mark-Morrison November 2001) say that rewards distributed from relationship participation should be proportional to the resources, time, and management skills brought to the relationship. Relationship equality reflects the equitable division of outputs as a function of inputs and embraces sharing proportionally, opportunity, risk and reward. Loyalty is often interpreted as actual retention, which is a cornerstone of customer relationship management (CRM).

Customers choose banks in different ways it can either be through self-determination, an external influence from an inducement by an external agent. Self-determined choices are accompanied by greater motivation and persistence, and engagement over long periods than are other determined choices (Ryan and Deci 2002). (Utpal M.Dholakia 2006) points out that a self-determined customer joins the firm because of a greater preference for its products and this difference rather than motivational differences that stem from self-determination, may drive differences in relational behaviors between the groups. The research project is formulated with the following study objectives:

1.2 Objectives of the study:

1.2.1 To identify how best relationship management can be used to create value segmentation in the commercial banking systems of both Nairobi and Pune cities.

1.2.2 To critically assess the effectiveness and efficiency of relationship management programs in commercial banks in both Nairobi and Pune city.

1.2.3 To find out the impact of customer relationship management activities in assisting banks in their customer retention and maintenance in commercial banks in the cities of Nairobi and Pune.

1.2.4 To determine the level of achievement of relationship management in banks from Pune and Nairobi.
Also the following hypotheses have been formulated by the researcher in the effort to carry out a comparative study on relationship management in commercial banks in selected banks in Pune and Nairobi.

1.3 **Hypothesis of the study:**

1.3.1 Relationship management plays a role in creating business value to the bank.

1.3.2 Relationship marketing is better practiced in Pune than Nairobi.

1.4 **Limitations of the study:**

The study will only be focused on a few selected commercial banks in Nairobi and Pune and only aspects related to relationship management will be studied and not any other aspects

1.4.1 As the area of study is vast, only a few selected banks will be studied.

1.4.2 Also because of the time limit, not all banks will be considered for the study.

1.4.3 Financial constraints might be incurred while collecting data because the study is a comparative one.

1.5 **Background Information:**

For any bank just like any other business organization to continue to survive in the competitive business world, needs to devise good strategies to maintain their existing customers as well as attract new customers. Therefore, banks need to adopt better marketing methods other than ad hoc ones in serving their customers. Whereas, customer relationship management has emerged as an essential tool for promoting banking, the comparative study covering Nairobi-Kenya and Pune-India is the subject matter or the proposed study. While, McKenna, Shani and Chalsani (1991) defines customer relationship management as a strategy attempting to involve and integrate customers, suppliers and other parties into a firm’s development and marketing, the involvement improves interactive relationship with
customers and value chain partners as organizations treat their customers as kings by improving services aimed to satisfy them. Another proponent, Couldwell (1998) defines relationship management as a combination of technology that seeks to understand a company’s customer from the perspective of who they are, what they do and what they are like. Das Gupta avers that relationship marketing is a management strategy that enables an organization to become customer focused and develop stronger relationships with its clientele. Gupta also says that relationship management helps piece together information about customers, sales, marketing, effectiveness, and responsiveness and market trends. Jagdish Sheth observes that relationship management programs are adopted to build collaborative relationships between businesses to retain customers in the existing scenario characterized by a shift from value exchanges to creation of relationships as a way to develop an integrated approach in marketing. Jagdish point out that relationship management programs are continuously gaining importance and recognition in today’s business especially in the service sector industry.

Banking as a part of the service sector has been overlooked and therefore, there is a need to maintain a steady customer base by using relationship management programs designed in such a manner that customer needs are given priority while attempting to advocate to what customers want and not what banks think a customer wants.

Many banks have customer databases but for the successful use of these databases, banks should know the type of customer being served, this improves business than merely using gadgets that increase costs of operations.

Sharjan sharing closely related views with Jagdish opines that relationship management programs like continuous marketing, partnering marketing, one-to-one marketing, integrated telephone marketing and referrals play a very important role in any business venture or organizations. In the reviewed literature, it can be noted that advantages come along when relationship management programs are used, according to
Shemih (2002) the advantages of relationship management are as follows:

1.5.1 Advantages of relationship management:
   a) A company becomes more efficient in the decision making process.
   b) Information processing costs are minimized.
   c) There is consistency in achieving cognitive decisions.
   d) Risks reduced.
   e) There is some gain in the competitive advantage.
   f) Reduction in the cost of operation.
   g) Reducing costs of getting new customers.
   h) Improving predictability and company’s operations and reduction of risk exposure.

Shemih et. al (2002) aver that service industries such as banks, insurance and others have realized the importance of relationship management and its potential to acquire customers, retain existing ones and maximize customer value.

Pune-India commercial banks are thought to be better placed in terms of implementing relationship management methods in their business opportunities, which has led to continued growth of banks, the above observation is the opposite of the haphazard Kenyan scenario whereas waning banking business is the order of the day. And banking organizations seem not to care about improving their services as a way to attract more customers to open bank accounts, instead of the observed trends in closing of bank accounts due to upsetting business terms and inadequate business relationship building, therefore necessitating this research study.

Couldwell (1998) says that relationship management is a sound strategy to identify the banks most profitable customers and devote time and attention to expanding account relationship with those customers through individualised marketing, replacing discretionary decision making and customised service or delivered through the various service channels that the bank uses.
Whereas many banks use relationship management to help them gain insight into the behavior of the customers and the value customers, make call centers more efficient, cross sell products faster, simplify the process, discover new customers and increase customer revenues. A number of businesses use relationship management technology and understand that this technology has developed evolved and matured over the years and is a reliable process that combines businesses and technology to power a customer-focused organization.

Another proponent Krishna Kumar says that, besides using technology in implementing relationship management programs, technology also assists the program by facilitating customer interaction and transaction management besides helping set up processes that result in more efficient customer relationship facing teams. Krishna’s observation is closely shared with that of Gupta who avers that analytical relationship management solutions allow the bank to effectively manage and optimize the profitability of all products that constitute its retail portfolio. In his observation with relationship management in banks, he finds it easier to run targeted campaigns and elicit substantially higher returns since the solution can perform profit modeling for each account and keep the business customer centric to constantly evolve internal processes and technology to acquire and retain customers Krishna Kumar (2005).

Another proponent Girish Krishnamurthy opines that managers need to understand what CRM can do and why they need to be customer centric by agreeing that relationship management can satisfy customers while defective relationship management can be as sad as any business. Pointing an example of 2000 in the Insight Technology group survey of 226 companies with fully implemented relationship management programs, it reported that 25% of the companies showed no noticeable improvement in their operational performance. A Bain survey also conducted in 2000 and the study found out that 15% of the companies using relationship management were extremely dissatisfied with relationship management programs. (William J. McEwen April 22-2002). This is evident to prove that many of the companies can obtain
negative results while using relationship management programs in targeting the wrong aim as pointed in the Insight Technology group survey, which stated that companies are counting on relationship management somehow to improve customer loyalty but their number one goal is to increase sales effectiveness. However, the goal of relationship management requires a focus on the customer and the factors that strengthen customer relationship. Secondly, focus on the company and how it can sale more products or services to the customers.

Peter Drucker (1997) article in the Indian Journal of Training and Development says that relationship management is essential to identify, acquire and retain customers. While Ashok Mittal, Jayant Sonwalkar and Akhilesh Mishra feel that customer relationship management helps to increase the customer base by acquiring information on the basis of database to match customer needs, class and offering reminder to customers about service requirements and a number of other products a customer purchased or likes to purchase, Indian Journal of Training and Development (2002).

Ghodeshwar (1997) supports aforementioned proponents by stating that relationship management is a concept that combines management thought, technology and business practices to deliver quick, efficient and responsive services and build long lasting relationships with each one of them (Ghodeshwar: 1997), a key concept agreed by (Singh 2001) who points out that relationship management is a philosophy of doing business in highly competitive market with a strategic orientation that focuses on keeping and improving relationship with existing key customers to develop lifetime value of customers (Singh 2001).

Alok Mittal et. al. adds that customer relationship management is a set of discrete activities, which focuses on automating and improving the business process associated with managing customer relationship in the area of sales marketing, customer service and support, and customer relationship management applications coordinate multiple channels of communications such as face to face, the web and the
telephone. It also helps bank employees to move faster by simplifying marketing and sales services to provide better customer services. To him CRM has been considered as a high-tech tool, which provides automatic solution for change management, maintaining and upgrading sales and marketing. At power scales such as positioning, hunting, coaching, leading and farming (Alok Mittal, Jayant Soniwalkar, and Akshay K. Mishra: 2003).

In conclusion, Jargdish et al. feel that relationship marketing has caught the fancy of many scholars in many parts of the world, including North America, Europe, Australia, and Asia. Where there has been a paradigm shift from transactions to relationships associated with the return of direct marketing Jargdish N. Sheth.

A case of the Kenyan Fina bank, a twenty-year-old commercial bank that had previously served the Asian community decided to focus on small and medium sized enterprises by targeting a huge number of people ignored by other banks. In the process, Fina bank tripled its customers. Their success is attributed to facilities like low charges, accessing accounts through ATMS where they charge 10 shillings while other banks charge 50 shillings. Fina bank relationship officers explain various loan schemes, while bank staffs are trained to support small and medium scale businesses plus small-scale customers. These efforts of the Fina bank placed its banking efforts and its success story far above other banks.

Though not many publications have been made or were found to unearth the status of CRM in Kenya banking industry, from the findings as noted by Kwamboka and Mwanzau, CRM in Kenya is something which has not gained momentum therefore the research findings play an important role in venturing into this unexplored area that for long has been ignored.

This study therefore will unearth the weaknesses of the Kenyan systems, which will be covered in this study to help other banks follow suit of the one bank identified by Zipporah Musau and Kwamboka Oyaru, Daily Media and Advertising News (2006) that has set out to change the scenario.
1.6 **Statement Of The Problem:**

In Nairobi-Kenya and Pune-India, which are the areas chosen to be covered in the proposed research study; the relationship management programs in Pune-India are presumed to be more customer centric unlike those of Nairobi-Kenya. Because of the existing difference in relationship management programs as noted, the ease of opening a customer account in Pune and the hassle of opening one in Nairobi is a concern. In fact many Kenyans avoid banks altogether, storing their cash at home in pillows or mattress. James February (2008) says, “Despite a robust banking industry, 80% of Kenyan population cannot open and run a bank account.” The World Bank policy research report identifies some key barriers to maintaining bank accounts as complex documentation, and paperwork procedures and unaffordable interest rates, fees and minimum balances.

Though the Kenyan government has acknowledged the problem, the President highlighted the need to attract small businesses in his launch of the country’s poverty and growth plan known as vision 2030. To add on Anuraj Pahuja and Rajesh Verma sight a problem that most organizations now advocate the idea of customer relationship management should be a priority, but they are not sure about how to transform this desire into a business strategy, since they have no clear idea as to what relationship management actually means to customers.

More simply they do not know how to make a customer loyal in the first place. Further, it is often not easy to track how many high value customers are being lost and what are the reasons behind this. Therefore, there arises a need to carry out a study of customer relationship management in promoting banking services in commercial banks in Nairobi-Kenya compared to Pune-India.