CHAPTER – I

INTRODUCTION AND DESIGN OF THE STUDY

1.0 INTRODUCTION

Innovation is often perceived as episodic, coming and going in waves. It is something that does not happen often and is seen as a response to some stimuli. Many organizations believe that to maintain an innovative culture, an organization needs to be small and flexible. Large organizations are not seen as terribly creative, usually because of their unwieldy size that does not allow people to accommodate change easily. However, it may not be true. Even large organizations have received the attention of the world by innovating.

Innovation is the ability to come up consistently with new knowledge that delivers short and long-term profits to an organization. An organization needs to possess a variety of abilities or capabilities in terms of resources, knowledge, ability to combine knowledge, conducive environment to the business and the like. Among these capabilities knowledge capability is fundamental that an organization needs to build to be able to innovate on a continuous basis. For a service organization knowledge itself is the raw material of innovation. Hence organizations both in manufacturing and servicing have to deliberately build reservoirs of knowledge to be able to become truly innovative organizations.

A strong vision for the organization to incorporate innovation priorities is key for succeeding in winning the confidence of all stakeholders of business. This vision should then lead the organization to focus on measurable goals, robust systems and process and a stronger set of shared values. Equally important are correction in the process / system based on the feedback from stakeholders of business.
Most important stakeholder of business who are always external to
the business whose satisfaction is very much important to sustain business. It
is the customer who has to be kept on top while innovations are introduced in
the business. Be it a service or manufacturing this becomes important and
feedback from them will help a lot how innovations can be introduced.

1.1 SERVICE ORGANIZATIONS AND CUSTOMER
SATISFACTION

It is a strategic goal for all organizations involved in the delivery of
customer service, how much customer satisfaction is worth. Dissatisfaction
paves way for poor customer base. What might be an intolerable experience
for one customer may well exceed all expectations of another. When there is
high competition, even a small level of dissatisfaction may lead to loss of
customers. High customer satisfaction attracts new customers and helps retain
existing ones.

Customer satisfaction is not a difficult thing to measure, but why
measurement is so essential is a very important question to be answered by
organizations. In the context of deregulation and free market, measuring
customer satisfaction in banks is very essential for them. Regulation and
technological improvements are responsible for the vast majority of
innovations in banking over the past quarter century. The introduction of
personal computers and the proliferation of ATMs in the 1970s captured bank
management’s attention. The regulatory changes also fueled much of the
industry’s growth. Recent technological improvements are at the root of
bankers’ focus as well as a target for their significant investment dollars
today.

Customer relation management (CRM) helps to sort of the problems of
customer dissatisfaction. In fact, CRM increases the level of satisfaction.
Looking at this CRM phenomenon in light of the drivers of banking innovation since the 1970s, one might wonder if CRM itself is the innovation, or conversely the technology, once again. Bankers at all points of the CRM spectrum are looking for a way to quantify their return on investment — either what it actually is or, if just starting out, what it should be and over what period of time should the value be realized. Ironically, the answer to this question may lie in a simple review of a few known quantities generated from historical innovation.

1.2 Banking innovations

Innovation will never become less important for banks. Thanks to the myriad ways in which bankers have been trying to innovate. They are bringing ATMs, cash and even foreign exchange to their customers’ doorsteps, internet banking, mobile banking, multiple facilities in accounts operation and so on. Some banks have property advisors to guide a customer through the entire process of selecting and buying a house. They also lend a hand with the cumbersome documentation formalities and the registration. Even if already bought a house or car – one can do other things with both. A customer can leverage new house or car these days with banks and they are ready to extend loans against either, till it’s about five years old. Loans are available to all car owners for almost all brands of cars manufactured in India that are up to five years old.

Still, innovation is more evident in retail banking. True, all banks offer pretty much the same suite of asset and liability products. But it’s the small tweaking here and there that makes all the difference. Some bank accounts combine a savings deposit account with a fixed deposit. A sweep-in account, as it is called, works like this: the account will have a cut-off, say, Rs 25,000; any amount over and above that gets automatically transferred to a fixed deposit which will earn the customer a clean two per cent more than the
returns that a savings account gives. There’s plenty of innovation on home loans.

In home loans, variety of innovations is introduced. The interest rate on the loan is determined by the balance a person maintains in the savings account with the bank. The home builder can maintain a higher balance in his or her savings account and bring down the interest rate on the home loan. The rate is calculated on a daily basis on the net loan amount. Banks are also attempting to reach out to residents of metropolitan cities where people are pressed for time, what with long commuting hours, traffic jams and both spouses working, beyond conventional banking hours.

Several banks are even bringing ATMs to customer doorsteps. Few of the banks mobile ATMs or vans that go along a particular route in a city and are stationed at strategic locations for a few hours every day. This saves the bank infrastructure costs since it has one mobile ATM instead of multiple stationary ones. Even money is delivered to customers at home. Some banks bring even foreign exchange, whether travelers cheques or cash, to your doorstep courtesy its tie-up with Travelex India. All one has to do is call up the branch.

Banks are also innovating on the company and treasury operations fronts. Mumbai inter-bank offered rate (MIBOR)-linked and commercial paper-linked interest rates on loans are common. MIBOR is a reference rate arrived at every day at 4 pm by Reuters. It is the weighted average rate of call money business transacted by 22 institutions, including banks, primary dealers and financial institutions.

Innovation calls for vision and conviction. Innovation helps us make the product/provide services highly suited for the targeted application. Successful innovation is not about the ideas or inventions; it’s about the
people. Innovation can be defined as the key process by which products, processes and services are created, and by which businesses generate jobs and wealth. Innovation isn’t all about great ideas. Innovation is a chain that requires strength at every link to succeed. The chain starts with idea generation, but then moves to prioritizing and funding ideas, to converting those ideas to products/services and finally to diffusing those products/services and business practices across the institution/bank.

Innovation calls for certain discernment on the part of the service delivery system of banks to design the services in such a way that the customer is much delighted as to how the business process is effectively carried out and how easily with least time and distress is delivered to them.

In a situation of global economic crisis, institutions will need to shake hands with a new generation of price optimization system, customer relationship management platforms and Web-enabled tools that expand relationships and grow wallet share. Customers who have adapted to the mass customization of the Internet's long tail - and who are used to getting personal recommendations from e-retailers can't understand why an institution that has so much information about them can't offer tailored products and services. Banks that change that perception by using automated tools to fine-tune products will be well-positioned. Today banks dive deeper than ever before to connect with consumers. To this the government at the Centre (Indian central government) through the RBI fine tunes the banking system by reducing the CRR and lowering repo and reverse repo rates.

Looking for new frontiers in revenue growth, banks are discovering interesting opportunities in the way they satisfy their customers. What are the key factors that appeal to bank customers and entice them to do more business? As in most service industries, overall responsiveness and behavioral attributes account for a 10-percent margin in customer satisfaction.
When it comes to speed of service and the attitude of the people who deliver that service, banks should improve their personal touch. Furthermore, advanced technologies provide bank managers and staff valuable help because complicated legacy systems hinder the prompt delivery of banking services and the integration of customer information. Notwithstanding a positive service attitude, ailing technology systems could severely constrain the ability of bank personnel to satisfy customer demands. Technology also plays a role with other drivers of customer satisfaction, such as quality of service and product innovation. In order to be effective in luring customers, banks should invest in fundamental improvements in their people, process, and technology capabilities.

1.3 STATEMENT OF THE PROBLEM

Almost all bankers have invested in ATMs with the promise of reduced branch cost, since customers would use them instead of a branch to transact business. But what was discovered is that the financial impact of ATMs is a marginal increase in fee income substantially offset by the cost of significant increases in the number of customer transactions. The value proposition, however, was a significant increase in that intangible called customer satisfaction. The increase in customer satisfaction has translated to loyalty that resulted in higher customer retention and growing franchise value.

Internet banking, a product of the 1990s in the west, has assumed greater significance in India in the early part of this century shows similar characteristics. Again, bankers invested believing that the Internet was a lower-cost delivery channel and a way to increase sales. Studies have now shown, however, that the primary value of offering Internet banking services lies in the increased retention of highly valued customer segments. Again, the intangible called customer satisfaction drives the value proposition. Internet banking and shopping have been slow starters, given the low computer
penetration in the country but banks are going all out to get the customer online. Not only is electronic fund transfer between banks across cities possible through internet banking today but banks also offer other features that benefit the customer.

CRM is primarily driven by the innovation of technology, but unlike other technological innovations, CRM has power to help bankers quickly and directly improve customer satisfaction. CRM is an added dimension to ensure that what the customer expects is consistent with what the bank is prepared to deliver. One expert in bank CRM initiatives recently said that CRM is an approach that is less focused on providing the right services to the customer than attracting customers who are the right fit for what the bank has to offer. Further, the primary value of CRM is its potential as a customer retention tool. People are starting to measure CRM in terms of increased customer satisfaction rather than ROI.

The use of technology in India has undergone rapid transformation. The last two decades have witnessed a sea change in the nature of services offered by not only banks but also the financial sector and even the Government - all of which have had a positive impact on the customers of these organizations and the general public at large. In a competitive environment every bank needs to make a difference in attracting customers. A customer of a bank, either be a loan borrower or depositor or holder of any account is today most concerned how fast, easily and cost-effectively services are rendered to them. Being innovative and faster in service delivery are the areas where banks have to concentrate to lure customers.
1.4 OBJECTIVES OF THE STUDY

Innovations in banking coupled with customer relationship management would result in high customer satisfaction in banks. Hence this research study is proposed to be on set with the following objectives;

1. To study the ways through which banking innovations are introduced to customers of various banks.
2. To measure the level of customer satisfaction among the customers of various banks in relation to the innovations introduced by the respective banks.
3. To examine the expectations of customers of banks and the extent to which they were fulfilled.
4. To analyze the effectiveness of customer relationship management in customer satisfaction.
5. To find out the problems faced by banks in servicing their customers.
6. To offer concrete suggestions to increase the customer satisfaction in banks.

1.5 METHODOLOGY

This research is a descriptive research. An empirical study was conducted with the customers of various public and private and co-operative sector banks to elicit the opinion in respect of CRM adopted and the efforts of banks in bringing innovations and its impact in the industry. Data were collected from secondary sources, such as standard books, journals, newspapers, websites and the like. A structured questionnaire was administered to the bank customers to collect data from them.
1.6 SAMPLING DESIGN

The study was conducted with a well structured questionnaire. For the purpose of finalization of the questionnaire, a pilot study was conducted with 30 sample respondents (about 10% of the proposed sample size) and the same was also discussed with persons working with banks, after getting expert opinion and based on the responses received at the pilot study the questionnaire was altered with little modification and it was administered with customers of various categories of banks. It was decided to choose about 350 sample respondents and after being collected about 27 questionnaires were found to be not complete in all respect and hence they were not considered in the sample. This is was due non-understanding of questions properly, unable express their views about the innovation or CRM practices of the bank due to the customers lack of awareness, etc. Hence, the effective sample size of the study was 323 customers of various banks. The sampling design adopted was a random sampling technique. However care was exercised to include all types of customers of banks, such as persons belonging to all walks of life, namely persons of different age groups, income levels, education and the like factors.

Since public sector banks have wide network of branches in India, it was thought fit to include the customers of public sector banks more in number in the sample than the private sector and co-operative sector banks. This is to ensure that the study results fairly represent the views of all banks equally. Since the universe was unknown, the sampling was restricted to 323. With some the customers the questionnaire was issued and they were asked to fill the questionnaire in a interviewing-style.
1.7 ANALYSIS OF DATA

The emerging opportunities for banks in India to sell their various products are towards the global trend on integration of financial services. In India, the financial sector is witnessing rapid changes. Banks today in India are feeling to provide a host of services as one-stop shopping to customers to retain their hold and to bring in new customers. The innovations in the way they bring in decide on their success in the financial services market. A large number of customers are attracted towards the new way of banking - the way they treat their customers, different products available, competency level of banks, faster delivery of services, customer friendliness, the ability in fulfilling the expectations of customers and so on.

The most important aspect of the innovations is to have better CRM (customer relationship management) with clients. That is, how banks have introduced innovation in their CRM efforts. An attempt has been made in the analysis part to find out the type of innovation introduced by banks to their customers in terms of various aspects of CRM and the analysis have also been done on various other counts such as modes of communication used by banks, marketing strategies of banks, perception of customer in the way banks are functioning, degree of satisfaction of customer relating to the marketing tools adopted by banks, factors contributing to customer loyalty and satisfaction and the like matters.

1.8 STATISTICAL TOOLS

The collected data have been analyzed from the simple percentage analysis to chi-square test, T-test for testing of equality of means, Anova and to factor analysis. Factor analysis usually proceeds in four steps:

1) First, the correlation matrix for all variables is computed. Variables that do not appear to be related to other variables can be identified
from the matrix. The appropriateness of the factor model is calculated from the correlation matrix.

2) Factor extraction, the number of factors necessary to represent the data and the method of calculating them must be determined. At this step, how well the chosen model fits the data is also ascertained.

3) Rotation, focuses on transforming the factors to make them more interpretable.

4) Scores for each factor can be computed for each case. These scores shall be used for further analysis.

1.9 HYPOTHESES – (NULL HYPOTHESES)

The following hypotheses were framed to test the perception of the customers of banks on various aspects of innovation introduced in banks. The Null hypotheses were tested with appropriate research analysis tools and were inferred and the findings are shown in the summarization chapter.

Ho1: Service rendered during business transactions do not differ significantly between bank staff in Chennai and outside Chennai area.

Ho2: Service rendered by the bank staff during business transaction do not differ significantly among respondents of different age group.

Ho3: Service rendered by the bank staff during business transaction do not differ significantly among the Male and Female respondents.

Ho4: Service rendered by the bank staff during business transaction do not differ significantly between the customers of private and public sector banks.

Ho5: Service rendered by the bank staff during business transaction do not differ significantly between the respondents of different periodicity of holding account in the banks.
Ho6: Responses on financial Products available in banks do not differ significantly among respondents of metro and non-metro area.

Ho7: Responses on financial Products available do not differ significantly among the different age group of respondents.

Ho8: Responses on financial products available do not differ significantly between male and female respondents.

Ho9: Responses on the availability of financial products do not differ significantly among the customers of private and public sector banks.

Ho10: Responses on financial products available do not differ significantly between the respondents holding bank account for different durations of time.

Ho11: Responses on Guidance and information given by the Bank Staff do not differ significantly among the respondents residing in Chennai and outside Chennai area.

Ho12: Responses on Guidance and information given by the Bank Staff do not differ significantly among the different age group of respondents.

Ho13: Response on Guidance and information given by the Bank Staff do not differ significantly among the male and female respondents.

Ho14: Response by customers of Public and private Banks about Guidance and information given by the Bank Staff do not differ significantly.

Ho15: Response on Guidance and information given by the Bank Staff do not differ significantly among the respondents holding bank account for different durations of period/ time.
Ho16: The opinion on Infrastructure facilities available at the bank do not differ significantly among the respondents residing in Chennai and outside Chennai area.

Ho17: Opinion expressed on the Infrastructure facilities available at the bank do not differ significantly among the various age groups of respondents.

Ho18: Opinion expressed on Infrastructure facilities available at the bank do not differ significantly among male and female respondents.

Ho19: Opinion expressed on Infrastructure facilities available do not differ significantly among customers of Public and Private sector Banks.

Ho20: Opinion expressed on Infrastructure facilities available at the bank do not differ significantly between respondents of different periodicity of holding account in the banks.

Ho21: Opinion expressed on Human and Machine efficiency at work place do not differ significantly among the respondents residing in Chennai and outside Chennai area.

Ho22: Opinion expressed on Human and Machine efficiency at work place do not differ significantly among the different age groups of respondents.

Ho23: Opinions expressed on Human and Machine efficiency at work place does not differ significantly among the male and female respondents.

Ho24: Customers of public and private sector banks about Opinion expressed on Human and Machine efficiency at work place do not differ significantly.

Ho25: Opinion expressed on Human and Machine efficiency at work place does not differ significantly among the respondents holding bank account for different durations.
Ho26: Response on Accessibility of ‘Banking Services’ does not differ significantly among the respondents residing in Chennai and outside Chennai areas.

Ho27: Response on Accessibility of Banking Services does not differ significantly among the different age group of respondents.

Ho28: Response on Accessibility of Banking Services does not differ significantly among the male and female respondents.

Ho29: Response on Accessibility of Banking Services do not differ significantly among the customers of public and private sector banks.

Ho30: Response on Accessibility of Banking Services does not differ significantly among the customers holding bank account for different durations of period/time.

Ho31: Opinion Expressed on CRM do not differ significantly among the respondents residing in Chennai and outside Chennai areas.

Ho32: Opinion Expressed on CRM do not differ significantly among the different age group of respondents.

Ho33: Opinion Expressed on CRM do not differ significantly among the male and female respondents.

Ho34: Opinion Expressed on CRM do not differ significantly among the customers of public and private sector banks.

Ho35: Opinion Expressed on CRM do not differ significantly among the respondents holding bank account for different periods.
1.10 LIMITATION OF THE STUDY

The study was conducted with the sample bank branches of Chennai Metropolitan area. It covered public, private and co-operative sector banks. The banks operating outside Chennai were excluded from the study. Since the study was limited to the banks of Chennai area, the study results may not reflect the banking practices of banks operating in towns and rural areas. Hence the study result would be applicable only for urban branches especially that of cities and metro cities.

1.11 CHAPTERISATION

The research work has been divided into five chapters. The present chapter titled ‘Introduction and design’ provides information on statement of the problem, methodology, sampling, limitations and chapter scheme. Chapter Two is exclusively devoted for presenting the existing literature on banking innovation in India and world over. The Third Chapter presents the banking industry in India and the growth of industry in recent times – how innovation took place in the banking industry and the ways through which customer satisfaction is ensured in banks. Chapter Four is devoted for analysis of collected data and the Final Chapter presents the summarization of the contents of the report with appropriate suggestions and conclusion.