CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1. INTRODUCTION

Today, banking institutions face many challenges including global competition for deposits, loans, underwriting fees, increasing customer demands, shrinking profit margins and the need to keep up with the new technologies (SAP AG, 2002). According to Onut, et al. banks and other service providers realize the importance of customer relationship management (CRM) and its potential to help them acquiring new customers, retain existing ones and maximize their lifetime value. Customer relationship management came into the power when banking institutions were getting more and more competitive. The focus of CRM helped banks to understand the customer’s current needs, what they have done in the past and what they plan to do in the future to meet their own goals (Xu, et al., 2002). According to Crosby, the intelligent use of information about customer needs will create long-term two way relationship with the customers. It brings many advantages to the banking sector since long-term customers are less costly to serve and smooth-running relationships are less resource demanding. In general, CRM for any organization consists of two tasks i.e., customer acquisition and increased sales to existing customers. It is often justified by the phrase, “make the right offer at the right time to the right customer”.

The attraction, retention, and building strong customer relationships through quality services are at the heart of the modern marketing (Zeithmal and Bitner, 2003). A sound marketing strategy is required to be adopted by the banker to build customer trust and retain them in the business and for competitive advantage across the industry. The strategy should focus on service quality rather than existing marketing mix, understanding of the customer expectations and perceptions and what they imply for the marketer, use of technology, planning for service recovery, customer-defined service standards, value pricing etc. (Dhananjayan, 2005).

1.2. CUSTOMER RELATIONSHIP MANAGEMENT

In literature, CRM is defined in many ways. The main difference among these definitions is technological and relationship aspects of CRM. Some authors from marketing background emphasize technological side of CRM while the others consider IT perspective of CRM. From marketing aspect, CRM is defined as “A combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they are like” (Couldwell, 1998). Technological definition of CRM was given as “the market place of the future is undergoing a technology-driven metamorphosis” (Peppers and Rogers, 1995). Consequently, IT and
marketing departments work closely to implement CRM efficiently. Meanwhile, implementation of CRM in banking sector focused on the evaluation of the critical satisfaction dimensions and the determination of customer groups with distinctive preferences and expectations in the private bank sector (Miheliset al., 2001). The methodological approach is based on the principles of multi-criteria modeling and preference disaggregating modeling used for data analysis and interpretation. Yli-Renko et al. 2001, have focused on the management of the exchange relationships and the implications of such management for the performance and development of technology-based firms and their customers. Specifically the customer relationships of new technology-based firms have been studied. Cook and Hababou, 2001 was interested in total sales activities, both volume-related and non-volume related. They also developed a modification of the standard data envelope analysis (DEA) structure using goal programming concepts that yields both a sales and service measures. Beckett Camarata, et al. 1998, have noted that managing relationships with their customers (especially with employees, channel partners and strategic alliance partners) was critical to the firm’s long-term success. It was also emphasized that customer relationship management based on social exchange and equity significantly assists the firm in developing collaborative, cooperative and profitable long-term relationships. Yuan and Chang, 2001 have presented
a mixed-initiative synthesized learning approach for better understanding of customers and the provision of clues for improving customer relationships based on different sources of web customer data. They have also hierarchically segmented data sources into clusters, automatically labeled the features of the clusters, discovered the characteristics of normal, defected and possibly defected clusters of customers, and provided clues for gaining customer retention. There has been also presented a framework, which is based on incorporating e-business activities, channel management, relationship management and back-office/front-office integration within a customer centric strategy. He has developed four concepts, namely enterprise, channel management, relationships and management of the total enterprise, in the context of a CRM initiative. Ryals and Knox, 2001 have identified the three main issues that can enable the development of customer relationship management in the service sector; the organizational issues of culture and communication, management metrics and cross-functional integration—especially between marketing and information technology.

1.3. CRM IN BANKING SECTOR

‘Over the last eight years, banks are highly focusing on the CRM and are expect to continue’, (Foss, 2002). Dyche’ in his book proposes that before implementing any CRM application, “the bank would need a
complete view of its customers across the various systems that contain their data. If the bank could track customer behaviours, executives can have a better understanding, a predicting future behaviours, and customer preferences. In this way, the data and the applications will help the bank to manage its customer relationship and continue to grow and evolve”.

On the other hand, Foss in his work argues that most of the banks around the world are trying to use CRM techniques to achieve various outcomes. These are:

- Creating consumer-centric culture and organization;
- Securing customer relationships;
- Maximizing customer profitability, and
- Aligning effort and resource behind most valuable customer groups.

In a recent paper by Onut, et al. (2006), the authors describe that using the CRM system into the banking industry helps businesses (using technology and human resources) to gain insight into the behaviour of customers and focus on the value of those customers. If the CRM system works as hoped, the business can:
• Provide better customer service;
• Make call centres more efficient;
• Cross sell products more effectively;
• Help sales staff close deals faster;
• Simplify marketing and sales processes;
• Discover new customers; and
• Increase customer revenues.

1.4. CUSTOMER FOCUS IN BANKING SERVICES

As the intense competition becomes a way of doing business, it is the customer who calls the shot in deciding the nature of products and services offered in the market. The customers are becoming demanding, dominant and selective. In fact the perceptions and the expectations of the customers have undergone a sea change, with the availability of banking services to the customers at their door steps through the help of technology.

Marketing of customer services aims at two important goals: Prosperity to the bank and satisfied customers. Banks offer tangible services like loan schemes, interest rates and kinds of account and the intangible services like behaviour and efficiency of staff, speed of transactions and the ambience. The banks may need to include customer
oriented approach or customer focus in their five areas of businesses such as cash accessibility, asset security, money transfer, deferred payment and financial advices.

There are four strategies available to customer relations' managers:

• To win back or save customers;
• To attract new and potential customers;
• To create loyalty among existing customers; and
• To up sell or offer cross services.

The future of banking business very much depends upon the ability of the banks to develop close relationship with the customers. In order to develop close relationship with the customers, the banking industry has to focus on the technology oriented innovations that offer convenience to the customers. Today customers are offered ATM services, access to internet banking and phone banking facilities and credit cards. These have elevated banking beyond the barriers of time and space.

1.5. OPERATIONAL DEFINITIONS

1.5.1. CUSTOMER

According to Shri. Mohandas Karamchand Gandhi, the father of our nation, “A customer is not an outsider to our business. He is a definite part of it. A customer is not an interruption of our work. He is the purpose
of it. A customer is doing us a favour by letting us serve him. We are not
doing him any favour. A customer is not a cold statistic; he is a flesh and
blood human being with feelings and emotions like our own. A customer
is not someone to argue or match wits with. He deserves courteous and
attentive treatment. A customer is not dependent on us. We are dependent
on him. A customer brings us his wants. It is our job to handle them
properly and profitably – both to him and us. A customer makes it
possible to pay our salary, whether we are a driver, plant or an office
employee”.

1.5.2. CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Customer relationship management is defined in many ways by
many authors. Dyche’ (2002) in his book defines CRM as:

“The infrastructure that enables the delineation of and increase in
customer value, and the correct means by which to motivate valuable
customers to remain loyal—indeed, to buy again.”

CRM is defined as a business strategy that: “Comprises a set of
processes and enabling systems supporting a business strategy to build
long term, profitable relationships with specific customers. The key
objective of CRM is to enhance customer value through a better
understanding of individual needs and preference” (Ling and Yen, 2001).
1.5.3. CUSTOMER LOYALTY

Customer loyalty is the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of an experience, which includes the product or services.

1.5.4. CUSTOMER SERVICE

According to Turban, et al. (2002) “Customer service is a series of activities designed to enhance the level of customer satisfaction—that is, the feeling that a product or service has met the customer expectation.”

1.5.5. COMMERCIAL BANK

According to the Indian Banking Company Act, 1949, "A banking company means any company which transacts the business of banking. Banking means accepting for the purpose of lending of investment of deposits of money from the public, payable on demand or other wise and withdraw able by cheque, draft or otherwise."

1.5.6. CONSUMER ATTITUDE

Dr. Lars Perner (2010) defines consumer attitude simply as a composite of a consumer’s beliefs, feelings, and behavioural intentions toward some object within the context of marketing. A consumer can hold negative or positive beliefs or feelings toward a product or service.
1.5.7. CUSTOMER SATISFACTION

According to Philip Kotler “customer satisfaction occurs when the perception of the reward from the purchase of goods or service by the customer meets or exceeds his/her perceived sacrifice. The perception is a consequence of matching past purchase and consumption experience with the current purchase”.

1.5.8. CUSTOMER RETENTION

Customer retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact that an organization has with a customer and continues throughout the entire lifetime of a relationship.

1.5.9. CUSTOMER INTERACTION MANAGEMENT

Customer interaction management systems handle communication across multiple different channels, such as e-mail, SMS, telephone, instant, instant messaging, white mail (scanned documents) and so on.

1.6. NEED FOR THE STUDY

The banking sector is entering a new world and exciting developments are changing the face of banking. The globalization of banking operations along with heightened competition continuing
deregulation and technological advancements have significantly altered the face and scope of banking. The process of economic liberalization and financial sector reforms brought the issue of ‘customer focuses’ to the forefront. There is nothing permanent except change. No banks shall stand as an exception to this phrase. Customer’s need, wants and desires keep changing day by day. Therefore it is absolutely essential for any bank to adopt the changes in the market. To adopt those changes, the banks must first track the changes in the customer wants and then respond to it. This is possible only when the organization has a close contact with its customers. Therefore there exists a strong need for maintaining customer relationship management in the banks in order to survive in the market amongst the competitors. Since customer is the life blood of any business organizations and since customer creation cost is pricey than customer retention cost, it is very important for the banking sector to retain its customers. This is the ultimate reason that customer relationship management is gaining due importance in the recent days. The scope of customer relationship management is very wide including different aspects like customer satisfaction, service quality, relationship quality, market orientation, trust, loyalty, commitment, customer retention, etc.

A better understanding of relational exchange must facilitate the development and efficiency of buyer-seller relationship. The banking industry is especially concerned by the double relational phenomenon.
Firstly, externalization project grow regularly, notably concerning data process sub-contracting, accounting treatments and realization of a set of non-strategic activities. Secondly, in an industry where innovation and differentiation notions provide limited advantages, banks are obliged to compensate the margin erosion by mass production and by an improvement of their customer’s relationship. They look for a balance between two somewhat conflicting tendencies namely the automated mass treatment to reduce costs and the development of relational marketing in order to satisfy customers subjected to numerous solicitations from the competition.

Developments in internet attracted the attention of most of banks. Indeed, an investigation in 2000 revealed that reduction of the physical network would start once the Internet trade volume reaches a level of 20% to 25% of total transactions. By the year 2004, the development of new information and communication systems attracted more than 40% of the actual customers. In the year 2007, it attracted more than 68% of the actual customers. Developments in relationship marketing permit firms to coordinate their relationship with customers. In this optics of relational network, a firm should develop sharp competencies, in order to maintain coherence of its offer, to control the quality of services and products proposed by suppliers and providers, to accelerate the information transmission. The study is confined to Perambalur district. The sample
respondents are the customers of various commercial banks. As such, there is a scope to examine whether the customer relationship managements maintained by the banks cater to the benefits of customers belonging to different socio-economic profiles.

1.7. RESEARCH PROBLEM

Modern marketing philosophy advocates the concept of CRM that creates customer delight. This applies to all sectors of sales and marketing including the banking. In the banking field, a unique relationship exists between the customers and the bank. But because of various reasons and apprehensions like the financial burdens, the risk of failure, marketing inertia, etc. many banks are still following the traditional ways of marketing and only few banks are making attempts to adopt CRM. It is with this background, the researcher has made a modest attempt towards the idea that CRM can be adapted uniformly in the banking industry for betterment of banking services.

1.8. OBJECTIVES OF THE STUDY

The main objectives of the present study are given below:

1. To study the need and importance of customer relationship management in general and banking industry in particular.
2. To review the customer relationship management practices of the select commercial banks in Perambalur district.

3. To analyze the perception of the customers towards customer relationship management practices of the select commercial banks in Perambalur district.

4. To offer suitable suggestions to improve the customer relationship in commercial banks.

1.9. SCOPE OF THE STUDY

The scope of the study is evaluating the customer relationship management practices of the commercial banks in Perambalur district. This study is restricted to 6 public sector banks and 3 private sector banks. It has been widely accepted that the business performance of the banks is closely associated with the customer relationship. The customer relationship management is a vast subject consisting of elements. In the present study, the most important elements of Customer Relationship Management such as service quality, customer interaction management, customer retention management, customer service strategies and customer contact programme of the select commercial banks are only studied.
1.10. METHODOLOGY

1.10.1. TESTING OF HYPOTHESIS

In order to examine the attitude of the customers towards customer relationship management practices of the commercial banks, the following null hypothesis was formulated and tested.

\[ H_0: \] The personal variables of the customers such as age, gender, education, income, occupation, type of bank, and nature of account will not have any influence on their attitude level towards customer relationship management practices of the select commercial banks.

1.10.2. SAMPLING DESIGN

The study is confined to account holders of the commercial banks in Perambalur district. There are 12 banks spread over Perambalur district. Of which, 7 are public sector banks and 5 private sector banks. A sample of 9 banks i.e. 6 public sector banks and 3 private sector banks were selected. The researcher has adopted multi-stage sampling. In the first stage, 9 banks out of the 12 banks, which outnumber in terms of number of branches, are selected. In the second stage, 50 per cent of the branches are selected from 9 selected banks on random sampling. In the third stage, a random sample of 0.5% of the savings bank account holders and 10% of the current account holders are selected at random basis from each bank.
The sample size consists of 435 customers i.e. 341 customers from savings bank account and 94 customers of the current account were selected. The Table 1.1 shows the sampling distribution.

1.10.3. TOOLS FOR DATA COLLECTION

The present study is an empirical in character based on survey method. The first-hand information for this study was collected from the records of Indian Bank, the Lead Bank of Perambalur district. As an essential part of the study, the primary data were collected from customers of the select commercial banks. Taking into consideration the objectives of the study, a questionnaire was prepared after perusal of available literature and thorough consultation with the experts of related fields. Each question item was improved for its relevance and meaning by constant interaction with the experts in the areas. A pilot test of questionnaire was done in a sample bank during October 2009 involving 25 respondents to know the relevance of the question items. In the light of pilot test, necessary changes were incorporated in the formation of items, questions and their sequences. The secondary data were collected mainly from newspapers, magazines, journals, books, websites, pamphlets, and so on. In particular, the researcher has collected the secondary data from various institutions like, RBI Staff Training Centre, Chennai; Institute for Financial Management and Research, Chennai; Library, University of
Madras, Chennai; Library, Bharathiar University, Coimbatore; and Indian Institute of Management, Bangalore. The data so collected were entered into a master table and tabulated to arrive at useful conclusions.

**TABLE 1.1**

**SAMPLING DISTRIBUTION**

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>No. of Branches</th>
<th>Samples</th>
<th>No. of Customers</th>
<th>Samples</th>
<th>No. of Customers</th>
<th>Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Overseas Bank</td>
<td>11</td>
<td>6</td>
<td>17239</td>
<td>86</td>
<td>128</td>
<td>13</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>6</td>
<td>3</td>
<td>16405</td>
<td>82</td>
<td>230</td>
<td>23</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>4</td>
<td>2</td>
<td>7754</td>
<td>39</td>
<td>50</td>
<td>5</td>
</tr>
<tr>
<td>Bank of India</td>
<td>2</td>
<td>1</td>
<td>7971</td>
<td>40</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>2</td>
<td>1</td>
<td>12000</td>
<td>60</td>
<td>300</td>
<td>30</td>
</tr>
<tr>
<td>Indian Bank</td>
<td>2</td>
<td>1</td>
<td>2000</td>
<td>10</td>
<td>75</td>
<td>8</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>1</td>
<td>1</td>
<td>1800</td>
<td>9</td>
<td>80</td>
<td>8</td>
</tr>
<tr>
<td>Catholic Syrian Bank</td>
<td>1</td>
<td>1</td>
<td>2502</td>
<td>13</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Lakshmi Vilas Bank</td>
<td>1</td>
<td>1</td>
<td>366</td>
<td>2</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>17</strong></td>
<td><strong>68037</strong></td>
<td><strong>341</strong></td>
<td><strong>937</strong></td>
<td><strong>94</strong></td>
</tr>
</tbody>
</table>
1.10.4. FRAMEWORK OF ANALYSIS

The ultimate object of the study is to examine the perception of the customers towards the customer relationship management practices of the commercial banks in Perambalur district. The data thus collected for the purpose of study were quantified, categorized and tabulated. In order to study the attitude of the customers towards customer relationship management practices of the commercial banks, chi-square test, analysis of one-way variance, student t-test, analysis of co-efficient of variation, multiple regression analysis, and percentage analysis have been employed. The chi-square test, analysis of one-way variance and student t-test are employed to measure the relationship between the demographic variables of the customers and their satisfaction towards the customer relationship management practices of the commercial banks. The co-efficient of variation is employed to find out the consistency in the attitude of respondents towards the customer relationship management practices of the commercial banks. Multiple regression analysis is used to measure the influence of independent variables in the overall satisfaction of the customers towards customer relationship management practices of the commercial banks. To arrive at possible solutions, simple percentage analysis is also employed in this study.
1.11. LIMITATIONS OF THE STUDY

1. The survey was conducted only in Perambalur district of Tamil Nadu. Hence, the results arrived from the study may or may not be applied to other areas. Further the survey method which was adopted for collecting the data in this study has its own limitations.

2. Out of the total population, only 435 respondents were selected for eliciting first-hand information. In view of time and monetary constraints it was not possible to contact more than the selected number of respondents.

3. However, the findings of the study are hoped to be of considerable interest, considering that the taken samples represent a cosmopolitan interaction of customers with different banking industry.

4. The study is based on the perceptions of customers of the current scenario, which might change in the future.

1.12. CHAPTERISATION

The study is presented in the form of following five chapters:

CHAPTER I

The first chapter, Introduction and Design of the Study presents, introduction, customer relationship management, CRM in banking sector
customer focus in banking services, operational definitions, objectives of the study, scope of the study, testing of hypothesis, scope of the sampling design, tools for data collection, framework of analysis, limitations of the study and chapterization.

CHAPTER II

The second chapter **Review of Literature** presents the previous studies related to the objectives of the present study.

CHAPTER III

The third chapter **A Conceptual Framework of Customer Relationship Management** elaborates the customer relationship management practices of the select commercial banks.

CHAPTER IV

The fourth chapter **Customers’ Perception towards Customer Relationship Management Practices** furnishes the profile of the sample customer and the attitude of the customers towards customer relationship management practices of the select commercial banks in Perambalur district.
CHAPTER V

The final chapter Summary of Findings, Suggestions and Conclusion presents the summary of the findings of the present study and offers appropriate suggestions to improve the customer relationship management practices of the commercial banks.

REFERENCES


✓ Zeithaml, V.A. and Bitner, Mary Jo (2003); “Services Marketing: Integrating Customer focus across the firm”; Tata Mc-Graw Hill (3ed), New Delhi, pp.59-114.