CHAPTER-I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction

Relationship marketing is the process of building long term mutually beneficial relationship with the customers. The Financial institutions in the developed countries are using this marketing tool very effectively by taking full advantage of Information and Communication Technologies.

The Indian Banking Industry which was operating in a bureaucratic style prior to 1991 had to undergo large scale transformation with the opening up of the economy. The Sector has been facing unprecedented challenges with the wave of liberalization, privatization and globalization of Indian Economy. The banks in India are under intense pressure in today’s volatile market place. Steep competition, globalization, growing customer demand and exposure to higher credit risks are forcing the banks to find new ways of improving profitability. On the other hand, cost-cutting measures have forced banks to manage operations with a few Customer Relationship Managers and Product Specialists. Industry consolidation also poses fresh challenges to this sector.

Even today, most of the banks in India rely on the legacy of Customer Information System. In such a scenario, it is difficult to have a complete customer view across divisions. They face unprecedented challenges to sustain
their growth path for survival. The challenges include customer retention, reduction of transaction costs, risk management and regulation compliance.

The strategic tool that was chosen to face these challenges was Information Technology. Most of the banks went through adoption of various stages and forms of IT over the years and the process is still continuing. The rapid growth in Information Technology and its potential to serve the customers in a new way awakened the marketers and enabled them to transform these challenges into opportunities. Under these circumstances, customer satisfaction became an important aspect of the business. The search for new strategies began to meet not only the high expectations of customers but the need to retain them. The competitive world witnessed many banks participating in the race to optimize their profits. It increased the pressure leading to the adoption of advanced technology and better skilled work force. Therefore, business model changed from bank-centric approach to customer-centric approach. The customer became not only an essential but also the most important part of the business.

The service sector has emerged as a key sector in the Indian Economy. The contribution from this sector to the Indian our Gross Domestic Product (GDP) is approximately 55 per cent, as per the Budget Report of 2008-09. The continuous growth of the GDP at 8 per cent and above has become possible due
to the good performance of this sector. In the post-reforms era, there has been a sea change in the financial sector. In such a scenario, the services have grown rapidly and the customer has been more often a purchaser of services rather than a product.

In the service sector the financial services are the backbone. In financial services banking is the most important segment. This is so, because banking is a catalyst and life of modern trade and commerce. It is an integral part of all the businesses and social activities. This rapid transformation of service in the banking system has led to the evolution of a highly competitive and complex market where there is a continuous refinement of services. Hence the increased role of banking in India’s economic development on the one hand and the changes in the business climate on the other has put increased pressure on them. These changes are compelling the banks to reorganize themselves in order to cope with the present conditions. Hence they even try to provide services at the customers place itself.

As, the financial institutions are trying to provide all the services at the customer’s doorstep, the customer has become the focal point either to develop or maintain stability in the business. Every engagement with the customer is an opportunity to either develop or destroy a customer’s faith in the bank. The expectations of the customers have also increased many folds. Intense
competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. Every bank in the industry like other business organizations is deploying innovative sales techniques and advanced marketing tools to gain supremacy.

1.2 Evolution of CRM

One of the important marketing tools in the developed countries is relationship marketing. The CRM is a comprehensive approach for creating, maintaining and expanding relationship with the customers. It has emerged as one of the most widely prescribed solutions for diminishing market share and sluggish growth of many industries in general and banking and financial sector in particular. The CRM is a simple philosophy, which places the customer at the heart of the business processes, activities and cultures for improving customer satisfaction and maximizing profits. In one of the encompassing definitions, CRM is described as “the establishment, development, maintenance, and optimization of long term, mutually-valuable relationship between the customers and the organizations”. It is a comprehensive approach for creating, maintaining and expanding relationship with the customers.

The concept of CRM is very important to the business sector. The essence of the business has been described by Mr. Peter Drucker, as, “the purpose of the business is to attract and retain a good customer” Good customer
service is the best brand ambassador for any bank. The entire business process consists of highly integrated efforts to discover, create, arouse and satisfy customer’s needs. The modern business has realized it and is making all out efforts to become ‘customer-centric’ across the globe. Hence, the CRM is not a once-for-all affair but a continuous process. It is the integral approach of dealing with customers by deploying the advanced information technology.

The CRM is the Information Technology face of the business process that aims to establish enduring the mutually-beneficial relationships with customers in order to drive customer retention, value and profitability. It is meant for a common and equal good of the two stakeholders-businesses and their customers. It calls for capturing pertinent data about the prospective and current customers in respect of their buying pattern, shopping behaviour and usage habits. Using these data designing and providing services as per the needs of the customer has become the focal point of CRM. So, the CRM is a tool for delivering a variety of marketing dreams such as:

♦ To target and serve customers on an individual basis. It permits one to one marketing as opposed to mass marketing.

♦ It helps in establishing durable relationship with customers.

♦ It is to dis-intermediarize channels of the wasteful barriers and distortions.

♦ It helps in reducing marketing cost progressively.
1.3 Need for CRM in the Banking Industry

The important factors that establish the need for the CRM in the banking industry are detailed below:

**Intense Competition**

There is intense competition among the Private Sector Banks, Public Sector Banks and Foreign Banks and they are all taking steps to attract and retain the customers. New technologies, research facilities, globalization of services, the flood of new products and the concept of all the facilities under one roof to provide better customer service leading to customer delight have come today.

**Well Informed Customers**

The customers in the banking industry today are well informed. With the introduction of new technology, the world has become a small village. Thus, if a bank wants to have more customers, it should develop a good relationship with its present customers and try to maintain the same in the future also.

**Decline in Brand Loyalty**

In the present scenario, brand loyalty is on the decline. The customers are switching over frequently to avail the better facilities from other banks. Newer and superior products and services are being introduced continuously in
the market. Thus, the banks have to upgrade their products, improve customer service and create bonds of trusts through proper care of customer needs and regular communications. With the help of the CRM, strong customer loyalty and a good image for the organisation can be developed.

**Improved Customer Retention**

In the intensely competitive banking industry, retention of existing customers is vital, which can be achieved through the process of the CRM.

**1.4 Requirements of an Effective CRM Structure**

An effective CRM system consists of the following:

**Personal Customer Needs**
- Personal Contact
- A knowledgeable and Reliable Banker
- Relevant Information
- Customized and Timely Solutions
- Value for Money

**Business Customer Needs**
- A Professional Partnership Approach
- High Levels of Information
- Customized and Highly Responsive Service
- Quality Customer Information
1.5 Benefits of CRM

Benefits of the CRM can be categorized into three groups namely; benefits for customers, benefits for employees and benefits for banks.

Benefits for Customers

♦ There is a more co-ordinated and professional approach to serve customers in the industry by using advanced Information Technology and better human skills..

♦ With up-to-date customer information, banks can offer more personalized services.

♦ Customers feel empowered if they have greater access to products and services. (For example 24 hours banking).

♦ Targeted product and service offerings can be timed to coincide with customer events and requirements e.g., education loans and tourism loans.

Benefits for Employees

♦ Employees are empowered with the information to deliver high quality service and meet customer expectations.

♦ Employees have more time to serve customers.

♦ Employees have higher satisfaction ratings.
Benefits for Banks

♦ Managers are empowered with information that can help them manage customer relationships and make better decisions.

♦ Customer satisfaction and increased loyalty.

♦ Improved customer acquisition and cross-selling.

♦ It helps in capitalizing on short windows of opportunities in the market.

1.6 Introduction of Innovative Services through CRM

Banks have made several innovations for sustenance by using the CRM system such as:

♦ The Introduction of ATMs.

♦ Biometric ATMs.

♦ Single Window Service.

♦ Teller System.

♦ Internet Banking.

♦ Introduction of Plastic Money; Credit Card, Debit Card, Smart Card.

♦ Mobile and E-mail Alerts.

♦ Electronic Cash.

♦ Introduction of Two in One Accounts.

♦ Smart Cart System

♦ Introduction of new loan schemes as per the customers needs viz. Education Loans, Marriage Loans, Housing Loans, Personal Loans, Vehicle Loans, Furniture Loans, Renovation Loans and Tourism Loans.
1.7 Statement of the problem

All services in the banking industry can be managed theoretically by IT applications and the internet facility. The customers of the service sector especially in the banking industry have become more educated and they expect standard services and superior quality which would lead to their delight. They expect not only core and value added services from the banks but also personalized services.

Those banks offer such personalized services and maintain their customer relationship are performing better than others. As the cost of acquiring new customers is greater than the cost of retaining existing customers, the banks are competing with each other to retain their existing customers and attract new customers if possible. Though CRM is expected to serve this purpose of customer retention and loyalty it seems many banks are not implementing it properly. Therefore a study on the CRM practices in the banking industry is needed to explore the benefits of the CRM practices in the banking industry, perceptions as well as the level of acceptance of the CRM by the bankers and the factors which discriminate the various aspects of the CRM and their outcomes in the private and the public sector banks. These aspects have not been explored so far in the District of Sivaganga. Hence the present study is making an attempt in this direction to solve the stated problem.
1.8 Related Reviews

1.8.1 Customer Relationship Management

Ramachandran (2001)\(^1\) highlighted the reasons for the lack of success of the current CRM tools and reviewed the strengths and weaknesses of the current approaches to the CRM. The study suggested that since customer needs are dynamic, new dimensions have to be added to the set of CRM tools based on information technology.

Ronald et al., (2003)\(^2\) presented an article on “Service, Failure, Recovery: The Impact of Relationship Factors on Customer Satisfaction”. The main focus of the study was to understand how customer relationships either buffer or magnify the impact of service failures on customers’ satisfaction and also learn about the conditions under which a service organisation is more or less vulnerable to the effect of such service failure. The result of the study revealed that customer relationship can help to shield a service organisation from the negative effects of failures on customers’ satisfaction. Customers who expect the relationship to continue have been satisfied with service recovery expectation, which in turn results in greater satisfaction with the service performance after recovery.

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Lynette Ryals (2005)\textsuperscript{3} in her article on “Making Customer Relationship Management Work: The Measurement and Profitable Management of Customer Relationship”, demonstrates that the implementation of the CRM activities delivers greater profits. Using calculations of the life-time value of customers into longitudinal case studies, the research finds that the changes in customer management strategies signify the value of the customers. These changes lead to a better firm performance. The article shows that CRM works and that a relatively straight forward analysis of the value of the customer can make a real difference. The research suggests that the important issue is not customer loyalty or customer retention but it is profitable customer retention and profitable customer portfolio management.

1.8.2 CRM in IT

Deepali Singh (2001)\textsuperscript{4} made a study on “Information Technology Enabled Customer Relationship Management”. The aim of the study was to examine the status of relationship marketing in India and elicit the techniques to maintain relationship with customers through information technology and thereby to make a shift from discrete transaction to enduring relationship. The findings revealed that the development of information technology and opening

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up of the digital market enabled the marketers to provide customized products/services and thereby develop value-based long lasting customer relationships. The only strategy that was perceived to make sense in the emerging marketing environment was that the marketers should learn and practice customer relationship management.

Vishnu Prasad Nagadevara (2002)\textsuperscript{5} presented an article titled on “Customer Relationship Management Using Data Mining-Case Study of an Electrical Appliances Company”. The strategy of using data mining techniques to identify, categorize and segment the customers and profile them for a specifically-targeted product and to cross-sell other products was demonstrated in this paper. In this study, demographic clustering was one of the commonly-used tools for customer segmentation. A few of the clusters were analyzed to demonstrate the appropriate strategies for acquisition of new customers as well as cross-selling. The objective was to use the characteristics of those customer segments to maximize the life-time value.

Peer Mohamed and Elgina Sweetline (2003)\textsuperscript{6} together made a study on “Call Centres and Strategic Tools for Customer Relationship Management”.


The study attempted at providing an idea as to how call centres developed customer relationships, its functional advantages and how they are useful to acquire new customers and retain the existing ones. On making a cost-benefit analysis the authors proved that web based call centres are much more cost effective. It was further found that organizations are evolving strategies to attract and retain customers, who desire to be listened, recognized, cared and responded to by the organisation. Call centers emerge as strategic tools in building such customer relationship.

Parimal Vyas (2004) made a study on “Measurement of Customer Satisfaction Information Technology Adoption in Banking Services”. This study was an empirical study based on descriptive research design to measure customers’ satisfaction considering the prevalent state of IT adoption among selected branches of the nationalized banks, the private banks, the co-operative banks and the foreign banks located at Baroda. The findings of the study revealed that there was an effective implementation of e-banking services in the case of the private banks and the foreign banks whereas the nationalized banks were found to have a lesser degree of computerization.

Satish et al., (2005) in their study on “The Role of Relational Information Processes and Technology Use in Customer Relationship Management” conceptualise and measure relational information processes or organizational routines that are critical for CRM. The authors examine the key drivers and outcome of relational information processes and the role of technology implementing CRM using data collected from a diverse sample of firms. The results show that relational information processes play a vital role in enhancing an organisation’s customer relationship performance. By moderating the influence of relational information processes on customer relationship performance, technology used for CRM performs an important and supportive role. The study provides insights into why the use of the CRM technology might not always deliver the expected customer relationship performance outcome.

1.8.3 The Benefits of CRM

According to Newell (2000) the real value to a company lies in the value they create for their customers and in the value the customers deliver back to the company. Accordingly, it is important to mark that the value does


not lie in more information and in more advanced technology. The value lies in the customer knowledge and in how the company uses that knowledge to manage their customer relationships. Knowledge is the soul of the CRM.

Unfortunately, few companies are transforming the information to customer knowledge and therefore they miss the opportunity to provide value to their customer. However, applied in the right way, the CRM is the tool that contributes to profit. If companies are transforming the customer data into knowledge and then uses that knowledge to build relationships it will create loyalty, followed by profits Royals, (2000)\textsuperscript{10}.

**Lower Cost of Recruiting Customers**

Customer recruitment cost will decrease and there will be savings in marketing, mailing, contact, follow-up, fulfillment, services and so on Sheth and Parvatiyar, (1995)\textsuperscript{11}.

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No need to Recruit so Many Customers to Preserve a Steady volume of Business

Increase in long-term customers relationship will ultimately minimize the need for new customers recruitment Storbacka et al., (1994)\textsuperscript{12}.

Reduced Costs of Sales

Long-term customers are more responsive than the newer ones they will also decrease the selling cost. The marketing campaign cost will also decrease due to familiarity with the distribution channels Dyche, (2001)\textsuperscript{13}.

Higher Customer Profitability

Customer profitability will increase by higher customer wallet-share, up-selling, cross-selling and follow-up sales and satisfied customer refers more customers Bolton et al., (1991)\textsuperscript{14}.

Increased Customer Retention and Loyalty

The retained or long-staying customer buys big quantities frequently. The customers’ initiatives increase bounding relationships and as a result

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loyalty arising Foster and Cadogan, (2000)\textsuperscript{15}.

**Evaluation of Customer Profitability**

The company evaluates which customers are profitable, going to be profitable in future and never profitable in future. The key to success in business is to discover economically beneficial customers, acquire them and never let them go Shone, et al., (1996)\textsuperscript{16}.

According to Budhwani (2002)\textsuperscript{17} all the customers are not beneficial. If the customers are taking company’s time, energy and resources without generating enough business, they are dangerous customers. Newell (2000) describes that the company must use the CRM where they can get good profitable customers.

1.9 Consequences of CRM

Verhoef (2003)\textsuperscript{18} observed that the CRM is a business process which results in optimized profitability and revenue generation, while achieving

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customer satisfaction. Often also known as relationship marketing by marketing academicians, the CRM is an information technology assisted process that establishes a collaborative environment for business to analyze the buying behaviour and product/service requirements of an individual or group of existing as well as potential customers.

Pisharodi, et al., (2003)\textsuperscript{19} in a study of success of the CRM found that a process-oriented strategic approach to connect the operational, informational and the organizational components of the CRM are critical for the success of the CRM application.

Shankar et al., (2003)\textsuperscript{20} pointed out that managers need to be careful in differentiating customer loyalty and customer profitability. Enterprises ought to understand the fact that managing customers for loyalty is different from managing them for profits.

Reinartz et al., (2004)\textsuperscript{21} found in their study that more than 75 per cent enterprises engaged in the CRM initiatives are incapable of putting together a

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comprehensive view of their customers. Further, it noted that market leadership would be attained by enterprises that achieve maximum value and customer satisfaction within each customer segment being served by them.

Parvatiyar and Sheth (2001)\(^{22}\) observed that the CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company with the customers.

Day (2000)\(^{23}\) pointed out that the enterprise has to develop some key marketing competencies for the smooth implementation of the CRM. A relationship orientation is the first among such things. Relationship orientation should permeate the mindset, values and norms of the organisation. Further, the enterprise needs to continue to increase its knowledge of the customers and ensure that it flows all over the organisation. Finally there is a need for alignment and integration of processes.

Jaishankar et al., (2000)\(^{24}\) observed that enterprises investing on the CRM solutions predominantly focus on technology. The challenge lies in


combining people, processes and technologies while implementing the CRM solutions.

Davids (1999)\textsuperscript{25} observed that choice of relevant technology and implementation are keys to successful customer relationship plans. The failure rate of the CRM projects has been estimated to be high.

Chattopadhyay (2001)\textsuperscript{26} observed that the CRM facilitates better handling of the obstacles of interweaving customer relationship strategy at all levels. It demands a holistic approach and process orientation.

Bose (2002)\textsuperscript{27} found that advancements in information technology, data warehousing and data mining capabilities enable enterprises to manage individualized relationships with key customers. The benefits come by way of lower costs of customers retention, improved profitability and lower defection rates.


Ragunath and Joseph (2001)\textsuperscript{28} made a study on “Introduction of e-CRM in the Indian Insurance Sector”. The study focused on the reaction of the agents and customers to the introduction of e-CRM, call centers and internet products in the insurance sector. The findings of the study was that general insurance agents preferred telephone and e-mail interaction, while life insurance agents preferred personal interaction, though they expressed their willingness to be part of the network for setting up a database for their customers. Customers attached a high weight for human interaction and customization. This view was also echoed by the agents as well.

1.10 CRM in Banks

Gupta and Sonal Shukla (2002)\textsuperscript{29} in their article “Learning from Customer Relationship Management (CRM) Implementation in Bank” attempted to highlight the learning from CRM implementation in the banking sector. The important issues examined include organizational information, the CRM strategy, strategic changes resulting from the CRM implementation, implementation priorities for the banks and the factors indicating the performance after the CRM implementation. The study was supported by a

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case study of the CRM systems in major Japanese Bank, Bank of Tokyo, Mitsubishi and also a field survey of scenario in the Indian banking sector. The study revealed that the CRM is gradually picking up and is definitely considered as a viable proposition by banks in improving services to their customers. Since there is a resistance to change, while implementing the CRM, high commitment is required in those who are implementing it?

Ramachandra, (2002)\textsuperscript{30} made a study on “Customer Relationship Management-Emerging Strategies”. The main objective of the study was to develop a scale to measure the depth of relationship and stages of relationship development. Further this study also attempted to identify effective and timely cross-selling and up-selling of the products and the services. The study concluded that for laying the right foundation for a better CRM, the banks should be customer-centric and give importance to the retention of existing customers than acquiring new ones for it promote cross-selling and re-purchase of products.

Alok Mittal, et al., (2003)\textsuperscript{31} presented an article on “An Exploratory Study of CRM Orientation Among Bank Employees”. The paper aimed at

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exploring the aspect of the CRM orientation among bank employees of both the public and the private sector banks. The findings of the research highlighted that there is need for improvement on some of the components of the CRM such as customer communication, customer orientation, customer care and handling of complaints in both public and private sector banks. The aged employees in the public and the private banking institutions need to improve their CRM skills in order to compete with their younger counterparts.

Tapan, (2003)\textsuperscript{32} in his article “Creating Customer Life-time Value Through Effective CRM in Financial Services Industry”, has stressed the importance of the CRM in financial services industry. Customer data management gives clues about the probability of customer demand and the technology helps in tracking the characteristics and categorization of customers depending on their past behaviour. He concluded that with increased competition and customers moving very fast from one firm to another, it is essential to have an integrated CRM strategy across the whole organisation for generating higher customers life-time value.


Commercial Banks: A Comparative Study” attempted at studying the service quality in commercial banks with a view to making overall service quality in banks more effective and efficient. The study was conducted in selected states of northern India which include Jammu and Kashmir, Punjab, Haryana and Delhi. The study is restricted to five banks in the northern India namely, the State Bank of India, the Punjab National Bank, the Jammu and Kashmir Bank, the Citi Bank and the Standard Chartered Grindlays Bank. In this study, the main area of questioning and analysis is related to customers expectation and perception in relation to service quality dimensions. For examining service quality and its dimensions in the bank’s the SERVQUAL the model was used. The results of the study revealed that the service quality of foreign banks was comparatively much better than that of Indian banks and suggested heavy investment by Indian banks in tangibility dimension to improve the quality of service to customers.

Dhillon et al., (2003)34, in their study “Paradigm Change; Relationship Marketing and Service Quality of Banking Services”, highlighted the changing dimensions of marketing of banking services in the public sector banks and the private sector banks in India after liberalization in the 1990s. The study focused on the emerging banking scenario particularly in the post-liberalization

era in Indian banking, changing dimensions of banking services, comparison of
customers satisfaction rendered by the private sector banks and the public
sector banks. The result of this study revealed that the private sector banks
were fairly doing well with innovative technologies, better understanding of
customers and better services. Good relationship marketing strategies like
better segmentation, enquiry management, welcoming the customer, getting to
know the customers, customer development, managing problems and winning
back the customers contributed to the growth and market share of private sector
banks in India.

Chiwa (2003)\textsuperscript{35} in his article “Determinants of Commercial Banks’
Profitability in Malawi: A Co-integration Approach” investigated the
relationship between market structure and profitability of the Commercial
Banks in Malawi using time series data between 1970 and 1994. He used time
series techniques of co-integration and error correction mechanism to test
collusion hypothesis and determine whether a long-run relationship exists
between profits of commercial banks and concentration in the banking industry.
He concluded by supporting the traditional collusion hypothesis of a long-run
positive relationship between concentration and performance.

\textsuperscript{35} Chiwa, E.W. (2003), “Determinants of Commercial Banks’ Profitability in
No.8, August, p.4.
Eapan and Ganesh (2003) in their study titled, “Customer Service in Banks: An Empirical Study” mainly focused on the ‘speed’ aspect of customer service by assessing customers’ experience with regard to time taken to transact business with public sector banks and old generation private sector banks operating in Tiruvananthapuram district of Kerala. The study revealed that there was no difference between the public and the private sector banks in the customers’ time consumed for transacting business in banks.

Debashish Sathya Swaroop (2003) conducted a study in Delhi to study service quality in banks. He used the Rust and Oliver model to study the service quality in banks. The study revealed that the ICICI bank and the SBI provided better quality service. However, on the whole the public sector banks failed to satisfy their customers.

Arvind Singh (2004) in his article “Customer Relationship Management-New Horizons in Banking” argues that the truly most productive and desirable assets are not buildings and fixtures but a profitable customer base. He states that enhanced customer relationship implies taking customer

service and associated profitability to new heights by increasing interactive banking and client links. He suggests that banks globally must consider themselves as innovative solution providers satisfying customers rather than just a product-driven or a profit driven distributor. He discusses extensively how the advancement in technology have changed the face of banking and have the compelled banks in the UK and the USA to reconsider their strategies. He also suggests that banks must reassess their strategies and must acquire a mindset in managing customer relationships to be successful in the ever changing markets.

Dibh and Moureen (2004) in their research paper, “Relationship Marketing and CRM: A Financial Services Study” considered the shift towards relationship marketing principles and the implementation of the CRM in retail financial service sector. Many players offering banking and related products have now ‘bought in’ the concepts behind relationship marketing and are investing heavily (particularly in new information technology) to enhance customer relationship and improve retention rates. This trend is considered from the perspective of an organisation that is one of those leading the change. An in-depth case study reveals the progress made in the recent years towards the company’s goals focusing especially on the introduction of new systems.

and moves to enhance customer data. However, the analysis also suggests that major challenges remain if the benefits of the CRM are to be fully realized with particular concerns for the implementation of the CRM principles.

Upinder et al., (2004)⁴⁰ made a study on “Service with a Difference: A Comparative Analysis of Private and Public Sector Banks”. Their aim is to study different service quality factors in private and public sector banks, both for the employees, as well as for the customers to understand the emerging trend in competition, service feature required by the customers, quality expectation and perseverance. The study reveals that the employees have felt that competence and tangibility are higher in public sector as compared to that the private sector and the customers have felt that public sector has higher tangibility. Responsiveness is higher in private sector.

Rajeswari Krishnan (2004)⁴¹ in her article “Banking CRM Makes the Difference” observes that customer relationship management can be helpful in customer identification, cross-selling of products, customer acquisition and retention. Operational CRM, which provides required information and Analytical CRM, which traces activities and makes information more sensible


are the two tools of the CRM. The CRM cell, portfolio of products, customer-metrics and latest methodology are some of the requirements suggested by the author for efficient implementation of the CRM in banks.

Gopal, (2004)\textsuperscript{42} in his article “Retail Banking Going the CRM Way” observes that attracting and retaining the individual, high net-worth and profitable customers is a key challenge to banks today. Customer relationship management can help the retail bank managers in facing this challenge. He has suggested that in order to derive the maximum benefit from the CRM, banks must prepare their process compatible to the customer relationship management.

Ganesan and Rajagopalan (2004)\textsuperscript{43} in their article on “e-CRM in Service Excellence”, addresses e-CRM strategies to explore the possibilities in active, preactive and proactive service excellence. They highlight that competitive environment, eroding margins, need to reduce costs and keeping customers are the prime drivers for the organizations to embrace e-CRM. They conclude that a well-executed e-CRM strategy can result in a number of quantitative benefits including greater ability to sell and cross-sell, improved customer retention besides reduced cost of service.

\textsuperscript{42} Gopal, V.V., (2004), “Retail Banking-Going the CRM Way”, \textit{Professional Banker}, August, pp.97-100.

Raji Srinivasan and Christine Moorman (2005)\textsuperscript{44} in their study on “Strategic Firm Commitment and Rewards for Customer Relationship Management in Online Retailing”, say that a firm’s strategic commitments may be an overlooked organizational factor that influences the rewards for a firm’s investment in the CRM. Using the context of online retailing, the authors consider the effects of two key strategic commitments of online retailers on the performance effect of the CRM, their bricks and mortar experience and their online entry timing. They have tested the proposed model with a multi-method approach that uses manager ratings of firm CRM and strategic commitment and third-party customers ratings of satisfaction from 106 online retailers. The findings indicate that firms with moderate bricks and mortar experience are better to leverage CRM for superior customer satisfaction outcomes than firms with either low or high bricks-or mortar experience. Likewise, firms with moderate online experience are better able to leverage CRM into superior customer satisfaction outcomes than firms with either low or high online experience. These findings help resolve disparate results about the value of the CRM and they establish the importance of examining the CRM within the strategic context of the firm.

\textsuperscript{44} Raji Srinivasan and Christine Moorman (2005), “Strategic firm Commitments and Rewards for CRM in Online Retailing”, \textit{Journal of Marketing}, Vol.69 No.4, October, pp.193-200.
Eventhough, there are so many studies related to the CRM in banks, the studies have focused either the customers perception on the CRM at banks or the implementation of the CRM practices at banks. There is no exclusive study on the linkage between the implementation of the CRM practices and its outcomes. Hence the present study has made an attempt to fill up the research gap with the help of proposed research model.

1.11 Proposed Research Model

The proposed research model of the present study is given in Figure

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<tr>
<th>Employees View</th>
<th>Customers View on</th>
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<td>➢ CRM development</td>
<td>➢ Overall service quality</td>
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<td>➢ CRM systems</td>
<td>➢ Customer interaction</td>
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<td>➢ CRM implementation</td>
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<td>➢ CRM practices</td>
<td>➢ Customers service strategies</td>
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<td>➢ Instruments of CRM</td>
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<td>➢ Critical success factors for adoption of CRM</td>
<td>➢ Customer loyalty</td>
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1.12 Objectives of the Study

The present study is confined to the following objectives.

i) To exhibit the profile of the employees of the commercial banks in Sivaganga district.

ii) To identify the stages of the CRM development and implementation at the commercial banks.
iii) To analyse the CRM systems and practices implemented at the commercial banks in Sivaganga district.

iv) To examine the perception of the CRM and its antecedents among the employees of the private and the public sector banks in Sivaganga district.

v) To analyse the impact of the CRM practices implemented at the commercial banks and the significant outcomes of the CRM.

vi) To identify the discriminant factors related to the various aspects of the CRM in the private and the public sector banks, and

vii) To evaluate the various benefits of the CRM at the commercial banks in Sivaganga district.

1.13 Methodology

Research methodology is the way of systematically solving a research problem. Under it, the researcher acquaints himself with the various steps generally adopted to study a research problem, along with the underlying logic behind them. The Advanced Learner’s Dictionary of Current English lays down the meaning of research as “a careful investigation or inquiry specially through search for new facts in any branch of knowledge”\(^{45}\). Redman and Mory defined research as “looking for new facts in any branch of knowledge”\(^{46}\). In the


present study, research methodology covers the research design, locale of research, sample and sampling, operation alienation and measurement variables, method of data collection, framework of analysis and limitations.

1.14 The Research Design of the Study

The most important stage after defining the research problem is preparing the design of the project report, which is popularly known as the ‘research design’. A research design helps to decide upon issues like what, when, where, how much, by what means, and the like with regard to an enquiry or a research study.

Selltiz et al., (1962)\textsuperscript{47} defined, “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, the research design is the conceptual structure with which research is conducted. It constitutes the blue print for the collection, measurement and analysis of data”.

In the present study, the descriptive and analytical type research designs have been administered. Since this research describes the profile of the employees and customers in banking industry and their perception on the CRM at banks, it is descriptive in nature. Mean while, this study analyses the impact of the CRM practices implemented by the bank on customers’ perception on

\textsuperscript{47} Clavie Selting and Others, Research Methods in Social Sciences, 1962, p.50.
service quality, customer interaction, retention, customer service strategy, customer satisfaction and loyalty it is diagnostic in nature.

1.15 Rationale of the Study

Due to globalization and liberalization, in the banking industry the competition has increased due to the emergence of new private sector banks and the foreign banks. The customers expect from their service providers services at par with the international standard. In order to compete in this banking environment, the banks in the industry are trying to adopt suitable strategies to retain their existing customers and also to attract the new customers. One of the important expectations of the customers in the banking industry understands the customers’ needs and provision of personalized services. Hence the banks are establishing the CRM systems and practices at their banks to have better relationship with their customers. Within this view, the rational of the study will be to explore the employees’ view on the implementation of the CRM aspects at the banks and also the customers’ view on the various outcomes of the CRM implementation at the banks.

1.16 Selection of the Area of Study

Sivagangai district was purposively selected as the study area by the researcher for the following reasons:
1. The commercial banks are situated in this district in the rural and semi urban areas. It stands as second largest of Tamilnadu in terms of the number of bank branches as per the data provided in RBI Bulletin (Table No. 2.4 – District and Population Group-wise Deposits and Credit of Scheduled Commercial Banks March 2009).

2. The district is well known for its banking tradition in Tamilnadu. People of this region have formed banks such as, Indian Bank, Indian Overseas Bank and Bank of Madura at their inceptional stage.

3. Sivagangai is one of the developing districts. Modernization and literacy in the district is growing at faster rate after the establishment of the Alagappa University, Central Electro Chemical Research Institute, Engineering Colleges and Medical College.

4. Familiarity to the culture, local dialect and infrastructural facilities available at this district would help the researcher to develop a good rapport with the employees and customer of the banks in the district. Hence, better and valid responses could be received.

1.17 Sampling Procedure

In total, there are 83 branches of Public and 33 branches of Private Sector Commercial Banks in the district. From each branch 5 employees and 5 customers have been identified with the help of the bank managers as the

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48. Annual credit Plan 2010-11, IOB (Lead Bank), Sivaganga District.
sample of the study. The sample employees and customers are 535 and 535 respectively. These persons were served with copies of structured questionnaire. But the response rate on the questionnaire among the employees is at 66.54 per cent whereas among the customers, it is only 30.47 per cent. Hence, a total of 356 employees and 163 customers have been included in the sample of the present study. The applied sampling technique of the present study is purposive sampling.

1.18 Questionnaire Development and Pilot Study

The questionnaires have been prepared in the present study, one for soliciting the opinions of the employees and another for eliciting the responses from the customers. The questionnaire for employees focuses on the implementation of the various aspects of the CRM at the banks whereas the questionnaire for customers aimed to explore the outcome of the CRM at the banks. The relevant variables related to CRM have been collected from various previous studies and also the views of the experts in this field. A pilot study was conducted among 50 Employees and 50 Customers of the banks in the district. As per the result of pre-test, certain modifications, deletions and simplifications were carried out to enrich the quality of the questionnaire. The questionnaire was mailed to both employees and customers and the relevant data were collected.
1.19 Framework of Analysis

For analyzing the data collected during the investigation, the following statistical tools were used based upon the nature of data and relevance of the information required.

‘t’-Test

Several hypotheses in marketing are related to any parameters from two different populations. In order to find out the difference between two means related to any parameters, the ‘t’ test has been applied. There is one condition on the nature of data. That is the data related to any parameter are in interval scale. The t-statistics can be calculated by

\[
t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2} \left(\frac{1}{n_1} + \frac{1}{n_2}\right)}}
\]

With the degree of freedom of \((n_1 + n_2 - 2)\)

Whereas

\[
t = \text{t-statistics}
\]

\[
\bar{X}_1 = \text{mean of the first sample}
\]

\[
\bar{X}_2 = \text{mean of the second sample}
\]

\[
s_1^2 = \text{variance of the first sample}
\]

\[
s_2^2 = \text{variance of the second sample}
\]

\[
n_1 = \text{number of samples in first group}
\]

\[
n_2 = \text{number of samples in second group}
\]
In the present study, the test has been administered to find out the significant difference among the employees in the Private and the Public sector banks regarding various aspects related to the CRM implementation in commercial banks. It is also applied to find out the significant difference among the customers in public and private sector banks regarding various outcomes of the CRM at the commercial banks.

**Analysis of Variance (ANOVA)**

Analysis of Variance is used for examining the differences in the mean values of the dependent variable associated with the effect of the controlled independent variables, after taking into account the influence of the uncontrolled independent variables. Essentially, the ANOVA is used as a test of means of two or more populations. The One-way Analysis of Variance involves only one categorical variables or a single factor. The ANOVA is applied when the categorical variables in interval scale.

\[
F \text{ ratio} = \frac{\text{Variance between groups}}{\text{Variance within groups}}
\]

is calculated and compared with the respective table value of \( F [(k-1)/(n-k+1)] \) degree of freedom whereas \( k \) – number of groups and \( n \) – number of samples.

In the present study, the one way analysis of variance has been used to
examine the association between the profile of employees and their view on various aspects of the CRM and the association between the profile customers and their views on various outcome of the CRM at the banks.

**Multiple Regression Analysis**

Multiple regression analysis is used when there is one dependent variable and more than one independent variable. But these independent and dependent variables are in interval scale. The impact of independent variables on the dependent variable is measured with the help of multiple regressions. The fitted regression model in the present study is

\[ Y = a + b_1x_1 + b_2x_2 + \ldots + b_nx_n + e \]

whereas

- \( Y \) = Dependent variables
- \( x_1, \ldots, x_n \) = Independent variables
- \( b_1, \ldots, b_n \) = Regression co-efficient of independent variables
- \( a \) = intercept and
- \( e \) = error term

The multiple regression analysis is applied to find out

i) the impact of the CRM practices implemented at the banks and the customers perception on overall service quality of the commercial banks;

ii) the impact of the CRM practices a banks on the customer interaction
at banks;

iii) the impact of the CRM practices at banks on the customer retention at banks;

iv) the impact of the CRM practices at banks on the customer service strategies at banks;

v) the impact of the CRM practices at banks on customers satisfaction and customers loyalty at banks.

**Exploratory Factor Analysis (EFA)**

Exploratory Factor analysis is a general name denoting a class of procedures primarily used for data reduction and summarization. In marketing research, there may be a large number of variables, most of which are correlated and which must be reduced to manageable level. Relationships among sets of many interrelated variables are examined and represented in terms of a few underlying factors.

If the variables concluded in factor analysis are standardized, the factors model may be represented as:

\[ X_i = A_{i1}F_1 + A_{i2}F_2 + A_{i3}F_3 + \ldots + A_{im}F_m + V_i u_i \]

Whereas

\[ X_i = \text{ } i^{th} \text{ standardized variable} \]

\[ A_{ij} = \text{ Standardized multiple regression co-efficient of variable on common factor } j \]
F = Common factor

$V_i = \text{Standardized regression co-efficient of variable } i \text{ on unique factor } i$

$U_i = \text{The unique factor for variable } i$

$m = \text{Number of common factors.}$

The unique factors are uncorrelated with each other and with the common factor. The common factors themselves can be expressed as linear combination of the observed variables.

$$F_i = W_{i1}X_1 + W_{i2}X_2 + \ldots \ldots \ldots W_{ik}X_k$$

whereas

$F_i = \text{Estimate of } i^{th} \text{ factor}$

$W_i = \text{Weight of factor score sufficient}$

$K = \text{Number of variables}$

The key statistics associated with factor analysis are as follows:

**Communality**

It is amount of variance a variable shares while all the other variables being considered. This is also the proportion of variance explained by the common factor.

**Eigen Value**

It represents the total variance explained by each factor.

**Factor Loading**

Factor loadings are simple correlations between the variables and the factors.
Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy

The KMO measure of sampling adequacy is an index used to examine the appropriateness of factor analysis. High values (between 0.5 and 1.0) indicate that factor analysis is appropriate. Values below 0.5 imply that factor analysis may not be appropriate.

Factor Scores

Factor scores are composite scores estimated for each respondent on the desired factors.

Percent of Variance

This is the percentage of total variance attitude to each factor.

Reliability Co-efficient

It explains the reliability of the variables in each factor. It is also called as Cronbach alpha.

In the present study, the factor analysis has been applied to narrate:
i) Important stages in the CRM development at the banks;
ii) Important CRM systems at the banks;
iii) Important CRM practices implemented at banks;
iv) Important critical success factors in adoption of the CRM;
v) Important service quality factors in commercial banks; and
vi) Important benefits of the CRM at banks
**Confirmatory Factor Analysis (CFA)**

The confirmatory factor analysis is a statistical tool which is used to test the reliability and validity of the variables included in each factor identified by the EFA. The important statistics drawn from the CFA are the standardized factor loading of the variables, its ‘t’ statistics, composite reliability and average variance. These are computed for the purpose of testing the content, convergent, and discriminant validity of the factor extracted by the EFA.

In the present study, the CFA is applied to test the reliability and validity of variables included in each factor extracted by the EFA.

**Discriminant Analysis**

The discriminant analysis is used to identify the importance of discriminant variables in the discriminant functions. It is applied when the dependent variable is in nominal scale and the independent variables are in interval scale. The discriminant analysis model involves linear combinations of the following form

\[ Z = b_0 + b_1x_1 + b_2x_2 + \ldots + b_nx_n \]

whereas

- \( Z \) = Discriminate Score
- \( b_1, \ldots, b_n \) = Discriminate co-efficients or weights
- \( x_1, \ldots, x_n \) = Predictors or undependent variables
The Wilks Lambda was calculated as a multi-variant group difference over discriminating variables. The higher Wilk’s Lambda indicates lower discriminate power of the variables whereas the lower Wilk’s Lambda represents higher discriminate power of the variable.

The relative discriminate power of the variables was calculated by

\[ I_j = k_j \left( \bar{X}_{j1} - \bar{X}_{j2} \right) \]

Whereas
- \( I_j \) = the important value of the \( j^{th} \) variable
- \( K_j \) = unstandardized canonical discriminant co-efficient of the variable ‘\( j \)’
- \( \bar{X}_{jk} \) = mean of the \( j^{th} \) variable for the \( k^{th} \) group.

The relative importance of a variable \( R_j \) is given by the two group discriminate analysis have been administered to identify:

i) the important discriminant stage of the CRM implementation in Private and Public sector banks;

ii) the important discriminant CRM systems in Private and Public sector banks;

iii) the important discriminant CRM practices in PRSBs and PUSBs;

iv) the important discriminant antecedents of the CRM acceptance in the private and the public sector banks;

v) the important discriminant critical success factor of the CRM
implementation in the private and the public sector banks;

vi) the important discriminant service quality factors, customers interaction variables, customers retention variables, customer service strategies variables, customer satisfaction variables and customers loyalty variables in the private and the public sector banks.

1.20 Limitations of the Study

The present study is subjected with the following limitations:

1) Application of non-probability sampling is one of the limitations of the study. However, as the number of respondents are large enough with mixed groups of customers and emphases the results of the study would be reliable;

2) The study has not considered other types of banks such as RRBs, Cooperative Banks and so on. This because the for any of the study itself restricted to commercial banks as they are dominant players of the banking business in the district;

3) The response rate from the customers was not satisfactory even though two attempts have been made to collect the data. However, the response rate of more than 30 percent is usually considered as good for this kind of study;

4) The impact analysis has been applied under an assumption of linear relationship between the dependent and independent variables.
1.21 Chapterisation

The report study is presented in five chapters.

The first chapter includes the introduction and design of the study.

The second chapter covers the conceptual framework of the study.

The third chapter presents the profile of the employees and their views on the various aspects related to the implementation of the CRM at the commercial banks in Sivaganga district.

The fourth chapter explains the profile of the customers and their perceptions on the various outcomes of the CRM implementation at their banks in the district.

The fifth chapter presents the summary of findings, suggestions, conclusions and also the recommendations for future research.