CHAPTER I

INTRODUCTION AND RESEARCH DESIGN
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1.1 INTRODUCTION

Banks play a vital role in the socio-economic development of our country. Banks offer several facilities to enhance the standard of living of our citizens. In the past, owing to lack of information and proper guidance, the general public could not avail the full benefits from the banking industries to improve their standard of living. It is now undeniable that the face of the Indian consumer is changing. This is reflected in the change in the income pattern of the urban household. The direct fallout of such a change will be the consumption patterns and hence, the banking habits of Indians, which will now be skewed towards retail-products. At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy.

The banking sector is a good barometer of the economy. It plays several roles, because of which it serves as a repository of accumulated financial information. Many have aptly defined banking as the art of risk management and participation in the game of asymmetries, as reflected in the increasing urge of banks to leverage capital. In the din over exotic derivatives instruments, differential cash flow from sub-prime portfolio and call for increasing regulation, global banking, is perhaps, at an inflexion point. Given this, one of
the questions to be asked is should banks continue to transform themselves into financial supermarkets or should they build on their core competencies.

Banks have come a long way from the initial days of bill of exchange and acting as custodian of private money to enabling trade between cities and nations. Today, across the globe, banks are the backbone of all the transactions, the mechanism to deploy capital for industrial growth, and trustee of citizens’ savings. By their very nature banks are capital-hungry entities, with unique power to leverage deposits that too, many times over to create credit. If not managed properly, they could be exposed to, even participate, far reaching systematic risks like liquidity, settlement and transaction, among others. Therefore, they have to necessarily work within tight regulations.

“Banking system remains the focal point in the financial set up of any developing country. Banks are regarded as special in view of their specialised functions in the financial intermediation and payment system. Banking plays an increasingly important role in nation’s economy”\(^1\) Banking, in its crude form, is an age old phenomenon. Banking is as old as authentic history and traceable in ancient times”\(^2\).

Banking in India is as old as ancient Vedic period. There are evidences in “Arthasasthara” (3000 BC) and “Manu Smruti” about the existence of

\(^1\) Indian Banking System Development, Performance and Services, Mahamaya Publishing House, 2005, pp. 5.

banking business\(^3\). However, the English Agency House established the first modern bank known as the bank of Hindustan at Calcutta in 1770. After that Bengal bank was setup in 1784 and around 1796 general bank of India was established. But these banks could not provide the services due to their own crises\(^4\). Besides the three so-called presidency bank, namely the Bank of Bengal (1807), Bombay (1840) and Madras (1843) another group of banks called the exchange banks began operating in India from 1850s\(^5\).

The major banking events during the interwar period (1918-39) were the amalgamation of the three Presidency banks into the Imperial bank of India in 1921 and the setting up of the Reserve Bank of India in 1955.\(^6\) In 1957 the seven banks that were earlier catering to the rules of different areas in state wise State Bank of Patiala, Bikaner, Jaipur, Indore, Sowrashtra, Hyderabad, Mysore and Travancore became subsidiaries of State bank of India. In 1969, the Government of India nationalized 14 banks and another 6 more banks in 1980. After the merger of new banks of India with Punjab national bank during the era of finance sector reforms, the number of public sector banks became 27 (i.e., eight banks of SBI group and 19 nationalized banks)\(^7\). Prior to nationalization of the commercial banks, they were largely, concentrated in few

\(^3\) Lall Nigam B.M., (1997), Banking Law and practices, Konark Private Limited, New Delhi, 5\(^{th}\) revised Edition, pp.12
selected centers and provided to the privileged class. The banks nationalization in 1969 was a major step towards bringing about economic growth equity and justice in the economy\(^8\). After nationalization, the new private sector banks also brought into major steps towards uplift of economic growth of India.

1.2 CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management or relationship marketing (CRM) system is a business strategy that uses information technology to provide the enterprise with a comprehensive, reliable and integrated view of its customer base so that all business processes and customer interaction help maintain and expand mutually beneficial relationships. CRM systems help organizations improve the profitability of their interactions safer and friendlier through individualization and personalization. CRM is thus a technique or a set of processes designed to collect data and provide information that helps the organization evaluate strategic options.

1.3 NEED FOR THE STUDY

Implementation of CRM in Indian banking is still in initial and has to go a long way to develop and rise to the global standards. CRM in banks can be defined as the ability to understand, anticipate and manage the needs of the customer interaction and relationship building resulting in increased profitability through revenue and managerial growth and operational efficiency. To serve more and retain customers, banks in India have changed

their old concept of accepting deposits and lending money into any time any branch and any bank through any where banking. India is fast becoming an important development base for financial activities and banking in particular. This trend is likely to increase in the future. Call centers creating primarily to the American, European markets are coming up in and around the Metros. With the easing of infrastructure, India is likely to emerge as a significant player in this segment. But the Indian Private Banks is coming in a big way to address this issue to remain competitive with their counterparts-the foreign and private sector banks.

The primary benefits of CRM are improved marketing methods, better customer retention, customer profitability analysis, and market share growth. CRM can improve marketing methods by targeting customers with value proposition that makes sense. Customer retention improves, as service offerings are better fit for a customer. Customer profitability analysis enables banks to utilize the cost and benefit of servicing customer in making decision about who they should do business with and in the future. If banks do think properly customer services will be improved. All these benefits can be a source of sustainable competitive advantage. The technological innovation brings more transparency and customers are in a position to move from one bank to another where he gets preferential treatment and services. Hence, it is pertinent to study the various measures not only to bring more customers but also to retain old customers by adopting customer retention management techniques in banks.
The aims were to evaluate the effectiveness of service delivery offered by local new private sector banks in Nagapattinam district, primarily from the perspective of customers and employees. In order to understand the environment in which the potential respondents are communicating, it is vital to consider the evaluation of both customers and employees’ characteristics, attitudes and behaviours towards the services of the bank. Modifying the execution of a certain service to accommodate the preferences of customers can be done, however, that should not be the ultimate objective to make it more effective. It is the modification of the service approaches and how the characteristics of employees affect their approach to a particular situation that is vital. In this study, it is the characteristics, approaches, attitudes and behaviors that the customer and employee strategies involve that are identified. In this section the research approach used in this study for the data collection and analysis is outlined, the perspective and paradigms that underpin the study are made transparent.

The technology change with pace of light is making CRM come out with new faces day after day. The present world customer is demanding for more customisation which is forcing the business and its entities to shift their ideology from 'mass production' to mass customization'. The increased channels of doing the business such as direct sales, online sales, franchises, use of agents etc. have given birth to the need for managing the huge customer data and the way the interact with this huge customer base in an effective and
fruitful manner to generate more and more profits for organisations and more comfort for customers.

Indian Banking Industry has witnessed rapid development in the recent past with the initiation of financial sector reforms. The thrust of financial sector reforms is to improve efficiency, competitiveness and productivity of the financial system. Entry of new private sector banks, which provides technology, aided services like internet banking, mobile banking, inter branch network, has electrified the banking environment in India and has added new dimensions to automation in Indian banking.

With the advancement of banking technology and computerization and networking of bank branches, banking customers are becoming more and more dynamic and less loyal in their behavior. The development of the Internet is further adding to this trend and the whole market becomes transparent and customers are in a position to move easily from one bank to another. In such a situation, customer satisfaction is the key to bank marketing, which aims at retention of the old customer and bringing the new customers.

1.4 STATEMENT OF THE PROBLEM

Banking services remain one of the largest and fastest growing industries in India and this industry stimulates the development of new infrastructure that creates new income earning opportunities. The Indian economy has undergone significant structural changes over the last twenty years. Since independence, along with the rapid growth and modernization of the Indian economy, banking systems have expanded very rapidly. Before
independence, the banking network was dominated by a few foreign banks, engaged primarily in mobilization of savings to finance exports, plantation agriculture, mining and international trading. With the establishment of the Reserve Bank of India in 1949 and the emergence of more locally incorporated banks in the early 1960s, the system as a whole has become more responsive to the priorities and basic needs of the domestic economy.

The banks which came into existence after March 1995 and are called New Private Sector Banks (NPSBs) or popularly known as New Generation Banks (NGBs). It is that the productivity and profitability of the New Private Sector Banks are better compared to the traditional public sector banks. The question is how far this can be attributed to the customer relationship management of the two stake holders of banks namely the customers and employees. Customers were illiterate, security conscious, and were very small deposit holders.

Today banking has become an extremely competitive business. The banks are needed to it’s from essential strength of good customer relationship management. However, banks in the operation for achieving efficiency and gaining technology are facing the danger of forgetting this fundamental premise of CRM. For years, banks have been guilty of five interpersonal sins, that have caused tremendous irritation to customers, which are inability to cross sell, long ques, poor service attitude, lack of information and lack of humidity that prevent them from maintaining good customer relationship.
The banking industry was chosen, because its daily routine involves interactions between customers and employees, creating various service experiences, both negative and positive. These interactions occur frequently due to the importance of banking services in daily life which relate to the financial situation of each one of the potential respondent customers. In the light of this development, it seems pertinent to focus on the study of the quality of banking service, and the banker customer relationship. Hence the present study has been carried out to examine the customer relationship management in the new private sector banks in Nagapattinam district of Tamilnadu. In this process the following questions arise:

1. What is the perception of customers about banking service?
2. Are the customers satisfied about their relationship with the bankers?
3. What is customer relationship as perceived by bank employees?
4. Does CRM help in retention and increase the efficiency of services of the customers of new private sector banks?

The present study is an attempt to look into these aspects for the purpose of gathering more information for improving the CRM practices in New Private Sector Banks.

**SCOPE OF THE STUDY**

The study of highlights CRM of the new Private Sector Banks in Nagapattinam District and the level of satisfaction perceived by the customers and employees against the existing working environment. The present study aimed to focus on the CRM of the various categories such Attractive
Customers, Strategies to Acquisition the Customers, Retaining the Customers, Customer Satisfaction, CRM and Technology, Impact of CRM, CRM Maintenance, and Customers Services (Tangibles, Reliability, Responsiveness, Assurance, Empathy).

1.5 OBJECTIVES OF THE STUDY

The following objectives are developed for a study about the CRM in New Private Sector Banks in Nagapattinam District.

1. To study the customer relationship management practices in the new private sector banks in Nagapattinam district.
2. To analyse the customers’ perception relating to service quality in the new private sector banks in Nagapattinam district.
3. To evaluate employees’ attitude towards CRM practices adopted by new private sector banks in Nagapattinam district.
4. To suggest appropriate measures for improving CRM practices in new private sector banks based on the findings of the study.

1.6 HYPOTHESES

The Hypotheses relating to objectives and selected variables are given in the analysis and interpretation chapter. The study is based on the following frame work.

**Ho1:** “There is no significant different between demographic profile of the respondents and customer relationship management in new private sector banks in Nagapattinam District”

**Ho2:** “There is no significant difference between the demographic profile and customers’ perception towards customer relationship management”
**Ho3:** “There is no significant difference between type of account holders and the customer relationship management”

**Ho4:** “There is no significant difference between among the new private sector banks and the customer relationship management”

**Ho5:** “There is no significant relationship between the service qualities among the new private sector banks in Nagapattinam District”

**Ho6:** “There is no significant difference between the demographic profile and employees’ attitude towards new private sector banks in Nagapattinam District”

**Ho7:** “There is no significant difference between different employees in the marketing, administration and human resource with respect to the customer relationship management”

**1.7 RESEARCH METHODOLOGY**

**1.7.1 Methodology**

The study is based on both the primary and secondary data. Primary data have been collected from the field survey through structured questionnaire to the customers and bank employees of new private sector banks. The secondary data for the study was compiled from the annual reports of banks, bulletins and policy guidelines of RBI and other related websites, journals, magazines, books and records from the banks in Nagapattinam district have been collected from the publications of the District Lead Bank, Nagapattinam (Indian Bank), and RBI Bulletins.
1.7.2 Sampling Design

Total number of private sector banks comprises 20; there are two categories of banks: 1) Old private banks (13) and 2) New Private Sector Banks are 7 namely AXIS, DEVELOPMENT CREDIT BANK, HDFC, ICICI, INDUS IND, KOTAK MAHENDRA, YES BANK and working in India. Among the banks only five new private sector banks namely AXIS (UTI) bank, HDFC bank, ICICI bank, KOTAK MAHENDRA bank and INDUS IND bank, situated in Nagapattinam district, was selected for the study. Convenient sampling technique has been used to select the sample respondents for the study. The samples consists of two categories namely customers (480) and employees (80) total sample size 560. This study is descriptive in nature. The following table shows the sampling distribution.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the Bank</th>
<th>Branches in Nagapattinam district.</th>
<th>Sample Branches (100%)</th>
<th>I Customers (Sample Size)</th>
<th>Total Customers Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>AXIS</td>
<td>2</td>
<td>2</td>
<td>30 20 10</td>
<td>60</td>
</tr>
<tr>
<td>2.</td>
<td>HDFC</td>
<td>3</td>
<td>3</td>
<td>45 30 15</td>
<td>90</td>
</tr>
<tr>
<td>3.</td>
<td>ICICI</td>
<td>8</td>
<td>8</td>
<td>120 80 40</td>
<td>240</td>
</tr>
<tr>
<td>4.</td>
<td>KOTAK MAHINDRA</td>
<td>2</td>
<td>2</td>
<td>30 20 10</td>
<td>60</td>
</tr>
<tr>
<td>5.</td>
<td>INDUSIND</td>
<td>1</td>
<td>1</td>
<td>15 10 5</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16</strong></td>
<td><strong>16</strong></td>
<td><strong>240</strong></td>
<td><strong>160 80</strong></td>
<td><strong>480</strong></td>
</tr>
</tbody>
</table>

Source: Bank Records and RBI Bulletins 2014-15
### Table 1.2

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the Bank</th>
<th>Branches in Nagapattinam district.</th>
<th>Sample Branches (100%)</th>
<th>II Employees (Sample Size)</th>
<th>Total Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>AXIS</td>
<td>2</td>
<td>2</td>
<td>4</td>
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</tr>
<tr>
<td>2.</td>
<td>HDFC</td>
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</tr>
<tr>
<td>3.</td>
<td>ICICI</td>
<td>8</td>
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<td>16</td>
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</tr>
<tr>
<td>4.</td>
<td>KOTAK MAHINDRA</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2  4</td>
</tr>
<tr>
<td>5.</td>
<td>INDUSIND</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1  2</td>
</tr>
<tr>
<td><strong>Total</strong>  </td>
<td> </td>
<td>   </td>
<td>   </td>
<td><strong>32</strong></td>
<td><strong>16  32</strong></td>
</tr>
</tbody>
</table>

*Source: Bank Records and RBI Bulletins 2014-15*

#### 1.7.3 Area of the Study

The location selected is at Nagapattinam district of Tamilnadu.

#### 1.7.4 Tools for Data Collection

The study highlights CRM practices in New Private Sector Banks in Nagapattinam district and the level of satisfaction perceived by the customers and employees against the existing working environment. The questionnaire was divided into two sections. In the first part information related to bank customers from this point view majority variable was personal information (demographic criteria like income, age, profession, educational qualification and so on), customer relationship variables of the bank (attracting customers, strategies for acquiring the customers, strategies of retaining the customers, customer satisfaction, customer and staff relationship, CRM and technology, impact of CRM), customer services (tangibles, reliability, responsiveness, assurance and empathy) were collected. In the second part questions related to bank employees, respondents were asked to evaluate parameters on awareness.
level, satisfaction level, service quality, relevant to CRM practices of new private sector banks.

1.7.5 Data Evaluation

The data collected were not simply accepted as it contained unnecessary information and over or under emphasized facts. Therefore only relevant data were included in the report, which helped in achieving the objectives of the thesis.

1.7.6 Statistical Tools and Analysis

The collected data have been consolidated, tabulated and analyzed by using relevant statistical tools like, mean, standard deviation, co-efficient variance Cronbach’s alpha analysis, t-test, ANOVA and factor analysis. The SPSS 20.0 package was utilized for analyzing the data. The interpretation of the study is done by using tables, graphs and charts to give meaningful results.

1.7.7 Scaling Technique in the Questionnaire

The questionnaire consists of questions in optional type as well as in Likert’s 5 - point scale, which range as follows:

5 – Strongly Agree
4 – Agree
3 – Neutral
2 – Disagree
1 – Strongly disagree
1.7.8 Level of Significance

The data was collected, tabulated, processed and analyzed with reference to each of the specific objectives, with the help of appropriate tools of analysis. All tests were conducted for five percent level of significance. Analysis made to meet the purpose of each of the specific objectives and test the hypotheses

1.8 OPERATIONAL DEFINITIONS

The following are the definitions of some of the concepts used in this study

1.8.1 Customers

Customers is “A person whose money has been deposited by the bank on the footing that the bank undertakes to honor cheque up to the amount standing to his credit”

1.8.2 Banker

Banker “ is a person, firm or company having place of business where credit is opened by the deposit or collection of money or currency or subject to be paid or remitted upon draft, cheque or money is advanced or loaned or stocks, bonds, bill of exchange and promissory note are received for discount and sale.”

1.8.3 Customer Services

Customer service means satisfying the needs of customers at the right time and in the right manner, which includes broadly, giving expeditious
assistance, explaining various policies and systems, answering every query, giving due respect and not losing one’s balance and patience.

1.8.4 Banking Services

A bank is a commercial organization which accepts deposits for the purpose of lending or investment, which is repayable on demand by the depositors. In the process banks offer number of products on deposits such as Savings Account, Current Account, Recurring Deposit and Term deposit. Banks also lend these deposits as loans to customers, business houses and others who seek loans, such as car loans, housing loans, jewel loans etc. In the process the depositors have to be paid interest for their deposits, and borrowers have to be charged interest on loans.

1.8.5 Savings Account

Saving account is known as middle income group the savings of which group is mobilized, deposited and put to fruitful utilization.

1.8.6 Current Account

Current account is known as bankers dement liability and in order to fulfill this liability he keeps sufficient cash ready every movement.

1.8.7 Customer Relationship Management.

CRM is based on the basic marketing belief that an organization knows its customers like individuals. Its components may include data warehouse that store all a company's information, customer service system, call centers, e-commerce, web marketing, operations system (that handle
order entry, invoicing, payments, point of sale, inventory system, etc.) and sales systems (mobile sales communication, appointment making, routine, and so on). In practices, CRM system ranges from automated customer-contact system to the company-wide pooling of customer information⁹.

1.8.8 Customer Retention

A true CRM system requires the ability to gather data about customers, store the data in a format that is easy to access, analyse the customer data, and use this customer information to market or to communicate with customers. Usually, this means that a firm will use more than one piece of software to meet their analytic and operational CRM needs¹⁰.

1.8.9 Customer Satisfaction

Although most scholars agree on the disconfirmation paradigm, the nature of satisfaction remains ambiguous. On the one hand, satisfaction clearly arises from a cognitive process comparing perceived performance against some comparison standard. On the other hand, the feeling of satisfaction essentially represents an affective state of mind. Consequently, some satisfaction scales tap the cognitive dimension of satisfaction, while others capture its affective nature. The extent to which a satisfaction scale focuses on the cognitive or the affective dimension, however,

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¹⁰ Robert Dwyer F. Business marketing-Connecting strategy, Relationship and learning McGraw-Hill, pp.304-305
should have an impact in terms of both the antecedents that affect satisfaction and the consequences fostered by satisfaction.

1.8.10 Bank Employees

For the purposes of this act the term employee means an individual who has entered into or works under a contract of service within the bank by way of manual work, clerical work or otherwise, whether such contract is expressed or implied. Which does not included the employees in agencies of the bank.

1.8.11 New Private Sectors Banks

The RBI has issued on 22 January 1993 specific guidelines for the establishment of new private Sector banks in the country. This is recognition of the need to introduce greater competition which can lead to higher productivity and efficiency in the banking system. These banks came into existence after March 1995 and are called new private banks (NPB) or popularly New Private Sector Banks (NPSBs).

1.8.12 ATM

This system allows customers to withdraw money, deposit money, and make balance enquiry, track credit and debit of collection cheques at any time from the bank. It also enables to perform some basic banking services with the bank.

1.8.13 Reliability

Reliability is the ability to perform services dependably and accurately in a consistent manner.
1.8.14 Responsiveness

Responsiveness is the willingness or readiness of employees to provide immediate services to customers. Customers are very sensitive to employees' working environment in service organizations.

1.8.15 Assurance

It is the employees' knowledge, courtesy and their ability to convey trust and confidence. Assurance is an essential dimension of service quality after reliability and responsiveness towards satisfaction.

1.8.16 Empathy

It shows the magnitude of caring and individual attention given to customers. It is suggested that employees' commitment to deliver quality services, skillfully handling of conflicts and efficient delivery of services resulted into satisfied customers for long-term benefits.

1.9 SELECTION OF VARIABLES

The present study highlights the following important variables for CRM practices in new private sector banks.

1. Customers
   1. Attracting Customers
   2. Strategies for Acquisition of Customers
   3. Strategies for Retaining Customers
   4. Customers Satisfaction
   5. Customers and Staff Relationship
   6. CRM and Technology
7. Impact of CRM on Customers
8. Customers Services Quality
   a. Tangibles
   b. Reliability
   c. Responsiveness
   d. Assurance
   e. Empathy

II. Employees
1. Attracting by Employees
2. Acquiring of Customers
3. CRM Maintenance
4. Strategies for CRM
5. CRM and Technology
6. Impact of CRM
7. Credit Schemes
8. Supporting banking services to CRM

1.10 PERIOD OF THE STUDY

The study covers years from April 2014 to March 2015 for analysis of secondary data of the bank. The primary data relating to the satisfaction of customers and employees of CRM practices of new private sector banks have been collected during the six months from January 2015 to June 2015.

1.11 LIMITATIONS OF THE STUDY

The study has the following limitations.

1. The field survey is restricted only to 570 customers and 80 employees due to time and cost constraints.
2. This study is very much limited to customers of 5 selected new private sector banks in Nagapattinam district which may fail to give a correct picture of the study.

3. This study cannot be generalized to public sector banks and other banks in India due to change in the work culture and working environment.

4. The researcher faces some difficulty due to the lack of co-operation from some respondents and the bias of respondents cannot be completely ruled out.

5. It is very difficult to fetch sufficient customer information from the bank since they maintain privacy and security in providing customer profile.

1.12 SCHEME OF CHAPTERISATION

The aim of the study is to present a comprehensive picture of CRM in new private sector banks in Nagapattinam district. Brief outline of the chapters is presented below.

Chapter I The first Chapter is a prelude to the present study, delineating “Introduction and Research Design”. The need and importance of the study, statement of the problem, objectives of the study, methodology, operational definitions, sampling design, statistical tools, scope, selection of variables pilot study, period of the study and limitations for design of the study are dealt with in this chapter.
**Chapter II** The second chapter “Review of Literature” enumerates studies pertaining to CRM practices, customers’ satisfaction and employees’ Attitude in banks.

**Chapter III** This chapter deals with “Customer Relationship Management Practices-An Overview”, the concept of CRM in banks, evolution of CRM, need for CRM in banking, CRM in Indian banking and emergence of CRM are dealt with in this chapter.

**Chapter IV** This chapter analyses “Customers’ Perception relating to Service Quality in New Private Sector Banks-An Analysis-”, such as “customer relationship management such as attracting customers, strategies for acquiring the customers, retaining the customers, customer satisfaction, customer and staff relationship, CRM and technology, impact of CRM on customer, customers’ perception towards CRM practices.

**Chapter V** This chapter examines “Employees’ Attitude Towards CRM Practices in New Private Sector Banks -An Analysis” relating to satisfaction loyalty and retention of customers from the bank’s point of view.

**Chapter VI** presents the “Summary of Findings, Suggestions and Conclusions” and scope for future directions of the study is presented in this chapter.