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Determinations of Customer Relationship Management Practices in Commercial Banks - An Empirical Study

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Abstract

Today banking institutions face many challenges and has intensified global competitions in retail banking sector. This has lead to Customer Relationship Management as a means of securing competitive advantage. The focus of customer relationship management 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 goals. Therefore this paper focused on determinants of customer relationship management practices in commercial banks in Thanjavur District. The factor analysis method and multiple regression models have been used to identify the effect of various factors on customer relations. The findings reveled that Trust, Customer approach and Complaint management had significant effect on Customer Relation.

Key words – Customer Relationship Management and CRM Practices

Introduction

Today, banking institutions face many challenges including global competition for deposits, loans, underwriting fees, increasing customer demands, and shrinking profit margins. Banks and other service providers realize the importance of Customer Relationship Management (CRM) and its potential to help them in acquiring new customers retain existing ones and maximize their lifetime value. CRM 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). CRM is a sample philosophy that places the customer at the heart of service and, in turn, it will maximize the profits for the organization. CRM is a business model that aligns product and sales strategies with customer requirements and preferences. Service is then provided in a timely manner using the channels that are preferred by the customers. Effective CRM starts by focusing on the development of business strategies and by aligning an organization to serve customers.

Review of Literature

Relationship marketing is also known as customer management and of late as customer relationship marketing or CRM. This is the latest tool in the marketing management kit. Its scope includes:

- Creation
- Development and
- Enhancement of individualized customer relationship with carefully targeted customers and customer groups resulting in maximizing the total customer life-term value.

CRM calls for companies to organize their business around their customer, and to interface and interact with customers, presenting a unified message and purpose. Aided by advances in information technology, CRM is emerging as a pivotal strategy for business success in the twenty first century. Far more than just the latest catch phrase or reinstatement of age old principles of business, CRM has the potential to reshape companies while also enhancing revenues and profits and boosting customer retention. This new CRM approach reflects the need to create an integrated cross functional focus on marketing-one which emphasizes on keeping as well as winning customers. Thus, the focus is shifting from customer acquisition to customer relation and ensuring an appropriate amount of time, money and managerial resources to be directed for both of these key tasks.

CRM recognizes that marketing starts after the sale is over and not during and when sale is completed. This results in improved customer retention and has a sizeable effect on company's bottom line. This approach leads to:

- Greater customer loyalty
- Enhanced retention
- Identifying the causes of defection and related key service issues and
- Development of corrective actions to improve retention.

Simply stated, "CRM is a business strategy in which everyone in the organization is focused on the customer and all processes and system are built with this concept in mind". CRM revolves round the following three elements:

- Customer database
- Integrated mix of methods and media
- Measurable customer goals.

CRM is a management approach that enables organizations to identify, attract, and increase retention of profitable customers thought improved relationship management (Hobby, 1999) CRM is the utilization of customer related information or knowledge to deliver relevant products or services to customer (Levine, 2000). Thus CRM is a set of business processes which focus on capture, retain and provide service to customers. The customer is at the heart as the approach aims at putting customer first by shifting the role of marketing from manipulating the customer to genuine customer involvement communicating and sharing the knowledge (Parvatiyar and jagdish, 2001), In other words, CRM is about managing the customer portfolio efficiently and effectively by designing business policies which focus around the customer.

CRM can increase the economic worth of a business by improving the lifetime value of customer by dispatching the right people, with the right parts at the right time to ensure customer satisfaction (Greenberg, 2004).CRM will provide the economical advantage by enhancing the company value and by creating competitive advantage for enhancing customer retention (Heinze et al, 2004).Financial services are in a structural change whereby competition and customer demands are increasing. As such financial companies need to focus shift from product provider to relationship one on core competencies in order to deliver to the value of the customers (Lehman, 2000). 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).

Objective

The objective of this study is to analysis the Determinants of Customer relationship Management practices in Commercial Banks.

Methodology

The study is based on primary data collected from the bank customers in Thanjavur district, Tamilnadu during May-June 2013, with the help of pre-tested and structured questionnaire .The study consisted of 392 respondents who have various accounts maintained in the selected banks like, City Union Bank, ICICI, State bank of India and Indian Overseas Bank. The respondents were selected based on multi – stage sampling technique.

Sample Descriptions

The demographic characteristics of the respondents are that majority of the respondents (30%) belong to age group of 31- 40. This reveals young persons have more accounts in banks. The data further reveled that most of the respondents are male (64%). More than one-third (41%) of the respondents are post – graduates, followed by graduates (28%). This signifies the educational level also plays a significant role in operating an account in banks. Most of the respondents (51%) are Government, private and retired persons have equally been distributed. As far as the income level is concerned, most of the respondents (70%) belong to the income group of rupees 1.5 lakhs to 3 lakhs.

Data Analysis

In this study the researchers have made use of factor analysis for identifying the important factor in customer relationship. After identifying the factor, multiple regression analysis has been used to identify the effect of various factors on customer relations.

CRM factors	Factor loadings				Communalities (h^2)
	F1	F2	F3	F4	
Bank provides customized services and products	.817				.785
Bank gives individual attention	.708				.743
Bank educates customers regarding proper use of products and services	.609				.676
Customer can expect prompt service from employees of bank.	.605				.607
Bank welcomes complaints from customers		.829			.796
Bank inform customers of about the progress of the complaint		.752			.743
Responds to customers enquires and request in real time		.691			.692
Bank is committed in customers financial need			.832		.783
Bank representative are regularly meet the customers			.697		.647
Bank commits time and resources in managing customer relations			.685		.824
Bank maintains privacy of data about the customer				.780	.738
Customer believe data must be secured				.770	.655
Eigen values	2.91	2.85	2.38	2.22	
Percentage of variance explained	19.40	19.01	15.87	14.81	
percentage of cumulative variance explained	19.40	38.41	54.29	69.11	

Factor Analysis

KMO is calculated using correlation and partial correlation to test whether the variables in the study sample are adequate to correlate. In this study KMO value is 0.83 which is more than the general rule (0.5).

Bartlett's test of sphericity is to find out the relationship between the variables. A p- value is < 0.05 indicates that it makes sense to continue with the factor analysis, therefore it is concluded that there are relationships between the variables.

As evident from table, it is found that 4 factors extracted together account for 69.11 per cent of total variance. Hence we have reduced the number of variables from 12 to 4 underlying factors.

Variables, Bank provides customer services and products loaded as (0.817), Bank gives individual attention (0.708), Bank educate customers regarding proper use of products (0.609), Customer can expect prompt service from employees of bank (0.605) on factor 1. Thus factor 1 can be named as 'Customer approach'.

As for factor 2, it is evident that Bank welcomes complaint from customers has the highest load of 0.829 , Bank inform customers about the progress of the complaint be loaded as 0.752 and Responds to customers enquires and request in real time (0.691), this factor can be termed as 'Complaint management'

Variables, Banks communicates about customer financial need loaded as (0.832), Bank representative regularly meet the customers (0.697), and Bank commits time and resources in managing customer relation (0.685) on factor 3. Thus factor 3 can be named as "Commitment".

Variables Bank maintain privacy of data about the customer loaded as (0.780) and Customer believe data must be secured (0.770) on factor 4. Thus factor 4 can be named as 'Trust'.

Multiple regression models for customer relation based on factor analysis

Independent variables	Unstandardized Coefficients		Standardized Coefficients			Statistical inference	
	B	Std. Error	Beta	t	sig		F value
(Constant)	-.023	.135		-.168	.867	R = 0.788	87.03*
customer approach	.259	.029	.502	8.779	.000	R^2 = 0.673	
Complaint management	.036	.023	.075	1.571	.117		
Commitment	-.073	.031	-.136	-2.371	.018		
Trust	.253	.035	.323	7.201	.000		

The table shows that the combination of Customer approach, Complaint management, Commitment and Crust together contributed to 79% effect on customer relation. The R^2 for the overall study on the above five variables suggests that there is a strong effect of this four independent variables on customer relationship management. The F value (87.03) is significant which implies that the model is fit. From the above table concluded that complaint management. Has no significant effect on customer relation. Customer approach, Complaint management and Trust are to significant effect on customer relation.

The standardized coefficients Beta column, gives us the coefficients of independent variables in the regression equation including all the predictor variables.

Customer relationship = 0.502 (customer approach) + 0.075 (Complaint Management) - 0.136 (Commitment) + 0.323 (Trust)

Discussions and Implementations

1. Customer Approach

From the above analysis it is inferred that customer approach has an high significant effect with customer relationship. Hence banks have to provide personalized services like prompt services, educating the customers about the new ways of using the product and services.

2. Complaint management

From the table it is inferred that complaint management system of banks does not have any significant effect on customer relations. Further, though banks complaint management system redress the problems of customers. Still the banks have failed to resolve queries of the customers. Hence banks should give more importance to inform the customers about the stage of the complaint and to resolve it on time. So as ensure to that the customer believe in the complaint mechanism of the banks.

3. Commitment

As a result of the analysis commitment has a significant effect on the customer relationship with the banks. Hence banks should focus on financial need of the customers Cafeteria approach. Further banks should concentrate on conducting frequent meetings and invite suggestions from the customers to cater these needs effectively and efficiently.

4. Trust

The result indicates trust has a high significant effect on customer relationship. So banks should ensure the safety about the transactions performed by the customers with their banks. Even the so called educated customers are afraid or scared of using technology based transactions such as internet banking, phone banking, ATM, online shopping and Point of sale. Hence confidence has to be instilled in the needs of the customers.To create mutual trust and Confidence.

Conclusion

Banks are realizing that CRM is the magic bullet that helps financial institutions to build stronger and more profitable relationships. As such CRM can enable banks to enjoy competitive advantage by delivering high value to the right customer. The current identifies four effective CRM practices which may be useful to the banks towards achieving customer relations. This effective practice was examined across the four types of bank. In fact gaining competitive advantage is not just being different from other banks but the whole bank should be oriented towards delivering to needs of different customers in a systematic way.

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