

Issues Relating to Customer Relationship Management in Banking Sector: An Exploration

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ABSTRACT :

The Customer Relationship Management (CRM). aims at focusing all the bank's activities towards developing long-term collaborative relationship with customers to develop them as lifetime customers. The studies and researches done over the years has clearly revealed the importance and the role of service quality in contributing to banks' ability to retain the loyal customers and improved bank performance. Bankers have to necessarily perform their banking operations with the likelihood risk of the customer switching over at any given point of time that might result in decline in revenue. To prevent or minimize this possibility of customer deflection; bankers have to come out with customer centric strategic decision. Obviously the conditions draw the attention in evolving meaningful CRM which would provide a platform for not only retaining existing customers but also to expand the customer base by attracting additional customers. In banking, product development is limited to the government regulations henceforth the other major challenge is to have product differentiation. The service/product mix offered by the banks, the service delivery system has drastically changed due to the persistent improvement in the technology and also in view of the phenomenal increase in the expectation of bank customers. The banks have realized the fact that CRM is a powerful tool to achieve success in their business and is an effective tool for the bankers to acquire new customers and to retain the existing ones. Therefore, it is essential to identify the customer expectation, which is an influencing element in retaining and increasing the customer base. The complexity in building relationship strategies for banks needs clear classification of customers' perceived service quality variables and the variables that need to be inducted to the employees serving the customers. CRM in banking gives rise to a number of issues that includes influences contributing towards relationship and influences leading to close up of relationship. In the banking business, there is complexity in measuring the relationship quality as it is influenced by the value proposition of the products offered and the quality of services delivered to the customer. The perception factors that influences relationship differs between the bank customers and bank employees. A meaningful understanding of those influences

would obviously contribute towards arriving at gainful relationship building strategies and misunderstanding of the influences leading to inappropriate relationship strategies. In the light of the above, the present paper devoted to comprehend the conceptual and theoretical issues and challenges relating to customer relationship management in banking sector.

1. INTRODUCTION :

The traditional mode of marketing mainly focused on segmenting and acquiring new customers by using tools and techniques developed for mass marketing. In the present competitive era, there are different approaches to businesses such as relationship marketing, customer retention and cross-selling leading to customer extension, which is a better means than the traditional segmentation model (Premraj, 2012). The term 'Relationship Marketing' was coined by Berry (1983) as attracting, maintaining and multi-service organizations-enhancing customer relationships. This relational concept has been defined in the forms of supplier partnerships, lateral partnerships, buyer partnerships, internal partnerships, as well as business to consumer relationship; it is widely discussed in the literature of marketing management and corporate communication. The approaches in marketing functions are constantly changing in tune with the changing challenges that are faced at the market fronts. Today, marketers consider retaining of customers as a much more challenging job than acquiring customers in the context of growing competitive forces. Thus, the traditional transactional approach of marketing became insufficient to achieve the marketing goals. This scenario necessitated the emergence of a new approach namely Relationship Marketing. The relationship marketing approach differs from the traditional transactional approach in the following ways:

The focus of transactional marketing approach is on individual transaction and does not concern continuous relationship with customers. The framework of transactional marketing does not contain a strategic long-term perspective. It centres on tentative adjustment process as regards to performing marketing functions. As such the customers are viewed as outsiders to the business. Under transactional approach customer's expectations, satisfaction, multiple influences on their decision-making process etc. are not given due importance. Very little attention is paid to customer services and customer commitments. The thrust of transactional marketing is on gaining more and more new customers rather than retaining existing customers. In contrast to the transactional marketing approach, the relationship marketing focuses on continuous multiple transactions rather than isolated individual transactions. The relationship marketing approach considers customers as insiders to the business and aims to build a long term and never ending relationship with them. The focus of relationship marketing approach centres on developing hard core loyal customers with the idea of retaining them forever. A high degree of customer contact, commitment and services are maintained.

The relationship marketing approach has gradually taken the shape of Customer Relationship Management. Relationship marketing has a narrow focus on the customers and only on the marketing functions of the organization concerned. On the other hand, customer relationship management focuses more widely on customers and on the entire functions concerned with the value creation and delivery chain of the organization concerned.

Relationship marketing received more attention from scholars and practitioners in the last decade of 20th century because of two issues: benefits to organization and the involvement of generic service characteristics. Relationship marketing or customer relationship management is emerging as a core marketing activity for businesses in a powerful competitive environment. The statistics suggest that businesses spend more to acquire new customers than to retain them (Mehra, 2000). Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer purchases.

The concept of Customer Relationship Management has a significant role in every business organisations. It plays a predominant role especially in service organisations where customer acquisition, rendering the required service and retain them by providing value for their cost for a long period of time, and improve continuous revenue from that customer. Customer relationship management is defined as “a process that addresses all aspects of identifying customers, creating customer knowledge, building customer relationships, and shaping their perceptions of the organization and its products” (Lochridge, 2001). Customer Relationship Management (CRM) is a process that enables companies to provide excellent real-time customer service by developing a relationship with each valued customer through the effective use of individual account information. Customer relationship management holds that a major driver of company’s profitability is the aggregate value of the company’s customer base (Kotler, 2003).

Concepts of CRM :

Some select views of few marketing theorists, practitioners and researchers on relationship marketing is summarized below to gain more knowledge of the concepts of relationship marketing.

Berry (1983) viewed relationship marketing as identifying, acquiring, developing and retaining customers. He proposes the following sequences of activities for performing marketing, i.e. developing core services to build customer relationship, customization of relationship, augmenting core services with extra benefits, enhancing customer loyalty and fine tuning internal marketing to promote external marketing success.

Christopher (1992) view relationship marketing as a “tool to turn current and new customers into regularly purchasing clients and then progressively move them through being strong supporters of the company and its products, to finally being active and vocal advocates for the company”.

Sheth and Parvatiyar (2001) define customer relationship management as a “comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer”.

Mohammad and Sagadevan (2002) operationally defined customer relationship management as “a management process of acquiring customers by understanding their requirements, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer specific strategic marketing approach. The process invites total commitment on the part of the entire organization in evolving and implementing relationship strategies that would be rewarding to all concerned”.

2. COMPONENTS OF CRM :

There are three components in applying CRM, namely:

(a) Operational CRM :

This implies supporting the ‘front office’ business process, which includes customer contact. The outcome of these processes is forwarded to relevant employees who are engaged in it. It is possible to have a 360 degree view of the customers while interacting with them. Some of the operational CRMs in practice are in the form of Sales Force Automation (SFA). SFA facilitates the automation of sales management functions such as lead management, contact management, quota management, forecasting, keeping track of customer preferences, buying habits and demographics and performance management.

(b) Analytical CRM :

The data gathered in operational CRM are analyzed to segment customers or to identify the potential for enhancing a relationship with a client. This helps expand the list of customers of a bank. The main objective of analytical CRM is acquisition, retention, information and modification of the customers’ list.

(c) Collaborative CRM :

Collaborative CRM facilitates effective interactions with customers through a variety of channels such as personal, letter, fax, phone, web, e-mail etc. and supports coordination. This integrates people, processes and data together so that the firms can offer better services to customers and retain them over longer periods.

3. CRM IN BANKING SECTOR :

The pace of competition in the banking industry has been increasing due to the deregulation and globalization of the Indian economy with the world economy. Banks now enjoy greater freedom in designing their products offering at competitive interest rates that was not available earlier. Thus, it has become essential for banks to move away from the traditional transaction based view of banking to an entirely relationship orientation so as to build a long lasting profitable relationship with their customers.

CRM aims at focusing all the bank's activities towards developing long-term collaborative relationship with customers to develop them as lifetime customers. The studies and research done over the years has clearly revealed the importance and the role of service quality in contributing to banks' ability to retain the loyal customers and improved bank performance. Figure 1.1 explains the fact that a customer first considers the quality of the product offered to start his dealings with banks. Secondly, the customer develops a relationship with the banks based on the quality of services offered which the bank exhibits through its performance, serviceability, conformance, aesthetics and quickness of response.

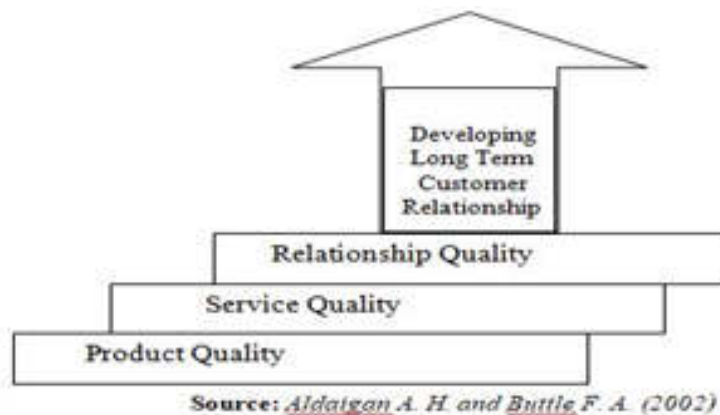


Figure 1.1: Customer Relationship Management and Service Quality

When the quality of the services offered by the bank meets or exceeds the expectations of the customer, the attachment between the bank and customer strengthens thereby improving the quality of relationship (which includes trust, commitment and intimacy) between them. This helps the bank to progress towards the ultimate goal of CRM. The activities that constitute customer relationship management are :

- ◆ Establishing and maintaining a customer data base;
- ◆ Planning customer contact programs;

- ◆ Analyzing informal customer feedback;
- ◆ Conducting customer satisfaction surveys;
- ◆ Managing communication programs;
- ◆ Hosting special events or programs for customers; and
- ◆ Auditing and reclaiming lost customers.

4. REVIEW OF LITERATURE :

Adoption of Customer Relationship Management in Banks

Estiri, Hosseini, Yazdani, and Nejad (2011) performed a review of the set of attributes which are capable of being incorporated in the measure of customer satisfaction for Islamic banks. Later, the possibility was posed of grouping these attributes into dimensions of quality, proceeding to value various alternative structures by means of confirmatory factor analysis methodology and testing their reliability and validity. The findings from this study revealed that customer satisfaction in Islamic retail banking depends on two major factors namely value proposition quality and service delivery quality. Singh and Kaur (2011) determined the factors that have an impact on customer satisfaction as regards the working of select Indian universal banks. The study was conducted using the survey method. Data were collected through a well-structured questionnaire from a sample of respondents. The major findings of the study show that customer satisfaction is influenced by seven factors: employee responsiveness, appearance of tangibles, social responsibility, services innovation, positive word-of-mouth, competence, and reliability. The results of multiple regressions showed that three variables: social responsibility, positive word-of-mouth, and reliability have major influences on the overall satisfaction of the customer. Ganguli and Roy (2011) studied the factors affecting customer satisfaction in the Indian retail banking sector. Online structured questionnaire was developed to determine the factors for customer satisfaction were distributed among the respondents. The dimensions were identified using an exploratory factor analysis (EFA). Next the reliability and validity of the factors for customer satisfaction were established through confirmatory factor analysis (CFA). The paper identifies four generic dimensions in the technology-based banking services customer service, technology security and information quality, technology convenience, and technology usage easiness and reliability. It was found that customer service and technology usage easiness and reliability have positive and significant impact on customer satisfaction. Padmavathy, Balaji and V.J. Sivakumar (2012) developed a multi-item scale for measuring the customer relationship management effectiveness (CRME) in Indian retail banks and examined its relationship with key customer response variable. This research adopted two different studies to develop and validate the scale for CRME. In the first study, the responses obtained from 197 Indian retail banking customers were

used to identify key dimensions of CRME. In the second study, nomological validity for the CRME scale was provided using a new sample of 261 actual bank customers. Furthermore, the relationship between CRME dimensions and customer behavioral outcomes such as customer satisfaction, loyalty and cross-buying were also examined. The results of factor analyses revealed five dimensions for CRME, namely, organizational commitment, customer experience, process-driven approach, reliability and technology-orientation. Organizational commitment, process-driven approach and reliability were found to positively affect customer satisfaction. Reliability was found to have direct association with customer loyalty and both customer satisfaction and loyalty-influence cross-buying. Rouholamini and Venkatesh (2011) evaluated CRM practices in Iranian banking industry. In this study the primary data were gathered from 400 respondents who represented the top, middle and lower management of public and private banks of Iran through questionnaires. Secondary data was obtained from books, articles and research reports. The study concludes that the practice of CRM is widely acknowledged as an important component of marketing management and corporate communication management processes in Iranian banks but unfortunately applications of CRM is not favourable. Advanced information and communication technologies are also widely utilised by the Iranian banks to enrich the process of organisational management in general and customer relations management in particular. George and Manoj (2013) are of the view that one of the approaches that is fast gaining significance is Customer Relationship Management. They concluded that apart from focusing on developing product strategies alone, banks need to accord equal or higher priority to customer service particularly by way of installing an effective CRM system. Osunde (2014) found that the effective CRM practices can lead to confidence in the formal banking sector given the cultural perceptions of banks in Nigeria and the wide spread practices of the Esusu which is a traditional method of saving money adopted by millions of Nigerians. Also, the study reveals that commercial banks can build relationship with customers by making use of technology and managing information to improve service delivery and achieve increase in their customer base, customer loyalty and retention. Manoj (2015) viewed that all the banks have fast switching over to E-CRM from the traditional CRM because of the obvious benefits of the former in view of the advances in Information and Communication Technology and its adoption by all banks. F-test and t-test was used to test the relationship between level of education, gender and the use of E-CRM services. However, he concluded that gender and education are not a significant factor that influences the use of E-CRM. Cvijovic, Stankovic and Reljic (2017) explained that CRM enables segmentation of customers in accordance with different criteria, which enables customization of banking products and services and continuous innovation of product portfolio. CRM provides the possibility to create active and friendly relationship with customers, which certainly contributes to their loyalty to banks and the provision of permanent and secure revenues in the long run. Therefore, CRM in a

contemporary context represents the crucial factor for the achievement of the overall business success and survival in the market, when it comes to traditional banking, but especially in the context of Internet and mobile banking. Agrawal (2017) conducted a study on the impact of CRM on Indian banking sector and found that relationship marketing is becoming important in financial services. CRM is an opportunity that banks can avail to rise above minor advantages by developing actual relationships with their customers. Gayathry (2016) identified the effectiveness of CRM and the lacunae in the process of CRM by establishing an empirically tested CRM model. Two sets of questionnaires were used to collect information from customers and bank employees. The study has given a clear message that the real challenge before the banks is to translate sentiments into dealings, and a dealings-based relationship into a psychologically linked and dedicated one within a time period.

5. OBJECTIVES OF THE STUDY :

The objective of the study is to understand the issues and challenges of customers' relationship management in the banking sector.

6. RESEARCH METHODOLOGY :

The study is basically based on conceptualisation of CRM in banking sector. The primary source of the present paper is the established research papers published in journals and periodicals. Besides, observation and personal interview with the bank managers was conducted to derive the issues and challenges of CRM in banking sector.

7. ISSUES AND CHALLENGES :

An exhaustive review of literature of CRM in banking sector and Models of CRM shows a multiple problems and challenges associated with the conceptualisation of CRM in banking sector. These issues and barriers to Customer Relationship Management in banking sector need to be conceptualise appropriately to a proper academic discourse.

- a) The employees of modern organisations are not adequately trained in the management of corporate communication which also includes Human Relationship Development. The art and craft of public relations are not taught formally or informally to the employees who handle various aspects of customer relationship management including application of Information and Communication Technology.
- b) Gaining adequate funding for CRM requirements is an important issue for organizations, particularly as many of the projects expanded dramatically in cost and sometimes in scope. Some organizations had overcome the problem of funding by adopting what is referred to as a 'quick wins' approach. By structuring their

- CRM implementation projects to deliver quick wins and visible benefits at incremental stages, such as improvements in customer service or higher response rates to campaigns, they were able to demonstrate immediate progress and returns.
- c) Organizations at different stages of CRM development experience different issues with respect to data quality and data quantity. Modern organisations are yet to develop scientific database which facilitates meaningful customer relationship management activities on the basis of authentic data and firsthand experience.
 - d) Low initial awareness of the benefits of a marketing database among senior management is also a barrier for companies which are less advanced in CRM implementation. This problem tends to overcome as the data warehouse goes live and begins to deliver results. CRM managers point out that the data warehouse is perceived as a high cost and senior management often failed to understand the potential financial benefits in the earlier stages of the CRM project.
 - e) Managers at the functional or business unit level may be reluctant or unwilling to cooperate at the early stages of the CRM project. It may require considerable organizational effort to make functional and business unit managers aware of the benefits of greater company-wide operations and cross-functional working.
 - f) Experience also reveals that the top management is least involved in the CRM activities which are normally handled by the managers, supervisor and workers of the organisations concerned. Their role is to ensure a high level executive, ideally at Board level, acts as a sponsor and champion for the company's CRM activities and that the importance of transforming the company's relationships with customers through CRM is understood and shared by the Board and senior management.
 - g) CRM managers often point out how poor or inappropriate measurement and reward systems can hinder the initiation and fulfilment of CRM projects. Measures used to determine the success of CRM performance are often considered inadequate. Sometimes, the problem is that the organization is not clear about its goals or does not communicate its goals to its people.

8. CONCLUSION :

The banking industry includes a number of businesses such as corporate banking, investment banking, wealth management, capital market etc. It is facing a very stiff competition and current scenario is that of the survival of the fittest. Modern banks are trying to increase their customer base and are developing their own customer relation strategies in order to be in the market. The present day customers are technology savvy and they are more exposed to various kinds of goods and services. Modern banks have of late realised that customers play a dominant role in shaping the destiny of economy in general and banking industry in particular. The manufacturer or service provider dominance

is being replaced by the customer preferences in the banking sector. In this age of competitiveness, the creation of a good positive customer relation is not only a necessity but it is a key strategy for differentiation. Also, CRM faces increasing customer expectations and customer relationship complexity, which is caused not only by the new, continuously evolving technology, but also because of the wide range of choices available for the customer in the banking and faster development of new products and services by the competitors. Therefore, adoption of CRM in banking sector becomes inevitable for the survival as well as long term prosperity in the highly competitive scenario.

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