

## An Analytical Study of Customer Relationship Management With Reference To Retail Banking Industry & Its Impact on Customer Loyalty

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### **ABSTRACT:**

In this research paper, the researcher tries to find out the various components of **Customer Relationship Management (CRM)** at banks & the correlation between various components of CRM with the **Customer Loyalty**. This research paper will serve as a useful tool for banks to effectively deal with the customers for enhancement of Customer Loyalty.

The researcher tried to find out the various aspects of Customer Loyalty in Banks.

The researcher has selected this topic for this research as it is well known fact that in today's era of cut throat competition in entire service sector & especially in commercial banking industry, one of the most important criteria of growth as well as survival for banks is CUSTOMER RELATIONSHIP MANAGEMENT (CRM). The bank which manages its customer relationships more effectively & efficiently is more likely to be the market leader.

**Key Words:** Customer Relationship Management (CRM), Customer Loyalty.

### **Introduction:**

CRM is a holistic approach of managing customer relationships in order to maximize shareholder value. The aim of customer relationship management is to lead to satisfied & loyal customers.

These days, CRM has emerged as a top commercial priority in Service sector & especially in Commercial banking. CRM is not simply used by leading service organizations to gain a competitive advantage but It has become a necessity for their survival. Many organizations such as banks and realize the importance of CRM and its potential to help them acquire new customers, retain existing ones and maximize their lifetime value.

CRM is also defined as: A management approach that enables organizations to identify, attract and increase retention of profitable customers, by managing relationships with them.

**Customer Loyalty:** A customer's demonstration of faithful adherence to an institution (or merchant) despite the occasional error or indifferent service.

Customer loyalty is both an attitudinal and behavioral tendency to favor one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand. Customer loyalty encourages consumers to shop more consistently, spend a greater share of wallet, and feel positive about a shopping experience, helping attract consumers to familiar brands in the face of a competitive environment.

### **Types of Loyalty**

#### **Monogamous vs. Polygamous Loyalty**

We live in a world of polygamous, not monogamous loyalty. For example, a person might shop at Safeway, Thrifty Foods and Save-on-Foods and unfailingly shop at all three. The

person is then loyal to them, but not to others, and yet 100% loyal to none. In their book *Loyalty Myths*, Keiningham et al. (2005) suggest that "loyalty can in part be thought of as the probability a customer will purchase a brand on any particular purchase occasion. For example, a customer may tend to purchase Brand A 70 percent of the time, Brand B 20 percent, and Brand C 10 percent of the time" (p.90). The point here is that, in the real world, 100% loyal customers are rare. In the majority of cases, attempting to make customers completely loyal is unrealistic. A more realistic goal for businesses is to make customers as loyal as possible – to maximize customer share of wallet, frequency of purchase and overall profitability. The objective of businesses, and therefore loyalty programs as well, should be to make the organization's share of customer loyalty as high as possible.

#### **Behavioral and Attitudinal Loyalty**

In the past, many scholars defined loyalty in behavioral terms. If a person made most purchases in a given product category from one supplier, regardless of the reason, the person was defined as loyal. As Kumar and Shah from the University of Connecticut's School of Business (2004) point out, "a majority of existing loyalty programs follow these measures to reward behavioral loyalty. That is, the more you spend with the company, the more rewards you earn".

A second element of loyalty is attitudinal loyalty. Like behavioral loyalty, attitudinal definitions have existed for a long time. This second element of loyalty focuses on how strong the psychological commitment or attachment is to the brand. By itself, it too has limitations. For example, how loyal are people who rave about a product and promote it to their friends, but then for whatever reason fail to buy it regularly themselves?

It's very important for a bank to know that which customer oriented service factors are more influential in making a customer loyal to a particular bank so that the manager can devise

a process of delivering the service to the customers in order to enhance their loyalty towards the bank.

#### **LITERATURE REVIEW:**

1) **Changiz Valmohammadi and Mohammad Beladpasl** in their research paper "Customer Relationship Management (CRM) and service quality, a survey within the banking sector", highlighted the impact of CRM on Service Quality of a bank. This research was carried out in "Sepah of Maku" bank in Iran.

They define Service Quality as "the consumers' judgment about a firm's overall excellence or superiority".

In this research paper, the researchers conclude that

- a) This Research Paper successfully proved that "there exists a positive relationship between CRM & Service quality".
- b) It is expected that as a result of successful implementation of CRM in the surveyed bank, quality service of it will improve.
- c) The value of  $R^2 = 0.810$  which signifies that 81 percent of a possible change in the service quality in bank Sepah of Maku is caused by CRM.
- d) unit increase in CRM will increase service quality by 78.2 percent when considering Beta

This research paper highlights the fact that "**Providing customers with a good experience however and whenever they choose to contact you is a key part of managing relationships with them**".

2) **Manish Dhingra and Vaishali Dhingra**<sup>2</sup> in their research paper "Determinants of Electronic customer relationship management (e-CRM) for customer satisfaction in banking sector in India" conclude that

- a) A close relationship with customers can be developed from a distance with e-responses.

- b) Five magnitudes of service quality are reliability, responsiveness, quality, empathy and assurance.
- c) Service quality according to Mosad (1995) is an important decisive factor that is being used by the customers in selecting a bank.
- d) Here the researcher collected the primary data through personal interaction with various customers of the bank.

The banks selected for study were HDFC Bank & State Bank of India

<sup>2</sup> (African Journal of Business Management  
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#### **OBJECTIVE:**

1. To determine the parameters to measure/quantify the CRM effectiveness in banks.
2. To determine / measure the Customer Loyalty (CL) in banks
3. To compute the correlation between various components of CRM & Customer Loyalty.

#### **Conceptual Framework:**

With the help of previous studies about CRM, the researcher claims that the CRM in retail banking industry involves following five parameters:

- 1) Organizational Commitment
- 2) Customer Experience
- 3) Reliability of service
- 4) Process driven approach
- 5) Technology Orientation

For measurement of Customer Loyalty following parameters are used:

- 1) Saying positive things about the bank
- 2) Referring the services of the bank to friends, Colleagues, relatives etc.
- 3) Using the bank for all your banking & investment needs.

#### **RESEARCH METHODOLOGY:**

Research can also defined as, a systematic and scientific search for pertinent information on a specific topic. In fact, research is an art of

scientific investigation. Research is a movement, a movement from known to unknown. It is actually a voyage of discovery. Research is, thus; originally contribute to the existing stock of knowledge making for its advancement. It is the pursuit of truth with the help of study, observation. In short, the search for knowledge through objectives and systematic method of finding solution to a problem is research. The systematic approach concerning generalization and the formulation of a theory is also research.

**Definition:** Research Framework: - Research in common parlance refers to a search for knowledge.

#### **Research design: -**

The design of a study defines the study type, it encompasses the method and procedures employed to conduct scientific research.

#### **Sources of data Collection:**

**Primary data:** The source of primary data for this paper is:

1. Questionnaire – Respondents were Customers of banks

**Secondary data:** The sources of secondary data for this project are:

1. Internet
2. Research Papers
3. Books

**Sampling Units:** - The customers of various banks in Pune city.

#### **Tools for data analysis:**

- a) **Statistical tools used:** Karl Pearson's Coefficient of Correlation
- b) **Data analysis software used :** MS-Excel

**Sampling Technique:** Non probability Sampling Technique – Purposive Sampling Technique

The respondents selected in the sample were the customers of banks having more than **four years of relationship** with their bank. This was done purposefully to ensure that the respondents were aware about the various

aspects of their bank functioning & customer relationship management.

**Sample Size:** 100 customers

**Attitude Scaling technique:** Likert scale (1 – 5 where 1 – Strongly disagree & 5 – Strongly agree)

**Independent Variable:** Effectiveness of CRM (CRME)

**Dependent Variable:** Customer Loyalty (CL)

**Data Analysis:**

Component of CRM Effectiveness (CRME)	Karl Pearson's Coefficient of Correlation with Customer Loyalty
Organizational Commitment	0.62
Customer Experience	0.78
Reliability of service	0.82
Process driven approach	0.40
Technology Orientation	0.56

Table no. 1

**CONCLUSION**

- 1) As seen from table 1, With highest correlation coefficient of 0.82, the parameter that influences customer loyalty the most is "**Reliability of service**".
- 2) With lowest correlation coefficient of 0.40, the parameter that influences customer loyalty the least is "**Process Driven Approach**".
- 3) The various parameters of CRM effectiveness as per their influence on Customer Loyalty are ranked as follows:

Component of CRM Effectiveness (CRME)	Karl Pearson's Coefficient of Correlation with Customer Loyalty	Managerial Implications	Rank (1 – Most influential, 5 – Least influential)
Reliability of service	0.82	Very high positive correlation. Manager must focus on enhancing Reliability of service provided	1
Customer Experience	0.78	Very high positive correlation. Manager must focus on enhancing the Customer experience	2
Technology Orientation	0.62	Significantly positive correlation. Bank Management should focus on employing latest & user friendly technology for ease of delivering service	3
Organizational Commitment	0.56	Moderately positive correlation. Manager should consider about enhancing Organizational Commitment of his employees	4
Process driven approach	0.30	Low positive correlation. As compared to other components of CRM effectiveness, manager can pay lesser attention towards Process Driven Approach	5

Table No. 2

**RECOMMENDATIONS**

- 1) The bank managers should strive to enhance the **Reliability of service** (Accurate/error free & dependable service) the most in order to ensure the customer loyalty.

- 2) While dealing with the bank, the nature of experience the customer gets i.e. Positive or negative is also one of the most important factor for customer loyalty. Hence the bank managers need to ensure that the **customers get positive experience** while they interact with the bank employees.
- 3) The correlation between Process driven approach & Customer Loyalty is found to be 0.30
- 4) which is comparatively low. So the manager can pay comparatively lesser attention towards this component of CRM.
- 5) To summarize the things, the bank managers & employees of the bank should invest their time & energy in dealing with the customer in following preference in order to enhance the Customer Loyalty:
  - a) Reliability of service
  - b) Customer Experience
  - c) Technology Orientation
  - d) Organizational Commitment
  - e) Process driven approach

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### Books:

- 1) Research Methodology by Deepak Chawla & Neena Sondhi
- 2) Marketing Research – An applied orientation by Naresh Malhotra & Satyabhushan Dash

### Internet

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