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CUSTOMER RELATIONSHIP MANAGEMENT IN PUBLIC AND PRIVATE SECTOR BANKS – A COMPARATIVE STUDY

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ABSTRACT

Customer Relationship Management (CRM) has emerged as a popular business strategy in today's competitive environment. It is a discipline which enables the business to identify and target their most profitable customers. CRM involves new and advance marketing strategies which not only retain the existing customers but also acquire new customers. It has been invented as a unique technique capable of remarkable changes in total output of companies. CRM in financial services industry is a cyclical process which starts with definition of customer expectations which are difficult to manage but are often the cause of dissonance which results in loss of existing customer base. So understanding of customer expectations with regard to service delivery levels and product quality is essential for establishing a long term symbolic value relationship. The challenge before the banks is not only to obtain updated information for each customer, but also to use the information to determine the best time to offer the most relevant products. The banking industry in India is now running in a dynamic challenge concerning both customer base and performance. Today, many banks are rushing to become more customer focused. A key component of many initiatives is the implementation of Customer Relationship Management. This paper reports on a research study of the adoption and use of CRM in banking sector and an attempt is made in understanding the multi-dimensional construct of customer relationships and its implications in competitive banking environment.

Keywords: Customer Relationship Management, Banking Sector, Customer Interaction.

INTRODUCTION

The post-liberalized banking sector in India has been witnessing spectacular changes. The major reasons for the recent radical changes in banking industry's portfolio are competition, consolidation, information technology and the need to be customer-centric. Banks could improve the profitability by adopting strategies like market segmentation, innovation, price bundling and relationship. Technology has a major role to play in retail banking, but its role is complementary to customer service initiatives. Due to increased financial market products like commercial paper and variety of financial instruments, big corporate clientele of several commercial banks have shifted their loyalty, and have been raising resources from the market directly and commercial banks have become more retail customer-centric by offering wide range of services.

CRM – A Profitable Tool

Regulated era has given assured profits to banks, but in the post deregulation period as margins are falling down substantially, banks are concentrating on customer relationships. Banking services can be divided into three categories; core, facilitating and supporting services. Core service is the reason for being in the market. Facilitating services are needed so that the core service can be used, and supporting services exactly discriminates the service package from the services of competitors. Customer relationship is the base on which the structure of retail banking will evolve. The cost to develop customer relationship is always higher than the revenue, but when the relationship grows new demands will appear and then the incremental revenue would be higher than incremental costs.

The cost associated with building up of the relationship is huge. They area dvertising costs, price incentives, set up costs for accounts and service costs etc. Customer service delivery is vital for the success of banking operations. This is not possible only through technology. Process consistency within and across service channels is paramount. Banks are increasingly making investment in a single type of process, rather investing in asset of processes that depends on human resource policies.

CRM is variously misunderstood as a fancy sales strategy, an expensive software product, or even a new method of data collection. It is none of these. CRM is a simple philosophy that places the customer at the heart of a business organisation's processes, activities and culture to improve his satisfaction of service and, in turn, maximise the profits for the organisation. A successful CRM strategy aims at understanding the needs of the customer and integrating them with the organisation's strategy, people, technology and business process. Therefore, one of the best ways of launching a CRM initiative is to start with what the organisation is doing now and working out what should be done to improve its interface with its customers,then and only then, should it link to an IT solution. At this backdrop, the main objective of this paper is to analyse the data collected from the executives of the selected banks, both private and public sector, in Andhra Pradesh state to understand the CRM practices implemented in their banks.

LITERATURE REVIEW

Customer relationship management in financial services industry is a cyclical process which starts with definition of customer actions (Panda T, 2003). Panda T described customer expectations are difficult to manage but are often the cause of dissonance which results in loss of existing customer base. So understanding of customer expectations with regard to service delivery levels and product quality is essential for establishing a long term symbolic value relationship. The challenge before the banks is not only to obtain updated information for each customer, but also to use the information to determine the best time to offer the most relevant products (Lau K, et al , 2003). It is also important to understand that if customers bring in profits for the bank, it becomes imperative for the bank to provide excellent services to those customers, otherwise they switch to other banks (Ray B, 2007). CRM can be viewed as a process geared towards increasing the value of customers over their lifetime as customers (Furness P, 2001). Furness P highlighted that the essential part of CRM process is the application of decision analytics to understand and predict customer behaviour. Berry (1983) defines customer relationship management as attracting, maintaining and enhancing customer relationships in multi service organisations. CRM, which is becoming a topic of increasing importance in marketing, is concerned with using information technology in implementing relationship marketing strategies (Ryals L, et al, 2001).

Customer service is the primary end of any bank. A customer always wants something and expects that the bank should come up to the level to fulfil those needs. Again, the more you provide, still more the consumer needs. Service quality is about meeting customers' needs and requirements, and how well the service level delivered matches customer expectations. Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers (Howcroft, 1991). Berry and Parasuraman (1991) also hold the view that high quality service gives credibility to the field sales force and advertising, stimulates favourable word-of-mouth communications, enhances customers' perception of value, and boosts the morale and loyalty of employees and customers alike. In today's competition in Indian banking industry, customers have to make a choice among various service providers by making a trade-off between relationships and economies, trust and products, or service and efficiency (Sachdev et al, 2004). Hallowell Roger (1996) conducted a research on customer satisfaction, loyalty, and profitability and found that as compared to public sector, private sector bank customers' level of satisfaction is comparatively higher.

STUDY DESIGN AND METHODOLOGY

The data for the study are collected through a structured questionnaire from executives and staff of both public and private sector banks operating in Andhra Pradesh. The questionnaires are administered to the pre-determined samples covering both public and private sector banks operating in rural and urban areas in different sizes. Data from 117 bankers are collected, which are analysed in the subsequent sections. The data are processed through SAS and analysis is made by drawing cross-tables, calculating percentage, and by applying factor analysis where-ever reduction of factors are required. Chi-square and't' test are applied to test the significance of the results wherever it is considered to be necessary.

RESULTS AND DISCUSSIONS

Regular interaction between the banker and customer eliminates the tension among the customers and maximises the customer satisfaction. The amount of interaction that has happened between the banker and the customer in the studied banks is furnished in the Table 1. The patterns of interactions are described in six different ways; monthly, quarterly, half-yearly, yearly, occasionally and not at all.

Table 1. Frequency of Banker and Customer Interaction

Frequency of Interaction	Type of Bank		Size of Bank			Location of Branch	
	Public	Private	Large	Medium	Small	Rural	Urban
Yearly	9 (12.85%)	0 (0.00%)	6 (16.67%)	2 (3.60%)	1 (3.80%)	2 (7.70%)	7 (7.70%)
Half-yearly	3 (4.40%)	3 (6.40%)	3 (8.30%)	1 (1.80%)	2 (7.70%)	2 (7.70%)	4 (4.40%)
Quarterly	25 (35.70%)	10 (21.30%)	6 (16.67%)	20 (36.40%)	9 (34.60%)	9 (34.60%)	26 (28.50%)
Monthly	20 (28.50%)	20 (42.60%)	6 (16.67%)	24 (43.60%)	10 (38.50%)	9 (34.60%)	31 (34.10%)
Occasionally	4 (5.70%)	9 (19.10%)	8 (22.22%)	3 (5.50%)	2 (7.70%)	1 (3.80%)	12 (13.20%)
Not at all	9 (12.85%)	5 (10.60%)	7 (19.45%)	5 (9.10%)	2 (7.70%)	3 (11.60%)	11 (12.10%)
Total	70 (100%)	47 ((100%)	36 (100%)	55 ((100%)	26 ((100%)	26 (100%)	91 (100%)

It is observed from the above table 1 that most of the sample banks hold their banker-customer meet regularly either monthly or quarterly basis. The public sector banks have to conduct the same, as it is mandatory. The large banks, mostly in public sector conduct Banker-Customer meets annual basis or occasional, as they are too busy in managing the day-to-day matters. Interestingly, some of the respondents from all categories replied that they are not conducting Banker-Customer meet. Some of them replied that they are either too busy or they do not need it.

Table 2. Banker – Customer Interaction

Option	Type of Bank		Size of the Bank			Location of the Bank	
	Public	Private	Large	Medium	Small	Rural	Urban
Yes	45 (64.30%)	39 (83.00%)	25 (69.4%)	40 (72.72%)	19 (73.00%)	18 (69.00%)	66 (72.52%)
No	25 (35.70%)	8 (17.00%)	11 (30.60%)	15 (27.28%)	7 (27.00%)	8 (31.00%)	25 (27.48%)
Total	70 (100%)	47 (100%)	36 (100%)	55 (100%)	26 (100%)	26 (100%)	91 (100%)

The banker customer meet can be a good platform to mitigate the differences and solve many problems. This in turn increases customer loyalty and satisfaction. Hence, it is desirable that banks should take necessary steps to increase customer-banker meets. Table 2 and 3 describe the steps taken by bankers to increase such interaction.

The above table 2 describes whether any steps have been taken by the banker to increase banker-customer meets. Majority of the sample banks have taken steps to increase banker-customer meets. The large-sized urban public sector banks are lagging behind in taking steps to hold these meets. When the sample bankers are asked to specify the steps they have taken to increase these meets, they have given 12 such steps, which are described in the table 3.

It is observed from the sample table that almost all categories of sample bankers have given access to customers as a part of frequent banker-customer meet. No specific pattern is observed between the categories of sample bankers.

Table 3. Initiatives taken for Banker – Customer Interaction

Initiatives	Type of Bank		Size of the Bank			Location of the Bank	
	Public	**Private**	**Large**	**Medium**	**Small**	**Rural**	**Urban**
Free access to customers	62 (88.57%)	29 (61.70%)	23 (63.89%)	46 (83.64%)	22 (84.62%)	18 (69.23%)	73 (80.22%)
Organisational policy specifications	65 (92.86%)	38 (80.85%)	32 (88.89%)	48 (87.27%)	23 (88.46%)	20 (76.92%)	83 (91.21%)
Need based approach	10 (14.29%)	42 (89.36%)	10 (27.78%)	32 (58.18%)	10 (38.46%)	10 (38.46%)	42 (46.15%)
Invitation on specific occasions	12 (17.14%)	29 (61.70%)	18 (50.00%)	3 (5.45%)	20 (76.92%)	16 (61.54%)	25 (27.47%)
Always in touch with customers	65 (92.86%)	42 (89.36%)	33 (91.67%)	52 (94.55%)	22 (84.62%)	22 (84.62%)	85 (93.41%)
Arranging health camps, farmers meet, road shows, etc	32 (45.71%)	10 (21.28%)	20 (55.56%)	17 (30.91%)	5 (19.23%)	10 (38.46%)	32 (35.16%)
Arranging customer meets	57 (81.43%)	12 (25.53%)	27 (75.00%)	22 (40.00%)	20 (76.92%)	8 (30.77%)	61 (67.03%)
Better complaint handling mechanism	62 (88.57%)	39 (82.98%)	30 (83.33%)	49 (89.09%)	22 (84.62%)	21 (80.77%)	80 (87.91%)
Meeting customers at their door-steps	12 (17.14%)	42 (89.36%)	15 (41.67%)	18 (32.73%)	21 (80.77%)	24 (92.31%)	30 (32.97%)
Making customers aware of govt. schemes	59 (84.29%)	0 (0%)	32 (88.89%)	10 (18.18%)	17 (65.38%)	26 (100%)	33 (36.26%)
Writing letters/inviting them	18 (25.71%)	27 (57.45%)	25 (69.44%)	16 (29.09%)	4 (15.38%)	6 (23.08%)	39 (42.86%)
Across the counter, when customer transact	47 (67.14%)	40 (85.11%)	29 (80.56%)	43 (78.18%)	15 (57.69%)	22 (84.62%)	65 (71.43%)
Total	70 (100%)	47 (100%)	36 (100%)	55 (100%)	26 (100%)	26 (100%)	91 (100%)

In a competitive market, every business house thrives on attracting new business and retaining the existing customers. The sample bankers have adopted many strategies to attract new business. Tables 4 to 6 discuss the modes/methods of attracting new business in type, size and location variations.

Table 4. Mode of Attracting New Business and Type of Banks

S.No	Methods	Public Sector		Private Sector		$\chi 2$
		Frequency	%	Frequency	%	
1	Personal contact	55	78.57	36	76.60	0.052
2	Personal attention to customer need	58	82.86	40	85.11	0.220
3	Door-to-door campaign	14	20.00	22	46.81	10.821*
4	Aggressive sales promotion	27	38.57	40	85.11	32.421*
5	Distribution of information bulletin	27	38.57	18	38.30	0.0001
6	Improving service quality	56	80.00	40	85.11	0.388
7	Motivating employees for better customer deals	52	74.29	29	61.70	3.986
8	Others	5	7.14	4	8.51	1.254
Total		70	100	47	100	

Attracting and retaining customers is quite important for business success. The study on different methods adopted by the sample bankers indicate that for public sector banks; personal attention to customer needs (82.86%) is most important followed by improving service quality (80%) and personal contact (78.57%); while door-to-door campaign (20%) is least preferred method. Among the private sector banks, Personal attention, aggressive sales promotion and improving service quality (each 85.11%) get equal weightage. The $\chi 2$ values indicate that methods like door-to-door campaign and aggressive sales promotions are statistically significant at 1% level of significance, indicating a variation in perception among public sector and private bankers.

Table 5. Mode of Attracting New Business and Size of Banks

Methods	Large		Medium		Small		$\chi 2$
	Frequency	%	Frequency	%	Frequency	%	
Personal contact	29	80.56	42	76.36	20	76.92	2.872
Personal attention to customer need	28	77.78	46	83.64	25	96.15	3.221
Door-to-door campaign	4	11.11	18	32.73	8	30.77	9.192*
Aggressive sales Promotion	16	44.44	31	56.36	8	30.77	6.956*
Distribution of information bulletin	12	33.33	24	43.64	8	30.77	0.701

Table 5. Mode of Attracting New Business and Size of Banks (Contd….)

Methods	Large		Medium		Small		χ2
	Frequency	%	Frequency	%	Frequency	%	
Improving service quality	30	83.33	44	80.00	20	76.92	0.584
Motivating employees for better customer deals	26	72.22	38	69.09	19	73.08	2.564
Others	2	5.56	5	9.09	0	0.00	0.364
Total	36	100	55	100	26	100	

The methods like personal contact, personal attention to consumer needs and improving service quality are most important methods of attracting new business irrespective of the size of the bank. The χ2 value for these methods in size variation indicates that door-to-door campaign method is statistically significant, suggesting that the use of this method by different sized bank is different from each other. The methods adopted by different banks in their location variation indicates that door-to-door campaign, distribution of bulletins, and motivating employees for better customer deals are statistically significant as indicated by the χ2 values.

Table 6. Mode of Attracting New Business and Location of Banks

S.No	Methods	Rural		Urban		χ2
		Frequency	%	Frequency	%	
1	Personal contact	20	76.92	71	78.02	0.0001
2	Personal attention to customer need	20	76.92	76	83.52	0.897
3	Door-to-door campaign	12	46.15	20	21.98	8.654*
4	Aggressive sales promotion	10	38.46	48	52.75	2.356
5	Distribution of information bulletin	18	69.23	28	30.77	24.547*
6	Improving service quality	21	80.77	73	80.22	0.001
7	Motivating employees for better customer deals	23	88.46	61	67.03	7.241*
8	Others	5	19.23	4	4.40	0.001
Total		26	100	91	100	

CONCLUSION

After opening up the financial sector to the global players, Indian banking sector faces enormous challenges of attracting and retaining customers. The present study revealed that private banks are resorting to aggressive sales promotion and door-to-door campaign to attract new customers than their public sector counterparts, while rural branches focus more on distributing bulletins, motivating employees and door-to-door campaigns as methods to attract new business apart from personal contact, personal attention to customer needs and improving service quality as the core methods of attracting new customers. Apart from that, few bankers perceived that more advertisements, increasing number of employees and improving the ambiences, more particularly for public sector banks is important for attracting new customers. After nationalisation of commercial banks in India, the public sector banks are overburdened with social responsibilities.

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