# Customer Relationship Management in Banks: A Comparative Study of Public and Private Sector Banks in Kerala

| William George A J | Ph.D Scholar, Karpagam University, Coimbatore, Tamil Nadu – 641 021 (INDIA). |
|---|---|
| Dr. Manoj P K | Research Guide, Assistant Professor, Department of Applied Economics, Cochin University of Science and Technology (CUSAT), Kochi, Kerala – 682 022 (INDIA). |

**ABSTRACT**

*In the ongoing era of financial sector reforms in India, because of intense competition commercial banks are vying with each other for market share. Customer satisfaction has become all the more significant for survival and growth of banks in view of the discerning customers of modern days. In this context, this paper looks into the Customer Relationship Management (CRM) – the modern management philosophy that seeks to maintain long term relationship with customers for ensuring their loyalty and retention – practices in Kerala-based commercial banks in Ernakulam district, and also compares the CRM performance between the public and private sector banks.*

## INTRODUCTION

In the ongoing era of globalization the battle for banks to gain a greater slice of the market share has been on the rise the world over and India is no exception. It has become quite difficult for banks to meet the ever-increasing customer expectations. In order to improve their profits banks are growingly looking at ways of achieving organic growth through acquisition of new customers and retaining existing customers. In this 21St century one of the approaches that is fast gaining significance is Customer Relationship Management (CRM), an effective tool to withstand competition.

## INDIAN BANKING IN THE REFORM ERA

In the ongoing reforms era, the most crucial challenge that Indian banks have to face is in the realm of customers' satisfaction. Customers' satisfaction has become the essence of success in today's banking industry in India. As the customers become growingly discerning, if the performance of banks falls short of their expectations, the very survival of banks would be difficult. On the other hand, if the performance exceeds expectations, the customer is highly satisfied or delighted. As banks and their branches increase exponentially including the variety of services that they offer, customers are easily switching banks whenever they find better services and products, because switching costs are becoming virtually nil. Banks are finding it tough to get new customers, and more importantly, retain existing customers. Reichheld and Sasser have observed that 5percent increase in customer retention can increase profitability by 35 percent in banking business, 50 percent in insurance and brokerage, and 125 percent in the consumer credit card market. Thus, banks are now stressing on retaining customers and increasing market share. (Harvard Business Review, 2007). Realizing the above reality, there is a strong feeling in the industry that each individual bank employee should act as a marketing person who contributes to the total satisfaction of their customers. Latest business models attach top priority to customer satisfaction, and hence customer-centric approaches like CRM have gained utmost significance.

## LITERATURE REVIEW

Codatte (1987) argues that customers develop norms for product performance based on general product experience and these, rather than expectation from a brand's performance, determine the confirmation/ disconfirmation process. Westbrook (1991) argues that in addition to the cognitive components satisfaction judgements are also dependent upon effective components as both coexist and make independent contribution to the satisfactory judgements. Levesque (1996) conducted a study to confirm and reinforced the idea that unsatisfactory customer service leads to a drop in customer's satisfaction and willingness to recommend the service to a friend. This would, in turn, lead to an increase in the rate of switching by customers. East (1997) suggested that customer's satisfaction is a major outcome of marketing activities whereby it serves as a link between the various stages of customer's buying behaviour, if customers are satisfied with a particular service offering after its use, then they are likely to engage in repeat purchase and try time extensions. CRM is a management approach that enables organizations to identify, attract, and increase retention of profitable customers through improved relationship management (Hobby, 1999). CRM is the utilization of customer related information or knowledge to deliver relevant products or services to customers (Levine, 2000).

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). Thus, CRM is about managing the customer portfolio efficiently and effectively by designing business policies which focus around the customer. Peter Drucker and others used to assert, "A business exists to create a customer". But, companies are yet to find a fit between business activities and customer needs. Though businesses use one off promotions to attract customers, nothing is done strategically to retain these customers. Instead, companies could adopt CRM as it combines relationship marketing with information technology and add value to the customer by creating the right experience (Peppers, 2002).

Financial services are in a structural change whereby competition and customer demands are on the rise. Financial companies need to focus shift from product provider to relationship builder and on their core competencies in order to deliver higher value to their customers (Lehman, 2000). Researchers like Ahmad (2002), Anderson (2004), Campbell (2006), and Rajkamal (2008) have evaluated services of the banks in term of customer's satisfaction parameters and, therefore, have made good contribution in the field of research in the area. However, a human customer is a complex organism, always changing with changing times, the preferences and priorities also do not remain static which change his/her perception about the satisfaction or dissatisfaction regarding the services he/she gets from the banks. Thus, in today's market, customers are the key to maintain a competitive advantage. Banks should be aware of who their customers are, which customer group produces higher profits and what factors keep them happy and influence their loyalty. Customers affect a bank's success; therefore the winners will be those institutions that succeed in managing their relationship with customers in an effective manner and in quick time (Mylonakis, 2009).

## SIGNIFICANCE OF THE STUDY

Kerala has got an enviable history of banking. Kerala had to its credit a very conductive climate for banking development right from historical times. This research deals with CRM in Public and Private Sector Commercial Banks in Ernakulam District.

The rich private banking history of Kerala could not be maintained by the state during the last few decades, particularly in the ongoing reforms era, as the number of Kerala-based banks is constantly falling. From as high as 08 Kerala-based private sector banks in 1985, the number has fallen to 04 in 2007, because of the competitive pressures. There is the need for enhanced competitiveness for survival and growth. CRM or other customer-centric approaches are relevant here.

## LIMITATIONS OF THE STUDY

Only the Kerala-based private sector banks (ie. the four old private sector banks in Kerala) are chosen in this study. New generation private sector banks, foreign banks etc. are not considered in this study.

## OBJECTIVES OF THE STUDY

(i) To study the CRM practices in commercial banks in Ernakulam district of Kerala;
(ii) To compare the CRM performance of public sector and private sector banks; and
(iii) To suggest strategies based on the findings of the study for enhanced performance of banks through effective CRM adoption.

## HYPOTHESES OF THE STUDY

(i) To be treated on public sector banks
   H1: There is a significant difference among the level of customers' satisfaction and CRM practice in the public sector banks.
(ii) To be treated on private sector banks
   H2: There is a significant difference among the level of customers' satisfaction and CRM practice in the private sector banks.
(iii) To be treated on comparison.
   H3: There is a significant difference among the level of customers' satisfaction and CRM practice in the public and private sector banks.

## RESEARCH METHODOLOGY

To represent the Private Sector Banks (PRBs) all the four Kerala based Old Private Sector Banks [viz. (i) Federal Bank Ltd. (ii) South Indian Bank Ltd. (iii) Dhanalakshmi Bank Ltd. (iv) Catholic Syrian Bank Ltd.] are chosen. To represent Public Sector Banks (PSBs), four PSBs having large network in Kerala viz. (i) State Bank of India, (ii) State Bank of Travancore, (iii) Canara Bank, and (iv) Corporation Bank are chosen. A sample of 120 respondents having diverse socio-economic and occupational status, educational profile, under different age groups. Of these 120 respondents 60 are customers of PSBs and the rest 60 are customers of KOPBs. A structured questionnaire was designed to collect the primary data. Convenience sampling method is used for collecting the data and the data was collected by conducting personal interview with the customers.

The views of the customers regarding their satisfaction/dissatisfaction towards CRM practices of the concerned banks have been qualified on the basis of Likert scale having five points. These five points and their respective scores are given below:

| Points of Scale | Score |
|---|---|
| Very Satisfied | 5 |
| Satisfied | 4 |
| Neutral (Not satisfied nor dissatisfied) | 3 |
| Dissatisfied | 2 |
| Very dissatisfied | 1 |

A high score in the respective dimension shows high satisfaction of the customers, and vice versa. Since the questionnaire was a survey, the dimensions selected for measuring customers' satisfaction have been selected as below:

1. Ability to Resolve Complaints
2. Responsiveness of the Banks Staff
3. Banking Services
4. Counter Services
5. Accounts and Deposits of the Banks

Techniques like Mean, Standard Deviation, Z-test are used for data analysis and interpretation.

## DATA ANALYSIS AND INTERPRETATION

Ability to Resolve Complaints: This is a major CRM dimension that influences customers' satisfaction. Variables like, outcome of complaints and handling of complaints are the important ingredients of measuring customers' satisfaction. The views of customers regarding this aspect are depicted Table I, which suggests that private sector banks (PRBs) provide better satisfaction to customers than public sector banks (PSBs). The combined mean score of two variables that determine the satisfaction of the customers represented by the combined mean score is 4.10 for PRBs, ie. in between 'very satisfied' and 'satisfied'. The views expressed by the customers are consistent as the standard deviation is at a low level of 0.98. The customers of PSBs have expressed their average level of satisfaction at 3.94, which is between the 'satisfied' and 'neutral' levels. The standard is higher at the level of 1, showing lower consistency.

Responsiveness of the Bank Staff: This CRM dimension refers to the willingness of the bank staff to help customers and provide them prompt service.

This factor is linked to several minor ingredients of the satisfaction experienced by the customers such as courtesy of the staff; banks employees' willingness in helping customers; knowledge to perform the service; information delivery; quality of information received and attitude of bank staff. The response of the bank staff is shown in Table II. Table II shows that PRBs provide the higher satisfaction to customers than PSBs, the combined mean score being 3.07 (as against 2.95 for PSBs) which is in between 'satisfied' and 'neutral' range. Besides, the views of the PRBs' customers are relatively more consistent as the standard deviation is 1.274 (as against 1.29 for PSBs).

Banking Services: The variety of the products and services offered by banks is considered here. Customers' responses in respect of this parameter are depicted in Table III which shows that PRBs provide better satisfaction to customers than PSBs, as the combined mean score of different variables is 3.87, as against 3.4 for PSBs. The mean scores of both PRBs and PSBs, however, lie in between 'satisfied' and 'neutral' range. There is higher consistency in the case of PRBs as the standard deviation is lower at 1.111 level as against 1.21 for PSBs.

Speed of Counter Services: This dimension refers to customers' satisfaction in respect of time taken for deposit of cash and withdrawal of cash, issue a drafts, collection of cheques and other documents etc. The perceptual views of customers in this regard are presented in Table IV. Table IV shows that higher satisfaction is provided by PRBs than PSBs as the combined mean score is 3.66 as against 3.64 for PSBs. The consistency in the views expressed is also higher for PRBs as the standard deviation is 1.185 as against 1.251 for PSBs.

Accounts and Deposits of the Bank: This factor refers to the satisfaction of customers with saving accounts, current accounts and term deposits of the bank. The views of customers regarding this dimension under study are presented in Table V which shows that higher satisfaction is provided by the PRBs, as the combined mean score of different variables is 3.373 (as against 2.990 for PSBs). PRBs have higher level of consistency also, as the standard deviation is 1.256 as against 1.301 for PSBs.

Overall Customers' Satisfaction: The overall satisfaction of the customers towards CRM practices of banks has been summed up in Table VI. The overall customers' satisfaction score in PRBs and PSBs are 9.03 and 8.41 respectively (Table VI). A comparison of two sectors (viz. public and private) reveals that the customers in both the bank groups are somewhat comparable, though PRBs perform better. The calculated Z-value regarding responsiveness of the staff (0.927), banking services (-0.13) and Accounts and deposits (-0.29) is less than the table value

of Z-test at 5 percent level of significance. Thus, the alternative hypothesis regarding existence of significant difference between PRBs and PSBs is rejected in favour of null hypothesis. This shows that the customers of both bank groups hold similar views. However, the calculated Z-value regarding ability to resolving complaints (2.033) and counter service (3.491) is greater than the critical value of Z-test at 5percent level of significance (ie. 1.96); and the alternative hypotheses are accepted here. This suggests that the customers of public and private sector banks do not hold similar view in respect of resolving complaints and counter services.

## Findings of the study

- Private sector banks are more sincere in solving and handling of customers' complaints.
- Staff of the private sector banks have better courtesy and willingness to help customers, more knowledgeable and more effective in replying to customers' questions.
- In private sector banks, the knowledge of the banks staff, their helpfulness nature and courtesy are the factors leading to customer satisfaction.
- The staff of private sector banks are more attentive to their customers compared to PSBs.
- ATM cards, Cheque book service, and Net banking are the major factors contributing to customer satisfaction in private sector banks.
- In respect of PSBs, Demand drafts and Cheque book service are the major contributory factors towards customer satisfaction.
- Finally, the study found that customers of private sector banks are more satisfied with their accounts and deposits of the banks than PSBs.

## Suggestions based on study findings
Based on the study findings, the following are the suggestions made by the authors for enhanced customer service and competitiveness of banks:

- Implement a Customer-centric process in banks.
- Banks, particularly the PSBs need to further improve their counter services.
- Customer complaints should be handled quickly and their satisfaction be accorded top priority.
- Employees should be given training to improve their attitude to customers, behaving politely to them and hence ensuring customer loyalty.
- It is advisable that banks keep a separate complaint-cum-suggestion box / book to enable customers to offer suggestions and complaints.
- The working hours of the banks must be as flexible as possible. The operating hours of banks be extended depending upon the customer needs.
- Provision for separate inquiry counter at banks is advisable especially to the illiterate customers. Efficient, knowledgeable, competent, versatile and skilled front-line staff is required for banks.
- As more and more customers switch over to ATM services, more ATM machines be installed.
- The banks must try to find out the specific needs of different customers, so that suitable package of services can be offered to them.

## CONCLUSION
It can be concluded that private sector banks provide better services to their customers than the PSBs. As

customers ensure bread and butter for banks by way of income generation, without them there is no business. Hence, 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.

## SCOPE FOR FURTHER EXPLORATION
The present study has not considered the New Generation Private sector Banks (NGPBs) and Foreign Banks (FBs). It is ad-

visable to make similar comparative studies of the CRM performance between Old Private Sectors Banks (OPBs) and NGPBs; or between OPBs and FBs.

**Table I: Customers' Satisfaction with Ability to Resolve Complaints**

| No. | Variables | Private Sector Banks | | Public Sector Banks | |
|---|---|---|---|---|---|
| | | Mean | SD | Mean | SD |
| 1 | Outcome of Complaints | 4.90 | 0.756 | 4.28 | 0.845 |
| 2 | Handling of complaints | 3.50 | 1.203 | 3.26 | 1.163 |
| | Combined Mean/SD | 4.10 | 0.98 | 3.94 | 1.00 |

(Source: Survey Data)

**Table II: Customers' Satisfaction regarding Responsiveness of the Bank Staff**

| No. | Variables | Private Sector Banks | | Public Sector Banks | |
|---|---|---|---|---|---|
| | | Mean | SD | Mean | SD |
| 1. | Courtesy of the banks staff | 3.06 | 1.208 | 3.76 | 1.211 |
| 2. | Helpfulness of the bank staff | 3.78 | 1.487 | 3.46 | 1.451 |
| 3. | Knowledge of the banks staff | 3.16 | 1.209 | 3.12 | 1.204 |
| 4. | Bank information delivery to customers | 2.65 | 1.331 | 2.04 | 1.197 |
| 5. | Quality of information received | 3.10 | 1.307 | 3.08 | 1.321 |
| 6. | Attitude of the banks staff | 2.66 | 1.102 | 2.14 | 1.179 |
| | Combined Mean/SD | 3.07 | 1.274 | 2.95 | 1.29 |

(Source: Survey Data)

**Table III: Customers' Satisfaction with Banking Services**

| No. | Variables | Private Sector Banks | | Public Sector Banks | |
|---|---|---|---|---|---|
| | | Mean | SD | Mean | SD |
| 1. | ATM cards | 4.12 | 1.094 | 2.86 | 1.218 |
| 2. | Demand Drafts | 3.04 | 1.046 | 4.02 | .927 |
| 3. | Cheque Book | 4.20 | 1.170 | 3.74 | 1.523 |
| 4. | Net Banking | 4.10 | 1.135 | 2.78 | 1.189 |
| | Combined Mean/ SD | 3.87 | 1.111 | 3.40 | 1.210 |

(Source: Survey Data)

**Table IV: Customers' Satisfaction regarding Speed of Counter services**

| No. | Variables | Private Sector Banks | | Public Sector Banks | |
|---|---|---|---|---|---|
| | | Mean | SD | Mean | SD |
| 1. | Cash Deposits | 4.50 | 0.787 | 4.12 | 1.113 |
| 2. | Cash Payment | 3.02 | 1.380 | 3.54 | 1.237 |
| 3. | Issue a draft | 3.40 | 1.054 | 3.36 | 1.059 |
| 4. | Cheque payments | 3.68 | 1.347 | 3.76 | 1.445 |
| 5. | Cheque deposits | 3.56 | 1.353 | 3.40 | 1.387 |
| | Combined Mean/SD | 3.66 | 1.185 | 3.64 | 1.251 |

(Source: Survey Data)

**Table V: Customers' Satisfaction regarding Accounts and Deposit of the Banks**

| No. | Variables | Private Sector Banks | | Public Sector Banks | |
|-----|-----------|------|------|------|------|
| | | Mean | SD | Mean | SD |
| 1. | Savings A/C | 3.25 | 1.315 | 3.00 | 1.433 |
| 2. | Current A/C | 3.18 | 1.192 | 3.12 | 1.229 |
| 3. | Fixed Deposits A/C | 3.69 | 1.261 | 2.85 | 1.241 |
| | Combined Mean/SD | 3.373 | 1.256 | 2.990 | 1.301 |

(Source: Survey Data)

**Table VI: Hypothesis Testing**

| No. | Variables | Private Sector Banks | | Public Sector Banks | | 'Z' Value |
|-----|-----------|------|------|------|------|------|
| | | Mean | SD | Mean | SD | |
| 1. | Ability to resolve complaints | 8.40 | 1.363 | 7.54 | 1.427 | 2.033 |
| 2. | Responsiveness of the bank's staff | 18.10 | 3.197 | 17.60 | 2.513 | 0.927 |
| 3. | Banking Services | 13.46 | 1.061 | 16.90 | 1.203 | -0.13 |
| 4. | Counter Services | 18.16 | 0.789 | 18.18 | 1.110 | 3.491 |
| 5. | Accounts and Deposits in the Banks | 9.82 | 1.941 | 9.87 | 1.865 | -0.29 |
| | Combined Mean/SD | 9.03 | 1.431 | 8.41 | 1.791 | 1.815 |

(Source: Survey Data)

**REFERENCE**    1. Albin D. Robert (2004), "Customer Focus in banking Service", Journal of Indian Marketing, pp 17-18. | 2. Amuthan R (2004), "A Study on Retail Banking Strategies in Private Sector Banks with special reference to HDFC Bank and ICICI Bank ltd." Journal of Indian Marketing, pp 31-34. | 3. Banking on Customer Satisfaction (2007), www. bankingstrategies.com | 4. Jham, Vimi, and Khan, Kaleem, Mohd.(2008), "Customers' Satisfaction in the Indian Banking sector: A Study, Journal of Marketing, pp 84-93. | 5. Levesque, T. And McDougall, G H (1996), "Determination of Customers' Satisfaction in Retail banking", International Journal of Marketing, Vol.14, No.7, pp12-20. | 6. Accenture (2007), "Global Customer Satisfaction Survey. Customer Satisfaction in the Changing Economy," | 7. Dr. C. Arjunan and E. Shirley Elizabeth, "A Study on Service Quality Perceptions of Public and Private Sector Banks in Erode District", SAJOSPS, ISSN 0972-4613 Vol. 11 No.2 (Jan-June, 2011), pp. 80-84. | 8. Bhisham Ram-kelawon, Customer Relationship Management as an Integrated Approach in the Banking Sector - A Case Study of a local bank in Mauritius, International Research Symposium in Service Management, 24-27 August 2010. | 9. Kothari, C R , Research Methodology: Methods & Techniques; New Delhi: New Age International (P) Limited, Publishers. | 10. Kotler, Philip and Armstrang, Gary, Principles of Marketing; New Delhi: Pearson Education Ltd. | 11. Mylonakis, J. (2009). Customer relationship management functions: A survey of Greek bank customer satisfaction perceptions. ICFAI Univ. Journal of Bank Management, VIII (2), 7-31. |