Methodology
Due to liberalization and the growth of technology the financial climate has been changing in the Indian Financial markets. Far-reaching changes have been taking place in government regulations and technologies. Information technologies like Internet, e-mail, telephone, interactive TV etc., are going to change the way of doing banking business in the future. At the same time, the awareness and expectations of customers are also changing. As the banking industry continues its transition from a regulated to a liberalized environment, all types of changes are required. The most important change is focusing on the customers. The major change, which, is difficult to understand, is that in the regulated environment banks have to satisfy the regulations and in the liberalized environment banks have to satisfy customers.

Hence banks have to keep the communication channel going with the customers on an on-going basis because they are the main stakeholders. Banks are established and nationalized to serve them. As Mahatma Gandhi said “It is banks which depend on the customers and not vice-versa”. Any bank, which understands that relationship marketing is crucial for its success, will adopt a proper mechanism of CRM to get feedback from the customers and strive to understand the ground level reality.

**Justification of the study:**
Indian business houses have realized that customer focus holds the key for survival and growth. This has turned out to be mandatory in organizations delivering service. That is, from the days of making customers to reach the
point of delivery, today service organizations have to reach the customers to
deliver. This necessity has brought about a significant shift in the delivery
process and the mechanism relating to the same, warranting uncompromising
and critical evaluation of the process and the mechanism on a continuous
basis.

One of the high customer contact business is banking. Traditionally banks
were merely accepting deposits and lending loans and advances, without
examining the delivery process. As a result the customers' response to
banking services was not supportive. As banks in Indian context remained
mainly in the government fold [i.e., nationalized banks], quantitative banking
was given importance and not qualitative banking. With foreign banks and
private sector banks entering the scene, they added a new dimension to
banking services. These banks realized from the beginning, that they have to
be customer-centered, to survive the competition from the nationalized
banking segment. Customer focus has turned out to be a compulsion and not
an option for these banks. One of the important 'unique selling propositions'
that they have to device is customer relationship based marketing initiatives.

Once the liberalization has happened, the nationalized banks in India faced a
compulsion to be customer oriented to survive and maintain growth.

Another major factor which made customer relationship marketing a mandate
is the technology. As technology could make a significant difference in
service delivery process adding strength to the banks, every bank had to re-
position itself with technology driven delivery process. In the post-
liberalization era, customers preferred banks which could offer them facilities
to access their accounts and do banking throughout the day. Though this
shifted the banking environment from 'personalized banking operations to
remote banking operations,' yet the new delivery mechanism has gained
universal acceptance. In this context, customers sought the banking services
as a matter of right rather than an obligation. Hence, each bank had to offer
customer support service on a round-the-clock basis. In all these, banks have
to fulfill customers’ expectations and deliver highest possible quality services. Hence the shift from ‘quantitative banking to qualitative banking’ happened. Hence banks had to analyse the business situation and understand the real requirements for automation (Xu, 2002).

In this difficult situation, as Xu pointed out CRM is an opportunity that banks could avail to develop actual relationships with their customers. A banking company committed to CRM must continuously invest in its relationship with its customers, because it is the only competitive advantage remaining to the bank. Often banks have to change their internal business processes, and exploit human and organizational resources, in order to manage good relationship with their customers. Institutional success lies in the secret of successfully delivering customer oriented product or service to every customer.

In the light of the changing banking environment explained above, study of relationship marketing in the banking industry is well justified.

This study is focused on the strategy for managing ever-increasing challenge of achieving customer satisfaction and through that retaining the customer base. In India the banking industry has multiple categories, relevant and timely customer relationship marketing efforts initiated and pursued by the banking institutions is the very essence of survival of these varied players. The challenges and opportunities related to a banking operation or transaction, faced by the common man who is also a bank account holder/customer has to be analyzed at length. In this context, the status of customer relationship marketing in different categories of banks differs which has to be assessed at periodical interval. This would facilitate the banking institutions to review their approach to make it more effective and help to retain customers. Hence, this study was undertaken to assess the status of customer
relationship marketing and indicate the direction in which the banking institution has to position itself to remain competitive and grow.

**Objectives:**
This study aims at assessing the relationship marketing strategies followed by banks and to determine the effect of these strategies on service quality as perceived by the banks customers.

Research (questions) objectives of the study
to identify the factors influencing customer relationship marketing strategies adopted by the banks
to determine the levels of customer satisfaction relating to the quality of service rendered by the banks
to examine the extent of customer retention in banks and to determine the factors affecting the same.
and based on the above to suggest policy-options for improving customer relationship marketing efforts.

**Research Design**

The research design followed for the study was a Descriptive Research Design. As this study is aiming at assessing the status of relationship marketing in the banking industry, it has to be based on the user point of view and the service provider point of view. Hence, a detailed process of information gathering has to be adopted to elicit the views of a] customers on all aspects of banking relationship and b] the service providers view so as to verify the perception of both about the service delivered. To ensure that the view points of both the sections are truly reflective of the customers and service providers, it was decided to categorize the banks in to different groups and then use the responses of the customers and bankers to undertake an assessment of the relationship marketing initiatives of the banks.
Selection of Sample

a) Justification for the area selected for the study

The metropolis region of Chennai City, the capital of the state of Tamilnadu, was taken as the area of the study in order to get an insight into the factors and challenges faced in the CRM ventures adopted by the banking industry. Chennai is truly the representative of the potentials and challenges of banking faced by the rest of the country. The demographic, social and economic complexities of Tamilnadu with its vast population of different classes of people, economic status and literacy rates is representative of the general banking class of customers in the Indian context.

Tamilnadu has seen the growth and success of many banking enterprises for all categories of banks and especially those chosen for the study. Each of the nine banks chosen for the study, from among the three categories of Public, Private and Foreign banks have more than three branches and Regional Head Office in Chennai.

b) Period of Study

The primary data was collected through a sample survey conducted during May 2005 – October 2006 and the secondary data was collected for a period of nearly five years. (August 2000 – July 2005).

a) Banks chosen for the study

In order to understand the CRM initiatives and challenges faced by the bankers, three categories of banks, namely public sector banks, private sector
banks and foreign banks operating in Chennai were chosen for the study. In order to get an overall view of the traditional, private and new generation banks interest and role in satisfying the customers and account holders, these three categories of banks were chosen. Only those banks which had been functioning at least for a period of five years, were selected. The following 10 banks were selected for the study.

1. Private sector banks selected include ICICI Bank, HDFC Bank and YES Bank.
3. Foreign banks include The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, CITIBANK & ABN AMRO bank.

The above banks are truly representatives of the category they belong to and have had a rich and varied experience of banking in Chennai city as they are all well established and stabilized in Chennai for more than a decade. Factors of proximity and convenience, accessibility and ease of securing official permission for the study were also considered in making a choice of the above-mentioned banks.

b) Choice of respondents

The research is focused on two categories of respondents namely (1) Bank Customers and (2) Bank Executives, who were chosen at random. In each selected bank, minimum three bank branches located at different locations of Chennai city were selected to represent the customers of all walks of life. Using the list of customers with active account, totally 1165 customers were included in the survey. Similarly the bank executives who are manning the counters with high public contact were selected at random for the survey.
Thus the sample respondents selected for the study were active account holders and customers of banks residing in and around the metropolitan region of Chennai city. Similarly the personnel employed as executives in high contact areas in the three categories of banks were included for the study.

**Sampling Design**

**Sample size:**

Considering the problem focus explained above, it was decided to apply purposive sampling technique to confine the selection of respondents to only account holders of the selected banks. These respondents were selected at random, in order to collect data which represents the reality in the banking industry.

A sample size of 1165 respondents, who were account holders and customers of the selected banks in the three bank categories, drawn from three branches of each bank, constituted the bank customers. Care was taken to ensure that the sample size of customer respondents in each selected bank is atleast 30, and from each segment at least 100 customer respondents are selected. This is necessitated because in the case of foreign banks, the customer base is small compared to nationalized banks and private sector banks in India.

For the survey of bank executives, 100 bank personnel drawn from the ten selected banks comprising bank executives and top management staff were included and the questionnaire was administered. In this case, it was decided to ensure that in each category of banks the views of at least 20 bank executive respondents are collected. As the total number of banking staff in any branch of a bank is small, a total size of 100 bank executives drawn from each bank was considered relevant.
Table IV.1 Distribution of Sample Respondents [Customers]

<table>
<thead>
<tr>
<th>Sector &amp; Bank</th>
<th>Number of Respondents</th>
<th>Total Sector-wise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. ICICI Bank</td>
<td>245</td>
<td></td>
</tr>
<tr>
<td>2. HDFC Bank</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>3. YES Bank</td>
<td>45</td>
<td>490</td>
</tr>
<tr>
<td><strong>Public Sector Nationalized</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Indian Overseas Bank</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>2. Punjab National Bank</td>
<td>143</td>
<td></td>
</tr>
<tr>
<td>3. Corporation Bank</td>
<td>200</td>
<td>543</td>
</tr>
<tr>
<td><strong>Foreign Banks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. CitiBank</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>2. HSBC Bank</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>3. Standard Chartered Bank</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>4. ABN AMRO Bank</td>
<td>30</td>
<td>132</td>
</tr>
<tr>
<td><strong>Total Sample Size</strong></td>
<td></td>
<td>1165</td>
</tr>
</tbody>
</table>

As regards the bank executives, the higher authorities of each bank insisted that only the number executives specified by them could be contacted and responses collected. As a result, the distribution of sampling respondents of bank executives differs between banks. Totally 101 bank executives in high contact areas in the respective banks were included in the survey. The distribution of bank executives bank-wise is presented in Table IV.2 below.
Table IV.2 Distribution of Sample Respondents [Bank Executives]

<table>
<thead>
<tr>
<th>Sector &amp; Bank</th>
<th>Number of Respondents</th>
<th>Total Sector-wise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private Sector</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. ICICI Bank</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>2. HDFC Bank</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3. Yes Bank</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td><strong>Public Sector Nationalized</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Indian Overseas Bank</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>2. Punjab National Bank</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>3. Corporation Bank</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td><strong>Foreign Banks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. CitiBank</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2. HSBC Bank</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>3. Standard Chartered Bank</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>4. ABN AMRO Bank</td>
<td>7</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total Sample Size</strong></td>
<td>101</td>
<td>101</td>
</tr>
</tbody>
</table>

**Pilot Study**

A pilot study was undertaken among 90 bank customers, selected at random, from three branches of the categories of banks chosen for the research purpose. The pilot study was initiated through a set of questionnaires, meant for the bank customers and bank executives, individually designed to study the role of the bankers in introducing Customer Relationship Marketing measures to satisfy or retain their customer base. Focus was on customer related services, bank specific products and reasons /
factors for the efficiency of banking operations undertaken by the banks. Based on the responses, the final questionnaire was designed. Each questionnaire was prepared with multiple-choice questions, containing 30 questions. The bank executive questionnaire was designed to evoke interest and response from the different levels of bank-executives. These questions included the various strategies and measures adopted by the banker to relate to their customer base and probed the constraints and difficulties encountered by the bank personnel in administering the CRM techniques undertaken by the bank. Attempts made by the different bankers in attracting the different categories of customers and account holders and the banker's role in offering customer related services were also studied.

The questions addressed to the customers were chosen to elicit their responses towards banking product features, customer services and the quality of customer experiences gained and received by them during each of their contacts with the banks. The open structure of the questions ensured that unexpected facts or attitudes as well as underlying motivations could be pursued. The key facets of relationship marketing that were explored include:

- Facilities offered by the bank to the customers
- Different ways adopted by the banker to initiate the relationship with the customer
- Measures undertaken to maintain customer relationship
- Reasons for customers to select a banker on the basis of bank services & products offered and effectiveness of the bank personnel
- Factors of agreeability related to banking transactions
- Details of customer retention measures adopted
The awareness of the customers about the various measures adopted by the banker to relate to them and the levels of satisfaction derived by the customers of the different banks were studied at length.

The secondary data was gathered from different journals published by the National Institute of Banking Management (NIBM), Indian Institute of Banking (IIB) and Reserve Bank of India (RBI) bulletins.

Analysis of data

Tools of Analysis: Statistical tools used for the analysis were as follows: Simple averages to understand the nature and the thrust of the data on the various aspects of the problem studied and the related issues. Chi square test and “t” tests were administered to test various hypotheses set for the study.

Customer satisfaction index

Methodology

The customer satisfaction index measures the satisfaction of the bank customers. This is measured based on a) the services rendered by the bank and b) the personnel relationship maintained with the customers at the bank. After computing these two indices, overall satisfaction index is computed by considering all the aspects of banks—services as well as personal relationship.

A] Customer satisfaction based on the services rendered by the bank:

The service-based measure of satisfaction index used the following parameters:
1. Comfortable transaction hall
2. Computerized service
3. Door to door services
4. Working time
5. Handling complaints
6. Speed of operation
7. Location
8. Variety of services offered
9. Holiday services offered
10. Security condition at the bank
11. Communication from the bank

In the questionnaire issued for the customers, each question related to services rendered by the bank was provided with four alternatives, viz., Very much satisfied, Quite satisfied, Quite dissatisfied, Not at all satisfied. Each of these alternatives was assigned weightage on a four-point scale. For each parameter the response was measured on this four-point scale. Then, for each parameter the number of responses under each alternative was calculated to arrive at the response pattern in each bank. For the purpose of converting this response pattern into index, each weightage point assigned for each parameter was multiplied with the number of respondents to arrive at the total points scored for each alternative for each bank. In this way the total score for each bank for each parameter was arrived at. Regarding the respondents who have not answered any of these questions, the weightage assigned was zero. After excluding these respondents, the total score arrived at was converted into percentage. The number of respondents who did not give any response to the questions were removed. For instance there are 11 parameters used to construct this index. Totally 30 respondents submitted their responses. So for all the parameters put together, totally 330 responses were covered with this questionnaire at ABN Amro bank and the number of no
response was 70, the actual number of responses was taken as 260. If all these responses have chosen first alternative with 1 as weightage, then the total possible score would be 260, if all of them had opted for the second alternative with a weightage of 2, then the total score possible would be 520, if all of them had chosen the third alternative, then the total score would be 780 and if the fourth alternative was selected by all the respondents, then the maximum possible score would be 1040. The actual score under each alternative was divided by the total possible score and converted in to percentage. This yielded the percentage of respondents under each of the four alternatives.

Another aspect of the satisfaction index is that for discussion purposes very much satisfied and quite satisfied categories were clubbed together to represent satisfied customer group. The other two categories [Quite dissatisfied and not at all satisfied] were clubbed together to represent dissatisfied customer group.

Using this percentage of respondents, inter-bank comparison, intra bank comparison and inter-sector comparison of customer satisfaction based on the services offered were made.

To explain the above methodology, the following table relating to ABN Amro bank could be used:
Table IV.3 Computation Methodology for Satisfaction Index

<table>
<thead>
<tr>
<th>Weightage</th>
<th>Number of responses</th>
<th>Actual score</th>
<th>Maximum Possible Score</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>70</td>
<td>0</td>
<td>260</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>13</td>
<td>13</td>
<td>260</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>24</td>
<td>48</td>
<td>520</td>
<td>9.23</td>
</tr>
<tr>
<td>3</td>
<td>126</td>
<td>378</td>
<td>780</td>
<td>48.46</td>
</tr>
<tr>
<td>4</td>
<td>97</td>
<td>388</td>
<td>1040</td>
<td>37.31</td>
</tr>
<tr>
<td>Total</td>
<td>330</td>
<td></td>
<td></td>
<td>100.00</td>
</tr>
</tbody>
</table>

Note: Weightage: 0 – no response, 1 – Very much satisfied, 2- Quite satisfied, 3 - Quite dissatisfied, 4 – Not at all satisfied

B] Customer satisfaction based on personnel relationship maintained with the customer

The customer satisfaction index based on the personnel relationship maintained with the customer was also computed using the methodology explained above for service based customer satisfaction index. This index made use of the responses for the following parameters:

1. Promotional orientation
2. Attentiveness
3. Courtesy
4. Expertise of personnel
5. Personal touch
6. Preferential treatment
7. Reliability
8. Responsiveness
9. Transparency
10. Trust worthiness

The overall satisfaction index was computed for each bank and compared applying the methodology explained above. The customer satisfaction index bank-wise and overall satisfaction index sector-wise were represented in diagrams to indicate the extent of difference in satisfaction levels among the banks and the customers.

**Transaction time analysis of accounts**

Analysis of the transaction time for various types of accounts held at the banks and also the factors that influence the transaction time were analyzed.

The type of accounts held by the customers is Savings Bank Account, Fixed Deposit, Credit Card, Debit Card, Usage of ATM Cards and Loan Repayment. The study aims at finding out which transaction takes the more time by the customers while processing different bank transactions in the respective banks.

Let $Y_{ij}$ represents the average time spent by the customers for different transactions while availing of the bank services per visit. The time spent by each customer depends on the various attributes like waiting time in the queue, the number of service channels, the different business time slots, and the efficiency of the personnel. Hence it has been decided to test on the average time spent for various transactions. Assuming the randomness,
replications and the local control the randomized block design has been carried out.

H₀: The average time spent for different transactions are equal.
H₁: The average time spent for different transactions are not equal.

The Chi-Square test was applied to test the significant difference between the various reasons that influence for opting for different bank categories. The following are the various reasons that influence a customer for opting for a particular choice of bank categories like Personal selling by the Bank, Peer group, Advertisements, Parent’s advice, Exhibitions, Self enquiry and Company’s advice. If the null hypothesis is rejected, it is decided to carry out the multinomial test to analyze the reasons that influence for opting for a particular choice of bank categories.

The Chi-Square test was applied to identify the significant difference between the various reasons that influence for opting for a Foreign Bank.

H₀: There is no significant difference between the various reasons that influence for opting for a foreign bank
H₁: There is significant difference between the various reasons that influence for opting for a foreign bank

The multinomial test was chosen to find out which factor influences the choice of the foreign bank.

Let
X₁ be the independent variable denoting the influence of Personal selling by the bank,
X₂ be the independent variable denoting the influence of Peer group,
X₃ be the independent variable denoting the influence of Advertisements,
$X_4$ be the independent variable denoting the influence of Parent's advice,
$X_5$ be the independent variable denoting the influence of Exhibitions,
$X_6$ be the independent variable denoting the influence of Self enquiry,
$X_7$ be the independent variable denoting the influence of Company's advice

Also let $Y$ be the dependent variable denoting the choice of opting for a particular bank category.

The multinomial equation for analyzing the various reasons that influence for opting for a particular choice of bank categories is as follows.

$$Y = \log \left( \frac{p}{1-p} \right) = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

Where $p$ is the probability of opting for a particular choice of bank categories

**CRM STRATEGY METHODOLOGY**

To determine the CRM strategy adopted by the selected banks, 65 factors from the questionnaire for Customers have been identified and listed. These factors were analyzed to identify the core factors constituting each strategy. Totally six CRM strategies were identified. Then the relevant factors influencing each of these CRM strategies were identified. This was followed by identification of strategy adopted by each bank. Based on the matrix of the strategy adopted, the outcome of customer satisfaction was studied. The six strategies identified are presented below.

Strategy: 1 - Marketing value added products
Strategy: 2 - To exceed customer expectations to avoid cognitive dissonance and decreased loyalty.
Strategy: 3 - Developing relations with clients
Strategy: 4 - To adopt to current CRM systems
Strategy: 5 - To reduce customer attrition and to retain customer
Strategy: 6 - Interactivity – identify, differentiate, interact and customize

CUSTOMER RETENTION - METHODOLOGY

Due to data constraints conditioned by confidentiality compulsions, data relating to customer retention could not be compiled from the selected banks. Alternatively, another supportive methodology explained below was adopted to determine the customer retention rate. One of the questions responded by the informants was the length of time they keep the account with the banks. This time length of various accounts held by customers was computed. This was converted into percentage for all the accounts. This way the customer retention was measured taking length of time of retaining the accounts with the banks as the proxy. This was computed for each bank and for each category. Based on this the customer retention rate of each selected banks was determined. After calculating the retention rate, sectoral comparison and inter-sectoral comparison of retention rate was analysed. Customer retention sector-wise was also represented in diagrams to indicate the inter-bank and inter-sectoral difference in customer retention.

Finally, opinions and views of customers and bank executives were analyzed to determine the policy changes required and the methods of strengthening the customer relationship by the banks.

Limitations of the study

(1) The study was confined to the geographical area of Chennai metropolitan region and included only the respondents of the metropolitan city, Chennai.
(2) The respondents were drawn from various backgrounds, age groups and income level, and the responses are subjected to recall bias.

(3) The policies suggested based on findings and conclusions of this study need to be placed in proper perspective before being applied elsewhere.