AN ANALYTICAL STUDY OF CRM AND ITS IMPACT ON CUSTOMER LOYALTY: AN EMPIRICAL STUDY ON PRIVATE BANKS IN ODISHA

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ABSTRACT

The purpose of this paper was to determine the impact of customer relationship management on customer loyalty. The data was collected from the customers of three private sector banks- ICICI Bank, HDFC Bank and Axis Bank across the branches located at Bhubaneswar, Cuttack and Puri. The data was collected by using a structured questionnaire with a five point Likert scale. Statistical tools such as multiple regression and factor analysis were used for data analysis. The study shows that there is an impact on customer relationship management and customer loyalty. The study also noticed that banks words and promises are reliable and the bank is fulfilling its obligation towards the customers. It is also offering them valuable advice on how to invest is the predominant variable which has impact on customer loyalty. So the banking sector needs to focus more on these factors, thereby increasing customer loyalty. Hence the concept of CRM may be emphasized so that the customers are treated royally in relation to banking services. Thus the banks need to improve the customer satisfaction in the utilization of various modern banking services and should provide more customer friendly services to make the modern banking activity a delight for the customer.

KEYWORDS: Customer Relationship Management, Customer Loyalty, ICICI Bank, HDFC Bank, Factor Analysis

1. INTRODUCTION

In the modern times, the existence of the civilized world cannot be imagined without banks. The banking activities have become not only an integral part of the human civilization but also have directed the flow of progress over the lifetime of human civilization so far. In today's competitive world, banks, like any other industry, are struggling hard to maintain the old clientele while attracting new customers. Today's banking industry faces several challenges, increased competition, stricter regulation, and customers who are increasingly sophisticated, price conscious and discriminating in evaluating banking services (Beckett et al; 2000; Calik and Balta, 2006; Fandos Roig et al, 2006; Goode and Moutinho, 1995: Ozdemir and Trott, 2009.)

The winner in the Indian banking sector will be the player who can be aware of the customer, fulfil customer needs and attain high levels of customer retention (Kamath et al, 2003, PP 85).Berry (1983) viewed relationship marketing as a strategy to attract, maintain and enhance customer relationships. Relationship marketing is to establish, maintain and enhance relationships with customers and other partners at a profit, so that the objectives of the parties are involved are met (Gronroos, 1994). This research has revealed the importance of customer relationship management. Customer retention has

a significant impact on banks profitability (Newman and Crowling, 1996) a 5 percent increase in customer retention adds 25-150 percent in bottom line (Rosenberg and Czepiel,1983) small increase in customer retention rates can lead to dramatic increases in profits (Reichheld, 1996). Hence, adopting customer-centric strategies aimed at maintaining and enhancing relationship with existing customer is important for the survival of Indian banks (Roy and Shekhar, 2010).

2. REVIEW OF LITERATURE

Customer Relationship Management (CRM) is no longer a new term but a reality for many organizations (International Journal of Business and Emerging Markets 2009 - Vol. 1, No.3 pp. 282 - 295). The long-term business relationships provide many potential benefits for banks and clients. It is generally less costly for any service firm (bank) to maintain and develop an existing client relationship (Berry 1983). Berry (1995) stresses that attracting new customers should be viewed only as an intermediate step in the marketing process.

Bateman & Snell (2007) observed that CRM is a business process which results in optimized profitability and revenue generation, while achieving customer satisfaction. Often also known as relationship marketing by marketing academicians, CRM is an information technology assisted process that establishes a collaborative environment for businesses to analyze the buying behaviour and product/service requirements of an individual or group of existing as well as potential customers.

Customer loyalty is critical to the success of business in today's competitive market place, and banks are no exception (Ehigie 2006).Customer loyalty is deeply held commitment to re-buy is or re-patronize a preferred product (or) service in the future despite there are situational influence and marketing efforts having the potential to cause switching behaviour (Oliver, 1999). Some researchers have argued that the cost of gaining a new customer could be as high as five to six times the cost of retaining the existing one. (Desatnick, 1998; Boldgett et al, 1995; Fundin and Bergman, 2003; Ndubisi, 2003b). Colgate and Hedge (2001) insisted that losing customer could have a negative effect on a banks market share. Hence banks should retain the customers to continue to exist in the banking sectors. Customer loyalty and retention is the central aim of relationship marketing and is closely related to company profitability (Heskelt et al, 2008; Rust and Zahorik, 1993). Customer loyalty is the feeling of attachment or affection for a company's people, products and services (Jones and Sasser (1995). Customer loyalty has been considered as an important source of long-term business success (Rust and Zahorik, 1993) and building a relationship with a customer is a good way to retain loyal customers in the long term (Sheaves and Barnes, 1996). According to Reichheld and Sasser (1990), repeat customer cost less to serve than new buyers, benefiting firms is cost structure. Several studies have been conducted in big cities of India but very few notable works have been done in Odisha. This study is intended to fill the gap by studying the impact of CRM on customer loyalty in context to private banks in the cities of Cuttack, Bhubaneswar and Puri.

3. OBJECTIVES OF THE STUDY

- To provide an insight on CRM and its importance in the modern banking scenario.

- To measure the impact of various dimensions of customer relationship management and its impact on customer loyalty.

4. RESEARCH METHODOLOGY

In this study a descriptive research design has been adopted to measure the impact of various dimensions of customer relationship management and its impact on loyalty. The targeted population of the present study were the customers of HDFC Bank, Axis Bank and ICICI Bank in the cities of Cuttack, Bhubaneswar and Puri. Customers from these are banks are selected for study because these three private banks (ICICI, HDFC and Axis) are the leading private banks in India as per market capitalization (moneycontrol.com). Judgemental sampling method was used to collect the data since this study was limited to the customers of three private banks which have been already mentioned above. The present study used primary data collected through a questionnaire method. The questionnaire items were adopted from different sources. Communication, Commitment, Competence and conflict handling was drawn from Dwyer et al., (1987), Anderson and Weitz (1989), Morgan and Hunt (1994), Gundlach et al. (1985) and Selnes (1998). Questionnaire item related to trust were adopted from Churchill and Suprenant (1982), Crosby et al., (1990) and Moorman et al, (1983).

The questionnaire consists of two parts. The first part consists of demographic profile of the respondents and second part consists of various dimensions of customer's relationship management and loyalty. The respondents were asked to answer each statement at five point Likert Scale. Sampling sizes of 330 questionnaires were distributed to the respondents, out of which 166 were assessed as usable, yielding a response rate of 50.30 percent. With this background, this study aims to identify whether there is any impact of customer relationship management dimensions on customer loyalty.

5. DATA ANALYSIS

Demographic Profile of the Respondents

The demographic profile of the respondents as obtained from the questionnaire has been tabulated below in the following table.

Table 1: Demographic Profile of Respondents

Variables	Categories	No of Respondents	Percentage
Gender	Male	115	69.28
	Female	51	30.72
Age	21-30	58	34.94
	31-40	47	28.31
	41-50	35	21.08
	51 and above	26	15.67
Educational Qualification	Graduate	69	41.57
	Post Graduate	72	43.37
	PhD	15	9.03
	Others	10	6.03
Occupation	Student	14	8.43
	Part time employee	25	15.06
	Full time employee	82	49.40
	Business	28	16.87
	Home maker	17	10.24
Annual Income	<2 lakhs per annum	58	40.32
	2-5 lakhs per annum	77	43.55
	>5 lakhs per annum	31	16.13
Types of Bank account	Current account	29	17.47
	Savings account	64	38.55
	Fixed deposits	73	43.98

The profile of the sample respondents is shown in table 1 and revealed that 69.28 percent of them were male, 34.94 percent were between 21-30 years old and 43.37 percent had postgraduate degree as educational qualifications. 49.40 percent of the respondents were full time employees, 43.55 percent have an annual income between Rs.2 lakhs to Rs. 5 lakhs and 43.98 percent of respondents have fixed deposits.

Reliability Analysis

Reliability analysis is done to check whether the variable used to study whether customer relationship management dimensions would produce consistent results or not. The calculated Cronbach Alpha cut off rate of 0.70 can prove good reliability (Hair et al., 2009). The Cronbach Alpha for the current study was calculated to be 0.783. So it can be concluded that all the factors used to measure the customer relationship management are found to be reliable.

Factor Analysis (Component Analysis)

Table No 2 indicates that the analysis of the component matrix's of the total four factors and their components. It is found that the factor loadings of all the components have been greater than 0.5.

Table 2: Component Matrix of Factors

	Component			
	1 **Competence**	**2** **Relationship communication**	**3** **Caring**	**4** **Trust**
Knowledge about markets	0.795			
Confidence in bank's services	0.779			
Customized service to meet consumer's needs	0.765			
Respect towards customers	0.762			
Helps customers to plan their investment	0.754			
Open discussing the solutions when the problems arise	0.693			
Doing efficient sales promotion activities	0.658			
Providing timely and accurate information		0.724		
Flexibility in catering to customer's needs.		0.673		
Banks help to avoid conflicts.		0.606		
Bank fulfils its promises.		0.567		
Offers valuable advice on investment to the customers.		0.531		
Tries to solve the conflicts before it creates problems.			0.806	
Providing authenticated information.			0.787	
Bank fulfils its obligation towards its customers.			0.719	
Bank words and promises are kept.				0.792
Banks remain consistent in providing services to customers.				0.645

Note: Extraction Method: Principal Component Analysis.

The component matrix shows that knowledge about markets, confidence in bank services, customized service to meet consumer's needs, showing respect towards customers, helping customers to plan their investment, openly discussing solution when problem arise and providing efficient sales promotion can be grouped into first factor which can be termed as **competence**. Providing timely and accurate information, flexibility in catering to customer's needs, bank helping to avoid conflicts, bank fulfils its promises and offering valuable advice on investment to the customers can be grouped into

second factor which can be termed as **relationship communication**. Bank tries to solve conflict before create problems, providing authenticated information and fulfil its obligation towards its customers can be put under third factor which is **caring**. Banks words and promises are kept and banks consistent in providing services to customers can be grouped into fourth factor which is known as **trust**.

Multiple Regression Analysis

To identify whether different dimensions of CRM has strong impact on customer loyalty, multiple regression was used.

Table 3: Contribution of variables in the Dimensions of Competence
Dependent Variable: Customer Loyalty Scores (Y)

Independent Variables	Standardized Co-efficient	t-value	Significant
Constant (a)	1.732	5.081	0.000
Knowledge about markets (X1)	0.475	5.827	0.000
Confidence in bank's services (X2)	0.386	4.618	0.017
Customized service to meet consumer's needs (X3)	0.627	8.214	0.000
Respect towards customers (X4)	0.237	3.335	0.029
Helps customers to plan their investment (X5)	0.316	4.183	0.023
Open discussing the solutions when the problems arise (X6)	0.052	1.136	0.275
Doing efficient sales promotion activities (X7)	0.193	2.889	0.043
R^2	0.528		

Level of significance = 0.05, $p < 0.05$

The above table attempted to explain the contribution of "**competence**" dimensions of customer relationship management to customer loyalty. The regression equation is given below.

Y = 1.732 + 0.475 (X1) + 0.386 (X2) + 0.627 (X3) + 0.237 (X4) + 0.316 (X5) + 0.052 (X6) + 0.193 (X7); Where Y is the estimated Customer Loyalty Score.

The above equation revealed the variables of "competence" such as knowledge about markets (X1), Confidence in bank's services (X2), Customized service to meet consumer's needs (X3) and so on are having an impact on customer loyalty. Out of the seven dimensions of competence, the dimension "Customized service to meet consumers needs (X3)" has been found to have maximum powerful impact of CRM on customer loyalty since the coefficient value was found to be 0.627. But however, the dimension "Open discussing the solutions when the problems arise (X6)" was the only dimension which was found to be insignificant where as all the rest six dimensions of "competence" were significant and R^2 indicates 0.528 changes in competence explained the variation of 52.8 percent in customer loyalty.

Table 4: Contribution of Variables in the Dimensions of Relationship Communication
Dependent variable: Customer Loyalty Scores (Y)

Independent Variables	Standardized Co-efficient	T-value	Significant
Constant (a)	1.213	4.781	0.000
Providing timely and accurate information (X1)	0.086	1.137	0.165
Flexibility in catering to customer's needs (X2)	0.254	3.119	0.026
Banks help to avoid conflicts (X3)	0.065	1.141	0.281
Bank fulfils its promises (X4)	0.297	3.256	0.022
Offers valuable advice on investment to the customers (X5)	0.329	4.188	0.018
R^2	0.551		

Level of significance = 0.05, $p < 0.05$

The above table attempted to explain the contribution of "**relationship communication**" dimensions of customer relationship management to customer loyalty. The regression equation is given below.

Y = 1.213 + 0.086 (X1) + 0.254 (X2) + 0.065 (X3) + 0.297 (X4) + 0.329 (X5); Where Y is the estimated Customer Loyalty Score.

The above equation revealed the variables of relationship communication such as Providing timely and accurate information (X1), Flexibility in catering to customer's needs (X2), Banks help to avoid conflicts (X3), Bank fulfils its promises (X4) and Bank offering valuable advice on investment to the customers (X5) are having an impact on customer loyalty. Out of the five dimensions of relationship communication, the dimension "Bank offering valuable advice on investment to the customers (X5)" has been found to have maximum powerful impact of CRM on customer loyalty since the coefficient value was found to be 0.329. But however, the dimensions "Providing timely and accurate information (X1)" and "Banks help to avoid conflicts (X3)" were the dimensions of "relationship communication" which were found to be insignificant where as all the rest three dimensions of "relationship communication" were significant and R^2 indicates 0.551 change in "relationship communication" explained the variation of 55.1 percent in customer loyalty.

Table 5: Contribution of Variables in the Dimensions of Caring
Dependent Variable: Customer Loyalty Scores (Y)

Independent Variables	Standardized Co-Efficient	T-Value	Significant
Constant (a)	1.624	5.262	0.000
Tries to solve the conflicts before it creates problems. (X1)	0.061	1.129	0.211
Providing authenticated information. (X2)	0.074	1.154	0.306
Bank fulfils its obligation towards its customers. (X3)	0.587	7.941	0.000
R^2	0.597		

Level of significance = 0.05, $p < 0.05$

The above table attempted to explain the contribution of "**caring**" dimensions of customer relationship management to customer loyalty. The regression equation for "**caring**" factor is given below.

Y = 1.624 + 0.061 (X1) + 0.074 (X2) + 0.587 (X3); Where Y is the estimated Customer Loyalty Score.

The above equation revealed the variables of "caring" such as "tries to solve the conflicts before it creates problems (X1)", "providing authenticated information (X2) and Banks fulfils its obligation towards its customers (X3)". Banks fulfils its obligation towards its customers (X3) has been found to have maximum powerful impact of CRM on customer loyalty since the coefficient value was found to be 0.587. But however, the dimensions "Tries to solve the conflicts before it creates problems" and "Providing authenticated information" were found to be insignificant where as the dimension "bank fulfils its obligation towards its customers" has been found significant and R^2 indicates 0.597 change in "caring" explained the variation of 59.7 percent in customer loyalty.

Table 6: Contribution of Variables in the Dimensions of Trust
Dependent Variable: Customer Loyalty Scores (Y)

Independent Variables	Standardized Co-Efficient	T-Value	Significant
Constant (a)	1.957	5.794	0.000
Bank words and promises are kept (X1)	0.606	7.283	0.000
Banks remain consistent in providing services to customers. (X2)	0.359	5.015	0.000
R^2	0.632		

Level of significance = 0.05, p < 0.05

The above table attempted to explain the contribution of "**trust**" dimensions of customer relationship management to customer loyalty. The regression equation for "**trust**" factor is given below.

Y = 1.957 + 0.617 (X1) + 0.359 (X2); Where Y is the estimated Customer Loyalty Score.

The above equation revealed the variables of "trust" which includes "bank words and promises are kept (X1)" and "banks remain consistent in providing services to customers. (X2)". Bank words and promises are kept (X1) has been found to have maximum powerful impact of CRM on customer loyalty since the coefficient value was found to be 0.606. Here both the components of "trust" are found to be significant and R^2 indicates 0.632 changes in "caring" explained the variation of 63.2 percent in customer loyalty.

IMPLICATIONS

In this section, we articulate the implications of this study. This paper attempts highlight the impact of different dimensions of customer relationship management to customer loyalty. From the analysis, it is concluded that bank designs customized service to meet consumer's needs. Banks are offering advice to customers on investment, banks fulfil its obligation towards its customers and bank words and promises are kept are the predominant variables which is having maximum powerful impact on customer loyalty. So the banking sector needs to focus more attention in the above stated variables, thereby increasing customer loyalty. In addition to the above stated variables banks should also focus on the other variables which have also been found significant in our study. Banks should also try to improve its functions in the areas of prompt conflict resolution and providing timely authenticated and accurate information to the customers because in these areas the private banks are lacking control as evident from this research work. Banks should also interact with

customers and should be open to them in discussing problems and their possible solutions.

CONCLUSIONS

As we all know that Indian banks are becoming more and more innovative and gradually dominating the market. They are capturing market share from their counterpart of the foreign bank by offering services by an innovative way. The observation and findings of the study have helped to give useful recommendations to bank. The implementation of the suggestion can help to improve strategies and build competencies over that of their competitors as a straight forward opinion from a sample of customers have been obtained to make observations. The present study confines to the study of impact of various dimensions of CRM on customer loyalty with reference to private banks in Odisha. In future, this study can be enhanced by studying the impact of CRM dimensions of private sector banks and public sector banks in a comparative manner. Similarly a study can also be conducted to study about impact of CRM on customer loyalty of foreign banks and co-operative banks.

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