

Impact of Effective Customer Relation Management on Customer Base: A Study of Private Banking Sector

Hannan Ehsan

Preston University, Islamabad Pakistan

Email: Hanaan_ehsan@hotmail.com

Abstract

Organizations are in competition to increase profit, retain customers or gain new customers. Customer relation management helps to keep customers back so that both organization and customers can get long term benefits. Customer relation management has different factors like customer trust, organization culture, perceived value and perceived quality which are widely used in marketing and also there is a need for the correlation between the factors. This result in making banks become more popular and more customers are attracted towards the banks which increases the number of accounts of bank making banks more prominent in the market. If more customers are satisfied customer base increases and the overall performance of the banks increases. Through Customer Relationship Management it increases the number of accounts of banks thus increasing the overall finance of the banks and they thus invest more in the market. More investment increases the profit of the banks. As a result the overall performance of the banks increases which makes banks more prominent and attractive in the market. Customer relation management has a huge participation in the overall performance of the banks. Effective customer relation management can be the main root cause of success of any business like banks. Effective customer relation management eliminates all the doubts of customer making them more satisfied and more concentrated towards their organization.

1. Introduction

Customer relation management means that the business should provide better and refined quality and service at proper cost to the customers and the main aim is to satisfy the customer by fulfilling their requirements (Galbreath & Rogers 1999). The main focus of the customer relation management is customer. Banks should have proper knowledge and information about customer needs. Only then CRM can be effective. “The major characteristic of CRM is customer therefore; the main focus of organization should be their customers. Some customer’s give more profit to organization and some give less. Customers have changing needs and wants (Wong, 2003)”.

Customer relation management is an integrated technology and business processes it helps to satisfy a customer during any interaction; customer relation management helps organization to sell more goods or services efficiently (Bose, 2002). Customer relation management helps to make relationship with customers so that they can come back again (Jobber, 2004).

Customer relation management was introduced in the banking sector by (Mihelis et al 2001). It is a very strong business strategy especially in the banking sector. Customer relation management helps organization to know their customers well in order to satisfy their needs (patton.2005). Banking sector is very important for any country in this world. That is why banks are using different techniques and formulas to improve their quality of service. Banks are trying to strengthen their relation with their customers (Durkin, M. 2004). Now a day’s most of work in the banks is done by using new technologies. The impact of new technologies is immense on the financial sector (Sharif, 2002).

Banks are of many types. There are private banks, commercial banks, Islamic banks and foreign banks. Each type of banks contributes certain percentage of finance to the country. Banks show attractive packages to increase their customers. Number of customer’s show business success and when they are satisfied, it becomes easier to retain these customers and increase customer satisfaction (Alam and Khokar). Most of the banks try to retain their current customers rather than to attract new customers. Attracting new customers is costly so more importance is given to the customer satisfaction and service quality to increase customer base. A business is successful when it is profitable for profit business organization should develop such strategies which can fully satisfy the customers. So a maximum satisfaction a customer get only by giving low price and getting good profit (Jamal and Kamal, 2004).

Demand for banking services is increasing day by day with increase in population. Service quality and customer satisfaction play an important role in the success of any bank and to increase the customer base. No organization like bank can fully satisfy its customer's no ideal relationship exists in this world especially in business and the only solution of it is to find a new way to have a close and better relation with customer and to improve the quality of their product services (Zineloin, 1996; Olsen,1992).

2. Statement of the problem

The financial sector especially the banking sector is changing rapidly in the modern world due to increase in demand and to increase customer satisfaction. There is a competition among the banks to increase their customer service, customer satisfaction and customer base. Finding a place in the market and retaining old customers are the main priorities of the banks. Banks are privatized to increase their competitions which ultimately lead to long range profit and survival of the bank. In this research the researcher tries to find the main factors which effect the customer base in the banking industry. In this way we can help the banking industry so that banks can provide their best to the customers and increase customer satisfaction and can increase the number of customers that is customer base. It will help in increasing the financial situation of the country because banks are the main source of finance. In this research all these factors directly and positively effect on customer satisfaction and that increases the customer base. This research will thus be very useful to increase customer satisfaction and customer base of Private Banking Sector to making them more reliable in the market.

2.1 Objectives of the study

Gronroos (2004) Current relationship with customer gives security and trust. Xu and Walton (2005) showed that the main reasons for which managers of banks implement customer relationship management are:-

To increase customer satisfaction

To maintain existing customers

To gives strategic knowledge

To increase customer lifetime value

Several new technologies are introduced and replaced to increase customer satisfaction which helps in gaining the main objective of customer relation management. The objective of customer relation management can be achieved by having a deep and proper insight in to the behavior and value of customers and by having a deep study of these customers .It helps in discovering new customer and increasing customer's value.

- Retention: One-One relation can be formed by learning customer's name, habits and expectations (Gummerson 1994).
- Improved customer satisfaction: Proper use of IT can help customer relation management to give instant service response (Zeng, Weng & yen 2003).
- To better meet customer needs: Meeting unexpected demands and moving on information as it arrives (Zeng, Weng & yen 2003).
- Efficiency: Main aim of customer relation management is to get great amount of collected data. Sales representative easily get to know of the past sales and complaints. (Xu & Walton 2005).
- Understanding customers: Customer relation management helps to predict trends and demands and also helps to understand every customer which helps to provide better offer (Nguyen, sharif, Newby 2007).

The main objective of this research is to find out the factors which effect customer relation management on how we can increase customer base after achieving the customer satisfaction level and that can be achieved by maintaining customer trust, culture, perceived value and perceived quality. Thus we can involve new technologies and new strategies to achieve our objective.

2.2 Significance of the study

The banking sector is very important as it's provides finance to the country for investment. Thus the main focus of the banks is to increase the customer base which is the number of customers. This will ultimately increases the overall profit of the bank thus making the bank more prominent and outstanding in the market. This increases the life of the bank. Customer satisfaction and customer base which increase the number of customers is very important for banks and it is the main focus of customer relationship management in this research.

2.3 Research questions

- 1) Which elements influence the customer satisfaction with reference to focus on CRM in Private banking Sector?
- 2) What are the correlations between the elements that influence customer satisfaction in the Private banking sector?
- 3) How to establish Customer satisfaction model for Private banking Sector?

3. Literature review

When the customers are satisfied, they will attract more towards the bank. This helps to increase the customer base and thus helps to increase the number of bank account hence increasing the overall finance of the banks. Overall profit of the banks increases and more customers are attracted.

Customer trust: It is the fact that a better relationship between organization and its customers can only be developed through trust. Trust helps organization to maintain trustworthy relationship with customers (Berry 1995, Dawyer schurr and oh 1987). More customer trust results in more customer satisfaction (Moorman, Desphade and Zaltmar 1993) one can have trust only on confident and trustworthy partner.

Main pillar of trust is partner's trustworthiness a dedicated and passionate partner helps the business to get success in days and nights. (Wetzel's et al; 1998). Communication between customer and banks results in better customer trust which effect positively and directly on customer satisfaction and hence increases customer base. Only dedicated effort can develop trust between organization and its customers when it is developed then it is developed once for all (Berry 2007). Trust provides customer satisfaction (chow & halden 197,awan bowers and Richardson 1999).

Organizational culture: Culture can be defined in 164 ways (Alfered Kroeber & clyde kluckhohn 1952) culture develop from a society and society is made up of a group of people. So culture reflects habits, attitudes and behavior of a society. It is a fact that culture affects customer's attitude and customer's behavior (Hofstede,1980).

Organizational culture is a learned result of group experiences (schein 12). Organizational culture has the ability to get maximum return through management of its input and output

environment. Management is the internal perceptive of organizational effectiveness (Bennis 1996).

Organization like banks is run by people and the people show some attitude towards organization and this attitude defines organizational culture which is very significant for organization (Ravasi and Sechultz 2006). Organizational culture as the entire concept, Meaning and patterns which show human characteristics. (Kroeber and passions 1958)

Banking culture is a theme that helps in understanding bank performance.

Perceived value: Perceived value has a vital role (Gross, 1997). As one human being is different from the other so their way of thinking is also different even for the same bank which means perception also differ from one person to another so customer perceived value also vary. This results in variation in customer perceived value. If banks provide better customer services than more will be the number of customers and hence there will be more accounts so customer perceived value increases and also customer satisfaction increases. As compared to perceived quality, perceived value is better option to judge the product or service of the organization. Perceived value can give a proper idea about business success (Bolton and draw 1991).

Customer value is the most influencing factor (Watchword 1990). Customer value is the core of marketing (Andreas Eggert and Wolfgang ulage 1990).

$$PV = \text{Benefits/Costs}$$

Perceived quality: Consider that one thing which is not as much affected by price is quality. Quality is not related to price it has nothing to do with the past. (Anderson and Sullivan, 1993).

Perceived quality is the consumers impression of the relative inferiority or superiority of the organization (Zethanal et al 1990, Taylor and bekera, 1994). An attitude of a judgment shown by the customer on the overall service of the organization is perceived quality. A judgment made by customers after what they get from a service and what they think it should have been. Every customer of any organization makes an idea about the service or product offered in mind and they examine it also (Kangis and vonkelatos, 1997).

Service quality defines business success customers judge the quality of service or product before buying it difference between expected and perceived quality defines service quality (Chumpitaz et al, 2004).

PQ=Perception-Expectations

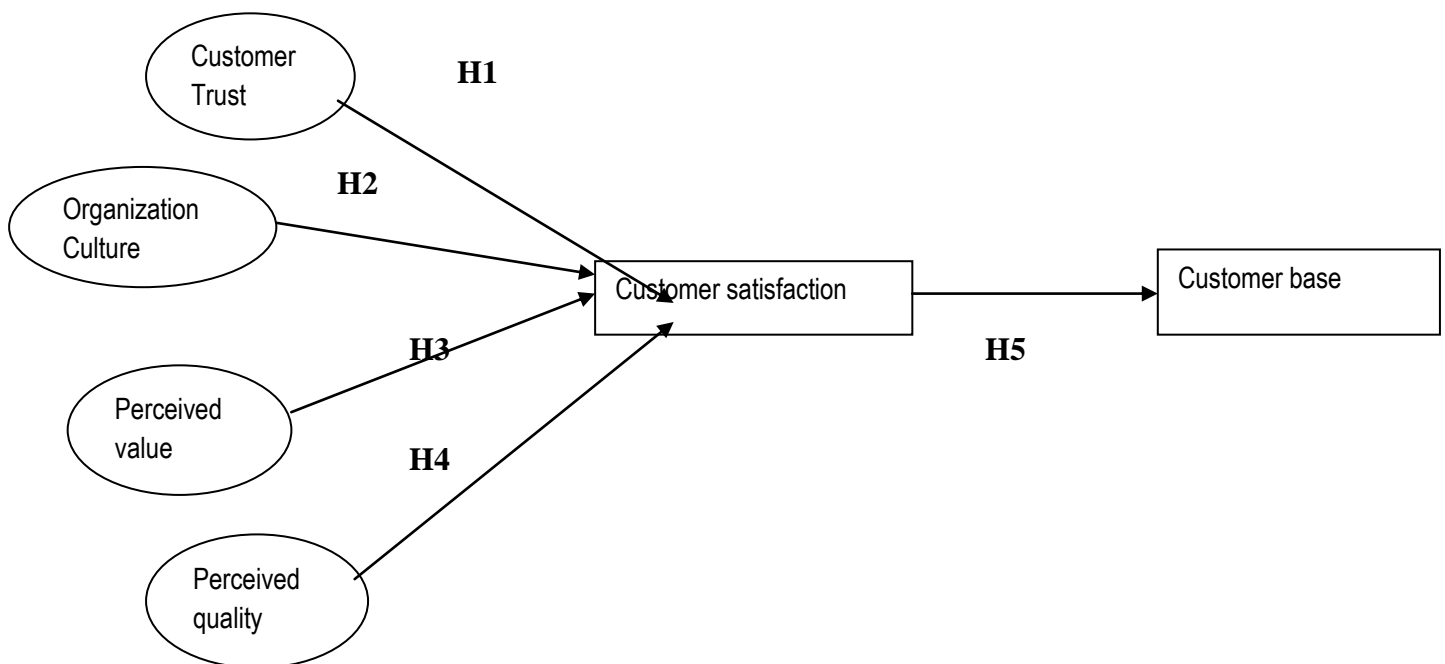
Customer satisfaction: Customer satisfaction is a response which a customer's give to the organization after using its product or services (Jamal and Kamal,2002).In banks better customer services helps in making customer satisfied. "The level of satisfaction is always high when customer gives minimum price and gets maximum of usage and profit (Jamal and Kamal, 2004).

Customer satisfaction is a post purchase evaluation of a service offering (Bolton and draw 1991). Customer satisfaction is an emotional feeling or response to the experience attached to the product or service purchased (Westbrook and rally 1983).

Customers of banks expect a lot. So banks should be very careful about their customer service. Customer examines the product and services and makes a judgment about it after using. (Lin,2003).

Customer base: Customer base represents the large number of customers of an organization. Clients buy products and services of an organization. It is a group of customers among which huge part of group is of repeat customers (christen clayton. Michael rayner 2003).

3.1 Theoretical framework



3.2 Research hypothesis

H1: Customer trust has a direct influence on customer satisfaction.

H2: Organizational culture has a direct influence on customer satisfaction.

H3: Perceived value has a direct influence on customer satisfaction.

H4: Perceived quality has a direct influence on customer satisfaction.

H5: Customer satisfaction has a direct influence on customer base.

4. Research methodology

The research methodology that is used to prove the above mention hypothesis is to show that factors like customer trust, Organizational culture, perceived value and perceived quality increases customer satisfaction which increases customer base of the banks and hence increase their profit.

Target population: All customers of the Private Banking Sector is the target population.

Sampling size: Sample size would be 500 customers from different Private Banks.

Sources of data: The researcher would use primary and secondary data sources for this research.

Research study design: Non experimental research method is used in this methodology which bank normally used to establish and apply customer relation management principles. This research helps banks to focus on a point that if they use principle of customer relation management of marketing they can increase customer satisfaction and hence customer base. Through questioner and personal interview primary data is collected and other instruments are also used to increase customer base of the banks.

References

- Anderson, E.W., Fornell C, and Lehmann D.R (July 1994), Customer Satisfaction, Market Share, and Profitability: Findings from Sweden, journal of Marketing,, pp.53-66.
- Andreas E and Wolfgang U (17 November 2002), the Journal of Business & Industrial Marketing, Volume 17 - p. 107-118, MCB University Press ISSN 0885-8624

- Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn (1999, 10 12). The Employee-Customer-Profit Chain at Sears. Retrieved February 10, 2008, from Harvard Business School - working knowledge for business leaders: <http://hbswk.hbs.edu/archive/801.html>
- Bagozzi, R. (1995), "Reflections on relationship marketing in customer markets", *Journal of the Academy of Marketing Science*, Vol. 23 No.4, pp.272-7.
- Baltes, P. B., Reese, H. W., & Nesselroade, J. R. (1988). *Introduction to research methods, life-span developmental psychology*. Hillsdale, NJ: Lawrence Erlbaum Associates, Inc.
- Barnes, J. (1997), "Exploring the importance of closeness in customer relationships", *American Marketing Association Conference*, Dublin, pp.227-40.
- Barra, R. (1990), *Interactive innovation in financial and business services: the vanguard of the service revolution*, *Research Policy*, Vol.19, pp.215-37
- Berry, L.L. and Parasuraman, A. (1991), *Marketing Services: Competing through Quality*, Free Press, New York, NY.
- Bloemer, J., Ruyter, K.D., Peeters, P., (1998), *Investigating drivers of bank loyalty: the complex relationship between image, service quality and satisfaction*, *International Journal of Bank marketing*, Vol.16, No.7, pp. 276-286
- Bolton, R.N. (1998) *A dynamic model of the duration of the customer's relationship with a continuous service provider: the role of satisfaction*. *Marketing Science*, 17, 45–65.
- Bose, R. (2002), 'Customer relationship management key components for IT success', *industrial management & data systems*, vol. 102 no. 2, p-89
- Buttle, F. (1996), 'Relationship marketing', in Buttle, F. (Ed), *relationship marketing: theory and practice*, Paul Chapman publishing, London, pp. 1-16
- Chiou, J.S., Droge C., 2006. *Service Quality, Trust, Specific Asset Investment, and Expertise: Direct And Indirect Effects in A Satisfaction –Loyalty Framework*, *Journal Of The Academy of Marketing Science*, Vol. 34, No.4, pp 613-627
- Chow, C.W., Deng, J.F., Ho, J.L., (2000). *The Openness of Knowledge Sharing within Organizations: A Comparative Study of the United States and the People's Republic of China*. *Journal of Management Accounting Research* 12, 65-85.
- Churchill, GA & Iacobucci, D (2004), *Marketing research: Methodological foundations*, 9th ed, Thomson South-Western, Ohio.

- Ciborra, C. and Failla, A. (2000), "Infrastructure as a process: the case of CRM in IBM", in Ciborra, C. (Ed.), *From Control to Drift: the dynamics of Corporate Information Infrastructures*, Oxford University Press, Oxford, pp. 105- 24
- Colgate, M. (1996), "The use of personal bankers in New Zealand: an exploratory study", *New Zealand Journal of Business*, Vol. 18 No.2, pp.103-22.
- Colgate, M., Alexander, N., Marks, & Spencer. (Volume 16 Number 4 1998). Banks, retailers and their customers: a relationship marketing perspective. *International Journal of Bank Marketing*, 144-152.
- Colgate, M., Stewart. K. and Kinsella, R. (1996), Customer defection: a study of the student market in Ireland , *International Journal of Bank Marketing*, Vol. 14 No. 3, pp. 23-9.
- Dawkins, P.M., Reichheld, F.F. (1990), "Customer retention as a competitive weapon", *Directors and Board*, Vol. 14 No. Summer, pp.42-7.
- Goode, M., Moutinho, L (1995), "The effects of free banking on overall satisfaction: the use of automated teller machines", *International Journal of Bank Marketing*, Vol. 13 No.4, pp.33-40.
- Kassim, NM 2001, *Determinants of customer satisfaction and retention in the cellular phone market of Malaysia*, PhD thesis, Southern Cross University, Lisbon.
- Rousseau, D.M. (1990). *Assessing Organisational Culture: The Case for Multiple Methods*. In: Schneider, B. (ed.). *Organizational Climate and Culture*. San Francisco: Jossey-Bass.
- Schumacher, T. (1997). *West Coast Camelot. The Rise and Fall of an Organizational Culture*. In: Sackmann, S.A. (ed.). *Cultural Complexity in Organizations. Inherent Contrasts and Contradictions*. Thousand Oaks: Sage.
- Jamal, A., Kamal, N.,(2004) Customer satisfaction and retail banking: an assessment of some of the key antecedents of customer satisfaction in retail banking , *International Journal of Bank Marketing*, Vol.20, No. 4, pp. 146-160.
- Jayawardhena, C. & Foley, P., (2000), Changes in the banking sector-the case of Internet banking in the UK , *Internet Research: Electronic Networking Applications and Policy* Vol. 10, No. 1, pp. 19-30, <http://www.emerald-library.com>
- Morgan, R.M. and Hunt, S.D., (1994). The Commitment –Trust Theory of Relationship Marketing, *Journal of Marketing* Vol.58, No.3, pp 20-38

Oliver, R.L. (1980) A cognitive model of the antecedents and consequences of satisfaction decisions. *Journal of Marketing Research*,17, 460–469.

Palmer, R (2001) Historical patterns of globalization: the growth of outward linkages of Swedish long-standing transnational corporations, 1890s - 1990s. Stockholms Universitet, Department of Economic History: Stockholm