

# **A Study on Customer Retention through Effective Implementation of CRM Strategies in Private Sector Banks**

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## **ABSTRACT:**

*CRM is designed around the ideology of relational exchanges. It refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges. Its objective is to attract, maintain and enhance customer relationships with existing and potential customers. It evolved from the concept of database marketing to relationship marketing to present form of CRM. CRM is implemented in wide components of business like customer service, involvement of customers in the business, personalization, communication and rewards etc. It is applicable at the enterprise level to direct all activities of the firm towards the customer. CRM implementation at the departmental level was less successful but implementation at the enterprise level is more successful. Competition and globalization has made CRM as one of the mandatory components of business. Firms can survive and sustain by creating and keeping valuable customers. It is possible if the firm delivers value at every customer interaction and it can be done easily if the firms know and understand their customers well. CRM helps firms to understand their customer and take précised decision. Hence it is a necessity for the existence of a business. CRM also helps in managing customer life cycle that is acquisition; satisfaction, retention and development of customers. Customer life cycle can be managed by identifying and adopting the most suitable CRM practices. Managing customer life cycle by identifying and adopting the most suiting CRM practices is the key objective of CRM. This article tries to see the effect of CRM practices of the firm on customer retention. This study also tries to see the mediating effect of customer's satisfaction.*

**Keywords:** CRM, CRM strategies, Customer Satisfaction, Customer Retention

## **INTRODUCTION:**

CRM is a concept of the last decade. It originated as a database management where the data used to be compiled in spreadsheets and retrieved for selling purposes only. With the need of time it evolved into relationship marketing in the last decades of the 20th century where basic functions like data mining were performed. Finally it took the shape of today's CRM the ultimate form of customer centrism. It has become the necessity of the successful business and a competitive advantage. CRM today is used by the big business houses though it is applicable in almost all forms of business. CRM at this stage has neither brought miraculous success nor miserable failure. But it is also true that, CRM applied rightly will bring miracles. CRM applied at the departmental levels has brought mixed results. And CRM applied at the organizational level has brought the biggest success. CRM should be applied at the enterprise level with the right mix of practices. This article tries to understand the effect of CRM practices on CRM outcomes like customer retention and also tries to see the interaction of customer satisfaction.

## **LITERATURE REVIEW:**

**Knox (2003)** delivered that CRM is an approach designed to boost neutral worth by developing acceptable relationship with clients and customer segments through media integration.

**Hedley urban center (2006)** opined that Customers can become more and more individualistic and, at time, dominant in their relationships with banks. For banks, traditional segmentation approaches and marketing techniques can become outdated and waste. However banks in the market place will modify dramatically.

**Sharma Ashish & Bargal Hitendra (2008)** opined additional that banks ought to increase the main focus additional towards client advantages and adopt the newest technology forthwith and assimilate constant to the loyal customers and stretch wings towards building complete relationship loyalty.

**Das Kallol (2009)** explore that almost all of the non-public banks unendingly golf shot efforts and means that of giving core advantages to their customers through sensible relationship techniques to retain and sustain the purchasers through nurturing the worth as per their expectations, and additional might be wiped out the days to come back.

**Morpore Reports and Teller Vision (2009)** state that the perception of banks varies betting on their size. However, banking sector showed nice downward shift as a result of competition because the intensity of competition magnified privatization began to occupy the place in their mindsets replacement national banks with regional and credit organizations.

**Dr. K. Ganesamurthy (2011)** acknowledged additional on CRM client retention management and tried to find the customers' views on CRM practices of business Banks in India, the sample size

employed was 421 respondents from various banks and it is revealed that customers perception on CRM does not vary even with differences in age, sex, education, occupation and financial gains.

**Hattangadi (2012)** alerted once the findings that it's promoting that's reaching to decide the fate of selling organizations and therefore the manner they promote the merchandise to the lots and therefore the worth that adds to the delivery system quite the merchandise itself.

**Sarvesh Singh and Alok Kumar Singh (2016)** addressed that however vital role may be via by service index in gaining additional profit, it's clearly shown through the applied math technique multivariate analysis by the scientist that those organizations with high client service index can emerge as additional profit generation one, the idea for this can be the extent to that relationship techniques adoption and timely implementation.

**Dr. G. Varma (2017)** addressed that increase the loyal customers in competitive world and analyze the CRM practices in customer ideas in banking sector in India, from public and private sector banks. This analysis paper took 421 respondents by each sector in Tamilnadu. This study reveals that customer perception of CRM in banks completely vary in different classifications of consumer occupation, education and financial level, most of the customers are associate with the banks during the purchasing time with the link of PAN number.

### **Vision:**

As per Gartner vision includes all practices that are necessary for building the picture of a customer centric enterprise. It includes development of leadership from top, commitment to the idea of CRM, clarity on the objectives of CRM, advantages of CRM and its uniqueness.

### **Strategy:**

Strategies are necessary to convert customers into assets. It is possible by delivering customer value propositions. Organizations must develop long term road maps to fit decisions and articulate the goals into action. CRM must be understood as a combination of technology, people and process.

### **Valued customer experience:**

Gartner (2013) study reveals that customers create perception about the organization on the basis of their experience at the time of interaction. Customers should be involved in the CRM process to deliver ongoing value. All channels should be integrated and the basics should be obtained first. The change and the communication should be managed properly.

### **Organizational collaboration:**

CRM requires a paradigm shift in culture, a shift from product centrism to customer centrism. It also requires a change in structure and behavior, establishment of cross functional teams, integration of change management and training and appointment of an overall CRM manager or leader. For such activities to be successful there should be strong collaboration across the organization.

The CRM best practices such as vision, strategy, customer experience and organizational collaboration are applicable on CRM processes such as customer life cycle management and knowledge management to enhance customer satisfaction and loyalty (Gartner, 2013)

Satisfaction is a function of all satisfaction oriented transactions (Johnson, Anderson & Fornell, 1995; Shin & Kim, 2011).

### **OBJECTIVE OF THE STUDY:**

- To understand the impact of best strategies of CRM.
- To study the influence of CRM strategies in customer retention.
- To experience banking culture in implementing CRM strategies to retain customers.

### **HYPOTHESES OF THE STUDY:**

**H01:** Vision of the enterprise has no effect on customer retention

**H02:** Strategy of the enterprise has no effect on customer retention

**H03:** Customer experience has no effect on customer retention

**H04:** Organizational culture has no effect on customer retention

**H05:** There is no mediation effect of customer satisfaction on the above relationships.

### **RESEARCH METHODOLOGY:**

This study is based on primary data. The data is collected from the private banks in Hyderabad city. The respondents of the study are the customers of the banks are from different streams starting from the professionals to general households. They are from all parts of the city. The data is collected with sufficient care and the same care is given for its analysis. The sample of the study consists of 397 respondents.

### **Measures:**

The study consists of four independent variables such as vision, strategy, valued customer experience and organizational collaboration and two dependent variables such as customer retention and customer satisfaction. A scale of 20 items is used for the study. Out of which 13 items belong to the best CRM practices suggested by Gartner (2003), 4 items for measuring the customer satisfaction. The scale measures constructs such as Vision, Strategy, Valued customer experience, Organizational collaboration and customer satisfaction.

It is necessary to conduct a pretest before the actual survey (Hair et al., 2007). Therefore a pretest is conducted by taking a small sample of 30 respondents who are similar to the actual respondents to check the appropriateness of the scale. The scale was checked for its appropriateness, ambiguity and ease of response. And it was found to be good. Then the scale is finalized and the survey was carried out with around 450 respondents but some of the responses were not complete hence the final sample with complete information of 397 were obtained and that is the sample size of the study. First an exploratory factor analysis is done to understand the underlying constructs. Followed by a confirmatory factor analysis to check how well the specification of factors fit the data.

### **Insight into the place of research:**

The study was carried at Hyderabad, the capital city of Telangana. Hyderabad is known for its heritage and is called the Deccan of India. The city has been the center of culture and economy of the state for the last 3000 years. Today the city is well grown in all the dimensions of length, breadth and height. The city has almost 15 private well established banks.

### **DATA ANALYSIS AND INFERENCES:**

Structural equation modeling (SEM) is used to analyze the data and the model. SEM includes two models measurement model and a structural model. A measurement model tells how well the measured variables represent the constructs and a structural model describes the structural relationships among the constructs.

### **MEASUREMENT MODEL:**

The measurement model includes CFA (Confirmatory factor analysis) (Teo, 2011) and it is useful in understanding the extent to which measured variables represent the constructs (Hair et al., 2007). CFA is one of the components of Structural equation modeling (SEM). There are different software's that help in conducting SEM. One among them is AMOS (Analysis of motion structures). This study has

used Amos version 20. Before CFA an exploratory factor analysis (EFA) is done by using SPSS 20 to extract the variables of the constructs and then a CFA is done with the help of a measurement model. While conducting CFA the parameters of the model are estimated with the help of maximum likelihood estimation as maximum likelihood is a better estimation method among the other methods (Lai et al. 2007).

It is necessary to check the construct validity before proceeding for CFA. Table-1 tells about the construct validity and it ensures that the set of items actually represent the theoretical latent construct. Construct validity can be checked with the help of convergent validity and discriminant validity. Convergent validity is the proportion of variance for each item and discriminant validity is the extent to which an independent variable is truly distinct from other independent variables in measuring the dependent variable (Hair et al., 2006). Convergent validity is checked by the values of standardized factor loadings, composite reliability and average variance extracted (AVE) and all should be more than 0.7(Hair et al., 2006). From the Table-2 it is evident that all values such as standardized factor loadings; CR and AVE for the items are above 0.7 which supports a strong convergent validity. Discriminant validity can be tested with the help of AVE and maximum shared variance (MSV). And AVE should be greater than MSV for the discriminant validity. In this model AVE is greater than MSV for all constructs (see Table no-1) and it indicates discriminant validity. Therefore the measurement model shows good construct validity.

**Table 1: Discriminant validity**

	CR	AVE	MSV	Max R (H)	Satisf - - action	Visio n	Strategy	Expe - rienc e	Collabo - ration	Reten- tion
Satisfaction	0.966	0.876	0.803	0.972	0.936					
Vision	0.880	0.880	0.486	0.977	0.672	0.938				
Strategy	0.896	0.741	0.145	0.980	0.381					
Experience	0.931	0.772	0.000	0.987	-0.003		0.009			
Collaboration	0.934	0.826	0.214	0.989	0.463	0.400	0.230	0.011		
Retention	0.937	0.833	0.803	0.991	0.896	0.697	0.326	0.002	0.417	

To have a good model fit the value of the root mean square of approximation (RMSEA) should be less than 0.08 and the values of goodness of fit index (GFI), adjusted goodness of fit index (AGFI), normed fit index (NFI) and comparative fit index (CFI) all should be more than 0.9. The ratio between chi square ( $\chi^2$ ) and degrees of freedom that means  $\chi^2/$  should be less than 2.5 .The obtained values for the measurement model are, for  $\chi^2$ /is 2.513which is <5. Therefore the measures are more than the required threshold values except AGFI hence the measurement model indicates a good model fit .We can

conclude that the model is adequate hence items in the model are reliable indicators of hypothesized constructs and we can proceed for testing structural relationships.

**Table no-2: Measurement model summary:**

CMIN					
Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	55	389.561	155	0	2.513
Saturated model	210	0	0		
Independence model	20	8362.785	190	0	44.015
RMR, GFI					
Model	RMR	GFI	AGFI	PGFI	
Default model	0.04	0.91	0.878	0.672	
Saturated model	0	1			
Independence model	0.65	0.217	0.135	0.197	
Baseline Comparisons					
Model	NFI	RFI	IFI	TLI	CFI
	Delta1	rho1	Delta2	rho2	
Default model	0.953	0.943	0.971	0.965	0.971
Saturated model	1		1		1
Independence model	0	0	0	0	0
RMSEA					
Model	RMSEA	LO 90	HI 90	PCLOSE	
Default model	0.062	0.054	0.07	0.006	
Independence model	0.33	0.324	0.336	0	

(Model fit summary for the measurement model)

### Structural model:

Structural equation modeling is used to test the hypotheses and the same can be seen from Table-2. The summary of the structural model are  $\chi^2/df$  is 1.492 <5, RMSEA is 0.035<0.08, the values of GFI 0.959>0.9, AGFI 0.941>0.9, NFI 0.975>0.9, CFI 0.991>0.9. Therefore all measures are more than their threshold values therefore the structural model indicates a good model fit (see Table-3).

**Table:3 summary for the structural model**

Model Fit Summary					
CMIN					
Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	42	140.292	94	0.001	1.492
Saturated model	136	0	0		
Independence model	16	5532.542	120	0	46.105
RMR, GFI					
Model	RMR	GFI	AGFI	PGFI	
Default model	0.038	0.959	0.941	0.663	
Saturated model	0	1			



Independence model	0.572	0.313	0.221	0.276	
<b>Baseline Comparisons</b>					
<b>Model</b>	<b>NFI</b>	<b>RFI</b>	<b>IFI</b>	<b>TLI</b>	<b>CFI</b>
	<b>Delta1</b>	<b>rho1</b>	<b>Delta2</b>	<b>rho2</b>	
Default model	0.975	0.968	0.991	0.989	0.991
Saturated model	1		1		1
Independence model	0	0	0	0	0
<b>RMSEA</b>					
<b>Model</b>	<b>RMSEA</b>	<b>LO 90</b>	<b>HI 90</b>	<b>PCLOSE</b>	
Default model	0.035	0.022	0.047	0.982	
Independence model	0.337	0.33	0.345	0	

From the summary of the structural model we can notice that, Vision, collaboration are the most significant influence of satisfaction with values vision ( $c=0.062$ ,  $p<0.01$ ) and Collaboration ( $c=0.16$ ,  $p<0.01$ ) respectively. They both significantly influence customer satisfaction. Organizational vision is the most significant influence of satisfaction and the second positive influence is organizational collaboration. It indicates that the practices like leadership; understanding about CRM, cross functional teams, training and change management and appointment of CRM leader will positively influence customer satisfaction. Strategy, vision are not the statistically significant influence of customer satisfaction (Table-3).

#### **The mediation effect of Customer satisfaction:**

##### **Direct effect:**

In order to check the mediation effect of customer satisfaction on the relationship between CRM practices (Vision, Strategy, Experience and Collaboration) and retention first the direct effects are measured from the following structural model without introducing the indirect effect of customer satisfaction (Fig-3). The direct effects can be observed in table no-4 It is found that the  $\beta$  co-efficient of the direct effects of CRM practices on Customer retention are Vision ( $c=0.62$ ,  $p<0.05$ ), Strategy ( $c=0.04$ ,  $p>0.05$ ), Experience ( $c=-0.03$ ,  $p>0.05$ ), Collaboration ( $c=0.16$ ,  $p<0.05$ ). Therefore it means vision and collaboration are having significant direct effect on retention of customer and the strategy and experience are insignificant effect on customer retention. This can be seen from table-4.



**Table 4**

			<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
Retention	<---	Vision	0.62	0.038	12.085	***
Retention	<---	Strategy	0.04	0.04	0.923	0.356
Retention	<---	Experience	-0.03	0.031	-0.713	0.476
Retention	<---	Collaboration	0.16	0.037	3.67	***

### **Indirect effect:**

The mediating effect of customer satisfaction can be checked by introducing it in the structural model as shown in table-4.

By introducing customer satisfaction as a mediating variable as seen in the above diagram it is noticed that, there is a decrease in beta coefficient of the direct effect of vision on retention (which changed from  $c=0.62$  to  $c=0.19$ ) and the effect is significant. Therefore we can conclude that customer satisfaction is partially mediating the effect of vision on customer retention. On the other hand it can also be noticed that the beta coefficient between collaboration and customer retention has not only got reduced from 0.16 to -0.13 but also the effect become insignificant (at  $p<0.05$ ). Therefore it can be concluded that customer satisfaction completely mediates the relationship between collaboration and customer retention. It can be observed from Table no-5.

**Table 5**

			<b>Estimate</b>	<b>S.E.</b>	<b>C.R.</b>	<b>P</b>
Retention	<---	Vision	0.197	0.041	4.75	***
Retention	<---	Experience	-0.003	0.022	-0.118	0.906
Retention	<---	Collaboration	-0.013	0.028	-0.482	0.63
Retention	<---	Strategy	-0.049	0.032	-1.56	0.119
Retention	<---	Satisfaction	0.618	0.034	17.993	***
Satisfaction	<---	Vision	0.718	0.066	10.867	***
Satisfaction	<---	Strategy	0.152	0.058	2.619	0.009
Satisfaction	<---	Experience	-0.033	0.041	-0.815	0.415
Satisfaction	<---	Collaboration	0.256	0.05	5.138	***

The direct, indirect and total effects of CRM practices on customer retention can be clearly found from the following table -6.

**Table 6: the direct, indirect and total effect**

**Standardized Direct Effects (Group number 1 - Default model)**

	<b>Collaboration</b>	<b>Experience</b>	<b>Strategy</b>	<b>Vision</b>	<b>Satisfaction</b>	<b>Retention</b>
Satisfaction	.222	-.031	.115	.538	.000	.000
Retention	-.015	-.003	-.048	.190	.793	.000

**Standardized Indirect Effects (Group number 1 - Default model)**

	<b>Collaboration</b>	<b>Experience</b>	<b>Strategy</b>	<b>Vision</b>	<b>Satisfaction</b>	<b>Retention</b>
Satisfaction	.000	.000	.000	.000	.000	.000
Retention	.176	-.025	.091	.427	.000	.000

**Standardized Total Effects (Group number 1 - Default model)**

	<b>Collaboration</b>	<b>Experience</b>	<b>Strategy</b>	<b>Vision</b>	<b>Satisfaction</b>	<b>Retention</b>
Satisfaction	.222	-.031	.115	.538	.000	.000
Retention	.161	-.028	.043	.617	.793	.000

**CONCLUSION:**

The study finds that firm's practices related to Vision and Organizational collaboration will positively influence the customer retention. Therefore the companies must concentrate on the practices related to Vision and organizational collaboration such as development of leadership, understanding the uniqueness of CRM and how it can help, establishment of cross functional team, change management and training from the beginning and the appointment of the CRM leader. The study also concludes that there is a mediating effect of customer satisfaction on the relationship between CRM practices and customer retention. Customer satisfaction partially mediates the relationship between vision and customer retention where as it completely mediates the relationship between organizational collaboration and customer retention. The findings of the study may be influenced by the attitudes of the respondents and may not be generalized as the study is micro in nature.

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