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## **CRM AND ITS IMPACT ON CUSTOMER LOYALTY**

**(AN EMPIRICAL STUDY ON PRIVATE BANKS IN MORADABAD CITY)**

**SAKSHI**

Research Scholar, Department of Management, Mewar University, chittorgarh (Rajasthan)

**Dr. Pradeep Kumar Varshney**

Supervisor, Faculty of Management, Mewar University, chittorgarh (Rajasthan)

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### **ABSTRACT**

The purpose of this paper is to determine the impact of customer relationship management on customer loyalty. The data has been collected from the customers of three private sector banks- ICICI Bank, HDFC Bank and Axis Bank across the branches located at Moradabad City, Uttar Pradesh. The data has been collected by using a structured questionnaire with a five point Likert Scale. Statistical tools such as multiple regressions, factor analysis have been 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 royalty in relation to banking services. Therefore, 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 (CRM), Customer Loyalty, ICICI Bank, HDFC Bank, Axis Bank and Factor Analysis.



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## INTRODUCTION

Success indicators of banking organizations have undergone tremendous change in terms of quality, efficiency parameters and breadth and depth of the services mix offered. Banking organization as a part of competitive services cape, is experiencing paradigmatic shift in its marketing strategies and enormous investment in maintaining relationship with the customer. Relationship marketing has replaced traditional transactional marketing and in this direction, the concept and tools of customer relationship management (CRM) have become significantly important. In the modern times, the existence of 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 Batta, 2006; FandosRoig et al. 2006; Goode and Mootinho, 1995; Ozdemir and Trott 2009). The winner in the Indian banking sector will be the player who can be aware of the customer, fulfill customer needs and attain high levels of customer retention (Kamath et al. 2003, PP 85). Berry (1983) vivid relationship marketing as a strategy to attract, maintain and enhance customer relationship. Relationship marketing is to establish, maintain and enhance relationship with customers and other partners at a profit, so that the objectives of the parties 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) as 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 increase in profits (Ruchheld, 1996). Hence, adopting customer-center strategies aimed at maintaining and enhancing relationship with existing customer is important for the survival of Indian bank (Ray and Shekhar, 2010).



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## REVIEW OF LITERATURE

In India, the service firms took some of the early initiatives in CRM, especially in the financial services. CRM is emerging as the core marketing activity for services firms operating in the fiercely competition environment (Shainesh and Choudhary, 2011). Customer relationship management (CRM) is no large a new term but realities for many organizations, the long-term business relationship 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). A recent research reveals a clear opportunity for banks to increase the sophistication of their offers and communications to customers around recognizing and rewarding loyalty. The challenge is about integrating customer strategies and capabilities across the broad and complex organization structure of 21<sup>st</sup> century banks to drive effective execution at the front line between banks and their customers (a research paper of Priya and Bag, 2011). A research paper of Kaur (2013) reveals that CRM is a strategy that is being implemented by the banks in India for effective service delivery to their customers to achieve higher levels of customer satisfaction and strive for customer delight. Colgate and Hedge (20001) insisted that losing customer could have a negative effect on a banks market share. Hence banks should retain the customer 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 Zahori, 1993). The available researches show that successful and continuing relationships and characterized by trust, commitment and satisfaction. Drama by the challenges of competition rising customer expectations and shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convergence. Several studies have been conducted in big cities of India but very few notable walks have been done in Uttar Pradesh. This paper is intended to fill the gap by studying the impact of CRM on loyalty in the Moradabad city of the state of Uttar Pradesh.

## OBJECTIVES

The main objectives of this research paper are:

- To provide an insight on CRM and its importance in the modern banking scenario; and
- To measure the impact of various dimension of CRM and its impact on customer loyalty.



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## RESEARCH METHODOLOGY

In this paper a descriptive research design has been adapted to measure the impact of various dimension of customer relationship management and its impact on loyalty. The targeted populations of the present paper were the customers of HDFC Bank, ICICI Bank and Axis Bank in the Moradabad city of the state of Uttar Pradesh. Customers from these banks are selected for research because these three private banks (ICICI, HDFC and Axis) are the leading private banks in India as per market capitalization (mony\_control.com). Judgment sampling method was used to collect the data. The present paper 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) and Selnes (1998). 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 relationship management and loyalty. The respondents were asked to answer each statement at five point Likert Scale. Sampling sizes of 300 (100 respondents from each of three banks ICICI, HDFC and Axis) questionnaire were distributed to the respondents, out of which 156 were assessed rate of 50-52 percent. With this background, this research paper aims to identify whether there is any impact of customer relationship management dimensions on customer's loyalty.

## DATA ANALYSIS

### DEMOGRAPHIC PROFILE OF THE REAPONDENTS:

The profile of the sample respondents is shown in **table 1** and remarked that 66.67 percent of them were mail, 32.00 percent were between 21-30 years old and 44.00 percent had post graduate degree as educational qualifications. 48.00 percent of the respondents were full time employees; 42.67 percent have an annual income between Rs. 2 lakhs to 5 lakhs and 53.33 percent of respondents have fixed deposit.

### RELIBILITY ANALYSIS:

Reliability analysis is done to check whether the variable used to study whether CRM dimensions would produce consistent results or not. The calculated Cronbach Alpha cut of rate of 0.70 can prove good reliability. The CronbachAlpha for the present paper was calculated to be



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0.783. Therefore, it can be conducted that all the factors used to measure CRM are found to be reliable.

#### **FACTOR ANALYSIS(COMPONENT ANALYSIS):**

**Table 2** indicates that the analysis of the component matrices 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. The component matrix shows that knowledge about markets, confidence in bank services, customized service to meet customer's needs, showing respect towards customers, helping customers to plan their investment, openly discussing solution when the problems arise and doing efficient sales promotion activities can be grouped into first factor which can be termed as **competence**. Providing timely and accurate information, flexibility in catering to customer's needs, banks helping to avoid conflicts, bank fulfills its promises and offering valuable advice on investment to the customers can be grouped in to second factor which can be termed as **relationship communication**. Bank tries to solve the conflict before it creates problems, providing authenticated information and bank fulfill its obligation towards its customers can be grouped in to third factor which can be termed as **caring** bank words and promises are kept and bank remains consistent in providing services to customers can be grouped in to 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 by the researcher. The **table 3** indicates the contribution of **competence** dimensions of CRM to customer loyalty. The regression equation is given below:

$$Y=1.73+0.48(x1) +0.39(x2) +0.63(x3) +0.24(x4) +0.32(x5) +0.05(x6) +0.19(x7);$$

Where, Y is the estimated Customer Loyalty Score.

This equation revealed that the variables of **competence** such as knowledge about markets (x1), confidence in bank's service (x2), and customized service to meet consumer's needs (x3) and so on are having on impact on customer loyalty. Out of the seven dimension of competence, suchas



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“customized service to meet consumer’s needs (x3)” has been found to have maximum powerful impact of CRM on customer loyalty since the co-efficient value was found to be 0.63. But however, the dimensions "open discussing the solutions when the problems arise (x6)" was the only dimensions which was found to insignificant where all the rest six dimension of competence were significant and R2 indicates 0.53 change in competence indicated the variation of 53% in customer loyalty.

The **table 4** indicates the contribution of **relationship communication** dimension of CRM to customer loyalty. The regression equation is given below:

$$Y=1.21+0.09(x1) +0.25(x2) +0.07(x3) +0.30(x4) +0.33(x5);$$

Where, Y is the estimated Customer Loyalty Score.

The above equation indicated the variables of **relationship communication** such as providing timely and accurate information (x1), flexibility in catering to customer’s needs (x2), bank helping to avoid conflict (x3), and so on are having an impact on customer loyalty. Out of the five dimension of relationship communication, the dimension "offering valuable advice on investment to the customer (x5)" has been found to have maximum powerful impact of CRM on customer loyalty since the co-efficient value was found to be 0.33. But however, the dimensions "Providing timely and accurate information (x1) and "Banks help to avoid conflicts (x3)" were the dimension of relationships communication which were found to be insignificant where all the rest three dimension of relationship communication were

Significant and R2 indicates 0.55 change in relationship communications indicated the variation of 55% in customer loyalty.

The **table 5** indicates the contribution of **caring** dimension of CRM to customer loyalty. The regression equation is given below:

$$Y=1.62+0.06(x1) +0.07(x2) +0.59(x3);$$

Where, Y is the estimated Customer Loyalty Score.



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This equation indicated the variables of **caring** such as bank tries to solve the conflicts before it creates problems (x1), providing authenticated information (x2) and bank fulfills its obligation towards its customers (x3). Out of the three dimensions of caring the dimension "Bank fulfills its obligation towards its customers (x3)" has been found to have maximum powerful impact of CRM on customer loyalty since the co-efficient value was found to be 0.59. But however, the dimension "Bank tries to solve the conflicts before it creates problems (x1)" and "Providing authenticated information (x2)" were found to be insignificant whereas the dimension "bank fulfills its obligation towards its customers (x3)" has been found significant and R<sup>2</sup> indicates 0.60 change in caring indicated the variation of 60% in customer loyalty.

The **table 6** indicates the contribution of **trust** dimensions of CRM to customer loyalty. The regression equation is given below:

$$Y=1.96+0.61(x1)+0.36(x2);$$

Where, Y is the estimated Customer Loyalty Score.

This equation indicated the variables of **trust** such as bank words and promises are kept (x1) and bank remain consistent in providing services to customers (x2). Out of the two dimensions of trust the dimension "Bank words and promises are kept (x1)" has been found to have maximum powerful impact of CRM on customer loyalty since the co-efficient value was found to be 0.60 were both the variables of trust are found to be significant and R<sup>2</sup> indicates 0.63 change in trust indicated the variation of 63% in customer loyalty.

### **IMPLICATION OF THE STUDY**

This paper attempts highlight the impact of different dimensions of CRM to customer loyalty. From the analysis, it is concluded that bank designs customized service to meet consumer's needs, bank is offering valuable advice on investment to the customers, bank fulfills its obligation towards its customers and bank words and promises are kept are the most important variables which having maximum powerful impact on customer loyalty. Therefore, 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 this paper. 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 paper. Bank should also interact with customers and should be open to them in discussing problems and their possible solution.

### **CONCLUSION**

It is true that Indian banks are becoming more and more innovative and gradually dominating the market. They capturing banking market share from their counterpart of the foreign bank by offering services by an innovative way. The present paper attempted to assess the impact of various dimension of CRM on customer loyalty with reference to private banks in Moradabad city of Uttar Pradesh. From the observation and findings of the paper, it is clearly evident that CRM is going to be developed as a new age marketing tool to determine customer loyalty. It can also be concluded that CRM is a strategy that is being implemented by the Indian banks for effective service delivery to their customers to achieve higher level of customer loyalty.

**Table -1 Demographic Profile of Respondent**

<b>Variables</b>	<b>Categories</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Gender	Male	<b>100</b>	<b>66.67</b>
	Female	<b>50</b>	<b>33.33</b>
Age	21-30	<b>48</b>	<b>32.00</b>
	31-40	<b>42</b>	<b>28.00</b>
	41-50	<b>34</b>	<b>22.67</b>
	51 and above	<b>26</b>	<b>17.33</b>
Educational Qualification	Graduate	<b>56</b>	<b>37.33</b>
	Post Graduate	<b>66</b>	<b>44.00</b>
	Others	<b>28</b>	<b>18.67</b>
Occupation	Student	<b>18</b>	<b>12.00</b>





	Part time employee	<b>10</b>	<b>6.67</b>
	Full time employee	<b>72</b>	<b>48.00</b>
	Business man	<b>38</b>	<b>25.33</b>
	Home markers	<b>12</b>	<b>8.00</b>
Annual Income (inRs.)	Less than 2 Lakhs per annum	<b>58</b>	<b>38.67</b>
	Between 2 Lakhs and 5 lakhs per annum	<b>64</b>	<b>42.67</b>
	More than 5 lakhs annum	<b>28</b>	<b>18.66</b>
Types of Bank Account	Current A/C	<b>50</b>	<b>33.33</b>
	Saving A/C	<b>80</b>	<b>53.33</b>
	Fixed Deposit	<b>20</b>	<b>13.33</b>

**Table 2 Component Matrix of Factors**

Variables	Components			
	1	2	3	4
Knowledge about markets	<b>0.69</b>			
Confidence in bank's services	<b>0.68</b>			
Customized service to meet consumer's needs	<b>0.67</b>			
Respect showing towards customers	<b>0.67</b>			
Helping customers to plan their customers	<b>0.65</b>			
Openly discussing the solutions when the problems arise	<b>0.59</b>			
Doing efficient sales promotion activities	<b>0.67</b>			
Providing timely and accurate information		<b>0.62</b>		
Flexibility in catering to customer's needs		<b>0.58</b>		
Banks helping to avoid conflicts		<b>0.52</b>		
Bank fulfills its promise		<b>0.57</b>		
Offering valuable advice on instrument to the customer		<b>0.53</b>		



Bank tries to solve the conflicts before it create problems			<b>0.71</b>	
Providing authenticated information			<b>0.69</b>	
Bank fulfills its obligation towards its customers			<b>0.62</b>	
Bank words and promise are kept				<b>0.69</b>
Bank remains consistent in providing services to customers				<b>0.55</b>

**Note:** Extraction method: Principal Component Analysis

**Table 3 Contribution of variables in the dimensions of competence dependent variable customer loyalty score (Y)**

<b>Independent Variables</b>	<b>Standardized coefficient</b>	<b>t-value</b>	<b>Significant</b>
Constant (a)	<b>1.73</b>	<b>5.08</b>	<b>0.00</b>
Knowledge about markets (x1)	<b>0.48</b>	<b>5.83</b>	<b>0.00</b>
Confidence in banks services (x2)	<b>0.39</b>	<b>4.62</b>	<b>0.02</b>
Customized service to meet consumer's needs (x3)	<b>0.63</b>	<b>8.21</b>	<b>0.00</b>
Respects towards customers (x4)	<b>0.24</b>	<b>3.34</b>	<b>0.03</b>
Helps customers to plan their investment (x5)	<b>0.32</b>	<b>4.18</b>	<b>0.02</b>
Open discussing the solutions when the problems arise (x6)	<b>0.05</b>	<b>1.14</b>	<b>0.28</b>
Doing efficient sales promotion activities (x7)	<b>0.19</b>	<b>2.89</b>	<b>0.04</b>

R2

0.53

Note: Level of significance = 0.05,  $p < 0.05$

**Table 4 Contribution of variable in the dimensions of relationship communication**



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**dependent variable: Customer loyalty score (Y)**

<b>Independent Variables</b>	<b>Standardized co-efficient</b>	<b>t-value</b>	<b>Significant</b>
Constant (a)	<b>1.21</b>	<b>4.79*</b>	<b>0.00</b>
Providing timely and accurate information (x1)	<b>0.09</b>	<b>1.14</b>	<b>0.17</b>
Flexibility in catering to customer's needs (x2)	<b>0.25</b>	<b>3.12</b>	<b>0.03</b>
Bank helping to avoid conflicts (x3)	<b>0.07</b>	<b>1.14</b>	<b>0.28</b>
Bank fulfill its promises (x4)	<b>0.30</b>	<b>3.26</b>	<b>0.02</b>
Offering valuable advice on investment to the customers (x5)	<b>0.33</b>	<b>4.19</b>	<b>0.02</b>

R2

0.55

Note: Level of significance = 0.05,  $p < 0.05$



**Table 5 Contribution of variable in the dimensions of caring dependent variable: Customer loyalty score (Y)**

<b>Independent Variables</b>	<b>Standardized co-efficient</b>	<b>t-value</b>	<b>Significant</b>
Constant (a)	<b>1.62</b>	<b>5.26</b>	<b>0.00</b>
Bank Tries to solve the conflicts before it create problem (x1)	<b>0.06</b>	<b>1.13</b>	<b>0.21</b>
Providing authenticated information (x2)	<b>0.07</b>	<b>1.15</b>	<b>0.31</b>
Bank fulfill its obligation towards its customers (x3)	<b>0.59</b>	<b>7.94</b>	<b>0.00</b>

R2

0.60

Note - Level of Significance = 0.05,  $p < 0.05$

**Table 6 Contribution of variable in the dimensions trust of dependent variable: Customer loyalty score (Y)**

<b>Independent Variables</b>	<b>Standardized co-efficient</b>	<b>t-value</b>	<b>Significant</b>
Constant (a)	<b>1.96</b>	<b>5.80</b>	<b>0.00</b>
Bank words and promises are kept (x1)	<b>0.61</b>	<b>7.28</b>	<b>0.00</b>
Bank remains consistent in providing services to customers (x2)	<b>0.36</b>	<b>5.02</b>	<b>0.00</b>

R2

0.63

Note - Level of significance = 0.05,  $p < 0.05$



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