



Customer Relationship Management Practices: A Study on Retail Banking In Bangladesh

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By

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I. An Introduction to the study:

Customer Relationship Management is critical to conducting business in today's competitive marketplace, and banks are no exception. Commercial banks in Bangladesh have embarked different management strategies to promote customer satisfaction and loyalty, which in turn, possibly influence behavioural pattern of retail banking customers' and one of them is customer relationship management. Customer relationship management has been widely regarded as a set of methodologies and organizational processes to attract and retain customers through their increased satisfaction and loyalty (Campbell, 2003; Hansotia, 2002; Khodakarami and Chan, 2014). Practices of customer relationship management in private commercial banks need to determine because retaining loyal customers are more profitable than attracting new customers' (Eid, 2007). Furthermore, services and offerings in banking sector are more or less alike among the rivals which cause higher rate of lost customers'. Researchers found that marketers should take precautions before implementation of customer relationship management programs because of its high failure rate (Bolton, 1998; Boulding et al. 2005; Osarenkhoe and Bennani, (2007). However, although the positive impact of CRM on organizations has been addressed in many studies (Avlonitis and Panagopoulos, 2005; Hart et al., 2004; Kaura et al. 2013; Vijaykumar, 2013; Vijaykumar and Velu, 2011; Xu et al., 2002), there are a few studies pointed to the effectiveness of CRM practices in Retail banking sector. For that reason this thesis aims to measure the effectiveness of customer relationship management in the private commercial (domestic) banks in Bangladesh and specially focused on retail banking sector.

II. Statement of the Problem

Recently, some empirical work has focused on CRM strategy and its outcomes –such as the causal relationships between CRM strategy and customer satisfaction, customer loyalty, and company performance (e.g. Herhausen, and Schögel, 2013; Verhoef, 2003). This stream of research admittedly has provided valuable contributions regarding the CRM performance nexus. Notwithstanding the important input from these studies, a surprisingly overlooked area in CRM research has been the customer, the very party toward whom CRM efforts are directed. To date, there remains a lack of attention regarding the customer's point-of-view in relation to CRM. Although extant literature does provide helpful insight into the company's point-of-view, researchers have shown little concern about the potential gap between CRM activities and customer attitudes toward those activities in the retail banking sector in Bangladesh.

Few studies that have put forwarded the measures of CRM effectiveness (CRME) have been from the supplier perspective (Chen et al., 2009). This limits the understanding of how customers perceive CRM and the outcome of such efforts on their behaviors. Understanding the customer perspective is crucial for an organization, since an effective CRM requires the business process and technology focused towards the customer. In addition, Siddiqi (2011) argued that since

different industries exhibit varying levels of performance, it is imperative to measure CRM in the Bangladesh banking industry.

The existing review of literature only assesses the customer relationship management practices, in private and public commercial banks as well as identified comparison of CRM practices in different banks in Bangladesh. Moreover, all of these studies with special reference to commercial banks in Bangladesh have been done based on organization's point of view. Although extant literature does provide helpful insight into the company's perspective, researchers have shown little concern about the potential gap in measuring the CRM effectiveness. That's why; there is a pressing need to test a scale that systematically and psychometrically measures CRME, serving as a measurement foundation for the customer perspective. This research paper intends to fulfill this gap.

III. Research Objectives:

As the importance of the above issues is still fragmented in the extant literature, recent attention by academicians and practitioners is focused on understanding the CRM process, implementation and its effect on satisfaction, loyalty and behavioral intention. It is imperative to know that CRM efforts practiced by banks are performing good or bad. Therefore, measuring CRME in the retail banking context can provide accurate information on consumers' real reason of satisfaction, loyalty and behavior intention. The main objective of the study is to evaluate customer relationship management practices with a special reference to selected private banks in Bangladesh. The other objectives are:

- ➔ To identify the customers view in the Customer Relationship Management efforts in the retail banking context in Bangladesh by using CRME scale.
- ➔ To investigate the relationship of CRME scale with the effect variable customer relationship satisfaction.
- ➔ To test the influence of customers' relationship satisfaction on customer loyalty of the retail banking customer in Bangladesh.
- ➔ To measure the influence of customer loyalty with the outcome variable of customer behavior based CRM performance.

IV. Review of Literature

Customer relationship management practices have been found significant in generating loyal customers and increase profitability of the firm (Gilmore and Pine, 1997). The background of the study is based on a number of CRM related studies that have been conducted on the constructs chosen for this study to measure customer relationship management effectiveness. These constructs are CRME dimensions – organizational commitment, customer experience, process driven approach, technology orientation and reliability – and the dependant variables are customer satisfaction, customer loyalty and customer behavior-based CRM performance.

CRME dimensions for measuring CRM effectiveness:

Abratt and Russell (1999) posit that commitment is an essential ingredient for successful long-term relationships. One of the most widely used definitions of organizational commitment is attitudinal commitment also termed as affective commitment (Cohen, 2007). This study

conceptualizes that knowledgeable employees with intention to serve customers at earliest, correctly identify customers demand and do all the activities dealing customers are found as organizational commitment.

Customer experience has been conceptualized as the customer's subjective response to the holistic and indirect encounter with the company (Lemke et al., 2010). Moreover, customer experience is the internal and subjective response customers have to any direct or indirect contact with a company (Jüttner, 2013). Pine and Gilmore (1998, p, 12), who described successful experiences as being those that "a customer finds unique, memorable and sustainable over time". A process is primarily a matter of first prioritizing and then sourcing processes, using a combination of (1) software to convert what used to be done by people into an interaction at the website, (2) electronic links to partner (3) people, workflows, and software that provide exceptional handling of the situations that make or break the customer relationship (Lambert, 2010). Some processes are major business assets, (for example, conducting banking transactions correctly) and some may be a key part of the company's very identity (for example, providing clear and necessary information along with offerings). Any process that is the key to the customer relationship must be treated as a priority and made an asset or identity (Liu, 2007). The issue is not whether to make the investment, but how to source the process in a way that best generates value and is most cost efficient.

Technologically based banking services and distribution channels are found important for customers who want quick and 24/7 access of their accounts from different corner of the city besides the traditional banking transactions (Karjaluoto et al., 2002). Now-a-days, banks are contacting with their customers through various electronic channels, such as, ATM, online banking, mobile banking (Jayachandran et al., 2005). The customer's overall evaluation of the excellence of services provided through electronic networks, such as the internet, ATM, and telephone/mobile phone banking are considered as technology orientation for this study. Reliability means the ability to perform the promised service dependably and accurately (Parasuraman et al. 1996). Winning the customer's confidence is vital in service organizations.

Customer satisfaction is one of the important outcomes of marketing activity (Oliver, 1980). It links processes resulting in purchase and consumption with post-purchase phenomena such as attitude change, repeat purchase, and brand loyalty (Surprenant & Churchill, 1982). Satisfaction is the consumer's response to end evaluation of the perceived discrepancy between prior expectations (or some other norm of performance) and the actual performance of the product as perceived after its consumption (Gordon and McDougall, 1996). Customer loyalty, is defined as "a deeply held commitment to re-buy or re-patronize a preferred product offering consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1997). Loyal customers of retail bank will patronage more and become loyal to the bank. Customer behavior-based CRM performance is the behavioral outcomes that derived from the successful CRM practices of the firm or service provider (Mittal and Kamakura, 2001). In this study it was defined as repeat purchase, cross buying, word of mouth and retention.

V. Conceptual Framework:

This thesis is concerned with customer relationship management effectiveness in the retail banking domain and enhance the understanding of the long-term relationships, focusing on loyal customer within a retail banking context. Furthermore, for the first time linkages between CRME dimensions –

organizational commitment, customer experience, process driven approach, technology orientation and reliability - and customer satisfaction and customer loyalty, then customer satisfaction and customer loyalty and both the customer satisfaction and customer loyalty on customer behavior based CRM performance have been integrated into one model in Bangladesh context. This addresses a gap in the literature by providing a more complete model within the context of relationship marketing of retail banking sector in Bangladesh.

The conceptual framework of present research is shown in the following figure:

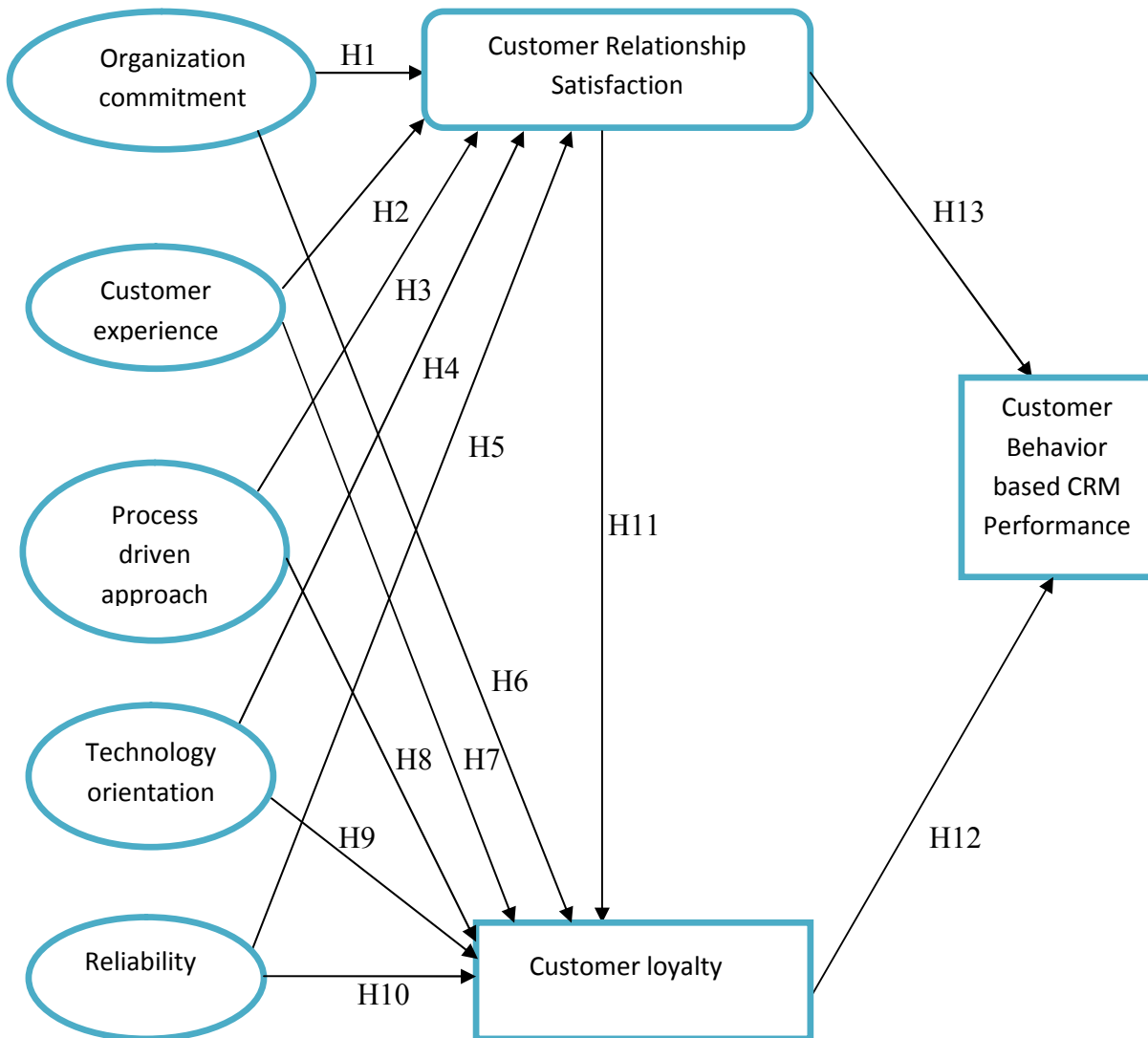
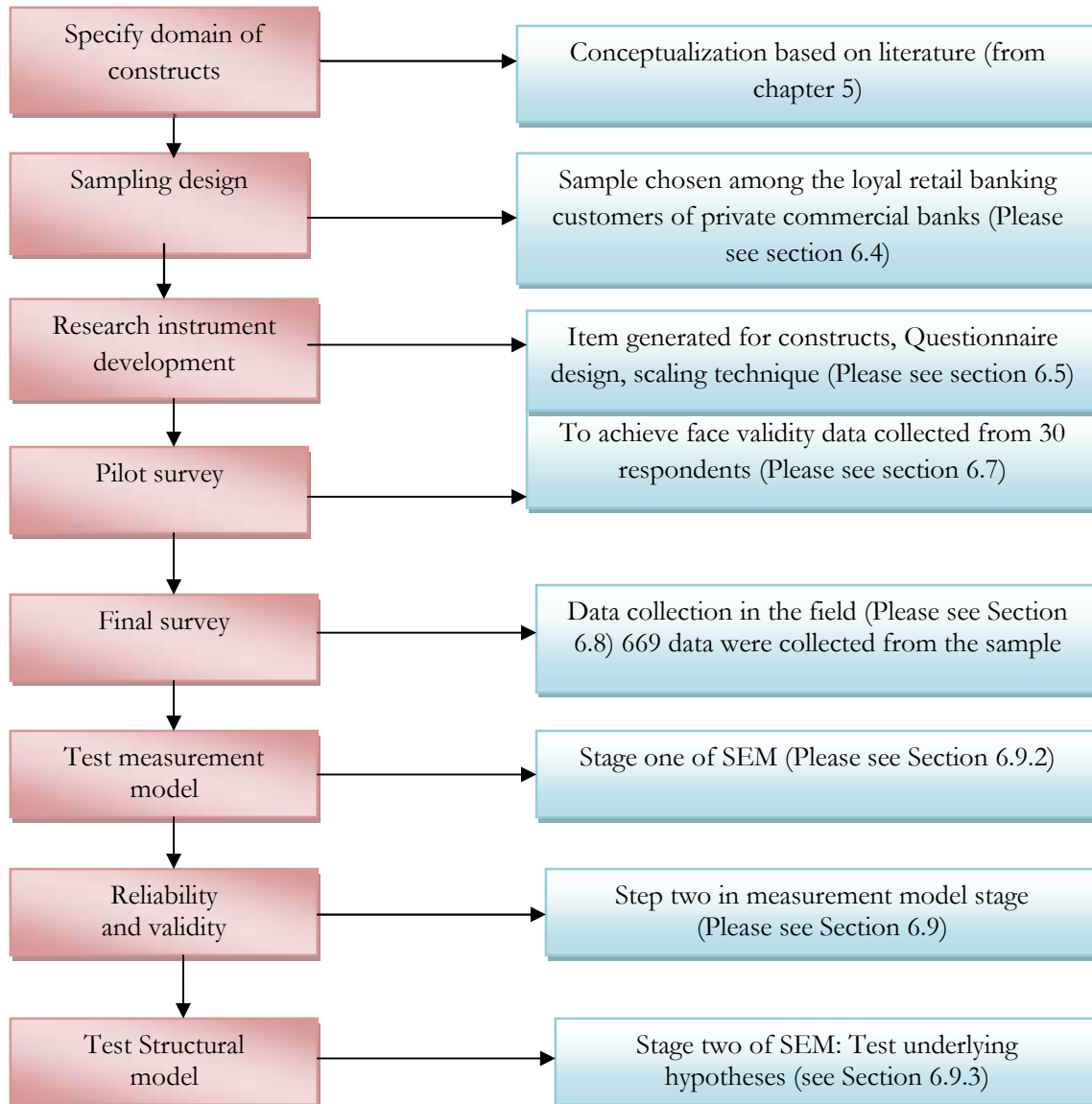


Figure: Conceptual Model and Hypothesized path

VI. Research Methodology:

This study chose the positivistic/empiricist philosophy (Peters and Olson, 1983) to design the research. Basically, the nature of the study is descriptive and focused on quantitative techniques to collect and analyzing data. A cross-sectional study was applied in this research. A total view of the methodology is shown in the following figure.

Figure: Methodological Overview



This thesis conducted a survey with a self administered questionnaire and collected data from 669 respondents in Dhaka city.

Target population: The target populations for this study was defined as retail customers who are loyal to his or her affiliated bank, over 18 years old, have an account in any domestic private

commercial bank in Bangladesh and at least two years of continuous relationship with the affiliated bank during the survey period.

The sample unit was the middle class and upper middle class consumers residing in Dhaka city.

Sampling technique: Purposive (non-probability)

Sample size: 700

Questionnaire: The questionnaire was designed to obtain the demographic as well as identify the retail banking customers' perception regarding the CRM practices in their affiliated banks. The questionnaire had three parts – 1. General questions, 2. Second part of the questionnaire was designed with 52 items to ask respondents to express their level of agreement or disagreement for each item. A seven point Likert scale were used ranging from 1= strongly disagree and 7= strongly agree, and 3. The third part was designed to obtain the demographic information of the respondents.

A two stage structural equation modeling (SEM) was used to analyze the data by using AMOS (22.0) software and to identify the reliability i.e. cronbach's alpha value SPSS (22.0) was used.

VII: Findings of the study:

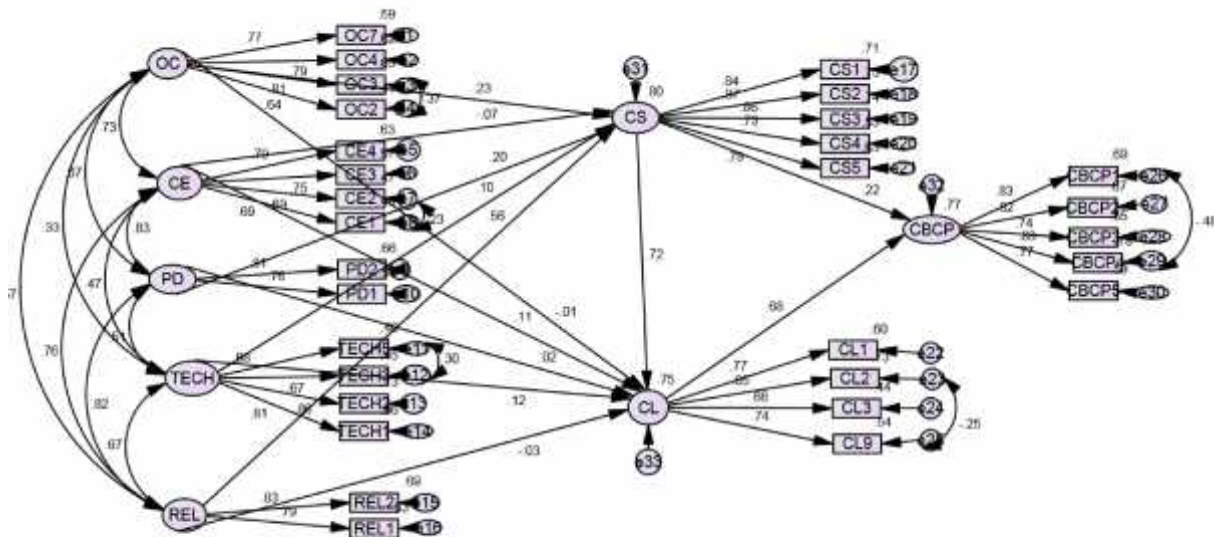
The result of the measurement model to present the goodness-of-fit is shown in the following table with initial measurement model.

Table: Results of Goodness-of-fit of the Measurement Model

Model fit measures	Initial Measurement Model	Final Measurement model
CMIN	1037.495	881.928
DF	377	381
P	.000	.000
CMIN/DF	2.752	2.315
RMR	.089	.087
GFI	.886	.901
AGFI	.860	.879
PGFI	.719	.738
NFI	.909	.925
RFI	.895	.912
IFI	.940	.956
TLI	.930	.948

CFI	.940	.956
RMSEA	.056	.049

The structural Model:



CMIN	DF	P	CMIN/DF	RMR	GFI	AGFI	PGFI
884.328	377	.000	2.346	.085	.901	.878	.731
NFI		RFI	IFI	TLI	CFI	RMSEA	
.922		.910	.954	.947	.954	.049	

Table: Hypothesize Paths and Results

Research hypothesis	Proposed direction	Estimate	Result
H1: Organizational commitment (OC) → Customer satisfaction (CS)	+	0.231***	Supported
H2: Customer Experience (CE) → Customer satisfaction (CS)	+	-.073	Not supported

H3: Process Driven Approach (PD) →Customer satisfaction (CS)	+	0.204**	Supported
H4: Technology Orientation (TECH) → Customer satisfaction (CS)	+	0.110*	supported
H5: Reliability (REL) →Customer satisfaction (CS)	+	0.555***	Supported
H6: Organizational commitment (OC) → Customer Loyalty (CL)	+	-.011	Not Supported
H7: Customer Experience (CE) →Customer Loyalty (CL)	+	0.110	Not Supported
H8: Process Driven Approach (PD) →Customer Loyalty (CL)	+	0.016	Not Supported
H9: Technology Orientation (TECH) → Customer Loyalty (CL)	+	0.121**	Supported
H10: Reliability (REL) →Customer Loyalty (CL)	+	-.032	Not Supported
H11: Customer Satisfaction (CS) → Customer Loyalty (CL)	+	0.723***	Supported
H12: Customer Loyalty (CL) → Customer behavior based CRM Performance (CBCP)	+	0.682***	Supported
H13: Customer satisfaction (CS) → Customer behavior based CRM Performance (CBCP)	+	0.221**	Supported

Notes: ***p<0.01; **P<0.05; *P<0.1

VIII. Discussion on Research Findings:

The research findings revealed that organizational commitment, process driven approach, technology orientation and reliability found important for measuring customer relationship management effectiveness and have positive influence on customer satisfaction. On the other hand, only the technology orientation has positive influence on customer loyalty. This study finding also present that customer satisfaction is positively related to the customer loyalty and both the customer satisfaction and loyalty have influence on customer behavior-based CRM performance. It is found from the study that satisfied customer can turn into loyal customer and loyal customers possibly show positive behavioral intention to the service providers. Satisfied and loyal customers may patronage repeatedly, engage in positive word of mouth, can buy additional and other products (cross buying) and retain as a loyal customer.

IX. Summary of the Thesis Structure

This Thesis consists of nine chapters.

Chapter 1 introduces background of the research, statement of the problem, the research objectives, the research questions, significance of the study. Additionally, this chapter provides a short description on methodology followed by the possible contributions of the study and outline of the research structure.

Chapter 2 Provides detail portrayal of banking sector in Bangladesh, such as history of banking sector, list of banks in Bangladesh, distribution channels of private commercial banks and an initial investigation of customer relationship management practices in Bangladesh compared with the developed countries.

Chapter 3 provides detail discussions regarding the research context along with the justification for choosing the private commercial banks to fill an empirical gap in this context.

Chapter 4 provides a comprehensive and detailed review of the extant literature regarding all theories and constructs relevant to the conceptual models.

Chapter 5 discusses the conceptual framework of Customer Relationship Management Effectiveness dimensions and its outcome variables that proposed in this study. It discusses 13 tested and analyzed hypotheses. H1, H2, H3, H4, H5, H6, H7, H8, H9, H10 relate to the effect of each dimension – organizational commitment, customer experience, process driven, technology orientation and reliability – on customer satisfaction and customer loyalty. H11 reflects the relationship between customer satisfaction and loyalty. H12 and H13 represent the influence of customer satisfaction and customer loyalty on the customer behavior based CRM performance.

Chapter 6 outlines the methodology of the study; the research design, data collection procedure, description of the development of the survey instrument and the analytical procedure of the study. In addition, this chapter discusses the reliability and validity concern of the constructs of this study.

Chapter 7 presents the data analysis of the research. This chapter starts with the summary of the demographic characteristics of respondents', and then describes the measurement model and scale reliability followed by the structural model fit proposed in this study. This chapter concludes with detailed analysis of hypotheses testing of the structural model.

Chapter 8 explicates the results of the research findings. Theoretical and managerial implications are drawn from the research findings.

Chapter 9 concludes the thesis by providing recommendation based on the outcome of the research, its limitations and directions of future research opportunities in this area.

XI. Conclusion

Customer relationship management (CRM) has been called an inevitable – literally relentless – movement because it represents the way customers want to be served and offers a more effective and efficient way of conducting business (Peppers and Rogers, 2004; Yim 2004). Underpinning the paradigm of CRM is the basic belief that customer relationships, like other important assets in an organization, can be effectively developed and managed. The aim of customer relationship management is to attract and retain those customers who have potentiality to engage more with the organization and become a loyal customer. However, achieving this aim successfully is not straightforward at all. Customers seek organizational commitment, prompt service processes, advanced technology and reliable services from their service provider to remain satisfied and loyal. If customers are satisfied with an effective CRM program then their future behavioral intention based on the CRM efforts will increase. In this context, this thesis makes a significant contribution to the relationship marketing literature by proposing a model that empirically investigated loyal retail banking customers of their relationship with their service provider domestic private commercial banks in Bangladesh.

X. References:

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