CRM Index Development and Validation in Indian Banking Sector

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ABSTRACT

This study caters to developing a reliable and valid CRM (customer relationship management) index specifically catering to Indian banking sector. An exhaustive review of literature on CRM was followed by depth interview and questionnaire survey of customers of different banking organizations all across India. Exploratory factor analysis was followed by confirmatory factor analysis which was presented in three forms: the single factor model, covariance model, and the structural model. The covariance model shows CRM in Indian banking sector as a multidimensional construct comprising of factors, namely, organizational structure and customer support, service quality, trust, technology, personalization, and market orientation. The structural model validates the previously extracted factors along with their indicators. The validation of CRM scale is done through a case based method for development of CRM Index along with the customer and service provider weights with the help of questionnaire design and survey conducted. The proposed index can serve as a strategic tool in enhancing the customer responsiveness and overall performance of the banking organizations.

Keywords: Confirmatory Factor Analysis, Customer Relationship Management (CRM) Index, Exploratory Factor Analysis, Indian Banking Sector, Structural Equation Modelling

INTRODUCTION

Reforms initiated in 1991 have changed Indian economy significantly in a span of 20 years and is expected to reach top league in coming years, according to McKinsey research report, 2009. In most emerging economies the regulatory changes are structured to facilitate a threefold agenda which includes liberalization, privatization and globalization. The banking index has shown a highly impressive compounded annual growth rate of more than 51% since April, 2001. As on 31st March, 2010 there were 167 commercial banks operating in India out of which 163 are scheduled commercial banks and 4 were non-scheduled commercial banks. Out of 163 scheduled commercial banks 82 are regional rural banks (RBI Report, 2011). Apart from the public sector/nationalized banks there are private and foreign players which are con-
tributing significantly to Indian banking sector. Foreign banks also grow faster at 30 per cent due to a relaxation in regulations. The contribution of banking sector in GDP increases to over 4.7 per cent. In the current Indian banking scenario of intense competition, deregulation and the availability of internet, the customers have a diversified array of banking and financial products and services to choose from. Indian rural banking sector contributes only 3 percent of the market of Indian banks (Barathi, 2007). Dynamic changes in the competition as well as customer expectations have resulted in a dramatic shift from one time transaction based approach to long term relationship orientated approach. Increasing demands of the customers as well as the intense competition in the marketplace forced banks to device their strategies accordingly to tap the growing market potential. One example of such strategy that has been adopted by banks in varying degrees is the implementation of a superior market orientation. Market orientation draws its relevance from marketing concept which clearly indicates that to maintain the consistency in the success; firms should do the need assessment of its customers and satisfy them more effectively than their competitors in the marketplace (Day, 2000). Initially the financial services industry believed less in the marketing philosophy (Howcraft & Durkin, 2003). The past decade has seen substantial and rapid changes in the way the customer relationship is dealt with in financial services (Berger, 2009). Indian banks are realising the importance of implementing customer relationship management (CRM) for acquiring and retaining their customers. This clearly indicates the need for identifying and addressing the major dimensions that play a crucial role in the effective CRM implementation. This study has three fold objectives comprising of Identification of the current status, preparedness, implementation and other related issues of CRM through the survey of Indian banks; Development and empirical validation of CRM scale from customers point of view and Development of CRM index through a case based method.

**LITERATURE REVIEW**

**Indian Banking Structure**

A fairly developed Indian commercial banking system is in existence since the time of independence in 1947. Indian banking sector has traditionally been one of the most stringently regulated sectors in the country. Since the beginning of deregulation of the financial sector in the late 1980s banks have started operating in the six segments namely retail banking, corporate banking, investment banking, asset management, life insurance and general insurance (Deol, 2009). Indian banking system comprises of commercial and cooperative banks, out of which the commercial banks account for more than 90% of the assets of the banking system. There are two types of categories within the commercial banks. These are schedule commercial banks (which are listed in RBI Act, 1934 under schedule II) and non-scheduled commercial banks. Schedule commercial banks have been further categorized into public sector banks, private sector and foreign banks and rural and local banks. Figure 1 shows the composition of Indian banking system.

**Studies on Indian Banking and Service Industries**

The recent studies on Indian banking industry have concentrated only on the efficiency measurement of banks in terms of utilization of resources (i.e., operating efficiency), but the main aspects of effectiveness of banks in achieving their pre-determined policy objectives is completely ignored (Debnath & Shankar, 2008; Ram Mohan & Ray, 2004; Sanjeev, 2006; Sathye, 2003; Sensarma, 2006; Shanmugam & Das, 2004). As indicated from the work of prominent authors it can be safely concluded that the overall performance of the organization appraisal should take into consideration both the criteria, i.e., resource utilization efficiency and effectiveness in achieving pre-decided goals (Asmild et al., 2007; Mouzas, 2006). Many of the researchers have already validated

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