

A STUDY OF CUSTOMER RELATIONSHIP MANAGEMENT IN IRANIAN BANKING INDUSTRY

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In a competitive market place where price is not a differentiator, customers are easily lost through in different services (Oracle, 2002). Customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving, and they are approached by many more competitors with equal or better offers (Kotler, 2007). The goal of customer relationship management is to reach out to the customers who are spread across the length and breadth of the world and provide them satisfactory services in order to boost the economic status of the banks and other organisations. Iran is one of the developing nations of Middle Eastern Region which has got a large number of banking institutions. The practice of CRM is widely acknowledged as an important component of marketing management and corporate communication management processes in Iranian banks but unfortunately applications of CRM is not favourable.

1. INTRODUCTION

The term 'Relationship Marketing' was coined by Berry (1983) as attracting, maintaining and multi-service organizations- enhancing customer relationships. This relational concept has been defined in the forms of supplier partnerships, lateral partnerships, buyer partnerships, internal partnerships, as well as business to consumer relationship; it is widely discussed in the literature of marketing management and corporate communication where the term first appeared. Relationship marketing received more attention from scholars and practitioners in the last decade of 20th century because of two issues: benefits to organization and the involvement of generic service characteristics.

This theoretical paradigm re-defines the focus of transactional marketing from attracting new customers to retaining existing customers for the purpose of achieving greater long-term profitable returns. Keeping long term customer relationships and CRM brings into higher opportunities to sharpen competitive edge and greater profitability from higher satisfaction, greater customer loyalty and lifetime value, lower customer defection rate, more revenue generated from cross-selling and up-selling activities and lower customer attraction costs.

Customer Relationship Management (CRM) occupies an enviable status in the process of the management of banking institutions in the present times. Customers are rightly regarded as the assets of the modern banks and other institutions. The present age is also known as the age of the

people who matter most in the business environment. No organisation can achieve commendable business success in the absence of meaningful CRM practices. The present society is also known as 'customer oriented society'. All modern organisations including the banks are trying their best to win over the hearts and souls of customers who are the force to be reckoned with. Revolutionary changes and developments in the field of CRM have undoubtedly changed the profile of the modern banks. The practice of CRM has undoubtedly enhanced the image, reputation and status of modern banks in Iran and other developing nation. The global trend business area set certain challenges that cannot be fulfilled with the help of the traditional CRM practices in Iranian banks. The survey of current banking system in Iran reveals that it requires rapid modification and adaptation to cope with the changing global economy and needs of the various stakeholders who matter most from the point of view of management of banking sector.

2. STATEMENT OF THE PROBLEM

In a competitive market place where price is not a differentiator, customers are easily lost through in different services (Oracle, 2002). Customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving, and they are approached by many more competitors with equal or better offers (Kotler, 2007).

Competition for customer is intense. From a purely economic point of view, firms learnt that it is less costly to retain a customer than to find a new one. Several research show that customer acquisition costs 5 to 7 times higher than customer retention costs. In addition, research showed a negative correlation between the number of lost customers and the business revenue (Markus, 2003). For these reasons customer relation has started receiving attention as a key

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corporate resource to gain competitive advantages. Under these circumstances, banks must be faster, more agile, and more creative than a few years ago.

According to Umesh et al. (2006), banks are most important constituents of the financial infrastructure of a country. They play a vital role in bringing about desired change in the economic development of the country. The size and composition of banking transactions mirror the economic happenings in the country. And also, it is an established fact that banking industry by channelizing the scattered savings to productive uses and providing mobility to the capital plays an important role in achieving the desired socio-economic development of a country. Thus, the success of the banking industry is a necessary prerequisite of the economic development of a country.

Research indicates customers are vital for business and banking industry in Iran has to go a long way in meeting the changing needs and demands of customers. These dissatisfactions have many reasons from economical to political, principles to complicated tools for customer satisfaction, from legislation to implementation. By reviewing literature of the CRM practices and conducting an empirical study on the prevailing CRM strategies used by the banks, the scholar would be able to find out appropriate tools and techniques which would boost banking sector considerably in a developing country like Iran.

3. OBJECTIVES OF THE STUDY

1. To evaluate banks personnel perception about CRM in Iranian Banking Industry.
2. To evaluate CRM practices in Iranian banking industry.
3. To offer suggestions to make CRM more effective.

4. CONCEPTUAL FRAMEWORK OF CRM

According to Buttle (2004) Customer relationship management, or CRM, means different things to different people. Even the meaning of the three-letter abbreviation CRM is contested. Most people use CRM to refer to customer relationship management. Others use CRM to mean customer relationship marketing. Another group, in the belief that not all customers want a relationship with a supplier, omit the word relationship, preferring the term customer management. Still others opt for the expression relationship marketing. Whatever it is called, CRM is clearly a business practice focused on customers.

The goal of customer relationship management is to reach out to the customers who are spread across the length and breadth of the world and provide them satisfactory services in order to boost the economic status of the banks and other organisations. All modern organisations including banks have realised that customers should be won

over through need based, demand oriented and customer friendly goods and services. In particular, in the age of privatisation banks cannot flourish without active customer support, cooperation and patronage. The traditional communication and management tools and techniques cannot deliver goods/services in the age of information technology and competitive organisational development.

Kotler (2007) Highlights: "The economics of customer relationships are changing in fundamental ways and companies are facing the need to implement new solutions and strategies that address these changes. Many companies are intent on developing stronger bonds with their customers – called Customer Relationship Management (CRM). This is the process of managing detailed information about individual customers and carefully managing all customer 'touch points' to maximise customer loyalty. A highly satisfied customer generally stays loyal, buys more as the company introduces new products and upgrades existing products, talks favourably about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company, and costs less to serve them new customers because transactions are routine".

Payne (1999) Observes: "The tone of conversation has changed from customer acquisition to retention. Many companies have now recognised that long-term relationship with customers is one of the most important assets of whole organisations. The customers expect the companies to more than connect with them, more than satisfy them, and even more than delight them".

Bill (1999) Remarks: "In today's increasingly competitive business environment, sophisticated customers are not just making their buying decisions on the basis of product comparisons but making those decisions on the basis of relationships that they have with their suppliers".

In modern society, customers have plenty of choices and that banks cannot lag behind in providing customer oriented goods and services. Customer relationship management implementation particularly in the banking industry is very challenging by nature. Gilbert et al. (2003) advocates: "In banks a successful CRM strategy cannot be implemented by only installing and integrating software packages. If a bank develops and sustains a solid relationship with its customers, its competitors cannot easily replace them and therefore this relationship provides for a sustained competitive advantage".

Moriarty et al. (1983) have suggested that customer relationship concept in banking sector needs to be understood and practiced since the banks can increase their profits by maximizing the profitability of total customer relationship over time, instead of seeking to get more profit from any single transaction.

5. BARRIERS TO CUSTOMER RELATIONSHIP MANAGEMENT

Scholars have identified the barriers to Customer Relationship Management which are as follows;

1. Lack of Skills

The personnel of the modern organisations are not trained in the management of corporate communication which also includes human relationship development. The art and craft of public relations are not taught formally or informally to the personnel who handle various aspects of Customer Relationship Management including application of information communication technology.

2. Inadequate Investment

Gaining adequate funding for CRM requirements is an important issue for organizations, particularly as many of the projects expanded dramatically in cost and sometimes in scope. Some organizations had overcome the problem of funding by adopting what was referred to as a 'quick wins' approach. By structuring their CRM implementation projects to deliver quick wins and visible benefits at incremental stages, such as improvements in customer service or higher response rates to campaigns, they were able to demonstrate immediate progress and returns.

3. Poor Data Quality and Quantity

Organizations at different stages of CRM development experience different issues with respect to data quality and data quantity. Modern organisations have not developed scientific data base which facilitates meaningful Customer Relationship Management activities on the basis of authentic data and firsthand experience.

4. Failure to Understand the Business Benefits

Low initial awareness of the benefits of a marketing database among senior management is also a barrier for companies which are less advanced in CRM implementation. This problem tends to be overcome as the data warehouse goes live and begins to deliver results. CRM managers point out that the data warehouse is perceived as a high cost and senior management often failed to understand the potential financial benefits in the earlier stages of the CRM project.

5. Functional Boundaries

Managers at the functional or business unit level may be reluctant or unwilling to cooperate at the early stages of the CRM project. It may require considerable organizational effort to make functional and business unit managers aware of the benefits of greater company-wide operations and cross-functional working.

6. Lack of Leadership and Top Management Involvement

Experience also reveals that the top management is least involved in the CRM activities which are normally handled by the managers, supervisor and workers of the organisations concerned. Their role is to ensure a high level executive, ideally at Board level, acts as a sponsor and champion for the company's CRM activities and that the importance of transforming the company's relationships with customers through CRM is understood and shared by the Board and senior management.

7. Inadequate Measurement Systems

CRM managers often point out how poor or inappropriate measurement and reward systems can hinder the initiation and fulfilment of CRM projects. Measures used to determine the success of CRM performance are often considered inadequate. Sometimes, the problem is that the organization is not clear about its goals or does not communicate its goals to its people.

6. CUSTOMER RELATIONSHIP MANAGEMENT IN MODERN BANKS

Banking industry includes a number of businesses such as corporate banking, investment banking, wealth management, capital market etc. Banking industry is facing a very stiff competitions and current scenario is that of the survival of the fittest. Modern banks are trying to increase their customer base and are developing their own customer relations strategies in order to be in the market. The present day customers are technology savvy and they are more exposed to various kinds of goods and services.

Modern banks have of late realised that customers play a dominant role in shaping the destiny of economy in general and banking industry in particular. The manufacturer or service provider dominance is being replaced by the customer preferences in the banking sector. In this age of competitiveness, the creation of a good positive customer relation is not only a necessity but it is a key strategy for differentiation according to several studies. Molina et.al., (2007) examined the relationship between relational benefits and customer satisfaction in retail banking and pointed out five strategic elements around which the stable relationship between the banks and customers is established and maintained. They include: developing a central element around which the stable relationship with the customer is constructed, personalising the relationship, increasing the central element by offering extra benefits, augmenting loyalty to the service provider and making employees aware that they are immediately responsible in front of customers.

Modern banks are required to preserve personal relationships, improve branch access, selectively increase the breadth of relationships and minimise administrative disruption. They are required to re-examine their operating models and strategies to give a dynamic customer experience in addition to making a profitable revenue growth.

Durkin (2004) States: "The benefits of such technologies are argued to be centered on the fact that customers can access services when and where they want without some of the complications of inter-personal exchanges. In recent years banks have moved towards a marketing orientation and the adoption of relationship banking principles. The key motivators for embracing marketing principles were the competitive pressures that arose from the deregulation of the financial services market. This essentially exposed clearing banks and the retail banking market to increased competition and led to a blurring of boundaries in many traditional product markets".

Customer satisfaction forms the basis for the enhancement of mutually beneficial relationship between customers and banks. Scholars have pointed out that customer satisfaction can be attributed to factors like satisfaction with the frontline employees, the core service or the organisation as a whole. The application of information technology certainly plays a decisive role in the consolidation and integration of banking operations with an emphasis on effective Customer Relationship Management.

Ramchandran (2008) has also pointed out that banks should adopt four necessary strategies in order to achieve success in customer management which include – to focus on core strengths and outsource or partner for other necessities, to optimise the prospective customer relationship, to exploit the available good work force with effective performance management and to give due importance of technology that would be the critical success factor in customer management. Dyche (2001) has stated that the data and applications can help the bank to manage its customer relationship to continue to grow and evolve on sound footing of management and customer relations.

According to Stone et al. (2002) most sectors of the financial services industry are trying to use CRM techniques to achieve a variety of outcomes. In the area of strategy, they are trying to:

1. Create consumer-centric culture and organization.
2. Secure customer relationships.
3. Maximize customer profitability.
4. Align effort and resource behind most valuable customer groups.

When it comes to implementing their strategies, they are trying to:

1. Integrate communications and supplier – customer interactions across channels.
2. Identify sales prospects and opportunities.
3. Support cross- and up-selling initiatives.
4. Manage customer value by developing propositions aimed at different customer segments.
5. Support channel management, pricing and migration.

Findlay et al (2002) proposed that corporate investment banks differ from retail banks in that a few large clients have a big impact on the bank's business performance. This means that CRM techniques will only help investment banks if they improve the bank's ability to:

- Select and then manage the right client set (coverage);
- Determine which products and services should be sold to which client, profitably, and then help the bank implement this sales plan (profit planning and implementation);
- Reduce the cost of coverage, in particular by improving the productivity of sales professionals covering those with small wallets, while maintaining quality of coverage (one day the wallets may be big!);
- Coordinate the multi-product, multi-country relationship in real time.

In the age of globalisations, the consumers are more aware of their rights, privileges and other aspects of customer relationship management. This has led to customer-demand-driven services to be offered by various service providers including the banks. Several studies have also revealed that CRM has opened a new window to the world of customer intelligence with respect to the management of banking industry. The banking sector also needs meaningful application of the principles and practices of Customer Relationship Management which benefits modern banks in several ways.

Modern financial institutions have also accorded high priority to the practice of CRM by following certain professionally relevant strategies which include- integrate communications and supplier – customer interactions across channels, identify sales prospects and opportunities, support cross- and up-selling initiatives, manage customer value by developing propositions aimed at different customer segments and support channel management, pricing and migration.

There are four stages of implementing the CRM programmes in the modern financial institutions which are as follows:

- Building the infrastructure and systems to deliver customer knowledge and understand customer profitability;
- Aligning corporate resource behind customer value – developing segment management strategies to maximize customer profitability and satisfaction;
- Incorporating a market perspective into understanding of customer value, so that any possibly adverse affects from the market or from economic and social developments are managed, and so that customer relationships are maintained;
- Integrating strategic planning and customer value management.

Hypotheses

H1: Knowledge, ideas and concepts about CRM is low among banks personnel in Iran.

H1a: Respondents from government and private sector differ significantly in their knowledge, ideas and concepts about CRM.

H2: CRM practices in Iranian banking industry are not up to the standard.

H2a: Respondents from government and private sector differ significantly in their scores on CRM practices.

Methodology of the Study

In this study the primary data were gathered from 400 respondents who represented the top, middle and lower management of public and private banks of Iran through questionnaires. Secondary data is data that already has been collected for another purpose and the information can be obtained from for instance books, articles and research reports.

The population in this research consists of all public and private sector banks in Iran but we chooses Sari, Qhaemshahr, Babol and Amol cities public and private sector banks from north of Iran. In this research the researcher uses random sampling and Cochran formula for suitable sample size, according to formula:

$$n = \frac{Z^2 pq}{e^2} = \frac{(1.96)^2 (.5) (.5)}{(.05)^2} = 385$$

The analysis of data was done by using mean, P value, t value, 't' test, Std. Deviation.

Analysis and Interpretation

H1: Knowledge, Ideas and Concepts About CRM is low Among Banks Personnel in Iran.

Table 1

Mean Obtained and Expected Values for Knowledge, Ideas and Concept Component and Results of One Sample t Test

Mean obtained	Std. Deviation	Mean expected	Difference value	t value	P
43.19	4.068	55.0	-11.81	58.06	.000

As far as the overall knowledge scores are considered irrespective of the type of the sector, the selected sample had a mean score of 43.19 as against the expected knowledge score of 55. Further, one sample t test revealed a significant difference between observed and expected values (t = 58.06; P =.000), that the knowledge, ideas and concept about CRM of the sample was lesser by 11.81 scores than expected for the entire sample. According to table No1. H1 accepted as we find that the mean scores obtained by the selected sample banks personals were significantly lesser than the expected standards.

H1a: Respondents from government and private sector differ significantly in their knowledge, ideas and concepts about CRM.

Table 2

Mean Scores on 'Knowledge, Ideas and Concepts' Component for Respondents in Government and Private Sectors and Results of Independent Samples 't' Test

Sector	Mean	S.D	't' value	P value
Government	41.99	4.397	6.195	.000
Private	44.40	3.307		

The mean scores obtained on the component 'knowledge, ideas and concept about CRM' were 41.99 for government sector as against 44.40 for private sector. Independent samples 't' test revealed a significant difference (t = 6.195; P = .000) between these 2 mean scores revealing that the knowledge scores were found to be significantly higher for respondents in the private sector than the respondents in the government sector. According to table No.2 H1a is accepted as we find that t test revealed a significant difference between mean scores and further it was observed that managers from private sector had high scores compared to managers working in government sector.

H2: CRM Practices in Iranian Banking Industry are not up to the Standard.

(The standard scores were fixed at 155 to arrive at expected value)

Table 3
Mean Obtained and Expected Values for CRM Practices
and Results of One Sample t Test

Mean obtained	Std. Deviation	Mean expected	Difference	t value	P value
121.71	16.80	155	-33.30	39.634	.000

When CRM practices scores were verified irrespective of the type of the sector, the selected sample had a mean score of 121.71 as against the expected practice score of 155. Further, one sample t test revealed a significant difference between observed and expected values ($t = 39.634$; $P = .000$), that the CRM practices of the sample was lesser by -33.30 scores than expected for the entire sample. According to table No.3 H2 is accepted as we find that the mean scores obtained by the selected sample personals were significantly lesser than the expected standard.

H2a: Respondents from Government and Private Sector Differ Significantly in Their Scores on CRM Practices.

Table 4
Mean Scores on 'CRM Practices' Component for
Respondents in Government and Private Sectors and
Results of Independent Samples 't' Test

Sector	Mean	S.D	't' value	P value
Government	117.50	19.64	5.171	.000
Private	125.92	12.03		

The mean scores obtained on the component 'CRM practices' were 117.50 for public sector as against 125.92 for private sector. Independent samples 't' test revealed a significant difference ($t = 5.171$; $P = .000$) between these 2 mean scores revealing that the CRM practice scores were found to be significantly higher for respondents in the private sector than the respondents in the government sector. According to table No.4. H2a is accepted as we find that t test revealed a significant difference between mean scores and further it was observed that personals from private sector had high scores of 125.95 out of 155 compared to personals working in government sector who had a mean score of 117.50.

CONCLUSION

Iran is one of the developing nations of Middle Eastern Region which has got a large number of banking institutions. The practice of CRM is widely acknowledged as an important component of marketing management and corporate communication management processes in Iranian banks but unfortunately applications of CRM is not favourable. Advanced information and communication

technologies are also widely utilised by the Iranian banks to enrich the process of organisational management in general and customer relations management in particular. Most of the public and private banks have adopted the practice of CRM and enriched the process of marketing considerably over a period of time in Iran, but still they are in the half way. The role of CRM in the development and management of banking services in Iran and other developing nations of the world has been a subject of debate, discussion and research. The present study evaluates the Customer Relationship Management practices adopted by the Iranian banking industry.

The relationship between banking and CRM practices is such that nowadays it is almost impossible to think of the former without the latter. Iran is not an exception to this universal realization on adoption of CRM practices in banks and other institutions. CRM practices are contributing immensely towards improving the bondage between banks and customers who matter most in the contemporary business world in Iran and other developing nations. The outcomes of the present study would help the policy makers in Iranian banks to formulate suitable CRM intervention strategies and use appropriate methods for the enhancement of the status of banking sector. So in nut shell we can say;

The practice of CRM in the public and private banks of Iran is less understood due to lack of comprehensive and scientific investigations.

SUGGESTIONS

1. The banks have experienced certain advantages and limitations with respect to adoption of healthy and progressive CRM practices.
2. The banks of Iran have to rise to the occasion and perfect their CRM strategies which would benefit the customers in plenty.
3. The banks should also scientifically evaluate the various factors associated with the practice of CRM in order to find out the most appropriate tools, technologies and techniques which would deliver goods to the best of the satisfaction of the customers.
4. The employees should also be motivated to understand and incorporate the art and craft of CRM in order to attract and involve large number of customers in the various banking operations.
5. Banking sector management needs actively to articulate the need for an improved and consistent customer experience and branch managers should localize this approach and coach their staff to deliver it.

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