

Customer Relationship Management: Strategies And Practices In Selected Banks Of Pakistan

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As economic globalization intensifies competition and creates a climate of constant change, winning and keeping customers has never been more important. Nowadays, Banks have realized that customer relationships are a very important factor for their success. Customer relationship management (CRM) is a strategy that can help them to build long-lasting relationships with their customers and increase their revenues and profits. CRM in the banking sector is of greater importance. The aim of this study is to explore and analyze the strategic implementation of CRM in selected banks of Pakistan, identify the benefits, the problems, as well as the success and failure factors of the implementation and develop a better understanding of CRM impact on banking competitiveness as well as provide a greater understanding of what constitutes good CRM practices. In this study, CMAT (Customer Management Assessment Tool) model is used which encompasses all the essential elements of practical customer relationship management. Data is collected through questionnaires from the three major banks (HBL, MCB, and Citibank) of Pakistan. The evidence supports that CRM is gradually being practiced in studied banks; however the true spirit of CRM is still needed to be on the active agenda of the banking sector in Pakistan. This study contributes to the financial services literature as it is one of the very few that have examined CRM applications, a comparatively new technology, in the Pakistani banking sector, where very limited research has taken place on the implementation of CRM.

Field of Research: Relationship Management

1. Introduction

Over the last 5 years, Pakistan witnessed a phenomenal growth of consumer banking. This unprecedented development has followed privatization of nationalized banks, banking reforms brought about by the State Bank of Pakistan and an increasingly marketing-oriented approach primarily aimed by banks at a large urban consumer base. Hot on the heels were the newly privatized banks, UBL, HBL and MCB which have embarked in consumer financing activities in not just big cities but smaller ones too, by virtue of their huge branch network. In doing so, they have generated huge volumes of business while at the same time driving down the prices of the products they offer. But only generating huge volume of

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business is not so important, the critical thing is to maintain this huge volume through customer satisfaction and increase profitability of the business. This needs a strategy which can help banks in maintaining long term valuable relations with their customers and offer them life time value like CRM.

Banking historically operated in a relatively stable environment for decades. However, today, the industry is facing a forceful competition and banks have lost a substantial proportion of their domestic business to essentially non-bank competition. Fighting competition is vital for the profitability and ultimate survival of banks. Zineldin(2005). CRM is a growing trend in banks today and banks are spending a lot on CRM. According to Raffaella Molignani, research analyst for the European IT Opportunity Financial Services research program, CRM is still at the top of banking priorities. IDC . (2002) . CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, repricing, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses.

In literature, many definitions were given to describe CRM. The main difference among these definitions is technological and relationship aspects of CRM. Some authors from marketing background emphasize technological side of CRM while the others considers IT perspective of CRM. From marketing aspect, CRM is defined by [Couldwell 1998] as “.. a combination of business process and technology that seeks to understand a company's customers from the perspective of who they are, what they do, and what they are like”. Technological definition of CRM was given as “the market place of the future is undergoing a technology-driven metamorphosis” [Peppers and Rogers 1995]. Consequently, IT and marketing departments must work closely to implement CRM efficiently. It is said that CRM is not a product or service; it is an overall business strategy that enables companies to effectively manage relationships with their customers. It provides an integrated view of a company's customers to everyone in the organization. With the intensified competition, companies realized that they have to treat their customers with respect. Customers have a lot more choices and they do not have to be loyal to any company. Companies are now trying to figure out ways to manage customer relationships effectively, not only to acquire new customers but also to retain their existing customers. Customer Relationship Management (CRM) is key to creating a superior customer experience. It manages the customer relationship by creating a clear understanding of the market (Know), by developing services and products based on the added value for target groups (Target), then enabling the actual sale and delivery of services and products via a port-folio of channels (Sell) and finally developing long-term profitable relationships with after-sales services (Service). Implementing CRM in phases helps to leverage knowledge and skills throughout the process. CRM Survey Results, (2001)

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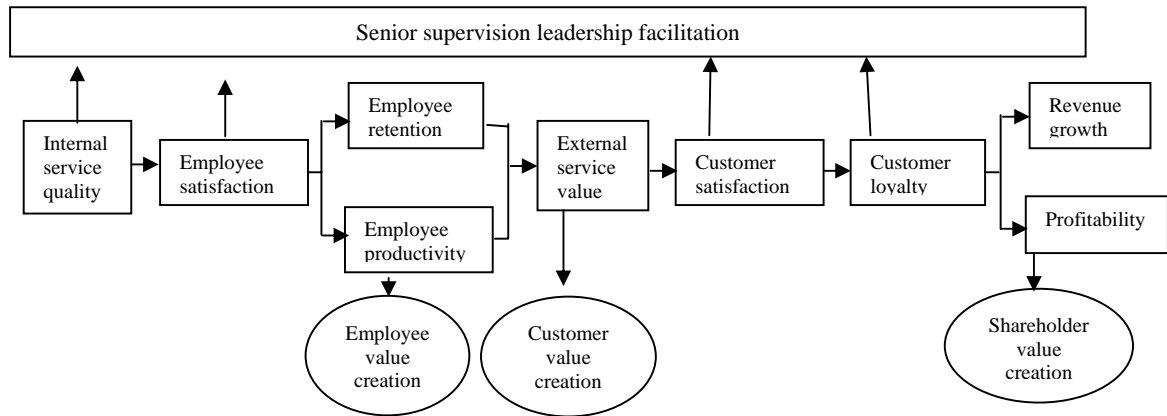
that can help them to build long-lasting relationships with their customers and increase their revenues and profits. CRM in the banking sector is of greater importance. The aim of this study is to explore and analyze the strategic implementation of CRM in selected banks of Pakistan, identify the benefits, as well as the success and failure factors of the implementation and develop a better understanding of CRM impact on banking competitiveness as well as provide a greater understanding of what constitutes good CRM practices. In this study, CMAT (Customer Management Assessment Tool) model is used which encompasses all the essential elements of practical customer relationship management. The evidence supports that CRM is gradually being practiced in studied banks; however the true spirit of CRM is still needed to be on the active agenda of the banking sector in Pakistan. This study contributes to the financial services literature as it is one of the very few that have examined CRM applications, a comparatively new technology, in the Pakistani banking sector, where very limited research has taken place on the implementation of CRM.

2. Literature Review

Bose, (2002) described the customer relationship management (CRM), essential and vital function of customer oriented marketing is to gather and accumulate related information about customers in order to provide effective services. CRM involves attainment analysis and use of customer's knowledge in order to sell goods and services. Reasons for CRM coming to existence are the changes and developments in marketing environment and technology. Massey et al., (2001) believes that CRM is about attracting, developing, maintaining and retaining profitable customers over a period of time.

Academics and practitioners are taking keen interest in professional adoptability of CRM since 1990s (Payne and Pennie 2005). It has been defined in many ways since the introduction of the concept. However, the best definition of CRM is developed by Payne and Frow (2005) by stating that 'CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to use data and information to both understand customers and create value. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications' (Boulding et al 2005). CRM serves the purpose of value creation for all stake holders: customers, employees and shareholders (Payne, Holt and Frow 2001). The service profit chain (SPC) Model (Heskett et al 1994) shown in Figure 1 helps illuminate this value creation process by representing horizontal, cross-functional value creation processes rather than isolated perspectives with in each function.

FIGURE 1: The Service Profit



Source: Adapted from Bentum and Stone 2005

Levitt (1960) gave the idea that for firms to stay in existence, they should not focus on selling products but rather on fulfilling needs. Again Levitt (1969) introduced the concept of the augmented product, stressing that consumers are interested in the total buying experience, not just the core product. Bagozzi (1974) refocused people's attention on the actual exchange process by reiterating the fundamental economic concept that an exchange occurs only when both parties perceive that they are receiving value. Almost ten years later, Berry (1983) shifted the emphasis to the relationship between the company and the customer. On the basis of his ideas and related conceptual work the concept of building relationships was expanded to several different domains, such as industrial buyer–seller relationships (Dwyer, Schurr, and Oh 1987) and channels of distribution (Gaski 1984). Concurrently concepts such as market orientation (Kohli and Jaworski 1990; Narver and Slater 1990), market focus (Day 1994), and market-based learning (Vorhies and Hunt 2005) were developed to understand the needs and wants of customers, thus making firms more efficient and effective in managing customer relationships. In addition, there was an evolution from product, or brand, management to customer management (Sheth 2005) and from product portfolio management to customer portfolio management (Johnson and Selnes 2004). There was an explosion of customer data in the 1980s. To organize these data for analytic purposes Peppers and Rogers (1993) introduced the concept of one-to-one marketing, and Pine (1993) introduced the concept of mass customization. Vendors capitalized on these ideas with hardware and software solutions and began using the term CRM.

Organizations are realizing the importance of the vital role played by relationships in achieving and maintaining the cutting edge at the market place. It is the customer which gives an opportunity to the organization to serve him (Payne and

Frow 2005). Every organization sets its policies and strategies to manage relationship with its customers to survive in the competitive environment. This study explores strategies and practices of CRM in selected banks of Pakistan and suggests some areas of improvement. The objectives of this study were to explain the concept of CRM along with its evolution in international scenario and analyzing the strategic implementation of CRM in selected banks of Pakistan

2.1 Benefits of CRM

Customer relationships are becoming even more important for banks as market conditions get harder. Competition is increasing, margins are eroding, customers are becoming more demanding and the life-cycles of products and services are shortening dramatically. All these forces make it necessary for banks to intensify the relationship with their customers and offer them the services they need via the channels they prefer. CRM helps banks to provide lot of benefits to their customers; some key benefits are as follow.

- Service provisioning throughout the entire life cycle of the corporate customer, from the initial stages to the establishment of a close, long-term relationship with profitable clients,
- Optimization of the use of bank resources, such as alternative channels of distribution (internet and home banking),
- Significant reduction in and limitation of operational costs through system automation and standardization,
- Low maintenance and expansion costs owing to the use of modern administration tools which allow bank employees to make a wide range of modifications to the system.
- CRM permits businesses to leverage information from their databases to achieve customer retention and to cross-sell new products and services to existing customers. Foss , B . and Stone , M . (2001)
- Companies that implement CRM make better relationships with their customers, achieve loyal customers and a substantial payback, increased revenue and reduced cost. Roh et al.(2005)
- CRM when successfully deployed can have a dramatic effect on bottom-line performance. For example, Lowe's Home Improvement Warehouse, in a span of 18 months, achieved a 265 percent return on investment (ROI) on its \$ 11m CRM investment. Stringfellow et al. (2004)
- According to a study conducted in the sector of banking, convenience of location, price, recommendations from others and advertising are not important selection criteria for banks. From customers' point of view, important criteria are: account and transaction accuracy and carefulness, efficiency in correcting mistakes and friendliness and helpfulness of personnel. Thus, CRM, high-quality attributes of the product / service and differentiation proved to be the most important factors for customers. Zineldin , M . (2005)
- Another study conducted in a European bank shows that with CRM, the

bank was able to focus on profitable clients through efficient segmentation according to individual behaviour. Information about 'who buys what and how much' enabled the bank to have a commercial approach based on the client and not solely on the product. Thus, the bank was able to better satisfy and retain its customers. Lindgreen and Antiooco , (2005)

Eventually, CRM results both in higher revenues and lower costs, making companies more effective and efficient: effective in targeting the right customer base with the right services via the right channels, and efficient in doing this at the lowest costs. For example, those banks that are moving transactions from the more expensive channels to a less costly channel – like the call centre or Internet – are therefore able to save money.

2.2 CSFs of CRM Implementation

As banks attempt to re-orientate themselves around customers, individual employees will have to come to terms with changing cultural norms, organizational structures and the way that their performance is measured and rewarded. The commitment of senior management is critical to success.

CRM normally involves business process change and the introduction of new information technology, consequently, effective leadership is important (Galbreath and Rogers, 1999). Because leaders monitor the external environments of an organization, they are often the best placed to set the vision or strategic direction for CRM projects. In addition, leaders are influential in the authorization and control of expenditure, the setting and monitoring of performance and the empowerment and motivation of key personnel (Pinto and Slevin, 1987).

According to Chen and Popovich, 2003; Plakoyiannaki and Tzokas, 2002, the relative success of CRM initiatives are strongly influenced by the interplay between three key organizational elements: people, process and technology.

Additionally, integration of activities, such as cross-functional processes, is cited as the most critical success factor (Wilson et al., 2002; Kale, 2004, Meyer and Kolbe, 2005). The coordination of customer relationship activities is necessary on various dimensions such as strategy, processes, and technology, to ensure success.

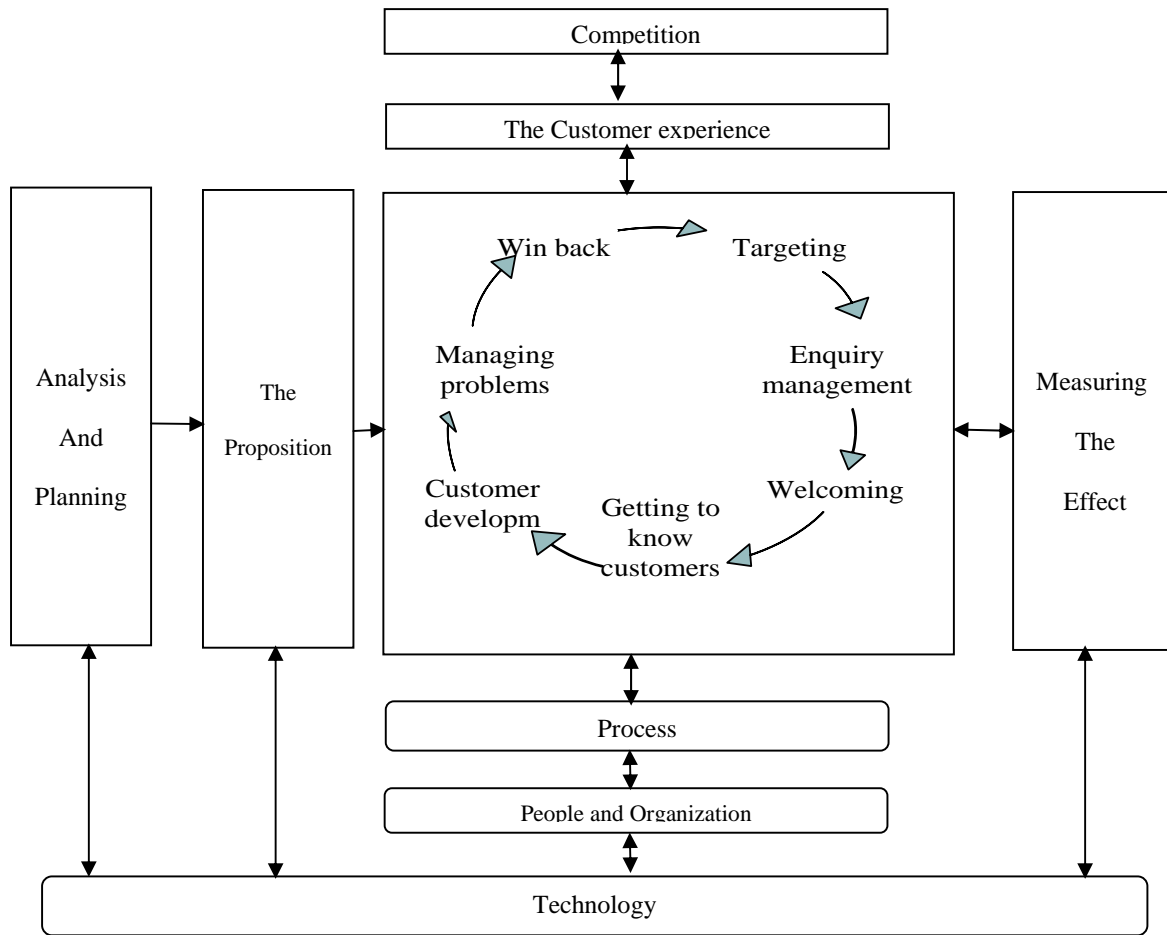
CRM should be placed at the heart of the organization and a holistic approach should be adopted because CRM reaches into many parts of the business. Other success factors of CRM are: Process fit , that is, the CRM system must be designed around an elaborate understanding of a CRM process so as to leverage the marketing and sales effort. Customer information quality, that is, making effective use of customer information resources. System support, because only if the system has been implemented and adopted successfully, a firm is able to reap its benefits.

3. Research Methodology

This study is more descriptive in nature as CRM is a relatively new area of interest among the banks in Pakistan; our interest is to describe this area of research. Both qualitative and quantitative research approaches are used for this study to get a better understanding of the research area. Based on our research question we have specifically chosen three banks City Bank, HBL and MCB. Various research methods are used by researchers to conduct CRM research in the past. Ryals (2005) used case study approach. Some used a multi-firm (cross-sectional) database approach (Srinivasan and Moorman 2005, Mithas, Krishnan, and Fornell 2005). Other used data collected within a single firm over time (Thomas and Sullivan 2005). Payne and Frow (2005) used CRM Framework to conduct their study. Shanmuganthan et al. (2003) used Customer Management Assessment Tool (CMAT) to assess the quality of customer management in financial services. We found it more balanced and rigorous approach to measure the quality of customer management. In this study we followed Shanmuganthan et al. (2003), and used the conceptual framework shown in 'figure 2'. The primary data was collected through questionnaires from three major banks of Pakistan i.e. Citibank, HBL, and MCB. Two major banks (HBL and MCB) were selected because they had wide network of branches in the country i.e. over 1400 branches of HBL and over 900 branches of MCB. MCB is also the first bank of Pakistan. Citibank represents international banks working in Pakistan. It is a bank with branches in all major cities of Pakistan and has a large clientele. Furthermore, these three banks have proven business success, also are very famous banks of Pakistan and are working in the capacity to represent the banking sector of Pakistan. Selection criteria were:

- banks having nationwide representation
- banks having different target customer; individuals, and groups
- banks having national and/or international representation
- banks with proven business success

FIGURE 2: The CMAT customer management



Source: Adapted form Shanmuganthan et al. (2003)

Table 1: Scoring criteria to fill the questionnaires

No real progress: Nothing / very little happening, possibly isolated small initiatives	0
Isolated activity: Something happening, not systematic, not broadly deployed	15
Some commitment and some progress: concept understood, plan to implement, resource allocated	30
Full commitment and real progress: plans exist, resources allocated, implementation begun	60
Clear evidence and being implemented: doing it, can be seen, no evidence of effect yet	80
Fully implemented and having an effect: bank is doing it, it can be seen, and proper evidence it is working	100

Source: Adapted form Shanmuganthan et al. (2003)

The basic knowledge of customer relationship management in these banks was augmented by interviewing different people responsible for relationship management in these banks. Questionnaire was the main instrument for data

collection. The instrument aimed to explore the implementation of CRM in banking sector. It is also formed to find out the relationship between CMAT model and business performance. There were eight questions in the questionnaire and each question has six possible answers (see table 1). The validity of the questionnaire had been proved through interviewing a number of respondents to assure that:

- The instrument and its questions were plausible (logical flow, easy to understand, etc.)
- There were no major problems with the length of the questionnaire and the time required to complete it.

Interviews were conducted with senior management responsible for marketing and/or relationship management using a questionnaire of eight targeted questions. The questionnaires were self administered from 318 employees in three banks (HBL, MCB, and Citibank). And 205 questionnaires were got filled (65%). To determine extend to which the items in the questionnaires were related to each other and allow meaningful conclusions, data were analyzed using SPSS.

4. Results and Discussions

The results of the study are arranged in the firm of a comparative analysis model and are indicated in table 2. The results are shown in horizontal and vertical form. The horizontal scores demonstrate score for a variable for each bank as well as overall average score of the variable. The vertical results demonstrate the overall scores for each bank of all variables. the results for Analyzing and Planning indicate Citibank has mean score of 30%; HBL has mean score of 25.3% while mean score of MCB is 22.8%. If we see the overall average score of analyzing and planning for these three banks, it is 26% - a very low score. Banks need to improve their analysis and planning strategies and practices. It is also very interesting that analyzing and planning is the weakest variables in all the banks. No bank is strong in this very important variable.

The proposition represents the causes or reasons of any movement in the industry. In any type of movement either upward or downward one can ask why it is so. For example, why customers should buy? After analyses and planning the whole situation, it becomes easy to give logic of any outcome. When we look at the score of these three banks in the above table, we see that Citibank has the highest mean score of 48.3%. On the second number stands HBL whose score is 36.8% and on the last number comes MCB whose mean score is 30.2%. This shows that Citibank is working more logically and is based on reasoning. They better understand the importance of cause and effect. It is the reason why Citibank is a part of 17 largest banks of Pakistan, although it has a very small network of only eight branches. HBL and MCB are comparatively weaker than Citibank in the proposition. Although the average score of all banks is low but it is the second highest score of Citibank, third highest of HBL whereas sixth highest on MCB. So we can see say that banks do evaluate causes and respond accordingly. The average mean score for three banks collectively is 38%; second highest score in our results.

Concern for people and organization is another aspect of a CRM. If we look results, the average score for the variable ‘people and organization’ is 35.6% (a lower score at seventh number) of Citibank, for HBL it is 31.1% (a lower score at seventh number), and for MCB, this score is 29.9% (once again a lowest score at seventh number). It is very interesting to note that all these score are at the same bottom line number; seven. This low score unveils the fact that banks are not caring for their employees. The average score of these three banks is 32% and it is also at seventh number in the row. Banks need to understand their employees, their needs and wants and fulfill their demands if they want to compete in an ever increasing competitive environment. As employees are the most critical source for successful implementation of any innovation or management strategy.

Table 2: Comparative Analysis of CMAT Score

SN	Variables	Citibank	HBL	MCB	Overall Avg. Score
1	Analyzing and planning	30 (8)	25.3 (8)	22.8 (8)	26 (8)
2	The proposition	48.3 (2)	36.8 (3)	30.2 (6)	38 (2)
3	People and organization	35.6 (7)	31.1 (7)	29.9 (7)	32 (7)
4	Information and technology	40.3 (5)	39.1 (1)	31.1 (5)	37 (5)
5	Process management	40.6 (4)	33.9 (5)	34.3 (2)	36 (6)
6	Customer management activity	39.4 (6)	37.4 (2)	36.7 (1)	38 (2)
7	Measuring the effect	46.3 (3)	35.9 (4)	32 (4)	38 (2)
8	Understanding the customer experience	51.3 (1)	32.8 (6)	32.9 (3)	39 (1)
Overall Avg. Score		41.5 (1)	34 (2)	31.2 (3)	

Source: Developed by the authors

Information and technology has made it very easy for very large organizations to manage their customers on personalized basis. With the help of technology they can give personal touch ‘a corner shop experience’ to their every customer every time. Results in table 2 reveals that Citibank is once again leading the banking industry and its average score is 40.3% but this score is fifth highest in the Citibank comparative score card. Hence we conclude that Citibank is not so successful in technological solutions. On the other hand HBL has got average score of 39.1%, the highest score in its comparative scores, describing that HBL is adopting technological solutions on priority bases. MCB is also not so successful in technological solutions as its score 31.1% is at fifth position in comparative score card. The mean score of all banks is 37% and it is also at fifth number in the

comparative score card of average scores. The above results indicates that, banks in Pakistan are transferring from manual to technological solutions but still they are lacking behind in this regard.

Process management is another key variable in CMAT model. In the above table we see that Citibank is once again leading and its score is 40.6% (at fourth number among its own comparative scores). MCB has higher score than HBL with a mean score of 34.3% (and this score is second highest score in MCB). At last number is HBL in process management with a mean score of 33.9% (a lower score in its comparative score at fifth number). The overall average score in process management is 36% at a lower number in the banking industry. Hence banking sector's efforts regarding process management are not so worthwhile. They need to put more efforts in this regard to make their process more valuable for their costumers and profitable for them.

Customer management activity is another important variable in CMAT model. In the results table Citibank is once again leading the industry with 39.4% - at sixth number. HBL is on the second position with an average score of 37.4% and this is a higher score of HBL at second number in its own comparative score card. At third number is MCB with an average mean score of 36.7%. The table shows that it is the highest score of MCB. The overall average score is also a comparatively high i.e. 38% which is second highest in the column. Hence, we can conclude (although Citibank's score doesn't match our statement but we state) that customer management activity is a priority of banking sector of Pakistan. Measuring the effect is a very important variable to analyze and monitor the performance of the organization. Citibank is leading in all respects in this variable with the highest average score of 46.3% (third highest score in the Citibank score card). HBL has 35.9% mean score while MCB has mean sore 32%. Here both these banks are at four number is their respective score. The overall age score of three banks is 38% another second highest score.

Understanding the customer experience is the last point in the CMAT model. Table 2 indicates that Citibank has got the highest score in understanding customer experience i.e. 51.3%. This score is highest as compare to all other banks and also in Citibank's score card. MCB is at second number in understanding customer experience with 32.9% mean score (its third highest score). With a very slight difference, at last number is HBL with mean score of 32.8% (its sixth top score in the rank). The overall mean score of these three banks in understanding customer experience is 39% and it is the highest average. The results show that Citibank particularly is working on priority bases to understand its customers. MCB is also doing so while HBL is neglecting this factor yet. But the overall average score support to conclude that understanding customer experience is the priority of banking sector of Pakistan.

The study concludes that Citibank is leading the banking sector as for as CRM's understanding and application is concerned with highest average score of 41.5%

among the studies banks, HBL is at second position with a score of 34% and MCB is at third position with a score of 31.2%. Citibank has emerged as a leading bank, followed by HBL and MCB in CRM understanding and application. Citibank is not only leading in overall average scores but also in all individual variables score City bank is the leading bank. This reflects that City bank is committed with understanding and application of CRM to meet the requirements of continuously changing and competitive financial market. HBL is doing better in information technology and is followed by customer management activity, the proposition, measuring the effect, process management, understanding customer experience, people and organization, and analyzing and planning respectively, but these efforts are still at immature stage. As they need to do much more than that for the true understanding and application of CRM in all their branches. A major cause of having not so significant results for HBL is its large branch network. MCB has the highest score in customer management activity and is followed by process management, understanding customer experience, measuring the effect, information technology, the proposition, people and organization, and analyzing and planning respectively. But at the same time there is much space for improvement in order to understand and implement CRM in its real sense to get all of its benefits.

5. Conclusion

Although all banks recognize the need for CRM, not every bank is implementing the complete CRM concept. The way CRM has been implemented thus far seems to depend heavily on the current balance between the discretionary and advisory services that the bank provides, in combination with its philosophy regarding the type of contact that is perceived as best suited for their total client population. This, for example, varies between the provision of high-quality financial research documents and the organization of all kinds of (non-financial) events.

Customer Relationship Management is a useful business strategy. It is beneficial for all stakeholders: customers, employees, and investors. It is being used by the organization large or small. Due to privatization, deregulation, and globalization competition has increased. This has led in the intensive use of CRM. Understudy banks of Pakistan have implemented CRM to some extent, but still are on the initial stage. Citibank is more customer centric than the others. Banks need to understand the needs and demands of their target customers and then formulate their strategies and practices to serve them efficiently and effectively. Technological solutions are also compulsory but they must be user friendly. To make CRM a successful story banks have to take some critical steps:

- Banks should recognize the diversity of experience and needs of different customers.
- Banks need to develop the propositions both relevant and practical, but not too complex.
- Banks should get support from local media, newspapers and magazines to build commitment and trust in the community and to

reflect values and aspiration of local community in services and products.

- Banks should sponsor different social and cultural activities of their stakeholders to build the mutual confidence and relationship.
- Customer education programmes should be launched to improve understanding of bank's procedures and decision making and increase comfort levels.
- Banks should hire professional people from the local community they are trying to serve to improve understanding and performance, also increased comfort levels and trust for customers. Attractive salaries and benefits can motivate employees to perform their duties well.
- Bank should focus on measuring current business volumes in branch/geographic penetration, to help predict future value/growth patterns; in branch marketing research, to ensure understanding of customers' satisfaction levels, service expectations, customer loyalty etc. ; and tracking the success of advertising and PR and transfer learning into future campaigns.
- Measurement is a key to the understanding, learning and improvement customer experience. 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.
- Banks should use customer friendly technology – which their customer can use and brings value in their life.

On the whole, banks have a clear vision of their desired strategic position; they want the ability to differentiate their brand and products through superior customer service, and to drive effective sales through a customer's entire portfolio. They also clearly recognize the strategic role that CRM has to play, as reflected in current investment levels, as well as the increased importance ascribed to CRM in the future. At the same time, banks know that the enterprise-wide adoption of CRM will not be easy. While it is encouraging to see that internal politics to CRM tools are no longer seen as major stumbling blocks, there are explicit as well as implicit indications that a great deal of progress must be made in order to achieve the internal process changes necessary to gain the maximum effect from CRM implementations.

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