



## INVESTIGATION OF CUSTOMER RELATIONSHIP MANAGEMENT PRACTICES IN IRANIAN BANKING INDUSTRY

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### ABSTRACT

*Banking is a highly customer oriented activity in Iran and other developing countries. Iran is emerging as a global player in contemporary economy and has adopted CRM practices in various sectors of economy including banks. In this research primary data was gathered from 400 respondents who represented the top, middle and lower management of public and private banks of Iran. The respondents were selected on the basis of simple random sampling techniques. The study also revealed that the attitude towards CRM by Iranian banks' personnel is unfavourable.*

**KEYWORDS:** Banking, Iran, CRM, Attitude towards CRM.

### INTRODUCTION

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 (Bill, 1999). 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 maximize customer loyalty (Kotler, 2007).

The banking industry cannot survive without the customer. Because customers have more choices today and the targeted customers are most valuable for the banking industry, Customer service and customer care must receive high priority within the banking industry.

In a general sense, any contact or “touch point” that a customer has with a firm is a customer’s service encounter and has the potential to gain repeat business and help CRM or have the opposite effect. Customer Relationship Management implementation particularly in the banking industry is very challenging. A successful CRM strategy cannot be implemented by only installing and integrating software packages in banks. It has to co-ordinate with the business operations, strategy and employee and customer acceptance. 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 (Gilbert, 2003). Moriarty et al. (1983) has suggested relationship concept in banking sector which states that 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.

A strong banking industry is important in every country and can have a significant effect in supporting economic development through efficient financial services. Iranian banks have rapidly introduced innovative banking technologies and e-banking services in recent years. Almost all banks have invested in expanding and improving the IT systems and a number of new e-banking services have been developed ( Salehi, 2010).

### **CONCEPT OF CUSTOMER RELATIONSHIP MANAGEMENT**

CRM is a term for methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. Traditionally, companies have developed databases to capture customer information including such details as customer profiles, demographics, products purchased and other items of interest. This data is used by management, salespeople, service personnel and others to determine market trends, customer preferences, service and maintenance required by customers.

There is no universal explanation of what CRM is, since the area is fairly new and still under development. It is therefore important to know that numerous attempts of defining CRM exist and that many organizations adapt definitions to their own business and their unique needs. The two quotations stated below are examples of how CRM is defined:

"Customer relationship management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply – chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value". (Parvatiyar and Sheth , 2001)

"A comprehensive approach which provides seamless integration of every area of business that touches the customer- namely, marketing, sales, customer service and field support through the integration of people , process and technology, taking advantage of the revolutionary impact of the internet".(Emma ,2000)

Also, according to Sharp (2003) there are some general features of data warehousing and CRM implementations that apply to any organization, wherever there are customers and no matter what business sector they are in. Some examples of these features are provided below:

- Benchmarking— compares sales organizations or departments with each other and against prior periods to identify good performers and those needing additional coaching
- Customer one-to-one marketing — identifies unique interests of potential customers based on purchase patterns
- Direct marketing — reduces the cost of mailings by tracking responses and house holding
- Identifying opportunities — cross-sells additional products across lines of business
- Customer profitability — identifies the total cost of doing business with individual customers based on the type of products, usage of discounts, selling time and effort, and logistics costs
- Initiative management — gathers information across functions on the execution as it happens, for new products or promotional initiatives, which allow mid-campaign adjustments or campaign termination that can save significant portions of the campaign's value or cost.

## **ISLAMIC BANKING**

The first project to put Islamic banking theory into practice in these days began in Egypt in 1962. The 1970s could be described as the early years of the establishment of Islamic banks. The number of Islamic banks exceeded more than 200 by the year 2000 scattered all over the world, with more than 175 billion dollars in assets. They grew at an annual rate of 15 percent; this success led many conventional banks to establish windows or branches for Islamic banking activities.

Islamic banks in the world nowadays can be classified into six categories.

These are:

1. Islamic banks, which operate in a complete Islamic system like: Pakistan and Sudan.
2. Islamic banks established by governments like The Islamic Development Bank in Jeddah.
3. Islamic Banks which operate in the Middle East. These countries allow both Islamic banks and conventional banks to operate.
4. Islamic Banks operate in non-Islamic countries like, Denmark Islamic Bank which was established in 1983. American Finance House which started operation in 1987 in California State and is now operating in about seven states under the name: LARIBA (Los Angeles Reliable Investment Bankers Associates), in addition to many others.
5. Conventional banks, which opened branches for Islamic banking, like Cairo Amman Bank in Palestine.

6. Conventional banks own Islamic banks like The Arab Bank and bank of Jordan. Each of them owns an Islamic bank.

Islamic banks have to operate according to the following principles:

1. The complete elimination of fixed interest in any form of their operation.
2. The use of several forms of profit and loss sharing schemes as the backbone of their practices.
3. The use of other methods of financing such as leasing.
4. The rendering of all banking services refined from Riba (interest) on the basis of commission rates rather than a fixed interest (Jabr, 2003).

### **INTEREST- FREE**

Islamic financing is derived from two SHARI AH axioms in the FIGH of transactions: Balance between the obligations of the two parties in exchange contracts and the close tie to, or actual reflection of reality. Generally, bank financing is redefined in terms of real commodities. For the Islamic banks, financing is the provision of capital goods, inventory and consumer durables and to a limited extent services against payments at future maturity. (This is what Islamic financing is all about). Islamic banks have actually realized small activities in the form of project equity financing on the basis of sharing returns. When financing is done on the basis of sale or lease, the banker carries a risk associated with owning goods for a very short period of time. In both the cases, the play of the market forces determines the profit of the banker or profit distribution between the financier and beneficiary. Financing on the basis of profit/loss sharing is a kind of direct investment, in which the banker's attention is focused on the profitability of its investment (Kahf, 2002).

### **CRM IN BANKING**

Over the last few decades, technical evolution has highly affected the banking industry. For more than 200 years, banks were using branch- based operations. Since the 1980s, things have been really changing with the advent of multiple technologies and applications. Different organizations got affected from this revolution: the banking industry is one of it. In this technology revolution, technology based remote access delivery channels and payment systems surfaced. Automated teller machines (ATM) displaced cashier tellers, telephone represented by call centers replaced the bank branch, internet replaced the mail, credit cards and electronic cash replaced traditional cash transactions, and interactive television will replace face-to-face transactions (Sherif k., 2002).

The recent academic focus on customer self-service technologies (SSTs) highlights the importance of exploring research issues where technology acts as a service enabler for the customer. 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" (Durkin, M., 2004). In recent years, banks have moved towards 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 (Durkin, M., 2004).

The bank would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviour, executives can have a better understanding, a predictive future behaviour and customer preferences. The data and applications can help the bank to manage its customer relationship to continue to grow and evolve (Dyche, 2001).

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:

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

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

- 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;
- Support channel management, pricing and migration.

It is possible to identify their efforts in four stages, as follows:

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

Findlay et al (2002) stated that for CRM to work, banks must have a very clear view of what their clients want from them.

Four of the most important needs of clients are:

1. Cost reductions and efficiencies in services delivered;
2. Better control and transparency resulting in accountability for delivering results;
3. Greater convenience in having to deal with fewer banks;
4. Banks knowing the needs of clients intimately, so that the latter are offered the right products, at the right time and at the right price, with appropriate associated service. 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:

1. Select and then manage the right client set (coverage);
2. 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);
3. 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 become big!);
4. Co-ordinate the multi-product, multi-country relationship in real time.

### **SIGNIFICANCE OF THE STUDY**

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. Particularly, 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 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 it costs less to serve them than the 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 to 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 the 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 (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.

Scholars have emphasised that CRM is primarily concerned with attracting and keeping economically valuable customers and eliminating less profitable ones. There is well established evidence that CRM practices enable the modern banks to manage customer transactions and relationships in favour of the banks. A well planned and managed CRM policy produces a win-win situation for customers and modern banks.

Within the banking sector, CRM practices have been widely recognised as crucial tools of organisational development in the contemporary economy. The CRM practices are critically important in enhancing the utilitarian dimensions of customer service quality. The current CRM practices in Iranian banking sector have varied impact on customers in terms of creating and building mutually beneficial relationship between the banking industry and customers community. Tested and tried CRM practices enable the banking organisations to engage the customers in strong, personalised and mutually supportive and interactive relationships.

Scientific evaluations are made with a view to assess the impact of CRM practices on banking industry all over the world. The scholars have identified the benefits of CRM practices which include customer satisfaction, institutional loyalty, income generation, interactive communication, customer retention and so on. Studies have also revealed that CRM practices all over the world offer a win-win platform for firms and customers regardless of the nature of economic operations.

The implications for CRM are generally recognised from a marketing perspective rather than human relations and organisational development perspectives. The banks in Iran have joined the business mainstream mainly to multiply customer transactions and enhance customer satisfaction. Several scholars have also pointed out that empirical studies are seldom linked to conceptual schemes or organisational strategies with respect to adoption of CRM strategies in modern banks. The CRM practice is one of the several forms of marketing and needs to be examined from the point of view of 'social marketing'. In this age of paradigm shift, CRM practices are required to focus the attention of the management on marketing efforts which produce socially and economically beneficial results.

In the present times, the customers are at the centre of the banking industry and banking organisations should realise the significance of cultivating everlasting customer relations by using all strategies and channels of persuasive communication including the e-CRM. Systematic study of CRM practices with reference to banking organisations in Iran assumes great social and professional significance in view of the growing demand for effective CRM practices and strategies. Adequate scientific evaluations are not made regarding the status, problems and prospects of CRM with respect to banking industry in Iran. Hence, it was decided to investigate customer relationship management practices in Iranian banking industry not as a means of marketing communication but as a support to sustainable banking industry development in Iran.

#### **STATEMENT OF THE PROBLEM**

A synthesis of the available literature suggests that CRM practices of public and private Iranian banks have in-built deficiencies and limitations which need to be overcome through systematic evaluation and realistic suggestions and guidelines. Therefore, the primary tasks of the present study are concerned with identifying a reasonably representative sample of top, middle and lower management of public and private Iranian banks so as to assess their views on the strengths and limitations of CRM practices. The problem was chosen for the present study because:

- In this age of economic liberalisation, banking institutions are required to race against time to meet the increasing needs and demands of customers who are the pillars of organisational development.
- Modern banks in Iran and elsewhere cannot do away with CRM practices which have become powerful means of institutional management and development.
- Iran has achieved considerable progress in the banking sector through various innovative and progressive policies, programs and services.
- Application of CRM practices has enhanced the managerial competence in banks and other organizations in Iran.
- The banks in Iran have developed and adopted certain CRM practices with a view to build and promote mutually beneficial relationships between the organization and customers.

- Application of CRM practices in banks of Iran has to be carried out on the basis of tested and tried methods in order to improve organizational success and operational efficiency.
- Constant and continued research on the application of CRM practices in Iranian banks is imperative in a developing nation like Iran.

### **OBJECTIVES OF THE STUDY**

- 1) To evaluate attitude towards CRM by Iranian banks' personnel
- 2) To compare attitude towards CRM in public and private sector
- 3) To offer suggestions to make CRM more effective.

### **DATA COLLECTION**

There are two categories of collecting data, namely primary and secondary. Primary data is collected for a specific purpose by the researcher and the information is gathered for instance through interviews, questionnaires and observations. In this thesis the primary data will be collected 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.

### **HYPOTHESES**

H1: The attitude towards CRM by Iranian banks' personnel is unfavourable.

H2: Respondents from government and private sectors differ significantly in their attitude towards CRM.

### **SAMPLING**

If we collect and analyze data from every possible case or group member this is termed a census (Saunders et al. 2000). However, for many research questions and objectives like this research, it will be impossible to collect or analyze all the data available owing to restriction of time, money and often access. Sampling techniques provide a range of methods that enable to reduce the amount of data that is needed to collect by considering only data from a sub-group rather than all possible cases or elements.

In this research the researcher uses Cochran formula for sampling and according to the formula.

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

According to this minimum sample size, 400 questionnaires ((200 for private banks and 200 for government banks)) had been studied as sample for this research. In this

research the researcher uses random sampling.

### **HYPOTHESIS TESTING PROCEDURE**

The analysis of data was done by using percentage analysis, frequency, mean value, P value, t value, 't' test . The percentages were worked out to represent the proportion of respondent to the total sample considered in the study. The SPSS package provides for all statistical calculation from basic to advance. The results were obtained as per the plan enunciated.

### **ANALYSIS AND INTERPRETATION OF DATA**

The attitude towards CRM by Iranian banks' personnel is unfavourable.

#### **MEAN OBTAINED AND EXPECTED VALUES FOR ATTITUDE TOWARDS CRM AND RESULTS OF ONE SAMPLE 'T' TEST**

Mean obtained	Std. Deviation	Mean expected	Difference	t value	P value
58.59	7.58	75	-16.41	43.30	.000

As far as the overall attitude scores are considered irrespective of the type of the sector, the selected sample had a mean score of 58.59 as against the expected attitude score of 75. Further, one sample t test revealed a significant difference between observed and expected values ( $t=43.30$ ;  $P=.000$ ), that the attitude of the sample was lesser by -16.41 scores than expected for the entire sample. Therefore H1 accepted.

#### **MEAN SCORES ON ATTITUDE IN GOVERNMENT AND PRIVATE SECTORS AND RESULTS OF INDEPENDENT SAMPLES 'T' TEST**

Sector	Mean	S.D	't' value	P value
Government	56.87	7.67	4.669	.000
Private	60.32	7.09		

The mean scores obtained on the CRM attitude were 56.87 for public sector as against 60.32 for private sector. Independent samples 't' test revealed a significant difference ( $t=4.669$ ;  $P=.000$ ) between these 2 mean attitude scores revealing that the attitude scores were found to be significantly higher for respondents in the private sector than the respondents in the public sector. Therefore H2 accepted.

## CONCLUSION

Banking is a highly customer oriented activity in Iran and other developing countries. Iran is emerging as a global player in contemporary economy and has adopted CRM practices in various sectors of economy including banks. The framework and paradigm within which the banking services are delivered has changed out of recognition mainly due to economic liberalisation and technological revolution. The CRM practices contribute to a significant lowering of the transaction costs and also to a reduction of the marketing communication asymmetries. Basically, CRM is an accelerator, which facilitates establishment and maintenance of mutually beneficial relationship between banks and customers. CRM applications, or e-CRM applications, are hardware and software solutions that utilize various marketing and communication strategies and resources to meet business, public administration, social and other needs. 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 practice of CRM in the public and private banks of Iran is less understood due to lack of comprehensive and scientific investigations. The primary data was gathered from 400 respondents who represented the top, middle and lower management of public and private banks of Iran. The respondents were selected on the basis of simple random sampling techniques. The study also revealed that the attitude towards CRM by Iranian banks' personnel is unfavourable.

## SUGGESTIONS

- 1- The banks of Iran have to rise to the occasion and perfect their CRM strategies which would benefit the customers in plenty.
- 2- The banks of Iran have to establish a CRM department. This department should be connected to the highest decision making department.
- 3- Meaningful CRM strategies have to be developed towards the practice of CRM in Iranian banks in order to enhance customer satisfaction, loyalty and security.
- 4- Current commerce processes and CRM practices have to be examined in order to adapt progressive CRM strategies which would benefit both the parties (bank and customer).
- 5- 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.
- 6- The banks of Iran have to rise to the occasion and perfect their CRM strategies which would benefit the customers in plenty.

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