



## CUSTOMER RELATIONSHIP MANAGEMENT AND CUSTOMER LOYALTY IN HOUSING FINANCE SECTOR

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### Abstract

Achieving Customer loyalty is important for any organization. The loyal customers contribute greatly to the success of an organisation. Higher the number of loyal customers, higher will be the success rate of the organisation. The purpose of this paper is to explain how Customer Relationship Management (CRM) practices affect customer loyalty in Housing Finance Sector. The effects of CRM on customer loyalty of select Housing Finance providers in Kerala, (Commercial Banks and Housing Finance Companies) were studied. For this purpose, various factors affecting CRM were identified by reviewing the related literature available. Primary data were collected from the customers of select Housing Finance Institutions, using a structured questionnaire. Analysis of data was done with the help of SPSS software. The study revealed that the factors affecting CRM have a strong influence on building Customer loyalty. The findings of the study will help the Housing Finance Institutions to understand the factors affecting customer loyalty and to formulate new strategies to enhance the level of Customer loyalty.

**Key words:** Customer Relationship Management, Customer Loyalty, Housing Finance Institutions.

### 1. Introduction

Developing and enhancing long term relationship with customers and to satisfy them are the major concepts underlying CRM. Customer Loyalty is emotional and not rational. Loyalty occurs when an individual has a vested interest in maintaining a close relationship. This is a consequence of a series of positive experiences that have occurred over a period of time. Loyalty is built on relationships developed through the customer's experiences when interacting with the organisation. Loyalty indicates the probability that a current customer will buy from the organisation again, rather than from a competitor. Positive experiences build strong loyalty. CRM delivers value by way of focusing on lengthening the duration of the relationship (loyalty). Loyal customers continue to buy products because they perceive value in the relationship.

Loyal customers are indeed valuable for a company and generally competitors feel difficult to snatch them. They have to be viewed as company marketers. They affect customer purchasing pattern and hence they contribute significantly to achieve organisation's profit. Customer satisfaction is the main contributor to customer loyalty. Customer satisfaction may lead to higher customer retention. Intention of a customer to buy repeatedly, increased purchase and recommendation of an organization to others are reflected in enhanced customer loyalty. Loyalty is achieved by providing consistent, positive experiences over the long term. Karbowski (2002)<sup>1</sup> states that customer satisfaction facilitates building and cultivating customer loyalty that results in the ability of an organisation to retain its customers and increase the value of these customers via cross-sell and up sell. The more satisfied the customers, the more loyal the customers and more durable the relationship.

The purpose of this paper is to analyse the effects of CRM on customer loyalty of select Commercial Banks and Housing Finance Companies operating in Kerala state.

### 2. Research problem

In recent years, many organisations have started recognising the need to be more customer centric (Bull, 2003)<sup>2</sup>. Hence CRM is an area receiving a higher level of priority by organisations. According to Fayerman (2002)<sup>3</sup>, Customer Relationship Management is a customer oriented business strategy that aims to increase customer satisfaction and customer loyalty by offering more responsive and customised services to each customer.

In the case of Housing Finance sector of Kerala, Commercial Banks and Housing Finance Companies are the major players in lending housing finance. Commercial Banks and Housing Finance Companies differ with regard to their customer base. From the literature review, it was found that not many studies have been done so far in the area of CRM and customer loyalty of Housing Finance Institutions. The relevance of CRM in Housing Finance sector is increasing and hence identifying the factors affecting CRM is also gaining importance. Building loyalty among customers is important for an organisation to stand out in the 'crowd'. So there is a need to do a study on the factors affecting CRM and its effects on customer loyalty of Commercial Banks and Housing Finance Companies in Kerala. Hence the problem of the research can be stated as "What are

the factors affecting Customer Relationship Management in Commercial Banks and Housing Finance Companies in Kerala and how these factors are influencing customer loyalty ?”

### 3. Literature Review

Uncles (2003)<sup>4</sup> defined customer loyalty as a commitment to continue to do business with an organisation, on an ongoing basis. Oliver (1999)<sup>5</sup> formulated a comprehensive definition of customer loyalty. He defined loyalty as “a deeply held commitment to rebury or patronize a preferred product/service consistently in the future”. Maraj Rehman Sofi and Dr. Iqbal Ahmad Hakim (2014)<sup>6</sup> in their study “Customer Relationship Management and Customer Loyalty in Service sector” tried to examine the impact of the ‘Customer Relationship Management on Customer Loyalty in Indian banks. They developed a model to measure the extent of CRM practices in Indian banks that impart customer loyalty. They have used five variables in the model. The variables are Key customer focusing (KCF); Organizing around CRM (OCRM); Incorporating IT based-CRM (ICRMT); Managing Knowledge (MK) and Customer Prospecting (CP). These variables were measured to determine the willingness of customers to stick on to their current banks. It was found that CRM best practices have a very positive relationship with customer loyalty. Anita Basalingappa (2007)<sup>7</sup> in her Ph.D thesis “Customer Relationship Management: Its Role in Building Customer loyalty” stated that CRM strategies and customer centric atmosphere in an organization significantly affect customer loyalty. Otherwise these factors have a positive impact on building loyalty among the customers.

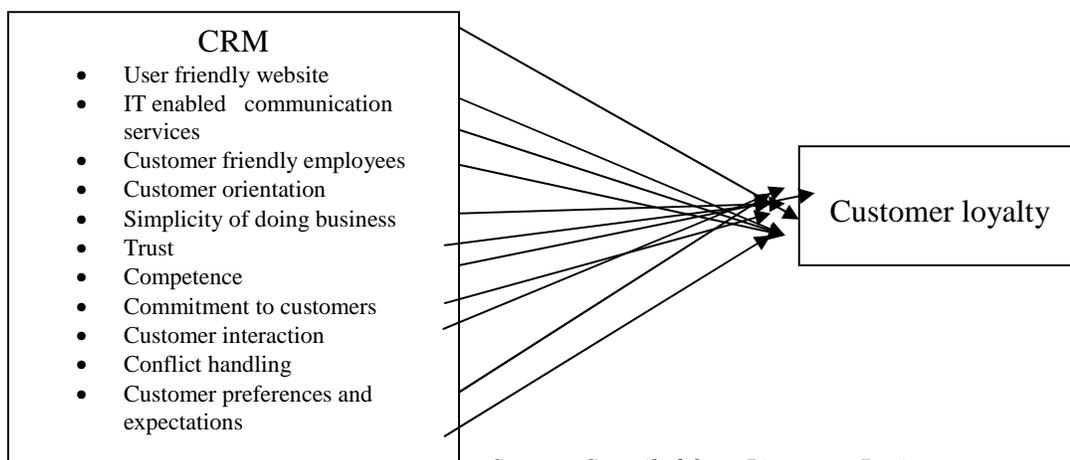
Mosad Zineldin (2006)<sup>8</sup> in his study “The royalty of loyalty: CRM quality and retention” suggested that customer satisfaction will result in higher customer retention, higher customer loyalty and lower customer switching. Loyal customers believe that, being loyal, they are entitled to get better services. Rewarding customers is a pre-requisite to create loyal customers. More satisfied the customer the more loyal the customer and the more durable the relationship becomes. Juan Carlos Fandos Roig, Javier Sanchez Garcia and Miguel Angel Moliner Tena (2009)<sup>9</sup> in their paper titled “Perceived value and customer loyalty in financial services” studied empirically the nature of the relationship between, perceived value, satisfaction and loyalty of the customer in the banking sector. The study revealed that the perceived value has a direct effect on loyalty.

### 4. Research Methodology

**4.1. Objectives of the Study:**Loyalty is considered to be a measure of success of organisations. Customer loyalty is the result of long term customer satisfaction. The factors leading to customer loyalty varies from industry to industry. This study deals with identifying various factors affecting Customer Relationship Management and the effects of CRM on building customer loyalty in Housing Finance sector, especially among Commercial Banks and Housing Finance Companies in Kerala.

**4.2. Variables Identified for the Study :**From the literature reviewed, factors affecting Customer Relationship Management were identified. They are User friendly website, IT enabled communication services, Customer friendly employees, Customer orientation, Simplicity of doing business, Trust, Competence, Commitment to customers, Customer interaction, Conflict handling and Customer preferences and expectations. The impact of these factors on Customer Loyalty was measured by Multiple linear regression model.

**Figure 1: Relation between Factors affecting Customer Relationship Management and Customer loyalty in Housing Finance Institutions**



Source: Compiled from Literature Review

#### 4.3. Hypotheses

On the basis of objectives of the study, two hypotheses were formulated.

1.  $H_0$ : There is no dependence between Customer loyalty and various services provided by Commercial Banks.  
 $H_1$ : There is dependence between Customer loyalty and various services provided by Commercial Banks.
2.  $H_0$ : There is no dependence between Customer loyalty and various services provided by Housing Finance Companies.  
 $H_1$ : There is dependence between Customer loyalty and various services provided by Housing Finance Companies.

#### 4.4. Questionnaire development and Data collection

A questionnaire was prepared keeping in mind the Customer focused Information Technology, Customer focused organizational climate, Relationship Marketing and Knowledge Management factors. For the purpose of the study, four Banks were selected from among the Commercial Banks (One each from SBI and associate Banks, Scheduled Banks, Regional Rural Banks and from Private Banks) and two Housing Finance Companies were selected based on the number of Housing Loan customers. The data were collected by administering a structured questionnaire from 720 customers of these selected Banks and Housing Finance Companies from randomly selected six districts (Trivandrum, Kottayam, Ernakulum, Thrissur, Kozhikode and Kannur) of Kerala state. A five point scale: (i) strongly agree, (ii) agree, (iii) uncertain, (iv) disagree, and (v) strongly disagree was used to collect customer data regarding their perception.

Stratified random sampling was used for the study. For the purpose of collecting data, the state of Kerala was divided in to three regions - North, Central and South. From each of these regions, two districts were selected randomly. From the northern region, Kozhikode and Kannur were selected. Similarly, Ernakulam and Thrissur from Central region and Thiruvananthapuram and Kottayam from southern region were selected for the study. From each of these districts the main branch of the Commercial Banks and Housing Finance Companies were selected. From each branch thus selected, customers were identified using simple random sampling method.

Before finalising the questionnaire, it was tested by collecting data from 90 respondents of the above mentioned Commercial Banks and Housing Finance Companies. The reliability of the questionnaire was checked using Cronbach's coefficient of alpha. The alpha values were above 0.720, which show that the questionnaire is a reliable one. The analyses of data were done with the help of SPSS software, 21 version. The statistical tools such as mean, standard deviation and ANOVA were used for analysis.

#### 5. Analysis and Results

Analysis was done with the help of Multiple linear regression model and the results are shown below.

##### 5.1. Customer Loyalty: Commercial Banks

- $H_0$ : There is no dependence between Customer loyalty and various services provided by Commercial Banks.  
 $H_1$ : There is dependence between Customer loyalty and various services provided by Commercial Banks.

**Table 1: Regression Analysis- Commercial Banks**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
4	(Constant)	5.487	1.920		2.858	.004
	Customer satisfaction	.329	.042	.381	7.834	.000
	Commitment to customers	.343	.086	.196	3.998	.000
	Competence	.312	.089	.185	3.508	.000
	Customer interaction	-.129	.064	-.110	-2.011	.045
a. Dependent Variable: Customer loyalty						
ANOVA	F		Sig.			
	56.669		.000			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
4	.568	.323	.317	4.13937		

Source: Survey data

It is found that Customer satisfaction, Commitment to customers, Competence and Customer interaction are influencing Customer loyalty. The output of the Multiple linear regression model shows that, R square is .323, which means 32.3% of

the customer loyalty is affected by all these variables. The strength of the relationship is proved by testing the variations with ANOVA and it is found that the value of F is statistically significant at 5 per cent level of significance (value of F 56.669, with  $p = .000 < 0.05$ ). Beta co-efficient revealed that all these factors positively influence the customer loyalty, as the Beta co-efficient and its associated 't' values are statistically significant at 5 per cent level of significance ( $p = .000 < 0.05$  in all cases). Therefore the null hypothesis cannot be accepted, with a conclusion that customer satisfaction is influenced by Customer satisfaction, Commitment to customers, Competence and Customer interaction.

### 5.2. Customer loyalty: Housing Finance Companies

H<sub>0</sub>: There is no dependence between Customer loyalty and various services provided by Housing Finance Companies.

H<sub>1</sub>: There is dependence between Customer loyalty and various services provided by Housing Finance Companies.

**Table 2: Regression Analysis- Housing Finance Companies**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
5	(Constant)	6.029	1.491		4.044	.000
	Trust	.518	.104	.354	4.985	.000
	Commitment to customers	.714	.148	.461	4.811	.000
	Customer preferences and expectations	-.611	.092	-.406	-6.630	.000
	Customer satisfaction	.312	.079	.413	3.933	.000
	Conflict handling	-.385	.109	-.193	-3.522	.001
a. Dependent Variable: Customer loyalty						
ANOVA	F		Sig.			
	116.862		.000			
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
5	.845	.714	.708		2.96589	

Source: Survey data

From the table, it is seen that factors influencing the customer loyalty of Housing Finance Companies are Trust, Commitment to customers, Customer preferences and expectations, Customer satisfaction and Conflict handling. The Multiple linear regression model shows that, R square is .714, which means 71.4% of the customer loyalty is affected by all these variables. Such a relationship is proved by testing the variations with ANOVA and it is found that the value of F is statistically significant at 5 per cent level of significance (value of F 116.862, with  $p = .000 < 0.05$ ). The Beta co-efficient also revealed that all these factors positively influencing the customer loyalty, since the Beta co-efficient and its associated 't' values are statistically significant at 5 per cent level of significance ( $p = .000 < 0.05$  in all cases). Therefore the null hypothesis cannot be accepted with a conclusion that customer loyalty is influenced by Trust, Commitment to customers, Customer preferences and expectations, Customer satisfaction and Conflict handling.

### 6. Implications of the study

The findings of the study give insights about the factors affecting customer loyalty in select Commercial Banks and Housing Finance Companies. The result of the analysis showed that Customer satisfaction, Commitment to customers, Competence and Customer interaction are influencing Customer loyalty of Commercial Banks. Trust, Commitment to customers, Identifying customer preferences & expectation, Customer satisfaction and Conflict handling are affecting the customer loyalty of Housing Finance Companies. Irrespective of whether the organization is Commercial Bank or Housing Finance Company, customer satisfaction and commitment to customers are affecting customer loyalty. Commercial banks should give priority in developing competence and Customer interaction to build loyalty among their customers. Housing Finance Companies should concentrate on building Trust among customers and identifying trends and expectation of customers and conflict handling to create loyalty among their customers.

### 7. Scope for Further Research

This Study Was Done by collecting data from customers of select commercial banks and Housing Finance Companies only. There are several other Commercial Banks and Housing Finance Companies operating in this sector. Other types of Housing



Finance Institutions like Co-operative sector organisations, NBFCs and various governmental & non governmental agencies etc. are also operating in this sector. Hence there is scope for conducting further studies by including these different types of Housing Finance Institutions.

### 8. Conclusion

Fair customer relationship is the back bone of all successful organisations. It can help to develop a satisfied customer base and improve customer loyalty. To succeed, every business organization should take a customer centric approach and build relationship with customers. From this study it is evident that, the customer relationship management activities have a strong effect on determining customer loyalty of select Housing Finance providers of Kerala. Among the various factors identified to be affecting Customer Relationship Management, Trust, Competence, Commitment to Customers, Customer interaction, Conflict handling, Customer preferences & expectations and Customer satisfaction are found to be the activities which can help the Housing Finance Institutions to build customer loyalty.

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