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BANKS IN SERBIA NEED TO IMPROVE THEIR CUSTOMER RELATIONSHIP MANAGEMENT

Abstract

Serbia, as well as all other transition economies, are faced with numerous problems: high trade deficit, too public spending, institutional framework that makes it difficult further privatization of social and state sector, insufficient foreign direct investment inflow, low companies' competitiveness as well as many other problems. Each of these problems requires a thorough analysis and a whole range of measures for a successful resolution. However, in this paper the intention is to focus on banks in Serbia, as very important factors of economic growth and development, and to point out the way in which they can improve their business performance and competitiveness. On the Serbian market, there are thirty-four banks, bearing in mind the number of inhabitants in the country and the development of the economy, it can be concluded that competition between banks is extremely sharp, and only banks which are able to attract and retain the most profitable customers will survive in the future. Therefore, the aim of this paper is to point out the Customer Relationship Management-CRM, as a strategy that banks may use in order to increase competitiveness and create long-term relationships with their the most profitable clients. Also in the paper are presented results of research conducted on a sample of banks in Serbia. Findings get insight into to the extent that banks in Serbia are familiar with the Customer Relationship Management, and the level of implementation Customer Relationship Management processes in their business. On the basis of professional literature, positive experiences of foreign companies that successfully implement CRM, as well as the results of the research conducted in the banks in Serbia, it can be concluded what are the basic weaknesses in CRM in the banks in Serbia, what they can do to overcome the problems, and which benefits they can achieve.

Key words: Customer Relationship Management, Competitiveness of Banks in Serbia, Transition, New Economy

POTREBA ZA UNAPREĐIVANJEM UPRAVLJANJA ODNOSIMA SA KLIJENTIMA U BANKAMA U SRBIJI

Apstrakt

Srbija, kao i sve ostale tranzicione ekonomije, suočava se sa mnogobrojnim problemima: visokim spoljnotrgovinskim deficitom, prevelikom javnom potrošnjom, institucionalnim okvirom koji koči dalju

privatizaciju društvenog i državnog sektora, nedovoljnim prilivom stranih direktnih investicija, nedovoljnom konkurentnošću kompanija kao i mnogim drugim problemima. Svaki od navedenih problema zahteva temeljnu analizu i čitav niz mera za uspešno rešavanje. Međutim, u ovom radu namera nam je da se fokusiramo na banke u Srbiji, kao veoma bitne činioce privrednog rasta i razvoja i da ukažemo na način na koji one mogu unaprediti svoje poslovanje i konkurentnost. Naime, na tržištu Srbije posluju trideset i četiri banke, imajući u vidu broj stanovnika u zemlji i stepen razvijenosti privrede, može se zaključiti da je konkurencija između banaka izuzetno oštra i da će u perspektivi opstati samo one banke koje budu u stanju da privuku i zadrže najprofitabilnije klijente. Stoga, je cilj ovog rada da ukaže na upravljanje odnosima sa klijentima-CRM, kao strategiju koju banke mogu koristiti radi povećanja konkurentnosti i izgradnje dugoročnih odnosa sa svojim najprofitabilnijim klijentima. Osim toga u radu se prezentuju rezultati istraživanja vršenih na uzorku banaka u Srbiji, kojima sa dolazi do saznanja u kojoj meri su banke u Srbiji upoznate sa strategijom upravljanja odnosima sa klijentima, kao i koje procese upravljanja odnosima sa klijentima i u kojoj meri primenjuju u svom poslovanju. Na bazi analize stručne literature, pozitivnih iskustava stranih kompanija koje uspešno primenjuju CRM, kao i rezultata istraživanja sprovedenih u bankama u Srbiji dolazi se do odgovora na pitanja šta su osnovne slabosti u upravljanju odnosima sa klijentima u bankama u Srbiji, preporuka za prevazilaženje uočenih problema i koristi koje banke mogu ostvariti od adekvatne primene CRM-a.

Ključne reči: *upravljanje odnosima sa klijentima, konkurentnost banaka u Srbiji, tranzicija, nova ekonomija*

Introduction

All companies in the world are faced with dramatic changes in the environment, which influence their business. Namely, the new economy in which banks operate today is characterized by: the global character of the economy, significant competition, increasing the importance of science and technology, the great importance of intangible assets which consists of the establishment of long-term relations with customers and partners, knowledge and skills of employees, image, brand and tradition. In such circumstances it is very difficult to achieve competitive advantage. If the bank fails to find a way to be differentiated on the market, by offering customers greater value, it may face a large problem, so much that its final repercussion can lead to complete disaster and the termination of the bank. Without customers there is no existence of any company, no matter how great it is and which the business deals. Therefore, attracting and retaining customers should be the primary goal of every company on the market, and so the banks in Serbia.

Information era in which clients today live allows them twenty four hour access to banks, which causes changes in their behavior. More and more, clients become better organized, well informed, and more curious. Today it is believed that they are

independent, individualist, informed and actively involved. Even more, banks encourage clients to participate in active dialogue with them, because the clients' knowledge becomes very relevant as a possible source of new ideas. This knowledge should be implemented in the bank in order to achieve competitive advantage through optimizing and customizing customer service and creating new services. In the new economy clients are the key resource of the bank and therefore, banks must consider all business aspects from the client's point of view. It is not enough to wave flags which states that the buyer is king. Today banks need completely new strategy to make clients loyalty. And when it seems to meet clients needs become more than ever before a mission impossible, CRM strategy appears as a solution that can help the bank to find out the way of attracting and retaining the most profitable clients.

1. The customer relationship management processes

The lack of clarity about Customer Relationship Management-CRM definition is evident in the literature and practice. Moreover, the definitions and descriptions of CRM used by different authors and authorities vary greatly. At one extreme, CRM is defined as a particular technology solution. For example, Khanna¹ defines CRM as an e-commerce application. But from the opposite point of view CRM is not simply an IT solution to the problem of getting the right customer base and growing it. CRM is much more. It involves a profound synthesis of strategic vision, a corporate understanding of the nature of customer value within a multi-channel environment, the utilization of the appropriate information management and CRM applications and high quality operations, fulfillment and service.² According to Stone³ CRM is a term for methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. According to Wilson⁴ CRM is a concept that enables an organization to tailor specific products or services to each individual customer according to his or her need. In the most advanced scenario, CRM may be used to create a personalized, customized, one-to-one experience that will give the individual customer a sense of being cared for, thus opening up new marketing opportunities based on the preferences, previous behavior and history of the customer. Fayerman⁵ said that CRM as a customer-focused business strategy that aims to increase customer satisfaction and customer loyalty by offering a more responsive and customized services to each customer. However there is no universal explanation of what CRM is, since the area is fairly new and still under development. In our opinion, it is important to know that numerous

¹ See: Khanna, S., Measuring the CRM ROI: show them benefits, 2001. www.crm-forum.com.

² See: Payne A., *Handbook of CRM: Achieving Excellence in Customer Management*, Elsevier, Oxford, 2005.

³ See: Stone, M., Woodcock, N., Defining CRM and assessing its quality, in Foss, B. and Stone, M. (eds), *Successful Customer Relationship Marketing*. London: Kogan Page, pp. 3–20, 2001.

⁴ See: Wilson, H., Daniel, E., "McDonald, M, Factor for Success in CRM Systems", *Journal of Marketing Management*, (18)1, pp. 139-219, 2002.

⁵ See: Fayerman, M., „Customer and their brands", *Journal of Consumer Research*, (2)2, pp. 350-355, 2002.

attempts to defining CRM exist and the many organizations adapt the definition to their business and unique needs.

Not only that there are different attitudes about the definition of CRM, but there are a number of different approaches about CRM processes. In this paper we are point out the Payne's CRM framework which is consisted of five related and integrated processes. Those five processes are⁶

- Process 1: the strategy development process
- Process 2: the value creation process
- Process 3: the multi-channel integration process
- Process 4: the information management process
- Process 5: the performance assessment process

The strategy development process is the first in a series of processes that the bank should consider if it wants to successfully implement CRM program. This process is extremely important because it determines the general goals and parameters of which depend on all of the following CRM activities. The strategy development process demands focus on the determination of business strategy and customer strategy and it ensures that they are integrated. It is very important to understand how business strategy influences the creation of customer strategy. But it has to be noticed that the first process of customer relationship management doesn't mean creating business strategy. It only represents the need of understanding business strategy, in order to understand the direction in which the bank wants to go. That in turn, allows CRM to focus on key activities. If the CRM activities are not in accordance with the business strategy, they can lead to increased efficiency and effectiveness of operations, but rarely to achieve competitive advantage.

The value creation process is crucial to transforming the outputs of the strategy development process in CRM into programmes that both extract and deliver value. Bank should achieve the ideal equilibrium between giving value to clients and getting value from clients. It means that bank should provide clients with value that would satisfy and delighted them on the one hand, but at the other hand bank has to think about profit that can receive from its clients. Three main determinants of client value perception are: client's expectations, service quality perception and banks image.⁷ So bank should try to manage all of these three determinants. First it is necessary to identify the content and form of the clients' expectations, in order to deliver a service that can be relatively superior in comparison to the competition. Then it is important to provide clients with those service quality dimensions which they perceive as the most valuable. And in the continuity bank should try to create a positive corporate image because it reflects positively on the clients' value perception. However, as we have already mentioned CRM doesn't mean only the value that bank delivers to the clients, but also the value it receives. Namely, it is very important that bank considers strategies to attract and retain

⁶ See: Payne A., *Handbook of CRM: Achieving Excellence in Customer Management*, Elsevier, Oxford, 2005.

⁷ See: Fornell, C., Johnson, D. M., Anderson, W. E., Jaesung, C., Bryant E., B., „The American Customer Satisfaction Index: Nature, Purpose, and Findings“, *Journal of Marketing*, 60(4), 7-18, 1996.

customers, as well as to determine the profitability of its clients, in order to be able to focus on those clients who are the most profitable.

The third very important aspect of development and implementation of CRM is the existence of a large number of contact points between bank and client, which bank has to manage. Until recently banks serve their clients only through the sales staff. But, in today's business environment, most banks are facing with their clients through different channels including service staff, ATMs (cash machines), card, smart card, e-banking and TV banking. Providing quality services in new as well as traditional channels is important for banks wishing to meet the expectations of today's clients. However, many banks do not seem to recognize the need to maintain equally high standards of service across all channels. The quality of a bank's service is only as high as the weakest link in their channel offer and the bank needs to uphold the same high standard of service and client experience in all channels. If one of the channels does not function, the client will be disappointed. Therefore, it is necessary to successfully integrate several different channels. The multi-channel integration process involves making decisions about the most appropriate combination of channel participants and channel options through which to interact with bank's clients base, how to ensure the client experiences is highly positive within those channels and, where the client interacts with more than one channel, how to obtain and present a single unified view of the client.

The information management process is concerned with two key activities: the collection and collation of customer information from all customer contact points and the utilization of this information to construct complete and current customer profiles which can be used to enhance the quality of the customer experience, thus contributing to the value creation process. Selecting the appropriate IT hardware, software and systems to achieve this can be a challenging task, given the constraints of legacy systems, the enormous range of technology options and the uniqueness of every business situation. The growing variety of CRM tools and services on offer from IT vendors further complicates the questions of what constitutes the best CRM solution and whether to source the IT infrastructure externally or to construct it using internal expertise. Whatever option, or combination of options, is pursued, the underlying principle is that the IT infrastructure should create a nerve centre, integrating disparate client data into client interactions that create superior client experiences.

The last of the five processes that constitute the CRM strategic framework is the performance assessment process. The performance measurement systems adopted by organizations in the past have tended to be functionally driven. Thus, financial measures were mainly the concern of the Board and the finance department, marketing measures the domain of the marketing department and people measures the responsibility of the HR department. Such a functional separation of performance measures is inappropriate for CRM, which involves a cross-functional and holistic management approach. According to an AMR Research study, many CRM projects fail to provide real, reportable business ROI due to the lack of measurements.⁸ The inability to align the correct metrics across the business enterprise was a critical reason for such failure.

⁸ See: Preslan, L., *Aligning Customer Investments with ROI, Metrics, and Enterprise Performance Management*. AMR Research Report, August 12, 2003.

Traditional metrics that drive functional excellence often produce sub-optimizing performance. Kaplan⁹ introduces the concept of the balanced scorecard that compliments financial measures with operational measures on customer satisfaction, internal processes and organizational innovation. Khirallah¹⁰ points out that common measures of CRM today are largely sub-optimal and default quickly to sales and marketing. It further proposes a CRM balanced scorecard to include multiple variables in measurements. However, in order to improve the performance of its CRM activities, a company must develop its own composite set of measures based on its own success maps. Such efforts to develop individually tailored and relevant performance assessment processes are critical, given the high incidence of reported CRM failure and the impressive returns for those who achieve CRM success.

2. The level of implementation of customer relationship management processes in the banks in Serbia

Research study was conducted on the sample of five banks in Serbia, in order to find out the extent that banks in Serbia are familiar with the Customer Relationship Management, and the level of implementation of Customer Relationship Management processes in their business.¹¹ During the research conducted in the sample of banks in Serbia, we found that in three of five banks managers clearly understand the meaning of CRM, while in the two banks they were not completely familiar with the CRM strategy and the manner of its implementation. Then, three of the five surveyed banks have clearly defined business and clients strategy, which provide an adequate starting point for further development of CRM activities. However, in the other two banks business strategy is well defined, but they don't have clearly defined clients strategy. Therefore, the main recommendation for these two banks is to precisely define the clients strategy as a starting point for further CRM activities.

The value creation process is very well-implemented in the three banks. They concern about clients expectations and make efforts to deliver services that will meet and even exceed customer expectations. In the other two banks some of the activities in the value creation process are well implemented, but some of them don't. Namely, these banks also take care about clients expectations and service quality, but their focus is on the attracting new clients, and they don't try enough to satisfy their existing clients base. Different banks put emphasis on different quality dimensions, but the most emphasis they put on the reliability, speed and empathy. All these dimensions are some of the most important quality dimensions of banking services. Therefore, we can conclude that the banks in Serbia, put the emphasis on the appropriate elements of services quality and

⁹ See: Kaplan, R.S., Norton, D.P. „The Balanced Scorecard – Measures That Drive Performance”, *Harvard Business Review* 70(1), pp. 71-78, 1992.

¹⁰ See: Khirallah, K. “Customer Relationship Management: How to Measure Success?” *Bank Accounting & Finance (Euromoney Publications PLC)*, 13(4), pp. 21-28, 2000.

¹¹ See: Ćirić, M., *Upravljanje odnosima sa klijentima u bankama*, doktorska disertacija, Univerzitet Privredna Akademija, Novi Sad, 2009.

value, but they need to do more on service customization and the retention of the most profitable clients.

In all five banks in Serbia, there are all channels that we mentioned. Unfortunately, these channels aren't integrated in all five banks, because in some of those banks there is no adequate IT system. In the two banks the channels are completely integrated, in the one bank they are partly integrated, and in the other two banks there is no multi-channel integration. However, management is trying to provide maximum value in all contact points, by well educated sales staff, several different cards that are well designed and offer different services and e-banking which is an innovation on Serbian market.

The biggest shortcomings in the implementation of CRM in banks in Serbia are the lack of appropriate information technology support. Namely, very large investments are necessary to create well IT structure for successful CRM. So, a unique data warehouse and analytical tools haven't been implemented yet in all the banks, and IT systems and front office and back office applications should be improved. Only one bank has the appropriate information technology structure, and one plan to modernize it. But, the other three surveyed banks don't have the necessary information technology support that which is required for customer relationship management. So the investments in to the IT have to be one of the banks priorities in future business.

The results of the research in the banks in Serbia showed that in the all examined banks there are performance measurement systems that are functionally driven, and no managers are familiar with new concept as balanced scorecard. Therefore, it is very important for banks in Serbia to upgrade and update the performance assessment processes, because it is the only way to get a real data about the degree of improvement that CRM brings to the bank. Real information about the improvements is very important since it is the motivation for the continuation of efforts that the bank should make in order to achieve the benefits from CRM.

3. Expected benefits from customer relationship management

Research conducted in 2006. in the EU has confirmed that companies which haven't implemented CRM on average lose 50% of their customers every five years, about 65% of all lost customers are left because of bad service and communication, costs of attracting a new customer are five times higher than the costs of retaining the existing one. While companies that have implemented the concept of CRM have growth almost 60% faster than the competition which haven't developed CRM, expand the market for 6% per year, charged 10% more for their products, make a return on investment (ROI) of 12%, and increase in customer loyalty of 5% may result in increasing profitability by 25% - 85%.¹² According to Swift¹³ bank can get a lot of benefits from CRM. He goes on to say that these benefits could be found in these areas: higher customer retention and loyalty, increased customer profitability, evaluation of customer profitability, reduced

¹² See: Domazet I., Unapređenje konkurentnosti preduzeća primenom CRM strategijskog koncepta. www.iien.bg.ac.yu/snimanje/wp06-3.pdf

¹³ See: Swift, R. *Accelerating Customer Relationships Using CRM and Relationship Technologies*, Prentice Hall PTR, Englewood Cliffs, New York, 2001.

cost of sales, lower cost of recruiting customers, no need to recruit so many customers to preserve a steady volume of business. Crosby¹⁴ argues that, by using customer information wisely to deliver what customer needs, companies will create long-term, collaborative relationships with the customers. He further states that, this will bring many benefits since long-term customers are less costly to serve and smooth-running relationships are less resource intensive. CRM is a very big tool that contributes so much to profit indicated by Newell¹⁵ Further more he stated that if organizations could transform the customer data into knowledge and then use that knowledge to build relationships it would then create loyalty and thereby creating profit. Thompson¹⁶ argues that if CRM is a successful business strategy then it should help the organization to grow profitably and create a competitive advantage. He found in an online CRM Guru study of more than 1000 CRM projects and initiatives that the top four expected benefits were increasing customer loyalty, gaining competitive advantage, increasing sales and increasing profitability. Also increasing productivity and executive decision-making, cutting costs or expenses were some of the expected benefits from CRM initiatives. The study concluded that CRM activities and initiatives have a positive impact on a company's performance.

The empirical example of the benefits that a bank can achieve by implementing CRM is the Nordea Bank. Nordea is the largest financial services group in the Nordic region. Nordea is also one of the world-leading Internet banking and e-commerce operations. Nordea was formed base on the philosophy of creating new possibilities. The bank's focus is to concentrate on creating value for its customers and shareholders. Nordea began its CRM project in 2001. The benefits it achieved were: increased customer satisfaction that lead to customer loyalty and therefore higher profitability; cost saving and reduction; better image; and number of awards, for example the best private bank in Sweden in 2004. In February 2009 year Global Finance magazine has published an update of its much respected 'Safest Banks' listing. Nordea was ranked in 22nd place and number one overall in the Nordic region. Therefore, there are so many arguments that indicate the benefits can be achieved by well implementation customer relationship management.

Conclusion

Banks in Serbia are faced with a lot of problems: they have to do their business in the condition of transition from a socialist to a market-based economy; standard of living is low; GDP should be higher; there is a lot of banks on the market and the competition between them is high; world economic crisis has influenced Serbian economy as well. In such circumstances attracting and retaining every profitable client is a very demanding task. Customer relationship management is a strategy that has been

¹⁴ See: Crosby, L. A., „Exploring Some Myths about Customer Relationship Management“, *Managing Service Quality*, 12(5), pp.271-277, 2002.

¹⁵ See: Newell, F, *Loyalty.Com, Customer Relationship Management in the New Era of Internet Marketing*, McGraw-Hill, 2000.

¹⁶ See: Thompson, B., *Successful CRM: Turning Customer Loyalty into Profitability*, 2004. www.crmguru.com

already successfully implemented in many companies in the world. In this paper we mentioned the example of the Nordea Bank which improved their business performance, by implementing CRM. In the paper, we also pointed out a lot of benefits that banks can achieve if they implement CRM. The most important benefits are client satisfaction and loyalty, which would in turn increase banks profitability and competitiveness. According to research conducted on the sample of five banks in Serbia we can conclude that there are discrepancies between the different banks on the level of CRM implementation. In some banks, some processes are very well implemented, while in the other there are certain gaps. However, the key problem in the majority of banks in Serbia is the lack of suitable IT platform for the successful information management process and managers don't use modern methods for the performance assessment process. Therefore, it is necessary that banks' managers focus on the removal of the mentioned shortcomings in the near future. If the banks' managers are more oriented to the implementation of CRM, and if they well implement all processes explained in this paper, then they can expect many benefits of a CRM. Managers and employees in the banks in Serbia have to be aware of the fact that only if they have great base of profitable clients they can survive on the long-run.

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