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The effect of customer relationship management on bank performance: In context of commercial banks in Amhara Region, Ethiopia

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Abstract: This study examined the effects of Customer Relationship Management (CRM) practices on commercial banks performance in Amhara region, Ethiopia. However, the scarcity of research studies concerning CRM is still a major issue within the context of developing countries organizations like Ethiopia. Such research concept will help to improve the performance of the bank especially to improve the level of customers' satisfaction, which could be achieved by implementing best practices of CRM. For purpose of this study, dimensions of CRM practices are Key Customer Focus, Knowledge Management, CRM organization and Technology-Based CRM. The study deals with various factors influencing commercial banks, that is, Bank performance. These are Key Customer Focus, CRM organization, Knowledge Management and Technology-Based CRM. This study deployed Binary-Logistics regression model to analyze the effect of these factors on the performance of the bank. Customers of commercial banks were selected to fill self-administered questions related to CRM die response rate reached 94.4%. All dimensions of CRM considered in this study were found statistically significant (at *p* value of 0.05) in determining the performance of commercial banks. According to the binary

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PUBLIC INTEREST STATEMENT

Customer relationship management (CRM) is the strongest and the most efficient approach in maintaining and creating relationships with customers. In the twenty-first century, CRM is becoming very important in banking industry as it has been to any other industry. CRM helps businesses to acquire new customers, retain existing ones and maximize lifetime values and improve the business performance. This paper is targeted on identifying customer relation management dimensions which significantly affect bank Performance. Thus, Binary logistic regression model applied to identify the most influential elements of CRM. And therefore, the finding if applied is useful to improve the performance through focusing on the most important elements of Customer relations management.

regression result, Knowledge Management is more important factor in determining bank performances.

Subjects: Services Marketing; Marketing Management; Relationship Marketing;

Keywords: knowledge management; CRM organization; technology-based CRM and key customer focus

Subject: Customer Relationship Management and organizational Performance.

1. Introduction

Lakhani and Smith (2007) revealed that retail banks face a big challenge in providing the high level of service that is now expected while still improving their profitability and market share. They emphasize that today's competition is based on a differentiated service rather than a differentiated product. The adoption of Customer Relationship Management (CRM) is widely seen as a way to achieve competition strategies in the service rendering companies. Companies that implement CRM can make better relationships with their customers, improve customers' loyalty, increased revenue and reduced cost (Blery & Michalakopoulos, 2006).

Now a days, CRM is increasingly important to firms as they seek to improve their profits through longer term relationships with customers. In recent years, many have invested heavily in information technology (IT) assets to better manage their interactions with customers before, during and after purchase (Bohling et al., 2006). CRM is one of the major sources of competitive advantage in banking sector. Furthermore, CRM is an extensively accepted instrument that supports customer-oriented organizations' decisions (Mohammed, Rahid, & Tahir, 2014). More specifically, CRM is regarded to be among the best strategies and practices for banks in order to develop their performance and thus to make sure that their long-term business is survival (Kasim & Minai, 2009; Sigala, 2005) .

Customer retention refers to the activities and actions of companies and organizations to reduce the number of customer defections and making them loyal. The goal of customer retention programs to help companies retain as many customers as possible, often through customer loyalty and brand loyalty initiatives. It is important to remember that retention begins with the first contact customer has with a company and continues throughout the entire lifetime of the relationship (Anonymous, CRM, http://www.ngdata.com, accessed in 27 March 2017). CRM helps the customer retention practices of the organization which thought to improve profitability, principally by reducing costs incurred in acquiring new customers; the prime objective being "zero defections of profitable customers" (Reichheld, and Etal, 1996).

From a cost perspective, retaining an existing Bank customer costs less than creating a new one. The cost of creating a new customer estimated to be five times more than that of retaining an existing customer (Reichheld, and Etal, 1996). Banks seeks to achieve zero defection rate of profitable customer to minimize churn; the acquisition and subsequent loss of customer. The Bank industry globally expanded rapidly in order to become profitable and maintain the market share of banking industry in the country. Commercial Bank of Ethiopia is the leading Bank in terms of market share, region network, customer and capital base, and aggressively expanded its regions all over the country that is in number around 1014 regions till 12 February 2016 (Commercial Bank of Ethiopia Annual report, CBE, 2016).

Hence, the motivation behind this study is to examine the effects of CRM practices on the performances of commercial banks in Amhara region in order to identify most determining CRM practices and recommend possible strategies to maintain and/or increase customers who remain loyal to respective retail bank. In this study, the statement of the problem and the objective of the study will be first outlined and the CRM practice will be discussed in line with the empirical evidences and available literatures.

2. Statement of the problem

The banking industry has grown over the past years in Ethiopia and the world at large. As a country becomes more developed, there is greater need for banking service to facilitate the peoples' monetary transactions (MOFED, 2010).

In today's competitive business environment, giving quality services to customers is a very critical exercise. Meeting customer expectation by giving quality services is very important to loyal customers. CRM consists of a historical view and analysis of all the acquired or to be acquired customer in the firm for a long time. If the customers are satisfied, they will always be loyal to the firm and the business remains forward to the development of its power. (http://www.managementstudyguide.com).

The purpose of service is to seek out and deal with service failures (Robert, 1995, pp.53–71); it is the seeking out part that distinguishes recovery from complaint handling, as a vast majority of unsatisfied customers do not bother to complain. Instead, they vote with their feet and switch to another service provider.

From practical observation and pre-interviewing of the Bank Managers in Amhara Region, it said that the region has different complications, and regarding CRM practices of Commercial bank of Ethiopia, the researchers observed different problems, Most of the time, the bank gives more emphasis only on attracting new customers, instead of maintaining the existing ones believing that the bank is the dominant Bank than others, so no customer shifts to other banks. But in practice, there is a clear chance of losing existing customers, and inturn can have impact on bank performance. Therefore, the bank is expected to pay attention on CRM. Thus, keeping the above discourse in, this study is intended to look the effect of CRM on Bank performance in case of Commercial Bank of Ethiopia.

3. Objectives of the study

The objectives of this study are:

(1) To determine the effect Key Customer Focus (KCF) on performance of commercial banks,

(2) To examine the influence of CRM organization on performance of commercial banks,

(3) To investigate the impact of Technology-Based CRM on performance of commercial banks,

(4) To determine the effect of Knowledge Management on performance of commercial banks.

4. Literature review

4.1. Customer relationship management

According to Coltman, Devinney, and Midgley (2011), CRM is increasingly important to firms as they seek to improve their profits through longer term relationships with customers. In recent years, many have invested heavily in IT assets to better manage their interactions with customers before, during and after purchase (Bohling et al., 2006). Yet, measurable returns from IT investment programs rarely arise from a narrow concentration on IT alone, with the most successful programs combining technology with the effective organization of people and their skills (Bharadwaj 2000; Piccoli and Ives 2005).

Most of the research in CRM and customer exit investigates the processes separately without linking the two processes together (Colgate & Norris, 2001). Based on literatures, this study developed a customer retention model linking several major constructs that are proposed to impact a customer's decision to stay with, or leave, his or her current bank. The literature suggests that there is a positive relationship between consumers' behavioral intentions and customer loyalty and customer retention in banks. Furthermore, there is a positive relationship between customer satisfaction and customer value and consumers' behavioral intentions and customer retention. Similarly, there is a positive relationship between competitive advantage, customer satisfaction, customer value, corporate image, switching barriers, customer loyalty and customer retention (Colgate & Norris, 2001).

4.2. Customer relationship management practices

Customers are the recipients of a good, service, product or an idea obtained from a seller, vendor or supplier via a financial transaction, exchange for money or some other valuable consideration.

The customer relationship practices considered in this study are KCF, CRM organization, technology-based CRM and knowledge management. This research highlighted to test statistically the relationship of these CRM practices and the market performance of commercial banks in the Amhara region, Ethiopia.

4.3. Ethiopian commercial banks

The origin of banking sector in Ethiopia goes back to the early 1990s. It was started in the monarchial regime followed by the Derge regime in which the financial institutions were basically executing the economic plans outlined by the central planning organ (Harvey, 1995).

Financial sector reform in the 1990s included government development banks becoming commercial banks, and the licensing of new private sector banks. However, the ability of the reformed banking system to service the rapidly growing private sector was limited. Because the government-owned banks appeared unlikely to compete with each other, foreign participation in banking was forbidden, without which neither the old government nor the new private sector banks seemed likely to have sufficient commercial lending expertise (Harvey, 1995).

In Ethiopia, there was a major change of economic strategy in 1975, after the fall of the imperial government, which was in some ways analogous to the changes in economic policy after independence in former colonies. Nevertheless, government policy on banking in Ethiopia does not really fit these generalizations. Most notably, Ethiopia was not a colony; there was already a central bank in 1975; and at that time, almost rest of the financial sector was already government owned. The new Ethiopian government aimed to create a socialist, centrally controlled economy on the Soviet model. The main financial sector reform, therefore, was to direct the government banks to finance a greatly increased public sector (Harvey, 1995)

4.4. The structure and performance of Ethiopian banking industry

Following the demise of the Derge regime, a new market economy was launched which has increased the size of the market drastically as private banks were established. According to Boru (2014), since 1991, Ethiopia has been taking various liberalization measures which are intended to enhance the performance of banks in the industry. Some of the measures include lifting of the lending rate cap, allowing private owners to invest in banks, introducing new financial instruments like introducing treasury bills, inter-bank foreign exchange market and others. The financial sector of Ethiopia is closed to foreigners though it has been opened for private Ethiopian investors. The new policy has fundamentally changed the structure and functioning of the financial sector. Due to this fundamental policy shift, different private financial institutions were emerging to the market which contributed a lot for the economic growth registered in the recent past periods (Boru, 2014).

Privatization of state-owned banks, free entry of foreign banks, free market to interest rate and exchange rate, and improved regulatory and supervisory ability of the National Bank of Ethiopia have remained as debatable issues by the concerned international organizations and professionals of the sector. Hence, the structure of the banking sector still remains the main agenda of discussion despite the major changes made by the government. The government of Ethiopia has a firm stand on the matters stated, since the policy of the government is rigid toward the full liberalization of the sector (Yirga, 2017).

5. Framework of the study

In order to understand dimensions of CRM responsible for the banks performance improvement, the literature review is organized to elicit the theoretical and empirical considerations as related to address the stated objectives.

Thus, based on the comprehensive related literatures review and empirical evidence conducted by other researchers and developed countries context, the following refined conceptual framework was developed.

5.1. Research hypothesis

H1: Key Customer Focus has a positive and significant effect on bank performance

H2: CRM organization has a positive and significant effect on bank performance

H3: Technology-based CRM has a positive and significant effect on bank performance

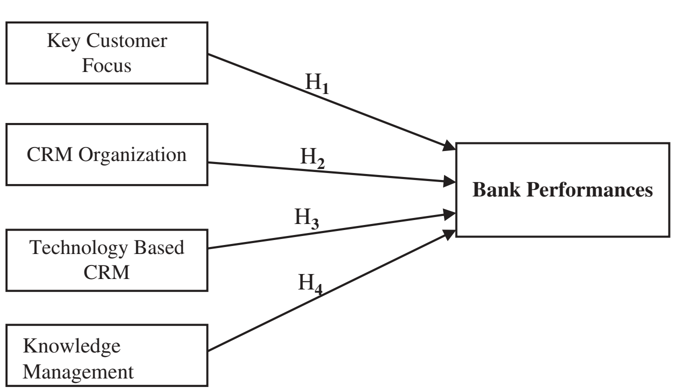
H4: Knowledge Management has a positive and significant effect on bank performance

6. Research methodology

In this study, the researcher used a cross-sectional survey-type research design. A survey design provides a quantitative or numeric description of trends, attitudes or opinions of a population by studying a sample of that population. From sample results, the researcher generalizes or makes claims about the population (Creswell, 2003). Therefore, using statistical package for social science (SPSS) version 20, the researcher measured exogenous latent variables.

The researcher employed probability, lottery method to select the commercial banks in Amhara Region, and non-probability sampling technique and convenience sampling technique were used to select respondents (customers of the bank) and collect the necessary information from them in order to carry out the study. The researcher used the sampling techniques to determine the total number of respondents and distribute questionnaires at the convenience of the researcher because respondents are relatively similar and are selected as they happen to be in the right place at the right time (Creswell, 2003). Inferential statistics were used for analyzing the quantitative phase of this research. The data analysis is carried out by logistic regression and the data are presented in table and mathematical mode.

Figure 1. Framework of the study.



Therefore, this study used customers, employees and manager of the bank as target population and determine their sample size based on the following sample size determination formula.

$$n = \frac{Z^2 PQ}{e^2}$$

Where,

- n = sample size,
- p = proportion of success
- q = proportion of fail
- z = confidence level
- e = standard error

Based on the above sampling formula, the sample will be:

$N = \frac{Z^2 PQ}{e^2} = 1.96^2 * 0.85 * 0.15 = 196$ Responadnts

Based on the sample results, 196 standardized questionnaires were distributed to customers of dominant commercial banks in the region, which are Commercial Bank of Ethiopia (government owned), Dashen Bank S.C., Buna Bank, S.C., Birhan Bank and united bank S.C. The total questionnaires were distributed to the customers of these commercial banks, 185 were successfully filled and retuned back for analysis and 11 questionnaires were not successfully filled and completed. The response rate reached 94.4%.

6.1. Logistic regression model

The dependent variable "Performance" is set as binary variable and the applicable analytical model originates in the binary-choice genre of models, namely a logistic model, as the dependent variable, Yi takes the value 0 if bank level of performance is "low" and 1 when "high" level of performance is attained.

7. Results and discussions

In this section, CRM practices and their effects on performance of commercial banks in Amhara region will be discussed. Under CRM practices, the researcher will address the extent to which the CRM practices affect bank's performances. This data analysis and interpretation part is composed of data and information that were gathered from the respondents by using a 5-point Likert scale questionnaire. Thus, the focus of this section is mainly on whether any improvement on practices of CRM leads to achieve better performances or not. The data analysis is carried out by logistic regression and the data are presented in table and mathematical model. The appropriate statistical elements of the model are interpreted with appropriate justification.

The research hypotheses; H1, H2, H3 and H4 of the research were that "The performance of bank is significantly influenced by CRM dimensions (KCF, CRM organization, Knowledge Management and Technology-based CRM)''.

In order to test whether there is a significant relationship between KCF and Bank performance, a logistic regression was conducted. The results are reflected in Table 1 above. For each one-unit increase on the KCF scale, the odds of bank performance are increased by 3.95. The odds ratio tells us that with one unit change in CRM organization, the change in the odds of improving performance is 7.64. And as depicted from the model, CRM organization has a significant Positive relationship with bank performance. In relation with Knowledge management, it has a great impact on bank performance than other CRM Dimensions. The odds ratio for Knowledge management is 35.76 which implies as one unit change or improvement made on Knowledge management, the odds ratio of bank performance is 35.76.

Table 1. Logistic regression result

Variables in the equation	*B*	Sig.	Odds ratio
Key customer focus	1.31	.012	3.95
CRM organization	2.55	.004	7.64
Knowledge management	2.68	.006	35.76
Technology-based CRM	3.13	.037	2.02

Looking at technology-based CRM, still, it significantly and positively affects performance of Bank, that is, one unit increase or improvement in technology-based CRM, the likelihood of increasing bank performance is 2.02.

Generally, regardless of the degree of impact, all CRM dimensions have a positive and significant effect on bank performance.

8. Conclusions

This study examined the effect of CRM on bank performance in the banking industry with a particular focus on some selected commercial banks in Amhara region Ethiopia.

The research work concluded that KCF, CRM organization, Knowledge Management and Technology-based CRM predicted the bank performance. This means that these variables were predictors of bank performance. Among the predictors, knowledge management has a great effect on bank performance which increase the chance by 35.76 times.

As we can see from their *beta* coefficient, KCF, knowledge management and CRM organizations have positive and significant influence on bank's performance. Their corresponding odds ratio is also greater than one, which has similar interpretation with sign of beta coefficient—i.e. the probability of predictors to improve the performance of the bank. The statistical results were KCF (b = 1.32), knowledge management (b = 2.68), CRM organization (2.55) and technology-based CRM (b = 3.13); which all indicate that the positive relationship with performance of bank.

Thus, the result indicated a significant effect of CRM dimensions on bank performance.

9. Recommendations

Based on inference obtained from this study, the suggestions are forwarded in order to show some possible ways of interventions in implementation of CRM practices; thus, promising policy, procedures and working guide recommendations are needed to improve the performance level of the bank. A primary goal of CRM is to build and maintain a base of committed customer who is profitable for the bank.

The overriding goals are to move customer up the leader that is along relationship continual from the point which they are stronger that need to be attracted. Appropriate intervention strategies are needed in order to make CRM implementation more effective and to bring sustainable changes in bank's performances. The strategic orientation made by the decision-makers of the bank should provide special attention for CRM as means to improve the bank's performances. According to the researcher findings, the bank has methods to reduce customer defection and dissatisfaction, this shows that they are working to reduce customer complaints and focus on their customers.

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