Investigating the Effect of Customer Relationship Management Practices on Bank Performance: a Case Study of Commercial Bank of Ethiopia, Amhara Region, Ethipopia

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Abstract-The concern of this study is to investigate the effects of Customer Relationship Management (CRM) practices on bank's performance in case of Commercial bank of Ethiopia, Amhara Region. Such research concept will help to advance the performance of the bank more specifically 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 contends that a various factors influencing CBE, Bank performance. These are key customer focus, CRM organization, Knowledge management and technology based CRM. This study applied Binary-Logistics regression model to analyze the effect of these factors on the performance of the bank. Customers of Commercial Bank of Ethiopia were selected to fill self-administered questions regarding to CRM dimensions. Using simple random sampling total of 196 customers was examined within study framework. All dimensions of CRM considered in this study were found statistically significant (at P-value of 0.05) in determining the performance of Commercial Bank of Ethiopia.

Index Terms: Customer Relationship, performance, satisfaction

I. INTRODUCTION

"Customers are the recipients of a good, service, product or an idea obtained from a seller, vendor, or supplier via a financial transaction or exchange for money or some other valuable consideration. "Customers are the king or customers are always right" are quotations widely known that point out the superiority and indispensability of customers to the survival of the business organization. Growth and profitability completely depends on customers' service that helps to get customers willingness in playing money for company services [1].

Customer relationship management (CRM) is one of the major sources of competitive advantage in hotels sector. Furthermore, customer relationship management (CRM) is an extensively accepted instrument that supports customer-oriented organizations decisions [2]. More specifically, CRM is regarded to be among the best strategies and practices for hotels in order to develop their performance and thus to make sure that their long-term business is survival [3].

Now a day's customer relationship management (Hereafter 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 [4].

Customer retention refers to the activities and actions of companies and organizations to reduce the number of customer defections. 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, Customer relationship management (CRM). Customer relationship management 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"[5].

According to [6], customer relationship management (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 [4]. 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 [7]. Most of the research in customer relationship management and customer exit investigates the processes separately without linking the two processes together [8]. Based on the previous literature, 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 [8].

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 [5]. Banks seeks to achieve zero defection rate of profitable customer to minimize churn; the acquisition and subsequent loss of customer [5]. 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 February12, 2016 [9].

Hence the purpose of this study is to examine the effects of customer relationship management (CRM) on the performances of banking sector particularly in commercial bank of Ethiopia, Amhara region.

II. 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 develop, there is greater need for banking service to facilitate the peoples' monetary transactions [10].

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. Customer relationship management 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. Conversely, service recovery (by improving services quality, facilitating improved and modern infrastructures), building customer loyalties that brings a customer back from a being of defection [11]. According to [11], customer recovery may come through the firm activities: apology customer, solve the problem, empowerments are backbone of service recovery, give the customer something of value as compensation, create service recovery process, and train to employees.

The purpose of service is to seek out and deal with service failures [12]; 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 Customer Relationship Management 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 intern can have impact on bank performance. Therefore the bank is expected to pay attention on Customers Relationship Management. Thus, keeping the above discourse in, this study is intended to look the effect of customer's relationship Management on Bank performance in case of Commercial Bank of Ethiopia.

III. OBJECTIVE OF THE STUDY

The researcher tried to deal the following specific objective:
i. To examine the performance of commercial bank of Ethiopia.
ii. To identify customer Relationship Management determinants of bank's performance.
iii. To investigate the relationship between Customer Relationship management practices and Bank performance.

IV. 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.
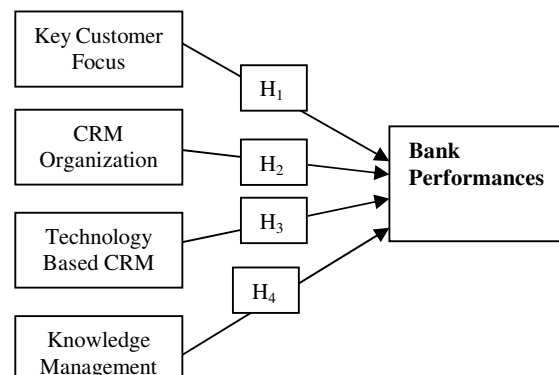

Figure 1: Framework of the study

V. RESEARCH HYPOTHESES

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: Knowledge management has a positive and significant effect on Bank performance

H4: Technology-based has a positive and significant effect on Bank performance request color printing.

VI. 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 [13]. 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 bank i.e. CBE in Amhara Region and non-probability sampling technique, 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 relatively similar and are selected as they happen to in the right place at the right time [13]. 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.

Therefore, this study used customers, employees and manger 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;

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

VII. RESULT AND DISCUSSION

In this section, customer relationship management practices and their effects on performance of commercial bank of Ethiopia (CBE) Amhara region will be discussed. Under CRM practices, the researcher will addressed 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 five 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-which is binary logistic model.

VIII. 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.

$Yi=$ 	*1 if y* =high*

	0 if y*=low

$Log_{(\pi/1-\pi)} = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e$: Similarly the bank performance function is presented as follows:

$f(P) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Where, P=Bank Performance

X_1 = Key customer focus

X_2 = CRM organization

X_3 = knowledge management

X_4 = technology based CRM

And β_0 is constant and β_1, β_2, β_3, and β_4 are coefficient to estimate, and **e** is the error term. Using the SPSS version 20, the binary-logistic regression result is presented in the following table.

	Variables in the Equation	*B*	*Sig.*	*Exp(B)*
1	Key Customer Focus	1.401	.012	4.059
2	CRM organization	2.157	.004	8.641
3	Knowledge Management	3.683	.002	39.762
4	Technology based CRM	2.023	.037	1.132

Table 1 Logistic Regression Result

The research hypothesis's; H1, H2, H3 & H4 of the research was that "The performance of bank is significantly influenced significantly by Customer Relationship Management dimensions (Key Customer Focus, CRM organization, Knowledge Management &Technology based CRM

In order to test whether there is a significant relationship between Key Customer Focus and Bank performance, a logistic regression was conducted. The results are reflected in Table 1 above. For each one-unit increase on the Key customer focus scale, the odds of bank performance are increased by 4.059. The odds ratio tells us that as one unit change in CRM organization, the change in the odds of improving performance is 8.64.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 Customer relationship management Dimensions. The odds ratio for Knowledge management is 39.76 which implies as one unit change or improvement made on Knowledge management, the odds of bank performance is 39.76.

When look at Technology based CRM, Still it significantly and positively affects performance of Bank that is on unit increase or improvement in Technology based CRM, the likelihood of increasing bank performance is 1.25.

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

IX. CONCLUSIONS

This research was conducted to examine the effects of CRM practices on bank's performance in case of Commercial bank of Ethiopia, Amhara region. As realized from the logistic regression output all dimensions of CRM practices such as Key customer focus, Knowledge management, CRM organization and Technology based CRM were statistically significant to determine the banks performance in different extent.

Among the predictors knowledge management has a great effect on bank performance which increase the chance by 39.76 times.

As we can see from their *beta* coefficient key customer focus, knowledge management, CRM organizations were positive and positive influence the 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 respective dimension to improve performance level of the bank. The statistical results were key customer focus (b= 1.40), knowledge management (b= 3.683), CRM

organization (2.157) and technology based CRM (b=2.023); which all indicates that the positive relationship with performance of bank.

XII. 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 show that they are working to reduce customer complaints and focus on their customers.

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