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Research Article

Effect of Customer Relationship Management on Performance of Commercial Banks in Kenya

J. O. Onyango[1], B. Okong'a[1], N. B. Okelo[2,]*

[1]School of Business and Public Management, KCA University, Kenya.
[2]School of Mathematics and Actuarial Science,
Jaramogi Oginga Odinga University of Science and Technology,
P.O. Box 2010-40601, Bondo- Kenya.

*Corresponding author's e-mail: bnyaare@yahoo.com

Abstract

Customer Relationship Management **(**CRM) is a strategy that enables a bank to analyze customer profiles, detect their needs and potential profitability areas and establish the necessary actions to achieve customer satisfaction, competitive advantage and thus the. CRM looks at ways to treat clients as individuals with specific needs so as to attain a position where the organization can influence clients' choices positively toward their product and service offerings. It is a combination of organizational strategy, information systems, and technology that is focused on providing better customer service. The study sought to determine effect of customer relationship management on the performance of Tier 1 banks in Kenya as the main players in the country's banking sector controlling the market share, customer base and asset base as well as employee numbers. The study adopted a descriptive survey design. A sample of 96 purposively selected respondents from the branches of the six Tier 1 banks in Nairobi was picked. Nairobi banks were targeted because all banks in Kenya have their headquarters and their main branches here. The study results showed that a positive relationship exists between adopted marketing strategies and customer service at the studied company. In particular, people strategies were found to have the greatest influence on customer relationship management.

Keywords: Effects; Customer relationship management; Performance; Bank; Kenya.

Introduction

Customer Relationship Management **(**CRM) is a strategy that enables a bank to analyze customer profiles, detect their needs and potential profitability areas and establish the necessary actions to achieve customer satisfaction, competitive advantage and thus the profitability (Woodcock, Foss & Stone, 2005). CRM looks at ways to treat clients as individuals with specific needs so as to attain a position where the organization can influence clients' choices positively toward their product and service offerings. It is a combination of organizational strategy, information systems, and technology that is focused on providing better customer service [1].

In [2] they point out that companies use CRM as a strategy that goes beyond simply making the customer feel important and in fact, it strives to make the customer an extension of the research and development team, the marketing team, the advertising team, and any other line of business that can benefit from direct contribution by the ultimate consumer. Today, consumers are more educated, better informed, more technology savvy, have more purchasing power and hence, more demanding in the products and services they buy [3]. Managing customer relationships successfully means learning about the habits and needs of the customers, anticipating future buying patterns, and finding new opportunities to add value to the existing relationship. Successful companies make these relationships something the customer values more than any other they could receive from the competition [4].

The author in [5] examined the effect of customer relationship management on customer satisfaction and loyalty in Indian organizations. The findings showed that CRM functions as tool in facilitating businesses with the aim of

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improving customer relationship with the organizations. Further findings show that CRM ultimately provides customer satisfaction because of the high quality of services delivery. This in turn builds and promotes the level of customer loyalty. In another study, [6] carried out a study on understanding CRM People, process and technology. They found that in order for organizations to deliver the highest value to customers, they need to have better communication, faster delivery, and personalized products and services for their customers.

In [7] the author examined CRM implementation within the banking and mobile telephony sectors of Nigeria and South Africa. The findings showed some consistency in the factors for CRM effectiveness for the two countries with those in high income and industrialized countries. However, because of the peculiarities of the countries involved, the study recommended of CRM strategies to the local context. In another study, Roberts-Lombard and du [8] conducted an exploratory study on CRM in a South African long-term insurance organization and found a significant positive relationship between CRM and customer loyalty. In Nigeria, [9] conducted an appraisal of CRM in the banking sector using a study of four selected banks in Lagos State. The findings show that CRM has significant and positive impact on income generation capacity and profitability level.

In [10] he studied the effects of customer relationship management in the Kenyan banking sector. Research findings revealed that the studied banks use e-mails and phone calls to converse with customers. Also [11] studied the influence of customer complaint behavior, firm responses and service quality on customer loyalty of mobile telephone subscribers in Uganda. The study results showed that customer complaints have a significant influence on customer behavior and loyalty within the studied mobile telephone companies.

Research methodology

The present study used descriptive survey research employing mixed methods to gather data. Survey research is used to describe characteristics of a population or phenomenon and compare the values of independent variables being studied. It does not answer questions about how/when/why the characteristics occurred. Rather it addresses the "what" question [12]. A research design is the overall plan for obtaining answers to the questions being studied and for handling some of the difficulties encountered during the research process. According to [13] descriptive survey enables collection of information from respondents with reference to the variables involved through administration of the questionnaire, interview and observation schedules to determine the status of the situation under study. A population refers to an entire group of individuals, events or objects having a common observable characteristic about which a researcher is interested in. The target population for this study was 124 branches of Tier 1 commercial banks operating in Nairobi City.

The study selected six Tier 1 banks which were representative of Commercial Banks. According to [5] a sample can be chosen randomly or the researcher can select people who are easier to obtain information from. The Tier 1 banks selected are classified as the largest banks by Central Bank and therefore fully represent the industry’s composition in products, services, staff complement and customer base. It was estimated that collectively, the six banks in the group control 60% of the country’s financial services market. From each bank, 16 respondents from service provision were randomly selected making a total of 96 respondents.

Results and discussion

The effect of customer relationship management on performance of commercial banks in Kenya was the second objective of the study. The respondents responded to statements on effect of customer relationship management. Rated on a five Likert scale, the responses were as obtainable in Table 1. The low standard deviation of 1.05298 indicates that the variation among the respondents was low. The respondents were further in agreement with it in general, to what extent has CRM affected the performance of the Bank (mean=3.5833) , The CRM system provides feedback to management (mean=3.1875) , The feedback from CRM system guides management in decision making (mean=3.1875), CRM system has provided a platform for quality service delivery (mean=3.0521), Customers are allocated relationship managers to manage their accounts (mean=2.9375), The Bank has implemented a CRM system (mean=2.9271).

Table 1. Customer relationship management

	N	Mean	Std. Dev.
In general, to what extent has CRM affected the performance of the Bank	96	3.5833	1.05298
The CRM system provides feedback to management	96	3.1875	1.19042
The feedback from CRM system guides management in decision making	96	3.1875	1.25079
CRM system has provided a platform for quality service delivery	96	3.0521	1.25966
Customers are allocated relationship managers to manage their accounts	96	2.9375	1.22957
The CRM system presents an opportunity for cross selling	96	2.9271	1.10734
The Bank has implemented a CRM system	96	2.4792	1.10481
Valid N (list wise)	96		

Assuming a linear relationship between customer relationship management and performance of commercial bank, the study examined the predicted model relating customer relationship and performance of commercial bank as modeled in equation (1) below.

$$PC = \alpha_1 + \beta_1 CRM + \varepsilon_1 \quad (1)$$

The estimators in equation (1) were defined as; $\alpha_1$was the estimate of the intercept and $\varepsilon 1_i$ was the error term related with this regression equation, $\beta_1$was the beta coefficient of customer relationship management (CRM) and FC represented Performance of commercial bank. The effect of customer relationship management and performance of commercial bank was examined by testing the second research hypothesis (H_{02}) which stated that:

H2. Customer Relationship Management does not affect performance of commercial banks in Kenya

Following a simple linear regression analysis, an ANOVA output presented in Table 2, shows model two was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between The effect of customer relationship management and performance of commercial bank.

In Table 3, model one had coefficient of determination (R^2) = 0.491, indicating that 49.1% of the variation in customer relationship management was explained by the model leaving 50.9% of the variations unexplained. This meant that model two provided a moderately fit. In [9] they describe CRM as a combination of organizational strategy, information systems, and technology that is focused on providing better customer service.

Table 4 presents the coefficients of customer relationship management. In reference to model two, customer relationship management had a p-value of 0.000. The study therefore rejected the research hypotheses H_{02} at 5% level and observed that customer relationship management does affect performance of commercial banks in Kenya. This is supported [7] who observed that (CRM) is a strategy that enables a bank to analyze customer profiles, detect their needs and potential profitability areas and establish the necessary actions to achieve customer satisfaction. This in turn builds and promotes the level of customer loyalty.

Table 2. ANOVA Test Customer Relationship Management

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.481	1	29.481	92.573	0.000[b]
	Residual	29.935	94	0.318		
	Total	59.416	95			

a. Dependent Variable: firm performance
b. Predictors: (Constant), customer relationship

Table 3. Model Summary of Customer Relationship Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.704[a]	0.496	0.491	0.56432

a. Predictors: (Constant), customer relationship

Table 4. Coefficient of Customer Relationship Management

Model		Sum of Squares	df	Mean Square	F	Significance
1	Regression	29.481	1	29.481	92.573	0.000[b]
	Residual	29.935	94	0.318		
	Total	59.416	95			

a. Dependent Variable: firm performance

b. Predictors: (Constant), customer relationship

Conclusions

The study found that CRM provides management with useful feedback that can be deployed to better the firm's performance. This feedback is relied upon by management to make decisions which in turn provide a platform for quality service delivery. The study further found that all the reviewed banks had implemented some form of CRM and all have dedicated relationship managers for customers though this is mainly for higher value customers. The findings were in tandem with Orodho [3] who examined CRM on customer satisfaction and loyalty in India and found that CRM leads to high quality of service delivery and thus improved organization performance. This was further confirmed by the $R^2 = 0.491$ which indicated that 49.1% of the variation in firm performance was explained by this variable and this was a fairly good fit further confirmed by the low p- value of 0.001 which meant that the variable was significant.

Conflicts of interest

Authors declare no conflict of interest.

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