Does Customer Relationship Strategy Influence Customer Satisfaction and Loyalty? : Evidence from Malaysia Banking Sector

Maruf Gbadebo Salimon PhD Research Candidate
College of Business, University Utara Malaysia s95404@student.uum.edu.my
Rushami Zien Yusoff Professor
College of Business, University Utara Malaysia rzy278@uum.edu.my
Aliyu Olayemi Abdullateef Senior Lecturer
College of Business, University Utara Malaysia sany@uum.edu.my

Abstract

Purpose – The main purpose of this paper is to develop a conceptual framework that explains the influence of Customer Relationship Strategy on the customer satisfaction and loyalty of Malaysia Banks.

Design/methodology/approach – This paper adopts qualitative method of reviewing related literatures.

Findings – Evidences from the extant literatures have suggested that effective implementations of the five dimensions of CRM (Customer Orientation, CRM Organization, Knowledge Management, Technology Based CRM and Customer Involvement) will positively affect customer satisfaction and lead to loyalty within the banking industry.

Research limitations/implications – The major limitation of this work is that it is qualitative and thereby requires empirical data to support the model that is presented.

Practical implications – This paper practically suggests that for banks to gain satisfaction and loyalty of their customers, they must monitor level of customer trust through proper integration of CRM application.

Originality/value – This paper primarily conceptualizes a measurement model that would assist in determining the impacts of CRM on customer satisfaction and loyalty of banks. It is the first study that incorporates customer involvement dimension along other four CRM dimensions that was developed by Sin et al (2005). It also considers trust as a moderating variable between satisfaction and loyalty.

Keywords Customer Relationship Management (CRM), Banks, customer satisfaction, customer trust, customer loyalty.

Paper type Conceptual paper

Introduction:

The purpose of any business organization is to create and maintain a customer base that is profitable through provision of goods and services. This business performance and philosophy is long held and operationalized through Customer Relationship Management (CRM) concept that many organizations are now embracing in order to create a pool of customers that are satisfied, committed and loyal and through which profitability can be guaranteed in the long run (Akroush, Dahiyat, Gharibeh & Abu-Lail, 2011; Ngai, 2005).

CRM however has been defined from different perspectives and based on the disciplines of different authors. Its origin has been traced to relationship marketing which evolved in 1983 and technological advancement of mid-1990s (Abdullateef, Mukthar, Yusoff & Ahmad, 2012; Pedron & Saccol, 2009; Payne & Frow 2005; Sin, Tse, & Yim et al., 2005; Yim, Anderson & Swaminathan, 2005). Sin et al (2005), consider CRM as a strategy and business process that helps organizations to maintain an enduring relationship with customers by identifying, acquiring and sustaining a profitable customer relationship. Payne and Frow (2005) assert that CRM affords organizations to create, develop and enhance relationship with individual and specific customers which will in turn bring about maximization of *''total customer-life-time value''*. Kotler and Armstrong (2004) define CRM as *'' the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction''*. In this study therefore, CRM is defined as a veritable tool that is being used by different organizations to capture, sustain and keep customers till '*eternity*' through appropriate and positive relationship that will bring benefits to customers in particular and organization at large.

Business Performance is an important issue in the contemporary and has also being viewed from different perspectives using various metrics. Two of those metrics that are often used are Financial and Marketing Performance (Gama, 2011; Sin et al., 2005).

Financial Performance as a subset of business performance is an important benchmark for organization survival. It is quantitative in nature and depends on the ability of companies to make sales, earn profit, and sustain a favorable cash flow in order to keep the organization going (Ambler et al., 2004). Gama, 2011 asserts that other metrics that are used for financial performance include: ''*return on sales (ROS) and investment (ROI) and also metrics reflecting value generated for the company, such as economic value added (EVA) and market value added (MVA)*''. However, these metrics are dependent on marketing performance metrics as the ability to make profit and favorable return on investment, for instance, can be hampered if marketing performance is not effective (Sin et al, 2005; Yim et al, 2005). Marketing performance is therefore based on non-financial performance metrics that are used to judge organization efficiency and effectiveness as various authors have recognized service quality, customer satisfaction, brand equity and customer loyalty as important marketing variables that will determine whether an organization is performing or not (Gama, 2011).

Marketing performance of banks is therefore a major determinant of effectiveness and efficiency of their financial performance. The marketing performance as stated earlier comprises different metrics such as customer satisfaction, trust, loyalty and retention and which are very significant in the life of any organization (Sin et al, 2005; Gama 2011).

Notably, literatures and reports on service organizations have argued in favour of CRM adoption due to its strength to secure good marketing performance and subsequent positive returns on investment (Abdullateef et al., 2012; The Asia Banker, 2010). These various arguments are hinged on the ability of the CRM to make communication, and interaction between customers and service organizations like banks to be effective as technological channels such as faxes, Point of Sales (POS), Automated Teller Machines (ATM), internet and web facilities, e- mails and so on have made adoption of CRM a widely accepted strategy among service firms (Abdullateef et al., 2012; Sanda & Arhin, 2011; The Asia Banker, 2010).

Furthermore, the widely adoption of CRM has also afforded many organizations to develop strategies for understanding the customers through appropriate orientation, knowledge management, appropriate organization, and technology which bring about appropriate solutions to many of the challenges of their customers (Abdullateef et al, 2011; Sin et al, 2005; Yim et al, 2005). However, majority of the CRM literatures have ignored the dysfunctional form of CRM which revolves round inappropriate behaviors of service personnel towards customers and non involvement of customers while executing this business strategy (Fatima & Razzaque 2012; Frow, Wilkinson, and Young, 2011). These critical issues no doubt will bring about some misconceptions about CRM implementation and will subsequently lead to dissatisfaction and disloyalty among the customers with its negative multiplier effects on the general performance of the organization.

In view of the above, many authors have articulated and seriously called for proper application and implementation of CRM in the service industry like banking. They advocated that when the CRM is well implemented it will bring about customer satisfaction and loyalty and which will eventually impact on financial performance (Akroush et al., 2011; Frow et al., 2011; Sin et al, 2005 and Yim et al., 2005). In fact, Fatima et al.(2011) argue that for satisfaction and loyalty to be highly enhanced, the customers must be involved at all stages of relationship management as such participation and involvement will lead to satisfaction, trust and loyalty.

Current issues affecting Malaysian Banking Industry.

Banking is one of the major industries that form the basis of economic foundation of any Nation. Its roles involve majorly deposit mobilization and safe keeping, financial intermediation, and other related financial and non financial functions (Bank, T. C., Act, T., & Bank, C. 2009)). This is achieved through different products and services they designed and often rolled out for the benefits of their numerous customers. The contribution of the banks towards the revenue and employment generation of any Nation like Malaysia is also substantial as part of their income is contributed as tax to the pocket of the government (Bank, T. C., Act, T., & Bank, C., 2009))

However, various literature and reports have noted some issues especially in the application and implementation of CRM while banks are rendering their services. These issues are leading to high customers' dissatisfaction and disloyalty among the customers (Ernst and Young, 2012; Frow et al, 2011; The Asia Banker, 2010). Frow et al, 2011 for instance argue that some of these issues which involve service failure, neglect of relationship, customer exploitation, confusion, , intrusion of customer privacy, favoritism of key customers and so on are capable of leading to customer dissatisfaction and subsequently to disloyalty. In fact, Ernst and Young (2012) found that overall confidence of customer in the banking sector globally has kept falling with over 40% of the customers loosing trust due some malpractices on the part of some banks. In fact the company further found that 91% of Malaysia banks customers keep several accounts with many banks which imply that the customers do not have absolute trust in their primary banks.

In line with the above, Fatima et al, 2012, however, argued and found that for the effect of such issues to be reduced, and for the relationship management to be effective, customer involvement must be enhanced as this will bring about customer satisfaction and loyalty. In their arguments, they found that some relational advantage such as social, confidence, and special treatment benefits will not only trigger active involvement of the customers; it will equally give them sense of fulfillment and satisfaction. This discovery is in line with the major findings of Ernst and Young (2012) who also found that 47% of Malaysia banks customers want some loyalty programs that will offer cash rewards while 49% have even registered for one loyalty campaign or the other.

Concept of Customer Satisfaction, Loyalty and Trust as a moderating variable in Banking

Customer Satisfaction:

Banks belong to the service industry and just like any other organizations they want to retain their customers at all cost by providing products and services that will secure the customer satisfaction and subsequent loyalty which will later result to profitability. However, customers of the contemporary are almost insatiable as their needs are heterogeneous in nature (Fornell, Johnson, Anderson, Cha & Bryant, 1996). Fornell et al (1996) further conceptualized that customer satisfaction is based on three antecedents of perceived quality, perceived value and customer expectation. The perceived quality is based on two parameters of personalization and reliability of offering; perceived value on quality of product and price paid while customer expectation is based on comparism of his experience before and after consumption of goods or service.

In view of the above, many authors have therefore argued in favour of customer satisfaction concept as being capable of securing repeated patronage and enhance business commitment (Vasudevan, Gaur, & Shinde, 2006). Sharma and Patterson (2000) further argue that satisfaction is that critical evaluation being done by the consumer of a product or service after he or she has enjoyed the offer. Ranaweera and Prabu (2003) also conceptualized that customer satisfaction has to do with positive emotion and the belief that the banks will offer products that will evoke contentment in the course of relationship. Mascarenchas, Kesavan and Bernacchi (2006) are of strong position that customer satisfaction made the customers to be emotionally attached to all offerings and company’s brand. Vasudevan et al. (2006) in their finding and which corresponds with the contributions of other researchers validated that customer satisfaction is a strong determinant of loyalty which can lead to referrals.

Customer loyalty:

Customer loyalty in banking just like any organization is crucial for the organization survival especially with the high rate of competition among banks. It is often associated with brand and where brand represents what the company stands for in terms of a name, product, service, symbol, price and so on and which often demarcates one service provider from another (Macarenchas et al, 2006). Customer loyalty is a concept that often leads to consistent and repeated brand buying behaviour in spite the presence of competitors with better offers (Macarenchas et al, 2006; Jumaev, Kumar M. & Hanaysha, 2012). When a customer is therefore loyal, there is every tendency for him or her to continue to renew contracts, refers his preferred brand to friends and colleagues, and perhaps stays with his company forever (Jumaev, 2012). It is important therefore for Banks to monitor loyalty level of their customers in order to prevent switching as it costs less to retain a loyal customer that to win a new one.

Trust as a moderating variable:

Trust is the bedrock and foundation upon which banking relationship is built. Trust is also recognized as an important construct which can moderate relationship between satisfaction and loyalty in any relationship especially if the parties involved in the relationship are truthful and deliver their promises according to transaction agreement (Ranaweera & Prabhu 2003; Aydin & Ozer, 2005). Since banking is essentially about trust therefore, the likelihood that customers of the bank will be satisfied will be highly moderated by the extent to which their banks for instance perform banking transactions according to agreement. It has been argued by several authors that a satisfied customer is not necessarily a loyal customer as he or she can still defect to other trusted service provider especially when the customer discovers that his primary service provider lacks trust (Ranaweera & Prabhu 2003; Caceras and Paparoidamis, 2007).

A Structural Model and Direction of Research Hypotheses

From the review of various literatures, conceptual and qualitative analysis of various authors, below is the proposed model for this paper. The model is supported with theoretical analysis linking the CRM dimensions, customer satisfaction, customer loyalty and trust as a moderating variable.

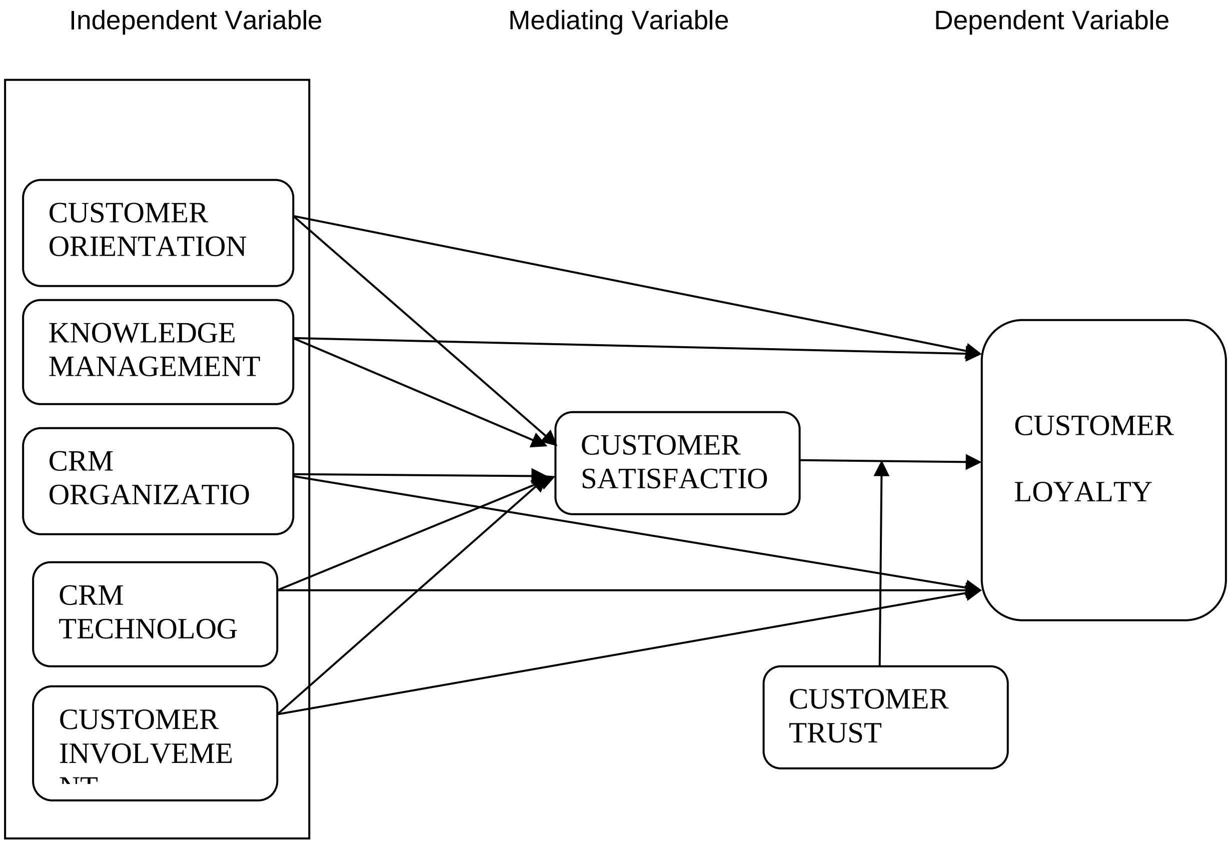

Figure 1: Research Model

Relationship between CRM dimensions, Customer Satisfaction, Customer loyalty and Trust as a moderating variable.

Customer Orientation

CRM as previously defined would not be successful without the appropriate orientation about the needs of the customers. Since customers are the pivotal engine of any organization, it is essential therefore that their needs are taken into consideration through a key focus that aims at delivering repeatedly excellent service that adds value (Abdullateef et al., 2012; Sin et al, 2005). It is only by anticipating, delivering and exceeding customer expectation through quality products/services and appropriate feedback that organizations can implement CRM successfully (Mohammad, Rashid & Tahir, 2013; Dean, 2007 and Eid 2007). Mohammed et al assert that a deep and proper customer-oriented behavior will lead to satisfaction and subsequent loyalty. Frow et al (2011) found that appropriate feedback in CRM implementation will reduce the dysfunctional of CRM and its ‘dark side’ taken care of while customer satisfaction and loyalty will be enhanced.

CRM Organization

CRM organization implies that the entire organization is conducive for and inclined towards the CRM implementation. Its broad implication is that the whole organization is systematically built and designed through efficient and effective formation of structure, teams, processes, human capital management, communication, and deployment of other organization's resources to achieve customer satisfaction and loyalty (Sin et al, 2005, Yin et al, 2005). For instance, Mohammed et al, (2013) argued that for customer orientation to be positively displayed by the employee, the organization must provide necessary tools and technology to enhance performance .Extant literature over the years have therefore suggested that organizations should address the issues of challenges that are revolving round implementations of CRM as various authors have tested and found that appropriate CRM implementation have positive impact on customer satisfaction and loyalty (Abdullateef et al 2012).

Knowledge Management

The essence of knowledge management in CRM is to ensure that all round information (360-degree customer view) about the customer is gathered through interactive ''touch points'' such as ATMs, POS, Teller point, data mining , telephone system, Chat groups, Interactive voice response, facsimile transmission, electronic data interchange, Voice over internet, Web sites and e-mail all these means in order to manage the customers' needs as well as share such information with all those that may need the information within the organization for decision making (Yim et al, 2005). The information gathered here is also used to develop a learning relationship with customers and through which competitive advantage can be developed (Abdullateef et al, 2012). Various authors have therefore argued and found that when this dimension is appropriately managed, it is capable of enhancing customer satisfaction and loyalty. It is therefore essential for banks to equip their employees with necessary instruments so that they may possess adequate knowledge about their customers as this affect positive provision of services.

CRM based Technology

Banks have different touch and interaction points such as ATM, POS, Cashier points, web, internet, data mining and warehousing facilities, call centers, which are technologically enabled. These facilities help organizations to mine and process customer data and which can be used to predict customer's behavioral pattern (Yin et al, 2005). The same technology can be used to improve marketing intelligence performance of company as value can be added to customer service through customization of needs which can lead to satisfaction and loyalty (Abdulllateef et al, 2012; Kyootai & Kailas, 2007 and Sin et al, 2005).

Customer Involvement

Bank organizations are unique from other industries due to personal and interpersonal service they are rendering to their customers. This trend makes customer involvement in CRM implementation and other activities of the banks to be highly required as this will bring about satisfactory encounters and reduce dysfunctional form of CRM (Fatima et al, 2013; Frow et al., 2011; Leverin & Lilijander, 2006 and Ndubisi & Wah, 2005). These positions can further be upheld and supported with cognitive economy theory that was proposed by Wyer and Srull (1986) and cited by Fatima et al (2013) which states that ''*consumers are ''cognitive misers'' who try to minimize the search and information processing tasks required for decision making if possible*''. Based on the premise of this theory, and the previous findings of various authors, one can assume that when customers are highly involved in Customer Relationship Management they will likely develop satisfaction especially if their expectations are met and which may subsequently lead to loyalty. In the context of banking, it can also be expected that customers will think themselves as a part of the bank when they are more involved with different banking activities. In fact the provision of relational benefits such as confidence, social and special treatment benefits were found to trigger customer involvement and which subsequently lead to satisfaction and loyalty (Fatima et al, 2013).

Based on the previous discussions, major conceptual and empirical findings of authors which have established that CRM has the capacity to improve the marketing performance of banks, this research hereby postulates the following hypotheses:

H1: Customer Orientation of the bank is positively related to customer Satisfaction

H2: CRM Organization of the bank is positively related to Customer Satisfaction.

H3: Knowledge Management of the bank is positively related to Customer Satisfaction.

H4: CRM Technology of the bank is positively related to Customer Satisfaction.

H5: Customer Involvement of the bank is positively related to Customer Satisfaction

H6: Customer Orientation of the bank is positively related to customer loyalty

H7: CRM Organization of the bank is positively related to customer loyalty

H8: Knowledge Management of the bank is positively related to customer loyalty

H9: CRM Technology of the bank is positively related to customer loyalty

H10: Customer Involvement of the bank is positively related to Customer Loyalty

H11: Customer satisfaction of the bank positively mediates between customer orientation and Customer Loyalty.

H12: Customer satisfaction of the bank positively mediates between Knowledge Management and Customer Loyalty

H13: Customer satisfaction of the bank positively mediates between CRM organization and Customer Loyalty.

H14: Customer satisfaction of the bank positively mediates between CRM technology and Customer Loyalty.

H15: Customer satisfaction of the bank positively mediates between customer involvement and Customer Loyalty.

H16: Customer satisfaction of the bank positively mediates between CRM dimensions and Customer Loyalty.

H17: Customer Trust of the bank positively moderates between customer satisfaction and Customer Loyalty.

Conclusion

Having considered different theoretical and practical arguments in respect of CRM implementation and its implication on the marketing performance of banks, it becomes obvious that that there are still some salient issues to be considered if banks management will reap the full benefits of CRM. Consequently, various authors and consulting firms have published relevant literature and reports and stated that for CRM as a business strategy and philosophy to be effective, a holistic view and application of CRM must be done where the five dimensions discussed in this paper must be taken into consideration. Part of the reports equally emphasized that for satisfaction to lead to loyalty, banks must be communicate truthfully in their interaction with their customers as this will encourage the customers to develop trust and confidence in the banks thereby refrain from keeping multiple bank relationships.

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