

The Practices of Customer Relationship Management in Selected Private Banks: A Case of Hawassa, Ethiopia

Tesfaye Nigussie
Hawassa University: College of Business and Economics,
Hawassa, Ethiopia

Abstract

This research studies customer relationship management practices (comparative study) in selected private banks in Hawassa, Ethiopia. CRM as a strategy has gained tremendous interest among researchers and practitioners in recent times. Thus, the study tries to assess the status and ways CRM has been put in to practice by selected Ethiopian private banks. In addition, this research considers different CRM dimensions such as trust, reciprocity, empathy, bonding and responsiveness. To achieve the objective of the study, primary data were collected through questionnaire from sample of 253 bank customers of Wegagen bank, Dashen bank and Bank of Abyssinia, Hawassa, Ethiopia. These respondents were selected using simple random sampling technique. The data collected through questionnaire were analyzed using descriptive statistical analysis method and SPSS as a tool of data analysis. Interviews were also conducted with management bodies of the selected private banks in Hawassa city. The result of the study indicated that, there are several loopholes; such as, lack of continuous supervision and monitoring in the quality of bank services, weakness in giving individualized attention to customers, heavy reliance on suggestion boxes to get feedback from customers, lack of technological advancement etc. In addition to the above findings, the common challenge of the selected banks is network interruption. The finding also suggests some measures which can be taken in to consideration in order to enhance CRM practices of the three selected banks. The study also clearly revealed that the five CRM dimensions are strongly related. Thus, from customers as well as management bodies of the three banks perspective, CRM has a significant influence on customer retention of the selected banks. Generally speaking the three banks are in need of doing a lot of CRM based customer focused practices. However, in implementing CRM in to practice, the selected banks had their own gaps. Comparing the selected private banks on their ability of implementing CRM practice, Dashen bank was found to be better implementer, followed by Bank of Abyssinia and Wegagen bank, respectively. Based on the findings of the study, the researcher forwards some recommendations as; continuous supervision on the quality of services, provision of training to employees, and recurrent research on customer needs may help the banks to achieve their objectives.

Keywords: Customer relationship management, private bank.

1. Introduction

According to Singh and Arora (2011), banks play a great role of considerable economic significance as intermediaries in mobilizing public savings and channelizing the flow of funds for productive purposes, keeping on the process of the economic growth of the country. On the other hand, the purpose of banking business is "accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise" (Chaudhary and Sharma, 2011).

Chothoni et al. (2010) have noted that private banks have traditionally viewed themselves as exceedingly 'Customer Centric' offering what they believe to be highly personalized services to the high net worth customers. When there are different private banking sectors, customers are needed customer centric services. So, in achieving this, the banks are deploying CRM as a tool for building customer base and enhancing revenue (Oogarah-Hanuman et al., 2011).

Pritesh et al. (2010) described that the first step towards successfully winning, retaining and growing the profitability of private banking customers is to understand what their wants and needs are, so that the organization can be built around serving those needs. Customers are the source of profits to be earned by a profit making organization and the primary reason for being in the operation for not for-profit organizations (Bekele, 2011). Thus, it has been supported by Gilaninia et al. (2011) that a customer is the only source of profitability for companies in the present and future.

From the above explanation, understanding the wants and needs of customers' are essential for banking industries. Therefore, assessing CRM practices of private banks are a prerequisite to know the wants and needs of customers as well as for the success of the banking industry.

1.2. Statement of the problem

CRM is a management approach that enables organizations to identify, attract, and increase retention of profitable customers through improved relationship management (Hobby, 1999 cited in Ramkelawon, 2010). However, successful customer relationship management focuses on understanding the needs and desires of

the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes (Pritesh et al., 2010).

Now days, in Ethiopia the banking industry increases from time to time; as a consequence users have many choices to prefer and as a result of this they are focusing on the quality of service. In Ethiopia, many customers voice concerns about inefficiency and lack of quality in the banking sector (Gebre, 2010).

To be competitive in the prosperous market, CRM practice is the fashionable solution. But researches that have been conducted in the banking industry both by academicians and practitioners, focus on the transactional marketing rather than what specialists in marketing says. Therefore, the researcher would like to assess the status and ways CRM has been put into practice by Ethiopian private banks. This is, therefore, as Tamilarasan (2011) says, when one wants to evaluate the effectiveness of CRM, one has to consider the voices of customers which help to improve customer satisfaction and loyalty than evaluating CRM programs based on other criteria. As a result, customer perception feedback regarding the service level of private banks is essential in retaining existing customers and attracting potential ones. Therefore, to assess CRM practices a comparative study was carried out with a special reference to customers of Dashen bank Hawassa area branch, Wegagen bank Hawassa branch and Bank of Abyssinia yirgalem branch.

1.3. Objectives of the study

- To assess whether customer relationship management practices are being implemented in the banks or not.
- To identify the banks difference on their customer relationship management practices.
- To assess customers perception on the banks' customer relationship management practices.
- To assess the challenges of customer relationship management applications.

2. Literature review

Different organizations define CRM differently (Chopra et al., 2012). For this study it is defined as the utilization of customer-related information or knowledge to deliver relevant products or services to customers (Blery and Michalakopoulos, 2006). Others also defined CRM as a managerial philosophy that seeks to build long term relationships with customers (Berndt et al., 2005). Another definition describes CRM as a simple philosophy that places the customer at the heart of a business organization's processes, activities and culture to improve his satisfaction of service and, in turn, maximize the profits for the organization (Agarwal, 2009).

Today, banks have realized the importance of CRM and its ability to retain existing customers and thereby maximization of customer lifetime value (Tamilarasan, 2011). Thus, Rouholamini & Venkatesh (2011) says the relationship between banking and CRM practices is such that nowadays it is almost impossible to think of the former without the latter. This indicates that they are inseparable.

The first step towards successfully winning, retaining and growing the profitability of private banking customers is to understand what their wants and needs are so the organization can be built around serving those needs (Pritesh et al., 2010). One of the original big ideas in marketing is that for firms to stay in existence, they should not focus on selling products but rather on fulfilling needs (Levitt, 1960 cited in Boulding et al., 2005). In service industry especially private banks, the secret towards successfully winning, retaining and growing the profitability of private banking customers is to understand what their wants and needs are, so that the organization can be built around serving those needs (Chothani et al., 2010). In addition to this, Boulding et.al (2005) has also added that an underlying premise of CRM is that customers have different needs, and thus the firm should treat them differently. Therefore, to mention some, customers are needed advice and expertise which is directly related to their needs, consistent quality service, value added advice and others.

With regard to objectives of CRM, it has been defined in terms of customer satisfaction, customer delight, customer share, customer retention, and loyalty. All of these represent the attainment of ongoing relationship development objectives. Regarding defining constructs, CRM has been characterized in terms of trust, commitment, cooperation, communication, share values, conflict, power, non-opportunistic behavior and interdependence. With regard to instruments, CRM has achieved its objectives through direct marketing, database marketing, quality management and the like. In addition to the above breakdown of CRM, there were a lot of research papers in the online databases pertaining to privacy, cultural impact, impact of gender, impact of technology, impact of societal marketing, and others that were classified as issues as they represented topics which will be directly impacted by or having an impact on CRM (Das, 2009).

Researchers divide different mechanisms of customer relationship management into internal and external programs (Ghafari et al., 2011). According to them internal programs emphasize on organizational structure, culture and knowledge management while external programs include interactive activities with customers (for example information exchange with the customer or involving him/her). Thus, based on this the present paper has been focused on external programs of customer relationship management. This is, therefore, although CRM practices are measured under different dimensions but for this study the relevant dimensions are trust,

reciprocity, empathy, bonding and responsiveness.

3. Research methodology

3.1. Research design

According to Chopra *et al.* (2012) research design is the conceptual structure within which research is conducted. They specifically indicated that “a research design is the arrangement of condition for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. A research design is the arrangement for a precise statement of goals and justification. Zegeye *et al.* (2009) stated that the goal of descriptive research is to describe some aspect of a phenomenon, i.e., the status of a given phenomenon. However, although some people dismiss descriptive research as mere description, good description is fundamental to the research enterprise and it has added immeasurably to our knowledge of the shape and nature of our society (Vaus, 2001). He further argued that good description provokes the ‘why’ questions of explanatory research. Therefore, according to the above fact the researcher uses descriptive research design in order to describe the assessment of CRM practices of the selected private banks. To do so the researcher data were collected through questionnaire and interview.

3.2. Sampling design and techniques

From the total population size of 689 customers 253 sample of respondents were taken from the study area of the selected private banks.

Yamane (1967:886) cited in Israel (1992) which is revised on April 2009 and again reviewed on June 2012 provides a simplified formula to calculate sample sizes.

The sample size is determined by the following formula.

Where n is the required sample size, N is the population size and e is the level of precision. Therefore:

$$n = \frac{N}{1 + N(e)^2} \quad n = \frac{689}{1 + 689(0.05)^2} = 253$$

3.3. The study variables

The study variables were the dimensions of customer relationship management (trust, reciprocity, empathy, bonding and responsiveness) .

3.4. Data collection method

The study mainly depends up on primary source of data. Primary data were collected from customers of the three selected private banks through questionnaire. In addition to this the researcher conducted an interview with the higher officials (branch manager and assistant branch manager) of the selected private banks. A 5 - point likert scale questionnaire was distributed and collected by the researcher. This helps to assure customers’ response, which were kept confidential by the researcher. But if it is distributed by the researcher and collected by another person the respondents will get confused and it is difficult to get real information. So, to protect this confusion the questionnaires were distributed and collected by the researcher himself.

3.5. Method of data analysis

The data collected were analyzed using qualitative and quantitative data analysis techniques. The qualitative data were analyzed using content analysis; that is items will be identified, categorized and grouped. Based on their group the data were interpreted. However, the numerical data was analyzed using SPSS (statistical packages for social science) software program. In addition to this, the data was analyzed through cross-tabulation and the significance of the CRM variables were also tested through correlation. The analytical tool is also supported using frequency and percentage techniques. The final results of the study are presented using tables and graphs.

4. Results and discussion

4.1. Correlation coefficients

Correlation measures the strength of the linear relationship between two variables. Thus, Pearson’s correlation is used to identify whether there are relationships between the variables and to describe the strength and the direction of the relationship between two variables. The interpretation of the result is as follows; a correlation result between 0 to 1 implies positive relationship, 0 (zero) for no relationship, 1 for perfect positive relationship, - 1 for perfect negative relationship and between - 1 to 0 indicate the existence of negative relationship. Though it indicates the existence of a positive or negative relationship, the strength of such a relationship is not high when the results fall below ± 0.61 (Oogarah-Hanuman *et. al.* 2011). It is also supported by Berndt *et. al.* (2005), the rules of thumb proposed by Burns & Bush (in van Heerden, 2001) suggests that “moderate” ends at ± 0.60 , and “strong” starts at ± 0.61 .

Table 4.1: Correlation results

Correlations		Trust	Reciprocity	Empathy	Bonding	Responsiveness
Trust	Pearson Correlation	1	0.805**	0.834**	0.780**	0.765**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
Reciprocity	Pearson Correlation	0.805**	1	0.851**	0.765**	0.792**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000
Empathy	Pearson Correlation	0.834**	0.851**	1	0.807**	0.772**
	Sig. (2-tailed)	0.000	0.000		0.000	0.000
Bonding	Pearson Correlation	0.780**	0.765**	0.807**	1	0.872**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000
Responsiveness	Pearson Correlation	0.765**	0.792**	0.772**	0.872**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Own survey data, 2018

As clearly shown from the table above, there exists strong (since all the correlation coefficients are greater than the agreed standard, 0.61) and positive relationship between different CRM dimensions (trust, reciprocity, empathy, bonding and responsiveness variables) and it is also found to be significant at 95% confidence interval.

4.2. Discussion of interview results

Interviews were also conducted with branch managers and assistant branch managers of the banks considered in this study. The interviews consisted of six structured questions. This section presents the results of each interview questions.

The first question forwarded to them was about the CRM practices of their respective banks as compared to their rivals. In this regard, an interviewee from Wegagen bank responded that their CRM practice is efficient and the bank provides customer focused domestic and international banking services. WB managers added to this point that they have suggestion box and read and interpret their customers comment. In addition, according to the interviewee, they differ from their competitors since they provide individual customer focused services. When we see from Dashen bank perspective, their CRM practice is one window service and they attentively follow the daily service activities. This service is also preferred by their customers and they thought that this is the better practice compared to other rivals banks. Similarly, BOA managers also replied that their CRM practice is focused on customer satisfaction through quality customer service. According to the response from the interview with BOA representative, the bank differs from other competitors by its door to door banking services.

The second interview question asked was “How does the bank attain knowledge about customers?” In this regard, the managers and deputy managers of the three banks replied that they get information about their services from their suggestion box. Though, this may not be sufficient source of information, questionnaires and research works being the most reliable source of information about customer’s satisfaction on the bank services.

The third question was regarding CRM strategies of the banks under consideration. The managers of the selected private banks came up with almost similar responses. Among these strategies; introducing new technology, structure revision and customer focused services are emphasized by the respondents. Besides these, BOA develops expansion strategy so as to enrich its customers.

The fourth interview question was regarding the CRM dimensions such as trustworthiness, reciprocity, empathy, bonding and responsiveness of the selected banks. With regard to trust, all

interviewees of the selected banks replied that they are trustworthy in keeping customer record safely as well as confidentiality. In addition, all the interviewees of the three banks admitted the existence of interdependence between the banks and their customers, which show a positive value of reciprocity within the organization. Regarding to empathic relationship with their customers, managers of BOA have doubt on employees' response towards customers request because, according to the interviewee, some customers provide information regarding the response capacity of employees of the bank. However, managers of WB responded that employees and management bodies of the bank work extra time to satisfy their customers while DB bank front officers transfer the question of their customers to back siter officials, if it is beyond their capacity.

Considering bonding, all interviewees agreed that they are working to establish long term relationship with their customers and doing various efforts, since nothing is absolute in the world, towards customer retention. In addition, responsiveness was one area of interview question for the study. As showing sincerity and willingness to help customers are some of the key issues in responsiveness, from the selected private banks interviewees of DB and WB are replied that their respective banks trying to provide prompt customer focused services. BOA managers, however, replied that they cannot provide the desired quality services due to hiring new employees.

The fifth interview question was about the awareness of employees on the concept as well as practices of CRM. In this regard, interviewees of WB and DB replied that they create awareness among their employees through continuous training. They said also that their employees are in a good ethics of conduct towards understanding customer's individual character, needs and preferences. BOA managers, however, replied that awareness is given by looking employee's day to day service practice. In addition, the managers of this bank said that, employees of the bank never got training on quality customer service though training is important to make employees have good understanding on quality customer service practices.

4.3 Summary of Findings

In comparison to trust, reciprocity, bonding and responsiveness of CRM dimensions, DB is better performer followed by BOA and WB, respectively. However, taking empathy as an indicator of CRM, DB and BOA has almost equal performance but still WB is lacking behind the two other selected private banks. In addition to the above CRM dimensions, in regard to the supportive miscellaneous questions DB is better than the remaining two banks (BOA and WB) however; BOA is better performed than WB in this regard. Thus, in implementing CRM in to practice the selected banks have their own gaps. However, comparing the three private banks Dashen bank is better implementer followed by Bank of Abyssinia and Wegagen bank, respectively. Furthermore, as per the conducted interview results of higher officials of selected banks, the banks were found to be strong in introducing new technology and make networking system among their own branches. On the other hand, they faced problem of network interruption that adversely affects their quality banking service practices.

4.4. Conclusion

The purpose of customer retention is to keep a high proportion of valuable customers through reducing customer dissatisfaction. As suggested on the literature review part of this study, normally, the costs of cultivating the existing customer base are far less than the costs of attracting new customers. From the descriptive statistics results of this study, there exists a relationship between CRM and Customer retention. The results clearly revealed that the five CRM dimensions are very close. This shows us that CRM has significant influence on customer retention both from customers' and branch managers view. Though it needs further and detailed study, generally, the results indicate that customer relationship management is important for customer retention that is essential for the success of the selected private banks.

4.5. Recommendation

The general recommendations are for the three banks considered in this study, which includes; Attention should be paid in continuous supervision and monitoring the quality of services.

The three banks should have dialogues with their customers in order to identify where the demand of customers lies and offer customized services to them.

The selected banks should Implement CRM practices; which can enable the banks attract and retain customers.

Considering empathic relationship among the three banks and their customers, some respondents of the selected banks reply that employees are not responding to their requests properly. Therefore, the banks need to provide continuous training to their employees.

The three banks obtain information about their customers from their suggestion boxes. However, it will be better to adapt other mechanisms such as interview, questionnaires or generally conducting research periodically.

Recommendations for Further Research

The study focused on three banks in Hawassa city. Additional research is necessary to determine if the relationships identified can be generalized to other banks through comparative studies considering more banks.

This study includes only five CRM dimensions. However, there could be some other relevant factors that may be perceived as important by customers. Thus, future research works which incorporate diversified CRM dimensions will be advisable.

References

- Abiy Zegeye, Alemayehu Worku, Daniel Tefera, Melese Getu and Yilma Sileshi. (2009).
- Introduction to research methods. Graduate studies and research office Addis Ababa University.
- Agarwal, R. (2009). A comparative study of nationalized and private banks with reference to customer relation management. School of management studies Punjabi University, Patiala.
- Alrubaiee, L. and Al-Nazer, N. (2010). Investigate the impact of relationship marketing orientation on customer loyalty: The customer's perspective. *International journal of marketing studies* vol. 2, No. 1.
- Ananth, A., Ramesh, R. and Prabakaran, B. (2010). Service quality gap analysis in private sector bank - a customer perspective. *Indian journal of commerce & management studies*.
- Bartlett, J.E., Kotlik, J.W. and Higgins, C.C. (2001). Organizational research: Determining appropriate sample size in survey research. *Information technology, learning, and performance journal*, vol. 19, no. 1.
- Berndt, A., Herbst, F. and Roux, L. (2005). Implementing a customer relationship management programme in an emerging market. *Journal of global business and technology*, Volume 1, number 2.
- Bewketu Yaregal. (2011). Ownership and organizational performance: a comparative analysis of private and state owned banks.
- Blery, E. and Michalakopoulos, M. (2006). Customer relationship management: A case study of a Greek bank. *Journal of financial services marketing* 11, 116 – 124.
- Boulding, W., Staelin, R., Ehret, M. and Johnston, W.J. (2005). A customer relationship management roadmap: What is known, potential pitfalls, and where to go. *Journal of marketing* Vol. 69, 155–166.
- Chang, H.H. (2007). Critical factors and benefits in the implementation of customer relationship management. *Total quality management*. Vol. 18, no. 5, 483–508.
- Chary, T.N. and Ramesh, R. (2012). Customer relationship management in banking sector- A comparative study. *KKIMRC IJRHRM* vol-1, no-2.
- Chaudhary, K. and Sharma, M. (2011). Performance of Indian public sector banks and private sector banks: A comparative study. *International journal of innovation, management and technology*, vol. 2, no. 3.
- Hennig-Thurau, T., Gwinner, K.P. and Gremler, D.D. (2002). Understanding relationship marketing outcomes: An integration of relational benefits and relationship quality. *Journal of service research*, volume 4, no. 3, 230-247.
- Jasola, M. and Kapoor, S. (2008). CRM: A Competitive tool for Indian banking sector. *Communications of the IBIMA* volume 5.
- Kheng, L.L., Mohamad, O., Rahayah, T., Mosahab, R. (2010). The impact of service quality on customer loyalty: A study of banks in Penang, Malaysia. *International journal of marketing studies*. Vol. 2, No. 2.
- Krasnikov, A., Jayachandran, S. and Kumar, V. (2009). The impact of customer relationship management implementation on cost and profit efficiencies: Evidence from the U.S. commercial banking industry. *Journal of marketing* Vol. 73 , 61–76.
- Kuranchie, F.K. (n.d). The effect of customer relationship marketing on customer retention in the Ghanaian banking sector: A case of Intercontinental bank Ghana limited. School of management blekinge institute of technology.
- Lindgreen, A. (2011). A framework for studying relationship marketing dyads. *Qualitative market research: An international journal* volume 4, number 2, pp. 75-87.
- Loke, S., Taiwo, A.A., Salim, H.M. and Downe, A.G. (2011). Service quality and customer satisfaction in a telecommunication service provider. *International conference on financial management and economics IPEDR* vol.11.
- Marfleet, J. (2004). Implementing customer relationship management in JPMorgan: New roles for information professionals. London, thousand Oaks and New Delhi., vol. 21(2): 111–116.

- Mishra, U.S., Mishra, B.B., Praharaj, S. and Mahapatra, R. (2011). CRM in banks: A comparative study of public and private sectors in India. *European journal of social sciences*. Volume 24, number 2.
- Mohammad, A.T. (n.d). The effects of marketing communications on Malaysia's consumer based brand equity and intension to visit among potential tourists from gulf countries: The case of Jeddah and Dubai
- Morgan, R.M. and Hunt, S.D. (1994). The commitment- trust theory of relationship marketing. *Journal of marketing*.
- Mylonakis, J. (2009). Customer relationship management functions: A survey of Greek bank customer satisfaction perceptions.
- Narang, Y., Narang, A. and Nigam, S. (2011). Gaining the competitive edge through CRM – a study on private sector banks. *IJRFM* volume 1, issue 3.