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A conceptual framework for Customer Relationship Management (CRM) practices among banks from the customers perspective

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ABSTRACT

The objective of this paper is to propose a framework on the Customer Relationship Management (CRM) practices among banks. The conceptual framework is design based on two marketing theories: (i) Relationship Marketing Theory; and (ii) Customer Relationship Management Theory. In this study, the concept of CRM is based on six important dimensions. These dimensions are (i) customer acquisition, (ii) customer response, (iii) customer knowledge, (iv) customer information system, (v) customer value evaluation and (vi) customer information process. Review of the past literatures will be done to enable us to establish the theory and finally propose the conceptual framework to be used in this study.

Introduction

Customer Relationship Management (CRM) begins with the concept relationship marketing introduced by Berry in 1983 to attract and to maintain the relationships between customers and organizations (Berry, 1995). Discussion about relationship marketing began in the 1960s where the many researchers studied on consumers' brand loyalty and store loyalty. Later, in the late 1970s researchers focused on industrial marketing and marketing channel to develop a framework and the theories are based on two groups of relationships; buyer and seller (Moller and Halinen, 2000). The evolutions of marketing philosophy in the relationship between customers and organizations change the term relationship marketing to Customer Relationship Management (CRM).

Many researchers define the phrase CRM in different ways. Brown (2000) for example, defined CRM as:

CRM as a process of acquiring retaining and growing profitable customers and business strategy that aims to understand, anticipate, manages the needs of an organization's current and potential customers (page 8).

According to Ryals and Payne (2001), CRM is a management approach that use information technology (IT) to build a long term relationship with their customers and at the same time channel more profits to the organizations. Chen and Ching (2004) described CRM as a long term relationship that use customer database to identify which customer can give more profits to the organizations. Mylonakis (2009) recognized CRM as an innovative process to create a long term relationship with customers in order to get trust from customers towards organizations. Therefore, CRM is a comprehensive strategy and process which focus to establish, maintain and enhance relationship with customers and to create value for the organizations (Jham and Kaleem, 2008).

Studies in CRM had been applied in areas such as banking, retail, insurance, communication and education (Lu and Shan, 2007; Chen and Ching (2004). How far are the practices of CRM in the banking sector which focus on providing services to their customers, are yet to be seen? Banking sector is a customer oriented services where customer is the main focus. Therefore research is needed in this sector to understand more on customers' need and their attitude so as to build a long term relationship with banks.

Study on the relationship between customers and banks in Malaysia is still lacking comparing with research that had been carried out in other parts of the world such as Europe, United Kingdom, United State, and Australia (Jham and Kaleem, 2008). Hence, this study is carried out to examine CRM practices among banks from customers' perspectives, focusing in Kuala Terengganu which is situated on the East Coast of Peninsular Malaysia.

The objective of the study is to propose a framework for Customer Relationship Management practices among banks from the customers' perspectives.

Customer Relationship Management

To understand more about CRM, we need to understand three components which formed the banking customer, relationship, and management (Peppers and Rogers, 2004). Park and Kim (2003) defined customer as a customer whose identification and contact information exist within the firm.

Mylonakis (2009) has done a research in Greek Bank to understand the marketing philosophy of CRM. This research includes the elements of banks relationships orientation, customer acquisition and retention, customers' perception of banks and management of customer knowledge. Results from the interview with the bank customers bank showed that they

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were closing their current account with the banks because of the relationship problem with those banks. Stewart (1998) determined four major problems that customers faced namely: charges and their implementation; facilities and their availability; provision of information and confidentiality; and services issues relate how customers are treated.

According to Stewart (1998), customers received negative response from banks pertaining to waiving charges, standard procedures and keeping quiet. Though employees are important to have good attitudes, managers also need to have these characteristics to formulate plans benchmark, set the target, and improve the companies' performances from time to time which they can compete to each other to show that they are capable to have good relationship with customers (Lu and Shang, 2007).

In banks, service quality is very important. Service quality can be defined as the degree of excellent services provided by organizations towards their customers. In banks, using SERVQUAL, a multiple scale for measuring consumer perceptions of service quality; which cover four dimensions namely: empathy, reliability, assurance, and tangibles, had been used (Dutta and Dutta, 2009). Research on service quality in banks for example, had found that there was a gap between service quality expectations and perceptions of the customers (Tahir and Bakar, 2007). Their study found that the most important dimensions in service quality are responsiveness, followed by reliability, tangibility, assurance and empathy.

CRM should involve every department in banking organizations. Liang, *et. al.*, (2009) investigated CRM performance in bank from three departments; department of loans, department of deposit and department of card credit. Their findings showed that customer perceptions positively affect financial performance. The results also suggest that managers should have a good relationship with their customers and that treating them as partners would help improve financial performance.

There are two things to utilize the relationship marketing paradigm when looking at bank customer retailer financial relationship (Colgate and Alexander, 1998). Firstly, relationship marketing must be valuable and viable both to customers and organizations. Second, relationship between customers and banks will increase the importance of retailers to maintain and enhance the overall relationships that currently exist with the customers. In addition, customers are likely to interact with their banks which satisfy their needs by offering services and products. However, there are a many customers who are satisfy with their banks but they felt that banks are not interested to satisfy their needs (Mylonakis, 2009).

According to Longfellow and Celuch (1992), the use of involvement of customers in market segmentation is still scarce. Their study showed that high involvement customers tend to hold favourable perceptions of bank attributes (employees' skill, service provided, and operating hours) than low involvement customers. Their study also found that customers who involved with the bank in Midwestern City were older, favourable and less education compared to the findings of Mylonakis (2009) who showed most customers in Greek Bank were younger, high education and income above the average.

How relationship exists?

According to Colgate and Alexander (1998), relationship cannot be defined but our partner will know whether the relationship exists or not. Relationship exists when customers have interaction with the organizations. Two characteristics should exist in the relationship: has to be mutually perceived; and has a special status that goes beyond customers contact. Elements in relationship should be interdependence, long term orientation, commitment and trust (Damkuviene and Virvilaite, 2007). The role of relationship quality is important and considered as an intangible aspect of CRM performance (Wang *et. al* 2004).

Relationship concepts can be defined into two perspectives. Firstly, relationship is only type of interactions or repeated actions, transactions and episodes and second, relationship as a meaningful emotional bond with an organization (Damkuviene and Virvilaite, 2007). According to Mylonakis (2009), to understand more the relationship, the managers should understand more their customers in terms of needs, behaviour, satisfaction and perception towards the services and products where customers are important assets to them. Managers should identify the marketing segmentation as one of the process to build and maintain a long-term relationship between bank and customers. To build a long-term relationship with the customers, characteristics such as trust, commitment and satisfaction are needed (Mylonakis, 2009; Stewart, 1998).

Theories Related to Customer Relationship Management

The relationship marketing theory is based on market and network (Moller and Halinen, 2000) while customer relationship management (CRM) is based on the justice theory to explain the customer involvement as these elements influenced satisfaction, loyalty and trust involve in this theory (Wetsch, 2005). From these theories, we will come out with a framework adopted from previous empirical works.

Relationship Marketing Theory

There are three types of relationship marketing: database marketing; interaction marketing; and network marketing. Database marketing as internal marketing, is the use of IT to increase customer loyalty, profits and customer satisfaction. Interaction marketing as external marketing assets for example, employees used to develop and facilitate relationships. According to Moller and Halinen (2000), there are two basic relationship marketing (RM) theory called market based and network based, where four sources of relationship marketing are identified: marketing channel; business marketing (interaction and networks); services marketing; and database marketing and direct marketing. RM theory is based on exchange characteristics and exchange context.

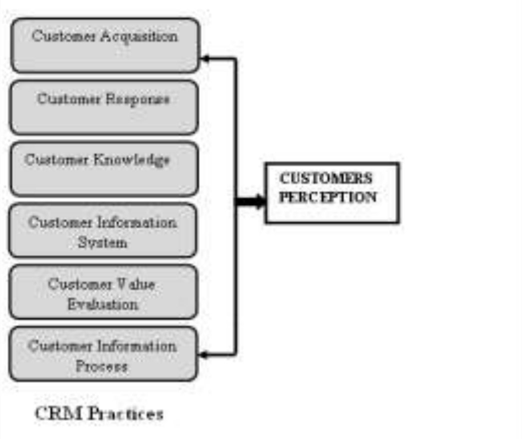
Customer Relationship Management Theory

According to Westch (2005), Customer Relationship Management (CRM) theory is a combination of relationship marketing and customer centric where justice theory had applied in CRM theory. Justice theory involves the elements of trust, satisfaction, and loyalty where these elements should have in the relationship between customers and organizations. There are three types of justice theory called distributive justice, interactional justice and procedural justice. Distributive justice means the perception an individual holds the fairness of outcome. Second types of justice theory is interactional justice is perceived fairness of the interpersonal interaction in decision process and the third types is procedural justice is a fairness of the process.

A Conceptual Framework

A conceptual framework in this study is based on Lu and Shang (2007) who identified six CRM dimensions making up of thirty CRM attributes under customer acquisition, customer response, customer knowledge, customer information system, customer value evaluation, and customer information process. In this study, we are going to use the six CRM dimensions to apply in banking sector. Figure 1 show a conceptual framework of CRM practices among banks from the customers' perspectives.

Figure 1: A Conceptual Framework of CRM Practices



These six CRM dimensions are described below:

Dimension 1 (Customer Acquisition):

S1 = The bank has flexible measures for customers' urgent requirements.

S2 = The bank has different marketing mix for target customers.

S3 = The bank would use customer information to develop a new market.

S4 = The bank would apply customer information to marketing planning.

S5 = The bank provides a variety of service items and information.

S6 = The bank provides sales rebates for customers.

S7 = The bank provides solitary services to meet customers' requirement.

Dimension 2 (Customer Response):

S1 = The bank uses phone calls, e-mails, and personnel visits to communicate with customers.

S2 = The bank rapidly responds to customers' problems, suggestions, and complaints.

S3 = The bank would initiatively understand customers' service requirements and expectations.

S4 = The bank has good reputation, therefore, customers would initiatively enquire about bank's services.

Dimension 3 (Customer Knowledge):

S1 = The bank is knowledgeable about how to obtain main customers.

S2 =The bank understands main customers' service requirements.

S3 = The bank has fruitful capabilities to obtain new customers.

S4 = I often introduce other customers to purchase bank's product and services.

S5 = I often insist on using bank's services and product.

Dimension 4 (Customer Information System):

S1 = The bank is capable of using their computer system to categorize targeted markets.

S2 = The bank's computer system is capable of organizing classifying interactions between sale representatives and customers.

S3 = The bank has a computer system sufficient to handle customers' information.

S4 = The bank has a management system to check transactions and customer relationships.

Dimension 5 (Customer Value Evaluation):

S1 = The bank would analyze individual customer's profit contribution.

S2 = The bank would analyze customer types and behaviours to identify customer value.

Dimension 6 (Customer Information Process):

S1 = The bank's computer system is capable of storing, searching and analyzing customers' data.

S2 = The bank's computer system is capable recording customers' purchases and services.

S3 = The bank has location advantages.

Methodology

This study is descriptive study with the purpose to investigate the CRM practices among banks from the customers' perspective. The sample in this study will consist of customers' of banks located in one of the state in the East Coast of Malaysia. Customers will be randomly selected using the convenience sampling method since banks will not expose their customers to the public. The questionnaire was adapted from Lu and Shang (2007). However, we selected only 25 items instead of 30 items as suggested by Lu and Shang (2007) to suit our study.

These items were measured using a five-point, Likert Scale with the following anchors:

1 = Strongly Disagree,
2 = Disagree,
3 = Neutral,
4 = Agree,
5 = Strongly Agree.

The questionnaire design will be divided into two sections. Section A is the demographic profile of respondents while Section B is the questions related to six dimensions under CRM practices from the customers perspective.

Conclusion

The main objective in this study is to design a framework for Customer Relationship Management (CRM) practices among banks from the customers' perspective. Based on the previous literatures and the two main theories in marketing; Relationship Marketing Theory and Customer Relationship Management Theory, we design a conceptual framework of CRM practices among banks from the customers' perspective.

There are six CRM dimensions which will be used for this study: customer acquisition, customer response, customer knowledge, customer information system, customer value evaluation and customer information process. A questionnaire for this study is adapted from Lu and Shang (2007) containing 25 statements; 7 questions under dimension 1; 4 questions under Dimension 2; 5 questions under Dimension 3; 4 questions under Dimension 4; 2 questions under Dimension 5 and 3 questions under Dimension 6. Questionnaires will be first tested using 20 respondents from different background as a pilot study to test the validity and reliability of the instruments used.

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