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CUSTOMER RELATIONSHIP MANAGEMENT AND SATISFACTION LEVELS IN BANKING INDUSTRY

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Abstract: Customer relationship management (CRM) is critical to corporate success and managing customer relationships have become extremely important in achieving customer satisfaction. Therefore, in order to achieve high customer satisfaction, companies must learn the skills of how to deliver effective services to their customers. This paper examined the dimensions of customer service viz., service strategy, service environment and service delivery towards the implementation customer relationship management in the banking sector. It also provides some explanations on how CRM can influence the satisfaction of bank's customers. Questionnaires were distributed and completed by a sample of 280 university students in Terengganu. Self-administered survey method was employed to solicit the required information. The data were then analyzed using the SPSS computer program. The findings showed some significant relationships between service delivery and CRM. Similarly, there is a meaningful explanation between CRM and customer satisfaction. Against the backdrop of customer relationship management, it is suggested that bank management should be more attentive in improving the service strategy aspects such as reliability, accessibility, courtesy, communication, empathy and responsiveness.

Keywords: Customer relationship management; service strategy; service delivery; satisfaction

INTRODUCTION

Deregulation and globalization have caused a wave of mergers and acquisitions taking place as institutions strive for scale of operation to drive cost ratios down and profit margins up – and the trend is set to continue. The net result of this consolidation across banks and insurance and investment institutions is the creation of "all finance institutions", and along with this creation, fierce competition among the survivors. Consumers are now being offered broader product choices with fewer barriers (morally and logistically) to change their provider. The Web is providing many institutions with a way of bringing transactional costs down, but it is also increasing the ability for customers to switch providers. Shopping around is made easier and loyalty is a thing of the past. The challenge for all financial services organization is how to increase revenues, reduce costs, keep existing customers and grow new customers. With margins being squeezed on products offered by financial service providers, the hunt is to identify and maximize the share of profitable customers and enhance their loyalty.

In the rush to understand their customer and service them more effectively, many financial institutions have turned to Customer Relationship Management (CRM) for solutions. Knowing the customer better, better skill, understanding them, is key and using interaction and collaboration opportunities (be it by person, phone, fax or e-mail) as a means to broaden a product's profile with the customer is critical. An integrated CRM solution having visibility of the customers will reduces the silos of information and enables the financial institutions to take advantage of opportunities that may have been lost if without the right information.

The intent of this study is to examine the dimensions of service strategy, delivery and environment that contribute toward the success of the Customer Relationship Management (CRM) in the banking sector. It is also to examine the effect of customer relationship management on customers' satisfaction. The competitive rules of the game have changed with the advent of deregulation, introduction of sophisticated technology and shift of bargaining power to the customer advantage. Therefore the success and survival of banks and financial institutions depends on bankers' ability to manage their relationship with customers and giving lifelong customer satisfaction.

LITERATURE REVIEW

Customer relationship management is critical to corporate success. Delivering high quality service and achieving high satisfaction has been closely linked to profits, cost savings and market share. Managing customer relationships have become very important now, especially in the area of stiff competition nowadays. In order to get high quality in service and achieving high customer satisfaction, employees must learn the skills about how to give effective services to customers. Every department in an organization also must integrate with each other to deal high quality service to customers. High quality service that had been delivered to customer will increase the market share as well as to improve the company's images (Anton, 1996).

According to Peter Drucker, " The business of business is getting and keeping customers" (Drucker, 1993). The banking sector is not an exception for cherishing this philosophy. In order to retain customers bank employees must have a stronger focus on measuring and managing the individual customer relationship. The logic in the banking is getting closer to the customers and making it easier for them to do business with the organization. Now, we can see that the customer's orientation is the important things in the marketing mind-set and technologies. Therefore, the employees must pay attention to the customer's needs and wants.

The original notion of the customer satisfaction was that existing customers cost less than new: the longer a firm sold to or deep business with a client, the less that client or sale was likely to cost (Reichheld, 1996; Rust, Zahorik and Keiningham, 1995). This progressed to the situation we see today across the world where corporations know and can prove that not only does customer retention cost than less per transaction, but that they also get more over time per customer through cross-selling and value-added services (Heskett, Sasser and Schlesinger, 1997; Reichheld, 1996).

In banking, transactional thinking, which led to selling more "things" which are popular (or lucrative) at a moment in time, resulted in the kind of volatility, which has, had the negative consequences seen in the past: the good years may be very good but the bad years are terrible. Without the customer relationship to fall back upon in the bad years, corporations cannot get more lucrative revenue streams so they lose the market and their good people, and these will results in diminishing returns spiral.

An extensive literature review on consumer's bank marketing revealed that research studies in this area of customer service in banking mostly undertaken in the United States, Canada, and some European countries (Chan, 1989). Factors which were found to be significant in bank's service evaluative attributes and customer service includes; location, personnel aspects, financial strength, services provided, loan policies, parental influence, pleasant experiences, overall reputation of the bank, and others (Brandt, 1980; Jain, Pinson and Malhotra, 1987; Laroche and Manning, 1986; Martenson, 1985; Tan and Chua, 1986). However, it is somewhat unfortunate to find that service quality and customer relationship studies as reported in international journals are rare in the Asian context and particularly in Malaysia.

Kaynak (1984) conducted a research in Canada and divided his sample into two groups: bank customers and bank managers. These two groups were asked the same question: "What is the most ideal bank according to your perception?" Bank customers preferred a bank with 'fast and efficient service', while managers chose 'reputation' as the main factor. Anderson, Cox and Fulcher (1977), in a different study also divided his sample into two groups: a convenience group and service oriented group. Convenience customers regarded bank services as convenience goods. This group placed more emphasis on "suggestion by friends", "reputation" and "friendliness" as important criteria in choosing a bank. The service-oriented group on the other hand considered "availability of credit" as the most important bank selection criterion.

In order to retain customer, employers of banking industry must improve customer service through information technology (IT). That is one of the popular issues for the banking executives. In inspiring loyalty among their customer, banks need to develop unique services and manage the customer relationships closely through information technology. This is because, the key is building stable customer relationship is through the effective utilization of information technology. Traditionally, IT has been used is a supportive role but today we see the role of information technology changing from a supportive role to one of strategic importance. In the banking industry, information technology has made new products and additional delivery channels available to bank customers such as the

Automated Teller Network, Treasurer's Terminals and Automated Clearing Houses. All these information technology innovations are clearly a strategic competitive tool to the financial industry.

In recent years, there has been a great deal of interest in the conceptualization and measurement of customer satisfaction and customer service by both bank managers and academic researchers. Customer satisfaction and service quality has been the subject of extensive, but separate research, although many studies of customer satisfaction have been conducted in service settings (Fornell, 1994; Oliver and DeSarbo, 1988; Oliver, 1993). Cronin and Taylor (1992, p. 56) state that "This distinction [between customer satisfaction and service quality] is important to managers and researchers alike because service providers need to know whether their objective should be to have customer who are satisfied with their performance or to deliver the maximum level of perceived service quality."

Customer service also plays a very important role in the field of consumer behavior and relationship marketing (Teas, 1993). It builds faith and confidence in customers. Therefore, when service providers come to understand how consumers value service, they are able to influence consumers toward the wishes of marketers. LeBlanc and Nguyen (1992) did a study on service quality of banks in Canada on credit unions in New Brunswick. The result indicated that quality of service was the important factor that could explain the quality of service in banks and financial institutions. This study also found other influencing factors such s certain tangible factors related to the physical environment, the corporate entity and the interaction among staff and customers of banks that could help in explaining service quality of banks.

There should also be a greater understanding of the relationship between customer service quality and satisfaction. Researchers in the service quality area continue to state that satisfaction is a result of a comparison with predictive expectations; despite numerous criticisms of the disconfirmation of expectations model (Bolton and Drew, 1991; Bitner, Booms and Mohr, 1994; Parasuraman, Zeithaml and Berry 1988; Oliver, 1997; Rust and Oliver, 1994; Zeithaml, Berry and Parasuraman 1996). If satisfaction is not simply a result of meeting expectations, then managers may not be focusing on the correct things. Managers should attempt to lower expectations so that it will be possible to provide service that is "better than expected" which will then produce higher satisfaction (Davidow and Uttal, 1989).

Both satisfaction and customer service quality literatures have emphasized the idea that consumers make a comparison between the performance of the product or service and some standard. The previous evidences have maintained that the distinction between perceived service quality and satisfaction is that they use different standards of comparison (Bitner, 1990; Parasuraman et al., 1988). In a conceptual model that attempts to integrate service quality and satisfaction, Oliver (1993) similarly argued that while the antecedent of quality perception is the disconfirmation of ideals, the antecedents of satisfaction are disconfirmation of predictive expectations (regarding quality and non-quality dimensions), and perceived quality.

In addition, the costs of attracting new customers should be lower for firm that achieve a high level of customer satisfaction (Fornell, 1992). For example, satisfied customers are reputedly more likely to engage in positive word of mouth, and less likely to engage in damaging negative word of mouth for the firm (Anderson, 1994; Reichheld and Sasser, 1990) Media resources are also more likely to convey positive information to prospective buyers. Customer satisfaction claims may make advertising more effective and high customer satisfaction may allow the firm to offer more attractive warranties.

METHOD

A survey was carried out using 6-pages Malay-version questionnaire, consisting 5 sections. The first section is design to solicit information on service strategies. The second section comprising questions pertaining to service environment in the bank. The third section comprising questions on service delivery processes. The fourth section consisting questions on CRM and customer satisfaction. For all sections, respondents were asked to indicate the degree to which they agreed with each statement on a 5-point Likert-type scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The final section sought the demographic profile of the respondents. This section seeks to obtain responses on social structural variables including gender, ethnicity and age.

The sample for the study comprised of undergraduate students from one university in Terengganu. Using a relatively more homogenous group such as undergraduate students minimizes random error that might occur by using a heterogeneous sample such as the general public (Calder, Phillips and Tybout, 1981). To provide an adequate level of confidence in this study, 300 respondents were randomly selected for the survey. Samples are those who had the experience in dealing with banking services. Of 295 questionnaires returned, a total of 280 responses deemed valid for data analysis, yielding a response rate of 94.9 percent.

The sample consisted of 33.2% male and 66.8% female. In terms of age, the majority group is below 25 years old (94.3%), followed by 25 - 34 age bracket (5.7%). Malay constituted the largest ethnic group, accounting for 77.1% of the respondents, followed by the Chinese (16.1%), the Indians (4.3%) and the "Others" (2.5%). There are 35% of the respondents fall within 5 years and above in using or transact with the bank, followed by 3-4 years category (32.1%), 1 to 2 years (19.35) and 12.9% for less than one year. An examination of the type of banking products used shows that there are 42.1% of the total respondents are the current saving account holders, followed by the ASN/ASB account holders and the "Others" type of banking products, each account for 20%. 17.5% of the respondents indicate that they holding fixed saving account and only 0.4% of the respondents indicate that they are fixed deposit account holder.

DATA ANALYSIS

The data were entered into the computer for statistical analysis with the application of SPSS computer programme. Multiple regression was used to analyze the influence of between service dimension variables on CRM and customer's satisfaction.

The Relative Importance of Service Bank Dimensions

Results of the relative importance of the service bank dimensions ranked by their respective mean values are presented in Table 1. The result reveals that there is a difference in the importance of the various bank service dimensions. The ranks of these bank service dimensions show that the respondents consider the service strategy as most important dimension (71.1), followed by the service environment that the bank provides (70.49). The service delivery only has little importance to respondents (66.89).

Table 1: Importance of Bank Service Dimensions

Service dimensions	Mean	Standard deviation
Strategy	71.1	22.03
Environment	70.49	24.24
Delivery	66.89	24.24

Relationship between Service Dimensions and Customer Relationship Management

To test the relationship between service dimensions and CRM, multiple regression analysis was run with service dimensions as independent variables and CRM as a dependent variable. Table 2 presents the result of regression analysis showing the relationship between services (strategy, environment and delivery) and CRM. The result of the analysis showed that the R-Square equals to 0.209, which means that 20.9 percent of the variance of overall CRM rating is explained by the service dimensions that are included in the model. According to Sawyer and Ball (1981), this effect size can be classified as medium to large. The result indicates that only service delivery (e.g., reliability, competence, access and communication) has significant influence on the respondents' preference of a CRM factor (β = .395), proved by the significant t-value, which is less than 0.05.

Table 2: Service Dimensions and Customer Relationship Management

Service dimensions	CRM	
	Beta (β)	Sig. F
Strategy	0.18	0.800
Environment	0.80	0.235
Delivery	0.395	0.000*
R-Square	0.209	
Sig. *F*	0.000	

*significant at $p<.05$

Relationship between Service Dimensions and Customer Satisfaction

In order to test this relationship, a multiple regression analysis was run with service dimension variables as predictor and with customer satisfaction as criterion variable. Table 3 presents the summary of regression results of service dimension variables with customer satisfaction. The results of the multiple regression analysis showed that one out of three variables were significant predictors of customer satisfaction with the F test statistic significant at $p<.0001$. The effect size of service dimension variables as reported by R^2 was .284, suggesting that service dimension variables were able to explain 28.4% of the variation in the customer satisfaction. This effect size can be classified as medium to large (Sawyer and Ball, 1981).

Looking at specific explanation, service delivery emerged as the best indicator for passenger satisfaction ($\beta = .465$). Service delivery includes primarily the customer's perception of employee attributes such as reliability, responsiveness, knowledge, accuracy, empathy and their effort to understand the customer's needs. However, service strategy was not a significant predictor variable of customers' satisfaction, meaning that they do not consider bank's service strategies (e.g., bank hours, interest rate, loan period, ATM, credit card and computer technology) as the determinant of satisfaction. There was also insignificant association between bank's service environment and customers' satisfaction. This finding shows that customers' experience with the service environment such as the ambient conditions, spatial layout as well as bank's internal signs and symbols does not contribute to their satisfaction level.

Table 3: Relationships between Service Dimensions and Customer Satisfaction

Service dimensions	Satisfaction	
	Beta (β)	Sig. F
Strategy	0.127	0.061
Environment	-0.037	0.560
Delivery	0.465	0.000*
R-Square	0.284	
Sig. *F*	0.000	

*significant at $p<.05$

A FINAL NOTE

Whatever the business, it is all about knowing the customer and capitalizing on the data that CRM solution provides, and this is where analytic tools are critical to any CRM strategy. A CRM solution with a huge customer database is never as effective as it should without analytic tools. Analytic tools are able to manipulate data to show insights such as the performance measurement of marketing campaigns and activities based on leads generated and qualified, and profiles of respondents. In tandem with this is the performance to service-level agreements; and the measurement of key performance indicators on the effectiveness of CRM activities in achieving customer satisfaction goals.

Analytic tools are not only for identifying cross-selling opportunities, but they are key in enabling an institution to know which customer is profitable and which are not. Why spend marketing Ringgit trying to reach a customer with a product that he would never buy? There is no doubt for financial institutions, CRM has a big role in increasing revenues while driving down transactional costs by allowing the organization to understand the customer, and anticipate and respond to his or her needs accordingly and cost effectively. But understanding why CRM is needed and how it is going to be used is a key factor in its success, as well as having the right analytic tools to ensure that data produced can be managed in a competitive and cost-effective manner.

The expectation of the public on banks has also been raised. More and more people approached the commercial banks for services provided by them. Many of them had little or no knowledge on banking services and had to be contended with the information provided by the bank. This is unfortunate since there was no systematic attempt on the part of the commercial banks to educate customers on the various services provided by them. Customers therefore feel that there was a gap between their expectations and quality of service they received from banks. This gap arises as a result of non-existence of proper channel to disseminate information and also the knowledge of customer profiles and there is lacking.

From this study, it becomes evident that satisfaction is the paramount factor that should be emphasized in the banking sector. It is inevitable that the total quality management paradigm of the 1980s should be combined with customer relationship to provide maximum customer satisfaction and loyalty. In comparing and contrasting unhappy customers with happy, it is suffice to say that only 4 percent of dissatisfied customers will ever give feedback about their happiness. The other 96 percent vote with their feet and 91 percent of unhappy customers will never come back again. Thus, surveys of unhappy customers become an important link in continuously improving customer relationship.

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