



THE IMPACT OF CUSTOMER RELATIONSHIP
MANAGEMENT RELATED CRITICAL SUCCESS
FACTORS ON CUSTOMER SATISFACTION: AN
EMPIRICAL STUDY OF THE BANKS IN
MALAYSIA

BY

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ABSTRACT

The radical development in the banking sector of Malaysia has created a stiff competition among various banks. These banks need to satisfy the customers to the best for their sustainability. For this purpose, a strong relationship with customers is required. However, for strong relationship organizations are required to identify those factors which can be crowned responsible for it. This issue have raised a critical research agenda that requires attention to identify and test those factors which are crucial for the success of customer relationship. The present study, therefore, has set its objective in identifying and testing these critical factors for successful implementation of customer relationship management (CRM) in banking industry and investigating their impact on customer satisfaction. To accomplish this goal, the present research has explained related concepts and reviewed literature extensively on the topic. A research framework was developed based on a strong theoretical background. Accordingly, the empirical study was conducted in Klang valley in Malaysia, which is considered the hub of all banking activities. The target population of this study was employees of different banks. Further, data was also collected from selected customers for the purpose of measurement invariance only. Through self-administered questionnaire 349 usable responses were acquired from employees and 161 usable responses from customers. Analysis of data was conducted using descriptive, exploratory and confirmatory factor analysis. After the satisfactory results of confirmatory factor analysis for all constructs, measurement invariance tests were conducted for customer satisfaction. Subsequently, structural equation modelling (SEM) was then employed to test the hypothesised relationships among the constructs, as postulated in the model. A total of twelve hypotheses were designed based on the review of the literature, out of which, nine were supported. The findings of this research revealed that technology related critical success factors (CSFs) significantly impact business process CSFs, privacy, trust, and customer satisfaction. It was also exposed that human related CSFs have a positive effect on business process CSFs. Further, it was revealed that privacy partially mediates the relationship between technology CSFs and trust. Similarly, the relationship between technology CSFs and customer satisfaction was also partially mediated by trust. Interestingly the findings also revealed that privacy has a direct positive effect on trust, whereas, trust has a direct positive effect on customer satisfaction. The findings of this research are valuable asset for the banking industry in Malaysia, especially those who are struggling to implement CRM successfully and also wish to enhance customer satisfaction. Academicians, practitioners, researchers, and policy-makers can also benefit from this research and its findings.

خلاصة البحث

التطور الجذري الذي عرفه القطاع المصرفي الماليزي قد أدى إلى منافسة شرسة بين البنوك المتعددة. من أجل ضمان استمراريتها هذه المصارف بحاجة إلى إرضاء العملاء على أحسن وجه؛ فيجب على البنوك بناء علاقة قوية مع العملاء. ومن ثم إن البنوك بحاجة إلى تحديد العوامل المؤدية إلى علاقات قوية بين البنك والعملاء. وقد أبرزت هذه المسألة نطاقا جديدا للأعمال البحثية لكي تُحدّد وتُجرَّب تلك العوامل التي تعتبر حاسمة لنجاح العلاقات مع العملاء. وبالتالي فإن الهدف الأساسي من هذه الدراسة هو تحديد العوامل الحاسمة للتطبيق الناجح لإدارة علاقات العملاء في القطاع المصرفية، وتجربتها. لتحقيق هذا الهدف، أوضحت في هذه الدراسة المفاهيم المتعلقة بهذا الموضوع وكذلك تم استعراض الأدبيات على نطاق واسع حول هذا الموضوع. وقد تم كذلك وضع إطار للبحث على الأساس القوي النظري. تبعا لذلك أجريت الدراسة التجريبية في منطقة كلانغ فالي في ماليزيا التي تعتبر مركزا لجميع الأنشطة المصرفية. كانت الفئة المستهدفة في هذه الدراسة من موظفي البنوك المختلفة وكذلك العملاء المسجلين لدى المصارف التي شملتها الدراسة. وتم توزيع الاستبيانات ذاتيا على 349 موظف و 161 من عملاء البنوك المختارة عن طريق أخذ العينات العشوائية الطبقية. وقد أجري تحليل البيانات باستخدام تحليل العوامل الوصفي والاستكشافي والتأكيدي. بعد النتائج المرضية لتحليل العامل التأكيدي لجميع التركيبات، أجريت اختبارات اللاتبادل لقياس رضا العملاء. بعد ذلك، أجريت نمذجة المعادلة البنائية لاختبار العلاقات المفترضة بين التركيبات المسطرة في نموذج البحث. وقد صمم ما مجموعه اثني عشر فرضية استنادا إلى استعراض الأدبيات؛ فتم تأكيد تسعة منها. وكشفت نتائج هذا البحث أن عوامل النجاح الحاسمة المتصلة بالتكنولوجيا تؤثر إلى حد كبير في عوامل النجاح الحاسمة المتعلقة بالعملية التجارية، الخصوصية، الثقة، ورضا العملاء. النتائج أظهرت أيضا أن عوامل النجاح الحاسمة ذات الطابع البشري لها تأثير إيجابي على عوامل النجاح الحاسمة المتعلقة بالعملية التجارية. تم كذلك الكشف عن أن الخصوصية تتوسط جزئيا العلاقة بين عوامل النجاح التكنولوجية الحاسمة و الثقة. وعلى نحو مماثل، كانت أيضا العلاقة بين عوامل النجاح الحاسمة التكنولوجية و رضا العملاء الذي هو متغير داخلي، جزئيا متوسطة بالثقة. ومن المثير للاهتمام أن النتائج كشفت أيضا أن الخصوصية لها تأثير إيجابي مباشر على الثقة، في حين أن الثقة لها تأثير إيجابي مباشر على رضا العملاء. نتائج هذا البحث هي ذات قيمة عالية للقطاع المصرفي في ماليزيا، وخصوصا للذين يكافحون من أجل تطبيق إدارة علاقات العملاء بنجاح. ويمكن للأكاديميين، الممارسين والباحثين وصناع السياسة أيضا الاستفادة من هذا البحث ونتائجه.

APPROVAL PAGE

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Muhammad Tahir Jan

Signature.....

Date.....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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I dedicate this thesis to my parents, Prof. Jan Muhammad and Naseema Jan, and my partner in life, Naheed Sultan.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

In recent years, there has been seen a shift from product-centric approach toward a more customer-centric approach where the main focus is to maintain an everlasting relationship with the customers (Berg, 2000; Mendoza et al., 2007; Anshari et al., 2009). This shift is due to the fact that customers are considered the lifeblood of any business (Ghobadian et al., 1994) and enhancing their satisfaction will lead to organisational profitability (Koska, 1990; Nelson et al., 1992; Zeithaml, 2000). Kristianto et al. (2012) and Zineldin (2000) considered that maximising customer satisfaction is a crucial process which needs an accurate implementation of customer relationship management (hereafter, CRM). In a similar manner, Bull (2003) and Jackson (2011) argued that implementation of CRM itself is a critical process and getting an impression of applying CRM to any context successfully stands little empirical evidence. However, there are factors (e.g. technology, human, and business process) that contribute to the successful implementation of CRM (see Almotairi, 2009; Finnegan & Currie, 2010; Mendoza et al., 2007). According to Pan et al. (2007), these factors are called critical success factors.

Over the past decade a number of studies has been conducted on CRM and identifying the critical success factors (hereafter, CSFs) for CRM (e.g. Anshari et al., 2009; Avlonits & Panagoupoulos, 2005; Finnegan & Currie, 2010; Hart et al., 2004; Kennedy & King, 2004; Mendoza et al., 2007; Pan et al., 2007; Ranjan & Bhatnagar,

2008; Tellefsen & Thomas, 2005; Xu et al., 2002), but relatively little research has been conducted to identify and test CSFs in banking industry. This research examines the CSFs for CRM implementation in banking industry within the Malaysian Context.

1.2 CRM AND CSF: BACKGROUND

In today's competitive economy, where customers are the asset, organisations are becoming more customer-centric (Croteau & Li, 2003; Sharma et al., 2005). This tendency of marketing to strengthen the relationship with customers is continuously growing and marketers are more inclined to satisfying customers and retaining them over longer periods of time (Liu & Zhu, 2009; Lemon et al., 2002). For this purpose, marketers use CRM as the mean to manage relationship with customers. Its main emphasis is on establishing true relationship with the customers by properly utilising technology in order to support the people approach in building these relationships and to understand customers from the perspective of who they are, what they do, and what they are like (Chen & Popovich, 2003; Saini et al., 2011; Sharma et al., 2011).

Many researchers (Avlonitis & Panagopoulos, 2005; Bhaskar, 2004; Chan, 2005; Chang & Ku, 2009; Chen et al., 2009; Chen & Popovich, 2003; Lenskold, 2004; McGovern & Panaro, 2004; Anshari et al., 2009; Payne & Frow, 2004; Zablah et al., 2004) called this management of relationship a new paradigm of marketing. According to these scholars, CRM is a business strategy with an aim of gathering information and then utilising that information at selecting customers and managing relationships with them to optimise long-term value. There is no doubt in the widely gaining popularity of CRM systems and the choice for implementation by many organisations, but, success is still hard to achieve (Dimitraïdis & Stevens, 2008;

Mendoza et al., 2007). This is one of the main reasons that around 60 per cent of the overall CRM implementations do not live up to the expectations and therefore, fail (Hertz & Vilgon, 2002; Osarenkhoe & Bennani, 2007).

Over the past years, the increase in publications in the field of CRM gives an apprehension that it can be applied to any context, but, empirical results do not provide sufficient evidence to support this notion (Bull, 2003). To think about CRM in a positive way is as a process through which numerous pieces and clusters of information about customers, sales, marketing responsiveness and market trends are brought together (Finnegan & Currie, 2010) and to help the businesses gain detailed understanding into customer behaviour using technology and human resource. The use of technology and human resource, if work as hoped, can increase customer satisfaction by providing them better services, improve call centre, sell product more successfully, help sales personnel close deals quicker, enhance marketing and sales activities, search for new customers, and increase customer profits, etc (Blattber et al., 2001; Cho et al., 2002; Reichheld, 1996; Yen & Gwinner, 2003). But, only purchasing CRM software and installing it will not make it happen. For organisation to have successful CRM, it is essential to understand the kind of customer information required and above all, the knowledge to use that information in an effective manner (Belkahla & Triki, 2011; Davenport & Beers, 1995; Parasuraman et al., 1991; Ruohonen, 2011).

Unquestionably, conventional marketing techniques of macro and micro segmentation are used in order to categorise different types of customers in the market. However, due to the unpredictable buying behaviour of customers, traditional marketing is becoming more obsolete, particularly in information sensitive organisation like banks, by giving way to 101 marketing; its main purpose is to

individualise the marketing endeavour (Eid, 2007; Karakostas et al., 2005). CRM was introduced due to the diversity and complexity in the customer's preferences and buying behaviours (Frow & Payne, 2009). Otherwise, if all customers were same, the invention of CRM would have been of little use (Eid, 2007) and techniques of mass marketing and mass communications would have been sufficient (Bose, 2002; Patwardhan et al., 2009). CRM has become inevitable because of the intense technological, social and economic forces that have resulted in rejecting the traditional business models in today's era (Chang & Ku, 2009; Karakostas et al., 2005). Further it helps the companies to increase its understanding of customer's trends; their past behaviours and what they intend to do later. Xu et al. (2002) also agreed that the main objective of CRM is to enhance the experience of customers with regard to their interaction with the company, which in turn, elevates satisfaction. Enhanced satisfaction results in more loyalty, which ultimately uplift the sales of products and services. Finally, for improved CRM and enhanced customer satisfaction, the central database within the CRM should be available to all the employees in an organisation in order to get their selves acquainted with every customer, so that they do not get lost (Xu et al., 2002).

Customer satisfaction and customer loyalty are subject to successful implementation of CRM which itself is subject to different factors, called CSFs. These factors are essential for the successful implementation of any project (Rockart, 1979) and not only CRM. According to Esteves (2004), studies on CSFs have been published and popularised over the last 3 decades by numerous scholars. Studies on CSF can be traced in early 60's, when Daniel (1961) used "success factors" in management literature, where the focus was on industry-related CSF. Following that Anthony et al. (1972) moved ahead by emphasising that CSFs should not only be

designed for companies but also its managers. Leidecker and Bruno (1984: 24) defined CSF as “Those characteristics, conditions or variables that, when properly sustained, maintained, or managed, can have a significant impact on the success of a firm competing in particular industry”.

A number of efforts have been made to identify CRM related critical factors (Almotairi, 2009; Eid, 2007; Finnegan & Currie, 2010; Mendoza et al., 2007; Pan et al., 2007; Ranjan & Bhatnagar, 2008; Sharma & Goyal, 2011), but few of these researches provide enough theoretical and empirical evidence to accept the presence of these CSFs (Abdullah et al., 2000). The possible reason of this might be the nature of these studies, as they were more exploratory and did not deal with the actual impact of CRM. Hence, research with scientific approach is required to fill this gap, as there is a great need for empirical research within CRM (Bull, 2003). For this purpose, numerous researches on marketing and IT, addressing the same issue, were studied. These studies emphasised on the importance of three types of factors, namely, technology factors, human factors, and business process factors that directly impact CRM success (see chapter 2). It is also suggested by many scholars (see Almotairi, 2009; Bull, 2003; Eid, 2007; Finnegan & Currie, 2010; Mendoza et al., 2007) that further research is needed to examine the impact of technology, human (people) and business processes on successful implementation of CRM, directly and indirectly. The present study, therefore, hopes to contribute to the limited literature on successful implementation of CRM, especially in Malaysian context, since prior empirical studies on CRM in the Malaysian context are still scarce (Ishak et al., 2006; Kasim & Minai, 2009).

1.3 CRM STUDIES IN MALAYSIA

The practice and usage of CRM is relatively new in Malaysia (Ishak et al., 2006), but due to the increasing competition and emerging customer-centricity, researchers, academicians, and companies have started focusing on exploring the miracles of CRM. The worth mentioning is a research conducted by Ishak et al. (2006), where the focus was to explore CRM implementation by Malaysian automobile distributors. They argued that CRM helps the companies to identify the target customers and is considered beneficial for the overall organisation. Further, they concluded that companies should use CRM programme in order to interlink their distribution channels and incorporate the activities and functions of front end and back office. Similarly, Teng et al. (2007) emphasised that CRM should only be considered a single tool available with the company to pursue its various aims and objectives. Proper planning prior to any CRM initiative is critical to successful implementation of CRM because ineffective and weakly developed CRM initiative is unlikely to give competitive edge to the company (Teng et al., 2007).

Malaysian industries and particularly the manufacturing industries need to keep their pace with the emerging technologies in order to improve their customer service and increase overall sales through better customer knowledge (Teng et al., 2007). These industries should replace the obsolete technologies with latest technologies by investing more in the modern hardware and software (Teng et al., 2007). Apart from the manufacturing industry, the inevitable usage of CRM in the banking industry is also grabbing the attention of researchers. For example, in the Malaysian banking industry Wahab et al. (2009) found the significant impact of CRM initiatives on the electronic banking adoption. Further, Kasim and Minai (2009) and