

## **Effects of Customer Relationship Marketing Practice on Organizational Competitiveness: *The Case of Commercial Bank of Ethiopia, Jimma District***

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### ***Abstract***

*Recent literature on marketing theory and practice acknowledge that increasing emphasis on designing customer–centric strategies and processes by organizations in order to realize lifetime value of customers’. Commercial Bank of Ethiopia is a state owned bank and it has been practicing customer relationship marketing strategy accompanied with other business growth strategies since 2009. This study was intended to evaluate the extent to which customer relationship marketing is practiced in the bank and to explain the effects of this strategy on the bank competitiveness. In order to achieve this objective, 145 sample respondents were selected using stratified random sampling. Primary data were collected using Self-administered questionnaire. Multiple linear regressions model was used to explain the effects of explanatory variables (trust, commitment, communication, conflict handling and competence) on outcome variable (Organizational competitiveness). The finding shows that there is a significant positive relationship between customer relationship marketing underpinnings and bank’s competitiveness. However, each explanatory variable has no equal significant effect on a dependent variable. The study concluded that the higher the bank practicing customer relationship marketing the higher its positive effect on their competitiveness level. Therefore, the study recommended that the bank should work more on customer relationship underpinnings to enhance its competitive position even by far better than its current performance.*

**Keywords:** Trust, Commitment, Communication, Conflict handling, Competence and Organizational competitiveness

## **1. INTRODUCTION**

The banking sectors become increasingly competitive around the world. So, maintaining a sustainable long-term relationship with customer is a major factor of gaining a competitive advantage in the industry (Rahim, 2007). Relationship marketing came into power when banking industry became more and more competitive. They now realized the value of their customers and this is pushing banks to seek solutions through technology. They are focusing on managing customer relationships in order to minimize the challenges like global competition for deposits, loans, underwriting fees, increasing customer demands, shrinking profit margins, and the need to keep up with the new technologies (Malik & Harper, 2009). The study conducted ten years back on relationship marketing and commercial bank performance in South Africa, Canada and UK basing clients as well as bank managers articulated that proper relationship marketing result in lower marketing costs, enhanced customer satisfaction, keep customer loyalty, and possibly increased customer retention levels for banks (Rootman, et al., 2008).

As per the reference of the researchers preliminary survey did in (2016) and the bank corporate strategy document (CBE, 2014/15), Commercial Bank of Ethiopia has been practicing Customer relationship marketing since, 2009 G.C. The bank's assumption for application of customer relationship marketing was relying on studies conducted elsewhere outside of Ethiopia where competition is rigorous or in Ethiopia but may be outside of the context of particular study area. The result may not be best fit for the decision in the commercial bank of Ethiopia, Jimma district. Moreover, no research that is sound enough to respond the fact on the ground has been conducted. Therefore, this study intends to fill the mentioned gap through inculcating individual and joint effects of customer relationship marketing underpinnings such as trust, commitment, communication, conflict handling, and competence on the bank competitiveness by considering both market/financial outcomes ( market share, market growth rate and net profit) and non-financial outcomes (customer satisfaction and retention) of competitiveness.

## **2. REVIEW OF LITERATURE**

### **2.1 Theoretical literature**

Defining Customer Relationship Marketing it is not an easy task. Various authors such as Buttle(2009); Christian and Amy(2011); Cronroos(2004); Kothari(2004); Kotler & Armstrong(2004); Kuria, Kibera, & Gituro(2010); Malik & Harper(2009); and Martin, et al(2010) define customer relationship from different academic or practical perspectives. In general most of them agree that customer relationship marketing is a philosophy or culture that should penetrate the whole organization. In a general sense, according to Opayne & Frow (2005); Rootman, Tait, & Sharp (2011); and Velnampy & Sivesan (2012) relationship marketing is about identifying, establishing, maintaining, enhancing and, when necessary, terminating relationships with customers, so that the objectives of both parties are met. Seyyedeh, Hossein, and Mohammed (2011); described relationship marketing in a financial institution as an approach to providing seamless coordination among process, people, information and technology that creates positive experiences for a party each time he or she interacts with the bank. It is the capability for delivering each 'valued experience' enabled by the bank's knowledge about a party including their preferences, behaviours, goals, and attitudes".

Customer Relationship Marketing is also considered as a firm's practices to systematically manage its customers to maximize value across the relationship lifecycle (Martin, et al., 2010). Gummesson (2008) indicates that relationship marketing has a strong emphasis on business to customer relationships within a customer relationship marketing paradigm. Kotler & Armstrong (2010) illustrated this idea in their definition of relationship marketing: "Relationship marketing involves creating, maintaining, and enhancing strong relationships with customers and other stakeholders. Relationship marketing is orientated to the long term. The goal is to deliver long-term value to customers, and the measure of success is long-term customer satisfaction"

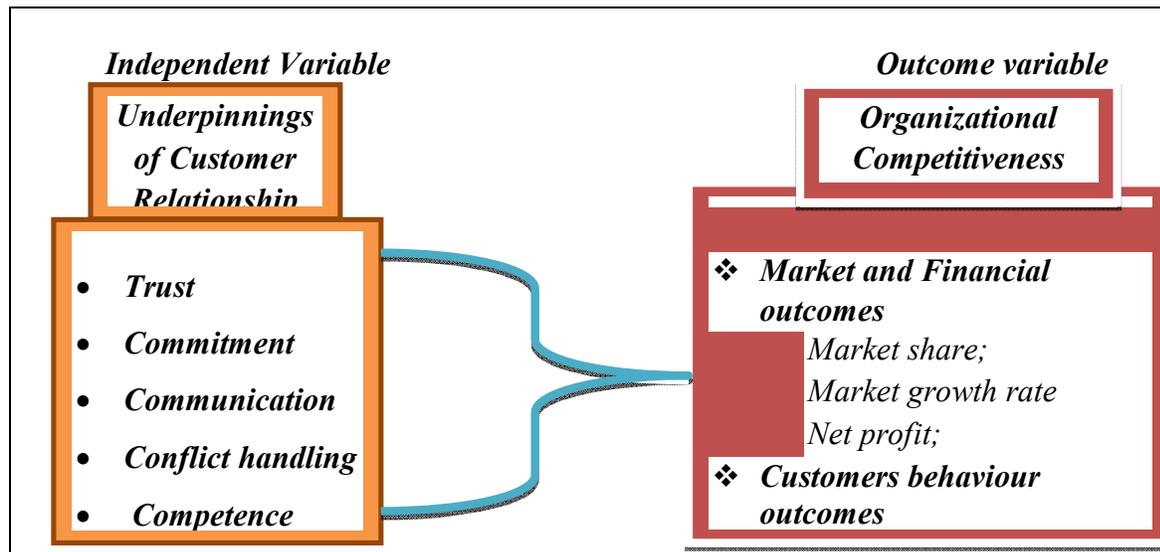
In summary, customer relationship marketing theory proposes that as company delivers value to customers, strength of its relationship with the customer will improve and increasing the customer relation. It looks at creating an approach and strategy that will generate customer retention. It treats sales as the beginning of relationship and looks to create a continuous the relationship. By doing this it delivers values to the customer. Relationship marketing considers customers as the center of the business that has a long term perspective. To assure this, marketers put emphasis on understanding customers' expectation. It focuses on encouraging marketing campaign.

## 2.2 Empirical Literatures

Rootman et al. (2008) have conducted a study on relationship marketing and customer retention by taking best lessons from banks in South African, Canada, and the UK. More specifically, the study provided insight into the extent to which selected independent variables (relating to banks' activities, actions and methods) influence banks' relationship marketing and customer retention. As banks are important contributors to any economy, sustained client relationships and stability through maintained clients, or customer retention, are essential for the survival of these institutions. Banks therefore need to familiarize themselves with service delivery activities and methods and should constantly adjust to improve their relationship marketing efforts and customer retention levels. Taleghani et al. (2011) provides empirical evidence for the influence on customer loyalty of eight underpinnings of relationship marketing: trust, commitment, communication, conflict handling, bonding, shared values, empathy and reciprocity. This study adds value to the literature by empirically investigating the impact of relationship marketing underpinnings on customer loyalty in the banking industry of Iran. According to the results of their study, banks wishing to retain and develop loyal customers should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers. It has been suggested that loyal customers are valuable communicators of favourable word-of-mouth about organizations or products to which they feel loyal. Adeyeye, and Tolulope (2013) conducted a study on impact of customer relationship marketing on Perceived Bank Performance in Oyo Town, Nigeria. The findings from the study revealed that commitment independently predicted perceived organizational performance. The study also shows there was a significant difference between bonding and perceived organizational performance. Furthermore, there was main and interaction effect of bonding and trust on perceived organizational performance.

### **2.3 Conceptual model and hypothesis of the study**

The conceptual model depicted in Figure 1 was based on the combination of two models presented in previous studies by Ndubisi (2007) and Sin Et al (2002). It highlights the influence of relationship marketing underpinnings on organizational competitiveness.



*Adapted from Ndubisi (2007) and Velnampy and Sivesan (2012)*

Figure 1: Conceptual Model

### **Hypothesis of the study**

From the literature and conceptual model, the following null hypotheses were developed and tested in order to respond the research objectives.

- H<sub>01</sub>: Customer relationship marketing is not significantly practiced in commercial bank of Ethiopia
- H<sub>02</sub>: Trust has no significant positive effect on bank's competitiveness.
- H<sub>03</sub>: Commitment has no significant positive effect on bank's competitiveness.
- H<sub>04</sub>: Communication has no significant positive effect on bank's competitiveness.
- H<sub>04</sub>: Conflict handling has no significant positive effect on bank's competitiveness.
- H<sub>05</sub>: Competence has no significant positive effect on bank's competitiveness.

### **3. RESEARCH DESIGN AND METHODOLOGY**

**Research Design-** Since the main objective of the study is to explain the effect of customer relationship marketing practice on organizational competitiveness, both descriptive and explanatory research design were used. The study used quantitative approach to manage data and predict the target populations' behavioural aspects.

**The target population** of the study was employees of a targeted four branches in Commercial Bank of Ethiopia, Jimma District and they were 228 in number.

**Sample size:**--In order to determine the number of respondents from the target population sample size determination formula developed by Yamane (1967).

Accordingly

$$n = \frac{N}{(1 + N * e^2)}$$

Where,

N = population size, n = sample size,

e = margin of error at 5% (standard value of 0.05)

n = 145 (selected sample size)

**Sampling Techniques:** - multistage sampling was used. First, purposive sampling was used to select the target branches under Jimma district (Jimma Main, Gambela, Mettu and Mizan Teferi). This was done based on some measurable and unique characteristics i.e. geographical representation, transaction volume, number of customers, and the branch grade. The final selection of the sample respondents was done using systematic sampling from the lists of each branch stratum.

**Data collection Instrument:** - in measuring customer relationship marketing underpinnings and the outcome variable organizational cumulativeness, the study adopted 5 point likert scale questionnaires by Adeyeye and Tolulope(2013), Coltman, Devinney & Midgley(2011) and modified to fit the context. A total of 145 questionnaires were distributed to the respondents with closes follow up and guide. All questionnaires were properly responded and returned.

**Method of data analysis:** The collected data was first checked for its consistency, completeness, missing and other errors before the entry process. Data were analyzed by descriptive and inferential statistics using Statistical Package for Social Science (SPSS-version 20).To examine individual and joint effects of the explanatory variables on dependent variable, multiple liner regressions model was used.

#### **4. DATA ANALYSIS AND DISCUSSION**

**The descriptive statistics** was used as a way to examine the mean, standard deviation, frequency and other information which are not apparent in the raw data. When the study compared the practicability of each explanatory variable through mean scores, the overall trust practicability has the highest mean score (M=3.13), the bank commitment (M=3.07), conflict handling practice (M=3.01), employee competence (M=2.98), and communication level has the least mean score=2.97 comparatively.

**Correlation Analysis** - A correlation analysis was performed to determine if there were any relationships between customer relationship marketing practice and the bank competitiveness level. According to Field (2009), the correlation coefficient is a commonly used measure of the size of relationship among or between variables: values of  $-0.1$  to  $-0.29$  represent a small (weak) relation,  $+0.3$  to  $+0.49$  is a medium (moderate) correlation,  $+0.5$  to  $+1.0$  is a large (strong) correlation and  $0$  indicates no correlation at all. Pearson correlation results in the next table indicates that, trust has strong significant positive correlation with organizational competitiveness [ $r= 0.894$ ,  $n=145$ ,  $p=0.000$ ]. Correlation between commitment and organizational competitiveness scored the second highest positive significant correlation [ $r=0.716$ ,  $n=145$ ,  $p = 0.00$ ]. There is significant correlation between communication and organizational competitiveness [ $r=0.571$ ,  $n=145$ ,  $p=0.000$ ] at  $0.05$ . Conflict handling practice [ $r=0.310$ ,  $n=145$ ,  $p=0.000$ ] and competence [ $r=0.337$ ,  $n=145$ ,  $p=0.000$ ] have positive significant relationship with organizational competitiveness.

*Table 1: Pearson correlation matrix between organizational competitiveness and exploratory variables*

	Trust	Commitment	Communication	Conflict handling	Competence	Organizational Competitiveness
Trust	1.000					
Commitment	.647**	1.000				
Communication	.483**	.602**	1.000			
Conflict handling	.266**	.207*	.273**	1.000		
Competence	.269**	0.122	.198*	.686**	1.000	
Organizational Competitiveness	.894**	.716**	.571**	.310**	.337**	1.000

Correlation is significant at the 0.05 level (2-tailed).

*Source: Own survey, 2017*

**Diagnosis Tests for regression:** Before conducting regression tests, an evaluation of the linear regression which includes checking of the multicollinearity and normality of variables was done.

**Multicollinearity Test:** - the impact of multicollinearity is to reduce any individual explanatory variable's predictive power by the extent to which it is associated with the other explanatory variables. That is, none of the predictor variables may contribute uniquely and significantly to the prediction model after the other independent variables is included. One of the standard statistical methods for testing data for multicollinearity is analyzing the control variables' correlation coefficients. As Zikmund (2003) suggested correlation coefficient below  $0.90$  may not cause serious multicollinearity problem. Pearson correlation matrix result indicates in the above table, the explanatory variables included in the study were ranged from  $0.269$  to  $0.686$  values and it is less than the stated standard.

**Normality Test** - This is tests on whether the data is well-modeled by normal distribution and also to compute how the data to be normally distributed. According to Alderson & Bachman (2004); and Zikmund (2003) based on rules of thumb, if the number of the result of skewness and kurtosis is in between -2.0 and +2.0 it indicated a reasonably normal distribution. The normality distribution between the variables which based on the measurement of skewness and kurtosis shows that, the data which used the study is normally distributed. Based on this statistical assumption the data for this study were checked and accepted for further regression analysis.

**Multiple linear Regression Analysis-** regression analyses were run to find the casual relationship between the explanatory variables and the outcome variable. The next table 2 shows the Adjusted R square value was 0.846 which means that 84.6% variations in the bank competitiveness were explained by joint customer relationship marketing underpinnings and the rest (16.4%) was due to other factors which are not included in the study.

**Table2: Model Summary for Multiple Linear Regressions**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923 <sup>a</sup>	.851	.846	.349

a. Predictors: (Constant), Competence , Commitment, Communication, Trust, Conflict handling

Source: filed survey 2017

**The overall significance:** - ANOVA (F-test) results in the next table 3 of the regression between predictor variables and the bank competitiveness shows the relationship was highly significant in predicting how the bank competitiveness level was predicted by customer relationship marketing practicability, at  $F(5,139) = 159.231, P = 0.000$ .

**Table 3: Overall significance: ANOVA (F-test)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96.986	5	19.397	159.231	.000
	Residual	16.933	139	.122		
	Total	113.918	144			

a. Dependent Variable: Competitiveness

b. Predictors: (Constant), Competence , Commitment, Communication, Trust, conflict handling

Source: field survey 2017

This finding is consistent with empirical evidence on customer relationship marketing practicability in banking sector in sub Saharan countries (Nigeria, Kenya, and Ghana). Their studies shows that, customer relationship marketing represented by communication, competency, social and financial bonding, empowerment, conflict handling mechanisms, trust, commitment, ethical behaviour and technology have significant influence on performance. Moreover, the studies on practicality trends of customer relationship underpinnings have a direct impact on the banks financial and non-financial performances (Adeyeye, and Tolulope, 2013; Rosemond, et al, 2013; & Hellen, 2008).

**Coefficients of Regression Analysis:** In order to examine the effect of each explanatory variable (trust, commitment, communications, conflict handling and competence) on the bank competitiveness, coefficients of regression results were used. The predictive capacity of each variable was interpreted by being the influence other variables remain constant. The result of each is depicted in the following table.

**Table4: Summary of Simple Linear Regressions Models**

Variables	R	R-square	F-value	Sig	B	T
Trust	0.894	.800	572.103	.000	.812	23.919
Commitment	0.716	.512	150.077	.000	.571	12.251
Communication	0.571	.326	69.196	.000	.571	8.318
Conflict handling	0.310	.096	15.170	.000	0.282	3.895
Competence	0.337	.114	18.326	.000	0.266	4.281

*Source: Field Survey, 2017*

The findings of the regressions indicates that each explanatory variables: trust, commitment, communication, conflict handling and competence have statistically significant effect on outcome variable; organizational competitiveness at 5% significant level ( $p < 0.05$ ). Therefore, all null hypotheses were rejected. This implies that the bank management continuously evaluates their customer relationship marketing practices, which were implemented at functional/branch level. According to the interview conducted with the branch managers and customer relationship manager response, the bank top managements sequentially forward corporate financial and non-financial targets to each branch and employee with respect to their duties and responsibilities. Besides that, the bank periodically evaluates both the branches aggregate performance and each employee's individual contributions, through performance management system.

## **5. CONCLUSION, SUGGESTIONS, AND LIMITATIONS**

### **5.1 Conclusions**

The descriptive statics; mean score results of the study clearly indicates that, trust and commitment have relatively high significant role on the bank customer relationship marketing practice. Moreover, Conflict handling practice, competence, and communication had a moderate significant role on the bank customer relationship marketing.

The joint effect of multiple linear regression analysis results leads to conclude that competitiveness of the bank is well practiced by customer relationship marketing underpinnings.

Linear regression results of each explanatory variable (trust, commitment, communication, conflict handling and competence) have statistically significant effect on outcome variable (organizational competitiveness). Comparatively, each independent variable was not equally predicting dependent variable. Trust and commitment have a strong power to predict the bank competitiveness level, whereas, communication, conflict handling and competence have slightly moderate power to predict the outcome variable. Hence, the study concluded that customer relationship marketing practice at Commercial Bank of Ethiopia contributed much on its competitiveness level although there is some gaps that needs attention from the bank management like low employee competence, slight slack customers conflict handling practices, over crowdedness/suffocations of customer in the bank branches, and week dissemination of explicit information to customers about new products and services application like internet banking, mobile banking, Debit cards, and agent banking.

## **5.2 Suggestions**

Thus, based on these conclusions, the following recommendations are forwarded:

The bank management and employees should give additional emphasis on communication through devoting time to meet customers (making regular customer visiting to their work premises) and making a discussion about customer needs, new products and services to the actual as well as potential customers, communicating policy and procedure changes to customers , and identifying customer service problem encountered by customers and taking all necessary action so as to improve implementation of the strategy.

The bank should work hard on improving conflict handling practice through designing and continuously providing comprehensive training to employees that fill the gap on conflict handling; skill, attitude and ability.

The bank should properly manage and support frontline employees and new employees regarding complaint handling and promote strong internal networks to enable complaint handling staff to work with and be supported by each staff. Appraisal of employees should be made to incorporate the rating of employees' attitude towards customers' regarding customers' complaints and commendation on the respective contact employees of the bank.

Since the bank is mass customer centric organizations, it should raise an awareness of its organizational structure to attract and retain qualified employees that can contribute positively to their performance and that bring strong and positive relationship. In addition to this, the bank should facilitate training and developments that are directed at building enduring customer relationship.

### **5.3 Limitations and Implication of the study**

Even if this study produced meaningful results, it was also subject to certain limitations which in turn provide avenues for further researches; the selection of factors included in the conceptual framework of the study is not exhaustive. Certainly, other factors could provide additional insights into the effects of customer relationship marketing practices on organizational competitiveness. For instance, the inclusion of other customer relationship management; behavioural dimensions not covered by the study. Methodologically, the study used only employees as a unit of analysis. If both employees and customers are included, there could be a bit different response.

Therefore, Future researchers may use the study as empirical base and establish other relevant measures of customer relationship marketing and even reconfigure the conceptual framework such that the interrelations between these variables may be set out differently in order to bring out additional insights on the studies in similar topics.

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