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# The Effect of Customer Relation Management Practice on Operational Performance: In Case of Commercial Bank of Ethiopia

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**Abstract:** The purpose of this paper is to explain the effect of customer relation management practice on operational performance of commercial bank of Ethiopia in case of Bahir Dar branch head office by examining the determinant factors of operational performance. The quantitative research approach used through primary data collected from 93 respondents in commercial bank of Ethiopia, Bahir Dar branch head office. Operational performance, an ordered categorical variable, was regressed on customer relation management. Cronbach alpha was used to check reliability test. Chi square test statistics were applied for testing the association between dependent and independent variable. The respondents were selected as the whole because it was employed census survey design. Statistical analyses were performed with the data in order to test the five main research hypotheses. An ordered logistic regression model was employed in the research. The main findings from results of the STATA routine indicate that, in Bahir Dar Branch head office, customer relation management practice has positively determined operational performance. The organization should be more focus and invest customer relation management practice. Further research is required to focus on the dynamic nature of organizational performance.

**Keywords:** Customer Relation Management Practice, Operational Performance, Stata

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## 1. Introduction

According to Stone & Woodcock (2014), the last four decades has seen as increasing need to shift from lean, cost efficiency driven business to customer driven business. Customer relation management practice is crucial for every function of organization as well as it has a significant impact on organizational performance. Customer relation management practice refers to the principles, practices, and guidelines that an organization follows when interacting with its customers. It is a technology for managing all your company's relationships and interactions with customers and potential customers. The goal of CRM is to improve business relationships to grow your business. It helps companies stay connected to customers, streamline processes, and improve profitability [26].

Customer relationship is the intangible connection of

customers and the company' 'Customer relation management is the strategy that enables a bank to analyze their profitability, customers need and profile as well as their profit poetical area to enhance the customer satisfaction, competitive advantage, profit and images of the organization [26].

According to Preuss (2005), Supply chain management practice recently has been a very common practice across different industry [22]. The major focus is to facilitate meeting of customer needs for the various products that it produces [22]. According to Rajput & Abu Bakar (2011), In recent years, supply chain management emerged has become one of the most critical features in any business in need to gain in every competitive and dynamic environment. The global market is become more complex and competition is becoming strong, therefore the demand for business restructuring and reestablishment in the operation department

in order to produce and provide more competitive goods and services to the consumers through effective and efficient supply chain management practice [23].

According to market Derrouiche, Neubert, & Bouras, (2008), Operational performance is a relative measure that explains how firms utilize its available resource such as asset both tangible and intangible in generating revenue. According to Shepherd & Günter (2010), Performance measurement is the systematic process of quantifying idea and action in firms [24]. Performance measurement is facilitating integration of among supply chain partners aids to achieve long and short-term goals of firm's example to facilitate productivity, reduce cost & wastes related to inventory, reduce waiting time and to increase market [10].

Chan & Lee (2005), studied on the extent to which supply chains activity meet end customers need what is termed as supply chain performance. Performance is a management problem that needs to be understood fully. Strategic and operational goals can only achieve, if management understands the performance targets. The measure evaluates the strength and the appropriateness' of the asset utilization in generating profit. It measures the efficiency and effectiveness of the management in resource allocation and growth [6]. The specific performance measures in this study are related to timelines or time cycle, responsiveness, customer satisfaction, on time service delivery, market share [6].

According to Fayez, Zutshi, & O'Loughlin (2015), In today's world supply customer relation management practice plays a vital role in big business organization. A substantial number of firms realized the strategic role played by customer relation management practice in the achievement of the organizations performance within the industry of operation [12]. According to Squire, Burgess, Singh, & Koroglu (2006), Organization both private and public organization are therefore compelled to upgrade their standard performance with a view of creating value for money in the production of goods and services. Other researchers also highlighted the important of supply chain management but noted there is little research done on customer relation management practice [25]. According to Ambe (2012), Any challenge experienced by any of supply chain members result on negative effect on performance of the whole chain due to the high cost incurred in the long run. Timely exchange information in supply chain management help to pace of the whole supply chain by lowering the rate of variation and shift in inventories and customer demand [3].

According to Osorio, Muturi, & Ngugi (2015), despite the fact that many private and government bank sectors have taken account the advantage of implementing customer relation management practice, since best practice, method, and technique were initially implemented in the industrial settings, implementation of this practice in the bank sector is still infant stage. Even firms with adequate internal process have failed to facilitate international supply chain management practice. This factor results to minimize

partnering and collaboration among supply chain partners. Some players apply traditional method of operation which is expensive, time consuming and rigid [21]. because of high number of customers and competitors in Bahir Dar City, the branch should be offer specialized service for customer by adopting adequate customer relation management practice.

As a result, many researches are done both nationally and internationally. For instance, B. Kenya & Mulinge, (2014) studies about the effect of customer relation management practice and performance on Kenyan commercial banks and he find that customer relation management practice has positive significant effect on the performance of the bank [16]. another researcher was Mwale, (2014) his study was on the effect of customer relation management practice on the performance of large firms in manufacturing Kenya, his finding was the customer relation management practice has assisted and increase their competitive advantage, efficiency and performance of the large manufacturing firms [19]. According to Kumar & Kushwaha (2018), customer relation management practice has positive effect on the operational performance of fair price shop in India [18].

The following researchers try to touch the points related to the effect of customer relation management practice on operational performance. According to Aboneh, (2017) customer relation management practice has positive and significant effect on operational performance of pharmaceutical companies in Addis Ababa. and the finding was companies should give great attention for customer relation management to gain greater competitive advantage over their competitors [1]. Kindie, (2017) studied on the title effect of customer relation management practice on the performance of Ethiopia telecom in Addis Ababa [17] and FIKRU (2014) studied on the title of assessment on supply chain management performance of population service international Ethiopia [13].

Generally, all the previous study indicates that knowledge gap exists based on the fact that no single research has done on customer relation management practice and performance of commercial bank of Ethiopia in Bahir Dar. So, the researcher want study the effect of customer relation management practice on operational performance of commercial bank of Ethiopia at Bahir Dar branch.

#### *Research Hypothesis*

The primary goal of this research is to show the effect of Customer Relation management practice on the on operational performance of commercial bank of Ethiopia.

1.  $H_1$ : Customer Relation Management Practice has positive Statistical Effects on the Operational Performance.
2.  $H_0$ : Customer Relation Management Practice has positive Statistical Effects on the Operational Performance.

The main objective of the study is to show the effect of customer relation management practice on the Operational performance of commercial bank of Ethiopia in BahirBar branch (head office).

## 2. Literature Review

### 2.1. Customer Relation Management Practice

“Customer relationship is the intangible connection of customers and the company” Customer relation management is the strategy that enables a bank to analyze their profitability, customers need and profile as well as their profit potential area to enhance the customer satisfaction, competitive advantage, profit and images of the organization (Stone & Woodcock, 2014).

Different researchers have done researches at different time about the effect of customer relationship management practice on the performance of bank sector. Example (Kafko, 2017), was study about the effect of customer relation management on the performance of commercial bank of Kenya. In his research he finds that customer orientation strategy, customer retention strategy, service quality management and customer relation management have strong effects on the market performance of commercial bank of Kenya. And he recommends that each commercial bank of Kenya should have the above all strategies to enhance its performance [14].

According to (Agbo) the effect of customer relation management on the performance of deposit money banks in umuahia at Nigeria, the researcher was found that, customer relation management practice has relationships with the performance and this practice is influence the profitability, market share and customer satisfaction of money deposit banks in umuahia state [2]. Kebede & Tegegne (2018), also assess the effect of customer relation management on the performance of commercial bank of Ethiopia in Amhara region, their study was based on the key customer focus variables like organization based, knowledge based and technology based [15]. According to their research all variables knowledge management, technology and organization-based CRM were possible to predict the performance of the bank. Among the three independent variable knowledge management has strong effect on the performance of commercial bank of Ethiopia in Amhara regional state [15]. BELISTIE (2017), studied on the Assessment of customer relation management practice on the performance of awash international bank in Addis Ababa. the researcher view was from four customer relation management dimension, customer focus, CRM organization, Knowledge management, and technology-based and he find that, the effect of customer relation management practice was average on the performance of awash international bank. But customer focus dimension had taken the lion share of the contribution [5]. Assessment of customer relation management practice on the organizational performance of medium enterprise in Indonesia (Nasution & Rafiki, 2018), the finding was all customer orientation, top management support and employee training has a strong effect on the performance of Indonesia medium enterprise. Those researches are done on customer relation management alone, but there are also other past studies with strategic partnership practice, information technology, quality information sharing

and lean practice [20].

### 2.2. Operational Performance

Operational performance determines organizational performance. The operations in a service organization should be efficient and effective in order to achieve organizational goals. Effectiveness is the expanse to which customers needs are fulfilled whereas efficiency is a measure of economical the organizations resources are utilized. In order to enable the accurate assessment and evaluation operational performance, the correct measurement approaches must be designed, implemented and well maintained by the users of the particular process. They may identify necessity of measuring the processes effectiveness, its efficiency, its quality impact and overall productivity (Alfonso, LaRocca, Oakland, & Spanakos, 2000). A systematic performance measurement system should be in place in order to achieve operational excellence in the service industry. Generally Operational Performance refers to the ability of a company in reducing management costs, order-time, lead-time, adopting customer responsiveness, fast delivery service, increase customer satisfaction, reliability, flexible service and increase market share improving the effectiveness of using quality service distribution capacity (Cook, Heiser, & Sengupta, 2011).

## 3. Research Methodology

### 3.1. Introduction

Chapter three has included research design, population, data collection, data analysis. Methodology describes the theory of how inquiry should proceed that involves analysis of the principles and procedures in a particular field of inquiry. It involves the researchers ‘assumptions about the nature of reality and the nature of knowing and knowledge. In other words, methodology represents a theory and analysis of how research does or should proceed. Methodology encompasses our entire approach to research.

### 3.2. Research Paradigm

According to Bailey (1997) In research there are different world views towards to the research approach [4]. Levine (2011) define It is “a basic set of beliefs that guide action”. “A general orientation about the world and the nature of research that a researcher holds”. According to (Clark & Creswell, 2008), there are four different world views. Those are post positivism, constructivism, advocacy/participatory, and pragmatism [7]. For the purpose of this research the positivist world view is appropriate because it is more focused on the quantitative approach because Cause and effect relationships one of the tenets of the positivist paradigm. According to Creswell (2009) Experimental designs seem to provide an umbrella to explain this causal relationship Questions and hypotheses are tested and verified by experiments [8]. The researcher should seek a cause-effect relationship between the independent variable, which is the

intervention and cause of any improvement, and the dependent variable, the outcome of the intervention [8].

### 3.3. Research Approach

There are three types of research approach: qualitative, quantitative, and mixed methods. Among those research approaches the researcher use quantitative approach because testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures (Clark & Creswell, 2008).

### 3.4. Research Design

According to De Vaus (2001), design of the study is a comprehensive plan for data collection in an empirical research project [9].

In case of the current research the researcher used cross sectional census survey design because it is quick to conduct, conducted at a given point in time, conducted with different samples, provide information about the current status, participants are needed only once for the study purpose, multiple variables can be studied at a single point in time, take relatively shorter time than longitudinal studies as well as current co relational effect of variables.

### 3.5. Population

Population is “a theoretical distribution of all elements that could be part of the. But According to this research the whole employee of those branches is the population of the study because of the researcher is employed census survey design. When the number of populations is not massive, just take the whole population as a part of the studding area. Taking the whole population as a sample has increase the reliability of the research. The researcher has taken the whole employee as a sample from commercial bank of Ethiopia at Bahr Dar branch (head office).

### 3.6. Source of Data

It is obvious that the necessity of source of data to doing the researches. All most the researchers have used these primary and secondary sources of data. In this research the researcher has used primary source of data because of unavailability of secondary sources. Primary sources of data are those in which the researcher needs to conduct a new survey for gathering information at different levels with regard to the inquiry. the primary source of data is included historical and legal documents, eyewitness accounts, results of experiments, statistical data, pieces of creative writing, audio and video recordings, speeches, and art objects.

### 3.7. Data Collection Tools & Instrument Development

The data collection tools are decided based on the type of research approach we use (qualitative or quantitative).

According to this research questioner is an instrument to collect the primary data from 93 populations in three selected commercial bank of Ethiopia at Bahir Dar branch head office. The format of the questioner was liker scale. Basically, the instruments were developed based on the objectives of the study and research questions. The principles of questionnaires such as, use simple and clear languages, statements should not be too long and use of appropriate punctuations is also considered when developing the instrument.

### 3.8. Data Analysis

The analysis plan had described in detail each hypothesis. Thus, the hypothesis had been addressed one at a time followed by a description of the type of statistical tests that would be performed to answer. In this research the researcher used inferential statistics based on the nature of data. generalize by using ordinal logistic regression model as well as to test hypothesis.

### 3.9. Ordinal Logistic Regression Model (Proportional Odds Model)

Logistic regression may be useful when we are trying to model a categorical dependent variable as a function of one or more independent variables being the dependent variable has two outcomes. Ordinal logistic regression (OLR) is a type of logistic regression analysis when the response variable has more than two categorizes with having natural order or rank. In order to meet the objective, set up on this study Ordinal logistic regression model and tests related are employed as a general methodology. It is natural to consider methods for more categorical responses having more than two possible values. Logistic regression model can be classified as multinomial, ordinal and binary. In this investigation Ordinal logistic regression model was used. The ordinal logistic regression procedure empowers one to select the predictive model for ordered dependent variables. The model of ordinal logistic regression is presented the following formula

$$\ln \left( \frac{\text{prob}(\text{event})}{1-\text{prob}(\text{events})} \right) = B_0 + B_1X_1 + \dots + B_nX_n$$

According to my research the symbols is denote as follows

$\ln(\theta_j)$  or  $\ln \left( \frac{\text{prob}(\text{event})}{1-\text{prob}(\text{event})} \right)$  = is called log it. It's the log of the odds that an event occurs.

The odds that an event occurs are the ratio of the number of people who experience the event to the number of people who do not.

$\beta_0$  = is threshold values, often isn't of much interest. Its values do not depend on the values of the independent variable for a particular case and constant value or equal to  $\ln(\theta_j)$  when  $\beta_n = 0$

$X_1$  = independent variable one -customer relationship management practice &  $\beta_1$  is its coefficient.

## 4. Result and Discussion (Odds Ratio Model Output of Ordinal Logistic Regression)

Table 1. Ordinal logistics regression result.

OP CRMP	Odds Ratio	Std. Err.	z	P>z	[95% Conf.	Interval
disagree	4.492476	10.95669	0.62	0.538	0.037713	535.1554
neutral	5.121409	7.557585	1.11	0.268	0.2839778	92.36226
Agree	171.3206	274.624	3.21	0.001	7.401984	3965.255
strongly agree	2661.34	5236.438	4.01	0	56.27047	125869.4

Based on the above information the researcher is give conclusion for the hypothesis.

H<sub>a1</sub> Customer Relation Management Practice has positive Statistical Effects on the Organization Performance.

H<sub>o1</sub> Customer relation management practice has not positive statistical effect on organization performance.

Customer relation management practice has association with organization performance because the chi square test p value is less than 0.05(0.000<0.05) and also this customer relation management practice is a significant variable for the study as shown ordinal logistic regression STATA output table 1. Among the five categories two are significant (agree and strongly agree) p value is 0.000 and 0.002 respectively. Now it is possible to accept or reject the alternative hypothesis. If the p value is less than 0.05 reject the null hypothesis, and if p value is greater than 0.05 accept the null hypothesis. The p value in the chi square test is 0.000 <0.05. So, reject the null hypothesis and accepting the alternative hypothesis. Customer relation management practice has statistical effect on organization performance.

The interpretation odds ratio of customer relation management practice with organization performance is positive .2661.34 (p value 0.000) indicates that very strong customer relation management practice of the organization enhances the performance of the organization strongly more likely to moderate customer relation management practice, other variables in the model held constant. Or strong customer relation management practice 2661.34 (p value 0.000) times more than the moderate (agree) customer relation management practice to increase a very strong organizational performance, other variables held constant in the model. Or strong organizational performance is improved by strong customer relation management practice more likely to moderate customer relation management practice. or employees who strongly agree about customer relation management practice is 2661.34 times more likely to employees who are agree about customer relation management practice in the organization to improve strong organizational performance. The result was the same to (Kebede & Tegegne, 2018). Their finding was customer relation management practice has statistically significant on organization performance in commercial bank. Desbordes (2011) findings showed that customer relations management practice has significant effect on the performance of bank in Ghana [11]. Kafko (2017), results were also the same to this study, that customer relation management practice has significant effect on the performance of commercial bank of Kenya [14].

## 5. Conclusion and Recommendation

Based on the statistical result the study concludes that customer relation management practice, has positive statistical effect on operational performance of Commercial bank of Ethiopia at Bahir Dar branch. the study recommends that commercial banks of Ethiopia at Bahir Dar branch should be encouraged to enhance adoption of customer relation management practices since they have the potential of improving their operational performance. Generally, the branch should be giving a greater attention for supply chain management practice in their organization and future researchers should be focus on the other supply chain management practice and also focus on the other branch of commercial bank of Ethiopia.

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