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# Impact of CRM practices on service quality in the banking industry

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**Abstract:** *The present study investigates the impact of customer relationship management practices on the service quality in the banking sector. CRM practices have been found to greatly influence not only the customer satisfaction and loyalty but also the quality of services provided by organization. The study focuses on three CRM practices of Attitude towards clients, Efficiency of banking services and Knowledge ability and their impact on the service quality. As customers are more aware about the services so they ensure service quality. Employee's knowledge ability helps customers to gain experience that actually leads towards service quality and efficiency in services provided by the banks also help in service quality. The study used survey design and the sample consisted of 230 respondents. These respondents were customers of different banks in the city of Rawalpindi, Pakistan. The results indicate that knowledge ability of employees and attitude towards clients is having significant influence on service quality. However, CRM practice of Efficiency of banking services was found to be insignificant. The study has managerial implications for the banking industry. The study also provides future directions.*

**Keywords:** *Customer relationship management, Knowledge ability, Attitude towards clients, Efficiency of banking service, Service quality.*

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## 1. Introduction

Customer satisfaction is based on the customer requirements, if they get the required service quality or product quality they feel satisfied. Satisfied customers tend to purchase

things or services (Paul, Mittal & Srivastav, 2016). Through CRM and its practices any organization can achieve the long term benefit and profitability. These practices are related to efficiency in services provided, more positive attitudes/response towards customers and knowledge ability, which lead to improved and maintained relationships with clients and hence improved service quality. The present study focuses on three CRM practices of attitude towards customers, knowledge ability and efficiency in services in the banking industry. Christopher, Payne and Ballantyne (1993) points out that marketing is related to providing the exact product in the exact place at the exact time. But a new trend in marketing has emerged, which is known as customer relationship marketing that focuses on the customer's needs (p.5).

Picton and Broderick (2005) study on CRM also focus on the importance of CRM factors that has major impact on firm profitability. According to the authors, through CRM positive communication about organization and long lasting relationship between customers and firms can be established. A lot of studies are conducted on different dimensions of CRM. For example, Gordon (2002) study was on process, technology, people and knowledge. Parvatiyar and Sheth (2001) also focused on process, technology, people and knowledge and pointed out that if not managed properly, these factors affect organizational performance and long term growth negatively. Similarly Sin (2005) highlighted that long term customer-firm relationship can be managed through technology, knowledge management and customer focus. According to Sin (2005), CRM includes the strategy, process to attract and retain the customers for long run. These factors have immense importance for any service firm for achieving the quality and success because they help to attract the profitable customers which are the main asset of an organization. Wang, et al. (2004) study was based on the key dimension of customer value (social value, functional value, emotional value and perceived sacrifices). Some of the researchers have focused on customer information system, customer knowledge, customer value, customer information process and customer response (Lu & Shang, 2007; Rootman, 2008). Rootman (2008) has highlighted that customer response is the most important factor among CRM practices that are adopted by organizations.

Service quality is very important in business environment especially in service sector. It is the complete view and picture which makes the customers good and bad regarding an organization and services provided by it (Rust & Oliver, 1994: 77). If there exists positive perception about service quality, it means organization has been successful in providing both functional and technical proportions of the service (Gronroos, 2001). Technical quality is related to what customer is receiving and functional dimension is about the process through which customers receive the service. Therefore, positive perception will exist if customers are satisfied with it. Gibson, et al. (2012) have pointed out that attitude of a person is linked with the motivation and perception quality and is a main source of developing the relationship with the customers.

Customer's satisfaction or dissatisfaction depends upon the response that he/she receives from the service provider. Response towards customers is related to the timely and speedy reaction towards customer's needs, problems or any other complaints regarding the services provided. Shergill and Li (2005) in their study highlight that good response can be measured by the speed and quality of information that is provided to the customers. When timely action is taken on customer's problem and accurate information

is provided to them than their trust develops, building good relationship between customers and company.

According to Marx, Van Rooyen, Bosch and Reynders (1998), efficiency is about performing the tasks and activities correctly (P. 349). In banking industry, efficiency and quality matters a lot, because for customers the first thing that matters is the quality of the services provided by their bank. This quality of service is dependent on services being efficient. The adoption of new technologies to provide services has increased the efficiency and quality of employees. These systems are set in a way that they are speedier, more accurate and error free (Santouridis, & Veraki, 2017).

Banks have to maintain CRM practices that provide value beyond the core product and this involves both tangible and intangible elements associated with the core products. Hanley (2008) have described different dimensions of efficiency of banking services which helps to increase the quality of service provided to customers. These dimensions include confidentiality of personal information of clients, ethical behavior, and variety of services and security of funds. Organizations focusing on these dimensions help enhance quality of services and customer satisfaction. Greenberg and Baron (2000) in their study suggested that customer and firm relationship is influenced by the knowledge of employees about the services that are provided by their organization. In case of banks, customers are more conscious about the information regarding different services and procedures. Therefore, it becomes imperative for the employees not only to understand but also to have complete and accurate information about different products and services (p.118). Similar view point has also been expressed by Thompson and Mchugh (2002) that a service firm will be more competitive if its employee's hidden and inherent knowledge is more. Therefore, to increase the firm's effectiveness and growth more focus should be on human resources (p. 187).

## **2. Literature Review**

### **2.1. Customer Relationship Management and Service Quality**

Customer relationship management importance has tremendously increased during recent years mainly because it not only provides the competitive edge to an organization by developing the long term relationship with the customers but it also has become a necessary tool for the survival/existence of the organization (Buttle, 2004). In marketing, service quality is considered as an important factor that contributes towards benefits reaped by organizations and this has been highlighted in the literature also (Izogo & Ogba, 2015). Service quality is considered as customer's assessment and satisfaction regarding the services they receive from their organizations. Therefore, success of any service related organization is actually based on the service quality and the satisfaction of their customers with the services provided to them (Makanyeza, Makanyeza, Chikazhe, & Chikazhe, 2017). Service quality and customer satisfaction are considered as two terms that can be used for each other and service quality assures customer satisfaction or dissatisfaction.

Beckford (2002) is of the opinion that though customer relationship management is important for all businesses but for service firms it has become even more important. Customers focus more on the elements of services and interaction with the service provider because in services there is no tangible product which customers can experience. Thus, for customers interaction with the service provider provides the experience. In

banking industry, customer relationship management factors need to be considered that have impact on the banking service quality (Beckford, 2002, p. 12). This is more so important in case of Pakistan, where economy is dominated by the services sector. Therefore, in increased dynamic and competitive business environment, organizations need to focus on new business styles, policies and practices especially related to customers.

Buttle (2004) state that customer relationship management is being considered as a foundation of business strategy, which incorporates internal processes as well as purposes in addition to external networks, towards delivering quality service along with value to the targeted clients (p. 34). Payne (2012) also highlights that managing customer relationship management is very complex and continuing process and requires a response from the organizations as the external environment rapidly changes. Therefore, it is imperative that organizations view CRM in broader and long term perspective. Jham and Khan (2008) in their study also point out that CRM is a very inclusive strategy as well as procedure that focus on establishing and preserving along with enhancing the association with the customers in order to generate the value and profit in support of the firms. It is a widespread process, which is beneficial for increasing the quality through maintenance of long lasting relationship with customers.

Furness (2001) in his study state that many businesses such as banks, insurance companies and other service providers understand the importance of customer relationship management and its potential to help them acquire new customers and maximize their lifetime value . Thus, CRM is a policy towards attracting and retaining organizational customers. Customer relationship management in the banking sector involves understanding the customer's changing needs and developing services to satisfy these needs by building long term relationship with the customers. By emphasizing on customer relationship management, the banking industry can protect its market share, increase its service quality and boost growth. According to Bhattacharya (2011), customer relationship management is the way to reduce the cost and increase the company performance and quality, which means profitability result through customer loyalty (Rahimi, & Kozak, 2017). Customer relationship management helps the employees to make accurate and speedy decision when dealing with the customers in different areas and touch points. This help in solving many customers' problems. Thus, customer satisfaction and loyalty would be achieved through a successful CRM implementation. Therefore, organization should discover different requirements of the customers and adjust their policies according to customer need to increase the firm competitiveness and quality.

Another valuable contribution in this aspect is made by Ang and Buttle (2006), who in their study concluded that management practices strongly affect CRM, which in turn is directly associated with the customer retention, satisfaction and quality. Hence, excellence in customer services is strongly associated with the customer relationship management practices. Chase (2004) also highlighted that service quality is related to the judgment and measurement of customers of their overall experience regarding service environment of an organization. The success in providing high quality service will be possible when employees will behave in well manners with the customers, they will listen to the complaints with concentration and respond efficiently and quickly to solve the customer complaints, along with the level of knowledge and information that they will

provide to their customers. Service quality will be enhanced when an organization understands all these factors and implement them with consideration that will not only satisfy the customers but will also develop strong relationship with their customers. Boshoff and Tait (1996) also pointed out that service quality leads to increased customer loyalty, satisfaction, retention and long term relationship with the customers. This increases the profitability, performance, market shares and decreases the turnover rate of the customers (P. 67).

Mudie and Cottam (2010), in similar vein also point out that service quality is closely associated with the customer relationship management. They further argue that improving service quality through better service encounter process, service design process, service productivity and culture of the firm, will help in customer retention (P.82-84). Similar views have also been expressed by Gronroos in his study. Kennedy (2004) in his study also highlighted the relationship between CRM practices and service quality of any organization. He point out that CRM helps in understanding the needs of clients resulting in changes in the service delivery process according to the customer needs. He further argues that the key objective of CRM policies and plans is to have better results by satisfying and retaining important and profitable customers (P.5).

## **2.2. Attitude towards clients**

Employees are integral part of any organization. Modern day employee-customer relationship is more complex and sometimes employees face hurdles in dealing with customers (Johlke & Iyer, 2013). This is mainly because of the attitudes of the employees. Mullins (2004) defines attitude as a condition of tendency to respond or act in a specific manner and it includes judgment about objects, people and individual. In modern day business environment, the biggest challenge faced by organizations is to have satisfied customers. Therefore, organizations should have employees exhibiting interpersonal and communication skills rather than more technical skills. Customer satisfaction levels and loyalty have a reverse and negative impact on the firm due to the lack of right attitude and behavior. Hanley (2008) also described attitude and behavior as it can be represented by creating such environment in which customers feel friendly and respected and get speedy response to their issues, problems and about any other matter. Peppers and Rogers (2004) state that relationship marketing is not only about satisfying the customers by lowering the prices of products and service, but it is more linked with the behavior of employees and the customer treatment. Customers feel more satisfied when employees exhibit positive attitude towards them.

According to the research of Hanley and Leahy (2008) the effect of positive employees' attitude and behavior could be expressed by increasing the speed of response to the customer and ensuring that employees are friendly and respectful towards the customers. This positive attitude helps to make customers satisfied and helps organization to increase its service quality. Coulter (2002) in his study also highlight that organization performance will be enhanced when employees' attitude towards customers is good and friendly. Literature provides evidence that employees' attitude, behavior and dealing with customers contributes towards service quality along with the knowledge and experience that helps employees to understand the needs of and dealing with customers (Flinchbaugh, Schwoerer & May, 2017).

Rust, et al. (1992) also pointed out that it is the experience and attitude of the employees who are having the closest connection with the customers that are more likely to affect whether or not customers are satisfied. Another study conducted by the Ovenden (1995) provided evidence that attitude and complaint handling are two most effective CRM techniques that make a customer satisfied. He further argued that organizations must be aware about how well or badly customers are treated. Customer often complains and when someone does it might be too late to retain the customer. He further identified that one important component in the concept of satisfaction is the complaint management that how employees will handle these and give feed back to customers. The study found encouraging customers to complain increased their satisfaction level and this was especially in the case of dissatisfied customers. Greenberg and Baron (2000) also state that the employees' attitude towards their work is very advantageous for the firm, because if employees are satisfied from their work than their service performance will be increased that affects service quality. Thus, satisfied employees having positive attitude towards their job and customers would increase the CRM.

Little and Marandi (2003) in their study point out that the relationship between a firm and its client are maintained and established on the basis of effective and good response towards the customers. Buttle (2004) said that the attitude and good response are valuable for an organization as these create value for the client (P. 254). Jarvis, et al. (2004) state that the relationship with customers can only be established if employees respond in a good and effective manner toward customers. Employees should deal with the customers in good manner and show them good and positive attitude which helps to make customers satisfied.

Lu and Shang (2007) in their study argued that the most effective CRM practice that influences the service quality is response towards customers. When an organization listens to the customer's problems, complaints and provides them satisfied response for their problems than it can build satisfied and loyal customers for the organization. Mudie and Cottam (2010) and Duncan and Morarity (1998) suggested in their studies that when organization listen to their customers, and give appropriate response to them, it shows that organization give value to customers and that is when CRM process starts.

Thus, service quality of banks will be more when attitude of the employees will be high or more towards their clients. There exist positive and direct relationship between service quality and attitude. Hence, the hypothesis,

***H1: Attitude towards clients has positive impact on service quality.***

### **2.3. Efficiency of Banking Service**

Marx et al. (1998) defined efficiency as "the degree to which tasks are performed correctly and as desired" (P. 349-350). For satisfying the needs of the customers and achieving the target market, an organization should provide the services in an efficient way. For example, a bank should make sure that its employees are efficient to perform its task and responsibility with the passage of time. There are multiple factors that influence the environment and efficiency of banking sector. These factors are confidential security, ethical behavior of employees and management; technology etc. All these factors are very important in order to gain the trust of customers and for developing relationship with them. Ray (2007) while studying CRM state that it is imperative to understand that if

customers bring profits for the banks then banks must provide excellent services to those customers otherwise they will switch towards other banks. An organization can improve its business process, systems, technology and overall quality of its services by implementing the customer relationship marketing strategies. Thus, by providing efficient services, an organization can increase its performance.

According to Arasli, et al. (2005) customers are more informed and demand better services, speed, and reliability. Clients always want the quick and fast service delivery, therefore, banking services has to be efficient to attract and retain customers. If bank uses the information related to client without the consent of that client, there will be negative impact on the bank's image and reputation. Cullen (2002) also point out that privacy is very important in the buying choice of banking client, if banks ensure clients about their information handling, it will build trust. Adoption of effective security system would make clients feel safer and this would be perceived positively by the clients. Ethical consideration is also a major factor that influences the decision of clients regarding choosing a bank.

Gee, et al. (2008) highlight that for customer retention and customer satisfaction quality of service is an important factor. Service quality can lead to customer loyalty and increases the profitability of the firms. If the services provided by the banks are efficient, it will impact the quality as well as well as performance. Levesque and McDougall (1996) suggest that the employees who interact and respond effectively with the customers are in position to increase their satisfaction. Employees should have the skills to respond effectively to the customer's needs to make them satisfied. Customer satisfaction directly affects market shares. Service quality, service features, handling complaints, effectively response and good behavior of the employees towards their customers determine the customer satisfaction, which is related to increased satisfaction levels of the customers. Thus, the second hypothesis of the study is

***H2: Efficiency of banking services has positive impact on service quality.***

#### **2.4. Knowledge ability**

Rootman (2008) points out that employee's knowledge ability means the capability towards remembering or towards implementing the banking processes, policies, products and services. This knowledge ability consists of both technical skills as well as cognitive capabilities. Greenberg and Baron (2000) highlighted the level of awareness and understanding of products and services offered by the organization is knowledge ability. Beckford (2002) also pointed out that knowledge as well as skills of employees, especially front line employees, is very important to fulfill the service quality expectations of the clients and increase the performance of the company.

Mikdashi (2001) is of the view that banks devote more resources to enhance the quality of their employees, as these employees are the key advisor to clients and main source of information, and therefore their quality as well as level of knowledge should be more. Similarly, another study by Bedford (2004) described that the knowledge of front-line bank employees represents the level of perceived service quality of the bank. Through extensive and attractive information, knowledge and expertise, bank employees can help ensure that clients more effectively and efficiently conduct their financial dealings and decision making regarding their financial matters. When employees trust is achieved in



this way then bank quality will be increased (P. 10). This shows that employees, who are having direct interaction with the customers, should have the skill to satisfy the customer’s need. Customers rarely have different problems and issue regarding certain things so, if they have, then companies should report and resolve that issue and respond them properly.

The above discussion indicates that knowledgeable employees are an asset for the organizations as they are able to develop relationships with their customers that in turn increase the service quality. The above literature provides evidence that there exist a positive relationship between knowledge ability and service quality. Thus, the third hypothesis of the study is:

***H3: Knowledge-ability of employees has positive impact on service quality.***

The model of the study is shown in Figure 1.

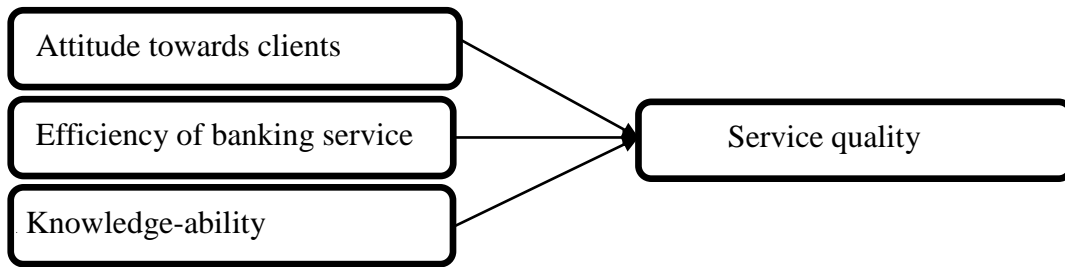


Figure 1: Model of the Study

**3. Research Methodology**

The study is based on quantitative research design, adopting survey approach to study the influence of CRM practices on the service quality in the banking sector. Self-administered questionnaires were distributed among the clients of different banks. There was minimal interference from the researchers as the survey instrument was self-explanatory. Total 250 questionnaires were distributed among the clients of different banks, out of these 230 questionnaires were found usable for the data analysis. Remaining 20 questionnaires were discarded due to inaccurate or missing responses. The survey questionnaire was adapted from different sources as given in the Table 1.

Table 1: *Sources of Instrument*

<b>Variable</b>	<b>Source</b>
Service Quality	Parasuraman (1988) , Zeithaml and Berry (1988).
Customer relationship management practices	Lu and Shang (2007) and Zeithaml and Berry (1988).

Data analysis included demographic analysis, correlation and regression.

#### 4. Results and Discussion

The demographic analysis indicates that there were 44% (n=102) female respondents and 56% (n=128) were male respondents as shown in Table 2. This indicates that males are frequent users of banking services as compared to females.

Table 2: *Distribution of respondents by gender*

Gender	Frequency	(%)	S.D	Mean
Female	102	44		
Male	128	56		
Total	230	100.0	0.4978	1.556

Table 3: *Distribution of respondents by age*

Age	Frequency	%	S.D	Mean
20-25	68	29.6		
25-30	79	34.3		
30-35	64	27.8		
Above 35	19	8.3		
Total	230	100.0	0.9416	2.1478

Table 3 provides the results for age of respondents. The table indicates that the majority of respondents belong to the 25-30 years age category (34.3%, n=79), followed by the age category of 20-25 years (29.5%, n=68), and 30-35 years (27%, n=64).

Table 4: *Distribution of respondents by house-hold income level*

House hold income level	Frequency	(%)	S.D	Mean
10,000-20,000	37	16.1		
21,000-40,000	75	32.6		
41,000-60,000	118	51.3		
Total	230	100.0	0.743	2.352

The results from Table 4 shows that majority of respondents belong to the income level of Rs. 41,000 - Rs. 60,000 (51.3%, n=118), followed by the respondents having income levels of Rs. 21,000 – Rs. 40,000 (32.6%, n=75).

To check for the internal consistency of the items, Cronbach's alpha was used. The value of alpha should be greater than 0.6 for an instrument to be reliable. The reliability of instrument used for data collection indicates that it is reliable as the alpha values were found to be above 0.6 (Table 5). The data normality was ascertained through skewness and kurtosis values as indicated in Table 6.

Table 5: *Reliability of instrument*

Variables	Cronbach's Alpha value	No. of items
Attitude	.608	5
Efficiency of banking services	.834	5
Knowledge ability	.828	5
Service quality	.813	5

Table 6: *Normality Analysis*

Variables	Mean	Std. Dev.	Skewness	Kurtosis
Service quality	1.9278	.65111	.801	.339
Attitude	1.8365	.51227	.556	-.020
Efficiency of banking service	1.9870	.63659	1.164	1.196
Knowledge ability	1.9078	.64356	1.085	1.030

Correlation analysis reveals that there exist moderate to strong positive relationships between variables of the study. Knowledge ability and service quality relation exhibits the strongest relationship. Correlation results are provided in Table 7.

Table 7: *Correlation Analysis*

	Attitude	Efficiency	Knowledge ability	Service Quality
Attitude	1			
Efficiency	.644**	1		
Knowledge ability	.406**	.741**	1	
Service quality	.477**	.607**	.655**	1

\*\* Correlation is significant at the 0.01 level (2-tailed).

Regression analysis was conducted to find the influence of CRM practices of attitude towards clients, efficiency of banking services and knowledge ability of the employees on service quality. All three variables were regressed simultaneously. The results are provided in Table 8.

Table 8: *Result of Regression Analysis*

	R	R <sup>2</sup>	Adj. R <sup>2</sup>	$\beta$	t-stat	p
1	.698 <sup>a</sup>	.487	.480			
Attitude towards clients				.262	3.274	.001
Efficiency				.116	1.324	.187
Knowledge ability				.494	6.810	.000
Predictors: (Constant), Knowledge ability, Attitude, Efficiency Of Banking Services						

Regression results indicate that all three variables are bringing a change of 48.7% in the service quality (R<sup>2</sup> .487). The results further reveal that attitude towards clients has a significant influence on service quality. This influence is to the tune of 26% on service quality. This results support our first hypothesis. Similarly, the regression result for knowledge ability indicates that knowledge ability has the strongest influence among the three variables (49.4%) on service quality. This result supports our third hypothesis, which was related to knowledge ability of employees. However, regression is insignificant for efficiency of banking services. Thus, our hypothesis related to efficiency of banking services is not supported.

The attitude of employees towards their customers is one of the factors that can influence satisfaction level of the customers. Customers require personal attention by the organizational employees especially in the banking sector. This personalized service helps in retaining the customers as well. Secondly, the more knowledgeable employees is regarding the banking services and products, the more attention he/she can give to their customers and solve their problems as well. These employees not only develop trust but also long term relation with their clients. Even if the service quality weakens, the relationship would help banks retain the customers. The results are in line with the previous studies carried out by Rootman (2008) and Lu and Shang (2007).

The result further reveals an insignificant influence of efficiency of banking services on service quality. However, there exist a moderate relationship between service quality and efficiency of banking services, but the influence is not significant. The main reason for this insignificant result may be the lack of adoption of new technologies by the banks for providing services to their customers. This creates dissatisfaction among the customers as they have to wait in long queues to get their problems solved.

## 5. Conclusion

The present study investigated the influence of three of the CRM practices namely attitude towards clients, knowledge ability of employees and efficiency of banking services on the service quality. The findings of the study provide evidence that knowledge ability of the employees and the attitude of employees towards customers are the main factors that enhances service quality perceptions among the customers. The attitude of bank employees is directly associated with the customer satisfaction. The more positive and helpful attitude of employee towards customer, the more satisfied customer will be. In banking industry, customers want to have complete and accurate information

about the services, policies and procedures of their banks. If clients are provided with the complete and true information of products and services they will be satisfied and relationship will enhance that will lead to more superior service quality. The result indicates that the factor that is neglected by the banks is the efficiency of services provided to the customers. This can only be done if banks have latest technologies that can satisfy the customer demands. These latest technologies not only provide security but are also speedy in carrying out the functions. Thus, banks should recognize the need for CRM strategies and practices that can help them grow and retain customers. CRM practices are effective and useful especially in services sector that relies on relationships. By adopting such practices, banks not only try to understand the customer needs and demands but also formulate strategies that can serve their customers more effectively and efficiently.

In Pakistan, majority of the banks do not focus on providing high quality and efficient services to their customers that creates dissatisfaction among banking customers. Efficiency can be increased if banks adopt latest technologies in order to meet the customer expectations and demands. Provision of online services can be one of the domains, which can be further focused upon by the bank management.

Individual and collective performance of the employees in the banks is of great concern for the management. The quality of service is not only dependent on the formal relationship with the clients but also informal relationships with them. Therefore, bank management should pay attention towards the quality of their employees for the sake of relationship with the clients. This research would be helpful for managers in realizing the customer relationship management practices in the performance of employees and increasing the service quality of their banks. Managers should focus and train their employees towards the customer relationship management practices from time to time.

The study is not without its limitations. The foremost limitation of the study is the sample size, as it was only restricted to Rawalpindi city. By increasing the sample size belonging to various cities can provide better insights into the service quality of banking industry. In future studies comparative analysis between urban and rural customers can also be helpful in understanding the service provided by the banks. Furthermore, service quality is influenced by many factors such as technology, organizational culture, human resource practices, etc. thus, incorporating other variables and focusing on other CRM practices may provide better insights. Another possible avenue for further research is comparison of CRM practices and service quality in different industries.

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