INFLUENCE OF CUSTOMER RELATIONSHIP MANAGEMENT SYSTEMS ON SERVICE QUALITY OF COMMERCIAL BANKS IN KAKAMEGA CENTRAL SUB-COUNTY, KENYA

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Abstract:
Achieving competitive advantage and improving organizational quality service have become the key goal that business firms are struggling to attain. This study therefore sought to investigate the effects of customer relationship management systems on quality service of Commercial Banks in Kakamega Central Sub-County, Kenya. The study was anchored on the Dynamic Capabilities Theory. The study adopted descriptive survey design. The study population comprised of all the licensed commercial banks in Kakamega Central Sub-County, from which a representative sample of 10 commercial banks was drawn. Three (3) senior officers (branch manager, operations manager and customer relations manager) were further drawn from each of the sampled 10 commercial banks to make a total of 30 officers. The main study instrument was a questionnaire which comprised of Likert-type scale questions on the main variables of the study. The data was analyzed using both descriptive and inferential statistics. Hypothesis testing was done by use of regression and correlation analysis. Validity was checked during piloting to ensure all the items in the main study were functioning. Moreover, to ensure validity of instruments, content validity was established pilot testing process was used to test reliability comparing with Cronbach’s Coefficient of which yielded an alpha of 0.799. The findings revealed that technological innovation, customer relationship management system and organizational structure had statistically significant influence on quality service of commercial banks in Kakamega Central Sub-County Kenya and tests for significance also showed that the influence was statistically significant. Findings revealed that 35.7 percent ($R^2=0.357$) of
the variance in quality service may be explained by customer relationship management system accounted for 81.3 percent ($R^2=0.813$) and organizations structure at 37.1 percent ($R^2=0.371$). The regression results indicated that technological innovations, customer relationship management system and organizational structure had positive and significant relationships with the quality service of commercial banks in Kakamega Central Sub-County, Kenya. The study recommended that: the management of commercial banks should invest more in technological innovations to ensure all the banking operations are informational technologically compliant; commercial banks should invest in training employees especially the front officers on customer relationship management since it positively affects quality service and there was need of flexible organizational structures that facilitate decision making and improvement of communication through the reduction of boundaries. The managers of commercial banks will use the study findings as a basis of formulation of policies on strategy changes that can enhance their quality service. The academicians and researchers will find the study useful in that it contributes to academic literature and theory by providing empirical evidence for use by educators, scholars and researchers in the survey of strategic management.

JEL: G2, M12, L84

Keywords: service quality, customer relationship management systems, commercial banks

1. Introduction

Current researches have revealed that service firms require a better understanding of customer orientation and its great importance to such firms and their performance (Kim et al., 2006; McNaughton et al., 2002; Sin et al., 2005). Other studies have been carried out to establish the relationship between CRM, customer orientation and marketing planning capabilities (Morgan, Vorhies, and Mason, 2009). It should be noted that these studies were carried out in the hotel industry and not in the commercial banks. Most studies have shown that CRM cannot be successful even if the organizations enjoy the most advanced technology and adapt a customer - oriented approach, unless the project is completely integrated by them (Sin et al., 2005; Yim et al., 2005). This was further emphasised by Ku, (2010) who stressed that CRM success does not only require technological quality or systems, but it also requires an effective service concept as well as suitable operation procedures. Thus, the success of CRM implementation relies on
the active involvement of the employees in the organization itself (Boulding, Staelin, Ehret, and Johnston, 2005; Payne, 2006; Tamilarasan, 2011). Mithas et al. (2005) in their study on the assessing the CRM on customer knowledge and the customer’s satisfaction by collecting data from the senior managers of Information Technology in more than 300 institutions working in the USA, results showed that the applications of CRM had a positive effect as they contribute to improve the knowledge of the customer and enhance the customer’s satisfaction. Brink et al. (2006) studied on treating the effect of CRM on the customer loyalty analysed the data from 240 students shared in the library of one of the universities of Western Europe. The study concluded that customer loyalty gets higher in the case of strategic orientation of CRM than in that of tactical approach. It was also found that the dimensions of CRM (the degree of harmonization, the invested resources and the support of senior management) have no effect on the customer’s loyalty, except for the time span of the CRM program, which had a significant effect on the customer’s loyalty.

According to the Ndubisi and Wah, (2005), study on the relationship between marketing and customer’s satisfaction by looking at the bank customers of Kota Kinablu city in Malaysia representing the society of the study. The number of banks in the city was 20 but only 15 banks agreed to have their customers interviewed by the researchers inside the banks. Likewise, only 400 customers of the banks’ customers agreed to fill the investigation lists. Only 220 usable lists were authenticated, and the response average was 55%. The study concluded that all dimensions were related to the customer’s satisfaction and that the dimension of the strongest relationship was represented in the improvement in the relationship quality with the customer in general terms; the correlation coefficient was 0.88 with less than 0.05 level of significance. Customer relationship management is an approach where the company improves the marketing effort with information from a detailed customer database (Perreault & McCarthy, 2002). The underlying purpose of CRM is to unlock the value of the relationship assets in a company to enable acceleration in revenue and profit growth (Ellis, 2004; Kennedy, 2004). Utilizing CRM in meeting the customer’s immediate and long-term needs enables companies to build customer loyalty and long-term relationships to the benefit of both parties. The implementation of CRM systems in the banking sector provides the means to conduct interactive, relevant and personalized communications with customers (Grigoroudis et al, 2002). An integrated CRM system will also deliver a seamless and consistent customer experience (Cap Gemini Ernst & Young, 2005).

In order to have more efficiently managed customer relationship CRM focuses on effectively turning information into intelligent business knowledge. This information can come from anywhere inside or outside the firm and this requires successful
integration of multiple database and technologies such as the internet, call centre, sales force automation and data warehouse. (John and Fredrick, 2002) There is no universal explanation of what CRM is, since the area is fairly new and still is developing. It is therefore important to remember that several attempts of defining CRM exist and that many companies adapt the definition to their own business and their unique needs. Panda, (2003), states that for a successful CRM implementation in the financial services sector, it has to incorporate four main areas of business which include strategy, people, technology and process. Panda further explains that the enablers (people and technology) are moved by the organizations strategic processes through their systematic interaction which eventually results in a successful CRM implementation.

2. Materials and Methods

2.1 Research Design
For the purposes of this study, the researcher employed descriptive survey design. Descriptive survey design is an oriented methodology used to investigate populations by selecting samples to analyze and discover occurrences (Oso & Onen, 2009). This design was appropriate since it is easier to sample a part of the population to gather data that can be generalized on the entire study population on the strategic alignment on quality service of Commercial Banks in Kakamega Central Sub-County, Kenya. The design was chosen because of its relative cost effectiveness and the ability to bring an understanding of the entire population from a sample.

2.2 Location of the Study
The study was conducted in Kakamega Central Sub-County in Kenya in 10 registered banks branches (CBK Annual Supervisory Report, 2015). Kakamega County is a County in the former Western Province of Kenya. Its capital and largest town is Kakamega. It has a population of 1,660,651 and an area of 3,033.8 km². Kakamega County constitutes nine (9) constituencies (Malava, Lugari, Mumias, Matungu, Lurambi, Shinyalu, ikolomani, Butere and Khwisero. Kakamega Central, Kakamega North, Kakamega East, Kakamega South, Lugari and Mumias Sub-Counties were mapped to this county for the purposes of generating county estimates. The County’s poverty incidence stands at 49.2 per cent and more than 809,500 of its people live below the poverty line.

2.3 Target Population
The target population included those staff in management for the ten branches of commercial banks in Kakamega Central Sub-County. The Branch Manager, Operations
Manager and Customer Relations Manager, giving a target population of 30 respondents. Census method was undertaken as the population was below 100. This ensured adequate representation of the subjects of the study.

2.4 Sample Procedures and Sampling Size
Purposive sampling method was employed in carrying out the study comprising of the branch managers, operational managers and Customer Relations Managers. In this study, 10 branch managers, 10 operational managers and 10 Customer Relations Managers at the branches were used. In light of this therefore, the design was deemed the best design to fulfil the objective of the study as only a few members of staff were knowledgeable to the research of the strategic alignment on organizational quality service of Commercial Banks.

2.5 Validity of the Research Instruments
Validity indicates the degree to which the instrument measures the constructs under investigation (Mugenda and Mugenda, 1999). It also refers to the extent to which the instrument measures what it purports to measure. There are three types of validity tests which include content, criterion and related construct validity. Content validity refers to the degree to which the instrument fully assesses or measures the construct of interest. The questionnaire provided an adequate measure that covers the content area of the research questions. Meaning the questions in the questionnaire must give adequate answers to the research questions of the study. The process of developing and validating an instrument was largely focused to reduce error in the measurement process. To establish the validity of the research instrument the researcher sought for the opinions of experts in the Survey of study especially the researcher’s supervisor. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

2.6 Reliability of the Research Instrument
The researcher carried out a pilot study to pre-test the reliability and validity of the questionnaire. One bank was selected for pilot study thus leaving a total of 10 banks for actual data collection and analysis. This was done within a span of two weeks. To establish the validity of the research instrument the researcher sought opinions of experts in the Survey of study especially the researcher’s supervisor. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.
Cronbach alpha, which is a measure of internal consistency, was used to test the internal reliability of the measurement instrument. The higher the score, the more reliable the generated scale. Nunnaly, (1978) has indicated 0.7 to be an acceptable reliability. Thus, it was considered adequate for this study.

3. Data Analysis, Presentation and Discussion

3.1 Response Rate
The target population for the study was 30 managers. These included three managers from each of the Commercial Banks in Kakamega Central Sub-County, Kenya. The sample was picked on the basis of the Central Limit Theorem in statistical theory which implies that any sample equal to or greater than 30 is representative enough irrespective of the population size. The sample size was taken to be 30 all of which returned fully filled giving a response rate of 100%. The response rate of at least 90% was considered a good rate according to Saunders et al. (2007). Thus, a response rate of 100% was appropriate for the study. This is as tabulated in Table 4.1 below.

<table>
<thead>
<tr>
<th>Questionnaires</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returned</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>Unreturned</td>
<td>00</td>
<td>00</td>
</tr>
<tr>
<td>Distributed</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Survey data, 2016

3.2 Descriptive Analysis

3.2.1 Descriptive Statistics of Customer Relationship Management System
To determine whether the Customer Relationship Management System had any effect on quality service, respondents were required to state their level of agreement with four statements relating to Customer Relationship Management System and Quality Service in Commercial Banks in Kakamega Central Sub-County where; 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree. The Relevant results are as shown in Table 4.7 below.
From Table 4.7, 3(10.0%) of the respondents strongly disagreed, 14(46.7%) of the respondents disagreed and 11(36.7%) agreed that customer relationship management system captures the needs of the customer (Mean=2.8333, SD=1.23401). Further, 11(36.7%) and 10(33.3%) of the respondents disagreed and agree respectively that their commercial banks respond to customer complaints (Mean=3.0333, SD=1.40156). On response to Client information, 14(46.7%) of the respondents disagreed while 9(30.0%) agreed that the commercial banks responds to client information with (Mean=3.0333, SD=1.32570). Similarly, 12(40.0%) of the respondents disagreed and 11 (36.7%) agreed that organizational structure facilitates flow of communication with (Mean=2.5000, SD=1.22474)

3.2.2 Correlation analysis

Correlation analysis by means of Pearson Product Moment Correlation Coefficient technique was used to determine nature and magnitude of the relationships between variables. Correlation coefficients ranging from 0.00 to 0.01 represent no correlation, those ranging from 0.02-0.029 represent weak correlation, 0.30-0.69 represent moderate correlation, 0.70-0.89 represent strong correlation while 0.90-0.98 represent very strong correlations (Sabana, 2014). Coefficient of determination (R²) was also used to determine the goodness of fit of different models by indicating whether the quality service of commercial banks, explained by all the combined predictor variables was equal, greater than or less than the population of each predictor variable. The closer r² is to 1, the better the fit of the regression line to data.
3.2.3 Regression Analysis

**Table 4.10: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.904</td>
<td>.817</td>
<td>.796</td>
<td>1.76560</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Customer Relationship Management System, Technological Innovations, Organizational Structure.

**Table 4.11: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>361.916</td>
<td>3</td>
<td>120.639</td>
<td>38.699</td>
<td>.000</td>
</tr>
<tr>
<td>1 Residual</td>
<td>81.051</td>
<td>26</td>
<td>3.117</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>442.967</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality Service  
b. Predictors: (Constant), Customer Relationship Management System, Technological Innovations, Organizational Structure

**Table 4.12: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1(Constant)</td>
<td>.906</td>
<td>1.499</td>
<td>604</td>
<td>.551</td>
</tr>
<tr>
<td>Organizational Structure</td>
<td>-.056</td>
<td>.120</td>
<td>-.064</td>
<td>.462</td>
</tr>
<tr>
<td>Technological Innovations</td>
<td>-.037</td>
<td>.122</td>
<td>-.041</td>
<td>-.299</td>
</tr>
<tr>
<td>Customer Relationship Management System</td>
<td>.736</td>
<td>.098</td>
<td>.976</td>
<td>7.543</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality Service

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Quality Service) that is explained by all the three independent variables (technological innovations, Customer Relationship Management System and Organizational Structure).

The three independent variables that were studied, explain 81.7% of variance in Quality Service as represented by the R². This therefore means that other factors not studied in this research contribute 18.3% of variance in the dependent variable.

The P-value of 0.000 implies that Quality Service among Commercial Banks in Kakamega Central Sub-County Kenya has a significant joint relationship with technological innovations, Customer Relationship Management System and Organizational Structure which is significant at 0.05 confidence level. This implies that...
the regression model is significant and can thus be used to assess the association between the dependent and independent variables.

4. Objectives Testing and Discussion

4.1 Effect of customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County

The objective here was to establish the effect of customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County. The study used the correlation $r$ (beta, $\beta$) to test the research hypothesis. The test criteria was set such that there is either a positive or negative effect if the value of beta, $\beta = 0$. The mean of customer relationship management systems was correlated with mean of quality service of Commercial Banks and the results were as shown in Table below.

<table>
<thead>
<tr>
<th>Table 4.16: Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model</strong></td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Customer Relationship Management System

<table>
<thead>
<tr>
<th>Table 4.17: ANOVAa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model</strong></td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality Service  
b. Predictors: (Constant), Customer Relationship Management System

<table>
<thead>
<tr>
<th>Table 4.18: Coefficientsa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Customer Relationship Management System</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality Service

From the Table above, the correlation of the mean of customer relationship management systems and mean of quality service had a beta term $\beta = 0.902$, $P=0.01$. This implies that the value of beta is positive and significant. Basing on this value, it
therefore implies that there exists a statistically significant positive effect of customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County. From the results, 90.2% of quality service of Commercial Banks in Kakamega Central Sub-County can be explained by customer relationship management systems \( r^2 = 0.902 \) and the relationship followed a simple regression model of the nature \( P = \alpha + \beta \cdot \text{CRMS} + \epsilon \) where \( P \) is the quality service of Commercial Banks, \( \alpha \) is the constant intercept of which in our case is 1.018 and beta \( \beta = 0.902 \), which at times is referred to as the slope coefficient, CRMS is the customer relationship management systems and \( \epsilon \) is the standard error term which in this case is 1.72025.

The studies are in line with past studies which show that Customer relationship management systems as an approach can be used by the company to improve the marketing effort with information from a detailed customer database (Perreault & McCarthy, 2002).

Anber, Abraheem, Shlash Mohammad, Shireen, Yaseen, Mohammad, Alhamadani, (2011), examined the level of quality service as perceived by customers of commercial bank working in Jordan and its effect customer satisfaction, The results of this study indicated that quality service is an important antecedent of customer satisfaction and suggested that managers and decision makers in Jordanian commercial banks should seek and improve the elements of quality service that make the most significant contributions on customer satisfaction.

Fram and McCarthy, (2011) on their research on how to retain customer satisfaction in turbulent times, state that success in maintaining satisfaction levels involves undertaking customer-focused corrective actions which include; more frequent customer meetings, improved electronic or print mail communications and the provision of more friendly financial information. The authors also state that bank managers should continue to focus on the basics of customer focus, use of existing and emergent technology to provide customer friendly support, and constantly review and update their financial value proposition offered to customers in order to maintain customer satisfaction during turbulent times. Somasundaram and Krishnamoorthy, (2013) conducted a study on impact of quality service on customer relationship management in banking sector in Erode. Study results showed a significant impact of Tangibility, Empathy and Responsiveness on customer relationship management. Statistical significant relationship was found between customer relationship management and perceived quality service in a study conducted by (Rootman, 2006) in banking sector. Similarly, Arora (2013) found a positive role of quality service in customer relationship management in telecom sector in India. Quality services
influence the intention of the customer to stay with the existing service provider (Chaddha and Kapoor, 2009). Long term relationship with the customers can be developed by a range of quality of services as network quality, voice calls, and fortnight calls etc.) Alfred, (2012); Momani and Noor, (2010) found a significant relationship between e-quality service and customer relationship management.

5. Summary, Conclusions and Recommendations

5.1 Summary of the Findings

From the preliminary findings, the study established that the 73.3% of respondents were male while female were 26.7% respondents. The results also indicated that, 5 respondents which is equivalent to 16.7% were in the age bracket of between 18 years and 24 years, 10 respondents which is equivalent to 33.3% were between 25 years and 34 years, 12 respondents which is equivalent to 40.0% were between 35 years and 47 years while the remaining 3 respondents, which is equivalent to 10.0% were 48 years and above. From the results, majority of the respondents were 35 years and above. From the results, 8 respondents representing 26.7% indicated that they had worked in the organization between 3-5 years, while 22 respondents representing 73.3% had worked for a period above 5 years. This shows that most of the selected respondents had a wealth of experience and were therefore able to give dependable responses to the questions asked. The level of education has been cited as a critical success factor in helping firms survive and manage in difficult conditions and to improve business profitability (Sabana, 2014). The results indicated that 4 respondents which was equivalent to 13.3% respondents had PhD education, 7 respondents which was equivalent to 23.3% had Masters Education, while the remaining 19 respondents, which was equivalent to 63.3% of the respondents, had Bachelor’s Degree. The results therefore indicate that majority of the respondents had enough education background to fill and respond to the questions risen.

On establishing the effect of customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County, Kenya, the study used the correlation r (beta, β) to test the research hypothesis. The test criteria was set such that there is either a positive or negative effect if the value of beta, β≠0. The mean of customer relationship management systems was correlated with mean of quality service of Commercial Banks. The correlation of the mean of customer relationship management systems and mean of quality service had a beta term β = 0.902, P=0.01. This implies that the value of beta is positive and significant. Basing on this value, it therefore implies that there exists a statistically significant positive effect of
customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County. From the results, 90.2% of quality service of Commercial Banks in Kakamega Central Sub-County can be explained by customer relationship management systems ($r^2 = 0.902$) and the relationship followed a simple regression model of the nature $P = \alpha + \beta_2 \text{CRMS} + \epsilon$ where $P$ is the quality service of Commercial Banks, $\alpha$ is the constant intercept of which in our case is 1.018 and beta $\beta_2 = 0.902$, which at times is referred to as the slope coefficient, CRMS is the customer relationship management systems and $\epsilon$ is the standard error term which in this case is 1.72025.

The study sought to establish the effect of customer relationship management systems on the quality service of Commercial Banks in Kakamega Central Sub-County, Kenya. This was achieved and the study concluded that there exists a statistically significant positive effect of quality service of Commercial Banks in Kakamega Central Sub-County, Kenya. The study therefore concluded that customer relationship management systems has a significant effect on quality service of Commercial Banks in Kakamega Central Sub-County, Kenya

Since customer relationship management was not adequately enforced in most of the commercial banks, the study recommends that commercial banks should invest in training employees especially the front officers on customer relationship management since it positively affects quality service

References


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