

# EFFECTS OF CUSTOMER RELATIONSHIP MARKETING ON BANK PERFORMANCE IN NIGERIA: AN EMPIRICAL APPROACH

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## ABSTRACT

*This paper examines the effects of customer relationship marketing on bank performance in Nigeria. The research addresses the major problem associated with the adoption of customer relationship marketing by Nigerian banks which eventually exposes banks and customers to intense competition. The study was carried out in Ojo Local Government Area of Lagos State, Nigeria and it was targeted a population of 150 employees and customers of selected banks. Survey research method was used and data from the study were drawn from both primary and secondary sources. A sample size comprising 50 employees and customers were selected using stratified sampling technique and random sampling techniques. Quantitative data from the study was analyzed through descriptive statistics. The result indicates that customer relationship marketing is an effective tool to measure banks performance. The finding also shows that CRM helps in increasing banks profitability and enhances improvement in banks market share. The research is of the opinion that banks should put in seasoned customer service officers with sense of direction towards satisfying customers in order to improve overall bank performance. The study recommends that adoption and management of CRM requires the involvement of everyone in the bank in order for it to succeed.*

**Keywords:** *Customer relationship marketing, competition, profitability, and customer retention.*

### Introduction:

Banking industry is an important sector in the business world which has a growing impact on all other sectors of the economy because of financial services provisions. In this volatile situation financial institutions were not left out as they are seriously affected by the level of competition both locally and internationally.

The banking industry environment today is highly volatile; Nigerian banks therefore needs to develop effective technique to enhance the interaction of customers and the bank staff. The complexity in the banking industry has made bank managers to focus on how to create close affiliation with their customers.

No wonder why Nigeria banks now create a separate department in the bank known as customers care unit to address customer issues and complaint in order to ensure that customers get value for their money thereby enhancing customer loyalty, building and maintaining customer's cordial relationship in order to achieve an advantage that can lead to customer retention and increase profitability.

Furthermore, loyal customers can provide the foundation for growth which leads to competitiveness in the industry. Also, the belief that relationship marketing (RM) investment builds stronger, more trusting customers relationship (Morgan and Hunt 1994) and improves financial performance (Schroder

and Lacobulli 2001) has led to massive spending on customer relationship programme.

Sheth (2005) also opines that customer relationship marketing would result into customers' retention which has to do with creating relationship, Customers loyalty which has to do with developing relationship, and customer interaction may lead to customer retention.

Considering the above arguments, Nigeria banks now adopt relationship marketing principles and design strategies to achieve and maintain close and long lasting relationship with the customers.

### Statement of the Problem:

Complexity experienced in banking industry today makes bank managers to be desperate such that 'Bank A' manager does not only see 'Bank B' manager as competitor but a branch manager of the same Bank sees each other as a competitor. This level of competition has made bank managers to focus on how to be in a close contact with their customers in order not to lose their active customer to their presumed competitors.

Bank services are increasing in Nigeria, yet the level of failure in their services indicate that ineffective relationship with customers seems to be pronounced. Such a gap indicates that there is much to learn about how to develop close contact with customer using the appropriate relationship strategies.

Banks generally today has become a chameleon in nature thereby changing from one service provision to the other, most time combining many services together relocating or establishing another branch so as to meet the needs of their customers and to show to the generality of public that their services are unique and better than the others. However, these services or branches established have not translated to customer satisfaction as customers' experienced human traffic while trying to access these services. This has destabilized customers thereby forcing them to open more than one account across the banking industry in order to satisfy their financial need.

This movement of customers from one bank to the other has created serious apprehension among the banks executives thereby leading to the provision of customers' service point in most bank branches across the country for the purpose of having a relationship that can lead to a consistent patronage by their customers.

It is on the basis of the inability of Nigerian bank managers to take cognizance of the impact of customer relationship marketing on bank performance that this study is being carried out.

### Research Objectives:

The main objective of the study is to investigate the effects of customer relationship marketing on bank

performance in Nigeria. Accordingly, the specific objectives of the research are to:

- Examine the use of applicability of customer relationship marketing in the banking industry.
- Assess whether or not customer relationship marketing translates into customer satisfaction and profitability.
- Examine whether customer relationship marketing techniques translate into customer retention for the banks.
- To study if customer retention lead to increase in bank market share

### Research Questions:

- Is customer relationship marketing a useful tool to examine banks performance?
- Does customer relationship marketing leads to increase banks profitability?
- What significant effect does customer relationship have on banks market share?
- To what extent has customer relationship strategy translate into customer retention for the banks?

### Resarch Hypotheses:

1. Ho; customer relationship marketing does not have positive effect on bank performance.  
H1; customer relationship marketing has significant effect on bank performance.
2. Ho; customer relationship marketing does not lead to increase in banks profitability  
H1; customer relationship marketing leads to increase in banks profitability
3. Ho; customer relationship marketing does not translate to customer retention for the banks  
H1; customer relationship marketing does translate to customer retention for the banks.

### Literature Review:

Customer relationship marketing (CRM) is a sub of relationship marketing (RM) which has to do with the process of identifying, developing, maintaining and terminating relational exchange with customers in order to enhance performance. Customers relationship marketing concentrate more on the emotional and behavioural, which are determine by bonding empathy reciprocity and trust (Sin, 2005 and yau, 2000).

Customer relationship marketing is the step of evolution of marketing. In the current world business organizations such as banks concentrate more on consumerized product and services. Hence, banks used customer relationship marketing as a tool for gaining competitive advantages. Lages (2005) posit that customer relationship marketing is determined by information sharing, communication quality, long term relationship orientation and satisfaction with relationship.

Hewett (2002), Hibbard (2001). Opine that trust and commitment are two key factors to build or construct customer’s relationship marketing. However, Ndubisi (2007) found that trust contributes more significantly than commitment. Ducan and Moriarty (2008); Lages (2005); Morgan and Hunt (1994) explored that communication is generally considered a key antecedent or drive of a relationship and customers relationship quality. Helfert (2002)morgan and Hunt (1994); Verhof (2003) pointed out that that commitment is considered necessary for customer relationship. Communication, an antecedent to customer retention, and to positively affect relationships, Kumar, Schear and Streenkamp (2005) demonstrated that relationship with greater total independence exhibit higher trust, stronger commitment, and lower conflict than relationship with lower interdependence

Crosby (2009) expresses that customer relationship is determined by trust and satisfaction. Effective quality communication aids relationship initiation and building, and is brought about through timelines, frequency, accuracy, competences and credibility (Mohr and Soli 1995: Mohr and Spekman 1994). Strobacka, Strandrik and Gronroos (1994) identified five distinct factors which build the customer relationship, service quality, customer satisfaction, commitments opportunism and social bond.

Akpan (2005) notes that customers represent profit and market share, most organization; particularly the banking industry is placing emphasis on the building of long-term customer relationship as a key ingredient to any loyalty programme. It therefore emphasizes providing a range of products or services to existing customers as they need them.

Schaars(1998) has noted an increase in the trend towards more and stronger relationship. He points out that today, an increasing number of economic transactions take place between buyers and sellers who are working together. This could be a consideration that is making banks to depart from single transaction marketing has his may lead the banks to gain access to new customers; reducing the risk associated with the rapidly changing business environment and obtaining needed skills and resources; paying adequate attention to their problems and taking positive steps in providing solutions to those problems

Buchanan and Gilles(1990) assert that the increased profitability associated with customer retention effort occurs because of the fact that customer that stays with non-lend tend to be satisfied with the relationship and are less likely to switch to customer making it difficult for the competitor to enter market or gain market share.

Richard et al (2009) notes that performance should be related to factors such as profitability, improved service delivery, market share growth and improved

productivity. Performance is the degree of efficiency and effectiveness with which organizational objectives are achieved.

**Data Collection and Methodology:**

**Results:**

Data collected during the research were analyzed. The data from the questionnaire were coded and fed into excel spread sheet. The data were then exported into Statistical Package for Social Scientists (SPSS) software version 17.0. Furthermore, the formulated hypotheses are subjected to empirical test using Chi-square test analysis. The results of the findings are as follows.

**Presentation of Results:**

The study investigated “Effects of Customer Relationship Marketing on Bank Performance In Nigeria”. Data analysis was undertaken at five percent level of significance. The results of the analysis are presented beginning with the presentation of demographics (bio-data) of the respondents which revealed that majority of the respondents was male which constitute (62.0%), while their female counterparts were (38.0%)

**Chi-Square Test:**

**Hypothesis 1:**

**H0:** Customer relationship marketing does not have positive effect on bank performance

**H1:** Customer relationship marketing has significant effect on bank performance.

**Customer relationship marketing contribute to the performance of banks**

	Observed N	Expected N	Residual
Strongly Agree	46	25.0	21.0
Agree	4	25.0	-21.0
<b>Total</b>	<b>50</b>		

**Test Statistics:**

	Customer relationship marketing has helped your bank to build trust in customers
Chi-Square	35.280 <sup>a</sup>
Df	1
Asymp. Sig.	.000
a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.	

Source: field survey, 2013

**Decision Rule:**

Since the p value Is less than 0.05 level of significant; therefore the null hypothesis will be rejected and accept the alternative hypothesis.

Hence; Customer relationship marketing has positive effect on bank performance.

**Hypothesis 2:**

**H0:** Customer relationship marketing does not leads to increase in banks profitability.

**H1:** Customer relationship marketing leads to increase in banks profitability.

**Improvement in customer retention can lead to an increase in your banks profit**

	Observed N	Expected N	Residual
Strongly Agree	42	25.0	17.0
Agree	8	25.0	-17.0
<b>Total</b>	<b>50</b>		

**Customer satisfaction through effective relationship enhances banks profitability**

	Observed N	Expected N	Residual
Strongly Agree	41	16.7	24.3
Agree	8	16.7	-8.7
Undecided	1	16.7	-15.7
<b>Total</b>	<b>50</b>		

**Test Statistics**

	Improvement in customer retention can lead to an increase in your banks profit	Customer satisfaction through effective relationship enhances banks profit
Chi-Square	23.120 <sup>a</sup>	54.760 <sup>b</sup>
Df	1	2
Asymp. Sig.	.000	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

b. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.7.

Source: field survey, 2013

**Decision Rule:**

Since the p values are less than 0.05 level of significant; therefore the null hypothesis will be rejected and accept the alternative hypothesis.

Hence; Customer relationship leads to increase in banks profitability.

**Hypothesis 3:**

**H0:** Customer relationship marketing does not translate to customer retention for the banks

**H1:** Customer relationship marketing does translate to customer retention for the banks.

**Reliability and assurance in customer service helps to retain customers**

	Observed N	Expected N	Residual
Strongly Agree	47	25.0	22.0
Agree	3	25.0	-22.0
<b>Total</b>	<b>50</b>		

**Test Statistics:**

	Reliability and assurance in customer service helps to improve retain customers
Chi-Square	38.720 <sup>a</sup>
Df	1
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 25.0.

Source: field survey, 2013

**Decision Rule:**

Since the p value Is less than 0.05 level of significant; therefore the null hypothesis will be rejected and accept the alternative hypothesis. Hence; Customer relationship marketing translates to customer retention for the banks.

**Conclusion and Recommendation:**

**Conclusion:**

The study established that customers relationship marketing affects banks performance which is supported by the fact that customers are used on a basis of security. Security is associated with words like promises, honesty, trust, reliability, predictability, and stability, fear of being led down and reduction of uncertainty and risk. Customer relationship marketing reduces the rate at which customer switch from one bank to another (Buchanan and Gilles, 1990). A customer remains loyal to a particular bank in which he/she is being guided by moment of truth. CRM, assist banks in understanding customer psyche. Banks financial performance is also enhanced through

improvement in customer retention. Also, customer relationship marketing translate into customer retention for banks thereby increase their market share (Akpan, 2005)

Therefore, the appropriate way for banks to create effective customer relationship is to deliver high customer satisfaction by way of provision of high quality service delivery. This intimately help banks in Nigeria to create customers to levels of clients, advocate and partner through close affiliation with prospective customers.

#### **Recommendations:**

Based on the statement of problem, the objective of the study and the result of the findings, the following recommendations are made:

1. Banks should ensure that well trained and experienced professionals should be in charge of customer service. The research discovered that majority of the customer service officers in Nigerian banks does not have sense of direction in handling customers issues. Some have personality problems in terms of the way they approach customers thus making customers aggrieved and not satisfied with the service rendered by the banks, thus not making customers get value for their money and this could make them switch to other banks.
2. The adoption of customer relationship marketing requires the involvement of everyone in the bank from the customer service officers up to the top management staff should be part of those involved in establishing cordial relationship with customers of the bank.

3. Banks should also ensure that their customer waiting line is effectively managed by reducing the number of hours spent in attending to customers issues. The research observed that aggrieved customers leaves the waiting line without being attended to and this may result to loss of active customers to competitors.

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