Enhancing Profitability of Nigerian Banks: Insiders' views of the Roles of Efficient Customer Relationship Management

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Abstract

In the world over, the role of customer care and customer services in most organizations has become so important that the level of profitability or performances of firms are tied to it. Thus the place of customer relation management is necessary to be understood. It is in view of this reality that this study examined the link between customer relationship and banks' profitability using empirical data obtained through the use of questionnaire from employees across 12 branches of Ecobank Plc in Victoria Island area of Lagos state. Both purposive and random sampling techniques were employed to select 96 respondents for the study. Descriptive statistics such as frequency distribution, mean, standard deviation and factor analysis of principal component were applied for the analyses of the data. One of the major identified problems was that since satisfactions is relative and vary from one customer to another, it is difficult to measure the level of satisfaction of customers which could lead to increase in profitability of the bank. However, the major finding of the study based on the views of the employees of the bank is that there is significant relationship between customer services through efficient relationship management and bank's profitability. Based on this insider views, the study concluded that customer relationship is inevitably seen as the crucial organizational capability to enhance competitive advantage and to increase bank's total profit. On this note, the study recommended that banks should continue to embark on efficient methods through which customer care services could be enhanced for increased productivity to be achieved. Also, it is expedient that the customer care units should educate the customers on recent developments in the banks especially ICT related CRM strategies so that the level of customer loyalty and long term profitability of the bank would be achieved.

1.   INTRODUCTION

Virtually, in all firms, including the banks, customers play significant roles in the overall growth and increased profitability, hence, customers are dubbed as kings, especially in a pure market economy. Consequently, customer value has been recognized by banks over time as an instrument that can stimulate increase in market share and profit optimization. Effective customer services and the concept of customer relationship management (CRM hereafter) has therefore become an important issue in marketing in order to gain customer loyalty, improve customer retention rates as well as increased profitability (Fornell, 1992). CRM can also be referred to as a management approach that seeks to create, develop, and enhance relationships with carefully targeted customers in order to maximize customer value and corporate profitability (Feinberg & Kadam, 2002). For the banking industry to survive in this dynamic and competitive marketplace and retain customer loyalty, it must provide an environment where customer relationships are effectively managed (Wong & Sohal, 2003). Therefore, CRM is a critical source of gaining competitive advantage and superior performance. Importance of

customer services and the speed at which banks achieve high levels of profitability cannot be unconnected with each other. Customer value and satisfaction achieved through efficient CRM is an intangible factor which has significant role in influencing buying decisions of customers.

To vindicate the eminent role that customer satisfaction plays in the modern business world, Nair (1994) posits that the new school of business thought and contemporary researchers have emphasized that in seeking to maximize the lifetime value of customers, a firm must manage long term customer relationships. Notwithstanding the position of Nair, firms' profits in competitive environments are maximized when managers focus on both short and long term satisfaction of customers' needs. Thus, it is important to examine how increase in banks' profitability could be brought about by effective customer services through efficient CRM.

Despite the fact that customer services and increase in the level of practices of CRM by many firms, including the banking industry has stimulated competitive performance in the recent times (Feinberg & Kadam, 2002; Ryals & Payne, 2001), most of the existing studies only focus on the importance of CRM rather than identifying those aspects of CRM that are germane to enhanced profitability or performance of the banks (Jenssen, 1999). However, when such factors are correctly identified, customer relation managers can focus on the success factors that will lead to efficient CRM in their banks. Since the banking sector is particularly a customer intensive service sector that link lenders of funds to the borrowers (mostly investors) together, the management of banks should play intelligible role in delivering a high quality relationship with customers as such, performance has linkage with customer patronage or loyalty (Lu, 2003).

One of the major gaps in knowledge in this area of research is that there exist relatively few empirical studies that have actually examined the issue of customer services and satisfaction through efficient CRM as correlates of banks' profitability, especially in the developing countries like Nigeria. Even Zeithaml (2000) posits that the link between customer satisfaction through CRM and profitability is neither straightforward nor simple. On this note, three major problems in measuring customer relationships with firm performance include: the time lag between measuring customer satisfaction and measuring profit improvements, the number of other variables that significantly influence firm profits like price, distribution, competition etc. and, the fact that other variables (e.g. behavioural issues) should be included in the relationship because they explain the causality between satisfaction and results.

These concerns have logically necessitated the need to empirically examine the major factors in CRM that could increase customers' satisfaction and hence increased profitability of deposit money banks in Nigeria. To contribute to knowledge in this area of research, this study basically unearths the CRM-bank profitability nexus by identifying major attributes of CRM which are believed to induce customers' satisfaction and consequently profitability of the banks. It also tests the null hypothesis of no significant relationship between effective CRM and banks' profitability.

The remaining parts of this study are laid out as follow: section two reviews relevance, conceptual and empirical literature on CRM and profitability of firms including banks. Section three contains the methodological procedures employed for data collection and the analysis. Also, section four presents the results obtained from the analysis of the data and discusses the major findings, while section five concludes the study by summarizing the major findings with statement of relevant policy implications of the findings, recommendations and suggestion for further studies.

2.   LITERATURE REVIEW

The aim of any research work is directed towards contributing to knowledge. Hence it is expedient that the status of the existing level of knowledge in the area of CRM in relation with firms' profitability is assessed. Thus, this section of the study expands the frontier of knowledge in this area of research by giving a brief review of some conceptual and empirical issues on the interconnection of CRM and firm (Bank) profitability.

2.1   Review of Conceptual Issues

It is a reality that no business organization (firm) will exist and survive without effective mechanism for ensuring adequate profitability. Profit is thus the sole of the business or the life-wire for business survival. Conceptually, profitability connotes a situation where the income generated during a given period exceeds the expenses incurred over the same length of time (Banwo, 1997; Sanni, 2006). In a simple term, profitability is the difference between total revenue and total cost. The fundamental requirements here are that the income and the expenses must occur during the same period of time and the income must be a direct consequence of the expenses (Sabo, 2007). Many firms, including banks often become insolvent once the expectations of steady profit flow to the firm are confirmed unattainable. Various mechanisms exist for measuring profitability; however, Ahmed (2003) opines that the conceptualization of profit measurement in any given firm has been mostly Net Interest Margin (NIM), Return on Assets (ROA) and Return on Equity (ROE).

There are still divergent views among scholars on the superiority of one indicator over another as a good measure of profitability. For instance, Goudreau and Whitehead (1989) earlier expressed that the three indicators as represented by Ahmed are all good. However, Hancock (1989) used only ROE to measure profitability in her study; Odufulu (1994) used only the gross profit margin in measuring profitability, while Ogunleye (1995) did not believe that profit level per se could constitute a good measure of profitability and therefore used ROA and ROE. Akinola (2008) opines that profitability measures include Profit before Tax (PBT), Profit after Tax (PAT), ROE, Rate of Return on Capital (ROC) and ROA, while Sanni (2009) used earnings per Share (EPS). Therefore, irrespective of the nature of the firm, the issue of profitability is central to its survival; these measures are used as indicators of banks performance as well. Effective CRM is believed to contribute to performances of banks and other firms.

Furthermore, Payne and Frow (2004) refer to CRM as the implementation of a specific technology solution project, an integrated series of customer-oriented technology, and a holistic strategic approach to managing customer relationships in order to create shareholder value. The concept of CRM has been defined by Stone and Woodcock (2001) as a term for methodologies, technologies, and e-commerce capabilities used by companies to manage customer relationships. To Massey et al. (2001) and Bradshaw and Brash (2001), the concept refers to the management approach that involves identifying, attracting, developing and maintaining successful customer relationships over time in order to increase retention of profitable customers.

Hobby (2003) opines that CRM is a management approach that enables organizations to identify, attract and increase retention of profitable customers by managing relationships with them. But to Bradshaw and Brash (2001) and Buttle (2001), CRM is the development and maintenance of long-term mutually beneficial relationships with strategically significant customers. CRM is also seen as managerial efforts to manage business interactions with customers by combining

business processes and technologies that seek to understand a company's customers (Kim, et al., 2003). Indeed, CRM is proposed as an ongoing process that involves the development and leveraging of market intelligence for the purpose of building and sustaining a profit-maximizing portfolio of customer relationships (Zablah, et al., 2004).

2.2   Review of Empirical Issues

A number of critical empirical researches that establish link between customer services, relational management and firm's profitability abounds. Some of these empirics on CRM activities or dimensions have been identified by various authors. These CRM dimensions or peculiar attributes include information technology (Feinberg & Kadam 2002; Peppard 2000; Ryals & Payne 2001), knowledge management and application (Alavi and Leidner 2001), customer communication and acquisition (Cuthbertson and Laine 2004), customer interaction (Kalafatis 2002; Metcalf, Frear and Krishnan 1992; Zablah et al. 2004) and customer response (Zablah et al. 2004) among others. Most of these studies, especially Feinberg and Kadam (2002), Ryals and Payne (2001) and Bradshaw and Brash (2001) found that information technology was critical for effective customer relationship management.

The application of information technology enables banks to collect and analyze data on customer patterns, interpret customer behavior, develop predictive marketing models, respond with timely and effective customized communications, and deliver product and service value to individual customers (Chen & Popovich 2003). These authors pointed out further that companies that successfully implement CRM with an integrated technology and process will reap the rewards in customer loyalty and long run profitability. Feinberg and Kadam (2002) examined the impacts of e-CRM on customer satisfaction and their results indicated that e-CRM was related to customer satisfaction with a retail site but not to sales and profit. Ryals and Payne (2001) revealed the use of information technology in implementing CRM in the financial services sector and concluded based on their findings that data warehouses are powerful tools which managers can use in improving effectiveness and efficiency.

Zeithaml (2000) gives an excellent overview of findings of research on the aspects of relationship between customer satisfaction and organizational performance. Positive evidence on direct relationship between customer satisfaction and organizational performance is found by Koska (1990) and Nelson et al. (1992) in hospital settings with higher profitability. Customer satisfactions are usually found to be associated with efficient CRM and the perceptions of the customers on the nature of CRM matters a lot. For instance, Aaker and Jacobson (1994) found better stock return linked to improved quality perceptions of a firm by customers. Anderson et al. (1994) found a significant association between customer satisfaction and accounting return on assets, while Ittner and Larckner (1996) found that shareholder value is highly elastic with respect to customer satisfaction.

In summary, the application of effective CRM for the purpose of achieving greater profits by banks and other firms is eminent and has been intensively researched. One may find however that one of the major reasons that organizations do not take customer satisfaction very seriously might be the difficulty in measuring the relationship between customer satisfaction and profit, as well as difficulty in translating the customer satisfaction data into action within the organization to determine its short run benefits. This present study has however added to the literature on the

nature of the impact or influences of customer relation services on the overall performance and profitability of the banks using Ecobank Plc as a case study.

3. MATERIAL AND METHODS

In order to empirically estimate the relationship between customer service through CRM and the level of profitability of Nigerian banks, this study employed descriptive survey design to collect the necessary primary data from employees that work in the customer care units of various Ecobank branches in Victoria Island area of Lagos State, Nigeria. On the average, there are twenty four (24) employees who work in the customer care units of twelve (12) branches of the bank in the study area. In this study, these employees are referred to as insiders who handle issues that concern CRM. A purposive sampling method was applied in selecting two (2) employees from the customer care unit from each of the 12 banks. Additional six (6) employees from other units of the bank were randomly selected to increase the sample size. In all, a total of eight (8) respondents from each of the 12 branches were selected, making a total number of ninety six (96) respondents or participants from whom vital data were gathered.

The research instrument used for data collection in this study was a questionnaire structured in such a way that data on the demographic characteristics of the respondents as well as thematic issues on effective CRM were elicited from the respondents. The manuscript of the instrument was validated by test experts in the department of Economics, University of Ibadan, Nigeria before the final administration to the selected sample population. Subsequently, the data obtained from the respondents were analyzed through the use of some descriptive and inferential statistics. Basically, the various socio-economic characteristics of the selected respondents were analyzed using percentage count. Also, the major attributes of CRM that influence customer satisfaction and consequently profitability of the bank were analyzed with the use of mean distribution. The principal components of factor analysis were used to identify important factors or attributes of CRM that satisfied customers most, while chi-square distribution was deployed to test for significant indifference between CRM and profitability of bank.

4. EMPIRICAL RESULTS AND THE FINDINGS

4.1 Socio-economic and Demographic Characteristics of the Respondents

The results of the analyzed demographical data of the selected respondents in Table 4.1 show that majority of the sampled employees were within the age of 26-35 years (43%). Those respondents within the age bracket of 36-40 years were 27 %. Also, 20% of the respondents were those below 25 years of age. The implication of this age structure is that as the selected respondents fall within the active labour force, their involvement in the application of CRM strategies as employees (insiders) of the bank would result into greater profitability for the bank.

Table 4.1: Age, Sex, Educational and Occupational Distribution of the Respondents

Age Brackets	Frequency	Percent
below 25	19	19.8
26-35	41	42.7
36-50	26	27.1
51 and above	10	10.4
Total	96	100.0

Sex	Frequency	Percent
Male	61	63.5
Female	35	36.5
Total	96	100.0
Educational status	**Frequency**	**Percent**
WASSCE/GCE/NECO	10	10.4
NCE/OND	15	15.6
HND/B.Sc./B.A	50	52.1
MBA/M.Sc	10	10.4
ACA/CFA/CIMA/ANAN	11	11.5
Total	96	100.0
Job Specification/Units	**Frequency**	**Percent**
Customer Care	24	25.0
Teller	30	31.3
Marketer	27	28.1
operation	12	12.5
Manager	3	3.1
Total	96	100.0

Furthermore, results in Table 4.1 show sex distribution of the respondents and other variables. It is shown that 63.5 % of the respondents were male employees, while the remaining 36.5 % were female employees. The results also revealed that 50 respondents which represent 52% of the participants had either Higher National Diploma or First Degree. Furthermore, 25% of the respondents were in active customer cares service units of the selected branches of the bank, 31% of the sampled employees were also tellers who attend to customers at the counter, while 28% of them (respondents) were marketers. From these distributions, especially the job specification or the units of duties, it behooves on these categories of the respondents to deliver good customer services to all the bank customers in order to increase the chances of customer retention and loyalty (components of CRM) for profitability.

4.2   Descriptive statistics of respondents' perception of CRM Attributes
4.2.1 *Mean and Standard Deviation of the Responses*
In order to evaluate CRM, respondents were asked to rate seventeen (17) CRM attributes. The results shown in Table 4.2 indicate that the three most important attributes (those having a mean score greater than 2.0) of CRM from the perception of the selected employees of Ecobank Plc are: our bank actively responds to customers' enquiries of our services, our bank is capable of using computer system to categorize targeted customers (markets), our bank actively provides price discount for loyal customers, and our bank has different marketing patterns for targeted customers. The implication of this analysis for this present study is that when Ecobank Plc is planning for Customer Relation Services or management, it should mostly consider these three major factors as rated in the mean using superscript with bold face in Table 4.2. This is hoped to lead to an increase in their performance and competitive advantage. In terms of the standard deviation, CRM attribute ''our bank actively responds to customers' enquiries of our services'' exhibits the highest standard deviation among other attributes. Hence, when customer care responds appropriately and promptly to all customer enquiries, the level of patronage and customer loyalty could be achieved.

Table 4.2: Respondents' perceptions of CRM attributes and perceived Bank profitability

S/N	CRM Attributes	N	Mean	Std. Deviation
1	Our bank promptly responds to customers' problems, suggestions, and complaints.	96	1.21	0.893
2	Our bank uses phone calls, e-mails, and personnel visits to communicate with customers.	96	1.57	0.992
3	**Our bank actively responds to customers' enquiries of our services.**	**96**	**2.93[1]**	**1.584**
4	Our bank actively provides transportation related information to customers.	96	1.48	0.995
5	Our bank actively understands customers' service requirements and expectations.	96	1.83	1.270
6	**Our bank has different marketing patterns for target customers.**	**96**	**2.04[3]**	**1.151**
7	Our bank applies customer information to marketing planning.	96	1.73	1.119
8	Our bank uses customer information to develop a new market	96	1.42	0.496
9	Our bank has flexible measures for customers' urgent requirements.	96	1.57	0.937
10	Our bank provides a variety of service items and information.	96	1.68	1.218
11	**Our bank is capable of using computer system to categorize targeted customers (markets)**	**96**	**2.09[2]**	**1.125**
12	Our bank has a computer system efficiently to handle customer's information.	96	1.79	0.893
13	Our bank's computer system is capable of organizing and classifying interaction between sales representatives and customers	96	1.99	0.979
14	Our bank's computer system is capable of storing, searching, and analyzing customers' data	96	1.69	1.079
15	Our bank's computer system is capable of storing, searching, and analyzing customers' data	96	1.69	1.079
16	**Our bank actively provides price discount for loyal customers.**	**96**	**2.09[2]**	**1.125**
17	Our bank's total profit increased as a result of effective implementation of customer relation management	96	1.69	1.079
	Valid N (listwise)	96		

Furthermore, in order to identify the viable factors among other determinants of CRM in the bank, results from the exploratory factor analysis is presented in Table 4.3.

4.2.2   *Factor Analysis of Crucial CRM Dimensions*
Exploratory factor analysis with VARIMAX rotation was employed to identify crucial CRM dimensions in Ecobank CRM. The results shown in Table 4.3 below revealed that in the first loading variables, four major factors accounted for percentage values between 81.6% and 94.8 % as the first five loading variables. By implication, these variants of variables or CRM attributes represent the most highly rated variables that matter most in the process of CRM of the bank. These four major factors include: our bank's total profit increased as a result of effective implementation of customer relation management, our bank's computer system is capable of storing, searching, and analyzing customers' data, our bank actively understands customers' service requirements and expectations, and our bank actively provides transportation related information to customers. Based on the perceptions of these selected respondents as insiders or

employees of the bank, effective CRM will enhance the level of profitability of the bank when these attributes are first taken into consideration.

Also, from the results in Table 4.3, major CRM attributes in the second loading factors include; (1) our bank actively provides price discount for loyal customers and (2) Our bank is capable of using computer system to categorize targeted customers (markets); these two factors had the same total variance of 94.5% (3) our bank uses customer information to develop a new market-with total variance of 65.2%. These factors, based on these results are expected to be considered second in the order of preference in laying out various strategies for effective CRM so that productivity level will be guaranteed when there is good customer relationship.

These patterns of variable loading apply to the third and fourth factor loading. The representation is that variables that have high values or percentages in each of the loading maximum variance (VARIMAX) imply significant factors that the respondents considered to be the major determinants or components of CRM that matter most to the banks so that efficient or increased profitability could be obtained. Overall, we realized that the application of ICT based customer management practices in Ecobank Plc aid relationship management of the customers which will potentially lead to increase in the level of profitability of the bank with total variance of approximately 95%.

Table 4.3: Results of factor analysis
Rotated Component Matrix

		Component			
S/N	*Attributes of CRMs*	*Factor 1 Loading*	*Factor 2 Loading*	*Factor 3 Loading*	*Factor 4 Loading*
1	*Our bank promptly responds to customers' problems, suggestions, and complaints.*	*0.655*	*-0.184*	***0.675***	*-0.033*
2	*Our bank uses phone calls, e-mails, and personnel visits to communicate with customers.*	*0.599*	*0.334*	*0.070*	***0.525***
3	*Our bank actively responds to customers' enquiries of our services.*	*0.139*	*0.472*	*-0.085*	*-0.745*
4	*Our bank actively provides transportation related information to customers.*	***0.816***	*-0.011*	*0.418*	*0.254*
5	*Our bank actively understands customers' service requirements and expectations.*	***0.871***	*0.171*	*0.116*	*0.204*
6	*Our bank has different marketing patterns for target customers.*	*0.655*	*0.380*	*0.359*	*0.355*
7	*Our bank applies customer information to marketing planning.*	*0.229*	*0.423*	*-0.009*	***0.796***
8	*Our bank uses customer information to develop a new market*	*-0.028*	***0.652***	***0.700***	*0.085*
9	*Our bank has flexible measures for customers' urgent requirements.*	*0.511*	*-0.008*	***0.777***	*0.259*
10	*Our bank provides a variety of service items and information.*	*0.685*	*0.303*	*0.465*	*0.395*

11	*Our bank is capable of using computer system to categorize targeted customers (markets)*	*0.175*	***0.945***	*0.030*	*0.060*
12	*Our bank has a computer system efficiently to handle customer's information.*	*0.592*	*0.056*	**_0.750_**	*-0.153*
13	*Our bank's computer system is capable of organizing and classifying interaction between sales representatives and customers*	*0.584*	*0.199*	*0.461*	*0.443*
14	*Our bank's computer system is capable of storing, searching, and analyzing customers' data*	**_0.948_**	*0.153*	*0.223*	*-0.006*
15	*Our bank actively provides price discount for loyal customers.*	*0.175*	**_0.945_**	*0.030*	*0.060*
16	*Our bank's total profit increased as a result of effective implementation of customer relation management*	**_0.948_**	*0.153*	*0.223*	*-0.006*

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

4.2.3 *Hypothesis Testing*

The chi-square distribution is used to test whether the observed frequencies of CRM differ significantly from the expected frequencies. That is, the study tested for the null hypothesis that there is no statistical significant difference between the CRM and profitability of Ecobank Plc. The formula for the chi-square is shown as:

$$X^2 = \sum \left(\frac{f_0 - f_e}{f_e} \right)$$

Where f_0 is the observed frequency and f_e is the expected frequency. The result of the chi-square from the SPSS output is presented in Table 4.4 and the result shows that the null hypothesis should be rejected. That is, since the calculated value of the chi-square (72.17) is significant at 1% level of significance, the alternative hypothesis, which states that there is statistical significant difference between the CRM and profitability of Ecobank Plc.

Table 4.4 Chi-square contingency Table

Our bank's total profit increased as a result of effective implementation of customer relation management	Observed N	Expected N	Residual		
strongly agree	55	24.0	31.0		
Agree	31	24.0	7.0	Chi-Square	72.167[a]
Decided	5	24.0	-19.0	Df	3
strongly disagree	5	24.0	-19.0	Asymp. Sig.	.000
Total	96				

Since it is seen from the result in Table 4.5 that there is statistical difference between CRM and profitability of the bank in question, CRM has the potential to satisfy customers and

consequently results into increased profitability of the bank. In addition, the identified attributes of CRM from the factor analysis showed that there are peculiar attributes of CRM which if the customer care units of the bank adopt, profitability is likely to emerge.

5   CONCLUSIONS AND RECOMMENDATIONS

Customer services and the concept of CRM are inevitably seen as the crucial organizational capability to enhance competitive advantage. This study has drawn attention to the significance or the nexus between customer service and bank profitability through efficient CRM practices in some branches of Ecobank Plc in Victoria Island, Lagos State of Nigeria. Some of the most important CRM attributes from the perception of the employees: our bank's total profit does increase as a result of effective implementation of CRM, our bank's computer system is capable of storing, searching, and analyzing customers' data, our bank actively understands customers' service requirements and expectations, our bank actively provides transportation related information to customers, our bank provides a variety of service items and information, and our bank has different marketing patterns for target customers among others.

The present research indicates that the employees in the customer care services should be concerned about this service attributes when developing their CRM plans. The result from the chi-square established that there is significant relationship between customer services and the level of profitability of the bank. On this note, the study recommend that the banking industry should particularly emphasize CRM attributes such as communication with customers, response to customers' problems and complaints, understanding customers' service requirements, and actively respond to customers' enquires of their services in order to increase their competitive edge and make more profits.

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