

# An Exploration of the Effect of Customer Relationship Management on Organizational Performance in the Banking Sector

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## ABSTRACT

The main objective of this paper is to test the linkages among customer relationship management (CRM) practices and organizational performance in Palestinian banking sector. This research relied on an online survey which was designed for gathering the data from several employees who serve in banking sector. A total of 223 responses were considered valid for data analysis using SPSS and partial least square approach (PLS-SEM). Overall, the findings verified that customer orientation and CRM organization have significant positive effects on organizational performance. The outcomes also confirmed that CRM technology and knowledge management play important roles in affecting organizational performance. These findings reveal that the current business environment requires organizations to continuously monitor and manage customer relationships effectively for achieving their long-range objectives and responding to emerging challenges.

## KEYWORDS

CRM Organization, Customer Orientation, Customer Relationship Management, Knowledge Management, Organizational Performance, Technology-Based CRM

## INTRODUCTION

Currently in modern business environments and challenging scenarios, the emphasis on maintaining customers has been regarded as the key strategy that shapes all marketing programs. In relation to that, customer relationship management (CRM) has emerged as a crucial marketing strategy for achieving business objectives (Karakostas, Kardaras, & Papathanassiou, 2005). Heinrich (2005) indicated that building successful customer relationships enables an organization to improve its business portfolio and face the intense competition which arises from local and international rivals. The idea about CRM has basically emerged from theory of relationship marketing which can be conceptualized as the process of building, improving, and continuously maintaining successful relational exchanges with customers in an attempt to achieve the desired performance outcomes (Palmatier, 2008). Sin, Tse, and Yim (2005) conceptualized CRM as a comprehensive process and strategy which is basically

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designed to help an organization in identifying, obtaining, maintaining, and nurturing profitable customer relationships. The key principle of CRM is centered on knowing and providing better customer value than competitors through the integration of process, technology, and individuals in the value chain activities. In general, CRM represents an essential organizational process which provides an organization with a greater capability to build long term customer relationships and keep their values on the long term (Srivastava, Shervani, & Fahey 1999).

Knowing how organizations can benefit from building successful customer relationships is very necessary for both scholars and marketing managers (Payne & Frow 2005). Past studies thought about customer relationship management as profoundly reforming the area of marketing and emerging as a component of the new prevailing logics of marketing (Bolton, 2004; Buttle & Maklan, 2019). Researchers have declared that when an organization focuses on leveraging profitable customer relationships, it will have greater abilities to build and sustain its competitiveness in highly dynamic markets (Mithas, Krishnan, & Fornell, 2005; Ryals, 2005). Moreover, Payne and Frow (2005) suggested that, "CRM provides enhanced opportunities to use data and information to both understand customers and co-create value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications." For that reason, accumulating the feedback of customers through the acquisition of important data and using it in the CRM system enables an organization to obtain in-depth information about customers' needs and expectations. These insights represent a valuable approach for identifying existing issues and developing organizational products or services to satisfy such needs.

Overall, the growing competitions among all types of business in various regions of the world has urged marketing practitioners and academicians to clearly understand how customer relationships can be maintained and the performance of an organization can be enriched. However, the available empirical literature on customer relationship management has not clearly indicated how it can be measured and what elements explicitly constitute the process of CRM. According to certain scholars (Al-Dmour, Algharabat, Khawaja, & Al-Dmour, 2019; Shugan, 2005), further research is required to comprehend the association among CRM and the performance of organizations. Similarly, Reimann, Schilke, and Thomas (2010) outlined that the CRM's effect on organizational performance remains unclear and different researches yielded different outcomes, depending on the context of research, measurement of CRM, and other cultural factors. In addition to that, there are very limited studies regarding CRM and organizational performance linkages in context of developing countries like Palestine and the Middle East (Kebede & Tegegne, 2018). Some scholars recently commented that CRM has rarely been studied in Islamic banks (Lebdaoui & Chetioui, 2020). Consequently, this paper is mainly conducted for investigating the linkages among various dimensions of customer relationship management and organizational performance in Palestinian banking sector. The following sections present the literature review for this study, followed by is the methodology, analysis of results, and it ends with the conclusion and future research suggestions.

## **LITERATURE REVIEW**

### **Organizational Performance**

Organizational performance represents one of the foremost researched topics in business domain and has attracted the attentions of researchers over past decades. It has been considered the eventual dependent variable for many researchers who conduct studies in the field of management. The growing competition among businesses for attracting customers, improving their inputs, and maximizing their capital resources make organizational performance vital for surviving and succeeding in the contemporary business. Li et al. (2006) conceptualized organizational performance as an organization's evaluation based on its ability in achieving its financial and nonfinancial goals. As the competition between companies in various industries and business markets has been increasing in the recent years,

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