International Journal of Advanced Studies in Business Strategies and Management
ISSN Hard Print: 2354-4236 Online: 2354-4244
ASBSM: 014:2:3

EFFECTS OF MICROFINANCE BANK'S (MFBs) CUSTOMER RELATIONSHIP MANAGEMENT ON SERVICES TO SMALL AND MEDIUM ENTERPRISES (SMEs) IN NIGERIA

[1]John Nma Aliu [2]Professor Roselyn W. Gakure & [3]Dr. George Orwa
[1]Department of Banking and Finance Kaduna Polytechnic
[2&3]Jomo Kenyatta University of Agric. and Tech. (JKUAT)
CBD Campus, Nairobi Kenya

Abstract
Microfinance institutions all over the world are powerful instruments for economic development. Small and Medium Enterprises (SMEs) play significant role in employment generation and wealth creation of nations. However, difficulties in accessing financial services from banks have been identified as a major challenge confronting the SMEs in Nigeria. Customer Relationship Management is a recognized tool that influences service delivery in banks. Although, the Nigerian microfinance banks policy was targeted at creating an environment of financial inclusion to boost capacities of SMEs, weak corporate governance practices have hampered their efficient service delivery. The purpose of this study is to establish if customer relationship practices influence the services of MFBs to SMEs in Nigeria. The survey research study collected data from both primary and secondary sources. Stratified sampling technique was used for sample selection while descriptive statistics and regression were used for analysis. The study concludes that Customer Relationship Management in MFBs has significant influence on the provision of both financial and non-financial services to the SMEs. The study recommends that Government should provide the needed infrastructure to facilitate MFBs service delivery functions.

Keywords: *Microfinance, SMEs, Customer Relationship Management, Financial Services*

Background to the Study

The concept and definition of customer relationship management (CRM) may differ from one person and / or situation, to the other. Affairs CRM has been used in various aspects of human endeavor and disciplines such as academics, politics, business and economics etc to most business managers, the key to building lasting customer relationships is to create superior customer value and satisfaction (Kotler and Armstrong, 2010). Satisfied customers are more likely to be loyal customers and they are likely to give the company a larger share of their businesses (Kotler and Keller, 2006).

Customer value and satisfaction have recently attracted greater attention in banks all over the world. In Taiwan where the financial service industry accounts for over 12% of the total Gross Domestic Product (GDP), Customer Relationship Management (CRM) has received great attention amongst the banks (Yao and Khong, 2008). In addition, satisfied customers are said to have accounted for the attraction of most new customers through Word of Mouth Communication (WOM) in the United States of America (Blattberg and Thomas, 2001).

Coltman (2006), asserts that a full knowledge about customer behavior has been the key towards building lasting customer relations in Hawali. Microfinance institutions in Africa have long recognized the need to attract and retain customers through CRM (Ledgerwood, 2009). In Nigeria, micro-entrepreneurs, small and Medium Sized Enterprises (SMEs) and vulnerable groups such as women are among the target client of microfinance banks (Central Bank of Nigeria, 2012). The aim of this study is to examine the effects of customer relationship management in Microfinance Banks (MFBs) on services to SMEs.

Objectives of the Study

The objectives of this research study are:

1 To establish if MFBs Customer Relationship practices influences the financial services to the Small and Medium Enterprises (SMEs) in Nigeria.
2 To determine if Customer Relationship Management in MFBs have effects on the non-financial services to SMEs in Nigeria.

Conceptualization of Customer Relationship Management and MFB's Services to SMES.
Customer Relationship Management (CRM) is perhaps the most important concept of modern marketing (Kotler and Armstrong, 2010). As noted by Brassingtor and Pattit (2000), CRM is an approach based on maintaining positive relationships with customers, increasing customer loyalty and expanding customer lifetime value.

Furthermore, Kotler and Armstrong consider CRM as a concept that deals with all aspects of acquiring, keeping and growing customer. They define CRM as the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. The concept of value maximization was introduced many years ago by economists. Today, great attention is also paid to customer value and satisfaction (Boulding, Staelin, Ehret and Johnson, 2005). Payan and Frow (2009), define CRM as a version of relationship marketing dealing with the creation, development and improvement of individual relationship with customers such that will enhance total life cycle value. Seeman and Hara (2006) consider CRM as a technology that aim at creating and maintain relationships with profitable customers through the use of Information and Communication Technology (ICT). CRM can also be seen as a systematic managerial process of developing and sustaining maximum relationship value with customers (Richards and Jones, 2008).

Although the Nigerian microfinance banks policy was targeted at creating an environment of financial inclusion to boost capacity of SMEs, weak corporate governance practices have hampered their efficient service delivery (CBN, 2011). Attracting and retaining customers is not an easy task for microfinance institutions. This is because customers often face a bewildering array of products and services by other conventional banks from which to choose. A customer patronizes the bank that offers the highest customer perceived value (Anderson, Fornell and Lehmann, 1994). Customers often do not judge values and costs “accurately” or “objectively”. They act on perceived values (Kotler, John, Bowen and James, 2010). Customer satisfaction depends on the product's perceived performance relative to a customer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If the performance equals expectations, the customer is satisfied, and if the performance exceeds expectations, the customer is delighted (Kotler and Armstrong, 2010).

Some studies Nwokah and Maclayton, (2006), Martin, Oliver and Jacquelyn, 2010 show that higher levels of customer satisfaction (customer delight) lead to greater customer loyalty, which in turn results in better bank performance in terms of services to SMEs clients. Smart Microfinance banks aim to delight customers by promising only what they can deliver (under-promising) and then delivering more than they promise (over-deliver). Delighted customers not only make repeat purchases, they become willing marketing partners and "customer evangelists" who spread the word about their good experiences to others (Khotler et al, 2010).

Customer relationship management is a recognized tool which influences service delivery (Swift, 2000). CRM as in relationship marketing is defined by Shain, Merrrick and Taylor (1992) as an integrated approach to identify, maintain and build up a network of customers for sustainable mutual benefits.

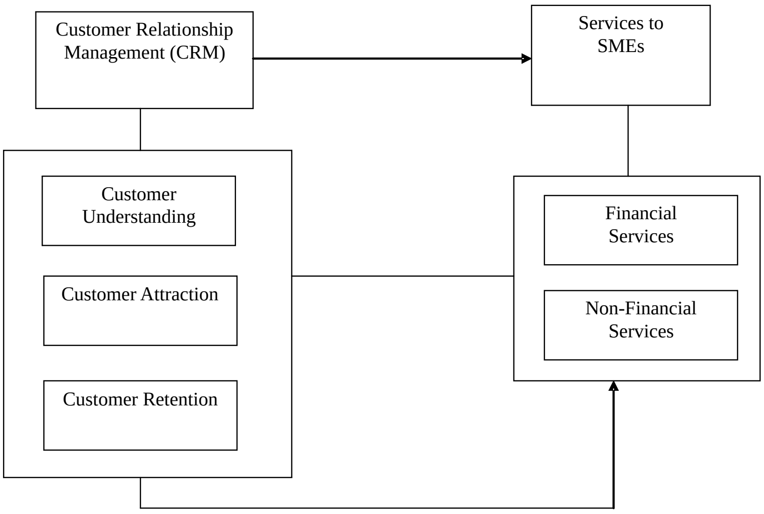

Figure 1: Conceptual Framework of CRM and MFB's Services to SMEs

Figure 1 above shows the relationships between Customer Relationship Management (customer identification, customer attraction and customer retention) and the measures of service delivery to SMEs by the MFBs (i.e. Financial and Non-Financial Services). The diagram further explains that the MFBs financial and non-financial services to SMEs are dependent upon Customer Relationship Management (CRM). CRM therefore is the predictor or independent variable while services to SMEs are the criterion or dependent variable. CRM involve customer understanding, attraction and retention.

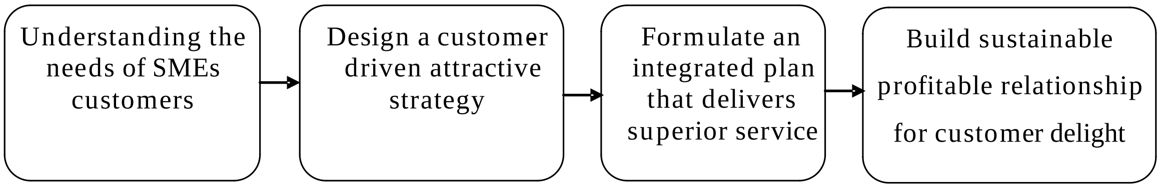

Figure 2 above presents a simple four-step model of customer relationship management process. Here, the microfinance banks work to understand the SMEs customers, create value and build strong customer relationships.

Understanding the SMEs customers

The starting print of customer relationship management is identifying and understanding the needs of the SMEs client. This step also include carrying out analysis of SMEs customers' that the MFBs have lost to other competitors with the view of capturing them back (Kracklarurer and Wing, 2004).

Attracting the SME Customers

Identifying potential SME customers is not enough. They must be attracted to patronize the MFB's services. Customer attraction requires effective marketing strategies. Today, marketing must be understood not only from the sense of “selling and talking” but in the new sense of satisfying customer needs (Kotler and Keller, 2006).

Customer Retention

By creating value for the SME customers, the MFB in turn capture value from the SME customers in the form of long-term customer equity and profit (Piccoli and Ives, 2005). MFBs reap the rewards of creating superior customer value. Customer retention is therefore not an option for the MFBs, it is a necessity. Retention is that goal of keeping the SME customers' active and stopping them from turning to the competitors (Ramakrishmani, 2006).

Information Technology (IT) Support for CRM in MFBs

Information Technology (IT) driven banking business is now the vogue. Introducing IT support for CRM in microfinance banks calls for solutions that will suit the business model of the MFB. It is not profitable for a microfinance bank to change the entire IT infrastructure for CRM business, therefore the CRM software to be used should easily integrate with the existing IT environment of the MFB (Hubert, 2002). To be cost effective the software should be configurable by the MFB itself and should not require huge consultation cost to adapt the software to the needs of the MFB. Business procedures are dynamic, as such CRM software should be designed to adapt to these changes.

A CRM solution should be established with caution in order to reduce costs and risks associated with the introduction of CRM in a bank (Hubert and Piortr, 2000). The Gartner group put failure rate of all CRM projects at 55% while Adrian (2002) reports that 20% of the CRM project failures result in damages to long-standing relationships. Wrong customer care strategies and the neglect of the appropriate metric are among the reasons for CRM failures (Adrian, 2002).

Research Hypothesis

H1: There is no relationship between MFBs Customer Relationship Management practices and their financial services to SMEs in Nigeria.

H2: There is no relationship between the CRM practices in MFBs and their services to the SMEs in Nigeria.

Study Methodology

This research study adopted the survey method. Both primary and secondary data were utilized for the study. Questionnaires and interviews were the instruments used to collect data. The questionnaires consist of two sections (sections A and B). the first section (A) elicits demographic information such as Age, working experience etc of the respondents, while section B contained structured items relevant to the research hypothesis that form the basis for this study. Secondary data were generated from journals, magazines and other relevant textbooks.

The population of the study comprised the management staff of microfinance banks, small business enterprise owners and other SMEs management staff in Kaduna State. Stratified sampling technique was used for sample selection where the population was stratified into three (3) strata Management staff of MFBs under study, SME owners and SMEs management staff. Thirty (30) respondents were selected from the first stratum, fifty (50) from the second stratum and forty (40) from the third stratum, bringing the total to one hundred and twenty (120) from all the strata. Descriptive statistics and regression were used in the analysis. The instruments were subjected to criticms by experts in banking profession to ensure the validity of this research. This is in addition to peer review conducted by the researchers. Test retest techniques were used to analyze the data to obtain the reliability of the instrument.

Discussion of Results

The results of the study revealed that Customer Relationship Management (CRM) in Microfinance Banks (MFBs) has significant effects on the services to Small and Medium sized Enterprises (SMEs) in Nigeria. The study revealed that over 70% of the SMEs still faced difficulties in accessing credit facilities from the microfinance banks. However, savings / deposit services are generally available in MFBs. Most Microfinance Banks in Nigeria also provide payment services for their SMEs client. The lack of central clearing house (specifically for the MFBs) often lead to delays in offering these payment services. This is further worsened by the fact that the MFBs have to provide these services through their correspondent commercial banks who are actually their competitors.

Many microfinance institutions around the world provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities. The results of this study indicate that CRM plays a crucial role in the delivery of these services. However, over 80% of the SMEs operators feel these services are inadequate; while 70% attribute this to poor CRM practices in MFBs amongst other factors.

/ Dependent Service
/ Method = Enter Mediation.

Analysis of Data
Regression
Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.976[a]	.953	.950	4.151

a. Predictors: (Constant), Mediating GFR
The value R-square (0.953) or 95% is the percentage variability in the data explained by the model i.e. 95% change in service to SMEs could be attributed to Customer Relationship Management (CRM).

Hypothesis
H0: 0&1= 0 (The regression parameters are not significant)
H0: 0&1= 0 (The regression parameters are significant)
Level of significance
A = 0.05
Test statistic
t-test
Decision criterion
Reject H0 if p-value < 0.05
Computations

Table 2: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Erro			
1(Constant) Mediating	22.411	2.491		8.996	.000
GFR	.697	.044	.976	15.667	.000

1 Dependent Variable: Services to SME's
2 The model is y services to SMEs = 22.411 + 0.697 Customer Relationship Management (CRM)

Since the p-value (0.000) < 0.05 then we reject H0 for both the intercept (constant) 0 and the slope (CRM 1) and conclude that the parameters are significant the value 0.697 is the amount by which unit change in customer relationship management is expected to affect the services to SMEs.

Regression
[DataSet 0]
1 Dependent Variable: Performance of SME's
2 All requested variables entered

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980[a]	.959	.941	4.470

a. Predictors: (Constant) customer understanding, customer attraction, customer retention.

The value R-square (0.959) or 96% is the percentage variability in the data explained by the model i.e. 96% change in service to SMEs could be attributed to customer understanding customer attraction and customer retention.

Hypothesis 1
H0: 0 = 0 (The intercept parameter is not significant)
H0: 0 = 0 (The intercept parameter is significant)

Hypothesis 2
H0: 1= 2 = 3 = 4 = 0 (The slope parameters is not significant)
H0: 1= 2 = 3 = 4 = 0 (the slope parameters is significant)

Level of significance
a = 0.05
Test statistic
t-test
Decision criterion
Reject H0 if p-value < 0.05
Computations

Table 4: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Erro			
(Constant)	5.785	7.763		.745	.475
Customer Understanding	.071	.380	.082	.187	.855
Customer Attraction	.835	.149	.916	5.610	.000
Customer Retention	016	.317	.016	.051	.960
Customer Delight	-.030	.267	-.027	-.113	.913

Dependent Variable: Services to SMEs

THE MODEL IS;
Y service to SMEs = 5.785+0.71 Customer understanding +0.835 Attraction +0.16 Retention - 0.030 customer delight

Decision 1
Since the p-value (0.75) > 0.05, we cannot reject H0 and conclude that the intercept is not significant.
Decision 2
Since p-value for customer understanding, customer attraction and retention are 0.855m 0.960 and 0.913, exceed 0.05 we cannot reject H0 conclude that the variables are not contributing to services to SMEs. Hence the p-value for customer relationships management (0.000) does not exceed 0.05 then we reject H0 for 2 and conclude that the CRM contributes to the services to SMEs similarly, the values; 0.071, 0.35, 0.016, -0.030 are the amount by which a unit change in customer understanding, attraction, retention and delight is expected to affect the services to SMEs.

Conclusion

Microfinance Banks (MFBs) in Nigeria operate primarily to provide financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to their clients. These clients include the Small and Medium Enterprises (SMEs) who are themselves engine of economic growth through employment generation and contributions to the national Gross Domestic Product (GDP).

This study established that customer relationship management in MFBs have significant influence on the provision of both financial and non-financial services service to the SMEs customers. The SMEs customers face a broad array of products and services that might satisfy their needs. How they choose from among these market offerings depends largely on CRM strategies of the MFBs. Managers of MFBs should understand that customer value and customer satisfaction are key building for block developing and managing customer relationships.

Recommendations

The managers of Microfinance Banks (MFBs) in Nigeria are expected to enhance their customer relationship management practices through effective strategies. To sustain CRM, strategic measures must be taken to reduce negative effects of the corporate governance problems identified as obstacles to the smooth functioning of CRM practices in MFBs.

The following steps should be taken by the stakeholders to ensure effective service delivery to SMEs by the MFBs in Nigeria:

1 Adequate infrastructural facilities should be provided. Electricity is central to the delivery of E-banking services which is also crucial to sustenance of CRM. Government should support MFBs with adequate energy supply.
2 The Central Bank of Nigeria (CBN) should work towards establishing a separate banker's bank for MFBs that will carryout correspondent banking services (including funds transfer).
3 The present electronic payment systems should be further strengthened to enhance cashless transactions that will delight customers.
4 The MFBs should create enlightenment programmed on services available for their SMEs clients and other customers.
5 Government should support the MFBs in granting matching loans on attractive rates for onward lending to the SMEs.
6 Government should support MFBs with training facilities for extension of financial literacy and coaching programmed to the SMEs operators.
7 Government should provide adequate security measures that will encourage e-banking services by the MFBs
8 MFBs should collaborate and network amongst themselves to finance capital intensive projects that will be beneficial to all of them.
9 MFBs should create a forum where customers and operators of the banks will dialogue and share views on areas of relationships requiring improvement.

References

Adiele, K. C., Revd, J. M. & Didia, J. U. D. (2011). “The Impact of Corporate Citizenship on Business Performance: Marketing Implications for Nigerian Organizations”, Benin Journal of Social Sciences 19 (1 & 2), pp. 319-330.

Adrain Mello. “Six Mistakes that will sink your CRM” www.zdnet.com. March 18, 2002.

Asiegbu, F., Ikechukwu, Awa, J. Okorie, Akpotu, Christopher & Ogbonna, U. Benson (2011). “Sales Force Competence development & Marketing Performance of Industrial & Domestic Products Firms in Nigeria”. Far Est Journal of Psychology & Business 2 (3), March Pp 43-59. www.fareastjournals.com

Boulding, W. & Staelin, Ehret, M. & Jonson, W. (2005). “A Customer Relationship Management Road Map; what is Known, Potential Pitfalls & Where to Go”. Journal of Marketing 69 (4), Pp. 155-166. ISSN: 0022-2429 (Print), 1547-7185 (Electronic).

Brassington, E., & Pettit, S. (2000) “Principles of Marketing (Tenth Edition)” London: Prentice Hall.

Coltman, T. O. (2006) “Where are the Benefits in CRM Technology Investment” Proceedings of 39th Annual Hawaii International Conference on System Science (HICS 06), January, pp 4-7.

Hubert Baumeister & Piotr Kosiuczenko. “CARUSO: Customer Care & Relationship Support Office” In Ricardo Goncalves & Adolfo Steiger-Garcao, Editors, ECPPM, Lisbon, Portugal, 25-27 September 2000, Pages 115-120. A. A. Balkema, Rotterdam, Brookfield, 2000.

Hubert Baumeister. “Using XP to develop a CRM Framework” In XP2002. 3rd International Conference on Extreme Programming & Flexible Process in Software Engineering. 2002. www.xp2002.org

Joas, B. K. (2011) “Concept of Relationship Theology” Htpp://www.lutheranworld.org/what-we-do/DTS

Joseph, F., Hair, Jr., Robert, P. Bush & David J. Otinau (2006) “Marketing Research within a Changing Information Environment (3rd ed), New Delhi” Tata McGraw-Hill Publishing Company Limited.

Kotler, P. & Armstrong, G. (2010) “Principles of Marketing 13th Edition Pearson Education” Inc. Upper Saddle River New Jersey USA. ISBN-13:978-0-13-700669-4/10987654321.

Kotler, P., John, T. Bowen & James C. Makens (2010) “Marketing For Hospitality & Tourism. 5th Edition, Pearson Education, Inc. Upper Saddle River, New Jersey, USA. ISBN-13:978-0-13-245313-4.

Kracklaurer, A. H. & Wong, A. (2004). “Customer Management as the Origin of Collaborative Customer Relationship Management” Journal of Collaborative Customer Relationship Management: Taking CRM to the Next Level. Pp. 3-6.

Martin, R. Oliver, S. & Jacquelyn, S. T. (2010). “Customer Relationship Management & Firm Performance the Mediating Role of Business Strategy”, Journal of the Academy of Marketing Science' 38, Pp. 326-346. Doi 10.1007/s11747-009-0164-y.

Nwokah, N. G. & Maclayton, D. W. (2006). “Customer Focus & Business Performance; the Study of Food & Beverage Organizations in Nigeria”. Measuring Business Excellence, Journey of Organizational Performance Pp-65-75. Doi: 101108/13683040610719281.

Piccolo, D. & Ives, B. (2005) “IT-Dependent Strategic Initiatives & Sustained Competitive Advantage: a Review & Synthesis of the Literature; MIS Quarterly 29 pp. 747-777. tcoltman@uow.edu.au

Semih, Onut, Ibrahim Erdem & Bora Hosver (2007) “Customer Relationship Management in Banking Sector & a Model Design for Banking Performance Enhancement” http://www.ipdfsearchengine.com/pdf/customer

Swift, P. (2000) “Predictors & Actors of Openness to Change in a Re-Organizing Work Place” 'Journal of Applied Psychology', 85, Pp. 132-142.

Tim, B. (2010) “Customer Relationship Management” http://www.mplans.com/customerrelation.

Yao, H. I. & Khong, K. W. (2008) “Effectiveness of CRM on Customer Satisfaction & Performance in the Internet Banking of Taiwan” The 30th Annual Marketing Science Conference of the Institute of Operations Research & Management Sciences, University of British Columbia, Canada.