

Customer Orientation and Business Performance of Financial Institution: A Case Study of Eastern Hararghe Commercial Bank of Ethiopia

Robson Mekonnin

Department of Management, College of Business and Economics, Haramaya University Main Campus, Oromia, Ethiopia

Received 21 November 2014, Accepted 26 December 2014

ABSTRACT:

The main objective of the paper is to investigate customer treatment, financial efficiency and supporting customer services with modern banking technology in financial institutions. The customer orientation and business performance of financial institutions targets customer services to maintain long term mutual relationships. The findings of the study has direct practical relevance for the banking institutions. Currently, Commercial Bank of Ethiopia dominates the private commercial banks in terms of having millions of customers and hundreds of branches throughout the country. The result of the study also indicates customer orientation has assisted the bank to improve its customers need, even though competing with private commercial banks with different banking strategies is proved to be a challenge to commercial bank of Ethiopia. Additionally, customer orientation is crucial for financial institutions like banking sector since their business income is generated from service rendering to customers. This study will provide new insights in approach to customer orientation in the financial sector of the bank. The study results are beneficial towards enhancing the quality of customer services of the banking sector.

Keywords: *Customer orientation, Financial efficiency, Business performance, Information based technology, Customer, Financial institution*

INTRODUCTION

The ultimate customer satisfaction is however, not free. The more attention companies pay to the cost of customer satisfaction, the less overall cost is incurred in the real environment leading to the ultimate goal of any business, higher profitability (Alomaim et al., 2003). For instance (Chen et al., 2012) noted a financial institution could raise perceived value by offering a higher interest rate or lower transfer fees to customers with higher savings or more frequent business contact, instead of adopting a low profit policy to attract customers from one another. Despite this, financial institutions could

release information about the company to enhance customer awareness and trust. Offering improvements over competitive indicates that competitors are doing a better job of satisfying customers and are therefore customer oriented themselves. Knowing whether such improvement would be appreciated by customers requires a customer orientation (Walker, 2001).

Commercial Bank of Ethiopia was established in its present form by a merger of one of the nationalized private banks (Addis Bank) with that of the publicly owned commercial bank by proclamation No.184

(1980). Since 1992 Ethiopia has been gradually liberalizing its financial sector. One of the main targets of financial institutions is mobilizing resources specifically domestic savings and channeling investment (Alemayehu, 2006). Financial institutions act as the most important engine of economic growth for several economies in the world. In Ethiopia the major financial institutions operating are banks, insurance companies and micro-finance institutions. The market structure for commercial banks in the economy is highly concentrated especially, in the area of total assets and deposits (Ebisa, 2012). Traditionally business performance measurement was based on the information provided by accounting officers, derived from balance sheet and income statement. However, in today's business performance, customers are the key to maintain a competitive advantage. Banking institutions should be aware of who their customers are, which customer group produces higher profits and what factors keep them happy and influence their loyalty (Sadek et al., 2011). An improvement in the market orientation practice will lead to an equally high business performance thus ensuring the long term survival of the businesses (Boohne et al., 2012). Mainly with the ever improving information technology, commercial banks will change in their service models, in order to adapt to the trend of social development. Of course, that will depend on improvement of financial security technologies, so that banks can continue to innovate financial products, and enhance core competitiveness (Zhang and Li, 2009).

On the other hand, today commercial bank of Ethiopia are facing stiff challenge from domestic private commercial banks in utilizing modern technologies and they have to make efforts to survive in a competitive market and uncertain market place to sustain profits. Contemporary banks increasingly realize that customer orientation is a very important factor for their success in increasing their business performance in respect of customer treatment, customer focused bank structure and supporting customer with bank technology. Customer orientation focused on a strategy that can help them build strong relationships with their customers and increase their profits through the right management system and the application of customer-focused institutions to boost their

business performance. Thus, the idea of customer orientation is found in relationship marketing theory which is intended to improve long term customer relationship by changing from transaction based marketing, with its emphasis on customer treatment with great care, to customer retention through effective management of customer relationships to cope with unstable business environments (Christopher et al., 1991). For instance Reich and Sasser (1990) stated that those customers who have been around long enough to get familiar with the company's rules, regulations, ethics and principles, will make more valuable business partnerships, will acquire more business profits and will be less price sensitive on individual offers.

The implementation of customer management as a tool of competitive strategy is on the rise in different financial institutions across the world. Yet there is no doubt that an effective and efficient practice of customer orientation is important to the successes of financial institutions such as banks. According to Parvatiyar and Sheth (2002), most of the firms implementing customer management will benefit highly, because there are no laid down guidelines and procedures on adoption, implementation and practices. However, most banking systems experience some degree of inefficiency in the utilization of their resources and especially managing the quality of service to service-seekers and service provider client partnership. Previous studies have concluded that: the service is very complex and customized in the transaction process, the external business environment is sensitive to change rather than stable, and the marketing is uncertain when sellers are not sure what the service seekers want. Financial institutions operating in Ethiopia are consequently put under a lot of pressure due to the introduction of modern banking technology competition from private financial institutions.

In the Ethiopia banking sector, customers perceive very little difference in banking products offered by banks dealing in services as any new offering is quickly matched by competitors. There is customer dissatisfaction over the service offered and the available services don't match the expectation of the customer (Mesay, 2012). Currently Commercial

Bank of Ethiopia faces challenges due to the introduction and expansion of the use of technological interfaces such as automated teller machines. This shows; in the case of commercial Bank of Ethiopia, the use of latest technology has not helped much to improve customer satisfaction due to service network connection problems. Contrary to this, there are customers who still seek staff contact or personalized banking (Singh, 2004). Banks need to know who they are providing their services for what their needs and problems are, and what their financial priorities are. It is important for banks to focus on the management of customers, because it is more profitable to retain a customer than to obtain a new customer (Payne and Frow, 2005).

Many studies have been less focused on customer orientation and business performance of commercial financial institutions specifically on banks. Banks increasingly find it difficult to handle customer interest and their business performance without the involvement of foreign banks. Thus, there is high competition among banks in attracting the customers of one another especially through focusing highly on banking technology to automate customer service. However, problems remain in areas of customer handling, service quality, customer based bank structure, and treating customers. This study aims to investigate the issues identified above in relation to customer orientation and business performance of financial institutions.

Review of Related Literature

In order to be successful, enterprise must always provide superior value, better than competitors, when it comes to quality, price and services. Marketing combination of management activities should find the best way to fulfill customers' needs and follow new organizational changes. New organizational changes denote new internal and external dimensions of marketing (Filipoviæ et al., 2000). Contrary to conventional wisdom, the customer should not always be king. While maintaining a high level of customer-oriented service is important for building long-term agent-customer relationships, identifying the optimum level of customer orientation can help an agent maximize his customer relationship potential to achieve

maximum sales results (Homburg et al., 2011).

The heart of market orientation is its customer focus. To create superior value for buyers continuously requires that a seller understand a buyer's entire value chain. A market orientation is an externally focused business culture that makes creating superior value for buyers its top priority. That value comes from successfully exploiting core capabilities that can be developed in any functional area. But a market orientation is far more than just a function of marketing. A marketing orientation results in placing the marketing function at the top of an organizational hierarchy, leading to a preoccupation with traditional marketing activities when they are neither the major nor the appropriate core capability of the firm (Slater and Narver, 1994). Institutions like banks and short term insurance organizations become more aware of the importance of customer orientation and its potential to help them acquire new customers, retain existing ones and maximize their life time value. A close relationship with customers will require a strong coordination between information technology and marketing departments to provide a long term retention of selected customers (Lombard, 2011). On the other hand, customer-orientation has to become a fundamental organizational value and in such we are dealing with a learning process. Looking at business today we find that many firms, indeed, are learning to perceive customers differently than they used to (Brännback, 1999). For instance, to adapt the needs into the features and values of the output, the business model needs multimedia and interchangeable techniques. They help the customer to explain their needs, the intermediary to understand them and to adapt the needs into feature specifications and the suppliers (companies, employees and public administrations) to produce the required intermediate products and services (Scheer and Loos, 2002).

The rapid increase in number of automated delivery channels and customers' preference to use automatic teller machine (ATM) because of multifaceted attributes are putting pressure on banks to respond aggressively to meet the customers' needs. A customer orientated

institution would facilitate customers to participate in improvement of service quality, learn and perform and have a pleasant experience through two way interaction (Khan, 2010). The purpose of the expanding customer base bankers should focus on simplifying technology customer interface making services more economical from cost point of view and building the trust of customers in the transformed system by implementing risk reducing strategies (Singh and Kaur, 2013). Customer oriented marketing emphasis the analysis of the wants, needs and resources of individual customers and consumers rather than those of mass markets or market segments.

The essence of customer orientated service ideas arose from three concepts in marketing management: customer orientation, relationship marketing, and database marketing. With the advancement of information communication technology, these three marketing views have come together in the paradigm of customer management (Langerak and Peter, 2004). Contemporary Yim, Anderson and Swaminathan (2005) identified three marketing concepts: customer orientation, relationship marketing and database marketing for the evolution of the idea of customer management. For instance at different positions of management, it may be used to express different perspectives. For instance, at the middle level of management it may be equated to data-base marketing or electronic marketing; at the strategic level, may be interpreted as customer retention or partnering with customers (Peppers and Rogers, 1995). At the theoretical level, it may be seen as an emerging research paradigm in management

most often loosely equated to existing perspectives.

Thus on the analyses of the customer management literature, customer management implementations usually involve activities specifically focusing on main customers (Srivastava et al., 1999); (Vandermerwe, 2004), organizing structures around customer Homburg et al. (2000); management of technology based knowledge Stefanou et al. (2003), and incorporating customer oriented banking technology (Bhaskar, 2004). The focus of customer orientation is to maximize both efficiency and effectiveness at a customer level (Smith and Chang, 2010). Electronic like internet, telephone, banking and computerization of services as components of technology have greatly influenced customer orientation to yield an increased business performance. An efficient usage of information about communication systems enhances the electronic to communicate with their customers and create awareness of their product and services in the banking industry (Opera et al., 2010). In the emerging competitive environment and information technology era, with little or no distinction in the product offerings, the speed of rendering service is equated with quality service (Uppal, 2009). Technology has made it very easy for every large organization to manage their customers on a personalized basis. With the help of technology they can give personal a corner shop experience to every time. On the whole, banks have a clear vision of their desired strategic position, they want the ability to differentiate their brand through superior customer oriented services (Hussain et al., 2009).

Conceptual Framework of Customer Orientation

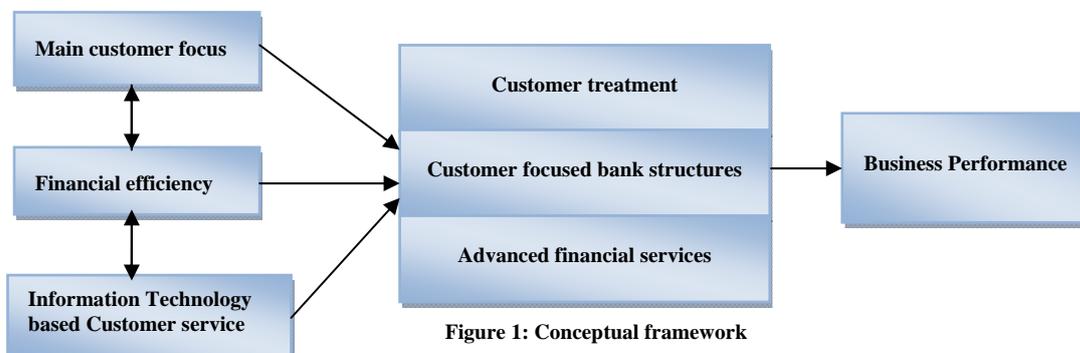


Figure 1: Conceptual framework

Purpose of the Study

The general objective of this study is to investigate customer orientation and organizational performance of Commercial Bank of Ethiopia in Haramaya and Harar branches.

Research Questions

1. What are the relationships between the degree of utilizing customer orientation in financial institutions, and increasing the level of an organizational business performance?
2. How treating main customers of banking sector influence its business performance?
3. Does current banking technology have a significant impact on the business performance of financial institutions?

Methodology of the Study

In selecting the research subjects, simple random sampling was used. Under this sampling technique the population of the study was divided into Commercial Bank of Ethiopia Haramaya Branch and Commercial Bank of Ethiopia Harar under the district of DireDawa. The selection of the sample was triangulated. Due to the objective of the study, only assessments from customer and employees at the front desk were incorporated.

Methods of Data Collecting Instruments

The primary data was collected by using a questionnaire which was developed for this study. The questionnaire was developed and put through a pilot test before distributing to

respondents of the banks. The pilot test helped to validate content, sequence and test the accuracy of the data gathering instrument. The questionnaire consisted of two parts: the first part of the questionnaire was designed to identify respondents profile such as: gender, age, working experience, educational qualification held. The second part of the questionnaire consisted of questions on customer orientation and business performance parameters in which the respondents were asked to indicate a range of responses from strongly agree (5), agree (4), neutral (3), disagree (2) and strongly disagree (1). The secondary data was gathered from different sources such as published journal articles, magazines, books, financial magazines and annual reports.

Study Population

A total of 110 questionnaires were distributed to three branches of Commercial Bank of Ethiopia which are in Haramaya and Harar. The researcher distributed the questionnaires to the employees of the bank and the respective customers. Among 110 questionnaires that were distributed, 90 questionnaires were completed and returned. The researcher used a statistical packaging of SPSS 16 for doing the statistical analyses. The units of data analysis were branch managers, accountants, customers of the branch and customer officers.

Regression Analysis

Table 1: Coefficient determination of customer orientation and market performance of financial institutions

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.574 ^a	0.329	0.236	0.814

a. Predictors:(Constant),technical personnel support, current banking technology, employee performance is measured and reward, comprehensive online database of customers, working with key customers , hardware facilities, customer focused structure, customer interest ,software facilities.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.680 ^a	0.463	0.396	0.791

a. Predictors:(Constant),technical personnel support, current banking technology, employee performance is measured and reward, comprehensive online database of customers, working with key customers, hardware facilities, customer focused structure, customer interest ,software facilities.

Model	R	R Square	Adjusted R Square	Std.Error of the Estimate
1	0.420 ^a	0.177	0.096	0.826

a. Predictors: (Constant), technical personnel support, current banking technology, employee performance is measured and reward, comprehensive online database of customers, working with key customers, hardware facilities, customer focused structure, customer interest ,software facilities.

Table 2: Analysis of variance of customer orientation and market performance of financial institutions

Model	Sum of Square	Df	Mean Square	F	Sig.
1 Regression	25.658	11	2.333	3.520	0.000 ^a
Residual	52.342	79	0.663		
Total	78.000	90			

a. Dependent variable: Treating customers based their interest

b. Predictors: (Constant), Technical personnel support, current banking technology, employee performance is measured and reward, comprehensive online database of customers, working with key customers, hardware facilities, customer focused structure, customer interest, software facilities.

Model	Sum of Square	Df	Mean Square	F	Sig.
1 Regression	43.123	10	4.312	6.891	0.000 ^a
Residual	50.064	80	0.626		
Total	93.187	90			

a. Dependent Variable: Bank structure is based on customer focus

b. Predictors:(Constant),technical personnel support , current banking technology , employee performance is measured and reward, comprehensive online database of customers, working with key customers , hardware facilities, customer focused structure, customer interest ,software facilities.

Model	Sum of Square	Df	Mean Square	F	Sig.
1 Regression	12.012	8	1.501	2.201	0.036 ^a
Residual	55.944	82	0.682		
Total	67.956	90			

a. Dependent Variable: Advanced banking technology

b. Predictors:(Constant),technical personnel support, current banking technology, employee performance is measured and reward, comprehensive online database of customers, working with key customers , hardware facilities, customer focused structure, customer interest ,software facilities.

From table 1: The coefficient of determination R^2 is 0.329 which means that 0.574 of the variation arose from customer treatment while R^2 is .463 this indicates 0.680 % of variability emerged from bank structure of financial institution. On the other hand, R^2 is 0.177 % which means 0.420 of the variability aroused from using advanced banking technology. Analysis of variance was done to establish the level of significance as indicated in table 2.

From ANOVA Table we can see treating customers, bank structure and advanced banking technology entered are significant predictors of customer orientation and market performance of financial institutions, in the model summary R^2 value from 0.329, 0.463 and 0.177 respectively. This indicates, analysis of variance to establish the level of significance as indicated in table 2. Coefficient of determination results and analysis of variance of significance level was 0.000 or

0.036 which was less than the set P-value of 0.05. This means that customer orientation was influenced by treating customer’s interest, bank structure and advanced technology, in financial institutions.

The correlation table 3 result shows that there is a significant and positive correlation between focusing on key customers and business performance, customer focused bank structures and using advanced banking technology to improve customer service of financial sectors. From this one can infer, positive relationships indicate that attempt of customer oriented and business performance can significantly lead to overcome problems to establish improvement of services in respect of customer treatment, customer focused service design, and technology based customer services.

CONCLUSION

The main objective of this study was to

investigate customer orientation and business performance in respect of customer treatment, main customer focused bank structures and introducing latest banking technology to upgrade customer service. From the research that has been carried out, it is possible to conclude this paper has clearly shown that the results of the study show that all customer orientation variables are positively correlated with business performance. This indicates that all significant variables contribute greatly to the business performance of the bank. The findings are of direct practical relevance a country where the financial sector is less emphasized than agricultural sector. Today even though the Commercial Bank of Ethiopia is dominating in terms of having millions of customers. In conclusion customer orientation is crucial for financial institutions like the banking sector since their business income is generated from service rendering to customers.

Table 3: Correlation analysis

Correlation	C1	W1	T1	P1	C2	E1	B1	C2	B2	E2	S1	T2	I1
Current banking technology(C1)	1												
Key customers (W1)	0.336**	1											
Treating customers(T1)	0.288**	0.452**	1										
Performance measurement(P1)	0.17	0.342**	0.321**	1									
Manage customer interest (C2)	0.305**	0.393**	0.392**	0.522**	1								
Employee training (E1)	0.07	0.274**	0.277**	0.456**	0.469**	1							
Customer focused structure (B1)	0.082	0.354**	0.293**	0.344**	0.431**	0.513**	1						
Online customer service (C2)	0.19	0.034	0.019	0.03	0.035	0.034	0.206	1					
Hardware (B2)	0.186	0.204	0.18	0.177	0.424	0.296	0.394	0.166	1				
Rewardred (E2)	0.051	0.279**	0.391**	0.484**	0.502	0.612	0.463	-0.14	0.266	1			
Software (S1)	0.141	0.209*	0.271**	0.177	0.321**	0.208*	0.348**	0.251*	0.609**	0.351**	1		
Computerized service (T2)	0.157	0.291**	0.277**	0.319**	0.323**	0.254**	0.459**	0.223*	0.515**	0.242*	0.581**	1	
	0.164	0.239*	0.2	0.2	0.373**	0.238*	0.385**	0.092	0.532	0.280**	0.516**	0.582	1

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

Limitation and Future Research

The main limitation of the study result is only investigating customer orientation and business performance of financial institutions. Despite these promising results, this study has some limitations. The most obvious limitation of the study is limited by cost and time. That can be seen by response rates to which limits its generalizability for other financial institutions like insurance companies. Some recommendations can be made on the promising findings presented in this paper, work on the remaining issues is continuing and will be presented in future papers by different scholars through extending its coverage in financial institutions beyond concentrating only on the banking sector.

REFERENCES

- Alomaim, N., Tunca, M. and Zairi, M. (2003). Customer Satisfaction @virtual Organizations. *Journal of Management Decision*, 41 (7), pp. 666-670.
- Bhaskar, R. (2004). A Customer Relationship Management System to Target Customers at Cisco. *Journal of Electronic Commerce in Organizations*, 2 (4), pp. 63-73.
- Blery, E. and Michalakopoulos, M. (2006). Customer Relationship Management: A Case Study of Greek Bank. *Journal of Financial Services Marketing*, 11, pp. 116-124.
- Boohne, R., Agyapong, D. and Asomaning, R. (2012). A Micro Level Analysis of the Market Orientation-Small Business Financial Performance Nexus. *American International Journal of Contemporary Research*, 2 (1), pp. 31-43.
- Brännback, M. (1999). The Concept of Customer-Oriented and Its Implication for Competence Development, INNOMARKET Turku School of Economics and Business Administration Department of Marketing.
- Buttle, F. (2009). *Customer Relationship Management: Concepts and Technologies*, 2 nd ed. Linacre House, Jordand Hill, Oxford: Butterworth-Heinemann.
- Chen, H., Liu, J., Sheu, Ts. and Yang, M. (2012). The Impact of Financial Services Quality and Fairness on Customer Satisfaction. *Managing Service Quality: An International Journal*, 22 (4), pp. 399-421.
- Christopher M, Payne A, Ballantyne D. (1991). *Relationship Management*, Butterworth-Heinemann, Oxford.
- Deribie, E. (2012). The Effects of Post 1991 Era Financial Sector Deregulations in Ethiopia. *Journal of Agricultural Science and Review*, 1 (4), pp. 81-87.
- Filipoviæ, V., Miliæeviæ, V. and Joksimoviæ, N. (2000). Customer Oriented Marketing Concept and Strategic Enterprise Development in Balkan Economies. *Facta Universitatis*, 1 (8), pp. 9-16.
- Geda, A. (2006). The Structure and Performance of Ethiopia's Financial Sector in the Pre-and Post-Reform Period with a Special Focus on Banking. United Nations University.
- Homburg, Ch., Müller, M. and Klarmann, M. (2011). Is the Customer Always King? Finding the Optimum Level of Customer Orientation. *Extended Summary of a Study Published in the Journal of Marketing*, pp. 55-74.
- Hussain, I., Hussain, M., Hussain, Sh. and Sajad, M. A. (2009). Customer Relationship Management: Strategies and Practices in Selected Banks of Pakistan. *International Review of Business Research*, 5 (6), pp. 117-132.
- Khan, M. (2010). An Empirical Study of Automated Teller Machine Service Quality and Customer Satisfaction. *European Journal of Social Sciences*, 13.
- Langerak, F. and Verhoef, P. C. (2003). Strategically Embedding CRM. *Business Strategy Review*, 14 (4), pp. 73-80.
- Lombard, M.R. (2011). Customer Retention through Customer Relationship Management: The Exploration of Two Way Communication and Conflict Handling. *African Journal of Business Management*, 5 (9), pp. 3487-3496.
- Mesay, S. (2012). Bank Service Quality, Customer Satisfaction and Loyalty in Ethiopian Banking Sector. *Journal of Business Administration and Management Science Research*, 1 (1), pp. 1-9.
- Opera, B., Olotu, A. and Maclayton, D. (2010). Analysis of Impact of Technology on Relationship Marketing Orientation and Bank Performance. *European Journal of Scientific Research*, 45 (2), pp. 291-300.
- Parvatiyar, A. and Sheth, T. N. (2002). Customer Relationship Management: Emerging Practice, Process, and Discipline. *Journal of Economic and Social Research*, 3 (2), pp. 1-34.
- Peppers, D. and Rogers, M. (2004). *Managing Customer Relationships: A Strategic Framework*, 2 nd ed., Hoboken, NJ: John Wiley and Sons.
- Reichheld, F. F. and Sasser, W. E. (1990). Zero Defections: Quality Comes to Services. *Harvard Business Review*, 68 (5), pp. 105-111.
- Sadek, H., Youssef, A., Ghoneim, A. and Tantawi, P. (2011). Measuring the Effect of Customer Relationship Management Components on the Non-Financial Performance of Commercial Banks: Egypt Case, European, Mediterranean and Middle Eastern Conference on Information Systems.
- Scheer, Ch. and Loos, P. (2002). Concepts of Customer Orientation – Internet Business Model for Customer-Driven Output. Chemnitz University of Technology,

- Information Systems and Management, Germany.
Series: Economics and Organization (2000), 1 (8), pp. 9 – 16.
- Singh, J. and Kaver, P. (2013). Customers' Attitude towards Technology Based Services Provided by Selected Indian Banks Empirical Analysis. *International Journal of Commerce and Management*, 23 (1), pp. 56-68.
- Slater, S. and Narver, J. C. (1994). Market Orientation, Customer Value, and Superior Performance. *Business Horizons*, 37 (2), pp. 22-28.
- Smith, M. and Chang, Ch. (2010). Improving Customer Outcomes through the Implementation of Customer Relationship Management Evidence from Taiwan. *Journal of Asian Review of Accounting*, 18 (3), pp. 260-285.
- Uppal, R. K. (2009). Customer Service in Indian Commercial Banks: An Empirical Study. *Asia-Pacific Journal of Social Sciences*, 1 (1), pp. 127-141.
- Vandermerwe, S. (2004). Achieving Deep Customer Focus. *MIT Sloan Management Review*, 45 (3), pp. 26–34.
- Walker, L. J. (2001). The Measurement of a Market Orientation and Its Impact on Business Performance. *Journal of Quality Management*, 6 (2), pp. 139-172.
- Yim, F. H. K. (2002). CRM Orientation: Conceptualization and Scale Development, Master's Thesis, Chinese University of Hong Kong.
- Zablah, A. R., Bellenger, D. N. and Johnston, W. J. (2004). An Evaluation of Divergent Perspectives on Customer Relationship Management: Towards a Common Understanding of an Emerging Phenomenon. *Industrial Marketing Management*, 33 (6), pp. 475-489.
- Zhang, Y. and Li, L. (2009). Study on Balanced Scorecard of Commercial Bank in Performance Management System, Proceedings of International Symposium on Web Information Systems and Applications.
- Zineldin, M. (2005). Quality and Customer Relationship Management (CRM) As Competitive Strategy in the Swedish Banking Industry. *The TQM Magazine*, 17 (4), pp. 329–344.