

Salloum, Charbel; Ajaka, Jassem

Article

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CRM Failure to Apply Optimal Management Information Systems: Case of Lebanese Financial Sector

Charbel Salloum^a, Jassem Ajaka^b

^aHoly Spirit University of Kaslik, Faculty of Business and Commercial Sciences, Lebanon

^bLebanese University, Faculty of Sciences, Fanar Campus, Lebanon

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ABSTRACT

Financial markets in Lebanon are constrained by government influence, Islamic financial principles, and some barriers to foreign participation. Productivity in the Lebanese financial sector ranks below its occidental counterpart in spite the fact that regulatory, supervisory, and accounting standards are generally consistent with international norms. This paper aims to give the reasons and recommendations of the failure of applying the optimal management information system in the Lebanese Financial Sector. Our results show that the reasons include among others the systems by it selves, their functionalities, but also, companies' strategy and human capital issues.

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1. Introduction

Customer Relationship Management (CRM) is a customer-oriented business philosophy. It involves the analysis, planning and monitoring of the customer relationships using the latest information and communication technologies. Implementing a CRM project could cost up to millions of dollars and requires investments in technologies and human capital. Today, the concept of customer relationship management (CRM) is synonym to competition between companies. The challenge is not limited to earn new customers but also to let these customers loyal to the company.

Several companies have failed in implementing CRM systems. The losses were not limited to the investment but also in earning new customers. This why, we can notice some reluctance to invest in CRM. This failure

constitutes the main subject for several authors who discussed perils and pitfalls within the implementation process and/or operative performance. Nevertheless, success in implementing a CRM within a company is not synonym to economic success. In fact evidence of the impact of CRM on enterprise performance is scarce.

The aim of this paper is to point out the reasons of failure in applying optimal management systems in the Lebanese financial sector.

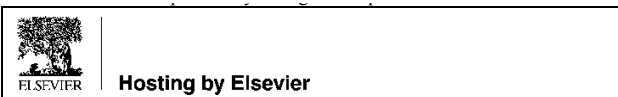
2. Literature Review

It is known that each project has an objective and cost. Many CRM projects involving huge technology investments, fail to deliver the expected services in accordance with the real cost. But, how we may measure the expected results?

* Corresponding author. Tel.: +9619600815; fax: +9619600801.

E-mail address: salloum@usek.edu.lb

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Grabner-Kraeuter and Moedritscher [1] explains that the measurement of the expected results is influenced by the lack of a holistic framework used for defining success criteria and metrics at the start of the CRM project. Another factor is the frequently inadequate implementation of processes for conducting ongoing performance measurement.

On the other hand, a study conducted by IBM in 2004 [2] pointed out that over 75% of companies are not fully using CRM once it is implemented. Finding the right system begins by defining the strategy of the company. This is why people who have to lead CRM project should have deep vision of the company strategy and the full resources to implement the project. But in most cases organization under estimate the level of engagement required from employees as well as the management.

The Executive management is used to set clear objectives and goals for the organization. The role of the Executive management is also essential in the final decision making process to ensure that the team is on the right path for the organization.

In the financial industry, we have several points to focus on:

Identification of the organization systems;

- How many systems will be integrated into the CRM system?
- How difficult is it to import the data from the core processing systems?
- Will it cost extra to program the information necessary for the organization to obtain the goals?
- Which systems take priority?
- Who will be responsible for getting the file layouts or data maps to the CRM provider, and then maintaining them once the system is implemented?
- How to merge several databases in one database.

The CRM system is used to be a 360-degree view of the customer. Being so, it helps marketing and sales increasing market share and retain customers. Skea [3] found that most companies lose up to 10% of their customers/year. The main reason is the dissatisfaction. Skea recommends establishing a solid historical view of the customer from all angles. In fact it allows marketing to review trends and identify patterns in clients' behavior.

The marketing department will be then able to predict analysis and suggest products or services to the sales team which can use the CRM system to track customers in real-time regardless of the channel.

DeFelice and Britt [4] found that its CRM system allowed lending division to double its production in one year while staff increased by only 20%. The operations department may use the system in the financial sector to more efficiently and quickly respond to the sales team's requests. Also, the use of the system imposes employees to be motivated to get on board. The system allows employees to increase sales and then their pay [5]. The organization should also consider implementing CRM key users throughout the organization who identify areas of improvement and recommend solutions.

According to Harland [6], "profit is the lifeblood of the organization; therefore its accuracy is critical." Creating profit for the organization will take a lot of effort on the management side.

Profit is an important piece in the marketing and executive functions because it tells where the organization's attention should be focused. Coffey and Palm [7] found that one of the best reports is the profit decile report. "The reason this is so important is that it can show (1) Who the most profitable (and least profitable) customer are; and (2) Why they are profitable or unprofitable."

They also found that the top 1% of the bank's customer can provide up to 45% of the bank's profits and the top 20% can provide the equivalent of 175% of the profits. This is an astounding number, yet many financial institutions do not have programs in place to retain these profitable customers. This argument is excellent to show why profit is critical to a successful CRM implementation in the financial sector.

3. Empirical Study

3.1 Methodology

From the literature review, we extracted several factors that could impact the failure of applying a CRM system. We grouped these factors into three categories as following:

- Institution Specificities: country, owners, local implication in Lebanon, juridical status, size of the company, strategic factor encouraging the investment in Lebanon, clients' origins, type of clients, etc.
- System Specificities: Existence of a CRM system, Type of CRM (Transactional, Operational, Decision-Making), frequency of updates, source (internal, external);
- Use of the CRM system: cross-selling, ad-hoc relationship, reactivity, knowledge of customer, integration of several communication channels, work process, human constraints, presence of multi-players, presence of multi-sources, employees skills and experience, legal regulations, complexity of the products.

We applied a questionnaire that we have submitted to 110 bank and financial institutions in Lebanon. 32 questionnaires were selected to their integrity and coherence. Then the data were introduced in SPSS for analysis.

3.2 Results

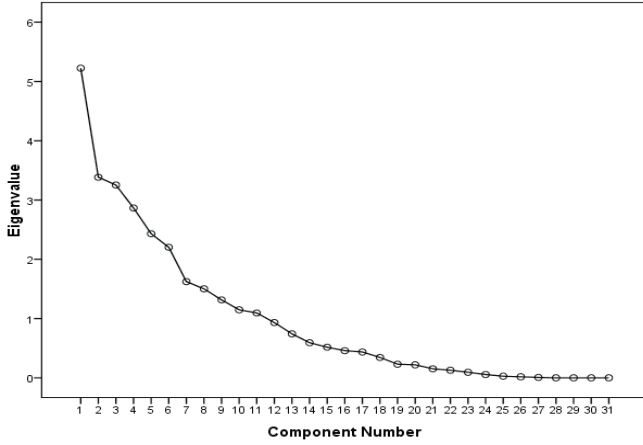
The main objectives of this analysis were to identify the main components influencing the success/failure of implementing a CRM system in the Lebanese financial sector.

We checked the reliability of the scales by means of Cronbach's alpha coefficient. The reliability index for the scales used was around 0.722 for the scale of satisfaction.

The preliminary factorial analysis with varimax rotation of the attributes determining the satisfaction level lets us to extract the 6 first factors that have eigenvalues higher than that for the whole (see table 1).

The total explained variance being 62.46% exceeding the recommended value in social sciences [8]. The correlations between factors of the different items expressed by means of the factorial loads are significant.

Figure 1: Preliminary Factorial Analysis



The figure 1 shows the weight of the different derived factors and as we can see, the first 6 factors explain more than 60% of the total variance, which is considered as enough to limit our study on it.

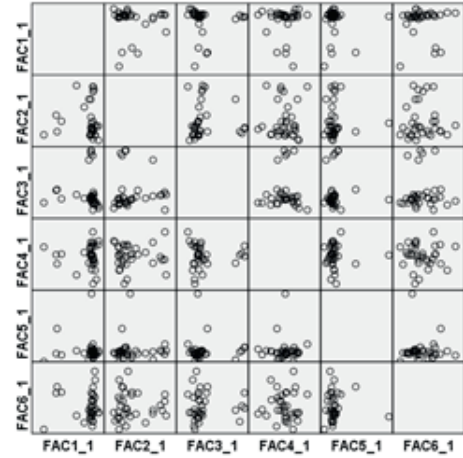
Table 2 (in appendix A) shows the exploratory factorial analysis of the applying the CRM in the Lebanese financial sector. Numbers represent the correlation between each component and each variable. For example, the support of dashboards by the CRM system appears to be strongly correlated to the first component.

Table 1: Preliminary Factorial Analysis

Component	Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %
1	5.225	16.854	16.854
2	3.384	10.917	27.771
3	3.254	10.496	38.267
4	2.866	9.244	47.510
5	2.432	7.844	55.355
6	2.203	7.106	62.460

Component	Extraction Sums of Squared Loadings		
	Total	Total	Total
1	5.225	5.225	5.225
2	3.384	3.384	3.384
3	3.254	3.254	3.254
4	2.866	2.866	2.866
5	2.432	2.432	2.432
6	2.203	2.203	2.203

Figure 2: Scatter plot matrix of the component scores



The figure 2 shows the scatter plot matrix for the different considered components. We notice that components have skewed distributions, which is because the distributions of the initial variables are skewed.

4. Discussions of the Results

Our results show that the failure of applying optimal management information systems comes from 2 main factors:

- The information system
- Internal factors to the company

4.1 The System

Our analysis shows that the system functionalities play an essential role in the success of applying optimal management system information. The obtained results mention the business functionalities (Operational CRM, Transactional CRM...) as well as the technical functionalities (opening to other sources).

4.2 Internal Factors

The strategy of the company seems to be the first factor in this category to influence the success of applying optimal management system. Most of companies (banks, Financial Institutions, Brokers) fail to match the use of the system with their own strategy.

Another factor playing an essential role is the skills of the employees. Where most of the companies estimate that their employees are well prepared. But our investigations show that 70% of the questioned employees are not able to list benefit of such system. In fact the perceived image looks like a MS Outlook system.

5. Conclusion

In Lebanon, where the financial sector is a success story, things seem take time to evolve. At the time where occidental financial companies use extensively CRM to earn more customers and to get more loyalty for their customers, Lebanese financial companies estimate that the old method still available confirmed with the fact that 4% of the Lebanese savers hold more than 80% of the sales.

Our recommendations to the financial sector are to move forward by using CRM systems having open architecture. Doing so, banks, financial institutions and financial brokers will be able to compete with other regional financial sectors. At the time where banks secret are confined in Europe and around the world, Lebanon appears to get back its reputation of Suisse of Orient. This will push foreign investors to invest in Lebanon. The Lebanese financial sector should be ready to offer the same service level of its occidental homologues.

Acknowledgments

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Appendix A

Table 2: Exploratory Factorial Analysis of the Applying the CRM in Financial Sector

Variables	F1	F2	F3	F4	F5	F6
CRM support for dashboards	0.803	-0.357	-0.291	0.172	-0.097	0.095
CRM support for data mining	0.780	-0.219	-0.401	0.134	-0.098	0.046
Decision-making CRM	0.755	-0.071	-0.463	-0.103	-0.116	-0.195
CRM for support extraction	0.604	0.531	0.292	-0.128	0.105	0.304
CRM for support campaign management	0.500	-0.207	0.452	-0.352	0.001	-0.111
CRM Updates Frequency	0.480	-0.317	0.329	0.245	0.343	0.282
Operational CRM	0.414	0.530	-0.053	0.277	0.525	0.068
CRM support for commercial actions	0.414	0.530	-0.053	0.277	0.525	0.068
CRM support for events management	0.403	-0.165	0.761	0.065	-0.315	-0.070
Percentage of Local Investors Property	0.263	0.147	0.298	-0.236	-0.362	0.219
Employees well prepared to use the potential of the CRM	0.256	-0.050	0.829	-0.064	-0.148	-0.051
Main category of clients	0.197	0.356	0.001	0.385	-0.411	0.050
By using the CRMS, improve the knowledge of your customer	0.158	-0.480	0.074	-0.186	0.335	-0.539
CRM supports Interactive channels	0.096	-0.092	0.041	0.140	-0.371	-0.118
Do you think that it is important to have quantitative skills to use the CRM	0.007	0.188	-0.303	0.201	0.395	-0.547
Customers Number	-0.052	0.233	0.074	0.363	-0.491	-0.100
The main origin of your clients	-0.067	0.124	-0.084	-0.680	0.077	0.247
Foreign Investors Property	-0.080	-0.631	-0.053	-0.070	0.212	-0.159
Do you think that the complexity of the products that you handle is an obstacle for the development of the CRM	-0.084	0.404	0.075	-0.490	-0.172	-0.033
Do you think that the applied legal regulations are an advantage to the development of the CRM	-0.087	0.320	-0.231	-0.279	0.068	0.450
Strategic factors that have encouraged your company to invest	-0.102	0.469	-0.468	0.282	-0.305	-0.086

locally						
Do you think that the presence of multi-players constitutes a difficulty for the CRM application	-0.149	-0.343	0.067	0.400	0.142	0.667
Suppliers Number	-0.275	0.135	0.151	0.228	0.240	0.066
Local Implication in Lebanon	-0.294	-0.148	0.387	0.251	0.370	-0.253
Employees Number	-0.380	-0.072	0.278	0.729	-0.134	-0.132
Lebanese Expatriate Investors Property	-0.392	-0.393	-0.443	0.119	-0.076	0.201
Average sales per customer and per month (USD)	-0.393	-0.164	-0.153	-0.501	0.079	-0.028
Do you think that it is important to have computer skills to use the CRM	-0.401	0.355	0.127	0.139	-0.078	-0.262
Do you think that the CRM contributes to the definition of the work process	-0.413	-0.217	0.157	0.151	0.274	0.558
Do you think that the human constraints constitute a difficulty for the CRM application	-0.435	-0.406	-0.204	0.078	-0.371	0.172
CRM Updated Internally /Externally	-0.803	0.357	0.291	-0.172	0.097	-0.095
