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## **THE IMPACT OF KNOWLEDGE MANAGEMENT ON CUSTOMER VALUE: THE MEDIATING ROLE OF CUSTOMER RELATIONSHIP MANAGEMENT AND MARKET TRENDS IN THE BANKING INDUSTRY**

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### **ABSTRACT**

Over the past few years, clients have been the center of attention, and any company is seeking to satisfy its customers in one or several methods. Some companies coordinate themselves with the market in order to create superior customer value through culture and behaviors that this orientation has developed. Other companies prefer to manage their knowledge whereas others focus on creating and maintaining long-term relationships with their customers. The aim of this study was to investigate the impact of knowledge management on customer value: the mediating role of customer relationship management and market trends in Mellat Bank branches of Yazd city. This research is an applied study based on the purpose and a descriptive-survey study in terms of obtaining data and regarding the type of gathered data that were obtained by questionnaire, it is a quantitative research. In order to measure the variables, Martelo questionnaire (2013) was used. The study population is comprised of the employees of Melli Bank in Yazd from among which 166 individuals were selected using Cochran's formula. Data analysis was done using SPSS and AMOS software. Results indicated that all hypotheses were approved and a positive significant relationship was found between the variables. The findings could help bank managers to identify the weaknesses and strengths in designing knowledge management and customer relationship management in order to create customer value and its effectiveness to improve business performance.

**Keywords:** *Knowledge Management, Customer Relationship Management, Market Orientation, Customer Value, Mellat Bank*

### **INTRODUCTION**

Nowadays, the economic and commercial development is dependent on the progress of banking industry and this industry has also developed as well as the banking industry of other countries. Currently, a high percentage of this industry is owned by the government but with the emergence of some private banks, competition has started in this industry, although it is far from the global banking (Elahi, 2005). Given the increasing intensity of business competition and the strong trend towards globalization, the attitude towards the customer is very important; their role has changed from that of a mere consumer to the role of consumer, co-operator, co-producer, co-creator of value and co-developer of knowledge and competencies (Wang *et al.*, 2004). Furthermore, the complex competitive environment in which firms operate has led to the increase in customer demand for superior value (Sa'nchez *et al.*, 2009). Therefore, more and more firms see customer value as a key factor when looking for new ways to achieve and maintain a competitive advantage (Martelo, 2013). A firm's external and internal organizational capabilities are of vital importance for increasing the value created for the customer. Thus, a firm should focus on improving those capabilities which view the customer as its key component, in order to maximize the value created for them. We will emphasize the next three capabilities: "market orientation" (MO), "knowledge management" (KM) and "customer relationship management" (CRM).

Looking within the firm, KM is a key capability for the creation of customer value. KM is important because knowledge is a key strategic resource (Grant, 1996; Pan and Scarbrough, 1999; van den Hooff and Huysman, 2009); that is to say, if firms want to capitalize on the knowledge they possess, they must understand how knowledge is created, shared and used within the firm (Ipe, 2003). To manage knowledge

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effectively, firms must have an organizational culture in place that encourages its management. This culture refers to MO, and in order to take advantage of the market-oriented culture and external knowledge simultaneously, a maintaining capability is also essential. This last capability is CRM.

From the existing literature, it can be seen that each of these three capabilities is linked to customer value. The primary aim of market-oriented firms, firms that manage their knowledge or those that manage customer relationships is to offer superior customer value. But it is not any individual or intermittent influence that is important, but rather the effect of the three capabilities has to be global and sustainable (i.e. permanent in the time). According to Sirmon *et al.*, (2007), merely possessing valuable and rare resources and capabilities do not guarantee the development of competitive advantage or the creation of value; firms must be capable of managing them effectively. It follows therefore that value can also be created by recombining existing resources and capabilities (Morrow *et al.*, 2007). It should be possible to reconfigure organizational capabilities to enable the firm to be continually creating value, and this is where dynamic capabilities come into play.

## **Theoretical Background**

### **Market Orientation**

Market-oriented firms aim to understand both expressed and latent customer needs, and to develop superior solutions to those needs (Narver, 1995). Jaworski and Kohli (1996) point out that reacting to customers' expressed needs is usually insufficient for the creation of competitive advantage. The opportunity to build strong customer loyalty arises when firms have the ability to understand and satisfy customers' latent needs (Slater and Narver, 1999). The greater the MO of the firm, the greater the proportion of its activities that are oriented to understanding latent needs (Slater and Narver, 1999). According to Slater and Narver (1995), MO is: [...] the culture that (a) places the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other key stakeholders; and (b) provides norms for behavior regarding the organizational development of and responsiveness to market information.

It is imperative for firms in a turbulent market to be highly market-oriented. In such conditions, managers must undertake market-oriented activities while at the same time maintaining the flexibility to shift resources and adapt to potential market needs.

Having reviewed some of the numerous definitions of MO that have been proposed (Ruekert, 1992), we define market orientation as “the generation of appropriate market information pertaining to customers' current and future needs, and the relative abilities of competitive entities to satisfy these needs; the integration and dissemination of such information across departments; and the coordinated design and execution of the firm's strategic response to market opportunities”.

### **Knowledge Management**

The business world's entry into the knowledge era has spawned several new terms that did not exist a few decades ago (Serenko and Bontis, 2004). Obviously, the terms “knowledge” and “management” are not new. However, their combination (KM) is fairly recent (Alvesson and Ka'rreman, 2001) and can be traced back to the emergence of communications technologies (e.g. the internet, intranets, e-mail) that provide access to computerized networks and enable real-time interaction, regardless of physical distance (Ka'rreman, 2001). The popularity of KM has grown dramatically among both academics and practitioners (Serenko and Bontis, 2004). Just as knowledge is considered as the most important strategic resource, KM is considered to be critical to a firm's success (van den Hooff and Huysman, 2009).

Given the importance of firms' intangible assets, ways must be found of managing them. Practitioners see KM as the result of competitive pressures and the need to manage firms' intangible assets more efficiently (Spender and Scherer, 2007).

The recognition of knowledge as a key resource for firms in the current business environment confirms the need for processes that facilitate individual and collective knowledge creation, transfer and leverage (Ji, 2012). Every firm should understand the importance of knowledge and of teaching knowledge skills to their employees and every employee should be encouraged to create, share, search out and use knowledge in their daily routines (Davenport and Prusak, 1998).

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Following a review of some of the numerous definitions of KM that have been proposed (Sabherwal and Becerra-Fernandez, 2003; Tirpak, 2005; among others), we define knowledge management as “the integration of people, technologies, processes and strategies within the firm to create, use and share knowledge”.

### **Customer Relationship Management**

As Barroso and Martí'n (1999) note, the relationship concept is an old idea that has always been present in economic markets; nevertheless, its current impetus is due to the importance of the firm retaining its customers. Reichheld and Sasser (1990) demonstrate, in several sectors, the drop in profits that firms experience when the rate of customer retention and loyalty decreases. Increased competition in most sectors and firms' almost exclusive concern for attracting new customers explain these results.

In current conditions, customers are the scarcest and therefore the most valued component of the system. Therefore customer attraction, and importantly, retention, is one of the key factors of business success (Gong, 2014). Several examples of customer importance can be found in Penrose's (1960) study, which suggests that established customers play a decisive role in generating the idea of moving into new products or services areas, and that the ability to accommodate these requirements leads to the formation and assimilation of previously unexploited resources and capabilities. Zander and Zander (2005) claim that, for strategy and growth purposes, firms are not necessarily locked into internally controlled resources and capabilities, but may draw on customers as sources of new ideas and problem-solving capabilities, and flexibility in assimilating new resources and capabilities. After a review of some of the definitions proposed by various authors (Gummesson, 1987). Our definition of customer relationship management is “the firm's activities that are oriented towards creating and maintaining long-term relationships with their customers to obtain their loyalty and satisfaction”.

### **Customer Value**

Being able to understand what customers value within a particular offering, creating value for them and then managing it over time have long been recognized as essential elements of firms' business strategy (Kelleher, 2010). Determining what customers want in a product or service also helps a firm to formulate its value proposition. Porter (1985) notes that a firm's competitive advantage stems from its ability to create value for its customers that exceeds the firm's cost of creating it (DeSarbo *et al.*, 2001).

“Customer value” emerged in the 1990s as a topic of growing interest for firms; for both academics and practitioners. This concept is considered to be one of a firm's most significant success factors (Woodruff, 1997; Zeithaml, 1988) and has been identified as an important source of competitive advantage (Mizik and Jacobson, 2003; Woodruff, 1997). Customer value is also seen as the basis of marketing activities (Holbrook, 1996) and is regarded as a critical strategic tool for attracting and retaining customers (Wang *et al.*, 2004) and as an indicator of repurchase intentions (Martelo, 2013). Over the last few decades, firms have found themselves in a new and complex competitive environment, in which customers are increasingly demanding the creation of customer value (Sa'nchez *et al.*, 2009). A growing number of firms regard customer value as a key factor when looking for new ways to achieve and retain competitive advantage. This has led to increased interest in the creation and provision of superior customer value (Smith and Colgate, 2007; Wang *et al.*, 2004), by partially replacing more limited concepts such as quality (Cronin *et al.*, 2000) or satisfaction (Woodruff, 1997), as has been discussed previously in the literature

### **Research Hypothesis**

- H1. Knowledge management (KM) positively influences market orientation (MO).
- H2. Market orientation (MO) positively influences customer relationship management (CRM).
- H3. Customer relationship management (CRM) positively influences customer value
- H4. . Knowledge management (KM) positively influences customer value.

## **MATERIALS AND METHODS**

### **Research Method**

Since we noted in the framework of research, the model of this research is taken of the study which Martelo performed in 2013 as the name of “The use of organizational capabilities to increase customer

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value". This research has functional goal and for data collection is causative- descriptive type. Statistical community in this research is included in Saderat bank staff of Yazd city. Sampling method in this research is available as sampling. Since it was impossible to collect data of all people of statistical community (if it was possible, there was no enough time, expenditure and other necessary facilities) a sampling of statistical community was selected. We used statistical formula related to Cochran for 286. In this formula

$$n = \frac{Z_{\alpha}^2 p(1-p)}{\epsilon^2}$$

In this research data are collected by field method. In field method, questionnaire is one of the most usual methods for collecting data.

For collecting data and receiving to goals, this research used nameless questionnaire including 15 questions that filled by consumers. At the beginning of questionnaire there were questions for recognition of personal features of statistical community.

Questionnaire questions are regulated based on sequential scale and Likert's five degree scale including 5 scales very low, low, average, much and very much and designed as classified and based on trice hypothesis topics. Since in this research we used standard questionnaires of the study of Silvia Martelo in 2013 hence measurement means in this research has suitable justifiability and in fact justifiability resulted in contents for more assurance we consulted questionnaire justifiability by several experts of this field. In this research for evaluation of reliability coefficient of questionnaire, we used internal adaptive method and by using Cronbach's alpha coefficient.

By primary distribution of 30 questionnaires, reliability coefficient for questionnaire was **0.907** which shows very good reliability.

## RESULTS AND DISCUSSION

### *Findings of the Analysis of Research Conceptual Model*

Confirming measurement models of research variables, the conceptual model of research investigated by structural equation modeling 23.

The reason for using this method is that this model has the capability instead of examine two to two and separate variables, the relations among all variables survey concurrently.

SME approach is a comprehensive method for testing the hypothesis about the relations among observed variables.

Since the conceptual model of research considers the survey of causative relations, for providing concurrent analysis.

possibility of variables relations, we used structural equation method which it is used in model analysis of AMOS software that is one of the most famous software's for performing structural equations.

The results of SEM analysis were depicted in Figure 2, the overall model were CMIN

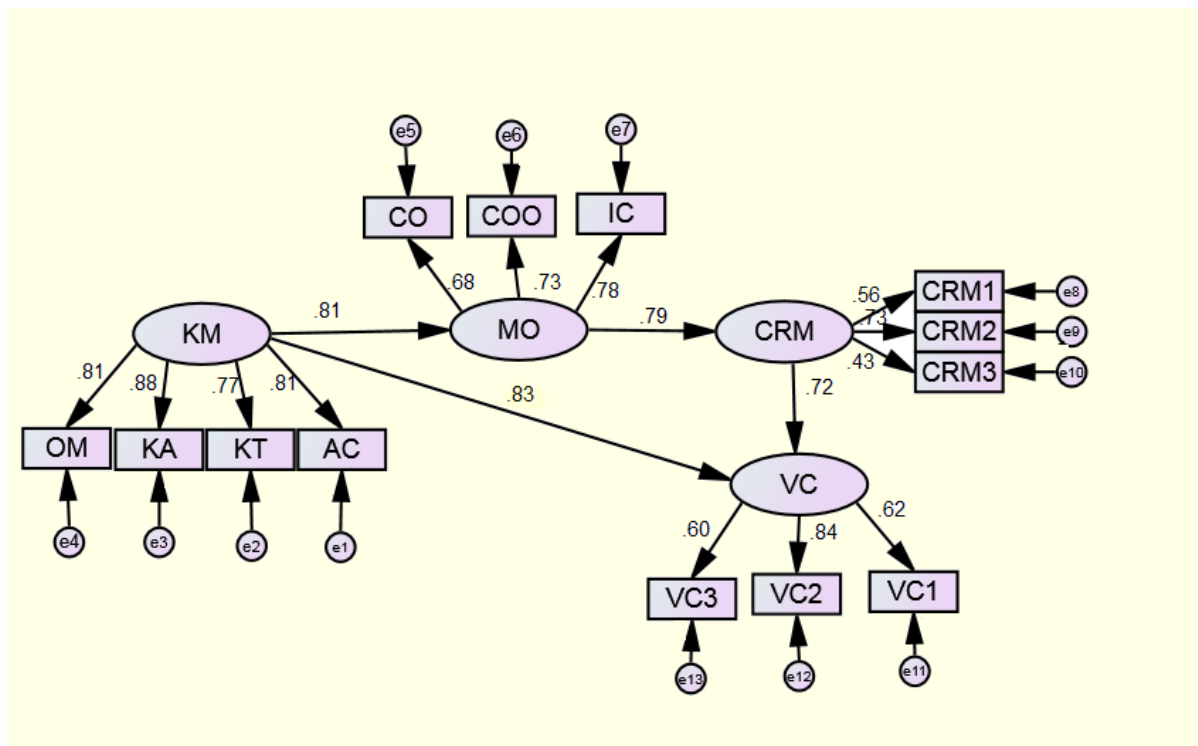
$X^2=121.675$ ,  $DF= 123$   $p=0.0$  The fit indices were all in acceptable ranges with

$CFI= 0.980$ ,  $TLI=0.974$  and  $RMSEA=0.047$ . Models with cut-off values above 0.90 for CFI, and below 0.08 for RMSEA are considered to have a good fit between the hypothesized model and the observed data (Hu and Bentler, 1999).

### *Structural Model Results*

Figure 2 displayed all of the structural relationships among the studied constructs; path coefficients and their significance, for each dependent construct are also presented in this figure.

As indicated in Figure 1 all hypotheses, were supported by the data. The hypothesized relationships (H1 to H4) were found to be significant in the proposed directions.



**Figure 1: Structural relationships among the studied constructs**

**Table 1: Results of research hypotheses test**

Hypothesis	Statistics t	Regression coefficient	Test result
Knowledge management (KM) positively influences market orientation (MO).	8.69	.81	Confirmed
Market orientation (MO) positively influences customer relationship management (CRM).	7.15	.79	Confirmed
Customer relationship management (CRM) positively influences customer value	6.61	.72	Confirmed
Knowledge management (KM) positively influences customer value.	9.66	.83	Confirmed

### Discussion and Conclusion

Our research model studies the interaction between MO, KM and CRM, and its influence on customer value. We propose that the interaction between these three capabilities constitutes a dynamic capability of the firm, and has a direct influence on the increase in customer value. This model contributes to the existing literature in several ways.

The first key contribution of this work is its inclusion of the concept of dynamic capabilities; in this way, we prove that firms are able to compete not only due to their ability to exploit their existing resources and capabilities, but also thanks to their ability to renovate and develop their organizational capabilities (Teece *et al.*, 1997). Therefore, we argue that in order to maintain competitiveness it is not enough for firms to be in possession of valuable resources and capabilities; firms also require dynamic capabilities to develop and renovate their organizational resources and capabilities (Teece *et al.*, 1997).

Second, the analysis of the interaction between a firm's capabilities (MO, KM and CRM) allows us to see what happens inside the proposed "black box" for increasing customer value. This interaction forms our



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proposed dynamic capability. To confirm that the interaction between the three proposed capabilities really is a dynamic capability, it is necessary to test whether the characteristics of dynamic capabilities are fulfilled as expected in the specific organizational capabilities that we are studying.

Third, we believe that this topic is of interest because of its novelty, since it is rarely mentioned in the literature, and also because of its relevance, given that these variables are frequently investigated nowadays. The findings of this work also could improve current firms' management by enabling these firms to achieve their objective of creating superior customer value.

First of all, we try to show managers how they can create superior customer value by analyzing what happens inside the proposed "black box". Our study is based on the assumption that firms possess the capabilities of MO, KM and CRM, each of which allows the firm to create value. If each one contributes individually to a firm's success, will their combination enhance this positive effect? We propose that the interaction between these three capabilities will allow managers to create superior customer value. Thus, managers should realize that although each organizational capability is important individually, the three should be related to create superior value.

Second, we aim to provide managers with a guide to improving customer value.

These firms may possess the capabilities required for improving their competitive advantage but are not aware of it or do not know how to go about achieving the desired result.

Finally, for academics and practitioners alike, this paper presents the possibility for increasing the value created for customers, which is a key factor for the growing number of firms seeking new ways to achieve and maintain competitive advantage.

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