THE EFFECTS OF CUSTOMER RELATIONSHIP MANAGEMENT PROGRAMS ON CUSTOMER RETENTION MEDIATED BY FIRM REPUTATION IN TELECOM SECTOR

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ABSTRACT

The current study is about the customer relationship management (CRM) and its effects on customer retention and firm reputation in the context of Telecom sector of Pakistan. The study is based on the quantitative approach, used survey method for data collection, and draw sample from the customers of telecom sectors in the city of Islamabad, Pakistan (n=221). Our results indicate that CRM program including loyalty program, customer service, and customization is having positive and significant effects on the customer retention. Furthermore, CRM program including loyalty program and customer service is having positive and significant effects on the firm reputation. Firm reputation is also found to be having positive and significant effects on the customer retention. Finally, we also found support for the mediating role of firm reputation between the relationship of CRM programs and the customer retention. Our results have implications for the marketing and the management of the telecom sector.

Keywords: Customer Relationship Management, Customer Retention, Firm Reputation, Telecom Sector, Islamabad, Pakistan.

INTRODUCTION

Customers in the 21st century are highly empowered as customized products and diverse sources of information regarding products, services, and organizations are available to them. In such a competitive environment, organizations need to put extra efforts to attract and retain customers. One important marketing tool which can play a decisive role for the marketers in current complex competitive requirement is the customer relationship management. Customer relationship management (CRM) is organization wide strategy which is based on the execution of relationship programs targeted to deliver good performance to the customer (Winer, 2001). In other words, CRM is organizations' effort to better understand and manage its customers. In current study, the focus is on CRM, customer retention and the firm reputation.

Background

The concept of CRM is based on the relationship based marketing and is a combination of IT and the marketing (Dimitriadis & Stevens, 2008; Winer, 2001). Different components of CRM are proposed by different authors and include loyalty program, customization, customer service, community, technology, and direct mailing (Becker, Greve, & Albers, 2009; Verhoef, 2003; Winer, 2001). The positive outcomes of good CRM program are found in previous studies and include but not limited to customer loyalty, market positioning, customer satisfaction, and customer retention

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(Keramati, Mehrabi, Mojir, & Mousakhani, 2009; Krause, Handfield, & Tyler, 2006; Izquierdo, Cilian, & Gutierrez, 2005). CRM is also found to be producing favorable firm image and reputation (Izquierdo et al., 2005; Krause, et al., 2006). Overall, literature is consistent about the relationship between CRM and favorable marketing outcomes such as customer retention.

Problem Statement

There is tough competition among the telecom sector in retaining customers. Customers frequently change the service provider if they are not satisfied with their products, price, service quality or similar. In current study, the scholar attempt to understand the customer retention from the CRM and firm reputation point of view. Specific problem which this study is focusing is as under. 'Customer retention in telecom sector and its relationship with the CRM programs and firm reputation'

Objectives

The objectives of the study are as under;

- To see the effects of CRM program on customer retention
- To see the effects of CRM program on firm reputation
- To see the effects of firm reputation on customer retention
- To see the role of firm reputation as a mediator between the CRM program and the customer retention

Significance of the Study

The significance of the study is that it will contribute to the literature of the CRM, firm reputation, customer retention, and relationship theory. Its significance is that it is the first study which is investigating the mediating role of firm reputation between the CRM and the customer retention. It is also among the first studies to investigate the CRM in this particular context. Findings can be utilized by the telecom sector for improving their CRM program. Furthermore, customer retention is a big issue these days so findings will be beneficial for improving the customer retention. Findings can also be beneficial for the consultants, academics, and the students.

LITERATURE REVIEW

In this section, we will provide review of literature related to customer relationship management, customer retention, and firm reputation. Details are as under.

Customer Relationship Management

CRM is a broad concept and its different definitions are based on its different nature and role. For example, one definition is given by Parvatiyar and Sheth (2004) who defined it as a comprehensive process and strategy for customer retention and acquisition to create superior value for them and for the company. The emphasis on strategic importance of CRM can be seen in this definition. Similarly, Dimitriadis and Stevens (2008) described it as a relationship marketing combination of IT and other appropriate strategies for creating long term and profitable relationships with stakeholders and

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customers. This definition is more comprehensive as compare to the previous one as it spells out aspects of CRM, its purpose, and scope which is not only limited to the customers but also expanded to the stakeholders. Besides definitions, there are different components of CRM. Based on the frameworks by Winer (2001) an organization's CRM program is embedded in its technological and infrastructural resources, which shapes organization's CRM related processes and produces favorable marketing related outcomes for the organization. The scope of the current study is only CRM programs while technological and infrastructural resources are excluded. CRM programs are broad and may varies from organization to organization. Literature suggest divergent point of view regarding what constitute CRM program for example loyalty programs and direct mailing by Verhoef (2003); technological and organizational wide implementation by Becker et al., (2009); and loyalty programs as suggested by Winer (2001) are chosen for analysis in this study since it is easier to measure and more relevant to the telecom sector. Their brief details are as under.

Loyalty Program

Loyalty programs are offered by the organizations in different forms but the aim is to reward loyal customers for their repeat purchase (Juan & Yan, 2009). Loyalty programs are more suitable in certain contexts such as retail, airlines, hospitality, telecom, banking and so on (Verhoef, 2003). Examples of loyalty program can be loyalty card by retail firms which gives redeemable points on shopping or air mileage by airlines. Several loyalty programs fail because of poor management of these programs. Therefore, for successful loyalty program, organization need to develop proper understanding about customer purchasing behavior and reward loyalty in such a manner that it is perceived valuable by the customers.

Customer Service

Customer services are those 'touch points' which a customer has with the organization (Venetis & Ghauri, 2004). An organization customer service can be proactive or reactive depending on the nature of problem or issue (Smith, 2006). For example, providing information to the customer in advance regarding some maintenance or service closure falls in proactive service as in such situations organization do not wait for the customer to contact the organization. On the other hand, if customer need to contact to the organization due to some mistake in billing or service so it normally falls in reactive customer service. Whether reactive or proactive, organization needs to give attention to its all type of customer service as it influences the customer attitude towards the organization depending on firm's ability to respond to the customer issues (Venetis & Ghauri, 2004). For good customer service, organization need capable human resource and good infrastructure such as up to date computer and database access (Arbore & Busacca, 2009).

Customization

Customization is about development of personalized products and services for the customers (Ahmad & Buttle, 2002). In other words, customization is about moving beyond simple communication

and giving each customer a customized products, services, and messages. Examples of customization can be the Dell company which provided the customers the facility to select a product and add features such as color or design according to own requirements and taste. The alternative term of customization is 'versioning' which is frequently used for the services related products. Customization may be beneficial for the organization as each customer receives customized products but it may increase a firm's cost substantially, therefore, organizations need to create a fine balance between the both.

Community

Community in CRM context is about development of network of customers who can exchange of information regarding organization's products, services, and marketing activities (Ahmad & Buttle, 2002). In current computer driven age, mostly organizations are providing the community to its customers using the Internet. Here, mostly online chat-rooms or special pages are designed where customers can post comments, questions, etc. Benefit of such community based programs is that it provides customers a way of raising their voice, seeking support, or taking advice from existing customers (Stauss, Chojnacki, Decker, & Hoffmann, 2001). An organization's community programs need to be properly monitored and managed otherwise it can be used against the organization by annoyed customers or the rival firms.

Customer Retention

Customer retention is a favorable marketing related outcome. Customer retention enable organizations to reduce their cost of maintaining and retaining customers (Ang & Buttle, 2006; Weinstein, 2002). Customer retention may be beneficial to the organization but it is not easier to achieve as it depends on organization's wide marketing efforts, its infrastructure, and other competitive factors which may be beyond the firm's control.

CRM and Customer Retention

CRM is found to be producing favorable outcomes such as increased customer loyalty (Kumar & Peterson, 2005); customer favorable perception (Krause et al., 2006; Thurau, 2002); and market positioning (Izquierdo et al., 2005). Similarly, CRM is also found to be associated positively with the customer retention in previous studies (Kim et al., 2010; Keramati et al., 2009; Becker, et al., 2009; Coltman, 2007; Winer, 2001).

Firm's Reputation as a Mediator

Firm's reputation is the global perception of the extent to which an organization may be held in high esteem or regard (Jeng, 2011). A firm's reputation is a long-term concept and is based on organization's past and present behavior. In current study, we propose that firm reputation may work as a mediator between CRM program and the customer retention. The reason for such relationship is that previous studies shows that CRM program is associated with customer retention retention (Kim et al., 2010; Becker, et al., 2009), as well as with firm reputation (Krause et al, 2006; Izquierdo et al., 2005; Thurau,

, 2002). Furthermore, firm's reputation is also found to be related with positive customer related outcomes such as customer attitude toward the firm (Jeng, 2011); customer loyalty (Helm, Eggert, & Garnefeld, 2010); and customer satisfaction (Zhang, 2009). Our argument is that firm reputation works as a mediator between the CRM and customer retention since consistent CRM related efforts shapes firm's reputation which enable firms to better retain its customer. Thus, we propose that firm's reputation may work as a mediator between the relationship of CRM and customer retention.

Theoretical Framework

Our hypothetical model is based on the relational theory which is been defined as all marketing activities directed towards establishing, developing, and maintaining successful relationships (Morgan & Hunt, 1994). The relationship marketing theory covers the relationships between an organization and its customers as well as between an organization and other organizations and stakeholders. It is recognized as a strategic approach and possesses greater value for an organization (Malley & Tynan, 2000). The relationship marketing theory suggests that relationship between organization and its stakeholders are exchange based. In other words, if organization put some efforts to develop relationship with its stakeholders, so in exchange, stakeholders will respond positively towards the firm. In CRM context, it means that if organization involves in CRM related activities, so it will result in positive response from customers including reputation and retention. Based on the review of literature we present the following theoretical framework.

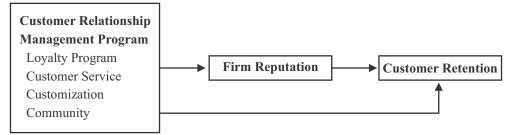


Figure: 1 Theoretical Framework

RESEARCH METHODOLOGY

Details regarding different aspects of research methodology are given below.

Research Design

Two common approaches for conducting a research in social science are quantitative and qualitative. The approach selected in this study is quantitative as it matches with the nature of problem. Further, the design of the study is descriptive and explanatory and data is cross-sectional.

Population and Sampling

The focus of the study is the users of telecom services in the city of Islamabad so all telecom services users in Islamabad makes the population of the study. The population is large so we used the sampling approach. By using the table developed by Bartlett, Kotrlik, and Higgins (2002), the

required sample size is 209 based on 99% confidence interval and 3% margin of error. The sampling is done conveniently as we visited different telecom offices and get the survey filled by the visitors.

Survey Measure

The CRM program is based on customization, loyalty programs, customer service, and community which were based on the previous sources including Winer (2001), Smith (2006), Coltman (2007), Keramati et al., (2010), Verhoef (2003), Arbore & Busacca (2009), and Greve & Albers (2006). In the measure, customization is measured by 3 items, loyalty programs by 4 items, customer service by 9 items, and community by 3 items. Customer retention is measured by 4 items and adapted from Eng (2004). Firm's reputation is adapted from Petrick (2002) and contained 5 items.

Reliability and Validity

Two main issues in any scientific study are reliability and validity. For establishing reliability, we used the Cronbach alpha. All variables had the values above 0.60 which indicated good reliability of the measure adapted (Sekaran, 2003). For validity, we used the content validity by comparing the survey items with the relevant literature as well as showing it to two university professors who considered the items suitable for the concept in question.

Hypothesis

The first hypothesis is about CRM and its effects on customer retention. Past studies show positive relationship between CRM and customer favorable outcomes including customer retention (Kim et al., 2010; Becker et al., 2009; Coltman, 2007). Furthermore, the relational marketing theory (Morgan & Hunt, 1994) also suggest that if organizations involve in developing good relationships, it will yield favorable outcome. Based on the relational marketing theory and past studies we propose that CRM is having positive effects on customer retention. First hypothesis is as under.

H1: CRM program has significant effects on customer retention

H1a: Loyalty program has significant effects on customer retention

H1b: Customer service has significant effects on customer retention

H1c: Customization has significant effects on customer retention

H1d: Community has significant effects on customer retention

The other favorable outcomes of CRM include firm reputation (Krause et al., 2006; Izquierdo et al., 2005). Better CRM program can improve firm reputation as it creates good image of the firm in the market. Therefore, we propose association between CRM and firm reputation.

H2: CRM program has significant effects on firm reputation

H2a: Loyalty program has significant effects on firm reputation

H2b: Customer service has significant effects on firm reputation

H2c: Customization has significant effects on firm reputation

H2d: Community has significant effects on firm reputation

Firm reputation is also found to be producing favorable customer outcomes in past studies (Jeng, 2011; Helm, Eggert, & Garnefeld, 2010; Zhang, 2009). The relationship makes sense as if firm has

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good reputation, then customers are more likely to develop good image of that firm and possibly buy products/services from that firm. Therefore, we propose positive association between firm reputation and customer retention.

H3: Firm reputation has significant effects on customer retention

The relationship between CRM and customer retention is studied in past studies (e.g. Kim et al., 2010; Becker, et al., 2009). Further, the firm reputation is proposed as a mediator between this relationship since past studies shows CRM is associated with customer retention (Kim et al., 2010) as well as with firm reputation (Krause et al., 2006). The relationship can be explained such that if organization follows good CRM practices, then it will lead to good firm image and reputation, which will subsequently lead to the customer retention. Thus, we propose the following hypothesis.

H4: Firm Reputation works as a mediator between the CRM program and customer retention

- *H4a:* Firm reputation works as a mediator between the loyalty program and customer retention
- *H4b:* Firm reputation works as a mediator between the customer service and customer retention

H4c: Firm reputation works as a mediator between the customization and customer retention *H4d:* Firm reputation works as a mediator between the community and customer retention

DATA ANALYSIS

Data collected is entered in SPSS version 20 and checked for any discrepancies and missing values. For analysis, descriptive statistics, regression, and mediation analysis is used. A brief note is that we used the guidelines of Baron & Kenny (1986) for mediation analysis. Based on the method suggested, mediation analysis requires four steps and calculation of four paths. In first step, independent variables are regressed against the dependent variable and procedure requires that coefficients of independent variables are regressed against the mediating variable and procedure requires significant coefficients (path a). The third and fourth step are such that first mediator is regressed against the dependent variables are regressed against the dependent variables are regressed against the dependent variables are regressed against the dependent variable and procedure requires significant coefficients (path a). The third and fourth step are such that first mediator is regressed against the dependent variable (path b); and later independent variables are regressed against the dependent variables are regressed against the dependent variables are regressed against the dependent variable while controlling for the mediating variable (path c'). The procedure requires that in path c' or step 4, the independent variables should have turned out to be insignificant which indicate that mediating variable is working as a mediator. If there is no change in the significance level in this step as compare to the step 1 (path c), then hypothesis related to the mediation may be rejected.

RESULTS AND DISCUSSION

The Results is given below starting from demographic information, descriptive statistics, and then hypothesis testing using regression and mediation analysis.

Demographic Information

Table: 1 Demographic Ir	nformation of the Surve	y Participants		
C 1	Male	Female		
Gender	174	47		
Age	18 to 25 Years	25 to 40 Years	40 to 60 Years	Above 60 Years
	43	136	40	02
Qualification	Intermediate or less	Bachelor	Masters	Others
	51	137	28	5
Income Per Month in	Less than Rs.25000	Rs. 25000 to Rs. 50000	Rs. 50000 to Rs. 100000	Above Rs. 100000
Rupees	8	46	94	73

The survey participants were 221 in total. Out of total, 174 were male (78.73%) and 47 were female (21.27%). In terms of age, 43 had age between 18 to 25 years (19.45%); 136 had age between 25 to 40 years (61.53%); 40 had age between 40 to 60 years (18.12%); and only 2 participants had age above 60 years (.9%). In terms of qualification, 51 had intermediate or less level of qualification (23.07%); 137 had bachelor level of qualification (62%); 28 had master level of qualification (12.66%); and only 5 participants had others level of qualification (2.27%). In terms of income, 8 participants had income less than Rs. 25000 per month (3.62%); 46 had income between Rs. 25000 to 50000 (20.82%); 94 had income between Rs. 50000 to Rs. 100000 per month (42.54%); and 73 participants had income above Rs. 100000 per month (3.02%).

Descriptive Statistics

Variables	Number of Items	Minimum	Maximum	Mean	Std. Deviation	Cronbach Alpha
Loyalty Program	04	1.25	5.00	3.8337	.69520	.672
Customer Service	09	1.56	4.78	3.7436	.56034	.790
Customization	03	1.00	5.00	3.5158	1.06571	.845
Community	03	1.00	5.00	3.1765	.98859	.799
Firm Reputation	05	1.20	4.80	3.7756	.70707	.800
Customer Retention	04	1.25	5.00	3.5023	.74276	.855

Table: 2 Descriptive Statistics

The descriptive statistics for the variables involved is given above. Results shows that based on the survey participants perception, the telecom service providers are offering high level of loyalty programs (M=3.83, SD=.69); high level of customer service (M=3.74, SD=.56); above average level of customization (M=3.51, SD=1.06); and average level of community option (M=3.17, SD=.98). Further, the firm reputations for the telecom service providers based on the survey participants is high (M=3.77, SD=.70); and customer retention level is also above average (M=3.50, SD=.74). The Cronbach alpha for all the variables is also given which suggest that all variables had Cronbach alpha of above 0.70 except loyalty program and thus measures can be considered reliable.

Hypothesis Testing

For hypothesis testing, we used the regression and mediation analysis. Regression analysis is used for testing the hypothesis 1, 2, and 3; while, mediation analysis is used for testing the hypothesis number 4. Since in mediation analysis, same paths were tested as proposed in hypothesis 1, 2, and 3, therefore, we presented all the results in one table. Details are as under.

	Model I	Model II	Model III	Model IV	Model V	Model VI
(Constant)	2.690***	664	3.088***	430	.024	345
Gender	032	119	057	137	.017	017
Agel	.346	.333	.366	.453	.030	003
Age2	.451	.338	.540	.516	015	045
Age3	.210	.208	.344	.440	087	118
Income1	.485	.403	.269	.230	.252	.233
Income2	.451	.358	.269	.198	.219	.211
Loyalty Program		.324***		.389***		.036
Customer Service		.482***		.515***		.101
Customization		.086**		.048		.051
Community		.074		.012		.065*
Firm Reputation					.863***	.741***
Rsquare	.021	.496	.022	.588	.681	.701
Adjusted RSquare	006	.472	006	.569	.671	.685
Change in RSquare		.475		.567		.019
FStat	.771	20.678***	.797	30.032***	65.093***	44.513***

Table: 3 Regression and Mediation Analysis for Hypothesis Testing

Control Variables: Gender(Male), Age1(18 to 25 Years), Age2(25 to 40 Years), Age3(Above 40 Years), Income1(Less than

Rs 50000 per month), Income2(Above Rs 50000 per month)

Independent Variable: Loyalty Program, Customer Service, Customization, Community

Mediating Variable: Firm Reputation

Dependent Variable: Customer Retention and Firm Reputation

 $n\!\!=\!\!221,*P\!<\!0.05;**p\!<\!0.01;***p\!<\!0.001$

Model I and Model II given in the table above are related to the hypothesis 1 which was about effects of CRM on customer retention. In model I, we only entered the control variables, and in model II, we entered the CRM programs along with the control variables. Our results indicate that for the dependent variable of customer retention, loyalty program is having positive and significant effects (β =.324, P<.05); customer service is having positive and significant effects (β =.482, P<.05); customization is having positive and significant effects (β =.086, P<.05); and community is having positive but insignificant effects (β =.074, P>.05). The value of Rsquare shows that together these components of CRM explains up to to 49.6% change in the dependent variable of customer retention

and the overall model is fit and significant (Fstat=20.67, P<.05).

Information in model III and model IV are related to the hypothesis 2 which was about the effects of CRM on firm reputation. In model III, we only entered the control variables, and in model IV, we entered the CRM components along with the control variables. Our results indicate that for the dependent variable of firm reputation, loyalty program is having positive and significant effects (β =.389, P<.05); customer service is having positive and significant effects (β =.05); customization is having positive but insignificant effects (β =.048, P>.05); and community is having positive and insignificant effects (β =.012, P>.05). Furthermore, the Rsquare value shows that four components of CRM explain up to 58.8% change in the dependent variable of firm reputation and the overall model is fit and significant (Fstat=30.03, P<.05).

Information given in model V is about hypothesis 3 which was about the effects of firm reputation on customer retention. Our results indicate that firm reputation is having positive and significant effects on customer retention (β =.863, P<.05). Furthermore, the Rsquare shows that the firm reputation along with the control variables explain up to 68.1% change in the dependent variable of customer retention and the model is fit and significant (Fstat=65.093, P<.05).

Information given in model VI is about hypothesis 4 which was about the mediating role of firm reputation between the relationship of CRM programs and the customer retention. For this purpose, we used the mediation analysis procedure as suggested by the Baron and Kenny (1986). The results are given in the table above. In the table, model I and II was related to the step 1 or path C; model III and model IV are related to the step 2 or path a; model V is related to the step 3 or path b; and model VI is related to step 4 or path c'. Explanation of step 1, 2, and 3 is already given as it was related to the first three hypothesis. Finally, the path c' is related to the final step of mediation analysis which was obtained for regressing the CRM components against the customer retention while controlling for the firm reputation. Our results indicate that when controlling for the firm reputation, loyalty program changes from significant to insignificant (β =.036, P>.05); customer service changes from significant to insignificant (β =.101, P>.05); customization changes from significant to insignificant (β =.051, P>.05); while the community changes from insignificant to significant (β =.065, P<.05). Based on these results, we can say that firm reputation is functioning as a mediator between the relationship of loyalty program, customer service, customization, and the customer retention. Overall, H1a, H1b, and H1c is accepted, while, H1d is rejected. H2a and H2b is accepted, while, H2c and H2d is rejected. H3 is accepted; and H4a, H4b, and H4c is accepted, while, H4d is rejected.

DISCUSSION

The focus of the study was to see the effects of CRM on customer retention and firm reputation. Through convenience sampling, a usable sample of 221 participants were obtained using the survey method. The first objective of the study was to see the effects of CRM components on the customer retention. Our findings indicate that CRM programs including loyalty program, customer service, and customization is having positive and significant effects on the customer retention. These findings are consistent with the previous findings where CRM programs areas found to be associated with customer retention (Kim et al., 2010; Keramati et al., 2009; Coltman, 2007). The second objective of

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the study was to see the effects of CRM programs on the firm reputation. Our findings indicate that CRM program including loyalty program and customer service is having positive and significant effects on firm reputation. These findings are consistent with the previous findings (Krause et al, 2006; Izquierdo et al., 2005). Our third objective was related to the effects of firm reputation on the customer retention. Our findings indicate that firm reputation is having positive and significant effects on the customer retention which is consistent with the previous findings (Zhang, 2009). Finally, our fourth objective was to see the mediating role of firm reputation between the relationship of CRM components and the customer retention. Our findings indicate that firm reputation between the relationship between the loyalty program, customer service, customization, and the customer retention. These findings further strengthening the role of the firm reputation in obtaining favorable outcomes as found in previous studies (Helm et al., 2010). Overall, our findings are consistent with the relational theory, CRM theory, and the findings of previous studies.

CONCLUSION

On the basis of the findings of the study, we can conclude the following points. First of all, CRM is important for telecom sector, especially the loyalty program, customer service, and the customization; therefore, telecom sector organizations should focus on improving their CRM programs. Other sectors such as banking, retail, or airlines can also take advantage by properly implementing CRM program based on their requirements. Second point is that firm reputation is important, therefore, besides CRM programs, organization should focus on developing the firm reputation among the customers and other stakeholders. Developing firm reputation requires consistent efforts from the management, resource allocation, production of quality products/services, good customer service, and involvement in CSR related activities etc. Good reputation will not only benefit in customer retention but is expected to produce other favorable outcomes such as good performance in competition.

RECOMMENDATIONS

On the basis of the findings of these studies, we put forward the following recommendations to the management of the retail firms

- Telecom based firms should properly develop the CRM program such as loyalty program, customization, and customer services and so on as doing so will produce favorable marketing related outcomes including customer retention and increase in firm reputation.
- Efforts should be made to improve the firm reputation by providing good customer service, products, and development of good relations with customers.

Marketers need to improve the marketing mix (products, price, place, and promotion) for better customer retention and brand positioning.

Limitations of the Study

The limitations of the study are based on its scope and methodology adopted. One limitation is that the study only focused on four aspects of CRM programs and did not include other aspects.

Similarly, for outcomes, only firm reputation and customer retention was taken while other factors were not included. A limitation of the study related to the scope is that it only focused on the city of Islamabad and selected telecom firms while other sectors or cities are not included. In terms of methodology, the limitation of the study is small sample, use of survey as sole method of data collection, sole use of quantitative approach, and adapted measures. A future researcher can overcome these limitations by taking a larger sample size and more diverse methods of data collections.

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