
Role of Dynamic Capability and Customer Relationship Management: a Case Study of Fintech Lending Platforms in Indonesia

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Abstract

The key point for this study is to understand the role of dynamic capability in managing customer relationships for improved business performance. Of utmost interest to this research, the study proposes and tests a model that assumes that dynamic capability has a positive relationship towards customer relationship management; in order to develop organizational agility which has a positive relationship towards firm performance. Upon confirming our hypotheses, our findings offer a clearer picture of the aspects to which the sustainability of a customer relationship management system depends on different organizational capabilities. Hence, dynamic capability can be seen as a catalyst for customer relationship management and business management overall. CRM helps develop agility within an organization and agility strengthens an organization to adapt quickly to its customers' needs, optimize the operational processes of the organization and establish external relations which influences the firm's performance.

Keywords: Dynamic capability, Customer Relationship management, Organizational agility, firm performance.

I. INTRODUCTION

The financial service sector has seen the rapid advent of emerging technological advances and changes of systems. One of the common features of Financial innovation today is Peer-to-Peer (P2P) lending / fintech lending [1]. Looking at Indonesia's finTech lending industry, the sector has drawn the interest of both local and international investors, who have pumped millions into new start-ups across the industry as seen in 2019 [2]. Considering the 2018 report, the finTech lending sector has granted access to financing for more than 600,000 people and generated over 200,000 employment opportunities. The overall distributed loan disbursement as from March 2018 to March 2019 increased by 606 percent [2]. Despite the success stories of finTech lending in Indonesia, the industry has encountered several challenges that have further drawn huge press and public attention. The Indonesian Consumers Foundation/ Yayasan Lembaga Konsumen Indonesia (YLKI) report, as stated by The Jakarta Post, shows that online lending platforms are the third most complained about business sector [3]. Overall, the sector and several Fintech start-ups are searching for new avenues towards sustainable business structures, better customer service and innovations that can transform the market [4]. Hence, the rapid changing and competitive business and technological environment of finTech lending in Indonesia makes it an appropriate context for testing firm's dynamic capability and customer relationship management empirically. This study seeks to explore the role of dynamic capability in managing customer relationships to generate organizational agility and improve firm performance. In doing so, it sets out to examine the relationships among dynamic capability, customer relationship management, organizational agility and firm performance. It proposes and tests a model which assumes that dynamic capability has a positive relationship towards customer relationship management to develop organizational agility which has a positive relationship with firm performance.]

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

A. Literature Review

- a. **Dynamic Capability.** In recent years, the construct dynamic capability has acquired an increasing interest in the management literature, not just in the original context of the term which is strategic management, but also in many other aspects of business administration [5]. Although there is no generally agreed view of a framework to explain the method of creating dynamic capabilities, the rapid growth of the literature of dynamic capabilities and its complexity has led to a vast yet diverse and very fragmented research collection pointing in various directions [5]. For example, some

scholars concentrated on the essence of dynamic capabilities while others tried to investigate how these capabilities were developed and handled [5]. Some scholars proposed dynamic capabilities as applied to quickly evolving environments [6] while some others thought more of the external environments that are stable [7], [8]. Early pioneers in this area specifically believed that dynamic capabilities had a direct impact on firm performance [6]. On the other hand, some researchers argue that having dynamic capabilities does not necessarily result in higher productivity or enhanced performance overtime, but instead, the ability to obtain and deploy the organizations resources in ways that are in line with the dynamic environment could contribute to a sustained competitive edge [9], [10].

- b. **Customer Relationship Management.** Managing Customer Relationships means different things for different individuals. To some people, Customer Relationship management (CRM) is the term used to describe a series of IT structures that simplify the process of marketing, delivery and services that customers face [11]. For some others, it is more about an organizations' drive to become more customer-oriented, which requires considering consumers, procedures, and perhaps not just technology [11]. Extensive research on customer relationship management analysis indicates that many organizations have struggled to implement and maintain their customer relationship management systems without interruption [12]. For instance, companies all over the world spend large amounts of money on CRM, but approximately 70% of Customer Relationship Management programs do not deliver the overall quality performance anticipated [12]. Some reports suggested that these businesses were failing because they could not access the CRM resources that they required to develop superior management capabilities for customer experiences and gain competitive advantages [13].
- c. **Organizational Agility.** Although the notion of agility has received recognition in the many literatures, the scope of this concept is often greatly varied. Some researchers defined agility in terms of customer, organizational and relationship measures highlighting the capacity of an organization to respond rapidly to the demands of its customers, streamline the organization's operating processes and develop external ties [14]. Others formulated agility in contexts of sensing and responsiveness, the argument was that companies exhibit different forms of agility based on their sensing and reaction systems [15]. Although there is no best known way of developing an

agile organization; concretely, an organization may become more agile but never completely agile [16]. Therefore, agility is a continuous mechanism involving continual change. Organizational agility is perceived as an integral capability for competitive advantage and differentiating factor that requires strategic thought process, creative innovations, shift adaptation and the need to be vigilant continuously [17].

- d. **Firm Performance.** Performance appraisal is a powerful method for decision taking by an organization [18]. Firm performance is commonly seen as a market analysis dependent variable, and is regarded amongst the most important management frameworks [19], [20]. In organizational theory, the three dimensions of performance are productivity, effectiveness, and efficacy. Measuring and evaluating organizational performance has a significant role to play in transforming goals into realities that are vital to an organization's growth and sustainability in today's competitive world [21].

B. Hypothesis Development

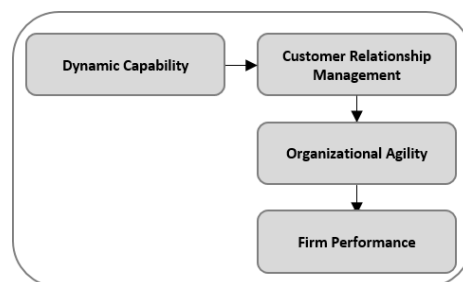


Fig. 1. Proposed Research Model.

- a. **Dynamic Capability and Customer Relationship Management.** While the dynamic capability theory has already been excoriated as tautological, constantly repetitive, and inoperative [22], there are claims that this method is suitable for evaluation of customer relationship and organizational strategy [10]. Some researchers described that business awareness and learning capabilities are profoundly ingrained in the Customer Relationship Management framework, creating consumer insight and discovering knowledge, evaluating value and performance processes [13]. Several authors debate the importance of an organization's capabilities when implementing Customer Relationship Management [13]. It has been acknowledged that maintaining relationship with a client/customer is an organizational dynamic capability [23]. Hence, this study advances the following hypothesis:

Hypothesis 1: *Dynamic capability has a positive relationship with customer relationship management*

- b. **Customer Relationship Management and Organizational Agility.** With a global shift toward "everywhere retailing" contemporary information networks such as CRM systems are emerging. Companies invest heavily in new breeds of information systems anticipating improved organizational agility and superior competitive advantage through improved customer relationships. Customer agility represents the extent to which an organization can quickly sense and respond to customer-based challenges taking advantage of innovation and competitive action opportunities [24]. Hence, this study advances the following hypothesis:

Hypothesis 2: *Customer relationship management has a positive relationship with organizational agility*

- c. **Organizational Agility and Firm Performance.** Organizational Agility is seen as a state of organizational performance and can be achieved by the activities of the organization. The concept of Organizational Agility is developed from an agile organization's performance characteristics and is embedded in two related principles-"organizational adaptability "and" organizational flexibility" [25]. Hence, this study therefore advances the following hypothesis:

Hypothesis 3: *Organizational agility has a positive relationship with firm performance*

III. RESEARCH METHODOLOGY

Sample and Procedure. The target population for this study comprises fintech lending organizations in Indonesia that are duly registered with the Financial Service Authority/Otoritas Jasa Keuangan (OJK). The administration of the survey was done via google forms due to the current covid-19 pandemic. The administration of the surveys occurred over a period of 1 months, from May 2020 to June 2020. The resulting data sample was of 182 valid respondents. Of the respondents, 73 percent were male, 74 percent had bachelor degrees, 45 percent had one-year experience in the industry, 49 percent were middle-level workers and 52 percent had one-year experience in the company they work in.

Measurement. Dynamic Capability (DC) was measured using 9 measurement items adopted from [26]. Customer Relationship Management (CRM) was measured using 10 measurement items adopted from [11]. Organizational Agility (OA) was measured using 6

measurement items from [27]. Firm Performance (FP) was measured using 9 measurement items adopted from [27]. All of the variables were measured using 5-point Likert-type scales ranging from “1” being “strongly disagree” to “5” being “strongly agree”.

IV. RESULT

Data analysis for this study was done using SPSS for descriptive analysis and LISREL version 8.8 for hypothesis testing using Structural Equation Modelling (SEM). The Cronbach’s Alphas of the constructs were all above 0.7, indicating good reliability. The Construct Reliability (CR) and Variance Extracted (VE) were also evaluated, where $CR \geq 0.7$ and $VE \geq 0.5$ indicates good reliability. The structural model fit was assessed by goodness of fit indices shown in Table 1 below. The result of the structural model fit showed an overall good fit model. The descriptive statistics are displayed in Table 2 below. Table 3 shows the correlation of the variables. The hypotheses testing results shown in Table 4 indicated that all hypotheses are supported.

Table 1. Result of Structural Model Fit Indices.

χ^2	df	χ^2/df	RMSEA	SRMR	GFI	NNFI	CFI	IFI
212.13	173	1.22	0.03	0.05	0.90	0.99	0.99	0.99

Table 2. Descriptive Statistics Result.

Item	Result						
	Mean	SD	Min	Max	CR	VE	Cronbach alpha
DC	4.05	0.14	3.84	5.00	0.88	0.72	0.85
CRM	3.86	0.15	3.61	5.00	0.94	0.85	0.91
OA	3.95	0.10	3.74	5.00	0.91	0.64	0.83
FP	3.77	0.27	3.39	5.00	0.89	0.50	0.83

Table 3. Correlation Test result

Construct	DC	OI	OTE	CRM	OA	FP
DC	1					
CRM	.351**	.417**	.225**	1		
OA	.421**	.377**	.322**	.421**	1	
FP	.361**	.346**	.420**	.334**	.420**	1

** indicates significant correlation at the 0.01 level (2-tailed).

Table 4. Result of Hypotheses Testing

No	Hypothesized Relationship	Structural Coefficient	T-value	Result
1	DC has a positive relationship with CRM	0.51	6.57	Supported
2	CRM has a positive relationship with OA	1.14	5.92	Supported
3	OA has a positive relationship with FP	1.08	6.58	Supported

V. DISCUSSION

The findings of this study show that dynamic capabilities play a key role in managing customer relationships. Fintech Lending firms need to concentrate on their organizational capabilities and resources to facilitate improved customer experience within the organization so as to create a competitive edge in the finTech lending industry. Companies, and particularly Fintech Lending platforms core competence is to build financially innovative approaches that boost its customer experience [28]. CRM has become one of the advances in the Information System (IS) available to business managers that help provide valuable business data for business decision-making[29].

The study also shows that maintaining efficient customer relationships are a core strategy in developing agility within the organization to improve performance. Organizational agility strengthens an organization to adapt quickly to its customers ' needs, optimize the operational processes of the organization and establish external relations that influence the firm's performance. Hence, in order to build competitive advantages, Fintech lending

companies must use CRM systems to build agility, increase revenue and achieve their business objectives.

VI. CONCLUSION

This study sought to clarify and empirically validate the role of dynamic capabilities in managing customer relationships and generating agility to improve performance within the Indonesian finTech lending industry. The study has some limitations. Firstly, the study is a cross-sectional study and only focuses on the Indonesian finTech lending industry. Thus, Future research could investigate longitudinal studies to as well as examine other industries.

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