

A Comprehensive Analysis of Customer Relationship Management Effectiveness in the Sri Lankan Service Sector: Empirical Evidence and a New Behavioral Framework

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ABSTRACT

Customer Relationship Management (CRM) has become a critical strategic tool for service-sector organizations competing in increasingly customer-driven markets. This study examines the impact and effectiveness of CRM within Sri Lanka's service sector by integrating empirical findings from quantitative research with a new behavioral framework: Nudi's 7/7 Theory of Customer Need Analyzing and Solutions Providing. Using data from 114 respondents, the study evaluates CRM strategies, customer satisfaction and loyalty, organizational performance, and implementation challenges. Statistical results from descriptive analysis, correlations, regression analysis, and factor analysis confirm that CRM significantly influences performance outcomes, although adoption remains uneven across organizations. The article also demonstrates how Nudi's 7/7 Theory complements empirical findings by offering a practical model for understanding customer behavior and delivering tailored CRM responses. Overall, the study highlights CRM as a transformative strategic instrument and provides recommendations for service organizations, policymakers, and researchers.

Keywords: Customer Relationship Management (CRM); Service Sector; Sri Lanka; Customer Satisfaction; Customer Loyalty; Organizational Performance; CRM Effectiveness; Behavioral CRM; Nudi's 7/7 Theory; Customer Need Analysis; CRM Challenges; Quantitative Analysis; Customer Behavior; Digital Transformation.

INTRODUCTION

The service sector in Sri Lanka—including banking, telecommunications, healthcare, tourism, and education—has undergone rapid digital transformation over the last decade. As competition intensifies, organizations increasingly rely on Customer Relationship Management (CRM) systems to enhance customer engagement, loyalty, and service performance. Despite the widespread adoption of CRM technologies, the effectiveness of these systems varies significantly across industries due to differences in strategy alignment, user readiness, and organizational culture.

This study aims to explore the impact and effectiveness of CRM in Sri Lanka's service sector through two complementary perspectives: empirical analysis of CRM-related variables and a behavioral lens based on Nudi's 7/7 Theory of Customer Need Analyzing and Solutions Providing, a novel conceptual tool for interpreting customer behavior and designing solution pathways. Together, the empirical and theoretical components offer a comprehensive understanding of how CRM functions in practice and how customer-handling strategies can be optimized.

LITERATURE AND THEORETICAL BACKGROUND

CRM has long been conceptualized as a multidimensional approach involving technological tools, relationship-building processes, and data-driven decision-making. Scholars such as Payne and Frow (2005) and Chen and Popovich (2003) argue that effective CRM requires integration across people, processes, culture, and technology. In the Sri Lankan context, CRM adoption has been growing, yet challenges persist due to limited digital readiness and organizational resistance.

Customer satisfaction and loyalty are fundamental mediators linking CRM to firm performance (Oliver, 1999; Anderson & Srinivasan, 2003). Meanwhile, organizational performance outcomes—such as efficiency, profitability, and service quality—reflect the broader strategic value of CRM systems.

This study introduces Nudi's 7/7 Theory, an indigenous conceptual framework that categorizes customers into seven types based on their awareness of problems and readiness to find solutions. The framework identifies behavioral patterns and outlines customer-service strategies suitable for each category. Its integration into CRM literature fills a contextual gap by connecting psychological, behavioral, and relational dimensions of CRM.

METHODOLOGY

The research adopted a quantitative approach to empirically examine how CRM strategies influence customer satisfaction and loyalty, organizational performance, and the perceived overall effectiveness of CRM. Primary data were collected from 114 respondents representing diverse service organizations across Sri Lanka. A structured questionnaire measured CRM strategies, satisfaction, performance, challenges, and CRM impact.

Data analysis was conducted using SPSS and included descriptive statistics, correlation analysis, multiple regression, factor analysis, and reliability testing. The analytical design ensured objectivity and statistical rigor, enabling the identification of relationships among CRM constructs and assessing their predictive influence on CRM effectiveness.

RESULTS

Descriptive Findings

The descriptive data showed that CRM strategies, customer satisfaction, and organizational performance received moderate ratings, indicating that CRM implementation across Sri Lanka's service sector is still developing. High variation among organizations suggests uneven CRM maturity. Participants widely acknowledged the presence of challenges, especially gaps in training, data integration, and technological readiness.

Correlations

Correlation results demonstrated strong positive relationships among CRM strategies, customer satisfaction, loyalty, and organizational performance. The strongest correlation was between satisfaction and performance ($r = 0.865$), confirming the crucial role of emotionally satisfied customers in driving organizational outcomes. CRM strategies were also strongly correlated with organizational performance ($r = 0.810$), further proving that well-structured CRM practices foster operational efficiency and customer-centric innovation.

Regression Analysis

Regression results revealed that: Organizational performance is the strongest predictor of CRM effectiveness. Customer satisfaction and loyalty significantly influence CRM effectiveness, although multicollinearity suggests interconnected effects with performance. CRM strategies and challenges show weaker direct influence, suggesting their effects occur indirectly through performance and satisfaction. Together, the independent variables explained 58.3% of the variance in CRM effectiveness, confirming a solid predictive model.

Factor and Reliability Analysis

Principal Component Analysis confirmed that all CRM variables loaded strongly onto a single factor, explaining over 71% of total variance. Reliability results showed a Cronbach's Alpha of 0.924, indicating excellent internal consistency.

Nudi's 7/7 Theory: Behavioral Interpretation of CRM

While statistical evidence reveals how CRM functions, Nudi's 7/7 Theory provides a behavioral lens for interpreting customer decision-making patterns. The theory categorizes customers into seven groups based on

their awareness of needs and readiness to act. These categories include customers who clearly know their needs, those who become aware only after gaining information, those who recognize problems but not solutions, those who sense risks but do not prioritize them, and those who are entirely unaware or uninterested.

Each category requires a distinct CRM approach. Urgent customers demand efficient information and comparisons; confused customers require education; hesitant customers need demonstration and reassurance; risk-aware but passive customers require narrative persuasion; comfortable customers require motivational incentives; and unaware customers require patient, long-term relationship building.

By aligning CRM practices with these behavioral patterns, organizations can achieve more precise personalization, reduce customer attrition, and increase conversion rates.

Integrated Discussion

The empirical findings and the 7/7 Theory reinforce each other. The statistical results show that CRM is most effective when rooted in strong organizational performance and customer-centric behavior. Similarly, the 7/7 Theory highlights the need for organizations to understand the emotional and psychological dimensions of customer decision-making. Many service organizations in Sri Lanka implement CRM in a structurally correct manner but fail to tailor customer interactions based on behavioral insights. As a result, CRM efficiency suffers despite the presence of technology and strategy. Aligning CRM tools with the seven behavioral categories can help organizations transform CRM from a data-driven platform into a behavioral, relational, and emotionally intelligent system. Furthermore, the challenges identified—such as lack of training and data integration—mirror deficiencies in handling certain customer categories, particularly those requiring high emotional intelligence and long-term engagement.

CONCLUSION

CRM is a strategic necessity for the Sri Lankan service sector, but its impact depends on more than system adoption. This study provides both statistical and conceptual evidence that CRM effectiveness is determined by strong organizational performance, high-quality customer relationships, and the ability to understand customer behavior. Nudi's 7/7 Theory adds critical interpretive power to CRM implementation by showing how customer awareness and behavior shape service expectations. Integrating this behavioral model with empirical CRM strategies can significantly improve customer satisfaction, loyalty, and organizational performance.

RECOMMENDATIONS

For Service Organizations - Organizations should strengthen operational, analytical, and collaborative CRM; invest in staff training; improve data integration; and align CRM with broader strategic goals. Integrating Nudi's 7/7 Theory into CRM training can help employees interpret customer behavior more accurately. For Policymakers - National-level support for digital infrastructure, CRM education, and industry-wide standards is essential for boosting CRM maturity in Sri Lanka. For Researchers - Future studies can expand on behavioral CRM frameworks, conduct sector-specific analyses, and explore the role of AI-driven CRM and cultural influences in customer decision-making.

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