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**Impact of Social Media on Customer Relationship Management (CRM) in The Sri  
Lankan Retail Banking Sector**

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**Abstract**

*With commercial banks contributing heavily to the country's gross domestic product and customers having increased access to internet and becoming ever more familiar with internet / social networks, there is ample opportunity for the banks to exploit in the domain of social media. This study aims to explain the impact of social media on customer relationship management (CRM) in Sri Lankan retail banking industry. The present study hypothesized that social media positively influences the customer relationship Management namely; Information Strategy Feel and Serve, Trust and Loyalty and Cross Buying of Products. Structured questionnaires were administered to a representative sample of bank customers of selected commercial banks in Sri Lanka. Linear regression analysis revealed a significant path coefficient, which explained social media positively, influenced on customer relationship management in the retail-banking sector of Sri Lanka. The findings have implications that Sri Lankan banks should actively use social media (namely forums and communities, ratings and reviews and referrals and recommendations) to enhance customer relationship management. This should be carried out as a strategic initiative under a social media implementation plan in order to achieve and sustain their competitive advantage in the Sri Lankan retail-banking sector.*

**Keywords:** *Customer Relationship Management, Retail Banking Sector, Social Media, Sri Lanka*

### Introduction

Post-war Sri Lanka is on a development trend. With the rapid developments in Information Communication Technology, the availability of the Internet for Sri Lankan users is also on the rise. Use of Social Media in Sri Lankan businesses especially banks, does not seem to have reached its maximum potential yet. Although there is ample opportunity to exploit, banks seem to be reluctant to venture into this new area due to various reasons. Further, the amount of research carried out on the use of social media and its impact on customer relationship management is not very common. Therefore this research aims to explore this area and identify if social media have a significant impact on customer relationship management in the Sri Lankan Retail Banking context.

According to the 2013 annual report of Central Bank of Sri Lanka (CBSL) the service sector contributes 58.5% to the national economy. Within the service sector, the financial sector contributes 8.9% to the national economy. The Banking sector's share in total assets of the major financial institutions is 70.6% out of which 48.2% (CBSL, 2013) is from licensed commercial banks. Therefore, banks play a major role in driving the economy forward and fund the growth opportunities of the nation. Among banks in Sri Lanka, the private banks play a major role in providing financial services. The figure 1 shows statistics on telephone, Internet and e-mail usage of Sri Lankan population. Meanwhile, Facebook subscribers in Sri Lanka are amounted to 1,515,720 on Dec 31/12, which is a 7.1% penetration (Miniwatts, 2013).

**Figure 1: Demographic data**

Period	Cellular Mobile Telephones	Telephone Density - including Cellular (Telephones per 100 persons)	Internet & E-mail (b)
2012 (c) 2nd Qtr	19,272,324	111.68	1,145,587
2013 (c) 2nd Qtr	19,533,274	108.76	1,475,626

(a) Except SLT lines      (b) Including mobile broadband services      (c) Provisional

Source: CBSL, 2013.

### Research Problem

With this increased adoption of Internet and social media among Sri Lankans, many Sri Lankan businesses are slowly but surely getting on board the social media trend, in order to reach out to their customers. However, the private banks in Sri Lanka seem to lag behind this trend given the increasing number of Internet users in the country. As seen world over, social media can bring about a wide reach for customers, as well increased revenues. Therefore, it is imperative that private banks in Sri Lanka, also venture into this area in order to reach out to their customers. A recent empirical study on fan pages found that the application of social media sites for the customer-brand relationship is in its infancy. (Jahn et al., 2012). According to the social media analytics website (Social-bakers, 2013), only a very few Sri Lankan Private Banks have an official face-book page. Therefore, there is ample opportunity for Sri Lankan Banks as well, to use this tool. Based on the above understanding, the study formulates the research problem as follows; *whether social media have an effect on customer relationship management in Sri Lankan Retail Banking sector?*

### **Research Objectives**

In order to address the above research problem, the study presents its major purpose as to ascertain the extent to which Social media are used by the retail banking sector in Sri Lanka, to identify to what extent are the attributes of social media evident in relation to the retail banking sector in Sri Lanka, describe to what extent CRM is practiced in the Sri Lankan retail banking sector, to explain how Social media influence the CRM in the Sri Lankan retail banking sector and to provide suggestions in order to use Social Media effectively in Sri Lankan retail banking sector.

### **Literature Review, Conceptualization and Hypothesis of The Study**

#### ***What is Social Media?***

In this Internet age people like to communicate with each other more frequently. Apart from the normal socializing, events, they also communicate using mobile devices and build social networks in the virtual world. The medium (e.g. social networking sites such as facebook, twitter) used to do this type of networking is called social media. Kaplan & Haenlein (2010) define social media as "a group of Internet-based applications that are built upon the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content. The main stream social media web sites include the following:

Facebook, Orkut, MySpace, Google+ - mainstream social networking sites  
LinkedIn - professional networking site  
Blogs like WordPress, Blogspot – used for broadcasting and publishing data  
YouTube - video sharing website  
Wikipedia - the open-source online encyclopedia  
Flickr, Picasa – picture sharing websites  
SlideShare and Scribd - document sharing websites  
NLTwitter-micro-blogging website where one can post only 140 characters at a time

#### ***Social Media in Banks***

Pioneers in social media marketing are also emerging in the industry of retail banking. US banking organizations such as Citibank, Bank of America, ING Direct and USAA demonstrate active presence in social media, oriented toward building rapport with customers and providing interactive online service support via Web 2.0 tools and channels (Stone, 2009; Cocheo, 2009a; Cohen, 2010; Klimis, 2010). ICICI Bank, HDFC Bank and Axis Bank are among the top 10 Banks with Social Media presence, as per a survey by Financial Brand in July 2013. Further as per IDRBT (2013) Social Media is a rich source of information about existing and potential customers for Banks.

Although examples of social media implementation in banking are emerging (especially in the USA and western Europe), the industry is still in the early stage of establishing social media presence and using Web 2.0 tools for RM (Bielski, 2008; Cocheo, 2009a; Hardey, 2009; Klimis, 2010). Majority of retail banks are skeptical to the promises of Web 2.0 to revolutionize marketing, stating concerns over information privacy, loss of control over data and possible negative implications on the corporate image (Pannunzio, 2008; Stone, 2009; Klimis, 2010).

Social Media, although not fully utilized in Sri Lankan Retail Banking sector, a few Private Banks maintain official Facebook and / or Twitter pages. It can also be noted that some banks had carried out a few customer surveys on their respective face book pages: The preliminary problem for banks in the social media space is the same problem they have had forever, knowing your client (Colwell G., 2013). In South Africa banks are surrounded by, legal and other uncertainty issues surrounding social media. (Chikandiva et. al., 2013). Further, According to Bonson and Flores (2011) Ernest & Young (2011) and Gritten (2011), social media marketing enables banks to regain trust from customers, which has been lost due to the recent economical crisis and the increased use of e-banking.

The financial impact that banks can expect from the use of social media can include the reduction of retention and acquisition cost of customers, increase in deposit generation, increase in marketing return on investment, reduction in churn rate and thereby increased contribution margin per customer. Facebook is already being used by some banks to set up 'virtual branches' (Bearing Point, 2011).

#### ***CRM in Sri Lankan Retail Banking Sector***

It can be noted that the nature of the Asian / South Asian buyer behavior is very much dependant on trust. Further, referrals, recommendations from trustworthy individuals often result in customers purchasing those particular products or services. Many Sri Lankan private banks offer the facility of a relationship manager for personal customers as well. This helps the bank create a strong relationship with the customer, as well as generate income from the customer over the total lifetime of the customer relationship.

#### ***Social Commerce***

The social interactions of people on the internet, especially in social networking sites (SNSs), have created a new stream in e-commerce. The new stream of Social commerce is the use of Web 2.0 and social technologies to support interactions in an online context to support consumers' acquisition of services and products on the Internet (Liang and Turban, 2011). Another definition provided for Social Commerce is, Social commerce refers to the delivery of e-commerce via social media, which emerged through Web 2.0 (Liang et al., 2011). CRM and social marketing together can: increase sales, increase visibility, increase customer loyalty, enhance company image, promote positive media coverage, lead to long term relationships, contribute to growth and profitability (Katsioloudes et al., 2007).

#### ***Social Commerce Constructs***

Literature suggests that the next generation of online businesses will be based on communities to attract new customers (Bagozzi and Dholakia; 2002, Ridings and Gefen, 2004). Therefore, it is important for businesses to have a business model adapted to social commerce (Lorenzo et al., 2007, Liang and Turban, 2011). Some research has shown that potential consumers are more interested in other people's recommendations rather than merely vendor generated product information (Ridings and Gefen, 2004). This can best be achieved by online rating, recommendation and voting in an online context (The Nielsen Company, 2007). In keeping with the above view, the following social commerce constructs were proposed by Hajli (2012).

### ***Forums & Communities***

A person can be motivated to contribute valuable information to the group, by expecting to receive useful help and information in return (Smith and Kollock, 1999, p. 227; Graham and Hall, 2004). This can lead to a culture of sharing knowledge and expertise (IBM, 2007). The opportunity provided by social media for customers, to connect and interact in rich and complex ways with other customers and non-customers gives them the ability to influence others in their social networks. Customers with strong emotional bonds, can become advocates for sellers in peer-to-peer interactions with other customers and noncustomers and play an important role in the value adding process as co-creators of value. User-generated content can greatly enhance customer satisfaction, loyalty, and/or delight, especially as customer needs change over time (Sachi, 2012). The Forums and Communities variable was identified by measuring the willingness of the customer to communicate online with others.

### ***Ratings & Reviews***

By welcoming friends and colleagues to join their social networks, the members can improve their own ratings as to being loyal members of that particular network. As for reviews, the customer reviews available on social networks are a good form of information for potential buyers of any product in order to make an informed decision. Also, it turns out to contain constructive feedback for the company in order to improve their product or service. The rating or review given in the social media page would serve as very good advertisements of the company's product at zero cost. However companies need to be aware of deliberate negative feedback campaigns which be detrimental for the companies image. Therefore, these would need to be moderated and feedback should be provided to the relevant customers appropriately. The Ratings and Reviews variable was identified by measuring the willingness of the customer to rate and review a product / service on a social network and the customer's level of the knowledge on brand reputation.

### ***Referrals & Recommendations***

Consumers are increasingly using social media to gain recommendations, reviews and opinions from friends, family, experts and the collective social community. Once they access this content, the impulse to purchase immediately can be strong. (Baird, 2011) Further, the results of a survey carried out by Trusov et al. (2009) shows that the word of mouth referrals, positively influences membership growth and has a substantially longer carryover effect, than traditional marketing activities.

One of the most important things to consider is the common tendency for people making purchase decisions to be swayed, by advice from friends. Indeed, word-of-mouth (WOM) recommendation from peers and significant others has long been recognized as a powerful weapon in any marketer's armory. On that premises, it is reasonable to assume that any suggestions which emerges from a blog might have an impact that is similar to a conventional WOM recommendation. Specifically, a consumer's attitude towards a certain brand is likely to become more upbeat when that brand is referred to positively by a favorite blogger (Friends in online places, 2011). The Referrals and Recommendations variable was identified by measuring the willingness of the customer to purchase a product online based on an opinion given by another known party as well as the customer's willingness to suggest the same product / service to another known party.

### ***E-business Ontology***

One of the models proposed is the e-business model ontology introduced by Osterwalder et al. (2002) An ontology is a more rigorous building-block-like methodology, that defines the essential concepts in e-business models and shows the relationships between them. This model has been founded on four main pillars, namely, products and services, infrastructure and network partners, relationship capital and the financial aspects.

The customer relationship pillar will be discussed further as it is very relevant in terms of CRM in e-business. At present context, through the use of Information Communication Technology (ICT), companies are able to redefine the idea of customer relationship. The main components of the customer Relationship according to this model are as follows:

**Figure 2 – Customer Relationship Variables**



Source: Osterwalder et al., 2002.

### ***Information Strategy***

The objective of information strategy is to gather information about customers, use the information in order to excel in customer relationship (through personalizing, profiling etc.) and use the information to discover new profitable business opportunities as well as satisfy the customers. Further, delighted customers are prone to communicate their delight to the people with whom they are connected in social networks. By developing an enduring relationship with delighted customers already in the advocacy stage of the customer engagement cycle, sellers can turn delighted customers into fans. The Information Strategy variable was identified by measuring the willingness of the customer to share the customer's online experience with others.

### ***Feel and Serve***

This refers to the channel strategy that must be defined, through which the company intends to reach its customers, (direct, indirect, third party etc.) in order to deliver its value proposition. The purpose of a channel strategy is to make the right quantities of the right product or service available at the right place, at the right time to the right people (Pitt, 1999). The Feel and Serve variable was identified by measuring the product awareness of the customer.

### ***Trust and Loyalty***

The Internet is making the world a smaller place. Therefore increasingly the business carried out between the company and the customer is a virtual one. Thus every effort needs to be made to gain the customer loyalty in order to retain them. Customer loyalty can be understood as the outcome of the customer's trust and satisfaction (Osterwalder

et al., 2002) The customers get a feeling of some connection to the company and, most likely, rewards for their efforts on behalf of the company. Their loyalty is attitudinal, not just behavioral. If things go well, they become advocates. The core driver of this relationship is trust. (Greenberg, 2010) In a study carried out on Malaysian Banking customers, it was concluded that Malaysian bank customers tend to be loyal if the bank is trustworthy, committed to service and reliable and efficient in communicating (Ndubisi, 2007).

Consumers regard social media as a trustworthy source of information than the traditional instruments of marketing communications used by companies (Foux, 2006). According to a study conducted by Nielsen (2009), 70 percent of Internet users trust the evaluations of consumers on social media platforms. Further, a study found that customers anchor loyalty to the bank's trustworthiness and the quality of the bank-customer relationship. The Trust and Loyalty variable was identified by measuring the trust the customer placed on the product / service and the nature of the reputation of the company which the customer is familiar with.

#### ***Effectiveness of CRM***

In a study carried out by Padmavathi et. al. (2012) on retail banks of India, the following elements were identified as the key factors of the effectiveness of CRM as customer satisfaction, customer loyalty and cross buying of products. The ultimate result of a satisfied, loyal customer was that he / she would purchase other products / services of the company as well.

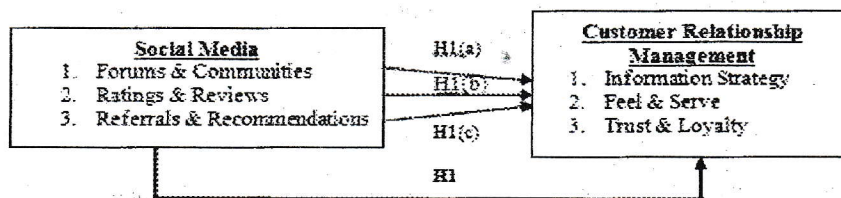
#### ***Social CRM***

This is the integration of social media with customer relationship management strategies. This is the next frontier for organizations that want to optimize the power of social interactions to get closer to customers. (Baird, 2012) Businesses are increasingly building social communities in order to get closer to their customers and at the same time enjoy the benefits of cost reduction and other efficiencies. Companies need to embrace this shift with a new strategy- Social CRM, which recognizes that instead of managing customers, the role of the business is to facilitate collaborative experiences and dialogue that customer value. (Baird et al., 2011). According to Greenberg (2010), "Social CRM is based on the ability of a company to meet the personal agendas of [its] customers while, at the same time, meeting the objectives of [its] own business plan. It is aimed at customer engagement rather than customer management". As per another study, when social networks and CRM work together well, businesses gain the ability to listen better to customer conversations and engage social customers on their own terms while managing and measuring their efforts to do so. Social networks, by bringing in otherwise untapped and unmanaged online conversations, also help organizations get closer to a true 360-degree view of the customer, so they can further optimize their marketing, sales, and customer service efforts (Maoz et al., 2009; McKay et al., 2009). All of the above studies provide sufficient evidence on the link, between social media and CRM. Therefore, it is imperative that this is researched further and the findings reported.

#### ***Conceptualization and the Conceptual Framework of the Study***

Based on the above review of literature, the study formulated the following conceptual framework as shown in figure 3.

Figure 3 - Conceptual Framework



Source: Researcher Developed, 2013.

### Hypotheses of the Study

As per the literature review, the following main Hypothesis and sub hypotheses were developed to test empirically.

**H1.** Social Media (as a result of Forums & Communities, Ratings & Reviews and Referrals & Recommendations) has a positive effect on Customer Relationship Management

**H1(a).** Forums & Communities have a positive effect on customer relationship management.

**H1(b).** Ratings & Reviews have a positive effect on customer relationship management

**H1(c).** Referrals & Recommendations have a positive effect on customer relationship management

### Methodology

Following the positivistic research tradition and the quantitative research approach, a survey research strategy was adopted.

### Population and Sample of the Study

Structured Questionnaires consisting of Likert type statements were distributed to sample of judgmentally selected customers representing both the two main public sector commercial banks and six private sector commercial banks in Sri Lanka. The six private banks, from which customers were drawn, were referred to as Bank A, B, C, D, E, and F to maintain their anonymity. These six banks were especially chosen as they had a presence on one or more of the main social media networks and therefore are suitable to be studied under this research and also due to the difficulties in obtaining information from other banks. Out of the 185 customers approached only 119 have responded to the questionnaire. This shows a 64 % response rate, which is sufficient for a field survey. Further, it was made sure to draw 12-15 customers from each bank.

### Operationalization, Reliability and Validity of the Constructs

The social media scale consisted of a composite measure of three factors adapted from the research by Hajli (2012). CRM was measured using a composite measure by adapting four items developed by Osterwalder et al (2005) and Padmavathy et. al (2012) which consists of namely information strategy, feel and serve, trust and loyalty and cross buying of products. Self-Administrative Questionnaires consisting of five-point



Likert scales were used to collect the predetermined data. The face / content validity of the scales were assured through experts' reviews and literature survey. In order to test the dimensionality of the measurement constructs of social media, an exploratory factor analysis was performed. As per the theory, all items of social media construct were loaded into three factors, where all items had factor loadings above 0.5. Further, all three factors had Eigen values above 1. These assure the quality of the measurement instrument (Churchill, 1979). As depicted in the table: 1, Cronbach's alpha was calculated to measure the reliability / internal consistency of the measurement scales. If the value is above 0.7, the scales were sufficiently reliable (Nunnally, 1967). This also confirms the unidimensionality of the measurement scales. Further, these two main constructs have been priori-based as they have been adapted from the well-established past studies. These analyses provide a sufficient justification for the validity of the two constructs.

**Table 1: Reliability Analysis**

Variable	No. of Measures	No. of Indicators	Cronbach's Alpha
Social Media	3	9	0.891
Customer Relationship Management	3	12	0.907

Source: Survey Data, 2013.

**Data Analysis Strategy**

Data analysis strategy in the study consisted of both descriptive statistical analysis and inferential statistical analysis. The K-S tests assured the univariate normality of the data distribution. The hypothesis test was carried out using multiple linear regression analysis. The Statistical Package for Social Sciences (SPSSR) version 20.0 was used for data analysis.

**Results and Discussion**

A descriptive analysis based on mean values was carried out. The results revealed the following as depicted in the table 2:

**Table 2: Descriptive Analysis**

Variable	Mean	Standard Deviation
Overall Social Media	3.19	0.75
- Forums & Communities	2.96	0.97
- Ratings & Reviews	3.38	0.79
- Referrals & Recommendations	3.23	0.89
Overall Customer Relationship Management	3.39	0.60
- Information Strategy	2.99	0.85
- Feel & Serve	3.44	0.81
- Trust & Loyalty	3.59	0.78
- Cross Buying of Products	3.55	0.73

Source: Survey Data, 2013.

The overall mean value of 3.19 for social media implies that the banks' customers use social media to a sufficient level. However, the mean analysis of the sub scales of social media highlights that the customers in the sample have less usage of forums and communities (2.96 on a Five point Likert scale) whilst they have satisfactory level of

usage in the areas of ratings and reviews and referrals and recommendations (respectively 3.38 and 3.23 on a five point Likert scale). The mean value for overall CRM is 3.39 (on a five point Likert scale), which describes that the average customer sentiment of their bank's CRM practice exists to a considerable extent. In testing the hypothesis depicted the conceptual model; the linear regression analysis revealed the following results as shown in the table: 3.

**Table 3: Linear Regression Results**

Independent Variables	Customer Relationship Management (CRM)*	
	Beta	Sig. P < 0.05
Forums & Communities	0.18	0.06 (Not Sig.)
Ratings & Reviews	0.16	0.09 (Not Sig.)
Referrals & Recommendations	0.36	0.00 (Sig.)
Significance of F	-	0.000
R <sup>2</sup>	0.35	-
Durbin Watson test value	2.18	-

\*Dependent variable is customer relationship management (CRM)

Source: Survey Data, 2013.

According to the above analysis, hypothesized claim is accepted and there is significant evidence (at significance level of 0.05) to conclude that social media positively influences the CRM of the retail banking sector in Sri Lanka. This reveals that social media in overall positively affect CRM of the retail banking sector in Sri Lanka. The regression coefficients ( $\beta = 0.18, 0.16$  &  $0.36$ ) confirm that the social media components of forums and communities, ratings and reviews and referrals and recommendations positively influence CRM respectively. This implies that the social media usage of the banks' customers can be a predictor of CRM practices in the Sri Lankan retail banking industry. These findings, in overall, can be validated as these are consistent with the argument of the general literature related to the social CRM constructs (Hajli, 2012) as well the e-business ontology customer relationship pillar. Osterwalder et al (2002).

### Conclusion

The findings empirically support that the selected banks do use social media to reach their customers in the Sri Lankan retail banking industry. This has assisted these banks to improve the perceived CRM in the eyes of their customers. In the regression model predicting CRM, the goodness of fit is predicted using R<sup>2</sup>, which is 0.35. This implies that social media can predict only 35% of the total change of CRM whilst there are other important factors that predict CRM of the industry. In final analysis, developing social media facilities becomes a prerequisite to enhance CRM and acquire and sustain a competitive advantage in the retail banking sector in Sri Lanka.

### Managerial and Theoretical Implications

The findings of this study are very important for bankers as the identified relationships between social media usage and the CRM of a bank. This would give more weight towards generating arguments, to start using social media in various banks if not used already. It gives further motivation to banks that already use social media to keep using it and improve the social media presence by using the components of social media discussed in this research.

The empirical findings proved that social media have a significant impact on the CRM of the retail sector of the commercial banks. Therefore, the findings of this research can be used to justify the allocation of resources towards social media monitoring as well as maintaining presence of the banks. Thus, there is also the market to be captured using the early mover's advantage. Therefore, it is clear that social media can be used to have a better relationship with the customer and thereby gain a strategic advantage in this highly competitive sector.

As discussed in the literature review also, there is a lack of literature on the direct link between social media and CRM. This is even scarce in terms of the banking industry. Therefore it is hoped that the findings of this research would aid the banks of literature available on the relevant subject. Further, it assists to re-confirm the validity of the existing literature on social media and customer relationship measurement using the scales used in this research. It would also provide a theoretical base, for further research as well as implementation of social media initiatives in Sri Lankan retail-banking sector.

#### **Future Research Opportunities**

Further research can be undertaken on the following areas in order to gain more insights into Social Media and CRM.

#### **Method of Study**

This research was carried out mainly using a quantitative approach. However, further research can be carried out using the Qualitative and the Case Study methods. Further, a Quantitative Study can take this research to another level by studying the profitability that can be achieved due to social media.

#### **Social Media Monitoring**

Currently, there are a number of Social Media monitoring software available in the market. These applications and their features can be studied in detail and appropriate ones can be recommended to Sri Lankan Retail Banking Industry. These software would help to measure effectiveness of the Social Media initiatives thereby enabling the banks to measure its return on investment (ROI).

#### **Brand Recognition**

Further study can be carried out in terms of Brand Recognition using Social Media and how it affects the CRM. Brand building is a very important topic and it is encouraging to note that Sri Lankan Retail Banking Industry has caught up on this particular aspect of Social Media.

#### **Research on Other Factors Affecting Variance**

It was stated above that the components of social media that were studied in this research accounts to only 35% of the total variance of the impact on customer relationship management. Further research can try to identify what these remaining 65% factors are. The same study can be carried with the amalgamation of those remaining factors in order to gain further insight into this domain as well as understand the overall impact of social media on customer relationship management.

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