

The Impact of Customer Relationship Management (CRM) Processes towards Business Performance

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ABSTRACT

This study attempts to determine the most significant factors of contributing CRM process to improve a business performance in Small Medium Enterprises (SME's) firm. The factors utilized based on Customer Relationship Management (CRM) process as sales, marketing and services. The data collections from 114 SME's firms were gathered in field survey. The findings indicate that firms with improved CRM process enjoy better organizational performance. Moreover, the results revealed that services as a successful key of CRM processes are more affected by combination of managerial commitment, cultural change and a combination of resource to achieve improving business performance. Research on the CRM processes has been fragmented due to various perspectives on business performance.

Key words: Customer relationship management, CRM processes, CRM services, Business performance, Small Medium Enterprises.

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INTRODUCTION

Keeping its roots in relationship marketing and information technologies, CRM aims at maximizing the benefits gained from relationships with customers to business performance. The links between customer satisfaction and financial performance have drawn some recent attention in the academic literature. The evaluation of CRM performance is discussed on the basis of models of customer behavior, customer equity or customer asset and relationship quality. CRM is a multi-perspective business paradigm that is composed of people, process and technology [1].

The most important expected outcomes of CRM can be listed as: improvements in efficiency, cost reduction, improved profitability, increase in sales, enhanced customer value, customer satisfaction and improved customer loyalty [2-5]. As more firms practice CRM, [6] question of how to evaluate performance remains a significant challenge and make it much more difficult for managers to make a deep understanding much of the practical implications of different of the practical implications of different performance measures.

However, although these studies provide anecdotal evidence of the impact of organizational performance on CRM processes, there is a lack of empirical studies examining the relationship between CRM processes and performance aspects [7]. Shwu and Chien [5] showed the impact of organizational practices on customer service applications, but their study has failed to provide evidence of the relation of these constructs with performance benefits. Coupled with the lack of research measuring and confirming the CRM benefits as well as the organizational practices that can lead to the materialization of the former, it becomes evident that research in this area is urgent and indispensable for managers aiming to further develop, justify, monitor and successfully implement CRM projects.

The objectives of this study are to investigate the direct effect of SME's business performance on usage CRM process and to examine an effectiveness of CRM process to business performance. The investigation and validation of the former are valuable, since it would enable organization to maximize CRM process by identifying and allocating the appropriate resources, time and efforts to CRM implementation. Furthermore, much attention is given to the empirical examination of how each dimension of CRM process may influence specified aspects of business performance differently. However this study focuses on CRM process dimension such as marketing, sales and services with aim to help managers to understand customers' value and to focus their attention to meet the needed market space advantages and maximize the benefits of CRM.

LITERATURE REVIEW

Customer Relationship Management

CRM is an all-embracing approach, which seamlessly integrates sales, customer service, marketing, field support and more on customer retention. CRM incorporates information acquisition, information storage, and decision support functions to provide customized customer service [8]. Among the most representative, Scott [9] defines CRM as a set of business processes and overall policies designed to capture, retain and provide service to customers, while [10] state CRM is a coherent and complete set of processes and technologies for managing relationships with current and potential customers and associates of the company, using the marketing, sales and service departments, regardless of the channel of communication.

From an operations perspective, [11] pointed out that CRM is an integration of technologies and business processes that are adopted to satisfy the needs of a customer during any given interaction. Goodhue et al. [12] examined challenges and opportunities of CRM is driven by

the changing demands of the business for quality service, the availability of large amount of data, and the role of information technology. In order to benefit fully from CRM, firms may need to undergo a major change in organizational culture and business practices. CRM has developed as an approach based on maintaining positive relationships with customers, increasing customer loyalty, and expanding customer lifetime value [13].

The manufacturing industry utilizes its understanding of the drivers of current and future customer profitability to appropriately allocate the resources across all areas that affect customer relationships, including communications, customer service, billing and collections, product or service development and pricing strategies [14]. The manufacturing industry use CRM not only to create a customer profile, but also to anticipate customer needs, conduct market research, and prompt customer purchase [15]. A problem needs to be resolved on the first contact or the chances are the customer with an option to go elsewhere will never call back [16]. In the financial services sector, organizations need to resolve problems with customers immediately to avoid customer choosing other companies because of dissatisfaction of service quality [17]. The manufacturing industry with service failure and recovery problems need to communicate commitment to customer strengthen bonds CRM could be applying for these organizations [18].

Basically, CRM is a notion regarding how an organization can keep their most profitable customers and at the same time reduce the costs; increase the values of interaction to consequently maximize the profits. CRM explores an approach to maximize customer value through differentiating the management of customer relationships.

Customer Relationship Management Processes

Payne and Frow [19] refer CRM processes as all strategic processes that take place between an enterprise and its customers. Reinartz et al. [20] believe that there are three possible levels for CRM processes: the functional level, the customer-facing level, and the company-wide level [21]. Davenport [22] classifies the business processes of a firm into operational processes and management processes. Radhakrishnan et al. [23] have adopted this classification, and have assessed the impact of IT on operational and management processes. Radhakrishnan et al. [23] suggest a more comprehensive view of CRM processes, which consists of knowledge management processes and interaction management processes.

Management CRM processes refer to strategic activities aimed at creating market intelligence and improving decision making related to resource allocation, new product or service development, and so on. For instance, Xu and Walton [24] state that changes in the behavioral patterns of customers, which should be managed as a management CRM process, can affect the operations of a company as well as the decision making related to strategy setting in the future.

The CRM process is start from collecting customer information, use knowledge to manage customer contact such as marketing campaign, developing business and marketing strategies, measuring success while refining and enhancing the customer database [21, 25]. CRM

process is iterative and ongoing, and has similarities with knowledge management systems [21].

The holistic of CRM process comprised from other research could be defines as marketing, sales and services that effective on business performance. Whereas marketing is first step before running business, suggest and create awareness on market. Sales running the business interest negotiate and acquire customer knowledge. Services after sales entertain diagnose, serve, retain and grow the business. Based on this discussion, the following hypothesized is:

Hypotheses 1: There will be a significant positive correlation between the holistic of CRM process to business performance.

Sales Factor

In the sales process, the relationship between client and sales person becomes essential within the CRM framework. Sales people and clients interact face to face forming a long-term partnership. Even though managing the relationship with the client has always been a natural aspect of the sales process, the CRM strategy has an important impact on how this is conducted since it highlights aspects that were not given enough relevance in the past. Sales follow-up and the gathering of key information which helps in the development of marketing plans are two important examples. In this instance, CRM helps to conceptualize the mutually beneficial relationship that exists between those two processes. To overlook any of these aspects that is to say, to disregard CRM and all of its implications may very well be one of the main causes for failure and lack of results [26]. Therefore, it is hypothesized that:

Hypotheses 2: An increase in sales amount of CRM process, the better business can be performed.

Marketing Factor

Marketing is the process of performing market research, selling products and services to customers and promoting them via advertising to further enhance sales. It generates the strategy that underlies sales techniques, business communication and business development. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves [27].

In marketing, control is conceptualized as the firm's need to influence systems, methods, and decisions in a particular foreign market and a means by which firms coordinate actions, carry out strategies, and revise [28]. It has been suggested that insufficient or ineffective control can limit the firm's ability effectively to coordinate activities, utilize resources, and implement strategies in international markets [29]. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties [30].

According to Berkowitz, et al., [31] managing the relationship with the client, understanding the client's needs, knowing the client's buying habits, are all activities within the marketing

process, but they must be understood as one more piece of the marketing machine and a source of information that must be shared with the whole organization.

Particularly in the context of services, this ability might be valuable because satisfying customer needs is very likely to involve high customization [32]. This relationship becomes evident in the processes of marketing and sales, since the CRM strategy demands great coordination and flow of information. Therefore, it is hypothesized that:

Hypotheses 3: A better holistic of CRM process on marketing will improve a business performance.

Services Factor

According to Kotler[30] services is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. It may or may not be tied to a physical product. Another widely used term is quality of service which defines quality as services level that the company has decided to achieve in order to satisfy its key client base [33].

The service level offered by a company is defined by customers in terms of their particular experience regarding personal or telephone interaction with the company staff. According to Ramaswamy[34] those successful companies that can maintain high quality of service, have the ability integrate two key elements: a good service design and an effective execution of such design. It is important to emphasize that these process (marketing, sales, and service) are not the only processes in which the client is involved.

Within the CRM strategy, the evolution of these processes is directed toward a common goal: to satisfy and create a long-term relationship with the client [35]. The particular mode of operation that enables a manufacturing firm to exert adequate levels of managerial control might not be sufficient for service firms to obtain the same levels of control. This particular characteristic of service operations, in turn, might change the nature of mode performance relationship in the context of service industries [36]. Based on discussion, the hypothesized as follows:

Hypotheses 4: A better holistic of CRM process on services will improve a business performance.

Business Performance

Business performance can be measured on both the process and the organizational level [37]. Process-level performance measures the outcome of processes at the same level, while organizational-level performance indicates aggregate performance. For instance, Ray et al. [38] studied the effects of IT resources on the performance of customer service processes. On the other hand, some studies measure performance directly at the organizational level [20]. In this study, performance measure only on SME's organizational performance.

A performance measurement using bottom line financial metrics will be misleading. The reason is that, in today's competitive environment, traditional financial accounting measures, such as return on investment, can give misleading signals concerning continuous improvement and innovation [39]. Specifically, for the cross-functional nature of CRM, traditional performance measurement systems may be inappropriate [19]. It is important to note that the performance measurement in this study is consistent by Kaplan and Norton. CRM emphasizes on maintaining long-term relationship with customers, causing customer satisfaction and then creating customer loyalty, owing to the customer satisfaction and loyalty will bring both incomes and interests, so the business-customer relationship can be viewed as an important customer capital. The business must carry through mutual communication and long-term cooperation with customers in order to build relationship capital. The only important resource that can keep the competitive advantage of business is maintaining the long-term relationship with customers.

In this study a business performance could be measure on company that has a clear mission, company managed to develop good products and services, company treat employees with respect and dignity, realistic commitment to customers, always helpful and friendly, proud work to company, communication between different divisions is good, relative competitors, financial performance has highly satisfactory, ability to retain employees and growth in sales and profit are increased effectively.

METHODOLOGY

Research Framework

This paper utilizes quantitative research using the survey method to collect data about CRM processes and business performance. Figure 1 shows the research framework and relationship model of this study. The study investigates and develops relationships of each CRM dimension among CRM processes and business performance.

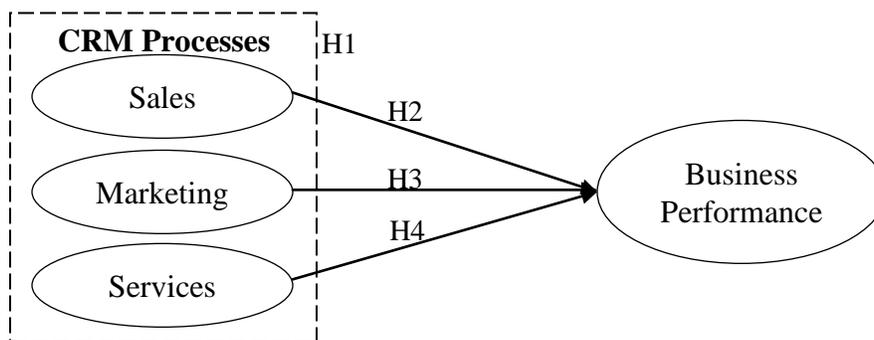


Figure 1: Research Framework

Survey Administration and Sample

Participants of this research were gathered from the 2011 Small Medium Entrepreneurship directory. A random sample of 520 organizations was contact through mails and emails

inviting them to participate in this study. The key respondents for this study were middle management, senior management, chief executive, director or partner from small or medium business involved in CRM systems or process. The process yielded 240 executives agreeing to participate in the study through email and conducting survey. We received 126 completed surveys, yielding a 21 percent response rate. Out of these, 114 (19 percent) surveys were found usable for this study.

The ownership of industry mostly from local companies with 39.5 percent, running a business between two and five years and has a relationship with customers. The top management has a close relationship with customers and doing business over five years. Middle management is mostly involved in this survey of 30.7 percent and administration is the most important department area that SME's manufacturing organization involved. Mostly organization revenues achieve is below than two hundred and fifty thousand ringgit per year and organization profitability in between two years continuously very much increased by 60.5 percent. However, regarding the organization number of employees, mostly SME's companies have employees below than twenty persons that achieved a 63.2 percent compare others.

Operationalization of Constructs

Business performance is measured using ten items adopted from [29]. Notably, this study evaluates the business performance through CRM processes based on managers' perception. This research were requires to rate business performance based on market share, profit, sales level and manufacturing capabilities as a result of the CRM formed. Items for this construct are based on a 5-point Likert scale ranging 1 = strongly disagree to 5 = strongly agree in the survey.

Marketing factor used nine items to assess the organization market strategy, based on [16]. Respondents were required to rate their organization's ability in terms of information sharing, environment, value, communications frequency, market response, product and services improvement.

Sales factor is measured using ten items adopted from [40] and modifies to suit the context of this research. Items involved respondents' judgment of their organization's sales strategy, reducing of customer defection developing sales plan and beneficial relationship.

Services factor is measured using ten items adopted from [16] and it's modify to suit the context of this research. Services factor assess the organization offering better service, quality of services, fast problem solving and providing continuous services.

FINDINGS

Reliability and Validity Analysis

The reliability was computed statistically by using coefficient alpha formula developed by Cronbach's Alpha. Cronbach's Alpha is a reliability coefficient that indicates how well the

items in a set are positively correlated to one another. The coefficient alpha is combination of split halves. Convergent validity was assessed using Cronbach's Alpha and the composite reliability scores [41, 42]. A benchmark of 0.70 was used as the minimum acceptable Cronbach's Alpha [42, 43]. An acceptable composite reliability is assessed similar to the Cronbach's Alpha and a value of 0.70 or greater is acceptable [44].

The reliability statistics is using Cronbach's Alpha to know the reliability value from 49 questions of 114 respondents of SME's companies which include CRM processes and business performance. The value of the reliability statistics for basic knowledge is 79 percent, sales factor is 84 percent, marketing factor is 91.4 percent, services factor is 92.7 percent and business performance is 93.7 percent. The services factor is meet SME's operation and activity that they need for each to perform a business successfully. A business need to fulfill a greater customer satisfaction and provide better services to customers. Therefore, all the scales were considered to exhibit sufficient internal reliability and consistency. [45, 46].

Correlation Analysis

The correlation relationships between the CRM process and business performance illustrates at Table 1. The dimensions of CRM process are sales, marketing and services, as independent variable and business performance as dependent variable. It can be seen that there are positive correlation relationships between sales dimension of CRM process and the other two variables. The positive linear relationship will cause an increase in one variable of the other is increased. This study indicates a correlation relationship of each CRM dimension is meeting a positive relationship. Between the three CRM dimensions, the relationship between marketing and services dimension meet a higher correlation by 77.3 percent. Next the relationship between sales and marketing is 71.9 percent; while sales and business performance meet the lowest relationship is 64.7 percent. Furthermore, the comparison between business performance and CRM process show in positive relationship. The comparison with each variables and business performance indicate services dimension is achieved a higher correlation coefficient by 78.7 percent compared the correlation coefficient for sales dimension and marketing dimension is 64.7 percent and 71.1 percent.

Table 1: Correlation between CRM process dimension and business performance

Items	<i>Sales</i>	<i>Marketing</i>	<i>Services</i>	<i>Business Performance</i>
Sales	1			
Marketing	0.719**	1		
Services	0.646**	0.773**	1	
Business Performance	0.647**	0.711**	0.787**	1

** . Correlation is significant at the 0.01 level (2-tailed)

Hypotheses Testing Analysis

The result of hypotheses testing and effects of individual paths are shown in Table 2. Based on Table 2, this study is accepting all hypotheses, while only two hypotheses are supported, whereas H1 is relationship between CRM process dimension and business performance; and

H4 is relationship between services factor and business performance have a significant positive relationship. However, H2 and H3 support the business performance indirectly.

The findings where all three CRM process constructs positively affect business performance namely sales (H2) $t = 1.840$, $p > 0.05$, services (H3) $t = 5.824$, $p < 0.05$ and marketing (H4) $t = 1.265$, $p > 0.05$. Ronald et al. [47] stated that one of the reason why sales does not supporting business performance is, there seems to be a lag in organizational practices emphasis on profit management, margins, cost, account, product or service management, loyalty, and long term relationships. Attempts to build relationship management into performance measurement are limited.

Table 2: Tests of hypothesized model

Hypothesis		<i>p-value</i>	<i>Results</i>
H1	CRM processes → Business performance	0.000***	Supported
H2	Sales factor → Business performance	0.069	Not supported
H3	Marketing factor → Business performance	0.209	Not supported
H4	Services factor → Business performance	0.000***	Supported

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

DISCUSSION AND CONCLUSION

This study investigated factors of CRM processes from three perspectives: sales, marketing and services that will influence to SMEs business performance. Based on CRM processes literature, this study found a services factor is support to provide the first insight for achieving business performances. By synthesizing CRM process theories related to business performance, key constructs are identified for CRM implementations priority. The CRM processes provide strong support for the reliability and validity of the proposed metrics measuring the key constructs of CRM process as follows.

Firstly, the data supported this research by conceptualized the CRM construct. This study developed items to assess the extent to which these dimensions are implemented. The first hypothesis of CRM process and SME's business performance is significant positive correlation. As proved by Paul and Weley (2006) cooperation between marketing and sales could be strongly improved in different areas of the marketing and sales management process. However, Ronald et al. [47] argue in the course of study it became clear that both sales and marketing do not always recognize the importance of cooperation in certain areas. Ralph [48] indicate that effectiveness of the linkage between marketing and sales require a strong communication. Furthermore this research finding demonstrates that the specific characteristics of marketing in business to business firms strongly influence the marketing and sales interface and its outcomes. In addition, the current literature emphasizes that a firm's performance greatly depends on how well its marketing and sales functions work together [49-51].

Secondly, sales factor was least significant relationship towards business performance. The factor on sales not fully supported to SME's business performance. However, the reason for this study is the slow growth in the number of firms that utilize CRM processes to enable the sales organization to track customer lifetime value. In addition, sales tools used to manage customer relationships, report low adoption rates and high failure rates [40]. Relative to the responses collected from this study, it is evident that a customer-focused, market-focused perspective to sales performance measurement is lacking.

One of the most significant findings is the relative strength of causal path on the CRM processes and services factors compared to the business performance. Previous study stated that service quality has been linked to customer satisfaction and loyalty as well as business performance and profitability [31]. Kotler[30] support services is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. It may or may not be tied to a physical product. Consequently, service firms might seek higher levels of vertical integration in their foreign operations to obtain adequate levels of managerial control. This particular characteristic of service operations, in turn, might change the nature of mode performance relationship in the context of service industries [36].

Marketing factor was the lowest standardized coefficient value and the least significant relationship towards business performance. Yiming et al. [52] indicates a focus on marketing strategy is not significantly associated with the business performance of the small firms in their study, while the long-term differentiation marketing strategy is. Related to the latter, the research and development spending as percentage of sales is also significantly and positively associated higher business performance, while the number of new products launched last year is not. These results contradict the findings by Pelham [53] and Wilson and Pelham [54]. Furthermore, the finding that conducting regular market research is not associated with business performance contradicts [55] results, but echoes those from other studies [56, 57].

Managerial Implications

CRM has been offered as a new business strategy for improving the competitiveness of companies. These research findings offer manager some insight and further discernment in their quest for marketing development and enhanced small enterprises operations through CRM. Despite of the companies studied adopted CRM for reasons of managing existing customers, increasing profits, and acquiring new customers. The reasons for no adoption among the other half of the companies studied were lack of understanding, high costs, premature adoption, and lack of system application.

Managers also need to pay greater attention to other aspects of implementing CRM processes. This research data show that the alignment of organizational aspects is a critical element in the CRM implementation effort. For example, in marketing aspects needs to be brought deeper into the functional areas of the company; it cannot be isolated to marketing managers. Simply installing technology or CRM software is not enough to ensure that this program will be profitable. Employees must be rewarded for engaging in CRM activities and customer-oriented behaviors.

Limitations and Future Studies

Although this study produced interesting and meaningful findings, there are some limitations which need to be discussed. First, a key objective of this study was to investigate the direct effect of the three stages of CRM processes. In particular, this study conducted an extensive search through the business press, academic literature and supplemented this with interviews of CRM experts to identify relevant CRM processes. Thus, this study attempted to capture as many current relevant CRM activities as possible. However, since new CRM processes will evolve over time, one could argue that sets of processes at each stage will need to be “enriched” or updated as these new activities become common practice in the future.

Secondly, it would be worthwhile to investigate how various industry and firm specific characteristics drive the degree to which the three CRM dimensions are developed across firms. Finally, this study examines CRM processes at the customer-facing level only. It would be interesting to see how these findings compare as to observations from the company-wide level and functional level. Clearly, the critical issues will be different at these other levels. To have a complete picture of CRM, all three levels must be examined.

Acknowledgement

The authors would like to thank the anonymous reviewers who have provided valuable input into clarifying the ideas presented in this paper. The first author is funded by a scholarship from Ministry of Education Malaysia. This work was supported in part by Universiti Teknikal Malaysia Melaka under Research Acculturation Grant Scheme RAGS/2012/FPTT/SS05/2.

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