

Customer relationship management and firm performance

Abstract: *Creation of relationship management (CRM) amongst customer has been a matured and reigning issue of interest to all firms. Hence, the objective of this study is to provide a clear understanding of CRM, its evolution, CRM processes and its successful implementation. Prior empirical studies have been reviewed and the study also viewed how CRM is used as a yardstick in measuring organizational performance.*

Keywords: *CRM, evolution of CRM, CRM processes, customer retention, customer satisfaction and firm performance.*

I. Introduction

Customer relationship management (CRM) has diverse definition, which is as a result of the different definition by several authors as (Parvatiyar & Sheth 2001; Parragh 2010; and Rababah, Mohammad & Ibrahim 2011). Partiyar and Sheth (2001) opined that, studies in CRM have been carried out by various scholars from different disciplines like the practitioner, marketing and the academic discipline. With regard to academic discipline, information system and decision technologies are the most areas which require relationship management (Partiyar and Sheth 2001). In view of Kareem, Abdullateef and Muktar (2014) increased level of performance in an organization is subjected to CRM. CRM has become the reigning topic in the world which made it to be one of the most powerful tools in measuring a firm's performance (Rababah, mohammad & Ibrahim 2011, Nwankwo & Ajemunigbohun 2013). CRM is considered as important ingredient for an organization to maximize its profit through increase in sales volume (Hassan and Parves 2013). CRM refers to a process of achieving maximum customer value and profit through the creation, enhancement and development of mutual relationships with targeted customers. Rababah, et al (2011) collectively came out with a unified definition of CRM based on three perspectives. Organizational performance is considered to be compatible with customer satisfaction, thereby relating performance of organization with CRM technology (Fan & Ku, 2010; Wu & Lu, 2012, Mohammed, Tahir & Rashid 2014). Anderson et al (1996&1997) argue that firm's performance is a factor of customer satisfaction.

A lot of studies have been done on how CRM affect the performance of an organization. See for instance; study conducted on US firms by Hassan & Parves (2013); effect of CRM technology in hotel industry of Malaysia by Mohammed et al (2014); effects of CRM in insurance companies explored by Nwankwo & Ajemunigbohun (2013), CRM on telecommunication by Toyese (2014).

However, exploring on meaning of CRM, its evolution, processes and CRM implementation has been the motivation of this study. Therefore, this paper seeks to explore on the meaning of CRM, historical evolution of CRM, CRM processes and CRM implementation.

The remainder of this paper is organized in three sections; this section considered as introduction, second section is the literature review and empirical studies and the last section is that of conclusion.

II. Literature review

What is customer relationship management (CRM)?

CRM as defined by Payne and Frow (2004) as the implementation of an integral series of technology and strategies developed purposely for creation of shareholders value via maintaining strong long-term relationships among customer (both current and potential customers). In the view of Parvatiyar and Sheth (2001) they defined CRM as "a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value". In a similar vein, Rababah et al (2011) describe CRM based on three different perspectives; business philosophy, business strategy and technology towards effective and successful adoption and implementation. In the book of Marshall and Johnston (2011) CRM was characterized as any application which requires an organization to make use effective and efficient business strategy and leadership style in order to create relationship management with customers. In due course, CRM comprised of three most important objectives as customer profitability, customer acquisition and customer retention (Paul and Grey 2003). Customer profitability is dealing with providing the customer with the exact product as at when

needed. Customer, relationship and management are considered as the main components of CRM (Paul and Grey 2003), people process and technology (Chen and Popovich 2015). Therefore, CRM is considered as making use of people, process and technology to retain existing customers, attract new customers and create value to the customers as well.

2.1 Evolution of customer relationship management

The emergence of customer relationship management can be traced back from 1990 as opined by many authors. See for example (Parvatiyar & Sheth 2001; Stoklasa 2011; Rababah et al 2011). Almost all authors agreed that relationship management (RM) is the origin of CRM. In addition to that, Parvatiyar and Sheth (2001) assert that growing intermediation process is one among the factors that gave room for the emergence of CRM. They further affirmed that, introduction of computer and telecommunication technologies contributed a lot towards the development of CRM. Total quality management (TQM) is another single-minded factor in developing CRM as it focus on improved quality and reduces cost which in turn gave room for relationship management to exist between customers, suppliers etc. The main motive for development of CRM is for the purpose of shifting business focus from transactional marketing (1950 -1970) to relationship marketing. Similarly, Paul and Gery (2003); Chen and Popovich (2015) affirmed that prior to evolution of CRM, there exist two main market; sales force automation SFA and customer service CS but with the existence of CRM in all enveloped all issues relating to retaining customer, CS and SFA inclusive.

2.2 CRM PROCESS

Framework of CRM process has been surveyed by many authors (Parvatiyar & Sheth 2001; Rababah, Mohammad & Ibrahim 2011). Rababah et al defined CRM processes as "the activities performed by the organization concerning the management of the customer relationship where activities are clustered according to a longitudinal view of the relationship". Rababah et al (2011) explored CRM process based on four levels as:

Customer-facing level

Customer oriented level

Cross-functional level

Macro-level

Customer- facing level

This level aims at maximizing value of relationship portfolio via managing customer relationship initiation, maintenance, and termination.

- i. Customer relationship initiation involves process of activities before and/or immediately after phase of relationship for example identification of potential customers.
- ii. Maintenance process incorporates activities that represent normal customer relationships, like cross-selling, up-selling, or retention programs.
- iii. Termination process involves activities in finding and settling bad relationship for instance, ending the relationship with low value customer.

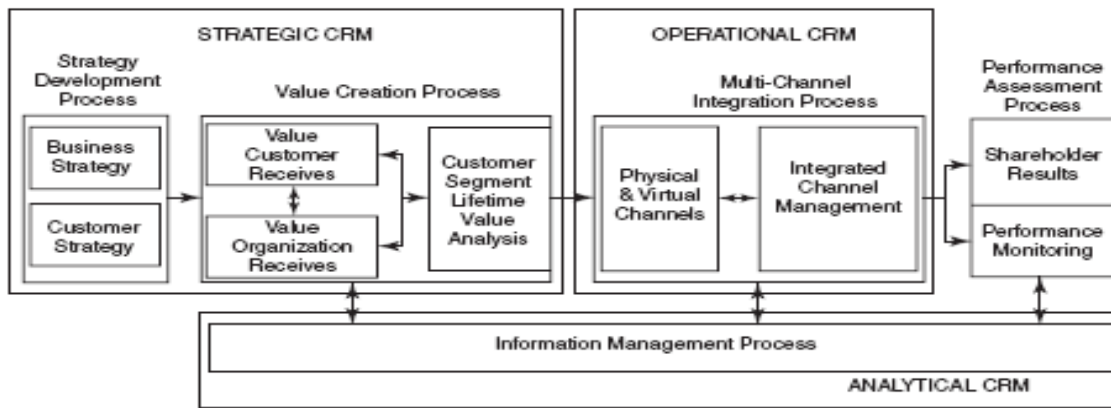
Customer-oriented level

The customer-oriented level take in account all activities executed to satisfy customer need or to solve customer problem (Rababah et al 2011). They further identified and differentiated among three kinds of customer-oriented CRM processes;

- i. CRM delivery processes includes all process of direct contact with customer like campaign management process, sales management process, service management process, and complaint management process.
- ii. CRM support processes are processes taking care of maintaining purposes through research process in market and loyalty management process.
- iii. CRM analysis processes focus attention on integrating and examining customer's information collected in other CRM processes.

• Cross-functional CRM process

The cross-functional CRM process involves several functions as the name implied 'cross-functional'. Among the functions involved are; strategic planning, value creation, information management, multi channel integration and process of measuring performance. The cross-sectional CRM process can be explained with the aid of the diagram below



Source: adopted from Rababah, Mohammad and Ibrahim 2011

The diagram shows the five functions are integrated (strategy, value creation, multi-channel, performance assessment and information management). It shows that in developing strategy, the strategy must institute both business and customer for effective strategy development. Value creation is the focal point of relationship establishment. It is only when a customer and organization receives value that he is able to long time value analysis. Multi-channel integrates the developed strategy and the value created in order to determine the type of channel to be used in marketing. Performance measurement process observes and evaluates the performance of CRM. Information management processes focus on collecting data/information from customer.

- **Macro-level CRM process**

The macro-level concentrate on activities of an organization to create market intelligence which enable organization to influence, construct and maintain profit-maximizing portfolio of customer relationships via knowledge management process and interaction management process. (Rababah et al 2011).

CRM implementation

In the opinion of Mishra and Mishra (2009); and Rababah et al (2011) they argued that for a successful implementation of CRM, there is the need to distinguish among the three areas of CRM as provided. The three areas;

- I. operational,
- II. analytical
- III. collaborative

Operational CRM is found in front office processes (to get information from call center). It includes human resource system and Enterprise resource planning EPR system for the transferring of captured information.

Analytical CRM is a continuation of operational CRM which integrate all the customer data captured by operational CRM for evaluation process.

Collaborative CRM give attention to customer via multi-channel management through either online shops or call centers. CRM

III. Prior studies

Several studies on the effect of CRM and organizational performance have been carried out empirically. Some authors found positive relationship existing among CRM and organizational performance (Hassan and Parves 2013, Shang and Lu 2012). Hassan and Parves (2013) critically review and compare the current trends of CRM in Tesco and Sainsbury retail stores where they found that CRM is a determinant of profitability and business growth. They also used 'loyalty card scheme' as a key prominent feature of CRM, the effect of CRM on Malaysian hostel industry performance (Mohammed et al 2014) even though their studies focus on internal environment (RBV model), but they found a significant and satisfactory result showing positive and direct relationship between CRM technology and organizational performance of Malaysian hotel industry and found that marketing capabilities (planning and implementation) fully mediates the association. Performance in freight forward service was found to be directly positive to CRM (Shang and Lu 2012). In another study of Zaman et al (2012) discover that satisfied internal customer also increase organizational

performance via internal marketing. The mediating role of customer satisfaction has positive effect on loyalty service which is subjected to quality service (Musahab et al 2010). Kirmaci (2012) investigated the relationship between banks' CRM in Turkey and customer loyalty where he found the ability of banks to retain their current customers and gain new customers depend on CRM. Ampofol, (2012) found CRM to accommodates customer loyalty and retention of customers leading to increased sales, profit and reduce cost of acquiring customer. The effect of CRM on profitability in Barclays Bank in Ghana found a positive relationship between CRM and profitability, where Staff of the bank agreed that customer retention was the key to the bank's success (Ampofol 2012). Nwankwo and Ajemunigbohun (2013) found empirically a direct positive and significant relationship existing between CRM and customer retention in Nigerian insurance company.

CRM as a yardstick for Performance measurement

Performance measurement of an organization are based on both financial and non-financial (Venkatraman & Ramanujam, 1986). Return on asset (ROA), return on equity (ROE) and return on investment (ROI) are considered as financial indicators of organizational performance (Panigyrakis and Theodoridis 2009, Mehra et al 2011). Geo (2005) view performance measurement as "the ongoing monitoring and reporting of program accomplishments, particularly progress towards pre-established goals. Organizational performance comprises of both financial and non-financial. The purpose of measuring performance are for evaluation, control, budget, motivates, promote, celebrate, learn and improvement (Behn 2003). Ammons (2007) was of the view that performance measurements are into three; output (work load) measures, efficiency measures and output (effectiveness) measures. The output (work load) measures do not take into account the quality of goods/service, efficiency measure the relationship between used resources and produced goods or service whereas output (effectiveness) measures weigh the quality of goods or services.

IV. Conclusion

The issue of attracting new customers, retaining the existing customers and creation of long relationship management among them has been the ultimate aim of every organization. This can only be achieved through a comprehensive understanding of CRM, its evolution, CRM process and successful implementation of CRM which has been the motivation of this study. This study is limited to only concepts of CRM, its evolution, processes and implementation of CRM successfully.

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