

# CRM Processes and the Impact on Business Performance

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*Abstract:* CRM aims to create value for both organization and customers through initiating and maintaining customer relationships. CRM is a systematic process for initiating, maintaining and terminating relationships with customers across all contact points, with the purpose to maximize the value of relationships portfolio. This paper examines the direct outcomes of the CRM processes, as well the relationship among these outcomes and business performance. We conducted a survey on 82 companies operating in the Western region of Romania, which revealed that the CRM processes implementation generates superior business performance.

*Key-Words:* CRM processes, CRM outcomes, customer retention, customer satisfaction, business performance, Romania

## 1 Introduction

Customer Relationship Management (CRM) concept has its roots in the Relationship Marketing theory, which is considered one of the main areas of modern marketing development, generating a variety of topics for researchers [1], [2]. Often, both in academic and business literature, the terms “relationship marketing” and “customer relationship management” are used as synonyms [3].

Relationship marketing involves building long term interactive relationships, especially with customers, which is the most important benefit for the organizations which have adopted this concept [4]. This is underlined by Gronross [5], who states that the purpose of relationship marketing is to establish, maintain and enhance relationships with customers and other partners. Nevin [6] points out that CRM is a concept used to reflect a variety of themes and perspectives. Some of these issues provide a narrow perspective on CRM. At tactical level, CRM is database marketing or electronic marketing [7], [8]. At strategic level, the goal of CRM is to create value both for customers and shareholders. Thus, CRM involves the use of information technology and focuses on individual customer relationship to design a strategy for maintaining long term relationships with customers [7].

Both relationship marketing and customer relationship management focus on cooperation and collaboration between the company and its customers, and / or among other participants in the relationship. Dwyer et al. [9] have characterized such relationships as interdependent and long-term oriented, rather than being focused on short-term discrete transactions. According to Boulding et al. [10], CRM is the result of continuous development and integration of marketing ideas, available data, technologies and organizational approaches, which is an operational platform relationship marketing manifestation.

There is a variety of opinions regarding the CRM conceptualization. Up to now, the researchers have not agreed on a single definition of CRM, fact which shows that this area is still in its development stage.

The main goal of CRM is to increase the marketing process productivity. This goal is achieved by increasing the marketing process' efficiency and effectiveness [11]. In the CRM approach, the marketing efficiency is achieved through collaboration and cooperation processes, which help reduce transaction costs, as well as company development costs. CRM consists of two main processes: development of customer-oriented business and building partnerships with the most

important customers. These lead to creation of superior value for both parties [3].

The literature review conducted by Zablah et al. [12] identified five conceptualizations of CRM: strategy, technological instrument, process, capability and philosophy.

*As a strategy*, CRM differentiates customers based on their loyalty and profitability. Customer relationships should be managed selectively, and resource allocations should be based on customer value. In this view, the goal of CRM is maximizing business performance by managing the customer relationship portfolio.

*As a technological instrument*, CRM requires the integration of IT&C in the customer-related processes, as a prerequisite for CRM strategy implementation.

*As a capability*, [13] CRM represents the mix between customer knowledge and the skills to develop and manage individual customer relationship.

*As a process*, CRM has been defined from two perspectives: (1) macro level: aggregate process of building profitable and mutually beneficial relationships with customers, a process that includes sub-processes ([14], [1], [15]) and (2) micro level: only manage interactions with customers, to develop and maintain profitable relationships with them in the long run [16].

*As a philosophy*, CRM is focused on customer relationship initiating, maintaining and enhancing.

Viewed as a process, CRM involves initiating, maintaining and terminating customer relationships across all contact points with customers, in order to maximize the relationship portfolio value [1].

## 2. Research Hypothesis and Model

According to Izquierdo et al. [17], the process of developing a customer relationship consists of activities aimed at: (1) customer acquisition, (2) customer retention (in order to keep the customer in the company's portfolio) and (3) maintaining the customer relationship.

Jutla, Craig and Bodorik [18] propose a framework for measuring the performance of CRM activities, using metrics such as: customer retention rate, customer satisfaction, customer profitability, customer value, product/service customization degree. Sheth and Parvatiyar's research [2] revealed that CRM activities increase business productivity by increasing the efficiency and effectiveness of marketing activities.

Based on this, Teng, Ong and Ching [19] found that CRM activities have a positive effect on cost reduction, employee productivity and product quality. Verhoeff [20] suggested that CRM activities have a direct positive impact on customer retention rate and customer share. Mithas et al. [21] show that CRM activities contribute to

increasing the customer-knowledge base, which, in turn, is positively related to customer satisfaction.

According to Reinartz et al. [1], implementing the CRM process (as customer relationship initiating and maintaining activities) has a positive effect on company's market share, sales growth and profitability.

Based on this previous research, we formulated the following research hypothesis:

*Hypothesis 1: The CRM processes for initiating customer relationships have a positive impact on customer-related outcomes.*

*Hypothesis 2: The CRM processes for initiating customer relationships have a positive impact on outcomes related to customer processes.*

*Hypothesis 3: The CRM processes for maintaining customer relationships have a positive impact on customer-related outcomes.*

*Hypothesis 4: The CRM processes for maintaining customer relationships have a positive impact on outcomes related to customer processes.*

Previous research by Hallowell [22], Kamakura et al. [23], Reinartz and Kumar [24] and Reinartz et al. [25] on customer satisfaction and customer loyalty, show that CRM process specific activities have a significant positive impact on sales growth. Meanwhile, sales growth is positively related in most cases with an increase in business profitability.

The customer acquisition process, which corresponds to the customer relationship initiation process from our research model (Fig.1) was found to have a positive effect on business performance [26].

The CRM activities outcomes (both customer related – e.g. customer satisfaction and customer loyalty – and customer processes related) should be positively related to general business performance. Thus, we formulate the following research hypothesis:

*Hypothesis 5: There is a positive relationship between customer-related outcomes and business performance.*

*Hypothesis 6: There is a positive relationship between outcomes related to customer processes and business performance.*

## 3. Research Methodology

We developed a set of subjective measures based on previous research. We tested the scales validity on the data we collected from 81 companies operating in the Western region of Romania.

### 3.1 Measures

The constructs of the proposed research model were operationalised using adapted scales from previous research.

For *customer relationship initiation*, 5 points Likert-type scale. The 7 items used referred to activities aimed at identifying profitable (potential) customers and contacting them.

For *maintaining customer relationship*, we used a 6 item, 5 point Likert-type scale. The scaled measured the degree to which activities aimed at maintaining customer

### 3.3 Sample structure

Companies included in our sample come from various industries (banking, tourism, telecommunications, manufacturing, wholesale, retail). These industries have been grouped into three economic sectors: most companies in the sample come from the services sector (42.68%), followed by those from the manufacturing

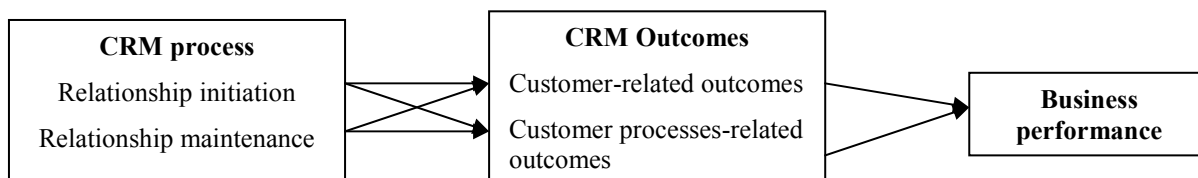


Figure 1: The research model

relationship are carried out. The scale ranged from “To a very high degree” to “Not at all”.

CRM outcomes were classified into two categories: (1) (based on Hong-kit Yim et al. [27] and Verhoeff [20]): effects on customer-related indicators (customer satisfaction, customer retention, current customer revenue) and (2) (based on Iacovou et al. [28]): effects on customer-related processes. In both cases, 4 items 5 point Likert-type scales were used, ranging from “To a very high degree” to “Not at all”.

For *business performance* we used and adapted the subjective measures previously employed by Deshpande et al. [29] and Jaworski and Kohli [30]. Both financial (sales and profitability) and non-financial (market share and customer base) measures were taken into account.

### 3.2 Sampling and data collection

We used a database containing contacts of 2000 companies operating in the Western region of Romania, in various industries and of different sizes. We sent invitations to each of these companies, asking for their agreement to take part in our research. 211 of the companies returned a positive answer, which gave a 10.55% response rate.

We sent mail or e-mails with the questionnaire to all of these 211 companies, to the marketing/sales/customer relations executives, mentioning a 60 days deadline for returning the questionnaire. Half-way through this deadline, a reminder was sent to all companies who had not returned the questionnaire.

In the end, there were 102 companies who returned questionnaires with answers. 20 of these questionnaires were invalidated, due to missing data or inconsistency.

The valid sample had a size of 82 companies, which represent a response rate of 38.86% based on the number of companies which initially accepted to take part in the survey. The response rate based on the number of contacted companies is 4.1%.

sector. Companies who operate in the trade sector account for 24.39% of the total number of companies included in the sample.

Nearly half of the companies included in our sample had a turnover of over 1000000 euro in the year 2007. Small companies follow, with a turnover of under 100000 euro in the same year, and a share of 29.63% of the sample. Medium-sized companies (with a turnover between 100000 euro and 999999 euro in 2007) account for about 20% of our sample.

Companies with between 151 and 250 employees have the highest share in the sample (49.4%). Large companies (over 250 employees) are a distant second, accounting for only 25.93% of the sample, while small companies (with less than 10 employees) have about the same share (24.69%).

### 4. Data Analysis and Results

We conducted a validity and reliability analysis for all involved scales. After eliminating the variables with low loadings (< 0.5) on their respective factor, we found all scales to be reliable (alpha Cronbach>0.7) and valid (both convergent and discriminant validity were analysed).

Table 1 Descriptive statistics

Construct	N	Average	Std. Dev.
CRM processes for initiating customer relationship	81	3.90	0.76
CRM processes for maintaining customer relationship	81	3.57	1.00
Customer related outcomes	81	4.11	0.60
Customer processes related outcomes	81	3.97	0.73
Business performance	82	4.24	0.55

The individual score for each construct was computed as an average of the distinct variables that constituted the construct.

The investigated companies use CRM activities mainly for initiating customer relationship, but also for maintaining the relationship.

The main outcomes of CRM activities are perceived to be those customer-related (customer retention, sales growth, customer loyalty and customer satisfaction).

We used simple linear regression for testing the research hypothesis.

**Table 2 Hypothesis testing results**

Hypothesis	B	t	p	Result
H1	0.334	4.14	0.000	Sustained
H2	0.344	3.44	0.001	Sustained
H3	0.333	5.82	0.000	Sustained
H4	0.345	4.74	0.000	Sustained
H5	0.271	2.80	0.006	Sustained
H6	0.317	4.16	0.000	Sustained

B- un-standardised regression coefficient

t – t value

p – significance

All research hypothesis were found to be valid, with  $p < 0.01$  in all cases.

## 5. Discussions

The investigated companies carry out CRM-specific activities for both customer relationship initiation and maintenance. The main activities for customer relationship initiation were found to be: identification of customers' needs and IT-based analysis of market data gathered from various sources.

The process of maintaining the customer relationship was found to consist mainly of programmes focused on gaining customer loyalty, by offering incentives when collaboration between the two parties intensifies. This finding is consistent with the results from Reinartz et al. [1], who suggest that activities aimed at initiating and maintaining customer relationships focus on maximising business profitability.

CRM activities yield positive outcomes, both customer-related and customer process-related. This result is consistent with the findings from Bohling et al. [31]. They found that the main positive outcomes of CRM implementation refer to: customer experience, customer relationship development, customer attraction rate, customer complaints management, customer retention rate and new product development.

Our findings are also consistent with Hong-kit et al. [27]: CRM specific activities have a positive effect on customer satisfaction, customer retention and sales generated by the current customers. We also confirmed

Ryals' results [32], by finding that CRM implementation has positive effects both on customer acquisition and customer retention.

Using CRM applications has a positive effect on customer-related results, especially on customer satisfaction (as Mithas et al. [21] previously showed). Verhoef's [20] results were also confirmed, as we found CRM processes to have a positive impact on customer retention and customer share. The effects of CRM implementation on customer related processes are partially consistent with Teng et al. [19], who studied the effects on several general company processes. Following CRM implementation, the customer perception on the company's services has improved, as well as the response speed and accuracy to customer complaints.

The customer-related outcomes (customer retention, satisfaction and loyalty) were found to have a positive impact on business performance, results which are consistent with previous research (Kamakura et al. [23], Reinartz and Kumar [24], Sin et al. [33] and Kim and Kim [34]).

The research conducted by Rust and Zahorik [35], Storbacka [36] and Halowell [22] confirmed that customer satisfaction influences customer loyalty, which in turn has a positive effect on business profitability.

Anderson et al. [37] showed that organizations providing a high level of customer satisfaction record high level of profitability. Thus, a satisfied customer offers ideas for new products, is more likely to try the company's new or improved products, pays less attention to competitors' products and is less sensitive to the product price.

The positive effect of customer retention on business performance is explained by the fact that retaining a customer is usually less expensive than attracting a new customer [38], especially on mature markets. Customer retention should not be limited to maintaining customer value. Increasing the customer value (with an impact on overall business performance should be a permanent marketing goal.

Our research shows that companies use CRM activities to initiate and maintain customer relationships. CRM activities focus on gathering and integrating customer data available in all departments, in order to generate a unique view point concerning the customer.

Decision makers should approach CRM as an opportunity to increase customer value and to reduce the costs of attracting and retaining customers. CRM does not only allow for more efficient and effective customer relationship management, but also a more efficient and effective inside and across departments.

A possible cause for CRM implementation failures is that many companies approach CRM as an IT based solution. The use of integrated customer databases is

necessary, but is not enough for CRM strategy implementation.

Given that CRM strategy is focused on customer profitability, CRM technology helps achieving this goal. Customer databases store data collected from multiple points of contact with customers. Analytical tools allow the assessment of customer lifetime value, the effects of marketing campaigns and behavior patterns. This technology improves communication and collaboration with customers, thereby delivering superior value.

If the company does not have a culture focused on development of long term customer relationships, CRM implementation might not yield the expected results. In this context, CRM implementation might involve an organisational culture change, from the transactional view (focused on company's products and brands) towards the relational view.

## 6. Limitations and further research

Our survey presents several limitations. First, the final sample size is too small to be considered as highly representative for the whole statistical population. Also, the sampling procedure was not entirely random, which also hinders sample representativeness.

Second, the sample structure does not match the population structure. It is possible that the results we found to have nuances (or be entirely different) across industries, based on the specific context and the nature of the relationships.

Company size may also influence the results: large companies, with larger resources available, may be more inclined towards implementing CRM processes and technologies, while smaller companies may find this too expensive.

The available sample is too small to allow controlling for industry and company size.

These issues, however, open some directions for future research.

Research at industry level might reveal the differences across industries in the intensity of the effects we studied.

The market lifecycle stage may also have a moderating effect on the investigated effects: on an emergent market, companies may tend to focus on activities related to relationship initiating, rather than on maintaining current relationships. As the market grows, the competitive battle is focused on the new customers, not on the existing ones. On a mature market, the focus of the CRM activities will be maintaining current customers (i.e. preventing them from migrating towards competitors); as new customers are few, the competitive battle focuses on the existing ones.

The stage of the CRM implementation may have an influence on business performance. The early stages of

CRM implementation require financial resources to be allocated to this end. If the effect (e.g. an increase in company profits) is not readily visible (and, chances are, it is not), the short term profitability might suffer.

Future research might also focus on the possible moderating effects on the CRM – business performance relationship. Possible moderators might include external factors (environmental turbulence) as well as internal ones (such as organisational culture or company size).

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