DETERMINANTS OF CUSTOMER RELATIONSHIP MANAGEMENT STRATEGIES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN WESTLANDS NAIROBI CITY

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ABSTRACT

The aim of this research was to examine the motives for which SMEs in Westlands adapt the elements of CRM practices with particular reference to whether this has impact on organizational performance. Specifically, the study aimed to achieve the following specific objectives: determining the influence management’s support on the performance of SMEs; establishing the influence of customer focus on the performance of SMEs; determining the influence of CRM processes on the performance of SMEs; and establishing the effect of social dimension on the performance of SMEs. Descriptive research design was used with a target population of 900 and a sample size of 102 SMEs was selected using the stratified sampling technique. The questionnaire and the data collection sheet were administered to the business owners and managers through drop and pick. Quantitative data was summarized using descriptive statistics which include mean, standard deviations, frequencies and percentages. The study found out that the respondents were in agreement to a great extent that the management of SMEs were customer focused, reduces as much as possible the organizational constraints, involves all employees in setting up CRM strategies, provides adequate training material and information and allocates adequate resources and budget for CRM. The study recommends that management should take measures to ensure that they adopt CRM strategies and that government and relevant organizations should provide more training to young people on the best CRM strategies to adopt in marketing, finance management and production process in order link their operation to the customers to improve performance in SMEs.

Key Words: determinants, customer relationship management, strategies, performance, small and medium enterprises, Westlands, Nairobi

INTRODUCTION

Small businesses play a critically important role in developing countries and that supporting small businesses is important in terms of achieving economic growth because they are a key agent of structural change, reducing marginalization and achieving a more equitable income distribution. Hallberg (2000), states that small businesses are the emerging private sector in poor countries thus form the base for private sector-led growth. Also, by and large, 80-90 per cent of investments in small businesses in developing countries are home grown (UN Commission on Private Sector Development, 2004).

Instead, businesses have to strive to maintain long-term relationships with their customers in order to maintain flexibility to adopt their increasing expectations and thus achieving their life-long loyalty. As customers want more and more customized products and services to match their specific needs and requirements (Nguyen & Mutum, 2012), the above mentioned approach and misunderstanding CRM simply does not work anymore.
Customer Relationship Management is a business strategy that aims to understand, anticipate and manage the needs of an organization’s current and potential customers. A CRM strategy is aligned with the corporate goal. It requires a customer-centric business philosophy and culture to support effective customer service and process. According to Gray and Byun (2013), CRM benefits include: enhance organizations’ ability to retain and acquire customers, maximize customers’ lifetime, and improve service at lower costs. CRM is about managing customer knowledge to better understand and serve them. It is a concept that places the customer at the Centre of the organization. Top CRM system vendors in are SAP, Siebel Systems (Oracle), and Microsoft dynamics.

STATEMENT OF THE PROBLEM

Customer Relationship Management strategy is not the universal remedy it was hoped to be, and their implementations in some organizations have not wholly delivered on the vision. On the introduction of the strategy to SMEs by implementing CRM, the expectations were high. This included efficiency and effectiveness, faster resolution of customer complains within 7 days, updated customer database, accuracy in the billing cycle others. Achievement of these expectations then could have led less estimated bills if any, centralization database, proper procedures of performing the various processes. In an attempt to create and enhance good customer relations, the companies opted for not only improved face to face customer relations but also coming up with a CRM system to help resolve the complaints hence less if any customer complaints. There are several competitive advantage business strategy implementation challenges studies and research in Kenya that have been done such as Kering (2009) in his study on implementation challenges of Resource Based Strategy at Barclaycard, Gakii (2010) established a study on challenges of implementing business outsourcing strategy in EABL, Ekipra (2008) looked at the implementation challenges of competitive strategies of Nation Media Group, other strategy implementation studies are strategy implementation in Kenya Media industry Thuo (2002), implementation of strategy in public sector Namenge (2001), challenges of implementing strategy in NSSF Tanui (2008), challenges of CRM implementation at NCWSC Wambura 2012. In as much as these studies looked at challenges of implementing various business strategies none studied challenges of implementing CRM strategy in SMBs. It is therefore clear that there exist a gap in research information on challenges in implementing CRM strategy, the study therefore intends to establish the determinants of implementation of customer relationship management strategies on the performance of SMEs.

GENERAL OBJECTIVE

The general objective of the study was to establish the determinants of customer relationship management strategies on the performance of small and medium enterprises in Westlands, Nairobi County.
SPECIFIC OBJECTIVES

1. To determine the influence managements’ support on the performance of SMEs.
2. To establish the influence of customer focus on the performance of SMEs.
3. To determine the influence of CRM processes on the performance of SMEs.
4. To establish the effect of social dimension on the performance of SMEs.

THEORETICAL FRAMEWORK

Information Technology Theory

CRM is an IT enabled business strategy, the outcomes of which optimize profitability, revenue and customer satisfaction by organizing around customer segments fostering customer-satisfying behavior and implementing customer centric process (Buttle, 2009). CRM is an integration of Technology and business processes used to satisfy the needs of a customer during any interaction. More specifically, CRM involves acquisition analysis and knowledge about customers in order to sell more goods and services and to do it more efficiently. Almotairi (2009), referred to CRM as a key competitive strategy that is needed to focus on customers’ needs and to integrate an organizational customer-facing approach. For an organization to integrate IT, concepts such as data warehouse, software customization, CRM Success process automation, help desk and call centers, and internet influence should be addressed (Mendoza et al. 2007). Although CRM has an organization-wide impact, process that has direct interaction with customers should be dealt with as a priority when integrating and automating business processes. According to (Mendoza et al. 2007) the main business processes that should be addressed in CRM implementation are: marketing, sales, and services.

Porter’s Theory of Competitive Edge

“Sustainable competitive advantage” is a term used by Porter (2008) when he discusses the basic types of competitive strategies that a firm can possess (low cost or differentiation) in order to achieve a long run sustainable competitive advantage. In his book Competitive Advantage: Creating and sustaining superior performance, Porter explains the requisite approach to business success. Sustainable competitive advantage means sustainable superior performance. He goes ahead to state that structural conditions of an industry as proposed in his 5 Forces model determine average industry performance. Relatively strong competitive position and performance of a particular firm in an industry derives from two types of competitive advantage i.e. low costs and differentiation (Porter, 2008). The two approaches are not however alternatives because even when competition is based on differentiation, costs still do matter. Porter’s approach suggests that differentiation and cost leadership seek competitive advantage in a broad range of market or industry. By contrast differentiation focus and cost focus strategies are adopted in a narrow market industry. Differentiation involves selecting one or more criteria used by buyers in a market and then positioning the business uniquely to meet those criteria (Porter & Kramer,
2006). The strategy involves charging a premium for the product – often to reflect higher production cost and extra value added features provided for the consumer.

**Data Theory**

Another CRM strategy related components is data factor. Data analysis and quality has been suggested by many researchers as being important to CRM initiatives (Ryals & Payne 2009). Traditional analysis of customer data is based upon customer a segmentation decision which is quite different than the customer strategies which form part of CRM strategies today that rely more on “1-to-1 marketing” and “lifetime customer value”. Abbott et al. (2006), studied seventeen organizations implementing CRM strategies and found that clean customer data was essential to successful CRM performance. On the other hand, a number of studies concentrated on more specified or more technical factors. An example of this approach is the work of (Roh et al 2005), in which the researcher identified the following factors as requirements for CRM success: process fit, customer information quality, system support, efficiency, customer satisfaction, and profitability.

**CONCEPTUAL FRAMEWORK**

Kothari (2004) defines conceptual framework as a structure that defines the interrelationship between variables deemed important in a study. He further explains that it expresses the researcher’s views about the constructs deemed important in a study. In this study the researcher views domestic tourists’ decision to travel to a destination of choice in Kenya to be influenced by infrastructure development, safety and security, cultural diversity and community based tourism.

**Management Support**

According to (Sherif & Newby, 2007), the lack of factors such as top management support, aligning internal processes, linking CRM project to organization’s higher-level strategies, focus on ROI (return on investment), achieving positive results, early in the project could eventually contribute to the failure of CRM implementation. Chalmeta (2006), has supported some of the previous failure reasons as he pointed out the following factors as causes: Thinking of CRM as a pure technology; Lack of management support; Lack of customer-centric culture; Lack of readiness process; Poor quality data; Lack of change management; Lack of vision and strategy; Lack of involving the final user in designing CRM solutions.

Eriksson, Kerem and Nilsson (2005) explains the importance of support from senior management as being critical to their firm’s ability to develop a customer knowledge competence. Managers must demonstrate their support to CRM programs by involving themselves in the customer knowledge sharing activities and, including CRM as a part of organizational vision and mission and developing a friendly culture through organization. Since management support is a critical factor to achieve innovation, CRM as an organizational innovation also requires management's strong impetus and support.
Another role of top managers is eliminating constraints (such as rigid regulation, hierarchical bureaucracy, lack of funding to CRM programs, close culture and etc.) faced by organization when implementing CRM process. Proper budgeting of resources is crucial for CRM. Making technical system, recruiting and training employees, reward system and required financial support. Lack of commitment in budgeting and funding would be a major problem and barrier for effective CRM active ties.

**Influence of Customer Focus**

Fazlzadeh, Tabrizi and Mahboobi (2011), suggest that nurturing the right culture is an important element in CRM strategy implementation, particularly where CRM strategy falls within the domains of IT and marketing, each of which contain their own organizational sub cultures. One of the most important factors for the quality and extension of customer knowledge creation and dissemination is the customer oriented culture.

Every department in an organization should realize that customer satisfaction is a component for building strong relationships and that this depends on the delivered quality of the value-added goods or services. Implementing a CRM strategy means involving a wide variety of people - frontline sales, marketing and service providers, business analysts, IT professionals and a broad array of managers, all of whom must collaborate to ensure that a CRM strategy is well defined, delivered and deployed.

Empowered employees are given the freedom, independence and discretion over their activities. Delegating responsibility and empowering staff to handle customer contacts is essential for relationship management. By empowering people, it gives them the sense of power and authority, thus giving them more chance and rooms to innovate, creation and explore new fields. Employee involvement means allowing employees to involve in their own jobs design and evaluation of their own jobs. If employees are not involved and consulted in the CRM project design and planning stages, this will lead to their requirements to be poorly understood and satisfied. Training is an important factor to CRM implementation. Employees should become completely familiar with CRM process concepts. They should be trained in using CRM systems and other technical tools.

**CRM Processes**

CRM centers on gaining a steady or increasing business from current customers, not necessarily a constant stream of new customers. Kim and Kim (2009), notice there are several ways to design a customer-centric process. Redesign front office and examine information flows between the front and back office; foster customer loyalty by becoming proactive with customers and build in measurable checks and balances to continuously improve. Harrigan (2011) explains CRM has been defined at two different levels of aggregation, when it is viewed as a process.
CRM process is a series of activities for acquiring, retaining, and expanding the relationship with customers. In the CRM field as well, the process perspective is important in that buyer-seller relationships evolve over time, thus CRM realization is contingent upon a firm’s ability to detect and respond to evolving customer needs and preferences. Customers, Orders, Contracts, Products and services, Problems, best practices.

Barney et al. (2007), have argued that through maintaining a consistent and permanently cooperative relationship with profitable customers, a business can considerably reduce the fluctuations of price and demand in its business cycles and stabilize its environment in the long run. There are different CRM processes as follows: Customer-facing level CRM processes: CRM process at the customer-facing level can be defined as "a systematic process to manage customer relationship initiation, maintenance, and termination; across all customer contact points to maximize the value of the relationship portfolio". There are three CRM processes at the customer-facing level of CRM including relationship initiation, relationship maintenance, and relationship termination.

**Social Dimension**

People which shall entail stakeholders, organizational structure, employees and customers are a key factor to attained CRM projects. CRM is built around customers to manage beneficial relationships through acquiring information on different aspects of customers. The main objective of CRM is to translate the customer information into customized products and services that meet the changing needs of customers in order to gain their loyalty. Nevertheless, a full commitment of the organization's staff and management is essential for an effective CRM implementation to best serve customers and satisfy their needs (Mendoza et al. 2007). Customer Relationship Management is a business strategy that has its philosophical basis in relationship marketing (Chen and Chen, 2003).

The realization of CRM requires a change of business processes towards customer centric approach. As such, all business processes that involve both direct and indirect interaction with customers should be analyzed and assessed (Mendoza et al. 2007). Although, CRM has an organization-wide impact, process that has direct interaction with customers should be dealt with as a priority when integrating and automating business processes. According to (Mendoza et al. 2007) the main business processes that should be addressed in CRM implementation are: marketing, sales, and services.

Organizational structure hierarchical bureaucracy leads to insufficient, ineffectiveness, powerlessness and prohibiting sharing knowledge and expertise among employees and managers. Mechanic organization with hierarchical bureaucracy breaks tasks into simple parts and different level of employees has responsibilities of each of them and each defines by specific rules and regulations. In this kind of organization knowledge is transfer vertically...
through typical chain of command. Hierarchical bureaucracy also limits communications between employees and between employees and supervisors (Frow & Payne, 2009).

RESEARCH METHODOLOGY

The study adopted a descriptive research design which involved gathering of data describing events, organizing, tabulating and describing collection method. According to CBS, ICEG and K-Rep (1999) MSE Baseline survey results, the total number of enterprises per 1,000 residents of the Kenyan population is 43 SMEs. Hence, the population of all SMEs in Westlands is approximately 18,488 (429,965 ÷1,000 x 43); assuming a steady growth rate. The study adopted a sample size of 140 respondent SMEs. The study used a questionnaire to collect primary data which was analyzed using mean, standard deviation, frequencies and percentages.

RESEARCH RESULTS

Influence Managements’ Support on the Performance of SMEs

The management is customer focused had the highest mean of 4.19 with a standard deviation of 0.849 followed by management reduces as much as possible organizational constraints which had a mean of 4.13 with a standard deviation of 0.842, management involves all employees in setting up CRM strategies had a mean of 3.97 with a standard deviation of 0.915, management provides adequate training material and information had a mean of 3.88 with a standard deviation of 1.047 and management allocates adequate resources and budget for CRM had a mean of 3.65 with a standard deviation of 1.067. This finding are consistent with those of Eriksson (2005) who explains the importance of support from management as being critical to their firm’s ability to develop a customer knowledge competence. Managers must demonstrate their support to CRM programs by involving themselves in the customer knowledge sharing activities and, including CRM as a part of organizational vision and mission and developing a friendly culture through organization.

Influence of Customer Focus on the Performance of SMEs

From the findings, the company is customer oriented had the highest mean of 3.95 with a standard deviation of 1.233, suggestions of customers are reviewed had a mean of 3.91 with a standard deviation of 1.005, customer management training and management is done had a mean of 3.70 with a standard deviation of 1.466 and Customers are satisfied with the service of the company had a mean of 3.47 with a standard deviation of 1.226. This finding is in agreement with Wilson et al. (2008) who explain that the world has shifted from product focus to customer focus, managers have found that the enhancement of existing customer relations brings the benefit of profitable and sustainable revenue growth.
**Influence of CRM Processes on the Performance of SMEs**

The CRM process is reviewed regularly and improved had a mean of 4.23 with a standard deviation of 0.941, CRM processes have been put in place had a mean of 3.62 with a standard deviation of 1.178 and CRM processes are clearly defined had a mean of 3.32 with a standard deviation of 1.278. This finding is in agreement with those of Bull (2003) who revealed that CRM posed a challenge since it required continuous maintenance, information updating, and system upgrading, it is costly and it is difficult to integrate with other management information systems.

**Effect of Social Dimension on the Performance of SMEs**

From the findings, there is a clear organizational structure had a mean of 3.91 with a standard deviation of 1.005, this is a team oriented organization had a mean of 3.73 with a standard deviation of 1.126 and the employees understand the CRM strategies put in place had a mean of 3.47 with a standard deviation of 1.226. This finding concurs with those of Mendoza et al. (2007) that the main business processes that should be addressed in CRM implementation are: marketing, sales, and services. Organizational leaders must act as catalysts in building team-oriented organizations.

**Performance of SMEs**

From the findings, improved employee productivity or business efficiency had the highest mean of 3.95 with a standard deviation of 0.903, improved accuracy and reliability of information had a mean of 3.93 with a standard deviation of 1.357, increased competitive advantage had a mean of 3.80 with a standard deviation of 1.325 and good return on investment had a mean of 3.49 with a standard deviation of 1.573. This finding is in agreement with those of Barney et al. (2007) who argued that through maintaining a consistent and permanently cooperative relationship with profitable customers, a business can considerably reduce the fluctuations of price and demand in its business cycles and stabilize its environment in the long run.

**REGRESSION ANALYSIS**

The study conducted a multiple regression analysis to establish the determinants of customer relationship management strategies on the performance of SMEs. The study results are shown in the subsequent sections.

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.872</td>
<td>.760</td>
<td>.746</td>
<td>.1864</td>
</tr>
</tbody>
</table>
Table 2: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.144</td>
<td>2.295</td>
<td>1.063</td>
<td>0.040</td>
</tr>
<tr>
<td>Management Support</td>
<td>1.012</td>
<td>.189</td>
<td>1.012</td>
<td>1.073</td>
</tr>
<tr>
<td>Customer Focus</td>
<td>1.201</td>
<td>.177</td>
<td>1.225</td>
<td>1.123</td>
</tr>
<tr>
<td>CRM Processes</td>
<td>1.443</td>
<td>.201</td>
<td>1.476</td>
<td>1.204</td>
</tr>
<tr>
<td>Social Dimension</td>
<td>1.325</td>
<td>.237</td>
<td>1.327</td>
<td>1.371</td>
</tr>
</tbody>
</table>

From the regression findings, the regression equation becomes:

\[ Y = 2.144 + 1.012X_1 + 1.201X_2 + 1.443X_3 + 1.325X_4. \]

The results indicate that; an increase in the management support by one unit leads to an increase in performance by 1.012 units; an increase in customer focus by one unit leads to an increase in performance of MSEs by 1.201 units; an increase in CRM processes by one unit leads to an increase in performance of MSEs by 1.443 units and an increase social dimension by one unit leads to an increase in performance of MSBs by 1.325 units.

**CONCLUSIONS**

The study concludes that Customer Relationship Management is a useful business strategy and most essential to SMEs which have a day to day dealing with the customers. It is beneficial for all stakeholders: customers, employees, and investors. From the study, it was established that the system ensured personalized attention provided by the SMEs to the customers, ensured professional behavior of the employees of the companies and there is promptness in handling customer complaints/grievances.

The study further concludes that a well maintained CRM system can also enhance increased performance through revenues and profits. This is because adoption of CRM builds a long lasting relationship between the customers and the businesses. It also makes it capable for SMEs to conduct risk analysis and increase customer service effectiveness and also develop its customer’s base and sales capacity. This is achieved since CRM system helps accumulate related information about customers in order to provide effective services.

The study also concludes that adoption of CRM influence organization performance. CRM have positive relationship with organization performance. This means that adoption of CRM strategies relating to situational analysis, strategy formulation, implementation and evaluation would lead to improved organization performance. Hence, adoption of CRM practices provides small firms with new tools for survival, growth and maintaining a sustainable competitive advantage. This is not withstanding the fact that SMEs performance will depend on the size of the firm where large firms have comparably lower performance and SME sector where firms in service sector have higher performance than those in manufacturing sector.
RECOMMENDATIONS

The study recommends that management should take measures to ensure that they adopt CRM strategies. This can be done by carrying out detailed and accurate situational analysis, involvement of consultants and all employees in strategy formulation, ensuring implementation of CRM strategy is participatory and continuously reviewing the strategies implemented by firms. The study found out that customer Relationship Management (CRM) is an organizational strategy focused on providing better customer service and improve performance. The researcher recommends that organizations need to incorporate CRM as part of their organizational strategy so as to improve on overall organizational performance.

The study recommends that firms need to work towards building long lasting relationships between them and customers. By increasing, customer focus, firms can be able to conduct risk analysis and increase customer service effectiveness which in turn leads to the development of customer’s base and sales capacity.

The study recommends that organizations need to adopt appropriate social organizational dimensions for instance organizational structure and work teams. Firms therefore need to ensure that their organizational leaders act as catalysts in building team-oriented organizations.

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