How Customer Relationship Management (CRM) and Innovation Influence Business Performance Mediating Role of Innovation

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ABSTRACT

According to Bain & Company, CRM is at the top of management tools in recent years. This article aims to answer the productivity paradox of CRM and investigates the impact of both CRM and innovation on firm performance and also investigating mediating role of innovation to explain the effect of CRM on performance. To obtain research objective, an empirical study was conducted. For evaluating conceptual model, survey instrument was developed. The relationship between dimensions of CRM and innovation, as well as the relationship between innovation and business performance, were approved, but direct relationship between dimensions of CRM and business performance, according to the data collected, was not approved. Innovation and CRM both are valuable capabilities, which are viewed necessary to achieve a competitive advantage. However, there are little researches about how the interaction of these two concepts improve performance, and despite massive investments in the field of CRM, its impact on business is ambiguous.

KEYWORDS

Customer Relationship Management, Innovation, Mediation Role, Performance

1. INTRODUCTION

CRM have become key strategic tool for all companies, especially in the current competitive environment which lead to enhanced customer satisfaction and increased customer loyalty (Garrido-Moreno & Padilla-Meléndez, 2011; Steel et al., 2013). Hence, recently huge investments are spending CRM initiatives. According to Gartner, more than $ 23.2 billion has been spent on the implementation of CRM projects, which has grown 13.3% compared to 2013 (Gartner, 2015). Despite large investments on this field, the risk and failure rate of this projects is high and failure rates of between 52% and 75% with CRM project outcomes have been reported (Steel et al., 2013). Given the importance of CRM implementation, it is necessary to clarify mechanisms by which organizational performance improves. CRM systems assist products/services developers and designers to offer new and customized products/services to market by providing valuable information related to customer’s behaviors, needs and demands, and thereby, improve the organization’s performance (Ernst et al., 2011). However, despite various empirical studies which mentioned a positive relationship between

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CRM and organizational performance (Wu and Lu, 2012; Rapp et al., 2010) but there is noticeably silent on the extent to which CRM investment contributes to firm performance (Coltman et al., 2010). Xerox company case illustrates that CRM should be used as a dynamic concept, and then company will achieve superior performance in the market (Ernst et al., 2011). In this regard, many studies show that companies which offer innovative products and services more than other companies gain profitability (Lin et al., 2010; Panayides, 2006); therefore, the effective development of innovation along with the deployment of CRM is an issue that organizations should pay more attention to it.

In spite of research in the field of the impact of CRM and innovation on performance (Battor & Battor, 2010; Hsin Chang, 2007; Rabi et al., 2010) there is little attention to explain how these concepts relate with each other and finally impact on performance. Studies regarding to investigate the impact of dimensions of CRM on innovation are conceptual and limited. In this study, we are trying to fill this research gap by an empirical study.

One of the organizations in Iran, which has paid special attention to providing innovative products, attracting customers and customer-oriented processes is Information Technology Development Center “MAGFA”. The company as the subsidiary company of Development and Renovation Organization of Iran has organized and focused its activities in the field of ICT. MAGFA implemented CRM more than 13 years ago and spent many costs and effort to implement it successfully. However, in Iran along with MAGFA many other companies active in CRM system have remained backward of many of the pioneers at the international level, and have failed to enter the global markets and compete with international competitors. MAGFA, as a well-known company in marketing and CRM in IT services companies was selected for more investigation.

In general, this study try to answer three main questions, which are: “do the dimensions of CRM directly have impact on business performance?”, “do the dimensions of CRM through innovation have impact on business performance?” and “If, innovation in the relationship between CRM and performance play a significant role of mediator, the mediation severity of this variable is how much?”. In fact, the main emphasis of this study is to explain mediation role of innovation in the relationship between CRM and business performance, which in prior researches, little attention has been paid to it.

2. THEORETICAL FOUNDATIONS OF RESEARCH

2.1. CRM and Its Dimensions

Despite extensive studies related to CRM, there is no common and clear meaning of it (Sin et al., 2005). However, some studies consider CRM as an IT solution or a technical asset to collect and share customers’ information through organization, others consider CRM as a tool for communication with customers, and some know it as an organizational resource in improving customer relationships (Akgün et al., 2014). In addition, in some studies, CRM has considered as a process which integrates the people, organization, marketing processes and IT in order to create, maintain and enhance communication with customers, as well as the use of information about them (Khodakarami and Chan, 2014). CRM processes categorize in two main groups, including internal and external processes. The emphasis of internal processes are related to organizational structure, culture, and KM. External processes are related to interactions with customers (Lin et al., 2010). External processes, which in this study are referred to as CRM features are as follows:

- **Long-term partnership**: The capability related to creation of business relationships between company and its consumers along with commitment and trust. Both groups should have common goals and seek common interests. Long-term relationships with customers which is core of CRM philosophy are more beneficial way for business rather than product-based approach or transaction-based approach (Garrido-Moreno and Padilla-Meléndez, 2011). Organizations should also consider that quantitative increase of relationships with customer necessarily is
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