CHAPTER 1:

INTRODUCTION

1.1 Introduction

In the business world today, top management recognizes that customers are the core of a business and the success of a company relies on effectively managing relationships with them. Hence, an important objective for companies is to make customers happy because they are the ones who keep the business running. In the past, many companies did not think this is an important factor and not really paid attention to the feeling of customers with the result that many of these customers did not repurchase. Moreover, customers' needs and purchase pattern have changed dramatically. In order to meet various needs, companies tend to adopt differentiated and customer-oriented marketing strategies to gain competitive advantage. Customer Relationship Management (CRM) is a concept to enhance a company's ability to retain customers and gain strategic over its competitors. It is focused on creating and managing relationships with customers more effectively through detailed and accurate analysis of consumer data using various information technologies (Buttle, 1996; Gefen and Ridings, 2002; Ngai, 2005).

As with any mature economy, making customers happy and keeping good relationship with customer is very important to Hong Kong's businesses. Hong Kong's overall economic growth has been driven by the strong performance of the services sector (88% of GDP is derived from the services sector). Because of the increasing economic growth, CRM has been

gathering attention from attorneys, accountants, merchants and bankers and is one of the strategies considered by organisations in order to improve their relationship with customers and to increase profits.

Interest in CRM started to grow in 1990s (Ling and Yen,2001; Xu *et al.*2002). CRM can be seen as an approach to marketing that has its origins in Relationship Marketing (RM). The focus in RM on building relationships and connections with customers to ensure customer retention and thus enhance profitability is also central to CRM. According to Light (2001), CRM evolved from business processes like RM and the great amount of attention given to improving customer retention through the effective management of customer relationships. CRM focuses on building long-term and sustainable customer relationships that add value for both the customer and the company. As CRM evolves, richer definitions are arising with the emphasis on the goals, logistics and multifaceted character of CRM.

There are various definitions about CRM in the literature raised by academics and practitioners. Some of definitions can be quite different. The definitions of CRM described by academics mainly come from Marketing and Information System literature. For example, Kincard (2003, p.41) viewed CRM as "the strategic use of information, process, technology, and people to manage the customer's relationship with your company across the whole customer life cycle". Parvatiyar and Sheth (2001. p.5) 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 customers. 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". These definitions emphasis the importance of viewing CRM as a comprehensive set of strategies for managing relationships with customers that relate to the overall process of marketing. Moreover, information technology (IT) and information system (IS) can be used to support and integrate the CRM process to satisfy the needs of the customers.

On the other hand, practitioners have a different view of what constitutes CRM. The definitions published by organisations which are practicing CRM or providing consulting services on CRM are practical and mainly consist of technological side of CRM.

Hence, it seems that CRM can be seen as both a business strategy and a technology software set. It is important to note that technology in the form of database is widely regarded as the core of CRM with data used to "build a long-term connection between the company and consumer" (Copulsky and Wolf, 1990, p.17). Also, Sandoe *et al*. (2001) indicated that advances in technologies related to databases are vital to the effectiveness of CRM systems. IT also enables organisations to collect, store, develop and disseminate knowledge throughout the organisation (Bose, 2002; Crosby & Johnson, 2001). CRM applications take full advantage of technology innovations with their ability to collect and analyse data on customer patterns, interpret customer behavior, develop practice models, respond with timely and effective customised communications and deliver product and service value to individual customers.

Although CRM systems employ sophisticated technology, a CRM initiative involves more than just technology. Technology and software automation enhance the processes associated with managing customer relationships. The business strategy positions the customer as the focus of the organisation, creating a "customer centric" orientation (Grant and Anderson, 2002). CRM has spurned the development of the new B2C, business-to-business (B2B) markets, and business approaches to database marketing and personalisation through a multi-channel environment.

Previous research on CRM is mainly about the implementation issues, concepts or definitions and the information technology required for CRM. A lot of the literature talks about why firms implement CRM, what the benefits will be after implementing CRM, however, those work is not grounded in rigorous empirical work. Discussion on the CRM implementation or adoption issues are mainly concluded from qualitative reviews or case studies such as in the banking industry or small and medium enterprises (SMEs). It is clear that there is a need for further empirical studies of CRM issues mentioned in previous research. CRM sounds very helpful in organisations but some organisations are not realising the benefits of CRM and finding that CRM initiatives fail, therefore, I would develop an empirical model by taking account of the CRM implementation matters discussed by previous researchers in order to discover the drivers of CRM adoption and its consequences. Thus, it can provide some empirically based insights about the drivers that are likely to affect the CRM adoption. More academic value will be discussed in section 1.3. The research should be valuable particularly as it is to be conducted in Hong Kong which is a service oriented city. It will

also offer some practical insights relevant to companies who want to adopt CRM as it will provide enough hard evidence to prove the effects of CRM if adopted in an organisation.

1.2 Research aims

As mentioned in the last section, in order to find out the adoption decision of CRM and its impact, the objectives of this research are therefore to investigate

1) the factors which lead organisations to adopt CRM; and

2) the impact of CRM on the organisational performance.

Figure 1.1 gives an overview of the research objectives.

Figure 1.1 - Overview of the research objectives

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│ Factors         │      │ CRM adoption    │     │ Performance     │
│ influencing CRM │─────▶│                 │────▶│                 │
│ adoption        │      │                 │     │                 │
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In chapter 2, the concept of RM and definitions of CRM are reviewed. It is agued that there is no universally accepted definition of CRM and it will be useful to have a consistent definition of CRM throughout the study. That definition should be as general as possible so that academics and practitioners can use the results of this research in the future. During the evaluation of the perceptions on CRM definitions, it was found that the definitions of CRM in literature can be classified into 4 types: 1) technology focused – conceptual 2) technology focused – practical 3) customer

focused – conceptual and 4) customer focused – practical. Therefore, a definition of CRM is presented in chapter 2 by taking into account the four elements:

An integrated strategy and technologies for managing the relationships with potential and current customers as well as business partners across marketing sales and service, regardless of the communication channel

Due to the importance of technology dimension in the definition of CRM, the innovation literature is a useful reference in suggesting a research framework for this study. The innovation diffusion model of Rogers (1995) is chosen to provide a theoretical framework for this study. The model was further extended by adding antecedents and impacts discussed in the literature related to CRM or marketing concept. IT and competitive environments. In 2002, when Xu *et al.* analysed the adoption of CRM technology, they pointed out that managerial, personnel, technical and environment were the issues organisations would have to pay attention to. Especially, they emphasised that CRM should be supported by a corporate culture that embraces customer-focused aims. Moreover, leaders should be aware that CRM is a long-term investment and hence the economic return will also be a long-term one. Bull (2003) conducted a case study which shows a high failure rate for CRM. The study confirms that CRM is a complex and holistic concept requiring appropriate business processes and integrated systems. In addition, the study suggests the need for effective leadership, sourcing, targeting and evaluation within CRM strategies.

CRM initiatives have resulted in increased competitiveness for many companies as observed from higher revenues and lower operational costs. It is because CRM applications help organisations assess customer loyalty and profitability on measures such as repeat purchases, money spent, and customers' lifetime. Managing customer relationships effectively and efficiently boosts customer satisfaction and retention rates (Reichheld, 1996; Jackson, 1994; Levine, 1993). In other words, customer satisfaction and retention is believed to be the benefits of CRM. However, the benefits of CRM may not always be easy to realise and organisations that want to adopt CRM face many challenges. Implementing a CRM which does not meet the organisations' needs would be a disaster for the company. These issues are discussed in more detail in chapter 3.

Then, in order to answer the objectives 1 and 2 in this research, both qualitative and quantitative methods will be carried out. Qualitative research will assess the relevance of factors found in the literature as well as the relevance of Rogers' framework for companies in the Hong Kong context and whether they require any additions or extension by talking to practitioners working in different companies who are doing CRM. This would also make sure that the questions could be developed in a way that the practitioners can understand in the quantitative stage. The discussion about the interview results and the development of research questions appears in chapter 4.

When the research questions have been set up after conducting the exploratory interviews, quantitative research is conducted to test the

hypotheses. It is beneficial to have a quantitative study because quantitative research is based upon formulating the research hypotheses and verifying them empirically on a specific set of data (Frankfort-Nachmias & Nachmias, 1992). The independent and the dependent variables under investigation are clearly and precisely specified when using quantitative methods. In this case, the influences of independent variables on the dependent variables can be analysed systematically and the degree of effect of the independent variables can be investigated at the same time. Also, the researcher's own values, biases and subjective preferences have no place in the quantitative approach. It was found that there is a lack of empirical research about CRM with hypothesis testing on the conceptual theories in the past. Studies related to CRM issues are found mainly to have been conducted through a qualitative approach such as the case study and action research. The philosophy, process and results of quantitative research were discussed in chapter 5 and 6.

CRM adoption is complex in terms of both technology and managerially. It has been found during the exploratory interviews that simply asking about whether the respondents' organisations adopt CRM or not is unhelpful, therefore the author needs to reconceptualise adoption so that it is both about having CRM and about using it and engaging with it (that is about doing and being serious about it). Hence, the respondents in the exploratory interviews were categorised into high engagement and low engagement adopters according to the levels of engagement with CRM for analysis purpose. Moreover, metric scale on measuring the levels of engagement with CRM was adopted rather than simply using a binary variable to measure

the CRM adoption in the quantitative stage. Hence, CRM adoption was treated as a continuum ranging from basic low levels of engagement with CRM to more complex higher levels of engagement with CRM in the analysis without changing the original objective of the research in testing the relationship between drivers of CRM adoption, CRM adoption and the impacts of CRM adoption.

Regression models including logistic regression and multiple regression are used to identify the factors influencing the adoption of CRM. In addition, structural equation model is used to explore the relationship between the proposed antecedents and the impacts of CRM adoption in the research framework.

1.3 Research Contribution

The objectives outlined above contribute to the need for an extensive understanding, supported by empirical evidence, of the adoption process within organisations of the services sector in Hong Kong. Hong Kong's overall economic growth has been driven by the strong performance of the services sector (88% of GDP is derived from the services sector) (Census and Statistics Department, HK). Services sector include wholesale, retail, import and export trade, transport, financial services etc. Due to the growth of services industries, organisations in this sector must hold enormous amounts of data on their customers. It is believed that more organisations become aware of the possibilities of using the data they already have about their customers in order to build long-term relationships with them and

would consider to adopt CRM. Research is needed on CRM in services sector because it is such a large sector of the economy and there has been little previous research in understanding the adoption and experiences of companies adopting CRM in this sector. Furthermore, it is argued that CRM is probably more advanced in services sector than in other sectors, so organisations in these other sectors can learn from the service sector's experiences. Hence, conducting this research is very valuable and it is achieved through conceptual, empirical, methodological and practitioner guidance contributions.

Firstly, this study will identify drivers of CRM adoption. Up to now, practitioners and academics still know little about which factors influence CRM adoption. Failure to address these factors leads to wasted investments and a failed process. This research thus will be very valuable. In fact, few of the drivers of CRM adoption mentioned in previous literature have been systematically tested by a quantitative approach. Researchers observed those determinants mainly by casual observation or case study. Descriptive statistics and simple testing are the only methods that have been used for analysis before. There is a need for research because empirical research on CRM adoption is largely lacking. At present, it has been found that the systematic empirical research about CRM with hypothesis testing on the conceptual theories is not enough. For example, when Romano and Fjermestad (2002) reviewed the CRM literature, they found that a large percentage of the papers deal only with ideas, framework, and speculations rather than with direct observations. As a result, systematic empirical research should be very useful in Marketing or Information Systems areas in

studying CRM so that conceptual ideas about CRM can be tested statistically with an appropriate sample size.

Secondly, a conceptual model on CRM adoption will be developed in this study. Factors which are important will be identified and performance of organisation will be tested using the Structural Equation Model (SEM). To the best of my knowledge, there is no systematic investigation of the extent to which CRM is adopted and applied.   This research will enable investigation of the factors that will impact upon CRM adoption in organisations in the service industry of Hong Kong.

In addition, CRM adoption was perceived as an innovation and an augmented version of Rogers' perceived attributes of innovation model was applied to conceptualise the factors affecting CRM adoption; this is something no one has done before. As no previous research has investigated the impact of CRM adoption in Hong Kong, this study will help us to understand both why certain organisations in Hong Kong have chosen to use CRM and what the impact of CRM is on their organisational performance.

As will be discussed in chapter 4, conceptualisation of each research question in this research was achieved through consideration of existing literature and analysis of a qualitative study conducted by the author. New constructs about the CRM adoption factors have also been developed. Therefore, this study integrates knowledge from both academicians and practitioners which will also reflect the real situation about CRM practice.

1.4 Chapter outline

As discussed, the descriptions and explanations of the above were arranged as below in the thesis.

Chapter 2 provides a review of the literature on the definitions and evolution of Relationship Marketing and CRM as a foundation for this research. In addition, the difference between CRM and database marketing is explored. A definition of CRM is presented after evaluating various definitions discussed in the literature. Finally, the previous methodology used to study CRM is examined.

Chapter 3 examines the antecedents and impacts of the level of CRM adoption. Innovation study was used as a reference to form the framework for this research because of the technology dimension in CRM definition. It was decided to extend Rogers' perceived attributes of innovation model by including some more antecedents and impacts described in the previous research on CRM, innovation adoption and marketing concept. The antecedents were then classified into business related and environmental related factors. .

In order to enhance insights provided by extant literature and very little was understood about the CRM adoption process in Hong Kong, a qualitative study was required to assist in conceptualisation of the research questions. Purpose, method and sample descriptions for the qualitative study are provided in ***Chapter 4***. Moreover, the results of interviews are integrated with the literature to develop the conceptual framework and to derive a series of related propositions for empirical testing in this chapter. 17

hypotheses were set up.

Chapter 5 explains the survey environment in Hong Kong and details the research philosophy for this research. A mail survey is used for the quantitative study and the questionnaire development, sample selection and pretesting are discussed.

Final responses are provided in **Chapter 6**. In addition, the analysis is completed in this chapter where the model examines the antecedents and consequences of CRM adoption. Analysis strategy and methods (including exploratory factor analysis, confirmatory factor analysis, regression model, structural equation model and checking on reliability and validity) are presented. 15 out of 17 hypotheses were supported by the analysis results. The results are discussed with reference to the specific propositions and extant literature.

Finally, **Chapter 7** provides a summary of the key findings of the research and discusses the resulting theoretical and managerial implications. Limitations of study and findings are discussed and areas for future research presented.