

Dagmar Lesáková
Markus Reheis

ANALYSIS OF CUSTOMER RELATIONSHIP DEVELOPMENT

***Abstract:** The focus of this paper is on customer relationship development. The goal of our research study was to identify and analyse the indicators of customer relationship development in human resources recruitment / leasing companies. The indicators were made sequentially operational in order to translate customer relationship development into specific activities designed to increase business performance. The final purpose of the research is to determine the strength of the relationship between business performance and customer relationship. This paper presents the research results and discusses the appropriateness of the customer relationship indicators applied in human resources recruitment companies. It is a part of the research project VEGA 1/0652/10.*

***Key words:** customer focus, market orientation, business performance, customer satisfaction*

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Introduction

This paper offers an example of how customer relationship development can be measured and adapted in a specific sector of companies.

In the following section an overview of the theory is presented. Then we provide a description of the empirical research and the variables used in the analysis. The results of the analysis are then explained and followed by a discussion of the main conclusions.

Theoretical Background and Research Hypotheses

Marketing literature provides various definitions of market orientation. Kohli, Jaworski and Kumar [4] distinguish three main themes among the definitions of market orientation:

1. customer focus
2. coordinated marketing
3. profitability.

In their research they conclude that market orientation refers to the company generation of market intelligence concerning current and future needs of customers, dissemination of intelligence within the organization, and responsiveness to it. Comparing their definition of market orientation with the main three themes which they distinguished shows that their focus is broader than customer relationship development, as they refer to market development.

Narver and Slater [3] define market orientation as a business culture committed to the continuous creation of a superior value for customers. Customer orientation is a behavioural component of market orientation that together with competitor orientation and interfunctional performance forms an integrated business culture that attracts and retains customers.

Ruekert [6] states that market orientation has become more than just a business philosophy; it represents the actions which an organization pursues in relation to the marketplace.

Ruekert uses the terms customer orientation and market orientation interchangeably, which suggests that there is no clear distinction between the two concepts [6]. However, we support the view, that market orientation is broader than customer orientation, as there are multiple parties within the market, on which the business can focus.

The focus of the present study is solely on customer orientation. As the score for market orientation is simply on average of the scores of the three behavioural components, it is obvious that the relationship between customer focus and business performance should be a positive one. Of course we realize that a strong customer focus is not enough for a business to be successful. Other factors will influence the business performance, but the relationship should nevertheless exist. In this context our first hypothesis is:

H1: a strong customer focus will have a positive influence on business performance.

The customer orientation approach developed by Narver and Slater [3] consists of six basic indicators that measure customer relationship development within an organization:

1. customer commitment
2. creating customer value
3. understanding customer needs
4. customer satisfaction objectives
5. measuring customer satisfaction
6. after-sales service.

Additional three indicators were included in our research, as they are considered to be relevant for the perception of customer relationship development in human resources agencies. As businesses in many fields are explicitly concerned with complaint management, this was included as an element in the measurement

of customer relationship. Another additional indicator is the degree to which businesses try to attract new customers to their offerings. Before a customer can be committed to the business, he or she first has to be attracted to the business. A third item that was added to the list, concerns the degree to which the business operates with a mission statement explicitly defining a customer focus, as a mission statement indicates that an effort is made to introduce customer orientation into the business. The operationalization of this indicator concerns the “dissemination of the intelligence among personnel”.

The variables we will include in our analysis in addition to customer orientation are: firm size, market density and quality management. In small business economics the existence or absence of economies of scale is a central issue. If economies of scale exist, then we would expect business performance of larger firms to be better than business performance of smaller firms. This leads to the second hypothesis:

H2: Business performance increases with firm size.

Market density (the number of firms in a market) is a measure for the size of a market. A large market provides opportunities for the creation of niches and thus for higher profits. If the number of direct competitors is large, we would expect the business performance of the individual firm to be lower. Based on this statement, the third hypothesis is:

H3: A high market density has a negative impact on business performance of individual firms.

Quality management is an important aspect in HR agencies. ISO certificates have entered also this sector. We would expect a company with an active quality management programme to perform better than competitors that do not have such a programme. Having this in mind, the fourth hypothesis was stated:

H4: The existence of a quality management programme improves business performance.

Methods and Supporting Data

The level of analysis in our study is the corporate level. We deal with small scaled businesses, which makes it almost impossible to perform analysis at the level of departments or business units. This means that dissemination of the intelligence across departments should be interpreted as dissemination of the intelligence among personnel.

Prior to the design of the questionnaire, interviews were conducted with three companies to determine what kind of activities could be described as being customer oriented. The purpose of the interviews was also to determine whether human resources recruitment/ leasing companies could adequately respond to the form of questioning. The indicators were made operational to fit the human resources recruitment agencies' situation. Customer commitment, for example, was

translated into questions concerning activities, like telephone calls to follow up on potential customers and sending information about the agency to customers, which intensifies the relationship between customer and company. Understanding customer needs, for example, can be achieved by conducting surveys among customers.

Data was collected through a mail survey, which was sent to 86 human resources recruitment/ leasing companies. A response rate of 39% was achieved, providing 34 usable questionnaires. This is a fairly good response rate for a mail survey. The research in companies was conducted in the period October 2009 – March 2010. The techniques used in the data analysis have been factor analysis, correlation and regression analysis.

Respondents were asked to indicate in which degree (on a 7-point scale) they employed the following indicators:

1. mission statement concerning customer commitment
2. customer attraction
3. customer commitment
4. creating customer value
5. understanding customer needs
6. goals for customer satisfaction
7. measuring customer satisfaction
8. after sales services
9. complaint management.

Market density was measured as the number of companies in the regional market. Company size is expressed as the number of full-time employees in the firm. Quality management is a “yes” or “no” question regarding the existence of a quality management programme in the firm. Business performance is expressed as the amount of sales in 2008.

Results

The indicator “mission statement” translated into activities implies that agencies actually have a mission statement in use, spend funds on training personnel in customer orientation and organise internal sessions with customers orientation. There is a positive relationship between these activities and the score for mission statement.

“Customer attraction” did not seem related to the activities in advertising that distinguish between target groups of customers. But there was a positive relationship between the amount of money spent on advertising and the scale indicator of customer attraction.

Those agencies that indicate that they work on “customer commitment”, develop more activities with customer retention as a goal. They distribute more information and they contact customers more often than agencies that indicate that they work less on customer commitment.

Most agencies indicate that they “understand the needs of customers” very well. We tried to measure this understanding through the activity of market research. Not many human resources recruitment / leasing agencies spend funds on market research, so this does not seem to relate to the scale indicator of understanding customer needs.

A systematic registration of customer needs would indicate that the agencies really understand customer needs, but again this did not seem to be a good operationalization of the scale indicator, as not many agencies keep files on customer needs.

“Measuring customer satisfaction” relates positively to the registration of information about customer satisfaction both during and after the service. The after-sales service scale indicator score is positively related to activities like getting in touch with the customer after the final transaction. In this way human resources agencies enable the customers to ask questions or make complaints.

The “complaint management” scale indicator score is also positively related to the concrete activities, stimulation complaints, registering complaints, internal discussions, handling complaints, providing feedback to the client, and solving problems.

To sum up, it was difficult to find concrete activities for creating customer value and understanding customer needs. We have to find other ways of operationalizing these two scale indicators for human resources agencies. The other seven items, however, related positively to the activities defined to make these concepts operational. This result gives confidence that the concept can be measured with the nine-indicator scale.

We expected the nine indicators to load on one factor in the factor analysis; however, this was not the case. Factor analysis with varimax rotation leads to a result with two factors. These are displayed in Table 1.

Factor analysis of the extended nine indicators concept and the Narver and Slater concept

<i>Extended nine-indicators concept</i>	<i>Factor 1: communication</i>	<i>Factor 2: strategy and action</i>
Mission statement	0.1246	0.7006
Customer attraction	0.3636	0.6321
Customer commitment	0.7320	0.2824
Creating customer value	0.8235	0.1267
Understanding customer needs	0.6850	-0.1201
Customer satisfaction objectives	0.7479	0.6993
Measuring customer satisfaction	0.7871	0.7742
After-sales service	0.5925	0.2238
Complaint management	0.4893	0.3202
Eigenvalue	3.2918	1.3846
Percent of variance	36.9	15.6
Cummulative percent	36.9	52.6
<i>Narver and Slater concept</i>		
Customer commitment	0.7704	0.2598
Creating customer value	0.8505	0.0863
Understanding customer needs	0.6644	-0.0889
Customer satisfaction objectives	0.0873	0.8087
Measuring customer satisfaction	0.1188	0.8354
After-sales service	0.6131	0.2185
Eigen value	2.4371	1.2002
Percent of variance	40.9	20.0
Cummulative percent	40.9	60.8

The first factor seems to be indicative of attitudes towards communication between the customers and the organisation, and of the external customer orientation. The indicators that load on this factor are customer commitment, creating customer value, understanding customer needs, after-sales service, and complaint management.

The second factor seems to be more indicative of strategies and activities that place the customer central within the company, the internal customer orientation. The indicators that load on this factor are mission statement, customer attraction, customer satisfaction objectives, and measuring customer satisfaction. Customer attraction is an odd indicator in this factor. We would expect it to load on the first factor, because attracting customers is largely a process of external communication.

The correlation analysis was conducted on these two factors. The results of the correlation analysis are presented in Table 2.

Correlation results between dependent and independent variables

	<i>Business performance</i>	<i>External customer orientation</i>	<i>Internal customer orientation</i>	<i>Market density</i>	<i>Company size</i>	<i>Quality management</i>
<i>Business performance</i>	1.0000 (39) <i>p</i> =0.0					
<i>External customer orientation</i>	0.0762 (17) <i>p</i> =0.125	1.0000 (19) <i>p</i> =0.0				
<i>Internal customer orientation</i>	0.0320 (17) <i>p</i> =0.521	0.4329 (17) <i>p</i> =0.000	1.0000 (18) <i>p</i> =0.0			
<i>Market density</i>	-0.0422 (39) <i>p</i> =0.520	0.0855 (17) <i>p</i> =0.086	-0.0223 (17) <i>p</i> =0.644	1.0000 (39) <i>p</i> =0.0		
<i>Company size</i>	-0.0189 (39) <i>p</i> =0.520	0.1076 (17) <i>p</i> =0.030	0.2345 (17) <i>p</i> =0.000	0.0732 (39) <i>p</i> =0.011	1.0000 (39) <i>p</i> =0.0	
<i>Quality management</i>	0.519 (32) <i>p</i> =0.109	0.1236 (15) <i>p</i> =0.013	0.2071 (15) <i>p</i> =0.000	-0.0100 (35) <i>p</i> =0.756	0.0583 (35) <i>p</i> =0.756	1.0000 (39) <i>p</i> =0.0

There are no statistically significant correlations between the dependent variable, business performance and the independent variables of external customer orientation, internal customer orientation, market density, company size, and quality management. There are, however, some statistically significant correlations between company size and external customer orientation, internal customer orientation and market density, and between quality management and customer orientation. The strength of the association is, however, not very large. These variables were included in a regression analysis, the results of which are presented in Table 3.

Regression Results

<i>Variable</i>	<i>Beta</i>	<i>T</i>	<i>Sig T</i>
External customer orientation	0.101987	1.695	0.0909
Internal customer orientation	0.005226	0.084	0.9330
Market density	-0.169242	-3.163	0.0017
Company size	-0.063432	-1.155	0.2489
Quality management	0.049881	0.913	0.3621
(constant)		3.590	0.0004
$R^2 = 0.0279$			

The results of the regression are not very strong ($R^2 = 3\%$), but some tendencies can be reported. Hypothesis 3 can be confirmed. Market density has the largest effect on business performance, which is negative and significant. Hypothesis 1 can partly be confirmed. Factor 1, which is the external customer orientation factor, has a positive and significant influence on business performance. Factor 2, the internal customer orientation, has the right sign, but is not significant and therefore can not be stated to have a positive influence on business performance. The same can be concluded for the existence of a quality management programme in hypothesis 4. No conclusions can be drawn about the effect of company size, which was a statement in hypothesis 2: the sign is negative and insignificant.

Conclusions and Discussion

The concept of customer relationship development presented in this paper provides approach for measuring customer focus in human resources recruitment / leasing companies. In general, there is consistency between the perception, which human resources agencies have about their own customer relationship developments and the activities undertaken. Most of the customer orientation indicators could be related to relevant activities, which makes customer relationship development operational within the company.

Factor analysis on the scale items indicates that there are two underlying dimensions of the customer orientation which might be intuitive. When considering the indicators in the concept. One factor can be described as the communication with the customer, or the external customer orientation. The other factor can be described as the strategy or activities, which a business employs with regard to customer focus or the internal customer orientation.

Our results indicate that there is indeed a relationship between customer focus and business performance in the case of the human resources recruitment / leasing agencies. The strength of this relationship will be influenced by external factors such as market density and competition.

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