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DETERMINANTS OF CUSTOMER RELATIONSHIP DEVELOPMENT

Abstract:

Customer relationship development is the focus of any business. It is increasingly found to be at the top of organisations' agendas, aiming at creating and enhancing relationships with customers in order to improve both business profitability and satisfaction of customers. Measuring customer focus can be helpful in understanding this effort by providing a valuable framework for customer relations assessment. In this context our research offers an integrated approach for understanding the customer relationships. The aim of our article is threefold: we aim to indicate and explore the determinants for improving customer relationship development in tourist sector, to propose measures for assessing customer focus in tourist organisations in Slovakia and to explain relationship between customer relationship level and business performance. This will be achieved by determining the subcategories of the customer management processes and by identifying determinants affecting business performance. In order to translate customer focus into specific activities designed to increase business performance, the determinants were made operational applying quantitative analysis. Results of the research reveal that tourist companies in Slovakia adopt customer oriented approach and try to optimize their relationships with customers. However, there is a space towards continual improvement. In our article, factors with insufficient performance have been discussed and solutions proposed to improve the results. Finally, a framework for determining the strength of the relationship between business performance and customer focus variables is introduced.

Keywords:

Customer focus, customer relations, business performance, external environment, internal environment.

JEL Classification: M20

Introduction

This focus of our paper is the integrated exploration of the customer relationship development in a specific sector of tourism companies. We are looking for the relationship between customer focus and business performance by examining how customer orientation can be measured and applied towards tourism companies.

Customer relationship development, also recently called „customer focus“ is a business approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to improve both: customer value and business performance (Payne, 2006). It is aimed at increasing the acquisition and retention of profitable customers by initiating and improving relationships with them. The development of strategically targeted relationships is enabled through the opportunities afforded by the progress in information technology. Companies today can seek to improve their customer management by utilizing a range of database, data warehouse technologies, as well as a growing number of CRM applications. Such developments make it possible to gather vast amounts of customer data and increase customer feedback, as well as to analyse, interpret and utilize them constructively.

Although the term customer relationship development or customer relationship management is relatively new, the principles behind it are not unfamiliar. Organizations have for a long time practised some form of customer relationship development (Kelley, 1992). What sets at present days customer relations apart, is that organizations can manage one-to-one relationships with their customers (Payne, 2006). In effect, customer relationship development represents a renewed perspective of managing customer relationships based on relationship marketing principles, whereby the key difference is that today these principles are applied in context of unprecedented technological innovation and market transformation. Also the growth and diversity of competition, the development and availability of new technology, increasing expectations and empowerment of the individual customer have reinforced more customer-oriented perspectives.

Companies have realized that it is no longer simply enough to offer excellent products: ease of duplication and market saturation can quickly liquidate initial indications of business success (Hennig-Thurau, 2004). Today key differentiator is exceptional service and tailor-made information delivered on a consistent and distinctive basis. Both these factors are more difficult to imitate than a product, because service requires customer input and involvement (Stone and Woodcock, 2001). Competitive advantage can therefore be gained by leveraging knowledge of customers' expectations, preferences and behaviour. This involves creating an ongoing dialogue with customers and exploiting the information and insights obtained at every customer touch point.

1. Customer relationship development determinants

Marketing literature offers various definitions of customer orientation and customer relationship development. According to Narver and Slater (Narver and Slater, 1993; Slater and Narver, 1994) is customer orientation defined as a behavioural component of market orientation that together with competitor orientation and inter-functional performance forms an integrated business culture that attracts and retains customers. In their research they stress that market orientation refers to the generation of market intelligence concerning current and future needs of customers, dissemination of intelligence within the organization, and response to it. Understanding customer focus to be a part of market orientation is very important and indicates that the relationship between customer focus and business performance should be a positive one (Flint et al., 1997). However, a strong customer focus is not sufficient for a business to be successful; hence other factors beside customer orientation have to be taken into account influencing business performance.

The original customer orientation framework introduced by Narver and Slater (1993) offers six determinants that measure customer focus within an organization: customer commitment, creation of customer value, understanding customer needs, setting customer satisfaction objectives, measurement of the customer satisfaction, after-sales service.

In our research three more indicators were adopted, because they could be relevant for the customer relationship development in travel companies. Complaint management was included as an important determinant in service businesses (Koller and Salzberger, 2007) in the measurement of customer focus. Second additional determinant is the degree in which companies try to attract new customers, because before a customer can be committed to the business, he first has to be attracted to the business. A third indicator added to the list of customer determinants was the degree in which a company declares explicitly in its mission statement a customer focus. Mission statement indicates clearly the goal to introduce a customer into the business (Christopher et al., 2002). The execution of this determinant concerns the training personnel in managing customer relationships.

Customer relationship development in our research is perceived to be an internal factor affecting business performance. For the sake of complexity we include in our analysis of the relationship between customer focus and business performance also some external factors as explanatory variables. The variables that will be included in the analysis in addition to 9 above named determinants of customer orientation are the size of a company, market density and quality management. Regarding a company size, the economy of scale effect is expected, meaning that business performance of larger companies will be better than business performance of smaller companies.

Market density (indicating the number of firms in a market) is a measure for the size of a market. A large market offers opportunities for the development of niches and thus

for higher profits. If the number of direct competitors is large, we expect that the business performance of the individual company will be lower.

Quality management is an important aspect in all service companies. Quality management programmes are linked to the implementation of ISO norms and similar certificates. It is expected that a company with quality management programme could have a better performance than competitors that do not have such programme.

Based on the above discussed, we state following hypotheses:

H1: Strong customer focus has a positive influence on business performance.

H2: Company size has a positive influence on business performance.

H3: High market density has a negative impact on business performance of individual company.

H4: Adoption of a quality management programme improves business performance.

2. Goals and methods

The principle goal of our research is to indicate the determinants of customer focus in tourism sector and to explain the relationship between customer focus level and business performance¹. This will be achieved by examining the particular determinants of the customer relationship development processes and by transforming them into specific activities designed to increase business performance

Prior to designing the questionnaire, interviews were conducted with three tourism companies in order to find out what type of activities could be described as being customer oriented. Each determinant was discussed and related to the business of tourism agency. The purpose of the interviews was also to determine whether tourism companies could adequately respond to the questioning.

List of customer focus determinants was transformed into practical activities to fit the real tourism companies situation. The activities have been allocated to particular determinants taking into account the specifics of the tourism business. Customer commitment, for example, was transformed into questions like telephone calls, mail contacts, etc. (to indicate potential customers and send information about the company to customers), that intensify the relationship between the customer and the company. Understanding customer needs, for example, can be transformed into practical business by customer research and conducting interviews with customers. A preliminary version of the questionnaire was developed and pretested among five tourism companies. Small changes were made (to increase the clarity of the questions) and consequently the final version was distributed to 240 tourism companies in Slovakia.

Data were collected through a mail survey. A response rate of 22,5 % was achieved, providing 54 usable questionnaires. This is an obvious response rate for a mail

¹ The research was conducted within the Research Project VEGA 1/0224/15.

survey. The customer focus research in companies was conducted in the period March – May 2014. The business performance was measured as Sales (in mil. €) in 2013. The techniques used in the data analysis have been factor analysis, correlation analysis and regression analysis. The determinants used as a basis of customer focus in the exploration are presented in Table 1.

Table 1: Determinants of customer relationship development

<i>Determinant</i>	<i>Activities related to determinants</i>
Mission statement containing customer focus	<ul style="list-style-type: none"> • Mission statement in use • Organisation of internal workshops in companies aimed at discussing customer orientation
Customer attraction	<ul style="list-style-type: none"> • Training personnel in managing customer relationship • Advertising tailored to the specific target segments • Frequency and amount of money spent on advertising
Customer commitment	<ul style="list-style-type: none"> • Amount of information distributed to customers
Creating customer value	<ul style="list-style-type: none"> • Type and quantity of contacts with customers • Flexibility in terms of order changes • Speed of response • Loyalty programmes
Understanding customer needs	<ul style="list-style-type: none"> • Service portfolio • Conducting market research
Goals for customer satisfaction	<ul style="list-style-type: none"> • Keeping files of customer needs • Percentage of customer complaints
Measuring customer satisfaction	<ul style="list-style-type: none"> • Registration of information about customer behaviour and customer satisfaction during and after the service
After-sales services	<ul style="list-style-type: none"> • Contacting customers after the transaction
Complaint management	<ul style="list-style-type: none"> • Conducting „post cognitive discrepancy“ research • Complaint management in use • Training staff in complaint solving

Source: processed by the author

Respondents were asked to indicate in which degree (on a 7-point Likert scale, with 1 = no adoption and 7 = excellent adoption) they employed the following determinants: a mission statement containing explicitly expressed customer commitment, attraction of customers, customer commitment, creation of customer value, understanding customer needs, setting goals for customer satisfaction, applying methods for customer satisfaction measurement, delivering after sales services, and adoption of complaint management. Table 2 contains the score results of the particular determinants (expressed as average rating / standard deviation).

Table 2: Score results of customer relationship development in travel companies

<i>Determinant</i>	<i>Score results / St. Dev.</i>
Mission statement containing customer focus	5,79 / 0,93
Customer attraction	5,06 / 1,07
Customer commitment	5,26 / 0,81
Creating customer value	5,30 / 1,01
Understanding customer needs	5,29 / 1,03
Goals for customer satisfaction	5,09 / 1,32
Measuring customer satisfaction	4,96 / 1,66
After-sales services	5,04 / 0,85
Complaint management	5,16 / 0,81

Source: Own calculation

Market density was measured as the number of companies in regional (district) market. Company size is expressed as the number of full-time employees in the firm. Quality management is a „yes“ or „no“ question confirming the existence of a quality management programme in the firm. Business performance is expressed as the amount of Sales in 2013.

3. Results and discussion

To explore the customer focus of tourism companies, 9-items list of determinants was applied in examining tourism companies.

The determinant „mission statement“ transformed into activities implies that companies have in use a mission statement with explicitly incorporated customer orientation, train their personnel in customer orientation and organise internal workshops with customer management as a theme of discussion. There is a positive relationship between these activities and the score for mission statement. The average score for mission statement in the sample was 5,79.

„Customer attraction“ is related to the advertising activities and communication tailor made to distinct target groups of customers. There is a positive relationship between financial sources spent on communication / advertising and the determinants customer attraction. The average score for customer attraction in the sample was 5,06.

Companies that indicate that they pursue „customer commitment“, do develop strategies with customer retention as a goal (Barnes, 2000). They distribute more information and they contact customers more often than companies that indicate that they work less on customer commitment. The average score for customer commitment in the sample was 5,26.

As discussed in the introduction, it is obviously very difficult to make operational and define customer value. Activities „creating customer value“ in our research include flexibility in providing services (including possibility of changes in the orders), speed of response, loyalty programmes, service portfolio, etc. The average score for creating customer value is 5,30.

Most companies affirm that they „understand the needs of customers“ very well. We measure this understanding through the activities of market research. However, not all tourism companies spend money on market research and keep files on the customer profiles. A systematic registration of customer needs would indicate that the companies really understand customer needs. The average score for understanding customer needs was 5,29.

„Measuring customer satisfaction“ relates to gathering of information about customer satisfaction both during and after the service. The average score for measuring customer satisfaction was 4,96.

The „after-sales service“ determinant score is positively related to activities like getting in touch with the customers after the final transaction. In this way tourism companies provide customers with possibilities to ask questions or make complaints. The average score for after sales services is 5,04.

The „complaint management“ determinant 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. The average score for complaint management is 5,16.

To reduce the number of customer focus determinants, factor analysis was applied (Salzberger, 2009). 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 lead to a result with two factors. These are displayed in Table 3.

Table 3: Factor analysis of the nine customer focus determinants

<i>Customer focus determinants</i>	<i>Factor 1: Communication</i>	<i>Factor 2: Strategy and action</i>
Mission statement containing customer focus	0,160	0,783
Customer attraction	0,599	0,396
Customer commitment	0,711	0,293
Creating customer value	0,869	0,116
Understanding customer needs	0,762	0,139
Goals for customer satisfaction	0,079	0,702
Measuring customer satisfaction	0,082	0,811
After-sales service	0,602	0,285
Complaint management	0,398	0,520
Eigenvalue	3,976	1,961
Percent of variance	41,8	18,6
Cumulative percent	41,8	60,4

Source: own calculation

The first factor contains determinants that are symbolic for communication between the customers and the company, and represent the external customer orientation. The determinants that load on this factor are customer attraction, customer commitment, creating customer value, understanding customer needs and after-sales service.

The second factor relates more to strategies and activities that are oriented on the customer and represent the internal customer orientation. The indicators that load on this factor are mission statement, customer satisfaction objectives, measurement of customer satisfaction and complaint management. Complaint management is the odd item in this factor. We would expect it to load on the first factor, because solving complaints is largely a process of external communication.

The correlation and regression analysis was conducted on these two factors instead of the original nine items. The results of the correlation analysis are presented in Table 4.

Table 4: Correlation results between dependent and independent variables

Variable	Business performance	External customer orientation	Internal customer orientation	Market density	Company size	Quality management
Business performance	1,0000 $p=0,0$					
External customer orientation	0,081 $p=0,119$	1,0000 $p=0,0$				
Internal customer orientation	0,064 $p=0,401$	0,463 $p=0,008$	1,0000 $p=0,0$			
Market density	-0,050 $p=0,507$	0,103 $p=0,095$	-0,035 $p=0,501$	1,0000 $p=0,0$		
Company size	-0,019 $p=0,499$	0,135 $p=0,028$	0,199 $p=0,010$	0,062 $p=0,017$	1,0000 $p=0,0$	
Quality management	0,401 $p=0,130$	0,102 $p=0,016$	0,295 $p=0,008$	-0,019 $p=0,586$	0,043 $p=0,699$	1,0000 $p=0,0$

Source: own calculation

There are no statistically significant correlations between the dependent variable business performance and the independent variables external customer orientation, internal customer orientation, market density, company size and quality management. However, there are some statistically significant correlations between company size

and external customer orientation and internal customer orientation and between quality management and customer orientation. The strength of the association is rather small. These variables were included in a regression analysis, of which the results are presented in Table 5.

Table 5: Regression results

<i>Variable</i>	<i>Beta</i>	<i>T</i>	<i>SigT</i>
External customer orientation	0,152	1,964	0,093
Internal customer orientation	0,092	0,110	0,901
Market density	-0,159	-3,582	0,007
Company size	-0,070	-1,229	0,391
Quality management	0,051	0,934	0,395
$R^2 = 0,0879$			

Source: own calculation

The results of the regression are not very strong ($R^2 = 9\%$), but they can be used to verify the hypotheses. Hypothesis 1, testing the impact of external customer orientation factor, has been confirmed; the factor has a positive and significant impact on business performance. Factor 2, the internal customer orientation, is less significant than external orientation, however it presents also a positive influence on business performance. Hypothesis 3 can be confirmed. Market density has the largest effect on business performance. This effect is negative and significant. Unlike to our expectations the impact of quality management programmes in hypothesis 4, did not prove to have a significant impact. No conclusions could be drawn about the effect of company size, which was a statement in hypothesis 2: the sign is negative and insignificant.

Conclusion

Over the past two decades there has been an increased interest in customer relationship development among managers. However, despite the effort devoted to the topic, there remains a lack of agreement about what are the determinants of customer focus and how it should be addressed to give a better performance (Wilson, 2006). This article seeks to present issues underpinning the role of customer orientation in business success.

The framework presented in the article provides a concept for measuring customer focus in the service sector. In general, there is a consistency between the perception that tourism companies have about their own customer focus and the activities undertaken within their marketing strategies. Most of the customer focus determinants could be related to relevant activities, introduced by tourism companies to develop customer orientation within the company. This provides the companies with the concept to improve customer relationship development within tourism sector. It is an important conclusion of this study, because it proves that a customer focus has an impact on business performance.

The nine determinants of customer focus have been reduced to two factors when performing factor analysis. Factor analysis on the determinants indicates that there are two underlying dimensions of the customer orientation, which represent the complex indicators of 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 exists a relationship between customer focus and business performance in the sector of tourism companies. The findings could help in developing customer relationships lasting over long time and in creating customer approach that will be process-driven, business oriented and results-focused.

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