

THE IMPACT OF CRM ADOPTION ON THE SALES GROWTH OF SERVICE-
ORIENTED SMALL AND MEDIUM ENTERPRISES IN MALAYSIA.

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DECLARATION

“I admit that this report is the result of my own, except certain explanations and passages where every of it is cited with sources clearly.”

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DEDICATION

I would like to dedicate this work to my beloved family especially my parents who always provide me the support and encouragement to me when I faced the difficulties in my university life. Next, I would like to dedicate this work to my supervisor, Prof Ridzuan who always offered me valuable suggestions and opinions throughout this research. Lastly, I would like to thank my friends and classmates for the assistance and help during the progression of this research.

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Lastly, I would thank my family members for supporting me throughout my life. I hope this report will be a useful reference for other researchers in the future.

ABSTRACT

The customer relationship management system (CRM) is getting popular nowadays because of the advantages brought to companies. In particular, small and medium enterprises (SMEs) need to adopt CRM into their business operation in order to gain competitive advantage and enhance the sales performance over their rivals, especially SMEs in service sector. The aim of this research is to find out the factors that affect the CRM adoption by the service-oriented SMEs and also the impact of the CRM adoption on sales growth of the service-oriented SMEs. The research proposed three factors that will affect the CRM adoption which are customer orientation, knowledge management and relationship marketing. The data used to validate the research model will be collected among the service-oriented SMEs in Subang, Selangor, Malaysia via questionnaire. The questionnaires were sent to the service-oriented SMEs in Subang through email. All of the objectives in this research were achieved. The first objective is to find out what size of enterprises tend to adopt CRM. The medium size enterprises tend to adopt CRM. The second objective is to investigate the factors that influenced the adoption of CRM by service-oriented SMEs. Customer orientation, knowledge management and relationship marketing are positively influenced the adoption of CRM by service-oriented SMEs while the third objective is to find out the effect of CRM adoption to sales growth of SMEs. CRM adoption has positive impact on the sales growth of service-oriented SMEs.

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LIST OF ABBREVIATION

TA = Technology Assistance

CO = Customer Orientation

KM = Knowledge Management

RM = Relationship Marketing

SG = Sales Growth

IV = Independent Variables

DV = Dependent Variable

CHAPTER 1

INTRODUCTION

1.1 Background of Study

In today's era, technology advancement has helped the businesses and companies to grow rapidly by decreasing production cost, time and improve performance. As such, the Human Capital Management (HCM) and Enterprise Resource Planning (ERP) are essential strategy that can help the company to grow. According to Siti Hajar Mohammad et. al (2014), the Customer Relationship Management (CRM) has become an important key strategy in the organization for improving the overall performance, no matter large or small organizations.

CRM is an approach to manage the relationships between a company and its current customer or potential customer. More specifically, CRM–is not just the application of technology but is a strategy to learn more about customers' needs and behaviors to develop stronger relationships with them. Customer relationship management was invented because every customer has different preferences and purchasing habits (Bose, 2002). With the help of CRM, company can understand more about their customer drivers and profitability. According to the information get from the Salesforce CRM software website, CRM (customer relationship management) technology is growing in popularity in small and mid-sized companies,

especially among their sales teams. A lot of small companies already adopted CRM in their business model in order to increase the efficiency and effectiveness of the company.

Nowadays, organizations begin to implement the Customer Relationship Management (CRM) system because it can help the organization to achieve a range of business benefits. According to Dr. Abdel Fattah Mahmoud Al-Azzam (2016), the CRM system has become a major source of competitive advantage in service sector. This is because the core elements of the CRM system provide competitive advantages to the organization by increasing the customer loyalty and explore more potential customer. Yu (2001) stated that CRM can improve service and retain customers, since it synthesizes all of a company's customer touch-points. Besides, Greenberg also claimed that CRM can raise the true economic worth of a business through developing the total lifetime value of customer.

Based on the SME Corp Malaysia, Small and Medium Enterprises (SMEs) are firms with sales turnover not exceeding RM50 million OR number of full-time employees not exceeding 200 for manufacturing sector while for the services and other sectors, SMEs are defined as firms with sales turnover not exceeding RM20 million OR number of full-time employees not exceeding 75. Service-oriented SMEs is also known as tertiary sector which produced intangible goods instead of goods. According to the SME Statistic retrieved from SME Corporation Malaysia official webpage, there are 192,527 establishments in the services sector, and 186,728 (or 96.7 per cent) of these are made up of SMEs in Malaysia. Small and Medium Enterprises (SMEs) are considered as the backbone of economy and it is a vital component of Malaysia's economy development (Ali Salman Saleh and Nelson Oly Ndubisi, 2006). Based on Samsudin et al. (2011), the small nations such as Malaysia are facing the difficulties in competing with global trade economy. This is because most of the economy is dominated by the large nation with larger economies. O'Dwyer et al. (2009) also claimed that SMEs are hard to survive due to lack of resources that will limit the grow of SMEs and market expertise. However, with the help of CRM system, the SMEs can grow rapidly in term of performance and profitability.

Sales growth can be defined as the additional revenue generated by the sales team of a company over a fixed period. However, sales growth does not necessarily

lead to increase in profit. This is because there is a lot of approach that can boost the sales, for instance, the promotion for a certain products and services, giving out the voucher and so on. This can increase the sales volume while profit may decrease.

Salesforce also summarize six biggest benefits that can be gained by company if they adopt the CRM effectively, which are:

- Improving how informational is organized
- Enhance communication between company and customer
- Improve customer service
- Automate task or marketing
- Enhance efficiency for multiple teams
- Improving analytical data and reporting

The intent of this research is to find out how the CRM system will help the SMEs in Malaysia to grow. This research proposal is structured into 5 chapters, Chapter 1 will be the Introduction, Chapter 2 is literature review, Chapter 3 is Research Method and Chapter 4 will be Expected Result.

1.2 Problem Statement

According to the information provided by one of the popular CRM software, Salesforce, it stated that a CRM system can help organization, no matter small or large organization to improve business performance by improving sales efficiency, boosting sales effectiveness, increase upsell and cross-sell opportunities, uncovering referral business and reducing time to close deal. Several studies have shown that there is a positive relationship between the CRM adoption and the growth of SMEs. One of the studies, Manal ElKordy (2014) stated that the company that adopting CRM will achieve superior business performance.

However, several studies found that there is no direct relationship between CRM and the growth of SMEs. One of the studies reported that the CRM did not affect the firm's performance outcome directly, while business strategies and

leadership affect the performance more (Oliver Schilke et al., 2010; Voss & Voss, 2008). Besides, adopting CRM in SMEs not necessarily can enhance the business activities for many adopters. This is because CRM is not the only key for a business to succeed since other key factors such as innovation, business strategic are also important for sales growth. Additionally, adopting CRM involves money in the first place. Most of the SMEs might not want to take the risk to invest in something that they are not familiar with even though the CRM nowadays are cheaper and easier to use compared to the past. SMEs tend to use simple technologies instead of purchasing CRM, such as WhatsApp, Excel, Google Sheet and so on.

In response to these contradictory statements, this research will analyse the relationship between the adoption of CRM and the growth of SMEs. Next, the research plan to find out which SMEs are adopting CRM and the effect of CRM on these SMEs. A quantitative method is used to conduct this research. The overall objective of this research is to find out how the CRM helps to enhance the sales growth of service-oriented SMEs.

The overall objective of this research is to find out how the CRM helps to enhance sales growth of service-oriented SMEs.

1.3 Research Question

1. What size of the service-oriented SMEs tend to adopt Customer Relationship Management System?
2. What are the factors influence the adoption of CRM in service-oriented SMEs?
3. Does adopting CRM affect the performance of sales in service-oriented SMEs?

1.4 Research Objective

1. To find out what size of service-oriented SMEs adopted Customer Relationship Management System.
2. To investigate the factors that influencing the adoption of CRM by service-oriented SMEs.
3. To determine the effect of CRM adoption towards sales growth of service-oriented SMEs.

1.5 Scope

The research will focus primarily in SMEs within the service sector in Subang, Selangor, Malaysia, especially among service sector that have many direct customers. The employee with job position above the managerial level of these SMEs will be selected as respondents in the research. This is because the high position of those employee can be represented their company to answer the survey form since they have lot more experiences and perspective about their company condition. In order to survive in the competitive environment, most of the companies already started to adopt the Customer Relationship Management System. However, there are still companies that do not adopt the CRM system due to some reasons. In this research, the reasons of adoption of CRM will be found out.

The priority of location for getting the data of research method will be allocated at Malaysia (Subang area). This is because the chosen areas have more companies that providing the same services and easier to get the data from the respondents.

CHAPTER 2

LITERATURE REVIEW

2.1 Overview

In this chapter, previous study related to CRM adoption and the effect of CRM to the SMEs will be reviewed. The relationship between CRM adoption and sales growth of service-oriented SMEs will be focused and the research framework and hypothesis will be formulated also.

2.2 Concept of Customer Relationship Management and CRM Adoption

Customer Relationship Management has become an important strategy to implement in business in order to grow or expand the businesses. According to Zablah et al. (2004), CRM can be defined from different perspectives, such as process, strategy, philosophy, capability and as a technological tool in a business. In placing more emphasis, Mohammad Hossein, N. and Hidayati Zakaria, N. (2012)

claimed that the CRM is a strategic approach that used to integrate people, business and technology to meet customers' needs and wants. As service-oriented SMEs have a lot of direct customer, CRM adoption is an important strategy to them. This claim is also supported by Luke and Paul Ade (2001) who divides CRM into three main components, which are people, process and technology. Most of the company implemented CRM in their business as an effective strategy to grow their business. This statement can be supported by Yim et al. (2004) who stated the strategy is the fourth component of the CRM. This claim is also supported by Atul Parvatiyar & Jagdish N. Sheth (2001) who stated that the CRM is an enterprise strategy used to encourage the customers to strengthen their business relationship with the company by developing a program or approach to understand the customer well. However, William Boulding et al. (2005) stated that the key component of CRM is creating value for the customer, process and business. Moreover, the term of CRM defines by Sin et al. (2005) is a comprehensive strategy and process that allows an organization to identify, acquire, retain and nurture profitable customers. This is supported by Alireza Faed (2013), who defined CRM as the art of acquiring customers and have a long-term relationship with them. This is because the vital key for a business to success is the customer and every customer has different preferences and purchasing habit, that is why CRM is important due to the business to survive and grow (Bose, 2002). Besides, customer relationship management is important because of the current development and advances in information and enterprise software technology (Chen and Popoviah, 2003). As result, it is clear that the CRM is not just a technology that helps the business, it is a new way of doing business (Siti Hajar Mohamad et al. 2014). This statement also supported by Dr. Abdel Fattah Mahmoud Al-Azzam (2016), CRM is a set of activities a firm employs to increase a competitive advantage. The set of activities can be described as the activities that performed differently from the competitor (Antonio, 2004). Hence, CRM can help the business to grow and survive in the competitive environment.

In order to grow the business, the firm or organization must know their customer well, know what's the needs and wants of the customer, know how to satisfy customer and provide value that the competitor cannot provide. This claim is supported by Ahmed Hamdy Mohamed Zaky (2017) who stated that the company need to understand their customer better in order to provide high levels of customer

service and develop deeper customer relationships. To do so, the firm or organization must implement effective CRM technology. As Hansotia (2002) stated, the focus of CRM is to leverage customer data creatively, effectively and efficiently to design and implement customer-focused strategies. Habul, A., Pilav-Velić, A. and Kremlić, E (2012) stated that CRM includes the iterative process by collecting the customer information and converting them to the positive relationships with them. Additionally, Payne and Frow (2005) also stated that CRM is a strategy of using an appropriate technology, data and customer knowledge to create value for both firm and its customer. These studies shown that Customer Relationship Management is a crucial factor for a business to grow and survive.

However, Daniela Velez Oliveira, B. (2013) claim that there are few reasons that the SMEs do not adopt CRM:

- i. Lack of resources
- ii. Dominance of owner (manager)
- iii. Lack of ICT capabilities
- iv. Approaches to gain competitive advantages
- v. Limited number of customers
- vi. Lack of strategic planning

This claim is also be supported by similar research done by Al-Mamari et al. (2008).

According to McAdam (2000), SMEs are always defined as lacking in resources because it is just a small business compared to those large enterprise. In order to implement an effective CRM in business, capital is always needed. This claim can be supported by Harrigan et al. (2012). Besides, the manager usually is the owner of the company also make the company does not adopt CRM. According to Gilmore et al. (2001), the owner (manager) of SME always make the decision by their own without discussing with the staff since the owner is dominant in decision making.

Lack of ICT capabilities is the hurdle for SMEs to adopt CRM. Since the SMEs are lacking of resources, implementing an effective CRM is challenging. Harrigan et al. (2012) reported that SMEs tend to use simple technologies instead of purchasing complex and expensive software and they rather save the cost for other use in the