Customer relationship management readiness in small to medium tourism enterprises with a focus on organisational characteristics: The Eastern Cape Province of South Africa

Dr Dinesh Vallabh
Department of Tourism, Hospitality and Sport Management
Walter Sisulu University
South Africa
Email:dvallabh@wsu.ac.za

Abstract

Customer relationship management (CRM) has become of pivotal importance to many organisations as businesses strive for competitive advantages through building relationships with their customers. CRM practice will enable organisations to target profitable customer segments, improve customer service, enhance customer retention and ultimately improve the profitability of the organisation. As such the study sought to investigate that implementing CRM is likely to be successful only if the organisation shows some level of readiness for CRM. The research design was a quantitative approach and was deemed appropriate for this study. Systematic sampling resulted in a sample of 332 respondent organisations chosen from the 2012 database of the Eastern Cape Parks and Tourism Agency. A total of 310 usable questionnaires were analysed. The findings elucidate that satisfactory levels of validity and reliability were obtained. The study further adds value to the area of CRM as it contributes to an improved understanding of the factors that should precede CRM readiness that will enable SMTEs to engage in CRM activities. Overall, the research makes a contribution to a largely under-researched area concerning CRM in SMTEs. CRM readiness is preceded by organisational factors, in particular business and customer strategies, customer touch points, particular levels of technology and competent and skilled staff, all combined in a cross-functional approach.

Keywords: customer relationship management, organisational factors, small to medium tourism enterprises.

Introduction and theoretical background

The South African tourism industry is one of the country’s leading economic growth sectors, not only because of its contribution to the gross domestic product, but, due to the creation of sustainable jobs, particularly in the context of small, micro and medium enterprises (SMMEs) (Tassiopoulos, 2011; Vallabh, Radder & Venter, 2015). According to the Buffalo City Municipality Integrated Development Plan Review (Buffalo City Municipality, 2012-2013) and Tourism Enterprise Partnership (TEP, 2010) tourism is one of the key growth economic sectors in the development of small and medium enterprises. In November 2008, South Africa’s Department of Environmental Affairs and Tourism (DEAT, 2009) highlighted service excellence as a key strategy for increasing tourism to the country. In order to promote a culture of service excellence in the sector, customer service was emphasised as one of the critical skills lacking in organisations. These statements stem from a competitiveness rating in which South Africa was rated as 62nd of the 124 countries assessed.

Van Schalkwyk (2008), Minister of Environmental Affairs and Tourism, reported that an audit into the skills levels indicated service excellence as one of the crucial ingredients in sustainable tourism growth. The audit also highlighted the urgent need to develop a customer service programme and to transform South Africa into a globally competitive, service-based economy for it to become a destination of choice (DEAT, 2009). The tourism industry is ideally well
posed to be a key player in the development of small businesses (TEP, 2010). Against this background, CRM can be used to provide services to customers. The aim of successful organisations is to target and retain beneficial customers (Roberts-Lombard, Strachan & Du Plessis, 2013).

The purpose of this study was to explore the organisational characteristics of small to medium tourism enterprises (SMTEs) in the Eastern Cape (EC) of South Africa (SA) and their influence on Customer Relationship Management (CRM) readiness. The role of entrepreneurship within SMTEs is well recognised and acknowledged as a significant contributor to economic development and employment opportunities (Vallabh, 2014). Worldwide, SMTEs play a dominant role in the tourism industry. These businesses are often vulnerable to external economic forces and find it increasingly difficult to transform their strategic, operational and organisational management to face the challenges placed upon them. This study focused on SMTEs in the Eastern Cape Province, which is economically the poorest province of SA. This research study argues that CRM can play an important role in making SMTEs management aware of the customer interaction and improve service levels, and in turn, create higher levels of sustainability among SMTEs.

Loyal customers help raise the profitability of an organisation over a period of time, therefore, customer loyalty can be considered a vital link to long term organisational success, improving revenue and business performance (Roberts-Lombard et al., 2013). Consequently, CRM has risen to the agenda of many organisational strategies (Oogarah-Hanuman & Naicker, 2016). Organisations should never lose sight of their customers’ demands, and should be careful to keep track of changes in their needs. One way to do this is to practice CRM (Brink & Berndt, 2010; Macharia & Thuo, 2011). CRM supports organisational initiatives by creating a dialogue with customers, thus helping organisations to customise their products to better meet the needs of customers (Buhalis, 2003) and improve customer loyalty (Roberts-Lombard et al., 2013). It is for the afore-mentioned reasons that it was argued in this study that CRM is important to SMTEs in the EC and is worth investigating. Given the challenges faced by the Eastern Cape, namely, poverty, unemployment and crime, it is necessary to investigate avenues for enhancing its tourism sustainability, particularly of its SMTEs (Vallabh & Radder, 2010). To ensure effective CRM practices, management needs to formulate a CRM strategy spanning its staff, business processes, organisational structure and technical infrastructure (Nguyen & Waring, 2013). The support and commitment of top management for CRM is, however, of the utmost importance (Ocker & Mudambi, 2003; Prasongsukarn, 2006). In fact, Berndt and Tait (2015) assert that the successful organisations in South Africa are those that have received enthusiastic support from top management and have recognised the importance of adopting CRM as a philosophy. In addition to the management support, and commitment from all in the organisation, a number of authors have also identified people, technology and processes as major components and success factors of CRM (Chen & Popovich, 2003; Almotairi, 2009).

Various authors, for example, (Ko, Kim, Kim & Woo, 2008; Nguyen & Waring, 2013) point out that CRM readiness is also impacted by components that typically contribute to the growth of small organisations. These are as follows: the resources of the owner, the organisation characteristics and the business strategy (Van Aardt, Van Aardt, Bezuidenhout & Mumba, 2008; Nieman & Nieuwenhuizen, 2009; Chilliya & Roberts-Lombard, 2012) comprising elements such as age, education, skills, gender, management experience and motivation of the owner, as well as organisation size and training. Tie (2003) observes that unlike large organisations, small businesses do not possess sufficient technology expertise, resources and information technology personnel to implement CRM. In fact, SMTEs have to deal with challenges typical of small organisations such as lack of skills and finances that may impact CRM implementation. Based on the preceding points, it becomes evident that successful CRM
requires management support and commitment of resources such as time, money, training and technology. CRM also requires the integration of organisational processes and alignment of technology and effective data use. CRM development is often seen as a succession of information technology use (Ozgener & Iraz, 2006). It thus becomes clear that CRM requires the presence of strategic, operational and organisational factors which are combined in a cross-functional, process-orientated approach (Vallabh, 2016). The study focuses on organisational factors. The organisational factors underscore people as crucial in the organisation and emphasises the role of senior management in the organisation as pivotal in developing and motivating employees. Organisational components are also an important dimension of CRM because of their influence on innovative processes in organisations (Vallabh, 2014). The support for innovation by top management ensures that there is a commitment towards resources which can contribute to an organisational climate conducive for CRM (Nguyen & Waring, 2013). Further, organisational characteristics such as age and size of organisations, as well as organisational resources have a significant influence on CRM in the organisations. Ko et al., (2008) hold that the success of CRM is also influenced by the age and education level of the manager. The support of top management and the knowledge, training and skills of the employees also play an important role. Employees can make a significant contribution to the success of an organisation, as they form an important part of human capital (Nguyen, 2009). In fact, employees that are innovative in trying to overcome problems facing CRM readiness can ultimately generate a better CRM outcome (Nguyen & Waring, 2013). A number of authors (e.g. Croteau & Li, 2003; Racherla & Hu, 2008; Dutu & Halmajan, 2011) maintain that CRM readiness is related to the level of available technological resources which may assist the practice of CRM. CRM technological initiatives are generally considered to be costly and demand advanced technological skills and costly infrastructure. It would therefore follow that organisations with IT sophistication, technological skills and resources are more likely to achieve CRM readiness (Iacovou, Benbasat & Dexter, 1995; Croteau & Li, 2003). Iacovou et al., (1995) further point out that the level of organisational resources such as financial, technical and human resources positively influence CRM readiness.

Figure 1 graphically illustrates the afore-mentioned strategic, operational and organisational factors and their elements. This framework formed the basis for the empirical element of the study.

Figure 1: A framework of factors preceding CRM readiness
Source: Researcher’s own construction
Research Problem

The dire need of development and sustainability of SMTEs in the Eastern Cape and the role CRM can play in this regard as highlighted earlier, necessitated further investigation.

The discussion presented in the introduction and theoretical background, culminated in the following conclusions which informed the research problem and the objectives:

- Tourism is important to the economic development of South Africa and particularly to the Eastern Cape because of the positive contribution it can make to job creation, poverty alleviation and growth.
- SMMEs are particularly poised to play an important role in this regard. Establishments in the tourism and hospitality sector form an integral part of tourism providers and also those SMMEs where job creation is most needed.
- CRM can enhance the business success through its contribution to customer satisfaction, loyalty, profitability and sustainability.
- CRM requires the integration of organisational processes and alignment of technology and effective data use.
- Organisational factors precede CRM readiness.
- CRM readiness is an antecedent of customer relationship activities and implementing CRM activities has a positive effect on the organisation’s profitability.

Given the foregoing, the research question was therefore:

“Do SMTEs in the Eastern Cape exhibit the organisational factors required for CRM readiness?”

Research Objectives

To answer this research question, the following objectives were set.

1. Provide an overview of the importance of tourism and the role of SMTEs in the Eastern Cape.
2. Explain the organisational factors that have to be in place prior to CRM readiness in SMTEs in the Eastern Cape.
3. Determine the presence of the factors identified in Objective 2 in SMTEs in the Eastern Cape.

Methodology

This study followed a descriptive design and a quantitative approach. The quantitative research approach grounded in the positivist social sciences paradigm, adopts a deductive approach to the research process (De Vos, 2001). The multivariate technique of exploratory factor analysis was used to assess the discriminant validity of the measuring instrument. Four factors with a positive impact on CRM were identified from the exploratory factor analysis of the data. The factors were business strategy; customer strategy; touch points; competencies, skills and technology; and perceived business performance. Cronbach’s alpha coefficients were calculated to establish whether the factor scores were reliable with acceptable internal consistency. Relationships between the factors and demographic variables are reported. Quantitative research was deemed appropriate for this study. The sample of 332 SMTEs were chosen from the 2012 database of the Eastern Cape Parks and Tourism Agency. Systematic sampling was employed. Both descriptive and inferential statistics were used in the study.
Since the population was segregated into mutually exclusive sub-populations, or strata, it was possible to use systematic random sampling, a form of probability sampling. A response rate of 93.3% (310 useable questionnaires) was attained. A questionnaire comprising of nine sections was used for data collection and included questions related to the elements of CRM, CRM readiness, the characteristics of managers and their organisations. Data were analysed using SPSS software (Version 20) to produce frequency distributions, measures of central tendency, and dispersion related to the organisations’ and respondent managers’ general characteristics.

Reliability and validity

To help improve the validity of the data acquired in the study, the purpose of the study was clearly explained in the cover letter to respondents. A pilot study was conducted with senior decision makers of SMTEs. Data was subjected to exploratory factor analysis to extract factors and to assess the discriminant validity of the research instrument. The instrument showed good internal validity and can be used in contexts other than the tourism and hospitality sector. The reliability (internal consistency) of the research instrument was assessed by means of Cronbach’s alpha reliability coefficients (Leedy & Ormrod, 2013).

Results and discussion

Four factors resulted from the exploratory factor analysis of the data. These factors were termed Business Strategy; Customer Strategy; Touch Points (can include the internet, email, direct mail, telephone and fax); Competencies, Skills and Technology. To establish whether the factor scores were reliable with acceptable internal consistency, Cronbach’s alpha coefficients were calculated (Pallant, 2013). The results are depicted in Table 1.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Cronbach’s alphas</th>
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<tbody>
<tr>
<td>1 Business Strategy</td>
<td>0.88</td>
</tr>
<tr>
<td>2 Customer Strategy</td>
<td>0.85</td>
</tr>
<tr>
<td>3 Touch Points</td>
<td>0.87</td>
</tr>
<tr>
<td>4 Competencies, Skills and Technology</td>
<td>0.81</td>
</tr>
</tbody>
</table>

All the factors obtained Cronbach’s alpha coefficients greater than the threshold value of 0.70 for adequate internal consistency (Pallant, 2013). It may thus be concluded that all the observed factor scores were reliable.

CRM readiness

If the antecedents to CRM are present in the SMTEs, the question arises as to the organisations’ levels of readiness for CRM. As was explained in the introduction and theoretical background, CRM readiness is also related to the level of available technological resources which are essential elements of CRM readiness. CRM readiness can be measured in terms of data collection, data usage and data sharing (Kuada & Serles, 2006; Dutu & Halmajan, 2011). Data collection indicates the extent of data which an organisation collects about their customers, which can assist in building a profile of each customer. Data usage can help organisations classify their customers into different groups and establish who their most profitable customers are. Data sharing is important to an organisation as it can determine the amount of information about customers shared amongst staff.
The different levels of CRM readiness attained by SMTEs in the Eastern Cape are depicted in Figure 2. Level 0 indicates low levels, while level 4 shows an advanced level of CRM readiness. Further the level of CRM readiness among the respondent organisations is shown. The percentages reflect the level of CRM readiness attained, while the numbers in each of the blocks denotes the number of respondent organisations that indicated their own level of CRM readiness.

A very small proportion of SMTEs in the EC have reached level 4, which reflects the advanced use of data collection, data usage and data sharing. Approximately, 28% of respondents indicated that they extensively used data about their customers to build a profile of each customer (level 1), while 17.2% indicated that they did not collect data about their customers (level 0). Approximately one out of four (25.1%) respondents indicated that they occasionally used the data which they had collected about their customers (level 1), while the same percentage of respondents indicated that they knew who their most profitable customers were (level 3). Almost half (44.1%) of respondents indicated that data about customers were not shared amongst staff members (level 0), while 9.8% of respondents indicated that data about customers are shared amongst staff members (level 3). Reporting on combined levels, below 20% of businesses were engaged in data collection or data usage, while 44% of businesses did not share data amongst staff. Approximately, 70% of respondents were at level 2 or lower for all three CRM readiness dimensions, while 22% of respondents were at level 4 for all CRM readiness dimensions.

The results depicted in Figure 2 are in line with that of other research studies (e.g. Racherla & Hu, 2008; Josiassen et al., 2014). In fact, Josiassen et al. (2014) point out that some organisations invest in certain CRM dimensions, for example, information management, while others would invest in other dimensions, for example, business performance or customer value. This may assist to explain why the experience of different organisations differs in relation to CRM readiness. Racherla and Hu (2008) emphasised an alignment between people, business processes and information management as essential dimensions to CRM readiness.
Recommendations and contribution

The study will add to the body of knowledge that attempts to make SMTEs sustainable in the South African context. If the issue of CRM is successfully addressed, the failure rate among SMTEs can be reduced. The study contributes towards an improved understanding of the organisational determinants of CRM, which can assist SMTEs reach their potential. The study will also contribute to the strategic vision of the National Tourism Sector Strategy, which highlights the importance of SMTEs. It can help promote and foster economic development of the Eastern Cape, in terms of job creation, poverty alleviation and growth.

It is recommended that future researchers conduct a longitudinal study and investigate the same factors which impact CRM readiness in SMTEs. Longitudinal research can assist researchers gain a better understanding of CRM readiness in organisations over a period of time and across organisations. Furthermore, a verification of the usefulness of the measuring instrument in examining the determinants of CRM and the level of development regarding other small businesses is suggested.

The study contributed to an improved understanding of the factors that will enable SMTEs to engage in CRM activities and lead organisations to CRM readiness. The study established a profile of SMTEs in the Eastern Cape, which can serve as a basis for future research.

Limitations

The empirical research was limited to small and medium businesses in the tourism and hospitality sector of the Eastern Cape. Therefore, this study is regional specific and only applicable to the Eastern Cape province of South Africa. Hence, the study cannot be generalised to the whole of South Africa.

Summary and Conclusions

Tourism is important to the economic development of South Africa and particularly to the Eastern Cape because of the positive contribution it can make to job creation, poverty alleviation and growth. SMTEs are particularly poised to play an important role in the tourism and hospitality sector. CRM can enhance the success of SMTEs through its contribution to customer satisfaction, loyalty, profitability and sustainability. CRM also requires the integration of organisational processes and alignment of technology and effective data use. CRM could fail if the focus is placed only on strategies and benefits, before it is verified that the required organisational factors are in place. This research has made a contribution toward a largely under-researched area concerning CRM in SMTEs. It is recommended that future researchers conduct a longitudinal study and investigate other factors which impact CRM.

References


