Ildikó Réka CARDOȘ
Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca
Ștefan PETE
Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca
Vasile-Daniel CARDOȘ
Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca

A MANAGERIAL ACCOUNTING APPROACH OF CUSTOMER RELATIONSHIP MANAGEMENT

Theoretical analysis

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Abstract

Globalization and changes in the business environment have important implications on the nature and function of managerial accounting (MA). Organizations realized that market and customer orientation is essential for their success and the secret to improve profitability and performances is to attract and maintain customers. Customer relationship management (CRM) is one of the most important business strategies for organizational performance evaluation. Although CRM is considered to be a marketing topic it is an important MA innovation at the same time and represents an attractive research topic. This article aims to explore the theoretical knowledge of CRM from the perspective of MA. In the first part, we focus on the conceptual framework of CRM, trying to identify processes and technologies involved. The second part is devoted to reflection on the successful implementation of CRM. Finally, we summarize the key points arising from the theory in order to set further research objectives.

1. Introduction

Researchers (Jarvenpaa, 2009; Chavan, 2009; Sunarni, 2013) agree that the rapid changing of business environment into global, competitive and turbulence business environment give significant impact on how people are doing their business. In today's rapid changes, every organization must continuously ensure its sustainability in global market. Companies must be able to compete nationally and internationally in order to sustain in the market. The rapid growth of information technology increased the opportunities for marketing and transformed the way relationships between companies and their customers are managed.

As a response to these changes managerial accountings practices have to assure that information provided to managers are relevant and useful in doing their jobs. There is a need for a market-oriented managerial accounting system whose objective would be to furnish updated and relevant information about customer needs, customer accounts or customer profitability and customer loyalty. The new business oriented innovation of managerial accounting, customer relationship management becomes the business process that provides the structure for how relationships with customers are developed and maintained (Lambert, 2010). Although, customer relationship management is often assumed to be the marketing function it is an essential part of managerial and customer accounting. Along with other methods it contributes to organizational performances and provides crucial information for decision making and strategy formulation.

Our article is a theoretical analysis and aims to explore the theoretical knowledge of CRM from the perspective of MA. It is structured as follows. In the first part, we would like to present the evolution of managerial accounting, the changes that lead to the development of business oriented techniques and methods of MA. In the second part we focus on one single business oriented technique and innovation of MA customer relationships management. Our intention is to debate the conceptual framework of CRM, trying to identify principles, people, processes and technologies involved. The third part is devoted to reflection on the successful implementation of CRM. In conclusion we would like to summarize the key points arising from the theory in order to set further research objectives.

2. Research methodology

Lukka&Mouritsen (2002) consider that in order to create good research and to generate good and relevant knowledge researchers must follow a set of qualitative criteria: theory, testing and rigour. Moreover, Abdul-Khalid (2009) considers that qualitative researchers, unlike their quantitative counterparts, do not intend to test hypotheses at the beginning of the research process. "Theory is used not to obtain predictions but to gain understanding of certain phenomenon". Having in mind these aspects our paper is a theoretical analysis. Our intention is to lecture in the field of management, marketing and accounting in order to explore the theoretical knowledge of customer relationship management from the perspective of managerial accounting.

The article is the result of literature studies. Grounded theory, critical analysis, generalization of other authors' views, opinions and conclusions are presented. We consider that the article contributes to the existing literature in the field of management, marketing and accounting because of the novelty and exploding growth of the topic.

3. New perspectives in managerial accounting

Managerial accounting (MA) can be defined as a management-oriented accounting and its main focus is to improve the organization performance and profitability by providing relevant information for planning, controlling and decision making. Moreover, MA is an integral part of the management process in an organization, its role is to identify measure, analyze, interpret and communicate information in the pursuit of the organization's goals (Sunarni, 2013). MA supports the planning process when choices are made and budgets are elaborated and it is also involved in the operational process when actual events are identified, measured and registered to provide economic feedback to managers and to assist them in controlling costs and improving the efficiency and effectiveness of operations (Cardoş, Pete & Cardoş, 2010).

However, traditional MA has been criticized because they merely focus on internal process rather than dealing with external problems such as managing competition, generating customer value and creating competitive advantages. Moreover, the environment in which MA is practiced has changed with advanced information technology and highly competitive environments. That is why on international level there has been an intense debate on the changing role of managerial accounting in recent years (Jarvenpaa, 2007; Naranjo-Gil, Maas&Hartmann, 2009; Sunarni, 2013).

Increasing levels of competition and technological change have focused the attention of practitioners and academic researchers on managerial accounting innovations over the years. Following the critique that management accounting system had lost their relevance, organizations have become interested in new techniques that are more able to support the development and implementation of organizations strategic policies. These techniques are deemed increasingly important for today's more complex and dynamic business environment (Naranjo-Gil et al., 2009). According to Lambert & Sponem (2009) changes in MA were typically linked with business oriented managerial accounting innovations. Business orientation has also been fostered through implementation of modern financial and operational control systems and software empowerment.

As a result the literature witnessed the development of business oriented techniques and methods such as strategic management accounting, activity-based costing and management, competitor accounting; and also the elaboration and implementation of multidimensional systems of organizational performance measurement (balanced scorecard, benchmarking) or value management systems for partners (customer profitability analysis, customer relationship management systems). In this way MA become more business oriented and an active advisor of management in the decision making process involving relevant accounting systems, personal competences and overall business knowledge, personal and organizational desire (Cardoş et al, 2010).

The new MA techniques and changes in organizational and business environments had a huge impact on management accountants' roles also. For many years management accountants were stereotyped as "bean counters" or "number crunchers" (Warren&Parker, 2009). Traditionally, management accountants played multiple roles described as scorekeeping, attention-directing and problem solving (Lambert & Sponem, 2009), cost keeping and budgeting in order to improve organizations performance and profitability (Sunarni, 2013). Due to the changes of business environment and information technology the environment in which MA is practiced has changed. Because of these changes the tasks, duties and skills of management accountants are also changing. The management accountant becomes a strategic consultant or a business analyst, getting involved in the decision-making process, having an essential role in the integration of financial and non-financial information, and in the adoption of strategic and operational decisions (Byrne&Pierce, 2007), being partners with other managers or being members of the management team (Sunarni, 2013).

The literature debating the definition, functions and changing roles of MA and the management accountant is very intense. In the previous paragraphs we tried to summarize and emphasize the main directions in this field. Our intention is to focus on one specific managerial accounting innovation and value management system, that is the customer relationship management. Even though customer relationship management could be considered a marketing or management topic it is considered an important MA innovation at the same time. In a complex business environment there is a need for all organizational functions to interact and collaborate in order to create organizational knowledge and value. That is why, in the following sections we try to debate the theoretical knowledge of customer relationship management and we try to reflect on the successful implementation of such a system.

4. What is customer relationship management?

Not long ago companies were able to satisfy customer needs with standardized products and services, reaping advantages through productivity gains and lower costs. As more firms entered the market mass production and mass marketing were no longer successful, these techniques started to lose effectiveness. Today's business world changed, the old thinking that customers should accept whatever product quality and service level is no longer a successful approach. It has become well known that retaining customers is more profitable than building new relationships (Chen&Popovich, 2003). Moreover, establishing a sustainable relationship with customers is the cornerstone for obtaining loyal customers who are much profitable than non-loyal ones (Mohammed&Rashid, 2012). With this in mind organizations all over the world are pioneering new strategies to improve customer intimacy and establish long-term relationships by implementing and using strategic and technology-based customer relationship management applications (Chartered Institute of Management Accountants - CIMA, 2001; Chen&Popovich, 2003).

Customer relationship management (CRM) has emerged from the networking technology revolution of the 1990s. Since then many definitions have appeared with different meaning depending on the people and the working environment it has been used within. Generally, CRM is considered both a business approach and a management tool. By combining strategy and technology, the objective of CRM is to establish long-lasting relationships between the firm and its customers, generating valuable knowledge, efficiency, effectiveness and profitability of business processes (Llamas-Alonso, Jimenez-Zarco, Martinez-Ruiz and Dawson, 2009).

According to Chen&Popovich (2003) in some organizations CRM is simply a technology solution in order to improve targeting efforts or a tool specifically designed for customer communication. Others consider that when fully and successfully implemented, CRM is a cross-functional, customer-driven, technology-integrated business process management strategy that encompasses the entire organization. This business strategy involves marketing, sales, customer service, human resources, research and development, finance, accounting, as well as information technology and internet to maximize profitability of customer interactions.

Richards&Jones (2008) classified the CRM definitions into two categories: strategic and operational definitions. First, CRM is often defined as a form of relationship strategy, as the process that identifies customers, creates customer knowledge, builds customer relationships and shapes customers perceptions. Similar ideas were found by Sin, Tse&Yim (2005) and Parvatiyar&Sheth (2001). They define CRM as a comprehensive strategy and process that enables an organization to identify, acquire, retain and nurture profitable customers by building and maintaining long-term relationships with them. The second category of CRM definition is more process oriented and less strategic. The operational definitions are more closely related to the process and technologies associated with enabling better customer relationships. Kotler&Armstrong (2004) cited by Heczkova&Stoklasa (2010) considers that CRM is “a special software, programmes and analytical techniques that serve for integration and utilization of vast amount of data about individual customers stored in databases. Customer relationship management consists of sophisticated software and analytical tools which sort customer’s information from all sources, conduct thorough analysis and use these outcomes for strengthening the relationship with the customer”. Moreover, CRM a process of continuous gathering, processing and following utilization of customer data, that works on the basis of database technology and is done by a software programme. This activity enables the company to understand needs, wishes and purchase habits of its customers. Some of this data might be used to foresee future opportunities (Heczkova&Stoklasa, 2010).

As we can see there isn’t a generally accepted definition of CRM that articulates the CRM’s unique characteristics and fully supports its complexity. For the purpose of our research we will define CRM as a strategy of creating value for both organizations and customers through the appropiate use of data, information technology, data and customer knowledge. This strategy requires focus, training, investment in new technology and software. CRM brings together people, technology and organizational capabilities to ensure conectivity between the company, its customers and collaborating firms.

In order to accomplish that a CRM systems consists of six mutually dependent criteria (Osarenkhoe&Bennani, 2007). (1) Emphasis on quality – poor service is the dominant reason for losing business, so the improvement of service quality is stressed as the key to succesfull business. (2) Customer satisfaction measurement – implies understanding and defining the various benefits that a prospect expects prior to purcahse, and the management of the gap between expectations and performance after the purchase process. (3) Invest in people – involves the implementation of internal and external relationships in order to undertsand the objectives set and meeting the required standards. (4) Maintaining dialogue with customers – companies that listen and adapt to preferences of individual customers have a higher propensity to retain them and make them loyal. (5) Setting realistic targets and assessing performance - organisations must have an understanding of customer perceptions of the various elements in the offering and the elements important to each individual customer. (6) Relationship-based interfaces - this means being in touch with both internal and external customers in a responsive and flexible manner, and communication should be adapted to the needs of the individual customer.

5. CRM: from strategy to implementation

According to Berndt, Herbst & Roux (2005) the success of any strategy is determined by the success it is implemented with. Llamas-Alonso et al. (2009) suggests that because the complex and multidimensional nature of CRM some foundation steps must be followed before implementation. First, organizations must clearly define strategic objectives to be achieved by implementing CRM. Second, decisive factors of CRM that determine the future ability of CRM to achieve strategic objectives must be identified. Third, organizations must establish a measurement system that makes it possible to predict the future ability of CRM as well as the firm’s ability to develop or control the decisive factors.

Chen&Popovich (2003) considers that CRM is an enterprise-wide customer-centric business model that must be built around the customer. It is a continuous effort that requires redesigning core business processes starting from the customer perspective and involving customer feedback. In a customer-centric approach the goal becomes developing products and services to fit customer needs.

The successful implementation of a CRM business strategy requires specific actions on the part of the organization and comprises four steps: identification of customers, differentiation of service, interaction with customers and customization of products, services and communication (Berndt et al, 2005; Lambert, 2010).

(1) The identification of customers enables the organizations to select those customers that they regard as being strategically significant and can contribute to the success of the organization. Because these customers have unique needs and due to their value they will have products and services developed to meet these needs. This first step involves collecting as much data as possible in order to obtain a clear picture as possible of the customer and their profile. This requires the

development of a database and a continuous maintenance of it in order to determine customers that have been with the organization for a long period and those who recently started using the organizations products and services.

(2) The differentiation of service implies that customers receive a different level of services and products depending on their value and specific needs. In this way organizations must identify the most significant customers and adapt services accordingly.

(3) Interacting with customers through a variety of communication tools and technologies is necessary in every business because relationships can only develop and be sustained if there is communication regarding the needs, perceptions and desires of customers. This involves developing methods of communication proactively with customers regarding the organisation's products and attempting to initiate dialogue with customers. This interaction with the organisation increases the expectations of the customers regarding the service received as well as the quality of the relationship.

(4) The purpose of customisation is to increase customer satisfaction and customer loyalty. Customisation is carried out in order to ensure that customer needs are met. It requires that the organisation adapts its product, service or communication in such a way that it has something unique for each customer. Communication can be customised to address the specific needs and profile of the customer. Products can be customised as to the specific desires that the customer has of the organisation. In the case of the financial services, it refers to the product package that is offered to the customer (Berndt et al, 2005).

Having in mind this steps organizations can identify a list of benefits from the implementation and use of CRM. Two major benefits are the knowledge that the frm aquires from the customer and the high degree of inter-functional coordination that CRM achieves (Llamas-Alonso et al., 2009). According to Mohammed&Rashid (2012) the successful implementation of CRM strategy will be of great benefit to organizations by increasing sales through better marketing segmentation, customizing products and services, obtaining higher quality products, gaining access to information and employee satisfaction and ensuring long-lasting customer-retention and loyalty. To be successful, management must place its primary focus on the CRM process and the people and the procedures that make the technology effective (Lambert, 2010).

Another important aspect intensely debated by researchers is the evaluation of organizational performances. In order to increase effectiveness and efficiency companies look for a performance and control system. Usually, the environment in which organizations carry out their activity is complex, dynamic and multidimensional. Organizational performance depends on many variables, both internal and external. This situation demands measurement systems that mirror all relationships both inside the firm and with external agents, providing a complete map of aspects and factors determining and influencing its performance.

CRM is considered (Al-Mudimigh, 2009) as one of the most important business strategies for evaluating the performance of an organization. According to this a CRM system must be designed under a wide and multidimensional view that integrates a variety of disciplines, including accounting, economics, human resource management, marketing, sales, operations management, psychology and sociology (Llamas-Alonso et al., 2009).

Over the years academics and professionals proposed various frameworks in order to measure CRM. Oztaysi, Sezgin & Ozok (2011) summarized the following proposed methods: indirect measurement models by brand building or customer equity terms; measurement of customer facing operations; critical success factors; behavioral dimensions of CRM effectiveness; CRM scale; relationship quality; customer measurement assessment tools; customer management process; relationship management assessment tool; CRM scorecards. Researchers (Al-Mudimigh, 2009; Llamas-Alonso et al., 2009; Shafia et al., 2011) consider that developing integrative and balanced systems, including both financial and non-financial metrics, are the most important trend in the performance measurement field.

The balanced scorecard (BSC) was developed by Kaplan and Norton and it is considered to be (Bates&Whittington, 2009) the most prominent framework in contemporary performance measurement with customer analysis as a core component. BSC focuses on organizational strategies and the creation of balance and value in the future through four perspectives: financial, customer, internal business and innovation and growth that are both financial and non-financial measures enabling the organization to be evaluated from various perspectives (Shafia et al., 2011). According to Chan&Hiap (2012) BSC is a complex system, it describes the knowledge, skills and systems that employees will need (the learning and growth perspective) to innovate and build the right strategic capabilities and efficiencies (the internal processes perspective) to deliver specific value to the market (the customers perspective) which will lead to higher shareholder value (the financial perspective). The customer perspective defines how an organization attracts, retains and deepens relationships with customers. The sub-processes of this perspective refer to customer selection, customer acquisition, customer retention and customer growth. Depending on the company's strategies and goals, the objectives and measures for each sub-section could be identified (Oztaysi et al., 2011).

As we mentioned before, beside BSC, the literature identifies numerous performance evaluation systems and CRM measurement systems. The detailed analysis of these methods and system are not the scope of this paper, this is an area that could be further investigated.

We would like to highlight the idea that the implementation of a CRM system is crucial in every organization. The financial and non-financial measures help top management and employees align themselves towards the organization's vision. These measures should be balanced within an organization. Non-financial measures, especially customer relationship and services are the key elements of an organization's success. They could lead organizations to administer performance effectively and forecast their future profitability (Shafia et al., 2011). Moreover, using the right tools managers can make effective business decisions, improve interpersonal relations and meet societal obligations with the right strategy.

6. Conclusions

The objective of our study was to explore the theoretical knowledge of customer relationship management from the perspective of managerial accounting. Based on the lectured literature we tried to highlight the connection between managerial accounting and CRM; we tried to debate the theoretical framework of CRM identifying principles, processes and technologies involved in the successful implementation of such a system.

Changes in the definition and functions of both managerial accounting and customer relationship management can be identified because of the changes generated by today's business environment. In the literature there are numerous articles and studies that debate the necessity, importance, implementation, advantages and disadvantages of MA and CRM.

We consider that in a complex business environment; in the era of automated and advanced production processes more attention should be given to the orientation towards market and customers, along with attention given to customer behavior, customer retention and customer loyalty. Organizations all over the world will be forced to implement advanced managerial accounting practices, tools and techniques in order to improve their cost control and cost management systems; to improve the performance indicators; to realize an accurate analysis of customer profitability analysis and performance measurement.

Customer relationship management has gained a widespread popularity over the years in many disciplines and industries. CRM is an enterprise-wide customer-centric business model that must be built around the customer. This approach involves a large number of people and organizations that establish a complex network of relationships. Moreover, in complex business relationships there is a need for other organizational functions to interact and collaborate. Marketing and sales, human resources, research and development, finance, managerial and cost accounting, IT must join forces in order to create value for both the organization and customers. We consider that organizations that implement a CRM system will have great gains because such a system will give them the possibility to focus on delivering the highest value to customers, faster delivery and personalized products and services.

As for future research objectives the study of CRM implementation or the implementation of performance evaluation and CRM measurement systems offers great research opportunities.

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