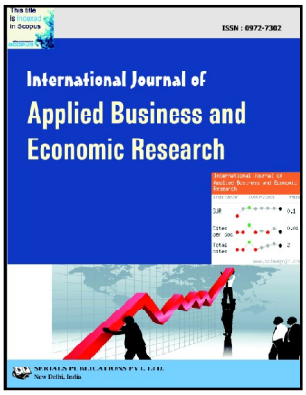

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The Role of Intellectual Capital on the relationship between Strategic Innovation, CRM on Performance

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Abstract: This paper explores the relationship between strategic innovation (SI), Customer Relationship Management (CRM), Intellectual Capital (IC) and performance. Following a comprehensive literature review, a model of the relationship between these variables was developed. The findings provide useful information for organizations aiming to enhance their performance. The paper's contribution is to explore the moderating effect on performance of IC on the relationship between SI and CRM. Its novelty lies in identifying the beneficial implications of the relationship for several types of organization, enabling them to introduce customer relationship management, innovative products and processes and to improve their IC and their performance.

Keywords: Strategic Innovation (SI), Customer Relationship Management (CRM), Intellectual Capital (IC) and Performance.

1. INTRODUCTION

Performance is the life blood of organizations, since without it, no decisions can be made (Mosalakae, 2007). It is a recurrent theme in most branches of management, including strategic management, and is of interest to both academics and practicing managers (Venkatraman & Ramanujam, 1986). Performance refers to the level of success of the firm (Chelliah, Sulaiman & Yusoff, 2010). Ismail (2009) defined performance as a critical factor for effective management, by which an operation meets the needs of the customers (Slack, Chambers & Johnston, 2001).

Strategic resources are required to enhance an organization's performance, including innovation (Atalay, Anafarta & Sarvan, 2013; Soto-Acosta, Popa, & Palacios-Marques, 2016; Lee, Lee & Garrett, 2017) and intellectual capital (IC) (Susanto, 2017; Inkinen, 2015; Meihami, Varmaghani, & Meihami, 2014; Diaz-Fernandez, Gonzalez-Rodriguez & Simonetti, 2015). Slater, Mohr and Sengupta, (2014) claimed that with comparatively short product life cycles, "innovation" is essential to firms competing in dynamic

environments; it is a key to organizational renewal and success and the ability to innovate new businesses, any of which must lead to superior organizational performance.

The literature on customer relationship management (CRM) indicates that organizations must always consider their customers (Josiassen, Assaf & Cvelbar, 2014; Mozaheb, Alamolhodaei & Ardakani, 2015; Kim, Lee, Wang & Mirusmonov, 2015). In today's business environment, customers are the most crucial element in an organization (Scott & Davis, 2015; Lapierre, 2000), determining its survival (Kibbeling, der Bij & Weele, 2013; Sun & Kim, 2013).

This has led to organizations relying increasingly on the creation of competitive and unique products, to attract and satisfy customers, rather than substituting goods or services. Nowadays, firms consider the customers in their decision-making processes by obtaining regular feedback through the measurement of their satisfaction (Ogbadu & Usman, 2012). Most importantly, marketers must connect with customers, informing, engaging and even energizing them in the process (Ogbadu & Usman, 2012).

Strategic innovation (SI) deals principally with an organization's growth through the development of new services, products, processes or business models (Drejer, 2006). SI is converted into a plan to develop new products, services, processes, or to introduce new business models to attain certain objectives (Iplik, Yunus & Oguz, 2014; Markides, 1998). Most significantly, SI creates growth and sustains and improves performance in a dynamic and changing environment (Yang 2014; Markides & Anderson, 2006).

SI has a significant influence on performance and is essential for survival (Xu, 2011). The establishment of too many rules is hinders the adoption of innovation as employees will be reluctant to introduce new ideas because of the risk associated and correlating with innovation controlled and hierarchically structured organizations have a negative effect on innovation if employees closely adhere to regulations and rules (Zafar, Hafeez & Shariff, 2015). On the other hand, organizations with an "adhocratic" culture are dynamic and entrepreneurial and places where people are willing to take risks.

However, according to Rosenbusch, Brinckmann and Bausch, (2011), studies investigating the innovation performance relationship frequently present mixed findings. Several studies have reported that innovation does not affect performance (Birley and Westhead, 1990), while others have identified negative performance implications in innovation (McGee, Dowling & Megginson, 1995). Many other researchers believe that enterprises can only survive and develop through continuous innovation (Yang, 2014). The potential for strategic innovation among enterprises changes with the market environment.

The major theoretical gaps in the existing literature are due to the limited number of studies which have investigated and established relationships between strategic innovation and organizational performance (OP) (Muhammad, 2014). According to Muhammad (2014), past studies have focused on innovative capability, product innovation, process innovation, marketing innovation and their influence on performance. Little has been written on the relationship between strategic innovation and performance.

Mozaheb, Alamolhodaei and Ardakani (2015) showed that CRM has a significant effect on performance. Technology is a key factor for organizations, leading to superiority over competitors. To improve performance, companies should pay attention to their market and customers, and scholars have argued that an enterprise should expand its knowledge storage through the information held in customers' files (Crosby and Johnson, 2000; Stefanou and Sarmaniotis & Stafyla 2003). Nevertheless, there is growing

skepticism about customer relationship management. As Homburg, Grozdanovic and Klarmann (2007) and Srinivasan and Moorman (2005) noted, managers increasingly raise issues about the real value of customer relationship management. The Gartner Group (2003), for example, found that approximately 70% of CRM projects result in either losses or no bottom-line improvements in performance. Akroush, Dahiyat, Gharaibeh and Abu-Lail,(2011) and Hendricks, Singhal, & Stratman, (2007) further argued that CRM has an insignificant and negative relationship with performance. Others studies have found mixed results (Hong-kit Yim, Anderson & Swaminathan, 2004).

Today, organizational resources, particularly intangible ones, are more likely to contribute to sustaining a superior position (Chahal & Bakshi, 2015). IC is recognized as a critical resource for gaining a competitive advantage. It refers to the knowledge, information, intellectual property and experience that can be combined for wealth creation (Khalique, Bontis, Abdul Nassir bin Shaari, & Hassan Isa, 2015). Over the last ten years, realization has grown about the importance of IC in managing organizations and in measuring their performance in various ways (Lu, Wang & Kweh, 2014; Mention & Bontis, 2013; Celenza, & Rossi, 2014; Wang, Wang & Liang, 2014; Inkinen, 2015; Khalique *et al.,* 2015; Ling,2013; Khalique & Pablos, 2015). Organizations are faced with the challenges of managing intangible resources in the form of IC, along with tangible or physical resources.

The main purpose of this paper is to analyze the moderating effect of IC on the relationship between SI and CRM on performance. It first reviews the literature and then proposes a conceptual and theoretical framework. Discussion and recommendations for future research conclude the paper.

2. CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

The conceptual framework proposed is based on two theories. First is the (RBV) Resource-Based View of the organizations, according to which a company can gain a sustainable competitive advantage if it identifies available resources, and use and preserves them more efficiently than its competitors (Peteraf, 1993; Masakure, Henson & Cranfield, 2009; Lockett & Thompson, 2001; Barney, 1991; Conner, 1991). The second is Institutional Theory, which draws heavily on the work of anthropologists (Berger & Kellner, 1965). This holds that organizational survival is determined by the extent of collaboration with the institutional environment and that companies must comply with external institutional pressures. This collaboration helps to portray the organization as legitimate, thereby enhancing its likelihood of survival (Mohd Akhir, & Yusoff 2014; Kostova, Roth & Dacin, 2008). Institutional Theory also recommends that an organization's tendency to" conform to predominant social norms and traditions affects it's external and internal environments and reduces variation in its structures and strategies, thus prompting homogeneity (Krystallis, 2010; Oliver, 1997).

2.1. Performance

The term performance is generally used to denote organizational success. It is considered as the achievement of its goals and objectives (Ariyarathne, 2014). According to Jauriyah, (2014), performance has been the subject of extensive and increasing empirical and conceptual investigation in the business literature (Jarvis, Curran, Kitching & Lightfoot, 2000; Lachman & Wolfe, 1997; March & Sutton, 1997; Murphy, Trailer, & Hill, 1996), although Aminu (2015) claimed that use of the word 'performance' in all aspects of management

is not new, for instance in performance management, firm performance, performance measurement, performance assessment and performance evaluation. Despite the frequency of its use, of the specific meaning is still relative. Akande (2011) defined firm performance as the capability to measure the success of a private organization, whether small or large, evaluated in terms of number of employees, working capital strength, and size of the firm as well as profitability. Gharakhani, & Mousakhani (2012) observed that firm performance is the capability of an organization to generate satisfactory results and actions and requires sufficient scheduling and commitment.

Organizations should have some performance measurement system to evaluate their own success in achieving their objectives. A performance measurement system also helps in developing better strategic plans. Many such performance measurement systems have been suggested. Kaplan and Norton (2001), for example, should that organizations use customer feedback on services and quality, stressing the importance of intangible assets. The system should evaluate the performance of employees in relation to both non-financial and financial activities (Zafar, Hafeez & Shariff, 2015).

Performance is the most significant dependent variable for researchers concerned with almost all areas of management (Richards, Devinney, Yip & Johnson, 2008), and many financial and non-financial factors have been used to measure it, including gross profit, profitability, return on sale (ROS), return on asset (ROA), return on equity (ROE), return on investment (ROI) and revenue growth. Other factors are market share, sales growth (Mokhtar, Yusoff & Ahmad, 2014; Parnell & Wright, 1993; Thomas & Ramaswamy, 1996; Snow & Hrebiniak, 1980). Kaplan and Norton (1992) introduced the balanced scorecard model to ensure the rational interpretation of measurement of performance, describing the impact of learning, growth, business activities and customers. However, inconsistent measurement of performance has been found by many researchers (Marcoulides & Heck, 1993).

2.2. Customer Relationship Management and Performance

CRM is regarded as one of the most significant methods by which to retain customers. However, like total quality management and business process re-engineering before it, CRM has not always lived up to its hype (Swift, 2001). Nevertheless, businesses still adopt it so as not to be left behind. Simply put, CRM is a high-tech way of gathering information about customers, and the, utilizing this to satisfy them or to obtain more business. That is, CRM is basically concerned with understanding customers' behavior (Kotler, 2000). Since its introduction in the early 1990s, CRM has undergone several changes, but there is still no common understanding and little conceptual, practical and empirical research in this area (Zablah, Bellenger & Johnston, 2004).

Elkordy (2014) analyzed the impact of CRM capability dimensions on performance, proposing four dimensions: CRM technology, CRM process, customer orientation and CRM organization. The sample for the study consisted of 15 Egyptian companies, including manufacturing and service industries, and the findings indicated that all four dimensions have a significantly positive relationship with the companies' performance. However, as already mentioned, Akroush, Dahiyat, Gharaibeh & Abu-Lail,(2011) and Hendricks, Singhal and Stratman, (2007) argued that CRM has an insignificant and negative relationship with Performance, while other studies found mixed results (Hong-kit Yim, Anderson & Swaminathan, 2004). When the impact of other independent variables was tested simultaneously on performance, only CRM organization was a significant indicator of performance; they concluded that it is important for

organizations to restructure, redesign and coordinate their vision, mission, goals and job descriptions with the delivery of customer services.

Khalifa & Shen (2005) showed that most organizations focus primarily on production, purchase and marketing. Their main concern is to deliver products that satisfy their customers' needs. Lloyd (2005) described CRM initiatives as offering organizations a way to overcome the physical distance between themselves and their customers caused by the growing scale of operations through globalization of markets.

2.3. Strategic Innovation and Performance

SI research was conducted during the 1980s and early 1990s (Yang, 2014). Hamel (1998) claimed that it was the only method for small companies and newcomers to achieve successful with minimal resources. SI is believed to create strategies and invent unique products or services and new processes to improve growth produce competitive new value (Derrick & Soren, 2007). Govindarajan and Trimble (2004) defined SI as dealing with three areas: value-chain design, conceptualization of customer value, and identification of potential customers.

Markides (1998) refers to SI as a process undertaken by firms that totally changes the nature of competition within an industry, and gaining advantage by employing a different strategy from rivals. Many firms have used this technique and among the most prominent innovations in the manufacturing industry have been Avon's door-to-door sales, Proctor & Gamble's (P&G's) personal production, Vichy's drugstore sales and Body Shop's cosmetics retailing. All these success stories not only exemplify innovation in the R&D undertaken for next-generation products, but also challenge the conventional wisdom in particular areas (Markides, 1998).

For example, a century and a half of SI have brought about results at P&G, whose capacity to improve items and procedures has been a key factor in its long-term success (Dyer, Dalzell & Olegario, 2004). The consequence of this achievement can be seen in the acknowledgment of P&G as a worldwide rival in the production and showcasing of customer items (Proctor & Gamble, 2008). The organization boasted more than 300 brands marketed in more than 180 nations in 2008 (Datamonitor, 2008). P&G had 144 assembling offices, 39 situated in the United States and the rest in 41 other countries. A key move was made in 2007 to develop three worldwide specialty units to improve administration. As a result, since 2008 P&G has exhibited outstanding results regarding brand extension, industrial development, budgetary quality and focus (Datamonitor, 2008).

These successes show that to win in fiercely competitive environments, breaking rules and accepting good SI might secure a sustainable competitive advantage and high performance, affecting core competitiveness (Derrick & Soren, 2007). According to Cohen & Levinthal (1990), in the performance setting, business development might be linked with the improved proficiency, profitability, quality, competitive edge, association ability and key basic leadership, keeping in mind the goal of increasing market share. Each association can development through applying innovation or new thinking to its own advantage (Baregheh, Rowley & Sambrook, 2009).

2.4. Intellectual Capital and Performance

Several researchers in IC management have explained the role of intangible resources and capabilities in developing both competitive advantage and superior performance (Stewart, 1997; Bontis, 1998), although

a uniform and universally acknowledged definition of IC has yet to be proposed (Ahuja & Ahuja, 2012; Engstrom, Westnes & Westnes, 2003; Kai, Hang & Wu, 2011; Zeghal & Maaloul, 2010). This may be because IC is still at the stage of infancy, given that its classification and definition were first proposed only in the late 1990s (Zeghal & Maaloul, 2010).

Edvinsson and Sullivan (1996) described IC as knowledge that is convertible to value, while Edvinsson and Malone (1997) provided a general definition by describing it as the possession of knowledge, experience applied, organizational technology, customers' relationships, and professional skills that offer the firm the required competitive advantage among its market rivals. Zeghal and Maaloul (2010) referred to IC as the total knowledge of the company that it can utilize in carrying out its business profitably.

A significant correlation has been found between IC and performance, with the former described by researchers as the combined intangible assets enabling the functioning of the firm (Khalique, et al., 2015). Scholars, including Wei and Hooi (2009), have found that IC is a significant indicator of a company's profitability. Wang and Chang (2005) and Bontis, Keow and Richardson (2000) likewise showed that IC is a critical component that affects a company's competitive position in various enterprises. While there is wide agreement that IC influences an organization's competitive advantage (Al-Jaradat, Al-Samraie & Jadallah, 2012; Edvinsson & Malone, 1997), some scholars, such as Firer and Mitchell (2003) and Chen (2005) have argued that the impact of IC on performance might be industry- and country-specific. In support of this, F-Jardon and Martos (2009) observed that with the presence of a few different components in the organization, IC can have an impact on the company's competitive position.

The literature recommends that IC can be used as a moderating variable (Muhammad, 2014) to study its influence on various constructs, including SI, CRM and performance. Some studies have found a positive relationship between IC and OP (Ahmad & Ahmed, 2016; Mention & Bontis, 2013; Lu, Wang & Kweh, 2014; Vishnu & Kumar Gupta, 2014). Muhammad (2014), however, argued that IC has an insignificant and negative relationship with two dimensions of IC (structural capital and relational capital) and OP. In addition, if organizations want to improve their OP they must enhance their IC capabilities (Celenza & Rossi, 2014; Inkinen, 2015). In general the theoretical framework of the current paper, there are two independent variables, namely, strategic innovation and CRM, one moderating variable, namely, intellectual capital and one dependent variable, namely, the performance of the firm. Specifically, intellectual capital moderates the relationship among CRM, the strategic innovation and performance as shown in figure 1.

3. RECOMMENDATIONS FUTURE RESEARCH

1. Recommendations Future Research

Future studies could include another dimension of IC, namely innovative capital, with the same dependent and independent variables. Other types of innovation, such as Marketing Innovation and Innovative Performance, could be incorporated. There is also a need to explore the development of effective IC that significantly supports SI and Performance with other variables such as strategic intelligence. Future studies need to identify the processes through which IC can significantly affect Performance in developing countries such as Yemen, Arab and middle east countries. The framework proposed in this paper leads researchers towards new paths for re-examining the significant relationship between SI, CRM and the moderating effect of IC on all these variables, resulting in much improved performance. In addition current study's

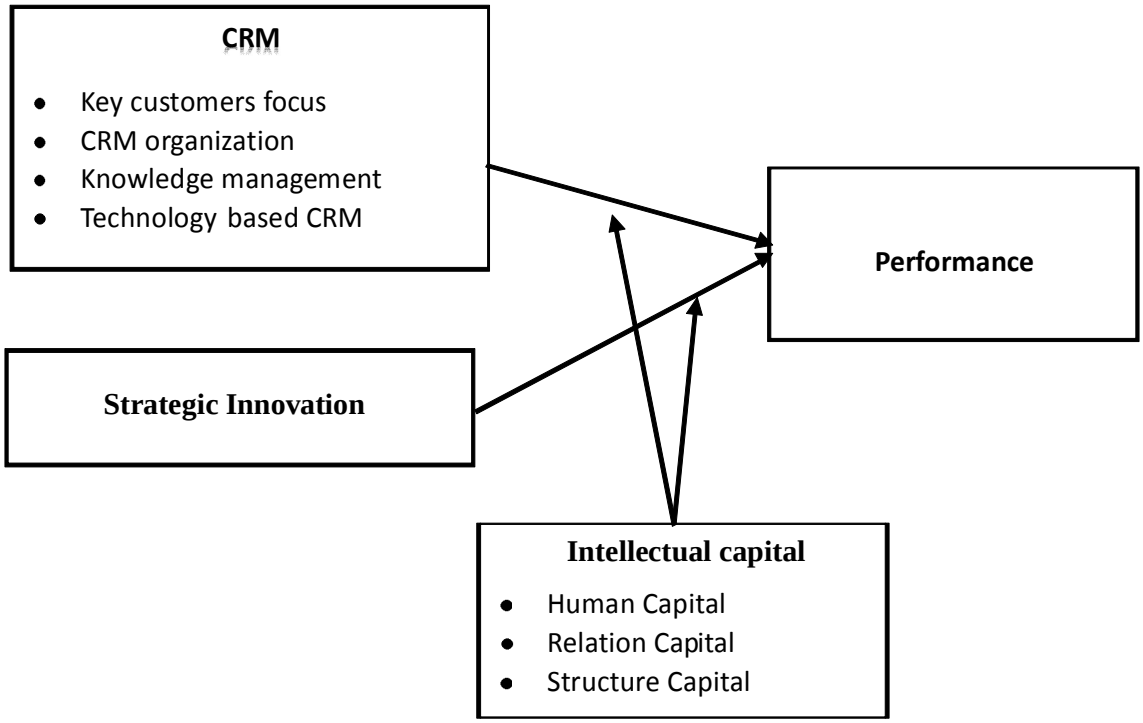

Figure 1: Theoretical Framework

model is conceptual in nature that needs to testify empirically by collecting a large number of data. Thus, the current study recommends to empirically examine the aforementioned proposition empirically whether or not propose relationship among variables exist.

2. DISCUSSION AND CONCLUSION

To the best of our knowledge, IC is here considered for the first time as a moderator in this framework, with examination of its impact on CRM and strategic innovation on performance. A correlation between IC and (SI, CRM) was established. To accomplish the objectives, accumulated experience played a motivating role in developing the framework, specifically to develop more efficient SI and CRM. This paper also suggests the implications of SI and CRM adoption for Performance: as SI, which is implemented in all mature economies, needs many resources, IC can hinder or foster innovation. This paper suggests that organizations should adopt an "adhocratic" culture to promote SI and so survive in the competitive environment. Clearly, SI involves the introduction of new policies, creative ideas, technical improvements, procedures, technical changes, new products and services to gain a sustainable competitive advantage, leading to superior Performance through implementing IC. In short, this study considers IC as a moderator between the independent and dependent variables (SI, CRM and performance). The main limitation of this study is the use of variables that might influence each other in achieving the desired performance. Another limitation is the cross-sectional research design that allows the examination of the postulated relationship only at one point in time. In other words, the cross-sectional research design could not detect the dynamic nature of the relationship and interactions among various variables.

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