

Mediating effect of Innovation Capacities on the relationship between Customer Relationship Management Parameters and SMEs performance: Evidence from Nigeria.

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Abstract

Introduction: SMEs play a pivotal role in driving innovation, growth, and competitiveness. However, many face challenges with insufficient digital infrastructure, hindering their ability to adopt online CRM systems in Nigeria.

Objectives: This study explored the direct and indirect effects of customer relationship management (CRM) parameters on the performance of small and medium-sized enterprises (SMEs) through innovation capacities.

Methods: Using purposive and convenience sampling techniques, 452 respondents were selected for the study. Data analysis was conducted with Path Analysis Structural Modelling (PA-SEM) using STATA version 15.

Results: The findings reveal that customer acquisition, customer interaction management, and customer service and support significantly and positively impact SME performance, demonstrating that effective strategies in these areas are key contributors to business success. The study also emphasized that innovation capacities (INC) have a strong, positive, and significant direct impact on both CRM strategies and SME performance, highlighting the critical importance of prioritizing innovation within SMEs. Additionally, the data showed that innovation capacities partially mediate the relationship between CRM parameters and SME performance.

Conclusions: The study provides compelling evidence that effective CRM practices, coupled with a strong focus on innovation, are essential for SMEs seeking superior performance. By investing in customer acquisition, interaction management, service and support, and innovation, SMEs can build robust customer relationships, enhance satisfaction, and ultimately drive business growth.

Keywords: CRM, Customer acquisition, Customer interaction, SMEs, Innovation capacities

1. Introduction

Small and medium-sized enterprises (SMEs) are pivotal to Nigeria's economic development (Gontur, 2018; Ladokun et al., 2023). They play a key role in job creation, poverty reduction, capacity building for the workforce, skills development, and GDP growth (Ogenyi, 2020; Sajuyigbe et al., 2021). Additionally, SMEs act as a driving force for innovation, expansion, and enhancing competitiveness (Chen et al., 2019; Yurdakul &

Kazan, 2020). An A-scale enterprise is defined as a business with up to 500 employees and assets ranging from ₦5 million to ₦500 million. In Nigeria, these enterprises contribute 48% to the GDP, comprise 96% of all businesses, and account for 84% of industrial employment (International Labour Organisation [ILO], 2022).

However, the sector encountered several challenges related to Customer Relationship Management (CRM) during and after the COVID-19

pandemic surge (Sajuyigbe et al., 2021). Branner (2020) highlighted that the pandemic led to significant shifts in consumer behavior, with more customers turning to online shopping and digital interactions. However, many SMEs struggled with inadequate digital infrastructure, making it difficult for them to transition to online CRM systems. Battor and Battor (2020) further noted that supply chain disruptions during the pandemic affected product availability and delivery times. Additionally, many SMEs, particularly in Nigeria, were not adequately prepared for the increased reliance on digital data. They often lacked the necessary tools and expertise to collect, store, and analyze customer data effectively, which hindered their ability to personalize services and marketing efforts during and after the COVID-19 surge. This scenario made it challenging for the sector to manage inventory levels and meet customer demands due to supply chain uncertainties, thereby impacting their ability to maintain strong customer relationships.

Existing research highlights that CRM parameters such as customer acquisition, customer interaction management, and customer service and support are crucial for organizations to effectively manage and analyze customer interactions throughout the customer lifecycle. These elements play a key role in improving customer satisfaction, fostering loyalty, and enhancing business profitability (Ullah et al., 2020; Yurdakul & Kazan, 2020; Rafiki et al., 2019). According to Trif et al. (2019), customer acquisition is vital to the performance of SMEs as it directly impacts their growth and sustainability. For SMEs, acquiring new customers is essential for expanding their market share, increasing revenue, and establishing a solid customer base during and after COVID-19 surge. Customer interaction management also helps SMEs understand customer needs, preferences, and feedback, enabling them to tailor their products, services, and communication strategies accordingly. In another study, AlQershi et al. (2018) attest that effective customer support also helps SMEs quickly resolve issues and address customer concerns, minimizing the risk of negative experiences that could damage the company's reputation. Additionally, strong customer service can differentiate SMEs from larger competitors by

offering a more personalized and responsive experience, which can be a key competitive advantage.

Additionally, integrating innovation capabilities into CRM dimensions is recognized as a crucial factor for creating value and gaining competitive advantages, thereby serving as a fundamental element for achieving strong business performance (Rufina, 2022). Aldoseri et al. (2019) highlight that such integration can significantly boost SME performance by enabling more effective and responsive customer relationship management. According to Ali et al. (2019), innovative CRM tools allow SMEs to craft more personalized customer experiences. By utilizing advanced technologies like AI and machine learning, SMEs can provide tailored recommendations, targeted marketing campaigns, and individualized customer support, which enhances customer engagement and fosters repeat business. This integration empowers SMEs to manage customer relationships more efficiently, adapt to evolving market demands, and strengthen their competitive position, ultimately leading to improved performance and growth.

Existing research indicates that firms increasingly focus on innovative CRM strategies to achieve customer satisfaction and gain a competitive edge in today's dynamic business environment (Rufina, 2022; Aldoseri et al., 2019; Ali et al., 2019; Ullah et al., 2020; Yurdakul & Kazan, 2020; Rafiki et al., 2019; Trif et al., 2019). However, these studies have not conceptualized CRM parameters in the way this study aims to measure them. Moreover, none of the existing empirical studies have explored the mediating effect of innovative capacities on the relationship between CRM parameters and SME performance. This study proposes to measure CRM through customer acquisition, customer interaction management, and customer service and support, addressing a conceptual model gap in the supply chain management literature that this research seeks to fill.

This research will significantly advance the existing body of knowledge by offering empirical evidence from emerging markets. It will both reinforce and extend prior findings, while filling a

critical research gap by investigating the impact of CRM dimensions on SME performance through innovative capacities. Unlike previous studies, this research establishes a clear relationship pattern and provides valuable insights for SME operators and policymakers. By focusing specifically on manufacturing SMEs, this study offers a more relevant and impactful analysis compared to research on larger organizations.

2. Theoretical Framework

Several theoretical frameworks, including resource-based theory, knowledge-based view, dynamic capabilities theory, social exchange theory, and service-dominant logic, have been used to explore the relationship between Customer Relationship Management (CRM), innovation capacities, and Small and Medium-sized Enterprise (SME) performance. This study is grounded in resource-based theory and dynamic capabilities theory because these frameworks offer a solid theoretical foundation for understanding the complex interactions between CRM parameters, innovation capacities, and SME performance. By employing these theories, researchers, and SME operators can gain valuable insights into how CRM systems can be utilized to foster innovation and drive SME success.

Resource-Based Theory

Resource-Based Theory (RBT) is a management theory that posits that the key to achieving competitive advantage and superior performance lies in the unique resources and capabilities a firm possesses. According to RBT, resources are valuable, rare, inimitable, and non-substitutable assets that can drive a firm's strategic advantage and performance (Ali et al., 2019). The theory suggests that SMEs can gain a competitive advantage by prioritizing high-quality customer service and effective management of customer interactions. By doing so, SMEs can strengthen their reputation and customer relationships, leveraging internal resources to achieve a competitive edge (Ullah et al., 2020). According to Yurdakul and Kazan (2020), RBT suggests that acquiring customers is a strategic resource that firms can leverage to build market share. Effective CRM systems enhance a firm's ability to attract and retain customers, turning this capability into a

valuable competitive resource. Galvao et al. (2018) assert that Resource-Based Theory (RBT) posits that SMEs can gain a competitive advantage by focusing on high-quality customer service and effective management of customer interactions. By enhancing their reputation and customer relationships through these internal resources, SMEs can achieve a competitive edge. Marolt (2018) adds that innovation capacities can be considered a strategic resource within RBT. By incorporating innovative practices and technologies into their CRM systems, SMEs can improve customer management and offer differentiated services.

Similarly, Lebdaoui and Chetioui (2020) demonstrate that by utilizing unique resources such as advanced CRM systems for customer acquisition, interaction management, and support, along with innovative capabilities, SMEs can distinguish themselves from competitors and secure a sustainable competitive advantage. Minh Ngo et al. (2018) further validate that RBT emphasizes the importance of developing and leveraging unique resources and capabilities. SMEs that effectively manage CRM and innovation are better positioned for strategic growth and long-term success. The theory suggests that integrating innovation capacities into CRM parameters is crucial for navigating customer satisfaction and overall performance.

Dynamic Capabilities Theory

Dynamic Capabilities Theory explains how organizations can adapt, renew, and reconfigure their resources and capabilities in response to changing environments. Unlike Resource-Based Theory, which emphasizes the importance of possessing valuable resources, Dynamic Capabilities Theory argues that sustained success in a fast-paced, competitive market requires the development of dynamic capabilities—specialized processes or abilities that allow organizations to integrate, build, and reconfigure both internal and external competencies to address rapidly changing environments (Sukaatmadja et al., 2017). According to Soltani et al. (2018), Dynamic Capabilities Theory enables SMEs to identify opportunities and threats in their environment by scanning the market, understanding customer needs, and monitoring

competitors. Branner (2020) further validates that for SMEs to remain competitive, they must continuously reconfigure their existing resources and capabilities, including transforming organizational structures, processes, and strategies to better align with market demands.

3. By leveraging dynamic capabilities, SMEs can consistently renew their strategies and operations, ensuring they

maintain a competitive edge. When these capabilities are combined with CRM systems and innovative practices, SMEs can strengthen customer relationships, leading to increased loyalty and higher sales (Ahani et al., 2017). Marolt et al. (2018) highlight that SMEs incorporating innovation into their CRM processes are better equipped to meet customer demands and differentiate themselves in the market. Continuous innovation allows SMEs to reconfigure their resources and processes, particularly in customer relationship management, to maintain competitiveness (Aldoseri et al., 2019). Ultimately, the theory emphasizes the necessity of SMEs to be flexible and innovative to thrive. By combining CRM practices with innovative approaches, SMEs can harness dynamic capabilities that drive superior performance and sustain their competitive edge in a dynamic business environment.

Concepts of the Study and Hypotheses Development

Customer Relationship Management (CRM) is a strategic approach organization use to manage interactions with current and potential customers, with the primary goal of improving business relationships, streamlining processes, and enhancing customer satisfaction and loyalty (Ladokun et al., 2023). Migdadi (2020) contends that CRM is more than just an information tool and plays a crucial role in small and medium enterprises (SMEs). Existing research employs various parameters to measure CRM. For example, Valmohammed (2017) evaluates CRM in terms of customer orientation, knowledge management, data management, and sales and marketing automation. Similarly, Madhovi and Dhliwayo (2017) conceptualize CRM around shared problem-solving, customer orientation, and company

competencies. Dewi and Sudaryana (2020) measure CRM by customer service management, analytics and reporting, and customer involvement. Ude (2022) also conceptualizes CRM through information exchange, customer interaction, customer retention, and technology use. Additionally, Rufina (2022) measures CRM in terms of customer interaction management, customer lifetime value, and churn rate.

This novel study proposes a distinct measurement framework for CRM in SMEs, focusing on customer acquisition, customer interaction management, and customer service and support. These interconnected aspects collectively contribute to the overall performance and competitiveness of SMEs in the market. By gaining a comprehensive understanding of how well they manage their relationships with customers, SMEs can enhance their market position and achieve sustainable growth.

Customer Acquisition and SMEs Performance

Customer acquisition refers to the process of identifying, attracting, and converting potential customers into paying clients. It includes all the strategies, tactics, and activities a business employs to bring in new customers. For small and medium-sized enterprises (SMEs), customer acquisition is a crucial element of growth and sustainability, as it directly impacts the business's ability to increase revenue, expand market share, and achieve long-term success. Existing research shows that customer acquisition is a key strategy for business growth in a competitive environment. For example, Chen (2022) demonstrates that acquiring new customers is directly linked to increased sales and revenue. For SMEs, consistent customer acquisition ensures a steady flow of revenue, which is vital for maintaining operations and funding growth initiatives.

In the same vein, Evelina (2022) found that effective customer acquisition strategies enable SMEs to reach new markets and expand their customer base, reducing reliance on a single market or customer group. Pérez-Morón et al. (2022) also note that as SMEs acquire more customers, their brand visibility and reputation grow. Word-of-mouth, online reviews, and customer testimonials

contribute to building a strong brand image. Vasić et al. (2019) further reveal that SMEs that excel in customer acquisition can outperform competitors by capturing a larger market share. Similarly, Lincoln and Kunyua (2022) emphasize that the process of acquiring customers provides valuable insights into customer preferences, behaviors, and needs. SMEs can use this data to refine their products, services, and marketing strategies.

This suggests that customer acquisition is a vital component of SME performance, influencing various aspects of business success. By effectively acquiring new customers, SMEs can drive revenue growth, expand their market presence, build brand awareness, and gain a competitive edge. Ultimately, a robust customer acquisition strategy is essential for the long-term success and sustainability of SMEs (Naini et al., 2022). This consistent finding warrants further investigation within the context of Nigerian SMEs. Therefore, the following hypothesis is proposed:

H1: Customer acquisition is significantly associated with the performance of SMEs.

Customer Interaction Management and SMEs Performance

Customer Interaction Management (CIM) is the strategic process of managing and optimizing all interactions between a business and its customers across various communication channels (Mogire et al., 2023). This encompasses phone calls, emails, social media interactions, live chats, in-person meetings, and any other touchpoints where a customer engages with the business. The primary goal of CIM is to ensure that every customer interaction is handled effectively and consistently, leading to enhanced customer satisfaction, loyalty, and overall business success (Ograjensek & Gal, 2012).

As Yi et al. (2022) emphasize, CIM involves managing customer interactions across multiple channels, ensuring a seamless experience regardless of how customers choose to communicate. Krajewski and Ritzman (2017) concur, asserting that CIM guarantees consistent responses and service levels across all channels and touchpoints, fostering trust and reliability.

A study conducted by Kiarie (2017) reveals that effective CIM leads to higher customer satisfaction by promptly and accurately addressing customer needs. Satisfied customers are more likely to become repeat customers, a crucial factor for SMEs aiming to build a loyal customer base. In another study, Ogomgbunam (2023) argues that by managing interactions effectively, SMEs can cultivate stronger relationships with their customers. This reduces customer churn and improves retention rates, vital for long-term business sustainability. Olapoju (2019) demonstrates that through CIM, SMEs can gather valuable data on customer preferences, behaviors, and pain points. This information can be used to refine products, services, and marketing strategies, leading to more targeted and effective business decisions. Khalil (2019) attests that by streamlining and optimizing customer interactions, SMEs can reduce the time and resources spent on customer service. This efficiency can lead to cost savings, allowing SMEs to allocate resources more effectively elsewhere in the business.

These findings suggest that customer interaction management is a critical factor in driving SME performance. By effectively managing customer interactions, SMEs can enhance customer satisfaction, improve retention, increase revenue, and build a strong brand reputation, all of which contribute to sustained business growth and success. Based on these insights, the following hypothesis is proposed:

H2: Customer interaction management is significantly associated with the performance of SMEs.

Customer Service and Support and SMEs Performance

Customer Service and Support is a critical component of CRM strategies, offering assistance and advice to customers before, during, and after a purchase. It encompasses a range of activities designed to ensure a positive customer experience, including resolving issues, answering questions, and providing guidance (Ahmed et al., 2023). As Matsuoka (2022) emphasizes, effective customer service and support are essential for building strong relationships with customers, enhancing

satisfaction, and fostering loyalty. Numerous studies have established a positive correlation between customer service and support and organizational performance. For example, Al-Rasyid (2017) demonstrates that excellent customer service and support lead to higher levels of customer satisfaction. Satisfied customers are more likely to return for repeat purchases, recommend the business to others, and provide positive reviews. This is particularly important for SMEs, where building a loyal customer base is crucial for sustained growth.

In another study, Rajasulochana (2022) attests that effective customer service and support help SMEs retain existing customers by addressing their needs and concerns promptly. High retention rates reduce the cost of acquiring new customers and contribute to stable revenue streams. Similarly, Kotler (2017) reiterates that consistently delivering high-quality customer service and support enhances a company's reputation. A strong reputation can differentiate SMEs from their competitors, making them more attractive to potential customers and business partners. A study conducted by Jiang and Yang (2019) reveals that effective customer service and support are major determinants of organizational performance in terms of customer satisfaction and loyalty. Hillman et al. (2019) concur, emphasizing that effective customer service and support are strong predictors of organizational performance.

These findings underscore the crucial role of customer service and support in SME performance. By delivering exceptional service, SMEs can enhance customer satisfaction, improve retention, build a strong brand reputation, and ultimately drive revenue growth. Effective customer service not only strengthens relationships with existing customers but also serves as a powerful tool for attracting new customers and gaining a competitive edge in the market. Based on these insights, the following hypothesis is proposed:

H3: Customer service and support are significantly associated with the performance of SMEs.

Mediation Effect of Innovation capacities

The contemporary international literature underscores the significance of innovation capacities for SMEs operating in competitive environments, where staying relevant and agile is crucial (Jordão, 2022; Zulu-Chisanga et al., 2021; Hameed et al., 2020). Trivedi and Srivastava (2022) define innovation capacities as an organization's ability to develop new ideas, processes, products, or services that drive growth and enhance competitiveness. The Resource-Based View (RBV) and Dynamic Capabilities (DC) theories suggest that CRM parameters play a vital role in enhancing performance outcomes through innovation capacities (Rana et al., 2021; Xiao et al., 2020). Partanen et al. (2020) further demonstrate that innovation capacities are key drivers of CRM, facilitating SME performance. Existing research confirms a significant link between innovation capacities, CRM parameters, and the performance outcomes of manufacturing SMEs (Hillman et al. 2019). According to Akil and Ungan (2022), innovation capacities are closely tied to customer acquisition, as SMEs that develop innovative products or services can differentiate themselves from competitors, making their offerings more attractive to potential customers. Similarly, Bhatti et al. (2020) emphasize that innovation capacities enable manufacturing SMEs to innovate their supply chains, creating an agile and resilient customer network that helps them thrive in a competitive business environment. Rajasulochana (2022) also argues that innovation capacities, such as the use of AI-powered chatbots and data analytics, enhance SMEs' understanding of and response to customer needs, leading to more personalized and efficient interactions, improved customer satisfaction, and stronger relationships. In this vein, Raza et al. (2022) demonstrates that innovation capacities play a significant role in customer support. By leveraging new technologies, SMEs can offer faster, more reliable, and accessible support services, including self-service platforms, AI-driven customer service solutions, and advanced troubleshooting tools. These innovations ensure timely assistance, which is critical for maintaining customer satisfaction and loyalty. Additionally, innovative approaches to customer support, such as proactive outreach and personalized follow-ups, can further enhance the customer experience

(Adebiyi et al., 2021). This suggests that the cumulative effect of innovation capacities on customer acquisition, interaction management, and support directly impacts the overall performance of SMEs. When SMEs innovate in these areas, they not only attract more customers but also build stronger, long-lasting relationships, leading to higher customer retention rates, increased sales, and a stronger brand reputation. Supporting this assertion, Ogonu et al. (2016) validate that innovative SMEs are often better positioned to adapt to market changes and seize new opportunities, contributing to sustainable growth and long-term success. In essence, innovation capacities enable SMEs to stay competitive, meet customer expectations, and drive overall business performance. The following hypotheses are thus proposed:

H4: There is a significant association between innovation capacities and SMEs performance.

H5: There is a significant association between innovation capacities and customer acquisition.

H6: There is a significant association between innovation capacities and customer interaction management.

H7: There is a significant association between innovation capacities and customer service and support.

H8: Innovation capacities mediate the relationship between CRM parameters and the performance of SMEs.

Conceptual framework for the study

After a thorough analysis of the literature, a conceptual model has been developed to illustrate the indirect influence of innovation capacities on customer relationship management (CRM) practices specifically, customer acquisition, customer interaction management, and customer service and support and their effect on the performance of SMEs.

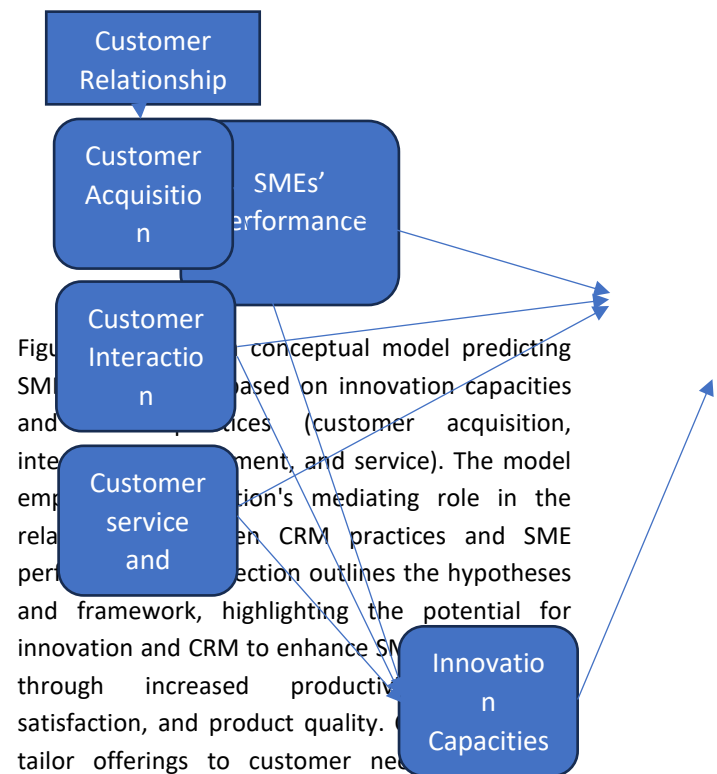


Figure 1: Conceptual model predicting SME performance based on innovation capacities and CRM practices (customer acquisition, interaction management, and service). The model emphasizes innovation's mediating role in the relationship between CRM practices and SME performance. The diagram outlines the hypotheses and framework, highlighting the potential for innovation and CRM to enhance SME performance through increased productivity, customer satisfaction, and product quality. Innovation empowers SMEs to tailor offerings to customer needs, leading to higher satisfaction and loyalty, while innovation empowers SMEs to optimize CRM strategies for improved acquisition, retention, and overall performance. Consequently, we hypothesize direct relationships between CRM practices and both innovation capacities and SME performance, as well as an indirect relationship between innovation capacities and SME performance mediated by CRM practices."

3. Methods

Sample and Procedure

This research was conducted among manufacturing SMEs that have been operational for at least five years and are registered with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in the South-Western geopolitical zone, which includes Lagos, Ogun, Oyo, Osun, Ondo, and Ekiti States. These states were selected due to their status as major business hubs in Nigeria. A total of 459 SMEs were chosen from a population of 8,395, as reported by SMEDAN in 2020, using non-probability sampling methods. The sample size was determined using Slovin's formula (1967). Purposive and convenience sampling techniques were employed to select the respondents for the study. Questionnaires were administered in person by the researchers, with the assistance of four

research assistants, to SME owners or CEOs who agreed to participate between 5th April to 12th June 2024. By the end of the data collection period, 452 completed questionnaires were retrieved, yielding a response rate of 98.5%. This high response rate was achieved through prior discussions with SME CEOs about the importance of the study and the involvement of research assistants to clarify any questions that were unclear to the respondents.

Research Instrument

The structured questionnaire, crafted following an extensive literature review, was designed to address the independent variables (customer acquisition, customer interaction, and customer service and support), the mediator (innovation capacities), and the dependent variable (SME performance). A five-point Likert scale was employed, allowing respondents to express their agreement or disagreement, ranging from "strongly agree" to "strongly disagree." Each assessment question was content-validated (refer to Table 1). Data analysis was conducted using Path Analysis Structural Modeling (PA-SEM) with STATA version 15.

Variable	Code	Item	Cronbach's Alpha coefficient	Composite reliability	Source
Innovation Capacities	INC	Our company consistently introduces new products or services ahead of our competitors. We regularly invest in research and development to foster innovation. Our employees are encouraged to suggest and implement innovative ideas. We have the resources and capabilities to quickly adapt to new market trends. Our organization effectively leverages technology to drive innovation. We continuously seek new methods to improve our production processes.	0.851	0.809	Jordão (2022)
Customer Acquisition	CAS	Our company effectively identifies and targets potential customers in new markets. We have a strong marketing strategy that consistently attracts new customers. Our promotional efforts are successful in increasing our customer base. We regularly analyze and adjust our customer acquisition strategies to improve effectiveness. Our sales team is skilled at converting leads into customers. We utilize data-driven insights to enhance our customer acquisition efforts.	0.885	0.877	Jiang and Yang (2019)
Customer Interaction management		We have a well-defined process for managing customer interactions across multiple channels. Our company regularly gathers and uses customer feedback to improve our services.	0.887	0.829	

	CIM	<p>We maintain strong, ongoing communication with our customers. Our CRM system is effective in helping us manage and track customer interactions.</p> <p>We maintain consistent and meaningful engagement with our customers across various channels. Our company effectively manages customer data to improve the quality of our interactions.</p>			Olapoju (2019)
Customer Service and Support	CSS	<p>Our customer service team is knowledgeable and can effectively resolve customer issues. We consistently meet or exceed our customers' expectations in service delivery. Our company provides multiple channels for customers to seek support and assistance. We regularly train our staff to improve the quality of customer service they provide. Our company proactively follows up with customers to ensure their issues have been resolved. We have a strong customer support system that ensures timely and effective service.</p>	0.821	0.832	Evelina (2022)
SMEs Performance	SMP	<p>Our SME has experienced significant growth in revenue over the past year. Our SME has successfully expanded its market share compared to competitors. Our customers are highly satisfied with the products/services provided by our SME. Our SME has optimized its operations to reduce costs and improve productivity Our SME is quick to adapt to changes in the market and regularly introduces innovative products/services.</p>	0.811	0.820	Adebiyi et al. (2021)

4. Discussion

Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis (CFA) is a technique within structural equation modeling (SEM) used to

assess the validity of measurement instruments and to test the hypothesized relationships between observed variables and their underlying latent constructs (see Table 2).

Table 2: Confirmatory Factor Analysis (CFA)

Chi-square (χ^2)	0.062; p = 0.000
the root mean square error of approximation (RMSEA)	0.0320
The comparative fit index (CFI)	0.97
The Tucker-Lewis index (TLI)	0.99
The standardized root mean square residual (SRMR)	0.0602

Table 2 displays the results of a Confirmatory Factor Analysis (CFA), which was conducted to evaluate the fit of the measurement model to the data. The analysis yielded a χ^2 value of 0.062 with a p-value of 0.000, indicating a strong model fit. The RMSEA value is 0.0320, where values below 0.05 generally signify a good fit. The CFI value is 0.99, with values above 0.95 typically indicating a good fit. Additionally, the SRMR value is 0.0602, with values below 0.08 being considered indicative of a good fit. Based on these indices, the CFA model in Table 2 demonstrates a very good fit to the data, with all indices falling within acceptable ranges, suggesting that the measurement model effectively captures the underlying latent constructs.

Heterotrait-Monotrait (HTMT)

The Heterotrait-Monotrait (HTMT) criterion is a method used to assess the convergent validity and discriminant validity of a set of items or indicators. It helps determine if the items are measuring the intended construct and if they are distinct from other constructs (see Table 3).

Table 3 Heterotrait-Monotrait (HTMT) Criterion

Variable	1	2	3	4
1. Customer Acquisition	0.584			
2. Customer interaction management	0.535	0.628		

3. Customer service and support	0.572	0.667	0.632	
4. SMEs performance	0.599	0.673	0.623	0.612

From Table 3, the diagonal elements (0.584, 0.628, 0.632, and 0.612) and the off-diagonal elements (0.535, 0.572, 0.599, 0.667, 0.673, and 0.723) are all below the commonly accepted threshold of 0.85. This suggests that customer acquisition, customer interaction management, customer service and support, and SMEs performance are distinct constructs, each capturing different aspects of the participants' experiences or perceptions. As a result, discriminant validity is established, confirming that these constructs can be confidently used in further analysis.

Discriminant Validity (Fornell-Larcker Criterion)

The Fornell-Larcker criterion is a widely used method to assess discriminant validity in structural equation modelling. It ensures that a construct (e.g., customer acquisition) is distinct from other constructs (e.g., customer interaction management) in the model (see Table 4).

Table 4. Discriminant Validity (Fornell-Larcker Criterion)

Variable	1	2	3	4
1. Customer Acquisition	0.610			
2. Customer interaction management	0.632	0.669		
3. Customer service and support	0.649	0.671	0.642	
4. SMEs performance	0.618	0.635	0.681	0.629

Table 4 presents the discriminant validity analysis using the Fornell-Larcker criterion. The diagonal elements (bolded numbers) represent the square root of the Average Variance Extracted (AVE) for each construct, while the off-diagonal

elements indicate correlations between constructs. For discriminant validity, the square root of a construct's AVE must exceed its correlations with other constructs. As shown, the AVEs for customer acquisition (0.610), customer interaction management (0.632), customer service and support (0.649), and SMEs performance (0.618) are all greater than their respective correlations, confirming discriminant validity for all four constructs. This indicates that each construct measures a unique concept, distinct from the others, thereby strengthening the validity of the study's findings.

Socio-demographic Characteristics

The demographic information included gender, age, level of education and years in operation and sector of business. This is depicted in Table 5

Table 5. Socio-demographic characteristics of the respondents

Characteristics	Frequency	Percentage
Gender		
Male	340	75.2
Female	112	24.8
Total	452	100.0
Age (in years)		
Below 21	10	2.2
21-30	98	21.6
31-40	208	46.1
41 and above	136	30.1
Total	452	100.0
Level of Education		
Vocational Training	131	28.9
Bachelor	120	26.5
Masters	102	22.5
Doctorate	99	21.1
Total	452	100.0
Year in Operation		

Over 20 years	109	24.1
19 to 15 years	145	32.1
14 to 10	132	29.2
9 to 5 years	66	14.6
Total	452	100.0

Table 5 outlines the socio-demographic characteristics of the respondents, including gender, age, education level, and years in operation. This data is key to understanding the sample population and its relevance to the study. The majority of respondents are male (75.2%), with females comprising 24.8%. The most represented age group is 31-40 years (46.1%), followed by those aged 41 and above (30.1%). Younger respondents aged 21-30 account for 21.6%, while those under 21 make up just 2.2%, indicating that most respondents are in their prime working years, likely reflecting a more experienced workforce. In terms of education, the largest group of respondents have Vocational Training (28.9%), followed by those with a Bachelor's degree (26.5%). Additionally, those with a Master's degree (22.5%) and Doctorate (21.1%) are also well represented, demonstrating a diverse educational background with a significant portion possessing advanced degrees. Regarding years in operation, the majority have been in business for 15 years or more, with 24.1% having over 20 years of experience and 32.1% between 15-19 years. Those with 10-14 years of experience constitute 29.2%, and 14.6% have been in operation for 5-9 years.

This suggests that most respondents have substantial experience in their field, which could enhance the reliability of their responses. Overall, the socio-demographic profile of the respondents indicates that the study's findings are likely to be shaped by experienced, well-educated professionals, predominantly male, and mainly in their 30s and 40s. This provides a robust foundation for the study's conclusions while also highlighting potential areas for further research to explore underrepresented groups.

Table 6: Path Analysis Structural Equation Modelling (Direct Effect)

Path	Beta value	t-value	p-value	Hypothesis	Remark
CAS → SMP	0.362	3.77	0.000	H1	Supported
CIM → SMP	0.524	6.82	0.000	H2	Supported
CSS → SMP	0.612	7.58	0.000	H3	Supported
INC → SMP	0.511	6.76	0.000	H4	Supported
INC → CAS	0.376	4.87	0.000	H5	Supported
INC → CIM	0.482	4.98	0.000	H6	Supported
INC → CSS	0.373	3.99	0.000	H7	Supported

Note: INC = Innovation capacities, CAS = Customer Acquisition, CIM = Customer interaction management, CSS = Customer service and support, SMP = SMEs performance

Table 6 shows that Customer Acquisition (CAS) has a positive and significant direct impact on SMEs' performance (SMP), with a beta value of 0.362 and a p-value of 0.000. This suggests that enhancing customer acquisition strategies can significantly and directly improve SMEs' overall performance. The study also indicates that Customer Interaction Management (CIM) ($\beta = 0.524$, $t = 6.82$, $p = 0.000$) has a strong positive and significant effect on SMEs' performance, highlighting the importance of effective customer interaction management. Investing in systems that enhance customer engagement can lead to better business outcomes. Furthermore, the results show that Customer Service and Support (CSS) ($\beta = 0.612$, $t = 7.58$, $p = 0.000$) has the strongest positive direct

impact on SMEs' performance. This underscores the critical role of customer service and support in determining the success of SMEs. Prioritizing high-quality customer service and support, which may involve training, improved customer service tools, and processes, will significantly and directly enhance SMEs' performance. Hence, Therefore, H1, H2, H3, and H4 are supported.

Innovation capacities (INC) have a strong, positive, and significant direct impact on SMEs' performance, with a beta value of 0.511 and a p-value of 0.000. This indicates that fostering innovation within SMEs can greatly enhance their overall performance, making innovation a strategic priority. The data also shows that innovation capacities positively and significantly influence Customer Acquisition, Customer Interaction Management, and Customer Service and Support, with beta values of 0.376, 0.482, and 0.373, respectively. This suggests that innovation not only directly boosts SMEs' performance but also enhances customer-related processes. Therefore, investing in innovation is crucial for SMEs to gain a competitive advantage in customer acquisition, interaction, and support. Therefore, H5, H6 and H7 are supported.

Table 7: Path Analysis Structural Equation Modelling (Indirect Effect)

Path	Beta value	t-value	p-value	Hypothesis	Remark
CAS → INC → SMP	0.487	4.01	0.000	H7	Partially Supported
CIM → INC → SMP	0.678	7.13	0.000		
CSS → INC → SMP	0.709	7.87	0.000		

Note: INC = Innovation capacities, CAS = Customer Acquisition, CIM = Customer interaction management, CSS = Customer service and support, SMP = SMEs performance

Table 7 demonstrates that the relationship between CRM components, customer acquisition (CAS), customer interaction management (CIM), and customer service and support (CSS) and SME Performance (SMP) is mediated by innovation capacities (INC), with beta values of 0.487, 0.678, and 0.709, respectively. These values indicate a significant indirect effect of CRM on SMP through INC. The p-value of 0.000 for each parameter suggests that the mediating effect of innovation capacities (INC) is partial. This suggests that while CRM directly affects SME performance, its impact is significantly amplified when mediated by innovation capacities. The implication of these findings is that innovation is a critical factor in enhancing the effectiveness of CRM strategies. Consequently, H7 is partially supported.

Discussion of Findings

This study examined the direct and indirect effects of customer relationship management (CRM) parameters on small and medium-sized enterprise (SME) performance through innovation capacities. The study established a significant positive impact of customer acquisition (CAS) on SME performance was found, suggesting that effective customer acquisition strategies directly contribute to business success. This aligns with Krajewski and Ritzman (2017), who emphasize that CAS ensures consistent service levels across all channels, fostering trust and reliability. Additionally, Chen (2022) demonstrates that acquiring new customers directly correlates with increased sales and revenue. Similarly, Evelina (2022) found that effective customer acquisition strategies enable SMEs to reach new markets and expand their customer base, thereby reducing dependence on a single market or customer group. Pérez-Morón et al. (2022) also observe that as SMEs acquire more customers, their brand visibility and reputation grow, supported by word-of-mouth, online reviews, and customer testimonials. Vasić et al. (2019) further reveal that SMEs excelling in customer acquisition outperform competitors by capturing a larger market share. Lincoln and Kunyua (2022) also highlight that the process of acquiring customers provides valuable insights into customer preferences, behaviors, and needs, which SMEs can

use to refine their products, services, and marketing strategies. Hence, H1 is supported.

The study also indicates that customer interaction management (CIM) has a strong, positive, and significant effect on SMEs' performance, underscoring the importance of effective customer interaction management. This suggests that investing in systems that enhance customer engagement can lead to better business outcomes. The findings are consistent with Kiarie (2017), who asserts that effective CIM leads to higher customer satisfaction by promptly and accurately addressing customer needs. Additionally, Ogamegbunam (2023) argues that by effectively managing interactions, SMEs can build stronger relationships with their customers, thereby reducing customer churn and improving retention rates, which are crucial for long-term business sustainability. Olapoju (2019) also demonstrates that CIM allows SMEs to gather valuable data on customer preferences, behaviors, and pain points, which can be used to refine products, services, and marketing strategies, resulting in more targeted and effective business decisions. Khalil (2019) adds that by streamlining and optimizing customer interactions, SMEs can reduce the time and resources spent on customer service. Thus, H2 is supported.

The study further reveals that customer service and support have a positive and significant association with SME performance. This suggests that prioritizing high-quality customer service and support, including training, improved tools, and processes, will significantly and directly enhance SME performance. The study concurs with Matsuoka (2022), who asserts that effective customer service and support are essential for building strong relationships with customers, enhancing satisfaction, and fostering loyalty. Al-Rasyid (2017) also demonstrates that excellent customer service and support lead to higher levels of customer satisfaction. Similarly, Rajasulochana (2022) attests that effective customer service and support help SMEs retain existing customers by addressing their needs and concerns promptly. Jiang and Yang (2019) also affirm that effective customer service and support are key determinants of organizational performance in terms of customer

satisfaction and loyalty. Hillman et al. (2019) concur, emphasizing that effective customer service and support are strong predictors of organizational performance. Therefore, H3 is supported.

The evidence also shows that innovation capacities (INC) have a strong, positive, and significant direct impact on SME performance. This indicates that fostering innovation within SMEs can greatly enhance their overall performance, making innovation a strategic priority. The data further shows that innovation capacities positively and significantly influence Customer Acquisition, Customer Interaction Management, and Customer Service and Support. This suggests that innovation not only directly boosts SME performance but also enhances customer-related processes. Moreover, the study establishes that innovation capacities partially mediate the relationship between CRM parameters and SME performance. Therefore, investing in innovation is crucial for SMEs to gain a competitive advantage in customer acquisition, interaction, and support.

The study is consistent with the Resource-Based View (RBV) and Dynamic Capabilities (DC) theories, which posit that CRM parameters play a vital role in enhancing performance outcomes through innovation capacities (Rana et al., 2021; Xiao et al., 2020). Partanen et al. (2020) further demonstrate that innovation capacities are key drivers of CRM, facilitating SME performance. Hillman et al. (2019) also confirm a significant link between innovation capacities, CRM parameters, and the performance outcomes of manufacturing SMEs. Akil and Ungan (2022) argue that innovation capacities are closely tied to customer acquisition, as SMEs that develop innovative products or services can differentiate themselves from competitors, making their offerings more attractive to potential customers. Similarly, Bhatti et al. (2020) emphasize that innovation capacities enable manufacturing SMEs to innovate their supply chains, creating an agile and resilient customer network that helps them thrive in a competitive business environment. Thus, H5, H6, and H7 are supported, while H8 is partially supported.

This study provides compelling evidence that effective CRM practices, coupled with a strong

focus on innovation, are essential for SMEs to achieve superior performance. By investing in customer acquisition, interaction management, service and support, and innovation, SMEs can build strong relationships with customers, enhance customer satisfaction, and ultimately drive business growth.

Conclusion

This study demonstrated both the direct and indirect effects of customer relationship management (CRM) parameters on the performance of small and medium-sized enterprises (SMEs) through innovation capacities. It confirmed that CAS, CIM, and CSS have significant positive impacts on SME performance, indicating that effective strategies in these areas directly contribute to business success. Additionally, the study highlighted that innovation capacities (INC) have a strong, positive, and significant direct impact on SME performance, underscoring the importance of fostering innovation within SMEs as a strategic priority. The data further revealed that innovation capacities significantly enhance CAS, CIM, and CSS, suggesting that innovation not only directly boosts SME performance but also strengthens customer-related processes. Moreover, the study found that innovation capacities partially mediate the relationship between CRM parameters (CAS, CIM, and CSS) and SME performance.

Overall, the study provides compelling evidence that effective CRM practices, combined with a strong emphasis on innovation, are crucial for SMEs aiming to achieve superior performance. By investing in customer acquisition, interaction management, service and support, and innovation, SMEs can build strong customer relationships, enhance satisfaction, and ultimately drive business growth.

Theoretical Implications

This study demonstrates how Equity Theory and Dynamic Capabilities Theory can enhance SME performance through both direct CRM strategies and the indirect influence of innovation capabilities. It underscores the importance of high-quality

customer service and effective management of customer interactions in building competitive advantage. By leveraging internal resources like customer acquisition and service management, SMEs can improve their market share and business success. The integration of innovation into CRM processes further strengthens the Resource-Based Theory (RBT) framework, showing that innovation enhances CRM effectiveness and secures a sustainable competitive edge. Dynamic Capabilities Theory emphasizes the need for SMEs to continuously adapt and reconfigure their resources in response to changing environments. Unlike RBT, which focuses on valuable resources, this theory stresses the importance of dynamic capabilities in maintaining competitiveness. Innovation capacities are highlighted as crucial for aligning CRM processes with market demands and differentiating SMEs from competitors.

In conclusion, this study contributes to the theoretical understanding of how SMEs can leverage both Resource-Based Theory and Dynamic Capabilities Theory to enhance their performance. By integrating innovation capacities into CRM strategies, SMEs can harness unique resources and dynamic capabilities that drive superior performance and ensure long-term success in a competitive market. Therefore, SME CEOs should focus on building and maintaining these capabilities to sustain long-term competitive advantages. Policymakers can also support this by designing frameworks that encourage SMEs to adopt best practices in resource management and dynamic capability development, ensuring they remain agile and competitive in a rapidly changing business environment.

Practical Implications

The study offers several practical recommendations for SME CEOs and Policymakers. It confirms that effective customer acquisition (CAS) strategies are directly tied to business success. SME CEOs should invest in robust customer acquisition processes that expand market reach, reduce reliance on single markets, and boost sales and revenue. Policymakers can support this by providing resources and training programs to help SMEs develop and implement effective customer acquisition strategies, thereby promoting broader

economic growth. The study also emphasizes the critical role of customer interaction management (CIM) in enhancing SME performance. SME leaders should invest in systems that facilitate effective customer engagement, leading to higher customer satisfaction, stronger relationships, and improved retention rates. Policymakers can encourage the adoption of advanced CRM technologies by offering incentives or subsidies, ensuring SMEs remain competitive and customer-focused.

Additionally, the study underscores the importance of high-quality customer service and support in boosting SME performance. CEOs should prioritize training, tools, and processes that enhance customer service, as this leads to increased customer satisfaction and loyalty. Policymakers can assist by creating initiatives that encourage continuous improvement in customer service, such as certification programs or public recognition for SMEs that excel in this area. The study further establishes innovation as a strategic priority for SMEs, significantly enhancing performance and customer-related processes. SME CEOs should focus on fostering innovation within their organizations to gain a competitive edge. This includes investing in innovative practices and technologies that can improve CRM systems and overall business operations. Policymakers should support innovation in SMEs by offering grants, tax incentives, and access to research and development resources to help SMEs integrate innovation into their business models.

Moreover, the study confirms that innovation capacities partially mediate the relationship between CRM and SME performance. CEOs should leverage innovation to enhance CRM strategies, improving customer acquisition, interaction management, and service/support. Policymakers can create policies that encourage collaboration between SMEs and research institutions, fostering an environment where innovative solutions can be developed and applied to improve business outcomes.

In conclusion, SME CEOs and policymakers should work together to create an ecosystem that supports effective CRM practices and fosters innovation. By doing so, SMEs can build strong customer relationships, enhance customer

satisfaction, and drive sustainable business growth, contributing to overall economic development.

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