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CRM and the bottom line: Do all CRM dimensions affect firm performance?

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ABSTRACT

Successful firms often endeavour to assure competitive advantages through the relationships with their customers. Consequently, customer relationship management (CRM) has become of pivotal importance to many firms. This study investigates the effect of each CRM dimension on the performance of hotels. We found that in general hotels should aim to improve CRM capabilities because it has a positive effect on firm performance. Contrary to some previous assumptions, CRM investments did not result in positive performance. These findings are important as hotels strive to allocate resources to improve relationships with customers.

1. Introduction

Successful firms often strive for competitive advantages through the relationships with their customers, and customer relationship management (CRM) has become of pivotal importance to many firms. CRM focuses on establishing, maintaining and enhancing long-term associations with customers (Srivastava et al., 1999). Many firms have implemented CRM technology in the hope that it will enable them to better target profitable segments, improve customer service, enhance customer retention and ultimately increase the firm's financial performance (Peppers and Dorf, 1999).

Motivated, in part, by the significance of CRM to firms, several studies have been carried out. The findings suggest that the implementation of CRM has a considerable influence on several customer-related outcomes (Gustafsson et al., 2005; Wu and Lu, 2012). More specifically, CRM is reported to affect customer satisfaction (Boulding et al., 2005), customer retention (e.g., Yim et al., 2004) and customer knowledge (Mithas et al., 2005).

However, practitioners have voiced concerns that implementing CRM sometimes has no or even a negative effect on a firm's performance (Homburg et al., 2007). While the impact of CRM on customer outcomes has been extensively studied, its impact on firm performance has not received sufficient attention (Kumar, 2008). Krasnikov et al. (2009) responded to this call and investigated whether publicity regarding CRM affects firm performance. The study by Krasnikov and colleagues (2009) provides valuable insights into whether CRM in general is an efficient use of resources. However, the question that remains is whether the dimensions of CRM all affect firm performance or whether perhaps differential effects on firm performance may contribute to explaining why implementing CRM sometimes helps and other times hurts firm performance. In light of this gap, Krasnikov et al. (2009, p. 74) call for research investigating CRM on firm performance "in a finer-grained manner".

Our research responds to this gap by investigating the linkage between CRM and its dimensions and firm performance with evaluative data obtained from managers and financial data from a longitudinal, archival data set. Thus, this study aims to examine whether and how each CRM dimension influences firm performance. The study is set in the hotel industry and uses both primary and secondary data sets that respectively capture managers' CRM evaluations and financial data in the hotel industry. This industry was chosen due to recent calls (Reimann et al., 2010, p. 340) for researchers to investigate how CRM is being implemented in service industries. We collected data on the different CRM dimensions using a survey conducted on Slovenian hotels. We measured hotel performance using the stochastic frontier methodology. This is in line with other related CRM studies (Krasnikov et al., 2009). The advantage of the stochastic frontier method is that it allows multiple inputs and outputs to be included when measuring hotel performance. Other simple performance metrics such as ROA or RevPar have been criticised as being partial indicators since they do

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not reflect the multiple input/output nature of the hotel industry (Assaf et al., 2012).

The article proceeds as follows: first, we review the relevant literature and develop the hypotheses. We then describe the methods to investigate these. After that, we report the results and, finally, we discuss the results and highlight their implications for theory and practice.

2. Literature review and hypothesis development

Existing research suggests that firms apply CRM to facilitate communication with customers, provide timely feedback, analyse customer information, and provide customised offerings (Day, 2003). Research indicates that firms which have stronger relationships with customers perform better overall (e.g., Bolton, 1998; Reinartz et al., 2005). For example, such a firm is able to identify more profitable customers, customise the solution to an individual customer and, in turn, have more loyal customers. Technology is thought to be the key to the successful management of customer relationships. The technology dimension of CRM includes front-office applications supporting firm divisions such as marketing and sales, along with back-office applications that help analyse the data (Greenberg, 2001; Jayachandran et al., 2005; Srinivasan and Moorman, 2005).

The front-office elements facilitate the flow of information with customers. In this way, firms that implement CRM aim to facilitate the seamless dissemination of customer knowledge throughout the organisation. The back-office elements help with data-mining and thus with identifying and analysing customers' needs and actions. Data from multiple touch-points may be integrated to facilitate improved customer knowledge.

CRM has been defined in a number of ways and several dimensions have been identified. For example, Payne and Frow (2005) define CRM in terms of three technology perspectives on a continuum: tactically, wide-ranging, and customer-centric. This view also illustrates an evolution in the way CRM has been viewed, moving from a technological enabler of simple automated processes to a comprehensive approach to managing customer relationships (Payne and Frow, 2005). Accordingly, CRM is increasingly regarded as a strategic process, which involves a firm and its customers (Jayachandran et al., 2005; Parvatijar and Sheth, 2000).

Based on an extensive review of the literature, Srinivasan and Moorman (2005) define CRM in terms of both the firm's CRM system investments and its CRM capabilities. More specifically, the firm's CRM capabilities are composed of three dimensions: information generation, information dissemination, and responsiveness; while CRM system investments have two dimensions: CRM technology investments and CRM technology expenses relative to competitors.

Verhoef (2003) investigated the implementation of CRM for its effects on perceptual performance. The study found that CRM positively influences customer relationships (customer share and customer retention). While this finding was important, the conclusions which can be drawn are limited by the particular operationalisation of CRM (loyalty programme and direct mailings were, for example, seen as indicative of a CRM programme). In response to such limitations, Jayachandran et al. (2005) and Srinivasan and Moorman (2005) made important contributions by investigating CRM as a multi-dimensional construct and linking these to customer outcomes. This approach allowed for a more detailed and richer understanding of the CRM – customer outcomes relationship. The authors found that certain CRM dimensions (e.g., customer relationship orientation, customer-centric management systems) positively impact customer relationship performance, while there is no relationship between the other CRM dimensions (e.g., technology use) and customer relationship performance.

While academics have investigated the impact of CRM implementation on intermediate metrics (e.g., customer satisfaction), its impact on firm profitability has not received sufficient attention (Kumar, 2008). As such, while we have a great deal of insight into the CRM – customer outcomes relationship, there is still a limited understanding of whether and how CRM is an efficient use of a firm's resources. Practitioners have also voiced concerns that CRM is a complex issue and its implementation does not always lead to improved performance (Homburg et al., 2007). For instance, the Gartner-Group (2003) investigated the impact of CRM projects on firm performance and found that about 70% of the projects resulted in either losses or had no effect on firm performance.

One important study investigated whether the use of CRM technology affects firm performance (Krasnikov et al., 2009). Operationalising CRM by using announcements from firm vendors and clients to create a dummy variable (0: If the researchers found an announcement regarding CRM in the trade press; 1: If no announcement regarding CRM was found). Krasnikov and colleagues (2009) found that CRM negatively affects cost efficiency and positively affects profit efficiency. A limitation of the study is that it measured CRM with a single, indirect indicator and thus does not provide a link between the CRM dimensions and firm performance. Given that researchers (Jayachandran et al., 2005; Srinivasan and Moorman, 2005) have found that the impact on customer outcomes varies from one CRM dimension to another, the question is whether the impact on firm performance also varies from one CRM dimension to the next? If it is vastly better to invest in some CRM dimensions rather than other dimensions, perhaps this can help explain why the experience of so many firms is that investments in CRM are wasted or even hurt the bottom-line while other firms reap significant financial benefits from implementing CRM. Krasnikov et al. (2009) emphasise this gap and call for research investigating the relationship between CRM dimensions and firm performance. Specifically, they urge researchers to examine the impact of the CRM dimensions on firm performance rather than using a single indicator and thereby allowing for research that investigates "CRM in a finer-grained manner" (Krasnikov et al., 2009, p. 74).

Research on CRM is also short on research that uses longitudinal approaches. Reimann et al. (2010, p. 340) thus call for research efforts that "examine the performance impact of CRM longitudinally". Moreover, prior studies are yet to be complemented with a longitudinal analysis that links information from managers about the dimensions of CRM to firm performance measured by secondary data. Indeed, Becker et al. (2009, p. 213) call for research with a "focus on analysing CRM from a longitudinal perspective rather than a cross-sectional one". Krasnikov and colleagues (2009) further call for research which investigates managers' evaluations and links them to firm performance and states that "subjective evaluations of managers may be critical to capture the multi-faceted nature of CRM implementation. Employing subjective data will enable a detailed assessment of the effects of CRM on firm performance". Fig. 1 illustrates that researchers first investigated the effect of simple measures of CRM on consumer outcome, and then focus moved to investigating more complex expressions of CRM on consumer outcomes. Krasnikov et al. (2009) later investigated the effect of a single indicator of CRM on an advanced measure of firm performance. The present research builds on these studies by investigating a complex and multi-dimensional measure of CRM on an advanced measure of firm performance.

Fig. 2 illustrates our conceptual framework. The links between these five CRM dimensions and firm performance (based on both inputs and outputs) have yet to be uncovered (Krasnikov et al., 2009). The framework consists of CRM capabilities and CRM system investments. CRM capabilities have three dimensions: The firm's ability to generate and disseminate information, as well as its ability to respond to changes in the market. CRM system investment