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A CRM performance measurement framework: Its development process and application

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ABSTRACT

We suggest a performance measurement framework called a customer relationship management (CRM) scorecard to diagnose and assess a firm's CRM practice. The CRM scorecard was developed through a rigorous and stepwise development process collaborated with a number of firms in a variety of industries. During the development process, we conducted an extensive literature review to build a theoretical causal map, in-depth interviews with practitioners to extract a hierarchical map from industrial perspectives, feasibility tests to check whether or not Key Performance Indicators (KPI) could be measured, and Analytic Hierarchy Process (AHP) analysis to prioritize the evaluation factors on the CRM scorecard. The CRM scorecard contains antecedent/subsequent and objective/perceptual evaluation factors in four different perspectives to comprehensively measure corporate CRM capability and readiness. To illustrate the applicability of the proposed CRM scorecard, we apply the framework to a retail bank in Korea well-known for its exemplary CRM strategy.

1. Introduction

Customer relationship management (CRM) has been increasingly adopted as a core business strategy and invested in heavily by corporations (Lindgreen, Palmer, Vanhamme, & Wouters, 2006; Rigby & Ledingham, 2004). However, according to IDC (International Data Corporation) and Gartner Group, the rate of successful CRM implementations is below 30% (Rigby, Reichheld, & Schefter, 2002), hardly justifying the cost of implementation (Lindgreen et al., 2006). As part of efforts to find the drivers of CRM success or failure, academics and practitioners may refer to previous studies of performance measurement, or success or failure models of information systems (ISs) (e.g., Doll & Torkzadeh, 1998; Ray, Muhanna, & Barney, 2005; Slevin, Stieman, & Boone, 1991). However, since CRM is an information technology (IT)-enabled business strategy rather than an IS, previous IS success models are insufficient to indicate whether a company's CRM initiatives have succeeded or failed and why. Efforts to identify CRM success factors have appeared in marketing literature as well. While some research has focused more on IT-related factors (Avlonitis & Panagopoulos, 2005; Roh, Ahn, & Han, 2005; Wilson, Daniel, & McDonald, 2002), others have emphasized organizational factors like human resources, organizational structure, and reward systems (Rigby et al., 2002), or business process-related factors (Campbell, 2003; Payne & Frow, 2004; Reinartz, Krafft, & Hoyer, 2004). Similarly, although such research presents managerial implications in terms of focal factors, they are not appropriate for investigating the success or failure of CRM as a company-wide business strategy since they do not provide any integrative perspective. Therefore, rather than conducting impromptu post analysis of CRM successes or failures, firms are recommended to have an organizational evaluative mechanism to manage, control, and assess the effectiveness of CRM implementation and operational practices.

In this paper, our objective is to propose a framework of CRM performance measurement, called a CRM scorecard, which can diagnose and assess companies' CRM initiatives. Any framework for measuring performance should address both readiness and performance from implementation for the following two reasons: First, since a proper performance measurement framework is based on a causal model spanning antecedent to subsequent factors (Lebas, 1995), it naturally deals with readiness and performance. Second, since a business strategy like CRM evolves continuously according to internal conditions and external environments, diagnosing the current level of CRM strategy means not only the performance of up-to-date implementation but also readiness for future implementation. To do this, we first identify which factors are important and what relationships between the factors exist for executing a CRM strategy successfully. Based on this conceptual framework, we develop a CRM scorecard through a series of systematic building steps and evaluate it through a real-world CRM implementation.

2. Theoretical background

2.1. CRM performance measurement

While numerous studies relating to CRM frameworks, IT, implementation strategies, and cases have been conducted, there has been a

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definite lack of academic effort addressing the issue of CRM performance measurement. We could find only a few papers in the literature dealing with CRM performance measurement or related issues (e.g., Brewton & Schiemann, 2003; Jain, Jain, & Dhar, 2003; Kim, Suh, & Hwang, 2003; Lindgreen et al., 2006; Zablah, Bellenger, & Johnston, 2004). For the purpose of conceptualizing fundamental directions for developing a CRM assessment tool, Zablah et al. (2004) emphasized both the input and output of the CRM system for evaluation because of the ongoing nature of the CRM process. In their conceptual framework, CRM could be implemented successfully by linking a knowledge management process creating customer intelligence (internal process) with an interaction management process handling customer communications (external process). This implies that which CRM aspects should be focused on depends on the conceptualized perspective of the CRM system.

Conceptualizing CRM as a corporate core process rather than an IT system or a partial subfunction of marketing has allowed academics to involve more diverse measures into their measurement frameworks (e.g., Jain et al., 2003; Lindgreen et al., 2006). Lindgreen et al. (2006) suggest a CRM assessment tool consisting of ten evaluative elements categorized into three sets of elements: strategic elements such as customer and brand strategy; infrastructural elements such as culture and people; and process elements such as the relationship-management process. This study is meaningful in that they included infrastructural factors as well and went a step further beyond just building a conceptual framework by providing measurable instruments. Meanwhile, since a CRM strategy can hardly generate immediate organizational performance, it is also crucial to see CRM in the light of the behavioral dimension when assessing a corporate CRM strategy. Jain et al. (2003), deviating from traditional quantitative Key Performance Indicators (KPI), such as sales, acquisition and retention rates, cost reduction, and service time, suggested various behavioral elements such as attitude to serve, understanding of expectations, quality perceptions etc. Such behavioral factors are likely to fill the logical gap existing between firms' relationship-building efforts and their financial objectives, which would be the result of assessing CRM only with economic and objective measures.

Evaluative structure and methodology rather than evaluative subjects have been more emphasized from a practical perspective (e.g., Brewton & Schiemann, 2003; Kim et al., 2003). As a subset of the Balanced Scorecard (BSC), Kim et al. (2003) suggested a customer-centric BSC consisting of customer knowledge, customer interaction, customer satisfaction, and customer value perspectives, and stressed that the four distinct types should be systematically connected when evaluating the effectiveness of corporate CRM initiatives. Although they might need to expand the perspectives of innovation and learning by including other CRM-favorable infrastructural factors, it would be more feasible to keep track of the causes of the status quo when building a causal model as a CRM assessment tool as per Kim et al.'s (2003) suggestion. In the meantime, such interconnectivity could be achieved not only between evaluative elements but also between strategic levels. Brewton and Schiemann (2003) stressed the importance of linkage between a firm's corporate business strategy and its CRM strategy by suggesting a hierarchical structure of the strategic business map. Focusing on evaluation methodology rather than evaluative elements, their study recommends a company should first define an appropriate CRM strategy matching its enterprise-wide business strategy, then select CRM measures to assess its CRM strategy, and finally cascade those through the organization. This more practical approach could help practitioners when they focus on the issue of "how" rather than "what", in application to other managerial practices.

Since one of our objectives is to build upon previous relevant studies, it is necessary to view those studies with the criteria that any performance measurement tool should possess. After reviewing research on strategy, operations, and productions, which are relatively matured in the subject of performance measurement, we can distill several critical points for building a performance measurement framework. First of all, any measurement system should involve customer perspective (e.g., Flapper, Fortuin, & Stoop, 1996; Ghalayini & Noble, 1996; Kaplan & Norton 1992; White, 1996). Since the ultimate object of any corporate strategy is the customer, evaluating in terms of the customer serves as a bridge between corporate strategy and organizational performance (Ghalayini & Noble, 1996; Kaplan & Norton, 1992). Also when companies build such a bridge, it should involve a causal model which is solid theoretically because the causal model can help trace the causes of the success or failure of a given strategy (Cross & Lynch, 1988; Flapper et al., 1996; Lebas, 1995). Another main direction to build a framework for measuring business performance is to have diverse evaluative perspectives (Flapper et al., 1996; Kaplan & Norton, 1992; Toni, Nassimbeni, & Tonchia, 1995; White, 1996). Since even a single situation could be interpreted differently according to perspective, a multiple viewpoint would provide a chain of evidence for corporate strategy (i.e., internal vs. external, financial vs. non-financial, and perceptual vs. objective). Speaking of characteristics of measures, there are several important points which should be considered when adopting such indicators. Although most practitioners have focused on measuring the final signals such as increased sales, reduced costs etc., it is becoming more important to measure antecedent or conditional factors like employee satisfaction and diversity of suppliers (Ghalayini & Noble, 1996; Kaplan & Norton, 1992; Lebas, 1995) because these kinds of measures allow managers attain greater depth of understanding. Loading such antecedent factors in their frameworks is analogous to inclusion of a causal model. In a cause and effect relationship, the cause could be considered as an antecedent factor for the effect. So if any antecedent or conditional factors are not appropriate, the framework would not present any proper explanation for the failure of the focal business strategy. Perceptual factors have also been considered important in recent literature on business performance measurement (e.g.,

Table 1
Criteria of performance measurement framework.

Previous studies on CRM performance measurement	Criteria for performance measurement tool				
	Customer perspective	Causal relationship	Manifold perspectives	Antecedent elements	Perceptual factors
	Flapper et al., 1996; Ghalayini and Noble, 1996; Kaplan and Norton, 1992; White, 1996	Flapper et al., 1996; Cross and Lynch, 1988; Lebas, 1995	Flapper et al., 1996; Kaplan and Norton, 1992; Toni et al., 1995; White, 1996	Lebas, 1995; Ghalayini and Noble, 1996; Kaplan and Norton, 1992	Ghalayini and Noble, 1996; White, 1996
Brewton and Schiemann (2003)	○	●	N.S	○	○
Jain et al. (2003)	●	N.S	N.S	○	●
Kim et al. (2003)	●	●	●	○	⊙
Lindgreen et al. (2006)	N.S	N.S	○	●	●
Zablah et al. (2004)	⊙	⊙	○	⊙	●

●: fully satisfied; ⊙: satisfied; ○: weakly satisfied; N.S: not satisfied.