



The impact of technological and organizational implementation of CRM on customer acquisition, maintenance, and retention

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ABSTRACT

In recent years, customer relationship management (CRM) has been a topic of the utmost importance for scholars and managers. Despite the evidence provided by numerous empirical studies, many companies that have implemented CRM systems report unsatisfactory levels of improvement. This study analyzes what influence companies can expect CRM implementation to have on performance and how they can leverage its impact. The authors propose a conceptual model that investigates the link between technological and organizational implementations, as well as the implementations' interactions with management and employee support and CRM process-related performance. By measuring CRM performance in terms of the initiation, maintenance, and retention of customer relationships, the study provides a detailed picture of what CRM implementations are capable of achieving. The results of the empirical study, conducted across four industries and ten European countries, indicate that CRM implementation does not impact performance equally for different aspects of the CRM process, and that it has an impact only if adequately supported by the appropriate company stakeholders.

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1. Introduction

The management of customer relationships has become a top priority for many companies. In many competitive markets, businesses invest substantially in customer relationship management (CRM) implementation (Bohling, Bowman, Lavallo, Mittal, Narayandas, Ramani et al., 2006). Lately, though, companies have become increasingly displeased with CRM implementations, as the majority of them are falling short of the expectations that precede them (Rigby, Reichheld, & Scheffer, 2002; Zablah, Bellenger, & Johnston, 2004; CSO Insights, 2006) and are therefore considered failures (Gartner Group, 2003). Based on evidence from studies demonstrating that CRM activities positively impact company- or customer-related performance, academic literature has long argued that companies should actively engage in customer relationship management (Morgan & Hunt, 1994; Slater & Narver, 1995). However, most studies neglect two issues when it comes to the implementation of CRM and its performance measurement.

First, academic literature has primarily addressed the influence of single CRM activities, focusing on either technological (e.g., Jayachandran, Sharma, Kaufman, & Raman, 2005), organizational (e.g., Sabherwal, Jeyaraj, & Chowa, 2006), or strategic aspects (e.g., Bell, Deighton, Reinartz, Rust, & Swartz, 2002) and their particular effect on

performance. However, CRM “requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications” (Payne & Frow, 2005, p. 168). Thus, CRM implementation can only be evaluated using a more holistic approach. In practice, many companies have focused on technological solutions related to the customer database accompanied by software training programs (CSO Insights, 2006). However, successful implementation also requires changes in organizational structures, the degree to which employees are motivated to make use of CRM, and the use of sophisticated project management geared toward dealing with the changes initiated (Day & Van den Bulte, 2002). Success comes not from the sum of single activities but rather from interactions between activities. This applies especially to interactions with support activities within the company (i.e., top management's providing CRM strategic support and employees' actually using CRM systems; Payne & Frow, 2005). According to Boulding, Staelin, Ehret, and Johnston (2005, p. 161), little attention has been paid to people-related interactions.

Second, in recent studies on CRM performance, measurement has primarily been based on company-related performance metrics such as company growth (Day & Van den Bulte, 2002; Zahay & Griffin, 2002), market share (Schoder & Madeja, 2004; Jayachandran, Sharma, Kaufman, & Raman, 2005), and profitability (Cao & Gruca, 2005; Kim, Suh, & Hwang, 2003), or on customer-related performance measures such as customer satisfaction (Stefanou, Sarmaniotis, & Stafyla, 2003) Croteau & Li, 2003) and customer loyalty (Colgate & Danaher, 2000; Gustafsson, Johnson, & Roos, 2005). Despite the necessity of measures

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at the aggregate company level, it seems worthwhile to take a closer look at the value chain and assess why CRM sometimes fails to meet expectations (Lehmann, 2004). Since customer bases are not homogeneous with regard to the relationship stage (Dwyer, Schurr, & Oh, 1987; Reinartz, Krafft, & Hoyer, 2004), the question arises of whether the implementations are equally able to serve CRM objectives in each of the relationship stages. If CRM activities influence each stage differently, negatively correlated results at each stage could lead to an insignificant impact on overall outcomes. In order to gather better diagnostic information on why some CRM implementations are successful while others are not, we measure how they meet intermediate objectives depending on different aspects of the customer relationship management process (i.e., acquiring new customers, maintaining and developing existing customers, or regaining already lost customers; see Reinartz, Krafft, & Hoyer, 2004).

The contributions of this study are as follows. First, we introduce a novel set of performance measures that capture the process-related objectives of CRM. Second, we investigate the impact of CRM implementations on performance with regard to the CRM process. Third, we test the moderating effect of management and employee support on the performance of those CRM implementations. The results reveal which CRM objectives companies may actually expect the implementations to fulfill and, hence, show which CRM implementations companies should invest in.

In the following section, we develop a conceptual model and identify hypotheses regarding the impact of organizational and technological CRM implementations on performance, as well as that of their interactions with management and employee support. Using data across four industries and ten European countries, our findings show that investments in CRM have little effect on performance unless top management and employees buy into organizational changes and technological systems and actively support them. As this effect does not hold equally for all aspects of the CRM process, we identify explanations as to why CRM implementations may be perceived as failing and provide suggestions for further research.

2. Conceptual framework and hypotheses

CRM has been one of the prevalent topics in recent years in both academic theory and practice (Kumar, Lemon, & Parasuraman, 2006; Boulding et al., 2005). Thanks to numerous articles showing the positive impact of CRM activities—especially those of an organizational, strategic, and technological nature—on performance (i.e., company-related performance: see Day & Van den Bulte, 2002; Cao & Gruca, 2005; Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007; or customer-related performance: see Stefanou, Sarmaniotis & Stafyla, 2003; Gustafsson, Johnson, & Roos, 2005; Mithas, Krishnan, & Fornell, 2005; Colgate & Danaher, 2000), companies have invested billions of dollars in implementing CRM solutions (Ahearne, Hughes, & Schillewaert, 2007). Nevertheless, companies complain that CRM implementations do not live up to their expectations (Rigby et al., 2002; Zablah et al., 2004).

While the findings of extant research certainly underline the importance of CRM for companies' overall success, they do not capture the implementations' contribution with regard to the specific objectives of CRM. Provided that CRM is a cross-functional process that focuses on initiating, maintaining, and retaining long-term customer relationships (Reinartz et al., 2004), performance measures should account for different aspects of the process. Acquiring new customers represents the first objective in the customer relationship process (i.e., *customer acquisition*). We assume that regained customers possess a potential equivalent to that of newly acquired customers and, accordingly, that they deserve as much attention. We therefore consider regained customers as significant contributors to success in terms of customer initiation as well (Thomas, Blattberg, & Fox, 2004). For the second objective, *customer maintenance*, companies need to develop and

intensify customer relationships in such a way that they result in higher customer satisfaction, expanded relationships (e.g., through cross- and up-selling activities), and increased customer revenues. However, relationships show decreasing returns at the end of the customer life cycle (Dwyer et al., 1987). While Reinartz et al. (2004) conceptualize customer relationships as ending at this point, we propose that *customer retention* is an appropriate objective of CRM. For this purpose, companies need to identify previously profitable but currently inactive customers and initiate appropriate activities to reactivate those customers. Importantly, despite the assumption that all objectives have a positive impact on companies' overall performance, CRM implementations may affect each of the objectives differently. Therefore, the aggregation of (e.g., negatively correlated) influences for all aspects could lead to insignificant overall outcomes. Since no previous study has focused on CRM process-related objectives, there is an obvious need to provide empirical evidence regarding which objectives can be achieved through CRM implementations.

Furthermore, extant research has primarily focused on investigating the performance of a number of single CRM activities (e.g., Stefanou et al., 2003; Mithas et al., 2005). While the findings are necessary to confirm the relevance of CRM (Boulding et al., 2005), this focus on single activities does not adequately capture the complexity of CRM implementation projects. In reality, companies often engage large teams of either internal project members or consultants to implement complex CRM technology systems (e.g., databases, analytic tools, and software applications) or to align the companies' organizations and structures according to the cross-functional perspective of CRM (CSO Insights, 2006). We assume that the introduction and impact of these activities form the core of CRM and determine its performance (in terms of main effects). However, it is not sufficient merely to implement those systems and hope that they will be successful—interactions between people and processes need to be considered as well because they represent the degree to which management and employees accept CRM and support its implementation (in terms of interaction effects). In order to identify the impact of investments on technological or organizational forms of implementation associated with CRM process-related objectives, we introduce a conceptual model as depicted in Fig. 1. The model incorporates both types of CRM implementation (technological and organizational) and their contribution to CRM's objectives, as well as the moderating effects of support from management and employees within the firm. In the remainder of this section, we describe the conceptual framework of the model and derive hypotheses.

One factor of strong theoretical and managerial importance is the implementation of information technology (i.e., *technological implementations*; c.f. Hitt & Brynjolfsson, 1996; Menon, Lee, & Eldenburg, 2000; Zahay & Griffin, 2004). Set up and configured properly, IT systems provide for the acquisition, storage, and accessibility of customer information (Sinkula, Baker, & Noordewier, 1997; Slater &

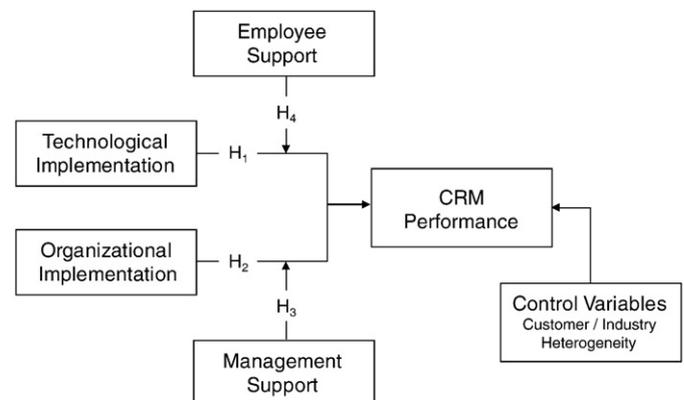


Fig. 1. Performance model of CRM implementations.

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