



Can Social Media Marketing Improve Customer Relationship Capabilities and Firm Performance? Dynamic Capability Perspective

Zhan Wang ^{a,*} & Hyun Gon Kim ^b

^a John Cook School of Business, Saint Louis University, 3674 Lindell Boulevard, St. Louis, MO 63108, USA

^b Rutgers Business School-Newark and New Brunswick, 1 Washington Park, Newark, NJ 07102, USA

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Abstract

Social media usage has become ubiquitous, and organizations need to manage this tool to meet their strategic goals. Companies are finding it necessary to modify their approach to customer relationship management (CRM) and develop new marketing capabilities that facilitate customer satisfaction. The purpose of this study is to examine how social media usage can help firms build new CRM capabilities and thus improve marketing adoption strategies and business performance. We suggest that social CRM capability is critical when companies merge social media into their marketing strategies to improve customer engagement and firm performance. We empirically analyze data from 232 companies using Facebook, COMPUSTAT North America, and Global Fundamentals annual databases for the period 2004–2014. This study contributes to extant literature by confirming a new form of CRM capabilities – social CRM – using the resource-based view and dynamic capabilities theory frameworks, and by demonstrating that social media usage plays a moderating role by amplifying the positive impact of social CRM capabilities on firm performance.

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Introduction

As social media networking has emerged and expanded rapidly in the past decade, interest in social media marketing among marketing scholars and organizations has also grown sharply worldwide. As managers become more comfortable with and active in including social networks as part of their integrated marketing communications, they have naturally turned their attention to questions regarding the return on investment of social media: Can social media marketing activities improve firm performance? (Hoffman and Fodor 2010).

Researchers have identified several benefits from social media marketing activities. They define “social media” as a

series of both hardware and software technological innovations (Web 2.0) that facilitate creative online users’ inexpensive content creation, interaction, and interoperability (Berthon et al. 2012). The fundamental nature of social media as a platform for consumers to interact with and influence one another has a more direct impact on brand communities, and it produces higher response rates and greater customer engagement than traditional marketing methodologies that focus only on firm–consumer relationship (Trusov, Bucklin, and Pauwels 2009).

Social media applications are also transforming the role of online users from passive consumers of information to active participants in creating and sharing information with one another. Nearly 30% of online users participate in some form of self-created content sharing (e.g., videos, stories, photos), and even more post comments on websites (Lenhart et al. 2010). In addition to facilitating interpersonal communications, social media applications have enabled customers to interact with business organizations and have empowered them to take an

* Corresponding author.

E-mail addresses: zhanwang@slu.edu (Z. Wang), hygonkim@scarletmail.rutgers.edu (H.G. Kim).

active role in co-creating their experiences (Pralhad and Ramaswamy 2004). Currently, managers are charged with integrating social media applications into existing customer relationship management (CRM) systems to develop new capabilities that improve customer experiences and satisfaction (Trainor et al. 2014). This merger of existing CRM systems with social media has extended the concept of CRM to incorporate a more collaborative, interactive, and network-focused approach to managing customer relationships (Trainor et al. 2014). The recently coined term “social customer relationship management” defines and describes this new way of developing and managing customer relationships (Greenberg 2010). Marketing scholars define social CRM as “the integration of customer-facing activities, including processes, systems, and technologies, with emergent social media applications to engage customers in collaborative conversations and enhance customer relationships” (Trainor 2012, p. 319). Organizations have recognized the potential of social CRM and have made considerable investments in it in the past two years (Trainor et al. 2014). Although current research focuses on social media applications, the effectiveness of social CRM systems remains largely unknown and underexplored (Trainor et al. 2014). Researchers have shown that CRM technologies alone rarely add value directly to firms and are most effective in doing so when combined with other firm resources (Chang, Park, and Chaib 2010; Jayachandran et al. 2005; Srinivasan and Moorman 2005; Trainor et al. 2014). However, to date, scant research examines how social media technologies interact with CRM systems and marketing strategies to enhance firm value.

Consequently, the purpose of this study is to examine how social media usage can help firms build new CRM capabilities and thus improve marketing adoption strategies and business performance. We developed our conceptual framework using the resource-based view (RBV) and dynamic capabilities theory by arguing that investments in social media can be considered resource inputs to developing new marketing-related capabilities. The results suggest that social CRM capability is critical when companies merge social media into their marketing strategies to improve customer engagement and firm performance. This study also finds that social media usage plays an important moderating role between social CRM capabilities and firm performance. These findings provide several contributions to the CRM literature as well as managerial insight into the efficacy of social media technology use. This study also contributes to existing social CRM literature by answering the call to expand the generalizability of the relationship between firms’ social CRM capabilities and performance with cross-industry panel data sets (Luo, Zhang, and Duan 2013).

We begin by presenting the conceptual background of our study. We then describe our research method and data set, which consists of data from 232 companies drawn from Facebook, COMPUSTAT North America, and Global Fundamentals annual databases for the period 2004–2014. Next, we present our analyses and results. We conclude with our findings with respect to theory and practice and share potential areas for future research.

Literature Review and Research Framework

Theory: The RBV and Dynamic Capabilities Extensions

The RBV and the dynamic capabilities perspective serve as the theoretical foundations of the current research. Both perspectives suggest that performance is determined by a firm’s resource endowment and its effectiveness at converting these resources into capabilities (Barney 1991; Day 1994). The RBV proposes that competitive advantages arise from developing and deploying unique, valuable, inimitable, and non-substitutable resources (Barney 1991; Lahiri, Kedia, and Mukherjee 2012); several studies that empirically test RBV show consistent results (Borch, Huse, and Senneseth 1999; Schroeder, Bates, and Junttila 2002). Dynamic capabilities theory proposes that marketplaces are dynamic and that firms, rather than being heterogeneous in their resource endowments, exhibit differences in the capabilities by which they acquire and deploy resources. These differences explain inter-firm performance variance over time (Eisenhardt and Martin 2000; Makadok 2001; Teece, Pisano, and Shuen 1997). Capabilities are also dynamic, such that they can help firms implement new strategies to reflect changing market conditions by combining and transforming available resources in new and different ways (Morgan, Vorhies, and Mason 2009; Teece, Pisano, and Shuen 1997).

These findings suggest that investments in hardware and software to support CRM systems will not necessarily improve business performance; rather, improved business performance occurs when specific marketing capabilities are created by deploying CRM technological resources in combination with other complementary resources (Trainor et al. 2014). Thus, building from this logic, we propose that social media marketing technologies must be integrated with CRM systems to form a specific firm-level capability that influences business performance (Trainor et al. 2014). Furthermore, the extent to which these social media marketing technologies are integrated throughout the organization will facilitate marketing capability development, improve customer relationships, and increase customer satisfaction.

Traditional CRM

In a traditional CRM framework, the organization possesses substantial customer information and uses this information to manage its customer relationships (Payne and Frow 2005; Verhoef et al. 2010). Reinartz, Krafft, and Hoyer (2004, p. 295) define CRM as a procedure that “entails the systematic and proactive management of relationships as they move from beginning (initiation) to end (termination), with execution across the various customer-facing contact channels.” Boulding et al. (2005) identify several key elements:

CRM relates to strategy, the management of the dual creation of value, the intelligent use of data and technology, the acquisition of customer knowledge and the diffusion of this knowledge to the appropriate stakeholders, the

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