

Customer Relationship Management (CRM) and Performance

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Abstract:

In this paper, we examine the impact of customer relationship management (CRM) on firm performance using a hierarchical construct model. Following the resource-based view of the firm, strategic CRM is conceptualized as an endogenously determined function of the organization's ability to harness and orchestrate lower order capabilities that comprise physical assets, such as IT infrastructure, and organizational capabilities, such as human analytics and business architecture. Our results reveal a positive and significant path between a superior CRM capability and firm performance. In turn, superior CRM capability is positively associated with human analytics and business architecture. However, our results suggest the impact of IT infrastructure on superior CRM capability is indirect and fully mediated by human analytics and business architecture. We also find that CRM initiatives jointly emphasizing customer intimacy and cost reduction outperform those taking a less balanced approach. Overall, this paper helps explain why some CRM programs are more successful than others and what capabilities are required to support success.

Keywords: *customer relationship management, strategic IT, capabilities, performance.*

I. Introduction

Customer relationship management (CRM) is increasingly important to firms as they seek to improve their profits through longer-term relationships with customers. In recent years, many have invested heavily in information technology (IT) assets to better manage their interactions with customers before, during and after purchase. Yet, measurable returns from IT investment programs rarely arise from a narrow concentration on IT alone, with the most successful programs combining technology with the effective organization of people and their skills. It follows that the greater the knowledge about how firms successfully build and combine their technological and organizational capabilities, the greater will be our understanding of how CRM influences performance. Although the market for CRM software and support is strong, there remains considerable scepticism on the part of business commentators and academics as to its ultimate value to the corporation and customers. Surveys of IT executives in the business press report that CRM is an overhyped technology (e.g. Bligh and Turk 2004) and some academics claim the concept is fundamentally flawed because CRM ignores the reality that many customers do not want to engage in relationships. Empirical studies examining the success of CRM technology have failed to alleviate this scepticism as investigations to date span a limited range of activities and are noticeably silent on the extent to which. A lack of clear

and generalizable empirical support for the expected return from CRM investments has important practical implications for market development and firm profitability. It also raises questions regarding the most appropriate mix of capabilities to effectively exploit investment in CRM.

II. Theoretical Background, Research model and Hypotheses

Prior research in strategy and management has observed that the degree to which a firm will prosper is, in part, dependent upon the extent to which they possess capabilities and resources that can be employed to enhance the competitiveness of the business. Considerable empirical work in IT has sought to examine the direct connection between investment in IT and firm performance. However, the findings from this work have been mixed. Some report a negative relationship between IT investment and aspects of firm success, while others have demonstrated a positive relationship between IT investment and firm performance. The lack of consistency in these findings is independent of whether performance is defined as financial, productivity driven process-related or the degree of organisational learning. Although this research provides evidence of a general relationship, our knowledge of the specific IT infrastructure and organizational factors driving these general results remains limited.

III. Conceptual Model of CRM Performance

CRM represents a strategy for creating value for both the firm and its customers through the appropriate use of technology, data and customer knowledge. This strategy requires focus, training, and investment in new technology and software to aid in the development of value adding CRM systems. Hence, CRM brings together people, technology and organizational capabilities to ensure connectivity between the company, its customers and collaborating firms. Several

scholars have expressed concerns with the lack of empirical work on the specific IT resources or combination of capabilities that deliver most business value. Our conceptual model draws heavily on the strategy literature and the strategic necessity hypothesis in asserting that although IT is a necessary factor, it rarely, in-and-of-itself, generates sustainable performance advantages. In other words, the business value that is generated by IT is dependent upon the combination of complementary technical, organizational and human resources.

IV. Development of Hypotheses

IT Infrastructure Rapid advances in hardware and software provide firms with a wide range of solutions designed to support CRM (e.g., SAP's CRM suite, Teradata's Enterprise Data Warehouse, etc.). The key IT components are the front office applications that support sales, marketing and service, a data repository that supports collection of customer data, and back office applications that help integrate and analyze the data. In the case of CRM, business value is unlikely to exist in the technology alone but rather in the capability to draw information from all customer touch-points—including websites, telesales, service departments, direct sales forces and channel partners. The capability to build a coherent picture of the customer is costly for firms to imitate and, in many cases, highly idiosyncratic to the firm. This is critical because recent work demonstrates that firms working with incomplete customer data and imprecise metrics for evaluating customers run the risk of alienating, rather than satisfying, customers and, as a consequence, experience lower profitability.

V. The Effect of a Higher-Order CRM Capability on Performance

There is a temptation to be normative about the pursuit of competitive advantage by directing attention and resources to each of

these lower-level CRM capabilities. However, well-developed IT, HA and BA capabilities in isolation are insufficient to generate competitive superiority. Indeed, they CRM and Performance 12 confer competitive advantage only to the extent that the managers of the firm can leverage their interrelationships and produce a combination that is superior to that of their competitors define such second-order or meta-capabilities as the firm's overall ability to combine efficiently a number of resources that engage in productive activity. In other words, the lower-order capabilities such as IT, HA and BA are necessary, but not sufficient, to improve firm performance relative to competitors. Accordingly, we hypothesize that: H4: Better performing organizations are characterized by a superior combination of IT, HA and BA, resulting in a superior meta-capability of CRM.

VI. The Role of Strategic Emphasis in CRM

“Firms benefit unequally from their different IT investments. Thus it would be interesting to examine the impact of different types of IT investments such as innovative versus non-innovative, strategic versus non-strategic, and internally focused (e.g., process control, coordination etc.) and externally focused investments (customer satisfaction, relationship management, etc.)...” In other words, context matters in IT research and studies of IT business value should not simply treat IT as an aggregate, uniform asset.

VII. Measures

The survey questionnaire contained items to measure all the constructs and controls in our model, together with definitions for each of the various capabilities, and descriptive items on the respondent and company. Most questions used 5-point or 7-point Likert or semantic differential scales. In those cases where the directionality was reversed to reduce response bias, the results are presented here in a manner

that ensures directionality is consistent and logical.

VIII. Analysis and Results

A two-step approach to data analysis was performed that included:

- (1) A detailed assessment of the measurement model.
- (2) Estimation of the structural equation model and hypothesis tests.

IX. The Structural Model

We tested the conceptual model shown in Figure 1 and its associated hypotheses using partial least squares (PLS). Here, we used the Smart PLS software to generate our estimates. PLS relies on bootstrapping techniques to obtain t-statistics for the path coefficients and hypothesis tests. Following standard heuristics, we re-sampled 200 times to obtain these statistics and used the default construct level alignment of samples.

X. Discussions and Theoretical Contributions

Organizations frequently assume that advances in IT infrastructure and software will not only generate an economic return but also serve to define a business and its competitive strategy. This study makes three important contributions to understanding this basic supposition by addressing:

- (1) How to empirically measure the impact of IT,
- (2) The specific role that IT actually plays in supporting a CRM program, and
- (3) The contribution of CRM programs to firm performance. Each of these points is discussed in turn.

Our study reveals that the contribution of IT to a CRM program is best measured as a higher-order combination of IT, human and business capabilities. This follows because CRM is embedded in a web of capabilities, none of which is superior alone, but when combined with appropriate resources and other capabilities in an organizing context, creates a higher-order capability that can make a significant contribution to firm performance. Put succinctly, few companies will master these socially complex capabilities effectively. And this is exactly why CRM capability is potentially a source of competitive advantage—it takes time and effort to develop, it is rare and difficult to imitate, and is causally ambiguous. This is the essence of the resource-based view of the firm.

XI. Conclusion

Customer relationship management suffers when it is poorly understood, improperly applied, and incorrectly measured and managed. This study reveals the combination of investment commitments in human, technological and business capabilities required to create a superior CRM capability. The exact extent of these capabilities is ex ante indeterminate and should be guided by a strategic emphasis that combines customer intimacy and operational excellence. By integrating two schools of thought—capabilities and strategic emphasis—we build a more managerially relevant theory of CRM performance that shows why CRM programs can be successful and what capabilities are required to support success.

XII. References

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