



The relationship between CRM, RM, and business performance: A study of the hotel industry in Taiwan

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ABSTRACT

This study aims to investigate the implementation of customer relationship management (CRM) and its effect on relationship marketing (RM) and business performance, through an analysis of the hotel industry in Taiwan. A survey on hotels, including general and tourist hotels, and bed and breakfasts (B&Bs) was conducted, and a total of 560 questionnaires were returned. The results showed that implementing CRM has a significant and positive influence on the RM effect, positively affecting business performance for both hotels and B&Bs. However, a comparison of the influential paths of relationship models between hotels and B&Bs showed that, for hotels, the Internet service and customer support functions of the CRM strategy are the main sources of influence on the RM effect and business performance, whereas for B&Bs, the marketing support function of the CRM strategy alone influences the RM effect and business performance. To achieve higher performance, the different types of hotel enterprises should understand their main advantage before implementing key CRM strategies.

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1. Introduction

1.1. Research background and motivation

Since the implementation of the five-day work week by the Taiwanese government, short-term and diversified tours have become a new trend in the tourism industry. The Tourism Bureau of the Ministry of Transportation and Communications of Taiwan has announced new directions for the Taiwan tourism industry. It is hoped that the number of foreign tourists visiting Taiwan will increase, thus benefiting the tourism industry. Currently, it is uncertain whether the hotel industry in Taiwan will be able to integrate its resources to meet consumer needs. This has become one of the greatest challenges faced by suppliers in the hotel industry, including general and tourist hotels, B&Bs, etc.

Hotels and B&Bs are part of the service industry, owing to their direct contact with customers; therefore, their quality of service and customer relationships significantly influence their business development. For high-quality hotel enterprises, the application of customer relationship management (CRM) is a great opportunity to increase customer value, enhance customer satisfaction, and achieve business excellence and high profits (Lin and Su, 2003; Daghfous and Barkhi, 2009). Therefore, enhancing the effect of CRM has become a key factor for the success of hotel industries. How-

ever, only a few studies explore in detail the implementation of CRM in the hotel industry and its impact on various performance perspectives, making it a unique subject for study.

Kotler et al. (1999) discuss the tourism and service industries, pointing out the importance of customer orientation. They indicate that the main purpose of an enterprise is to create and retain customers who bring profit to the enterprise. According to the 80/20 Pareto Rule, 80% of an enterprise's income comes from 20% of its main customers (Berry, 1995). Peppers and Rogers (1993) also find that the cost of developing new customers is six times that of retaining old customers. Therefore, using CRM to ensure customer loyalty and further enhance business performance is a wise strategy for hotel industry suppliers.

CRM originates from the concept of customer orientation and has gradually been applied to the tourism industry to enhance the relationship between enterprises and their customers. Suppliers in the hotel industry who set up CRM systems to find and retain their best customers and develop long-term relationships with loyal customers will acquire greater profits (Liu et al., 2007). The businesses in the hotel industry can be broadly divided into two types: hotels and B&Bs. What are their methods of implementing CRM, and what results do they achieve? Are there any differences between them? These questions are worth investigating.

Kalakota and Robinson (1999) view CRM as an organization's integrated action to develop sales, marketing, and service strategies. An enterprise needs to identify actual customer needs by integrating its processes and technology, and it needs to improve service connections to enhance customer satisfaction and loyalty

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(Bruhn, 2003; Buttle, 2004; Egan, 2008). Hotel enterprises should implement CRM primarily to provide better services to meet customer needs, attract and retain customers, and establish good interactive relationships. Hotel enterprises that use CRM systems to find the best customers and serve target segments more effectively will enhance the effects of relationship marketing (RM) and reinforce business performance (Meryl, 1999; Swift, 2001).

CRM is the core business strategy that integrates internal processes and functions and external networks to create and deliver value to targeted customers and, finally, increase profits (Buttle, 2004). The final goal of conducting CRM is to enhance business performance, and therefore, businesses need an objective performance scale to enable a detailed evaluation. The balanced scorecard (BSC) is an overall performance management system; it evaluates business performance according to the following four perspectives: financial, customer, internal processes, and learning and growth (Kaplan and Norton, 1990, 1996a,b). The BSC uses both financial and non-financial indicators to evaluate business performance and gives enterprises an overall in-depth understanding of business operation and performance (Kaplan and Norton, 2004; Wu and Hung, 2007, 2008). Thus, this study uses the four perspectives of the BSC to measure business performance.

This study focuses on hotels and B&Bs in Taiwan to explore the CRM influence on the RM effect and business performance. It also compares the differences in the influence paths of CRM strategies between hotels and B&Bs.

1.2. Research objectives

The benefits of CRM and RM and their effects on business performance have been studied extensively (Buttle, 2004; Egan, 2008). However, few studies focus on the comparison of hotels and B&Bs or explore their differences. Thus, this study investigates the differences between hotels and B&Bs in the relationship between CRM, the RM effect, and business performance. The following are the research objectives:

1. To investigate the correlation between implementing CRM and the RM effect.
2. To investigate the correlation between the RM effect and business performance.
3. To construct relationship models between CRM, RM, and business performance for hotels and B&Bs.
4. To investigate the differences between the relationship models for hotels and B&Bs.
5. The results of this study could help hotel and B&B enterprises understand the advantages of CRM strategies and implement effective decisions on the basis of these strategies.

2. Literature review

2.1. Customer relationship management (CRM)

CRM has been defined as a method that uses software and related technology to achieve automated management in order to improve operation processes aimed at sales, marketing, and customer service (Bhatia, 1999). Greenberg (2001) points out that CRM is a series of extensive processes and information technology adopted to manage potential and existing customers and enhance an enterprise's relationship with its partners. CRM is also an information system that helps enterprises understand customer needs and behaviors and is associated with operation processes and technology (Christopher, 2003). Chen and Chen (2004) identified the success factors of CRM strategies including champion leadership, internal marketing, knowledge management, business-IT align-

ment, system integration, and culture/structure change. Zablaj et al. (2004) proposed five dominant perspectives on CRM that include process, strategy, philosophy, capability, and technology.

CRM provides an understanding of consumer behavior on the basis of multiple perspectives (Amrit, 2001). Assisted by technology and information, CRM integrates the internal and external activities of an enterprise to develop positive and interactive customer relationships in order to achieve enterprise goals.

2.2. Measuring CRM actions

Berson et al. (1999) divided a complete CRM system into three main functions: operation, analysis, and integration. Swift (2001) divided CRM actions into four perspectives, namely, information collection, data storage, data summarization, and data display and application. Ming and Chen (2002), on the other hand, summarized CRM actions into three major functions: Internet service, customer support, and marketing support.

The CRM functions and items summarized by Ming and Chen (2002) cover all the classifications and functions proposed by Swift (2001). Thus, this study uses the three functions of Internet service, customer support, and marketing support and their items as evaluation perspectives and indicators to measure the actions of implementing CRM in hotels and B&Bs.

2.3. Relationship marketing (RM)

RM – the relationship between an organization and its customers – is reinforced through attractions brought about by multiple marketing actions (Berry et al., 1983), which also lead to customer retention. RM represents key strategic as well as tactical implications in a firm (Gronroos, 1996). Landry (1998) defines RM as a long-term database system application by an enterprise to understand a customer's profile and further develop relationships through various communication channels to deliver value and service. Armstrong and Kotler (2000) point out that RM is a relationship process for creating, retaining, and enhancing mutual value between enterprises and customers or other stakeholder groups. RM emphasizes a long-term process, with the goal of transferring long-term value to customers. Essentially, the marketing concept is about win-win outcomes, with both parties deriving benefit and value from a mutually satisfying exchange relationship (Baker, 1975, 2009; Gummesson, 1999). The vision of RM is to enhance an enterprise's value to and long-term relationship with its customers (Bruhn, 2003).

2.4. Measuring the RM effect

Berry (1995) divided the RM effect into three layers of financial, social, and structural association. Williams et al. (1998) divided RM relationship associations into two types: social and structural. However, both studies proposed that a higher RM effect has greater potential for maintaining a competitive advantage. RM found ready acceptance in a marketing world where it had become obvious that corporate profitability and competitive advantage were beginning to be associated with existing-customer satisfaction (Egan, 2008).

Chien and Moutinho (2004) proposed the URLeP model for evaluating the RM effect that includes the concepts proposed by Berry (1995) and Williams et al. (1998). In the URLeP model, four perspectives measure the RM effect: (1) utility, a necessary condition for implementing further mutual-interest relations so that the customer will be willing to maintain long-term and positive relations with the original supplier (Berry and Thompson, 1982; Bitner, 1995); (2) projectability, defined as expected future exchanges (Chien and Moutinho, 2000); (3) legitimacy, which will reduce the risk of future uncertainty (Smith and Barclay, 1997; Chien and

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