



# Social media technology usage and customer relationship performance: A capabilities-based examination of social CRM



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## ABSTRACT

This study examines how social media technology usage and customer-centric management systems contribute to a firm-level capability of social customer relationship management (CRM). Drawing from the literature in marketing, information systems, and strategic management, the first contribution of this study is the conceptualization and measurement of social CRM capability. The second key contribution is the examination of how social CRM capability is influenced by both customer-centric management systems and social media technologies. These two resources are found to have an interactive effect on the formation of a firm-level capability that is shown to positively relate to customer relationship performance. The study analyzes data from 308 organizations using a structural equation modeling approach.

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## 1. Introduction

Much like marketing managers in the late 1990s through early 2000s, who participated in the widespread deployment of customer relationship management (CRM) technologies, today's managers are charged with integrating nascent technologies – namely, social media applications – with existing systems and processes to develop new capabilities that foster stronger relationships with customers. This merger of existing CRM systems with social media technology has given way to a new concept of CRM that incorporates a more collaborative and network-focused approach to managing customer relationships. The term *social CRM* has recently emerged to describe this new way of developing and maintaining customer relationships (Greenberg, 2010). Marketing scholars have defined 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 (Greenberg, 2010; Trainor, 2012). Organizations are recognizing the potential of social CRM and have made considerable investments in social CRM technology over the past two years. According to Sarker et al. (2011), spending in social CRM technology increased by more than 40% in 2010 and is expected to exceed \$1 billion by 2013.

Despite the current hype surrounding social media applications, the efficacy of social CRM technology remains largely unknown and underexplored. Several questions remain unanswered, such as: 1) Can social CRM increase customer retention and loyalty? 2) How do social CRM technologies contribute to firm outcomes? 3) What role is played by CRM processes and technologies? As a result, companies are largely left to experiment with their social application implementations (Sarker et al., 2011), and they do so without a clear picture of how these new technologies can be used to develop new, performance-enhancing capabilities.

Researchers have demonstrated that CRM technologies alone rarely provide direct value to firms, and, instead, these technologies are most effective when combined with other firm resources and processes (e.g., Chang, Park, & Cha, 2010; Jayachandran, Sharma, Kaufman, & Raman, 2005; Srinivasan & Moorman, 2005). While extant literature provides a firm footing upon which to base social CRM research, little research has yet examined how social media technologies interact with CRM systems and processes to enhance customer relationships.

The contributions of this research are the following: first, this research conceptualizes and measures social CRM capabilities. While the interest in social CRM continues to grow among technology vendors and the popular press, the CRM literature has only recently begun exploring the concept and how to measure it. Second, this research demonstrates how social CRM capability is influenced by customer-centric management systems and social media technologies. Third, this research examines the interactive effects of organizational resources and social media technology resources. These types of interactive effects

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have received little attention in the IT literature in general (Nevo & Wade, 2010; Wade & Hulland, 2004) and within the marketing technology context specifically (Trainor, Rapp, Beitelspacher, & Schillewaert, 2011). Finally, this research establishes a link between social CRM capabilities and customer relationship performance and examines organizational influences on this relationship.

## 2. Theoretical background and conceptual model

The resource-based view (RBV) and the capabilities-based perspective serve as the theoretical foundation of this research. Both perspectives suggest that performance is determined by a firm's resource endowment and the firm's effectiveness at converting these resources into capabilities (Barney, 1991; Day, 1994). Resources represent a firm's assets, knowledge, and business processes used to implement a strategy. Capabilities, on the other hand, are defined as an organization's ability to assemble, integrate, and deploy resources in combination to achieve a competitive advantage (Day, 1994; Eisenhardt & Martin, 2000; Rapp, Trainor, & Agnihotri, 2010; Teece, Pisano, & Shuen, 1997).

Scholars in marketing (e.g., Day & Wensley, 1988; Hooley, Greenley, Cadogan, & Fahy, 2005; Roberts & Grover, 2012; Vorhies & Morgan, 2005) and in IT (Bharadwaj, 2000; Borges, Hoppen, & Luce, 2009; Chang et al., 2010; Melville, Kraemer, & Gurbaxani, 2004) find that resources alone are not always sufficient to provide significant performance gains and, instead, must be transformed into distinctive capabilities. Such findings suggest that investments in hardware and software to support CRM initiatives will not necessarily yield performance improvements. Instead, improved performance occurs when distinctive capabilities are created by deploying technological resources in combination with other complementary organizational resources. Building from this logic, therefore, social media technologies need to be integrated with CRM processes to form a firm-level capability that influences performance. Further, the extent to which these technologies are integrated throughout the organization will facilitate capability development and will moderate the capability–performance relationship (e.g. Nevo & Wade, 2010).

Based on prior research and drawing theoretical support from Melville et al.'s (2004) integrative IT business value model, this study's conceptual model is depicted in Fig. 1. Two central tenets of the integrative model put forward by Melville et al. (2004) are specifically incorporated here. First, Melville and colleagues argued that “IT business value is generated by the deployment of IT and complementary organizational resources” (p. 293). This notion is represented in Fig. 1 by the inclusion of both IT (i.e., *Social Media Technology Use*) and complementary organizational resources (i.e., *customer-centric management systems*). Second, the integrative model suggests that IT and complementary resources “ultimately may impact organizational performance” by enabling new or improving existing business processes or capabilities (Melville et al., 2004; p. 293). Hence, the intermediate capability of *Social CRM capability* is examined here to explain the social media technology–performance chain.

As shown in Fig. 1, social media technology use and customer-centric management systems will have both direct and interactive relationships with social CRM capabilities. Further, the development and outcome of this distinctive capability will be influenced by facilitating conditions that indicate how well social media technology usage is integrated and supported throughout the organization.

### 2.1. Social CRM capabilities

Customers have begun adopting social media applications (e.g., Facebook, LinkedIn, Twitter, etc.) to connect with peers and now expect, if not demand, the same level of interactivity with their business counterparts (Berthon, Pitt, Plangger, & Shapiro, 2012; Hanna, Rohm, & Crittenden, 2011; Rainie, Purcell, & Smith, 2011). This shift in expectations is challenging businesses to facilitate more customer–firm interaction by deploying new technologies and capabilities (Andzulis, Panagopoulos, & Rapp, 2012; Trainor, 2012). The emergence of a “social customer” is also challenging practitioners and researchers to rethink what it means to manage customer relationships (Greenberg, 2010). Thus, the concept of CRM is giving way to an extended perspective that recognizes new capabilities enabled by the technological and social shifts brought about by social media applications (Trainor, 2012).

Recognizing the important role played by CRM systems and emergent social media applications, this research uses the following definition of social CRM capability: “the integration of traditional 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. 321).

Although few researchers have specifically examined how social media technologies relate to firm performance, past RBV research provides evidence as to how investments in marketing resources and information technology are integrated to form performance-enhancing capabilities (Mithas, Ramasubbu, & Sambamurthy, 2011; Nath, Nachiappan, & Ramanathan, 2010; Rapp et al., 2010; Wade & Hulland, 2004). Rapp et al. (2010) demonstrate that the capability to develop durable customer relationships, or *customer-linking capability*, is established via the combination of CRM technology investments and strategic organizational resources. Similarly, “e-marketing capability” (Trainor et al., 2011) and “CRM capability” (Coltman, 2007; Srinivasan & Moorman, 2005) – recognized as the combination and integration of information technology and human and business resources – are shown to positively affect customer relationships and organizational performance.

Based on these findings, this study views social CRM capability as a unique combination of emerging technological resources and customer-centric management systems that can lead to customer satisfaction, loyalty, and retention. Similar to the concept of relational information processes found in CRM literature (Jayachandran et al., 2005), social CRM capability refers to a firm's competency in generating, integrating, and responding to information obtained from customer interactions that are facilitated by social media technologies.

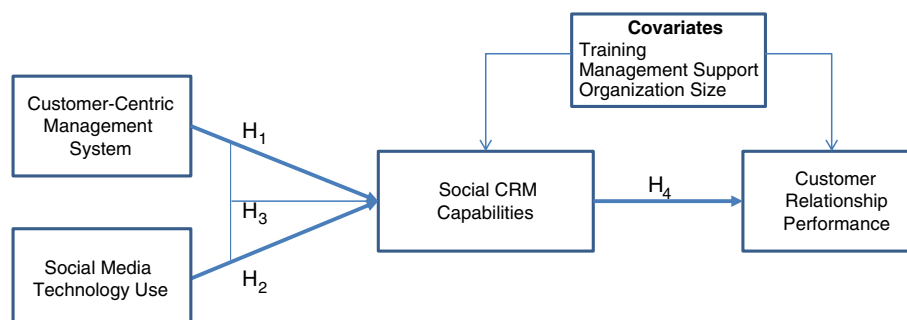


Fig. 1. Hypothesized framework.

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