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Why build a customer relationship management capability?

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Abstract

The market enthusiasm generated around investment in CRM technology is in stark contrast to the naysaying by many academic and business commentators. This raises an important research question concerning the extent to which companies should continue to invest in building a CRM capability. Drawing on field interviews and a survey of senior executives, the results reveal that a superior CRM capability can create positional advantage and subsequent improved performance. Further, it is shown that to be most successful, CRM programs should focus on latent or unarticulated customer needs that underpin a proactive market orientation.

Keywords: Customer relationship management; Technology investment; Performance

1. Introduction

The contribution of information technology (IT) to business performance has been under scrutiny for more than two decades (for a review see Chan, 2000). During this time various models of IT performance have been developed to show that IT: impacts organizational performance via intermediate business processes (Davenport, 1993; Barua et al., 1995) require complementary organizational resources such as workplace practices and structures (Powell and Dent-Medcalfe, 1997; Ray et al., 2005) is influenced by the external

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environment (Hunter et al., 2003) and as a construct, should be disaggregated into meaningful components (Sethi and Carraher, 1992). The received wisdom from this extensive body of work indicates that organizations in all sectors of industry, commerce and government can generate business value when appropriate IT is applied in the right way (Melville et al., 2004).

In recent times, vendors have been quick to point out that one of the "right ways" is to invest in customer relationship management (CRM) technologies. The argument put forward is that many firms have managed to punch above their weight in today's competitive environment by using technology to identify profitable customers and then customize marketing on the basis of customer value. Some of the stellar examples that come to mind include: National Australia Bank in Australia, Otto Versand in Germany, Tesco in the United Kingdom, Travelocity.com, Capital One and Harrah's Entertainment in the United States of America. In each case, these firms have chosen to compete through superior customer relating capabilities (knowledge, relationships, insight, etc.) based largely on the CRM programs deployed.

However, the enthusiasm generated around CRM and a select concentration of "relationship winners" is in stark contrast to most firms "that have not yet realized the benefits of acquiring these expensive systems" (Kumar and Reinartz, 2006, p. xxi). For example, research and advisory firm the Gartner Group, claim that close to 50% of all CRM projects failed to meet expectations (*The Australian*, 8th July, 2003). Additionally, an Info World (2001) survey of chief technology officers found that close to 30% of respondents in this role said that CRM was one of the most "over hyped" technologies they had seen. A follow-up survey of IT executives from large companies found that 43% who have deployed CRM still believe it deserves the bad press. These commentaries highlight the frustration many executives experience as software glitches, poorly trained staff and disparate legacy systems continue to hinder effective deployment of CRM programs. Far from improving profits and cementing relationships, most companies found that new IT systems did not add any value to what was already being offered (Kumar and Reinartz, 2006) or in the worst case scenario, CRM systems alienated long-term customers and employees (Rigby et al., 2002).

So what, if anything, is wrong with CRM programs?

In tackling this question one should be mindful of the scholarly challenge presented by the fact that the exact meaning of CRM is still subject to a wide range of views. For example, in a series of interviews with executives, Payne and Frow (2005) found that to some respondents CRM meant direct mail, a loyalty scheme, help desk and call centre. Other respondents envisioned CRM as a data warehouse, data mining, e-commerce solution or databases for sales force automation.

Grabner-Kraeuter and Moedritscher (2002) and Reinartz et al. (2004) suggest that one reason for the disappointing results of many CRM initiatives can be attributed to the overemphasis on CRM as an IT solution and the absence of a strategic framework for CRM success. To position the role of CRM in this paper, Payne and Frow's (2005, p. 168) process oriented perspective is adopted where CRM is defined as: "the cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology and applications". This definition requires a multidimensional strategic approach to CRM.

The resource based view (RBV) provides a suitable multidimensional perspective to the application of CRM because it attempts to link superior firm performance to the various