

## CHAPTER 4

### REVIEW OF LITERATURE

This chapter provides a detailed systematic review of literature on CRM concept along with different models of CRM to investigate the correlation between CRM and Firm performance. It also identifies the research gap for the study. Various journals, research articles, Ph.D theses, books, conference proceeding research papers on CRM are extracted from web sources such as EBSCO, PROQUEST, Google, Google Scholar, Oxford University Press, Elsevier, Emerald Group, Jstor, Springer, Taylor and Francis, ResearchGate, Social Science Research Network (SSRN) etc. and by visiting the local library.

#### 4.1 Background to Literature Review

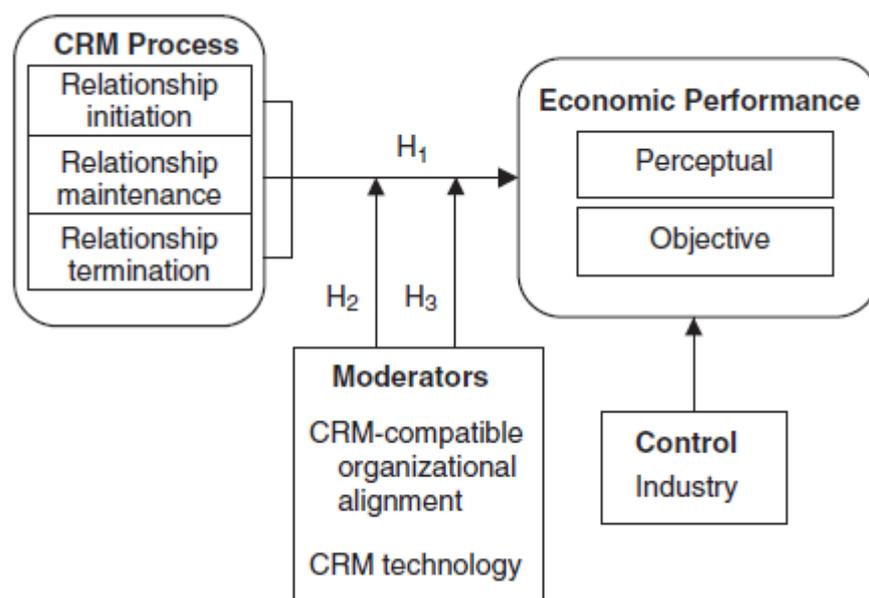
650 research papers on CRM topic were funnelled to find the ones having exact co-relation with the research area. Following are the research papers which were shortlisted which matched the proposed criteria of CRM, Firm performance. Rest of the papers were on different aspects of CRM and hence a crux of some of them was useful while writing chapters 1, 2, 3 and 5 etc. A detailed review of shortlisted research papers showing direct correlation with the research topic is given in next section.

#### 4.2 Literature Review

Every organisation whether large scale, mid-scale or small scale has a vision, a mission, objective, USP (Unique Selling Proposition), a culture, categorical product or service or solution offering all aiming at “successive glowing, growing and flourishing of the organisation” and “ultimate definitive performance of the firm”. To find out the relationship between CRM and Firm Performance, following are details of the studies that have been conducted in past.

Reinartz et al. (2004) in their research article, “The Customer Relationship Management Process: Its measurement and impact on Performance”, addresses mainly 3 areas. They conceptualize a construct for CRM Process and its dimensions, operationalize and validate the construct, and finally empirically investigate consequences of implementing CRM Processes on Organizational Performance. They conducted two cross-sectional studies across four different industries and three countries. First critical outcome of their study is that there are three key stages i.e. Initiation, Maintenance, and Termination in CRM Process cycle. The second key outcome is that the implementation of CRM Processes has a moderately positive association with both Perceptual and Objective Organisational Performance.

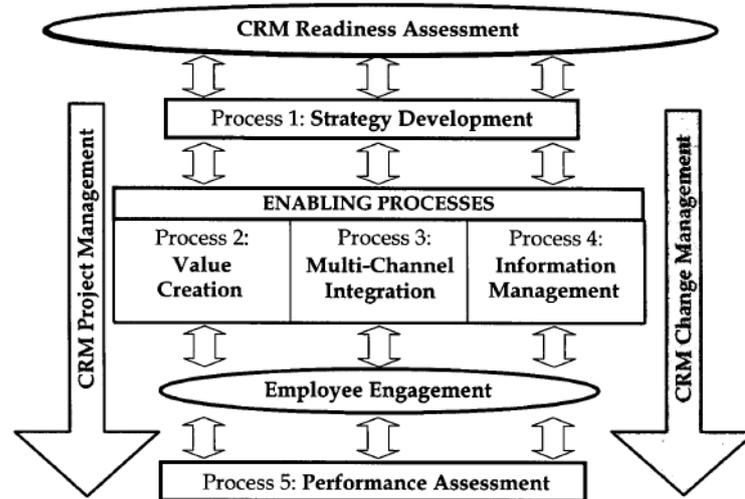
Figure 4.1 Model of Performance Outcomes of the CRM Processes by Reinartz et al. (2004)



Payne and Frow (2006) in their research article, “Customer Relationship Management: from Strategy to Implementation”, examined CRM from strategy formulation and strategy implementation perspectives and proposed a model using interaction research to address them. Reviewing origin of CRM, its role, CRM cross-functional strategy formulation and other alternative ways for strategy development was their focus area. CRM Readiness Assessment, CRM Change Management, CRM Project Management and Employee Engagement are important implementation factors needed for considerate CRM program. These factors are

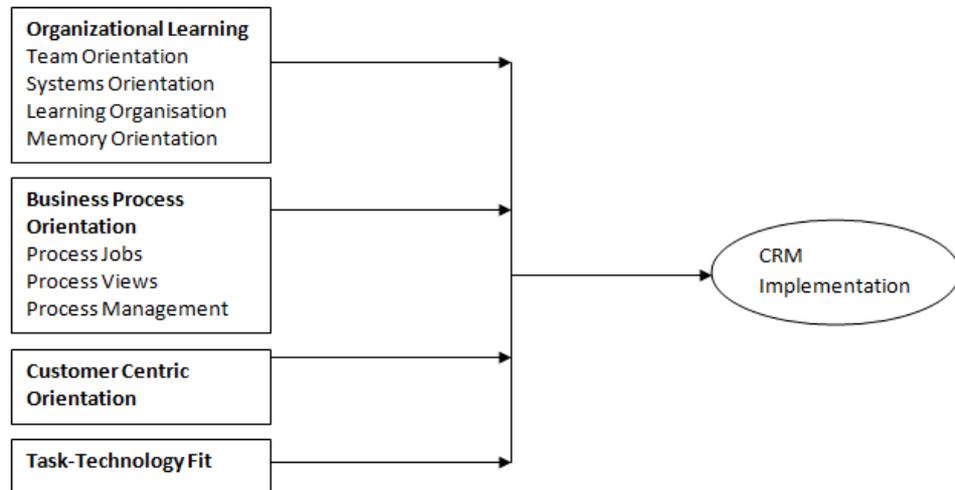
further examined on CRM processes that are cross-functional in nature. These five processes are Strategy Development Process, Value Creation Process, Multi-Channel Integration Process, Information Management Process, and Performance Assessment Process.

Figure 4.2 CRM Strategy and Implementation Model by Payne and Frow (2006)



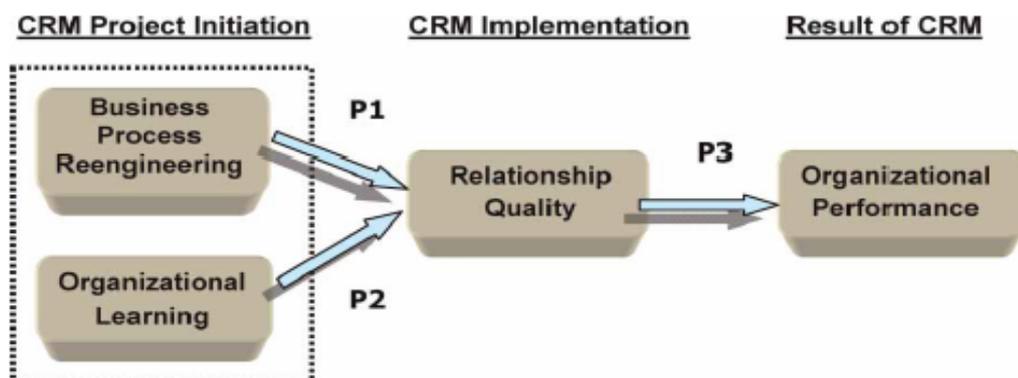
Raman, Wittmann and Rauseo (2006) in their research paper, “Leveraging CRM for Sales: The role of Organizational Capabilities in successful CRM implementation”, proposed a grounded model to explicate factors influencing CRM implementation especially in sales organisations. They identified four organisational capabilities i.e. Organisational Learning, Business Process Orientation, Customer-Centricity, Task-Technology Fit that affect CRM implementation. In-depth interviews with CRM experts were conducted. They confirmed that CRM brings positional advantage to the firm.

Figure 4.3 Identification of Organisational Capabilities for Successful CRM by Raman et al. (2006)



Chang (2007) in his study, “Critical Factors and Benefits in the implementation of Customer Relationship Management”, investigates the critical factors necessary for CRM implementation. He develops a conceptual framework to describe the relationships between factors in CRM implementation i.e. a) Business Process Re-engineering (BPR), b) Organizational Learning (OL), c) Relationship quality (RQ), and d) Organizational Performance (OP). The first two factors are prerequisites for CRM implementation and thereby result in relationship enhancement. This investigation used open-ended case study and interview survey method to gather data. He confirmed positive association between proposed factors i.e. BPR and Organizational Learning affect Relationship Quality which also positively impacts Organizational Performance.

Figure 4.4 Conceptual frameworks for BPR, OL, RQ, and OP in CRM by Chang (2007)



Troy (2008) in his PhD thesis, “The anatomy of a Customer Relationship Management (CRM) initiative”, explores CRM initiative in electricity line companies in New Zealand to measure empirically CRM practices and processes administered by them. The study was based on assumptions that 1) Customers expect relationship with supplier, 2) To certain degree every organisation engages in CRM practices, and 3) CRM increases customer intimacy or emotional bonding. They concluded that the underlying assumptions are fundamentally flawed. Their findings revealed that not all customers expected relationship with supplier and degree varied across customers. Not all organisations had set up practices for engaging customers and development of emotional bond was rather based on Service Quality.

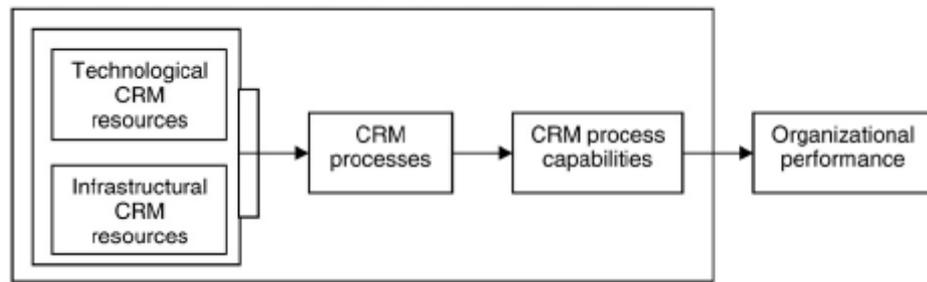
Krasnikov, Jayachandran and Kumar (2009) in their research study, “The Impact of Customer Relationship Management Implementation on Cost and Profit Efficiencies: Evidence from the U.S. Commercial Banking Industry”, examined the effect of CRM implementation on Firm Performance through Cost Efficiency and Profit Efficiency. They threw light on whether and how Firm’s efficiency is affected by CRM implementation in U.S. commercial banks through empirical longitudinal study. CRM plays a dual value creation role in organisation as it largely affects both Firm’s Efficiency and Profitability. Findings approved the association of CRM implementation with decline in Cost and increment in Profit. CRM Commitment reduces Cost while Adoption Time and the Time-since-Adoption of CRM affect both Cost Efficiency and Profit Efficiency.

Nath, Gugnani, Goswami, and Gupta (2009) in their research paper, “An insight into Customer Relationship Management Practices in Selected Indian Service Industries”, presented a methodical perspective of CRM in three services sectors i.e. Telecommunications, Insurance and Banking. This study focuses on determining the degree to which the proposed sectors practice CRM from Strategic, Operational and Analytical standpoints. They further evaluated how it resulted in better Customer-Centricity, Connectivity and Customer Profitability. Collection of data was done using a questionnaire. They confirmed CRM as an instrument to win Customer Trust and Confidence.

Battor and Battor (2010), in their research paper, “The impact of Customer Relationship Management Capability on Innovation and Performance advantages: testing a mediated model”, critically analysed the direct effect of both CRM Capability and Innovation Capability on Firm Performance. They attributed both capabilities valuable for bringing competitive advantage to firm. Using Structural Equation Modeling (SEM), they illustrated Innovation to be a mediator while describing the impact of CRM on Firm Performance. Findings confirm direct effect of CRM and Innovation on Firm Performance. Results also confirmed remarkable indirect impact of CRM on performance via Innovation i.e. for Innovation CRM is antecedent variable, thus both contribute significantly towards Firm Performance. Firm Innovation ability is enhanced through development of close Customer Relationships.

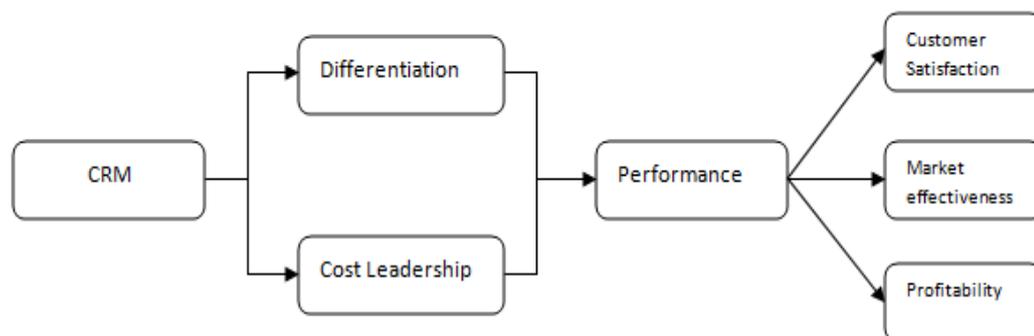
Keramati, Mehrabi and Mojir (2010) in their research study, “A process-oriented perspective on customer relationship management and organizational performance: An empirical investigation”, proposed a framework for evaluating the relationship between CRM Resources (Technological and Infrastructural), CRM Process Capabilities, and Organizational Performance. It provides evidence that the Resource-Based View (RBV) and the Process-Oriented Approach are applicable in the CRM context. They traced the linking mechanism between CRM Investments and Organisational Performance. They used field survey to gather data from 77 Iranian Internet service provider Firms. They confirmed constructive effect of CRM Infrastructural Resources i.e. Human Resources, Organizational Resources on the CRM Processes. Moreover, Infrastructural CRM Resources impact CRM more as compared to Technological Resources and better CRM Process Capability results in improved Organisational Performance.

Figure 4.5 CRM Value Generation Process Framework by Keramati et al. (2010)



Reimann et al. (2010) in their research paper, “Customer relationship management and firm performance: the mediating role of business strategy”, empirically examined the relationship between CRM and Firm Performance in light of mediating impact of Business Strategy and moderating role of Industry Environment. They investigated critical mediators cardinal in the CRM and Firm Performance connect. Cross industry field interviews with the help of questionnaire were conducted. Results derived by using sources→positions→performance framework reveal that Differentiation and Cost Leadership are mediating impact in the proposed chain and different Industry Environments. In addition, Differentiation sees greater impact with high Industry Commoditization.

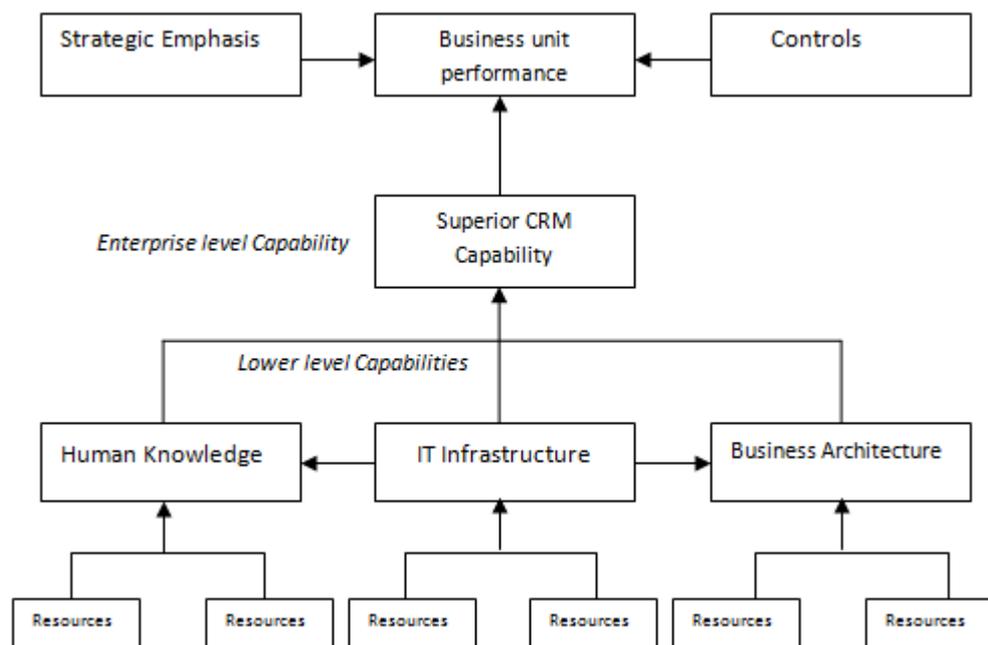
Figure 4.6 Structural Model of CRM, Differentiation, Cost Leadership and Performance by Reimann et al. (2010)



Coltman, Devinney and Midgley (2011) in their research article, “Customer Relationship Management and Firm Performance”, used a hierarchical construct model to examine the impact of CRM on Firm Performance. They measured CRM as an endogenous function of the Firm’s ability for harnessing three lower-order

capabilities i.e. a) IT Infrastructure, b) Human Analytics, and c) Business Architecture. While first capability equates Technology, rest encapsulate company's Organizational and Human Capabilities that complement the Technology. This cross-sectional study uses survey questionnaire to confirm the noteworthy link between superior CRM Capability and Firm Performance. They considered financial services, airlines, direct insurers, telecommunication utilities, hotels and casinos, and retail companies for the study. To create superior CRM Capability and running successful CRM programs focussing on cost reduction, it requires a combination of investment commitments in Technological, Human, and Business Capabilities.

Figure 4.7 Model of CRM Performance by Coltman et al. (2011)

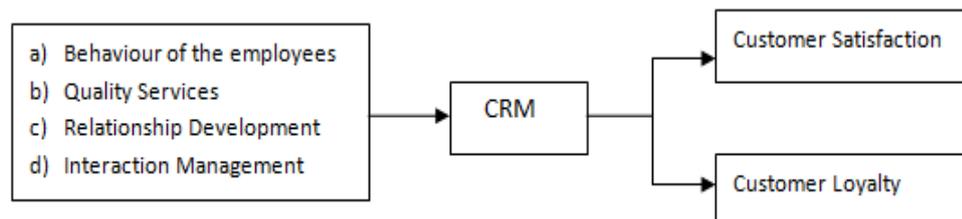


Kolis and Jirinova (2013) in their conference proceeding paper, “The impact of the Customer Relationship Management on a Company's Financial Performance”, delineate the connection between CRM and firm's Financial Performance in the Services industry, discovering whether improved Customer Orientation results in greater Financial Performance. The intangible nature of the services industry makes it more competitive and hence needs more corporate diversity. This diversity may be fulfilled by a customer-oriented approach i.e. the active seeking and retention of customers. Increasing the strength of existing relationship is a strong initiative towards betterment of firm-customer relations. Quantitative

questionnaire covering four focal dimensions of CRM namely a) Customer Satisfaction, b) Loyalty, c) Value, and d) Equity, were used for collecting research data. Results reveal that they couldn't find any strong link between Customer Orientation and Firm's Financial Performance, unlike other previous studies.

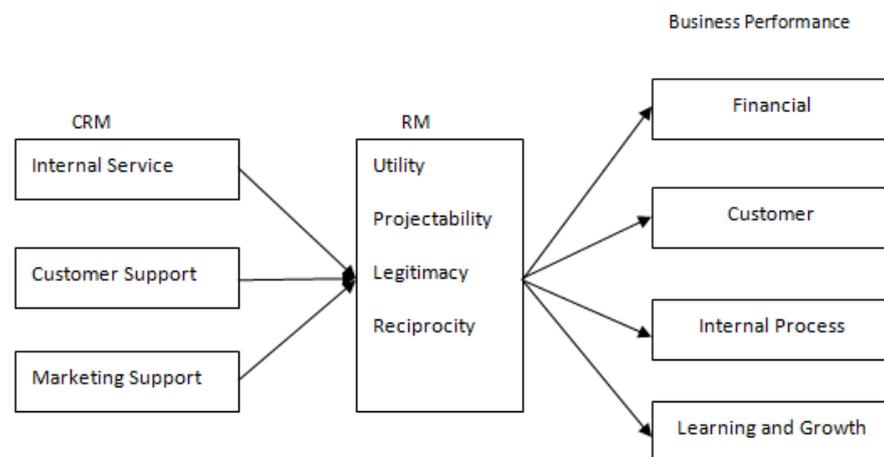
Long, Khalafinezhad, Wan Ismail and Abd Rasid (2013) in their research paper, "Impact of CRM Factors on Customer Satisfaction and Loyalty", evaluated the influence of CRM elements on Customer Satisfaction and Customer Loyalty. They aggregated CRM to be a critical, strategic and competitive advantage bringing resource. They identified four CRM elements affecting satisfaction and loyalty of customers i.e. a) Employee Behaviour, b) Quality of Customer Services, c) Relationship Development, and d) Interaction management. They conducted quantitative research and used questionnaire for gathering data from departmental store respondents. Study revealed positive association between CRM and Customer Satisfaction, Loyalty. However, not all CRM elements showed linkage. Finding showcases that Employee Behaviour and Relationship Development is a major contributor to Customer Satisfaction rather than Customer Loyalty. Employee Behaviour also contributes in increasing Customer Loyalty.

Figure 4.8 Conceptual Framework for Impact of CRM on Customer Satisfaction and Customer Loyalty by Long et al. (2013)



Vahdati, Abdolmanafi and Sarlak (2014) in their research study, “Investigating the impact of Customer Relationship Management on Relationship Marketing and Business Performance”, reviewed the effect of CRM on two parameters i.e. Relationship Marketing and Business Performance, in Banking and Financial Institutions. They used Marketing Support, Internet Services and Customer Support to measure CRM. Whereas Utility, Projectability, Legitimacy and Reciprocity were used to evaluate Relationship Marketing. Balanced Scorecard Criteria i.e. Financial, Customer, Internal Process, Learning and Growth essayed Business Performance. Questionnaire was used for data collection. It was noted that CRM was influenced by Customer Support and Marketing Support. Also, all criteria of Business Performance seem to get impacted by Relationship Marketing.

Figure 4.9 Conceptual Model for Impact of CRM on Relationship Marketing and Business Performance by Vahdati et al. (2014)



Ogbadu and Usman (2012) in their research study, “Imperatives of Customer Relationship Management in Nigeria Banking Industry”, examine the CRM imperatives in banking industry of Nigeria. The study established a relationship between banks Performance and effective CRM through Customer Satisfaction. They also revealed the two factors needed for profitable CRM they are Employee Commitment and IT. They used structured questionnaire to gather data from banks comprises of customers and banks personnel. Findings reveal CRM is a competitive strategy for banks for profit making. Their findings also showcase that Satisfied

Customers result in Loyal Customers which is the cause for banks higher Profitability.

Shang and Lu (2012) in their research study, “Customer Relationship Management and Firm performance: An empirical study of freight forwarder services”, examine empirically the impact of CRM on Firm Performance for Service industry (freight forwarder). This research not only investigates important CRM dimensions using SEM but also proposes an empirical model for linking CRM with Firm’s Financial performance. It involves questionnaire survey to collect data from Taiwanese freight forwarding companies. Customer Response, Knowledge Management Application, Information Technology, and Price Benefit Interaction are Service dimensions that identify CRM attributes in sequential manner of importance. Customer Response and Price Benefit Interaction seem to be impactful on Financial Performance (Profit and Growth Rate) and the rest pose no impact.

Vanisha, Joomun, Dinesh and Goolaup (2012) in their research paper, “Assessing whether Customer Relationship Management can be used as a springboard to trigger Customer Loyalty and achieve Sustainable Competitive Advantage: The Case of Pizza Hut Mauritius”, focuses on understanding implications of CRM in fast food industry. Customers selected using simple random sampling method were interviewed. They found that Service Level, Quality of the Food, Attitude and Behaviour of Employee resulted in overall Customer Satisfaction. Findings reveal that there is a positive relationship between Customer Satisfaction and Customer Loyalty. Further, positive relationship exists between CRM and Customer Loyalty. Higher Customer Satisfaction leads to higher level of Customer Loyalty, thereby discouraging brand switching possibilities and helps in gaining competitive edge over the competitors.

### **4.3 Gap in Literature**

From the review of literature on CRM-Firm Performance reported in this chapter and details given on CRM in Chapter 2, it is transparent that we need a proper methodology to measure practical CRM impact for understanding how it

results in gaining competitive advantage by firms. Keramati et al. (2010) also reports that investigation is needed in studying the actual impact of CRM.

Literature review reveals that some studies confirm positive effect of CRM on Firm Performance whereas some studies fail to acknowledge existence of any linkage between the two. Coltman et al. (2011), Reimann et al. (2010), Battor and Battor (2010), Krasnikov et al. (2009), Keramati et al. (2010), Vahdati et al. (2014), and Reinartz et al. (2004) have shown positive effect of CRM on Firm Performance. Kolis and Jirinova (2013) has shown that CRM does not impact Firm Performance. On similar lines Troy (2008) emphasises that it is not relationship management but the service quality that impacts performance.

The work by other researchers i.e. Nath et al. (2009), Payne and Frow (2006), Raman et al. (2006), Chang (2007), Shang and Lu (2012), Long et al. (2013), Ogbadu and Usman (2012), Vanisha et al. (2012) has covered different aspects like CRM strategy, implementation, CRM processes, factors or capabilities affecting implementation, competitive advantage by CRM, customer-centric parameters and financial performance but none of the research papers could provide the detailed step-by-step impact of CRM.

Based on the literature review and more details reported in chapter 2, we can summarise that existing work on CRM revolves around defining CRM, CRM practices, CRM processes, elements of CRM, level of CRM, CRM as source of competitive advantage, CRM as a software solution, direct impact of CRM on customer behaviour and profitability. However, none could provide the detailed view of exactly *how* CRM impact happens in practicality.

No investment is considered fruitful if the impact measurement is missing. This study will attempt to address this gap. Detailed gap analysis is provided in Chapter 1, section 1.9 based on details reported in both Chapter 2 and Chapter 4.

Correct measurement of CRM impact will 1) Provide detailed framework showcasing step-by-step impact, 2) Reveal *why* and *how* some CRM programs are successful or fail, 3) Justify how CRM brings-in competitive advantage for the firm,

4) Justify organisation's massive investment in CRM, 5) Advocate CRM as the perfect strategy for building long-term relationship with valuable customers and justify selection of valuable customers while eliminating the non-valuable customers. 6) Provisions a methodology for assisting the management, core decision makers to improve their problem solving and decision making skills in context of sensible usage of Firm's resources for achieving supreme profitability.