Strategic fit and scope of customer relationship management in hospitality organizations

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Introduction

Hermans and Mount (2010) state that hospitality is the process of providing a warm personal welcome to relative strangers, which is relational by nature. McCall et al.’s (2010) report on effective loyalty programs was Cornell Research Center’s second most downloaded report in 2010. IBM’s 2010 CEO trend report emphasized that the first priority of any organization should be to achieve customer intimacy. Whereas Tracey and Wiersema (1993) originally described customer intimacy as one of three value strategies and the one primarily for niche players, customer intimacy has now become the popular management discourse for the vast majority of hospitality companies. Customer intimacy by definition implies a thorough understanding of individual customers. In an organizational context this objective is linked to the management of tacit and explicit customer knowledge by different departments and by customer-touching employees as a condition for building meaningful relationships (Shoemaker & Lewis, 1999). Most successful hospitality organizations succeed in building some level of loyalty with a significant portion of their customers. However, this is not necessarily accomplished by building and maintaining meaningful relationships with their customers, which is a condition for sustained volitional loyalty. Grönroos (1995) states that even though all service organizations are relationship-oriented because of the inherent direct contact with their customers, they still need to avoid the trap of turning customers into anonymous segments and statistics. Grönroos (1995) considers relationship management as a business strategy and emphasizes the important relational role of empowered service employees and of cross-functional processes and collaboration to connect with customers. In contrast to what some may understand from strategic relationship management literature, we think it would be unwise to state that customer intimacy or customer relationship management (CRM) come in one successful strategic form (as in: “we do/don’t do CRM”). While there are commonalities in all approaches to relationship management (e.g. use of customer knowledge and integration of computer systems), hospitality managers should not consider CRM as a one-size-fits-all business strategy or a naturally implicit core activity in their service operations that
affects all employees but as a consciously chosen extension of their business strategy, one that should improve their competitive position in the market, certainly from their loyal customers’ perspective. This chapter is written for organizations that wish to engage in formal customer relationship practices but seek to identify dimensions along which these practices can be matched with the company’s business strategy (CRM Fit) and dimensions along which the desirable degree of penetration of CRM into the organization can be determined (CRM Scope). Once general managers and their teams have decided on the fit and scope of customer relationship management in their organization, functional CRM tactics, processes and issue management can be implemented by various interdependent departments.

A fit and scope approach to strategic CRM thinking constitutes a pragmatic alternative to holistic and integrative approaches that define CRM as a business philosophy that touches all employees, customers and processes. Such “total” CRM initiatives may force hospitality companies to later downsize or even abort their formal relationship practices when management is not able to adequately integrate relationship efforts into the existing organization or choose the appropriate CRM perspective for their organization – perspectives which include:

- Relationships as business performance criterion (e.g. Blattberg & Deighton, 1996)
- Relationships as service process (e.g. Peppers et al., 1999)
- Relationships as information management (e.g. Minghetti, 2003)
- Relationships as business process (e.g. Payne & Frow, 2005)
- Relationships as a program (e.g. Winer, 2001)
- Relationships as a multi-stakeholder orientation (e.g. Gummesson, 1996)
- Relationships as transparent organizational culture (e.g. Mitussis et al., 2006)
- Relationships as organizational capability (e.g. Jarrat, 2004)
- Relationships as employee capability (e.g. Bettencourt & Gwinner, 1998)

A rationale for a more differentiated strategic approach to customer relationship management extends the work of Meyer and Kolbe (2005) who suggested that future research on the integration of CRM should not approach it as a functional (domain-specific) and temporary issue but a strategic and continuous issue of organizational scope and sourcing (which corresponds with fit). We also build on the work of Moorman and Rust (1999), who found that, by being inclusive and engaging different stakeholders in the organization who can contribute in different ways to the relationship function, the CRM’s strategic importance is not undercut.

Dimensions of CRM fit and scope

We propose that the discussion about the fit of a company’s customer relationship management strategy and its business strategy revolves around a marketing dimension, customer orientation, and an organizational dimension, goal multiplicity. We will briefly elaborate both dimensions.

Deshpandé et al. (1993) define customer orientation as “the set of beliefs that puts customer interests first”, which makes it part of a broad corporate culture and measurable from a customer perspective. Gummesson (2008) equates customer orientation with customer centricity. Different types of customer orientation can be distinguished and influence the way that companies learn about their customers and distinctively organize to serve them (Teece et al., 1997):

- Marke-oriented organizations primarily know consumers through competition and market analysis. Kohli & Jaworski (1990) define market orientation as “the organization-wide
generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.”

- Service-oriented organizations primarily know their core customer segments through feedback on their service. Bowen et al. (1989) equate a service orientation with the inclusion of customer service in the product, as well as in the product and firm strategy, and with the adoption of “appropriate service organization arrangements” which include elements like a service-related culture, interpersonal skills and customer data and participation.

- Relationship-oriented organizations are familiar with their customers on a 1-to-1 basis. Greenhalgh and Gilkey (1993) studied relationship orientation in a setting marked by interpersonal negotiation and conflict. The authors say that relationship orientation is associated with the tendency of a person to conceptualize a relationship in continuous terms, to be empathic, to be open-minded about making concessions, and to refrain from attempts to deceive to gain short-term advantage. Day (2003) conceptualizes relationship orientation as stemming from management’s emphasis on customer retention (as a cultural dimension) and providing latitude to employees to satisfy customers. Peppers et al. (1999) published a list of organizational conditions required to identify, know, address and serve customers individually.

The image of the customer on which the relationship is built will be more abstract (or prototyped) if the organization’s customer orientation is aimed at larger segments and if accumulated experiences with customers aren’t widely shared through the organization.

Whereas, within Treacy and Wiersema’s (1993) value discipline framework one could be tempted to hypothesize that a market orientation better fits a product leadership strategy, a service orientation better fits an operational excellence strategy, and relationship orientation better fits a customer intimacy strategy, managers of all three types of orientation claimed they were pursuing a customer intimacy strategy (Hermans et al., 2009).

Besides choosing the best-fitting customer (learning) orientation, a strategic organizational feature of a CRM strategy that is critically contingent on a company’s business strategy is goal multiplicity or – in popular terms – the degree of orchestration and planned co-alignment of the relational goals that customer, company and service employee pursue within the service relationship they maintain. Whereas customers wish to derive “complex personal satisfactions” from their service relationships (Dwyer et al., 1987) and relationship orientation by definition requires receptivity towards the goals of the relationship partner (Bennett, 1996), companies will have to set boundaries to this process. Goal multiplicity is a central theme in organizational theory literature (Scott & Davis, 2006). In a business context managers may view their relationship-building efforts on a continuum between rational goal setting (outcome focus) and natural removal of obstacles (process focus). The natural approach favors a multiplicity of goals; no single best way to satisfy loyal customers is believed to exist. At the opposite end, rational organizations adopt pre-defined loyalty management standards.

Besides goal orientation Scott and Davis (2006) use the relative openness or closeness of an organization to classify organizational theories. Transferring this idea to a business context, managers may consider their returning customers to be an external resource (closed perspective of an organization) or an internal resource (open perspective of an organization). An open organization (perspective) then is marked by a wide scope of relationship efforts; many inside service employees and decision makers interacting with many loyal and potentially loyal customers. A hotel with a marketing department in charge of managing customer relationships...
with a limited number of key accounts and guests correspond with a closed perspective on the organization and a narrow CRM scope.

Combining the concept of a rational versus natural organizational approach to CRM with the concept of an open versus closed perspective on the relationship building organization, four possible CRM strategies can be distinguished.

**An interactionist relationship strategy (rational – closed perspective)**

Under the interactionist view, relationship initiatives are assumed to reside in a dedicated office having distinct boundaries with respect to other parts of the organization and clear rules as to which customers fall under the office’s authority. According to Danaher et al. (2008), management personnel in such companies believe that only a few guest segments need/deserve a relationship. To its service staff, management advocates a pro-active orientation towards customer needs, and customers are seen as outside sources of revenue and referrals. Processes are centrally coordinated for cost and customer convenience purposes.

Sometimes breaking the rules to improve responsiveness increases customer satisfaction (Francese, 1993) but is hardly appreciated by management. While continuous interaction between service workers and customers builds trust (and sometimes social and special treatment benefits), it does not build long-term commitment (Bove & Johnson, 2001). Private data studied by us robustly showed that the middle category of loyal guests of a large global hotel chain showed lowest service satisfaction. This implies that customer commitment-oriented activities require dedicated relationship planning. However, in contrast to the variety of relational needs and profiles of loyal guests, most loyalty programs have become static and commoditized products, prompting the already frequent traveler to exchange loyalty for benefits in a transactional/rational way and become focused on short-term value (Shugan, 2005).

**The social capital relationship strategy (natural – closed perspective)**

Under this perspective, management is expected to link subsystems (initially e.g. reservations, front-office and sales) and to provide sense-making and moral coding regarding the importance of relationships throughout the entire organization. The pledge to service staff of job enrichment (through interpersonal bonding with customers) and access to valuable customer information, as well as control over one’s own destiny (empowerment and authorization), is appealing to many employees. Following the theory of the customer pyramid (Zeithaml et al., 2001), relational focus is on the “happy few” very loyal guests who enjoy important status privileges and receive attention from a small core of dedicated relationship staff. A hotel within the hotel is created. Value is attributed by the company to these guests by the mere fact that there are so few of them. Whereas this reasoning may at first seem to indicate an open (customer) resource dependency view, the goals of the guests are satisfied by an organization which is impersonal, neglecting the overall social potential of relationships in its internal and external environment.

Based on enhanced interaction experiences with high-end guests, the company starts to be more proactive in processing quality feedback, profiling individual guests (e.g. see Callan & Teasdale, 1999), and personalizing and customizing its offers (e.g. see Bettencourt & Gwinner, 1996). Ultimately, to warrant continuity, hotels may even engage in communication with guests when they are not in the hotel.
The human technology relationship strategy (rational – open perspective)

Ciborra (2000) states that enterprise-wide relationship programs don’t have a naturally occurring momentum or implementation process, which forces organizations to either choose to engage in a formal, goal-oriented approach or accept unplanned and unpredictable outcomes. Stacey (2007) warns that the first option (the dominant approach in strategic thinking) begets looser internal coupling due to logical incrementalism (i.e. regular adaptations to changes in the environment accompanied by the required internal changes).

Hard strategies rely upon forced compliance with loyalty programs and procedures and allow for fewer attributions to external causes of failure. Applying motivational theories aims to counteract these negative effects. More team members are tempted to contribute if access to customer data is warranted and procedures are developed based on previous experiences. These semi-standardized routines help them to effectively and efficiently deal with a variety of relationship moments even with guests they did not expect to have with in the first place.

Although market development helps keep the customer database healthy, the customer base is largely maintained from within by many departments (Grönroos, 1999). The loyal customer market is not (no longer) seen as an outside resource of the organization but rather as one that exists within the organization.

Reinartz et al. (2004) pointed out that the positive impact of dedicated relationship management processes was only proven based on perceived (not actual) business performance. Clearly, one could hypothesize that relationships are built not through programs and processes but enacted by people whose views of overall complexity are limited. The processes explained by Reinartz et al. therefore seem to fit a contingency approach to relationship management, as exemplified by the propensity of hotels to hire guest relations managers to handle relationship issues in case of increasingly communicative loyal guests. An organizational memory of past relationship moments can help current team members solve similar problems.

The network capital relationship strategy (natural – open)

The three previously discussed perspectives and corresponding relationship initiatives seem insufficient for organizations that wish to capitalize on the richness of social encounters with the networks of their customers (Mitussis et al., 2006). In the network capital view of relationship building the customer scale achieves a state of balance; companies retain a sufficient number of return guests such that new guests make up for those who do not return (Chattopadhyay, 2001). Lower investments in customer acquisition are what the environment expects from a healthy hotel high on goodwill. The relationship strategy now earns institutionalized legitimacy status and can be further expanded both internally and externally. Looking at hospitality best practice, up to 70 percent of guests are or are in some way related (through referral or network) to a former guest of the organization. According to Gummesson (1994), such relationship-oriented organizations will no longer be able to organize themselves along the lines of functional boundaries, market segments, and rigid marketing plans. In order to organize customer relationship functions, they will have to be managed as networks together with all their employees, suppliers, external authorities and stakeholders. The network of relations itself will provide the natural organizational environment, which has no clear boundaries. Internal forces will operate externally, and vice versa. This imaginary organization has access to many more resources than the intellectual capital on the balance sheet (Gummesson, 1996). Companies adopting this type of CRM strategy report that the introduction process
formal relationship management is cyclically powered by all five mechanisms mentioned by Mintzberg (1979), in the following order: supervision focus (by top management), output focus (by middle management), standardization focus (by operational staff), cross-adaptation focus (by management support functions), process focus (by technology structure). For an enterprise-wide relationship practice to become institutionalized and effectively reach most guests in an open and natural way, it is thus hypothesized that all coordination mechanisms need to be used. Orlikowski and Gash (1994) describe how IT-driven programs affect culture and power structure and how different subcultures in organizations apply their own interpretation frames to the intended changes. Finnegan and Willcocks (2007) write about implementation following process design:

The implementation stage will reveal where prior analysis and design and planning have been inadequate. ( . . ) Implementation will also bring its own unpredictabilities that need to be handled. Not the least of these are human factors. In fact, in the usual implementation scenario it is only at this stage, when changes become manifest and real, that people seriously begin to question what is going to happen.

In order to facilitate important organizational transitions, Rowley and Roevens (2007) advocate an organizational change program that focuses on removing constraints from current operations rather than promoting hard goals for new operations. One of the moves is the promotion of rich customer information as a tool to avoid customer complaints and overly routinized jobs (Tafti, 2002). The customer orientation is a relationship orientation characterized by the semi-autonomy of individuals and the “workable” level of joint enactment that surrounds a process of trial and error in building guest relations.

**Impact of relationship strategy on hospitality’s current management practices**

A growing dependency of an organization on its loyal customers is expected to result in a changing dependency on and investment in a company’s brand as a strategic tool for customer acquisition and retention (Hermans et al., 2010; Leone et al., 2006). Moreover, independent of how CRM will be fitted and scoped within the organization, each CRM strategy will require the organization to become more flexible and responsive to the needs of loyal customers, which are clearly different from the needs of new customers (Shoemaker & Lewis, 1999). Sandoff (1995) demonstrates how standardization (still) reigns over customization in current hotel (brand) management practice. Well-defined standards guarantee that nothing is left to chance. This is consistent with an adherence to Total Quality Management (TQM) principles (Day, 1994):

TQM is a set of concepts and tools for getting all employees focused on continuous improvement in the eyes of the customer. ( . . ) At the heart of TQM is the concept of an organization as an interrelated collection of processes rather than an interacting set of functional units. ( . . ) Despite the avowed interest in satisfying customers, the reality is that most of the TQM effort is directed internally. ( . . ) Too often firms use standard versions of TQM without adapting it to their circumstances.

Baldacchino (1995) revealed that TQM in hotels is often rigidly implemented, with controlled procedures prevailing over staff empowerment in achieving company goals and customer
satisfaction. Importantly, Nield and Kozak (1999) stated that marketing advantages do not automatically accrue as a result of quality accreditation. Since relationships cannot be “delivered” or “provided” as products and services but emerge as a result of sequences of meaningful relationship moments woven in and between service encounters, implementing flexible standards then becomes the key challenge of CRM in hospitality organizations.

Choosing a clear relationship strategy as described in this chapter and sharing the strategy with customer-facing employees can help to successfully materialize this process.

Finally, service-integrated relationship strategies as described do not per se imply a high cost in terms of dedicated time and benefits spent on customers. Therefore, especially in view of the service technology opportunities, customer intimacy and formal CRM strategies are clearly not (any longer) the monopoly of hospitality organizations serving the luxury segment.

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**Case study**

*X Hotels International CRM failure*

X Hotels is a large global hotel chain with properties across Europe and the USA. They have a strong traditional CRM strategy and in the past three years decided to take a more proactive approach in ensuring that their CRM captures the opportunities provided by social media (SM). To that end they established a social media team based in their headquarters to deal with SM across all their properties. In the summer of 2013 the organizers of a hospitality academic conference in one of the X Hotels properties find that their delegates are told by the hotel that the Wi-Fi is not part of the delegate rate and that they will have to pay extra for that service. The conference organizers, embarrassed by the situation, attempt to resolve it with the duty manager but get nowhere. A few days later, one of the conference organizers posts a tweet describing his frustration and promptly gets a reply from the X Hotels SM team. They ask for his contact details, which he is happy to provide, and ask him to follow them on Twitter, which he does. After that he receives no further information and all his attempts to get a reply through Facebook or Twitter prove futile. His original disappointment turned to anger, he posts all his contacts to avoid hotel X at all costs. A few weeks later he receives an email from the sales manager of the property they had the issue with promoting a conference delegate rate that includes Wi-Fi and turns out to be lower than the rates they had for their conference for the same season next year.

**Discussion points**

What do you think are the main reasons for X Hotels getting it wrong? Discuss the issues at both strategic and tactical levels. Why do hotel companies perceive social media as an add-on to their tactics rather than a key part of their CRM strategy? Considering the case of “United Breaks Guitars” (see: www.youtube.com/watch?v=5YGc4zOqozo), what is the damage that a hotel company can receive from a badly devised CRM strategy? Utilizing the network capital relationship strategy, how would you alter the social media team approach for X Hotels?
References and further reading


IBM (2010). *Capitalizing on Complexity*. IBM Corporation, USA.

