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Customer Relationship Management (CRM) Practices towards Customer Brand Engagement: Evidence from the Hotel Industry in Sri Lanka

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Abstract

Customer Relationship Management (CRM) practices and its effects on Customer Brand Engagement (CBE) are an emerging trend in many industries including the hotel industry. Therefore, the main objective of this study is to examine whether there is a relationship between customer relationship management practices and customer brand engagement in the Sri Lanka hotel firms. The population is senior and middle managers of the hotel industry with a sample comprised of 183 managers. The data was gathered using a structured questionnaire and analyzed using Structural Equation Modeling (SEM) techniques. The key findings of the study showed that customer relationship management practices are significantly related to customer brand engagement in hotel industry of Sri Lanka and consequently, customer relationship management can be utilized as a tool to enhance customer brand engagement in the hotel firms in Sri Lanka. The findings further depict managerial implications and opportunities for future research in the same area.

Keywords: Customer Relationship Management, Customer Brand Engagement, Hotel Industry

1. Introduction

Customer focus and relationship management have become fundamental marketing and business philosophies for many companies seeking a competitive advantage in contemporary marketing. Establishing, maintaining and enhancing customer relationships have always been an important aspect of business. However, over the last few years there has been a significant increase in Customer Relationship Management (CRM) related research (Kamakura et al., 2005; Ngai, 2005). Although CRM is considered by many academics as a business philosophy closely related to relationship marketing, marketing academics have begun to explore in depth and examine the linkages between CRM practices, relationship marketing and business relationships as it provides opportunities for sustainable competitive advantages.

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Improvements in CRM practices enable businesses in the hotel industry to implement CRM systems that can create practical mass customization marketing programs, based on marketing techniques. The CRM practices offer the potential for substantial benefits to corporations through improved customer relationships, customer retention, satisfaction, customer brand engagement and enhanced profitability (Bohling et al., 2006; Payne & Frow, 2005). However, the challenge for many enterprises is finding a way to exploit and sustain competitive advantage by leveraging CRM practices, relationship marketing and customer brand engagement effectively (Chalmers, 2006; Ngai, 2005). Thus, the goal of CRM is to line up business processes and customer strategies for long term customer loyalty and profitability (Rigby, Reichheld, & Scheffer, 2002).

Similarly, customer brand management is very important for hotel industry as today's increasingly technology-savvy hotel guests travel with various technologies, such as smart watches, mobile phones, tablets, and laptops and use them to pre-check into their hotel rooms, browse the Internet, work, and, most importantly, purchase and repurchase hotel products, services, and amenities during their stays (Foote, Gaffney, & Evans, 2010). Therefore, customer brand engagement brings out many benefits within a company that significantly influence the overall success of the hotel. Customer brand engagement identifies the long term value of customer loyalty with the key principle of retention by satisfying requirements through a mutually beneficial relationship.

Tourism is a fast growing industry in Sri Lanka especially after the end of the war period in the year 2009. Showing a significant growth, Sri Lanka tourism has surged to a new high record of 1,798,380 tourist arrivals in 2015, transcending all time high hits in the history which is an increase of 17.8 per cent over last year's 1,527,153 arrivals (Sri Lanka Tourism Development Authority [SLTDA], n.d.). As a result, the number of new entrants to the industry increases while there is an increase in intensity of competition among existing hotels which consider attracting and retaining tourists as a key to sustain the competitiveness for the future years to come in the region vis-à-vis Asian competitors. This upcoming reality raises the empirical issue whether Sri Lanka hotel firms can use customer relationship management as a tool to enhance customer brand engagement in order to win the competition and sustain their business in the future. Therefore, the main objective of the study is to examine the relationship of customer relationship management practices and customer brand engagement in the Sri Lankan hotel firms.

The scope of the study is limited to customer relationship management practices, customer brand engagement and hotel firms which are based in the Western province of Sri Lanka. Moreover, the sample of the study is also limited to internal stakeholders. The remains of the paper are organized as follows. Firstly, it discusses the literature leading to hypothesis development and conceptual model, secondly it presents the research method adopted for the study and thirdly it discusses the findings and implications. Finally, it presents conclusions and areas for future research.

2. Literature Review

This literature review will demonstrate that there is sufficient evidence to suggest that CRM is an antecedent of customer brand engagement and that it is worthwhile re-examining it in the context of the tourism industry.

2.1 Customer-Brand Engagement

Customer-brand engagement is emerging as a prominent area in recent marketing literature. An integrated model of customer brand engagement measures the impact of customer-brand engagement upon brand value and brand loyalty, demonstrating the customer's role in value creation (France, Merrilees, & Miller, 2016). Early conceptualizations of customer-brand engagement emphasize the relationship between the customer and the brand (Hollebeek, 2011).

The branding discipline is fundamentally concerned with understanding customer needs and requirements; delivering value to customers resulting in high levels of customer satisfaction; pursuing long-term relationships and brand engagement with customers and providing positive customer experiences when dealing with the firm (Jayachandran, Sharma, Kaufman, & Raman, 2005; Moorman & Rust, 1999; Webster, 1992).

Even if there is no established conceptualization on customer brand engagement, Hollebeek (2011) identifies that Customer brand engagement should include the four dimensions of customer involvement, customer rapport, customer commitment and customer satisfaction. Customer involvement is defined as an individual's level of interest and personal relevance in relation to a focal object / decision in terms of one's basic values, goals, and self-concept. It is also defines satisfaction as the emotional state that occurs as a result of a customer's interactions with the firm over time (Verhoef, 2003). Customer rapport is defined as the perceived level of harmonious, empathetic, or sympathetic connection to another, which is viewed in some way as congruent to the self (Brooks, 1989). It is also defined as a sense of genuine interpersonal sensitivity and concern (Ashforth & Humphrey, 1993).

A number of authorities have urged companies to work on developing customer commitment so that they develop a strong attachment to, or engagement with, a brand or company. There are three forms of customer commitment: relational commitment, instrumental commitment and value-based commitment. Customer commitment is valuing an ongoing relationship with a specific other party so as to warrant maximum efforts at maintaining it, that is, a desire to maintain the relationship (Moorman, Deshpande, & Zaltman, 1993; Morgan & Hunt, 1994). Existing customers may have a level of commitment to a particular hotel brand established prior to a particular hotel brand encounter; new customers are expected to engage first with the hotel brand whilst only subsequently developing a level of brand commitment. As a result, the role of commitment as a customer brand-engagement consequence may apply to new, as well as existing, customers.

Customer satisfaction is a marketing term that measures how products or services supplied by a hotel meet or surpass a customer's expectation. Customer satisfaction is an important measure for determining the quality that is actually delivered to customers through the product/ service and by the accompanying servicing (Vavra, 1997). Simply stated, customer satisfaction is essential for corporate survival. Customer satisfaction is recognized with great importance to all hotels because of its influence on repeat purchases and word-of mouth recommendations.

An examination of the CRM literature indicates that CRM practices could result in a number of dimensions of customer-brand engagement discussed above.

2.2 CRM and Customer-Brand Engagement

In mainstream literature, CRM construct has been conceptualized in terms of four broad behavioural dimensions (Mohammad, Rashid, & Tahir, 2013). The behavioural dimensions are: Customer Orientation, CRM Organization, Knowledge Management and Technology -based CRM. CRM practices have four activities: sales support, service support, analysis support, data integration and access support (Chang, Park, & Chaiy, 2010). The common role of CRM technology is expected to help sales force and service (Chang et al., 2010), CRM technology involves supportive activities to boost sales and adaptive service. Further than such front office applications, CRM technology is expected to include collection, integration, and analysis of customer data (Chang et al., 2010). Therefore, CRM technology is referred to as an information technology used to boost sales support, service support, data analysis, and data integration. With advances in technology, the proliferation of the Internet, and the emphasis on branding techniques, CRM has become a key focus of branding (Palmatier, Gopalakrishna, & Houston, 2006; Payne & Frow, 2005).

An underlying premise is that relationship marketing provides value for the firm and is an essential element of the branding concept (Grönroos, 1989; Morgan & Hunt, 1994; Reichheld, 1996). Customer relationship quality and brand engagement often emphasize the importance of involvement, rapport, satisfaction, and commitment (Dorsch, Swanson, & Kelley, 1998). The leading view of customer-brand engagement involves 'the level of an individual customer's motivational, brand-related and context-dependent state of mind characterized by specific levels of cognitive, emotional and behavioral activity in direct brand interactions' (France et al., 2016). The engagement concept initiates in multiple disciplines including psychology, sociology and organizational behavior (Brodie, Hollebeek, Juric, & Ilic, 2011). In consumer behavior, marketing conceptualizations are led by discussions of engagement as a process of building loyalty (France et al., 2016). This entails strategic significance of the link between CRM and CBE.

Most importantly, it has been noted that there is exceptionally poor business performance from CRM implementations (Raman & Pashupati, 2004). Prior marketing research indicates that CRM applications are not uniformly delivering anticipated business improvements (Reinartz, Krafft, & Hoyer, 2004), and that the problem may stem from factors such as lack of customer orientation (Rigby et al., 2002). Also the available marketing research indicates that customers may be suspicious of CRM implementations (Bhattacharjee, 2002; Hoffman, Novak, & Peralta, 1999) and that CRM applications may not actually assist in the creation or maintenance of customer relationships (Peters & Fletcher, 2004). In this context it can be argued whether there is any missing link that can bridge the relationship between CRM and business performance, which is still not well researched in literature. As per the literature, it is possible to suspect that CRM could impact on the level of customer brand engagement. In turn, customer brand engagement could lead to increased business performance, although this link is not tested in this study.

2.3 CBE & CRM in the Tourism Industry

Customer requirements for quality products and service in the tourism industry have become increasingly evident to professionals (Lam & Zhang, 1999; Yen & Su, 2004). In such circumstances, guest relationships are a strategic asset of the organization (Gruen, Summers, & Acito, 2000) and therefore customer satisfaction is the starting point to define business objectives to reach improved business performance. In this context, it imply that CRM practices have the capacity to create positive brand associations through customer brand engagement that can create customer's higher

commitment and increase their intention leading to actual visit and revisit decisions. Long-term and reciprocally advantageous relationships between customers and the hotel are becoming progressively important because of the highly positive correlation between guests' overall satisfaction levels and the probability of their return to the same hotel (Choi & Chu, 2001). Hotels are increasing their investments to improve service quality and the perceived value for guests to achieve better customer satisfaction and loyalty, thus, resulting in better relationships with each customer (Jones, Dettman, Park, Rogers, & White, 2007). This highlights the role of CRM in bringing CBE as an outcome.

3. Conceptualization

Empirical studies generally confirm a positive relationship between customer relationship management practices and measures of customer brand engagement (Giannakis-Bompolis & Boutsouki, 2014). They include providing real time benefits to make the customer experience more fun, using social media as a tool and not simply a platform, simplifying the customer's experience to increase satisfaction and retention, analysing data in forward-thinking ways, leverage and embrace customer feedback, anticipating and acting on customer needs. In many of these studies, customer involvement, commitment, rapport and satisfaction have been identified as popular measures of customer brand engagement. They have been measured subjectively and they were found to be significantly positively related with customer relationship management practices (Hollebeek, 2011). Thus, the study derives the following hypothesis:

H₁: Customer relationship management practices have a significant positive influence on customer brand engagement.

In recent studies it was found that higher the hotel category in terms of the star classification system, the higher the quality of services provided by them (Jasinskas, Streimikiene, Svagzdiene, & Simanavicius, 2016; Markovic & Raspor, 2010). In a study undertaken by Cheng and Rashid (2013) having interviewed the guests of Malaysian hotels, ascertained that perceived service quality is highly related to customers' satisfaction, which ensures higher loyalty of customers. The customer paying a higher price usually expects better quality. However whether she remains loyal and stays in the same hotel again depends on how successfully hotels implement relationship management resulting in customer brand engagement which affects service quality and customer loyalty (Cheng & Rashid, 2013). This indirectly indicates that hotels with higher star classifications can provide high level of service quality resulting in higher strength of the relationship between CRM and CBE than those of lower star category hotels. Thus, the study develops the following hypothesis:

H₂: The hotel category positively moderates the relationship between CRM practices and customer brand engagement.

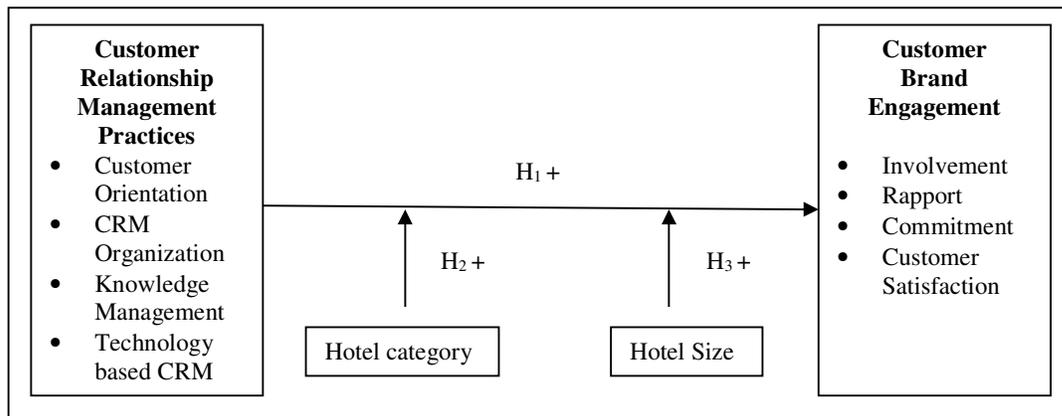
In addition, outside hotel sector, the literature accumulated mixed findings regarding the role of firm size in influencing the relationship between e-commerce based relationship management practices and financial performance (DeFranco, Morosan, & Hua, 2015). It implies that quality and intensity of CRM implementation and brand engagement as its own sequence can depend on hotels size. Chen and Miller (1994), Donaldson (2001), and Ven and Jeurissen (2005) suggested that the impact of e-commerce expenses depends on firm size due to economies of scale and scope. This leads to the following hypothesis:

H_3 : The hotel size positively moderates the relationship between CRM practices and customer brand engagement.

3.1 Conceptual Model

Based on the literature review, the study conceptualizes (as shown in the Figure 1) that the customer relationship management practices of the hotel operationalized in terms of customer orientation, CRM organization, knowledge management and technology based CRM of the hotel positively influences customer brand engagement operationalized in terms of customer involvement, rapport, commitment and satisfaction of the hotel customers.

Figure 1: Conceptual Model



In the above conceptual model, the dependent variable of customer brand engagement is defined as the level of an individual customer's motivational, brand-related and context-dependent state of mind characterized by specific levels of cognitive, emotional and behavioural activity in direct brand interactions, where the focus lies on the interactions between a specific subject (the customer) and the focal object (brand).

In order to make these major relationships more conclusive and robust, it has included hotel characteristics such as hotel category and hotel size as moderating variables of the relationship between the customer relationship management practices and customer brand engagement of the hotel customers.

4. Methods

The method of the study was guided by the positivistic research tradition as per the nature of the research objectives and priori-based conceptual model. Due to these facts, the following methods were adopted to empirically test the conceptual model.

4.1 Operationalization

The study operationalizes the constructs and variables using the measures in the existing literature. Overall customer relationship management practices of the hotels are measured using a 24 multi-item scale which included the four major dimensions of customer relationship management of hotels' practices namely, customer orientation (Garrido-Moreno & Padilla-Meléndez, 2011; Narver & Slater, 1990; Sin et al., 2005), CRM organization (Sin, Tse, & Yim, 2005; Yim, Anderson, &

Swaminathan, 2005) knowledge management (Mohammad et al., 2013; Sin et al., 2005; Yim et al., 2005) and technology based CRM (Mohammad et al., 2013; Sin, et al., 2005; Yim et al., 2005). Customer brand engagement is operationalized in terms of four variables in assessing the hotel industry in Sri Lanka. They are customer involvement, commitment, rapport, and customer satisfaction. These four variables are adapted from the customer brand engagement measurements used in prior studies (Hollebeek, 2011). The hotel size was assessed using the number of employees of the hotel whilst the hotel category was measured referring to the star category assigned by the SLTDA.

4.2 Research Strategy, Population and Sample

Quantitative research approach using survey research strategy was employed for data collection. The population unit was hotels and the elements / respondents were represented by hotel managers. Respondents were composed of senior and middle level managers in Sri Lankan hotels representing 1 star, 2 stars, 3 stars, 4 stars and 5 stars and unclassified hotels registered under the SLTDA. The sample included 183 respondents of 47 hotels which are based in the Western Province of Sri Lanka. The study employed judgmental sampling technique in selecting hotels and respondents. The quantitative research method was used to collect primary data from hotel managers in Sri Lanka by administering a structured questionnaire. Respondents were contacted using e-mail and face to face communication during the third quarter of 2016. The independent and dependent variables were measured using 5 point Likert scales with end points of “strongly disagree” and “strongly agree”. However, the two moderator variables, namely, hotel size and category were assessed using categorical, nominal variables.

4.3 Data Analysis

Data analysis techniques were comprised of both descriptive and inferential statistical methods. All three hypotheses were tested using PLS Path Model (Ringle, Wende, & Will, 2005) generated using Smart PLS Graphs. Normality of the data was assessed using the Kolmogorov-Smirnov (KS) test, visual examination of normality plots with tests, and by computing skewness and kurtosis measures (Carver & Nash, 2005). Since the distribution of data was non-normal (Chin, 1998; J. Vilares, Alonso, Doval, & Vilares, 2016) Smart PLS is recommended as a suitable path estimation method.

The indicators of both the independent and dependent variables adopted from the priori-based studies were reflective in nature. Thus, a reflective measurement model was estimated. First, reliability of the constructs was checked using Cronbach's alpha test and all the constructs had a threshold level of 0.7, showing a high internal consistency of indicators measuring each construct and thus confirming construct reliability (Nunnally, Faw, & Bashford, 1969). Following the guidelines of Fornell and Larcker, (1981), the Average Variance Extracted (AVE) was measured. The AVE value was above 0.5 for both independent and dependent constructs, indicating that the variance captured by each latent variable is significantly larger than variance due to measurement error, and thus demonstrating unidimensionality and a high convergent validity of both independent and dependent constructs. Further, as a measure of discriminant validity, the study compared the square root of the AVE values for both the independent and dependent constructs with the correlation between the two constructs in the model. The correlation coefficient between the two constructs was lower than the square roots of the AVE value of each construct, which indicates that the two constructs were discriminable (Fornell & Larcker, 1981).

5. Results and Discussion

This section presents analysis and discussion of the empirical findings of the study. Figure 2 shows the final structural model estimated. The R^2 of the path model showed 41.87 percent which indicates that the independent variables in model explains 41.87 percent of the total variability of the dependent variable. The R^2 value of 41.87 can be considered an indicator of predictive validity of the overall model and represents a sufficient level to justify the goodness of fit of the present model (Ringle et al., 2005).

Figure 2: PLS Graph-based Structural Model

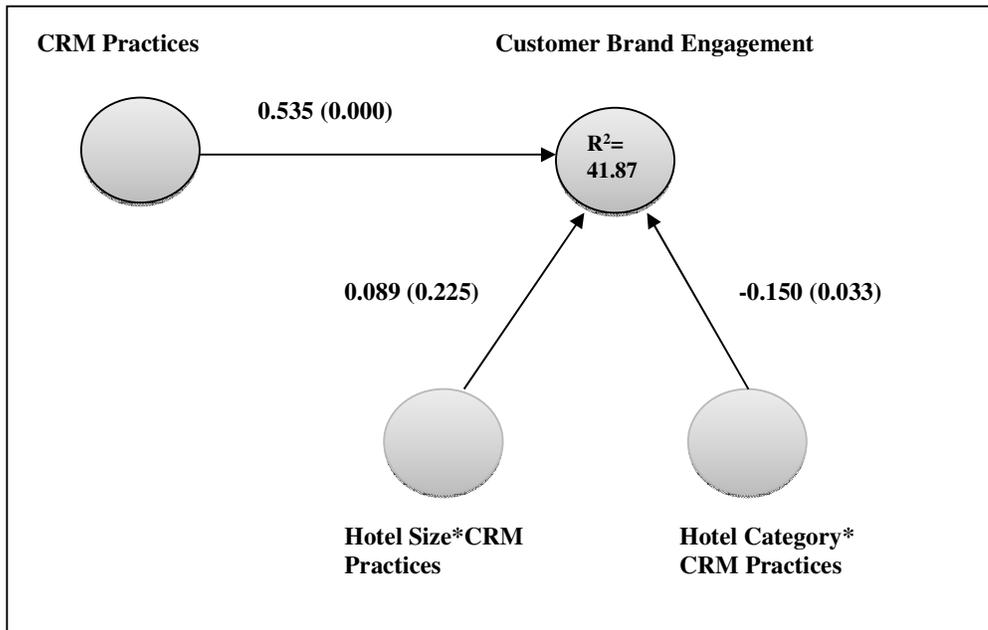


Figure 2 shows all the path coefficient (beta) values with respective significance levels (probability values) in the parenthesis. The statistical results indicate that two of the path coefficients are significant except the path from [hotel size * CRM practices] to customer brand engagement. The path coefficients from CRM practices to customer brand engagement is 0.535 with corresponding p value of 0.000 which shows a significant positive impact of CRM practices on customer brand engagement in hotels. Hence, the hypothesis one is accepted. Therefore, the current study confirms that customer relationship management practices in the hotel sector have a significant positive influence on hotel customer's brand engagement. This finding is consistent with the study undertaken by Giannakis-Bompolis & Boutsouki, (2014) and So, King, Sparks, and Wang (2016).

Second hypothesis of the positive moderating effect of the hotel category on the relationship between CRM practices and customer brand engagement was accepted with some ambiguity with the mainstream literature due to the negative path coefficient. The path coefficient from [hotel category *CRM practices] to customer brand engagement is -0.150 with corresponding p value of 0.033. This can imply that when a hotel advances in term of star classification, the strength of the relationship between CRM practices and customer brand engagement gets weaker. However, this findings is contradictory with the initial hypothesis developed in the study and does not comply with previous

studies of Jasinskis et al.(2016) and Markovic and Raspor (2010). In Despite of this inconsistency, this negative moderation effect of hotel category is partly justifiable with the findings of Fjermestad and Romano (2003) which found that once hotels advances in term of classification, they tend to move more towards electronic customer relationship management (e-CRM) although up to 50 percent of implementations yield unsatisfactory returns, due to functional non-usability and user and management resistance factors.

Third hypothesis that argued the positive moderating effect of the hotel size on the relationship between CRM practices and customer brand engagement was rejected. The path coefficient from [hotel size* CRM practices] to customer brand engagement was 0.089 with corresponding p value of 0.255. Therefore, there is no moderating effect of [hotel size* CRM practices] on customer brand management. These finding which accounts for the size of the hotel cannot always be a major determinant of CRM based investments in the Sri Lanka hotel sector. This suggests that hotels can have CRM practices leading to customer brand engagement regardless of the size of the hotel in the modern information technology era. Similarly, the mix findings of the study carried out by DeFranco et al. (2015) support the findings. Further, explaining the situation, Bull (2003) highlighted that lack of knowledge pertaining to the concept of CRM as a critical issue observed in numerous large scales CRM system implementations.

6. Conclusions, Implications and Further Research

The research brought together a number of domains and areas of, brand loyalty and customer relationship management. The results have shown that CRM practices have a direct positive relationship with customer brand engagement in the Sri Lankan hotel sector. Further, the influence of CRM practices on customer brand engagement is somewhat negatively moderated by the hotel category. Furthermore, it was evident that the influence of CRM practices on customer brand engagement is not at all moderated by the hotel size in Sri Lanka.

The present study contributes to the CRM and brand loyalty literature by demonstrating the strategic importance of CRM in enhancing customer brand engagement as a competitive weapon. The present study indicates that the Sri Lanka hotels, regardless of the size, could focus on enhancing the customer orientation, CRM organization, knowledge management and technology based CRM with a target on brand engagement activities. The hotels could perhaps adopt key performance indicators reflecting the CRM practices and brand engagement activities. The hotels can introduce innovative methods, activities and programs to get tourists involved with their brands and integrate such actions with their technology based CRM systems including social media. One possible way to motivate the level of customer brand engagement is to identify different (small) customer groups rather than traditional segments by digging into their big data bases and application of simple data mining techniques to predict unique traits and behavior patterns of customers. It was further emphasized that unclassified and lower star category hotels can win competitive advantage by investing in simple, low cost CRM practices that lead to brand engagement activities in order to retain the customers in face of higher star category hotels that enjoy the benefits of scale of economies and brand image.

At the policy making level, the government institutions that are keen on attracting high-end tourists to the country can take initiatives by conducting awareness sessions, workshops and training programmes that provide CRM competencies to all types of Sri Lankan hotels. Thus, they can improve their present level of CRM and branding strategies. Further, financial institutions can provide

financial assistance in terms of low interest loans to small and medium hotels to adopt and improve CRM related technologies.

6.1 Limitations and Further Research

The present study's population was restricted to the registered hotels in the Western Province of Sri Lanka. Therefore, the current study's findings cannot be generalized to the other hotels which are outside the Western Province. Since the study's respondents were hotel managers who were used as key informants to account for both CRM and brand engagement, the findings do not fully reflect the tourist customer's voice. The quantitative findings may not provide in-depth insights into individual hotel's behavior and dynamics at the firm level.

It is possible to carry out future research covering a representative sample of hotels representing all provinces in Sri Lanka. Moreover, future studies can target other stakeholder's views specially; customers and also study can use case studies and face to face interviews to obtain a comprehensive set of information. According to the R^2 value, model has explained only 41.87 percent of the variance of customer brand engagement by CRM practices. Further research should investigate what are the other factors that can influence customer brand engagement level in the Sri Lanka's hotel industry. It is also possible to add and test other variables such as organizational competencies and intangible assets which might affect as mediator or moderators to direct the relationship between CRM practices and customer brand engagement in the same conceptual model.

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