

## CUSTOMER RELATIONSHIP MANAGEMENT (CRM) IN SMALL AND MEDIUM TOURISM ENTERPRISES: A DYNAMIC CAPABILITIES PERSPECTIVE

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### **Abstract**

**Purpose** – The objective of this study is to develop an integrated framework incorporating Customer Relationship Management (CRM) and Dynamic capabilities (DC) together for Tourism Small and Medium Enterprises (SMEs).

**Design** – We reconcile theories from strategic management and marketing literatures to form an unifying framework of sources of performance differentials as the theoretical background. Successful factors for the framework including specific CRM processes, two different approaches in DC and specific business processes are defined.

**Methodology** – The framework is tested on data collected from 111 SMEs in tourism industry in Vietnam using Partial Least Square Structural Equation Modeling (PLS-SEM).

**Approach** – This study approaches CRM processes at the customer facing level and attempts to discover its effects to performance at firm-level analysis.

**Findings** – The results show that the interrelationships suggested by the framework are supported. Especially, the mechanisms of how CRM processes can influence the customer value and financial performance are explored.

**Originality of the research** - The different effects of different DC approaches also suggested useful insights how to develop use them for tourism SMEs. There also has been an emerging urgency for the framework in the practice given the fact that there hasn't been any of it in previous researches yet.

**Keywords** Customer Relationship Management (CRM), Small and Medium Enterprises (SMEs), Dynamic capabilities (DC), Competitive advantages, Tourism industry, Financial performance

### **INTRODUCTION**

Customer relationship management (CRM) has emerged as one of the most desired program for managers since customers became more difficult to be attracted by mass-advertising. Thus, there are imperative demands for a strategic tool to more accurately identify and target profitable customers. Customer relationship management (CRM) is defined as the processes that enable firms to manage effectively a portfolio of profitable and sustainable relationships with key customers in order to maximizing value for both shareholders and customers (Kim & Kim, 2009; Payne & Frow, 2005). CRM is also the result of the evolution and integration of marketing concepts and advanced in new information and communication technologies (Chang, Park, & Chaiy, 2010). The literature on CRM are based mainly on the theory of resources based view (Coltman, Devinney & Midgley, 2011; Kim & Kim, 2009) or they consider CRM as the distinct

topic and did not relate CRM to any theoretical background (Chang, Park and Chaib, 2010; Minami & Dawson, 2008). This issue leads to the different approaches of academic researches about CRM implementation processes. Some researchers defined CRM as mainly the implication of new technologies in managing customer relationships (Sivaraks, Krairit & Tang, 2011). Some researchers suggest that CRM is the higher order capability which encompass both technological factors and strategic organizational factors (Coltman, Devinney & Midgley, 2011). The widely variations in CRM approach confuse managers when implementing CRM process in practice. Therefore, though, specific CRM implementation processes need to be context dependent, a common framework need to be defined to guide the sequences of processes and to identify key success factors in each steps of the CRM implementation. Moreover, tourism as the fastest growing service industry in the world is recognized as the potential income generating source for the country. Therefore, identification of business practices, emerging themes, development of new concepts would make the industry and academia beneficiary.

Newly emerging popular destinations like Vietnam have grasped much attention from scholars due to radical changes in the economy. Vietnam is the strongest growing tourism destination in Southeast Asia and one of the strongest in the world. The number of inbound travellers has tripled in the last decade which saw a 26% growth rate in 2016 according to World Travel & Tourism Council (WTTC, 2017). This result outperformed deeply other regional destinations as presented in Figure 4.3. Vietnamese tourism industry has expanded approximately two times faster than other destination in the region in 2016 (26% comparing to 16% in Indonesia, 12% in Thailand and 13% in Philippines). However, because of the very low level at the beginning, number of inbound arrivals to Vietnam has not been at the high level comparing to Thailand or Malaysia (one third comparing to Thailand in 2016) (WTTC, 2017). These issues also consistent with the Travel and Tourism Competitiveness index report in 2017 form World Economic Forum's 2017. Although Vietnam is one of 15 most improved tourism markets in the world, the 67<sup>th</sup> rank regarding the Vietnamese tourism industry competitiveness is only at the middle percentile comparing to the Thailand's rank of 34<sup>th</sup> and Malaysia's rank of 26<sup>th</sup>. Therefore, more attempts are necessary to improve the tourism competitiveness for emerging markets like Vietnam. With this purpose, an integrated comprehensive framework is suggested in this paper to be the foundation background for any specific CRM implementation project in tourism SMEs in emerging markets by unifying two significant managerial-related theories that explaining firms' performance differential and competitive advantage. At each step of the framework, specific theoretical constructs and their roles are defined. In addition, this paper also attempts to provide empirical evidences for the interrelationships between constructs in this framework which might explain how a firm can build sustainable competitive advantage to outplay their peers by its outstanding CRM program.

The remainder of this paper is organized as follow. First, next section reviews the theoretical background about the firm theories about competitiveness, CRM processes, Dynamic capabilities (DC), specific business processes, consequences of the CRM implementation in order to formulate the framework for integrating these factors together in one CRM implementation program. Next, methodology of the study is given.

Then, data analysis and empirical results are provided. Finally, conclusion of the research and managerially discussion are focused in the last part.

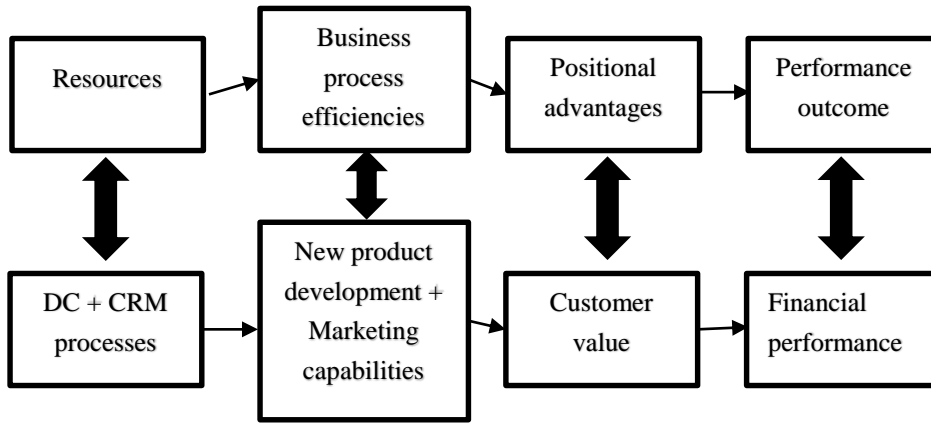
## 1. THEORETICAL FRAMEWORK

### 1.1. The unifying framework of competitive advantage and the CRM implementation process

Competitive advantage sources are explained in some theories in marketing literatures. Day and Wensley (1988) developed the SPP framework (Sources, Position and Performance) to describe the casual chain which lead to the competitive advantage. Completing this framework are the feedback mechanism from the performance outcome back to the sources of advantage to identify key success factors and the necessary investments in skills and resources. In another view, Dickson (1992) explained that the disequilibrium of the market is the condition for superior performance and the rate of change or the adaptability of individual seller overtime determine their performance. Thus, learning capabilities will be the sources of outstanding performances. Hunt and Morgan's RA theory combine and extend the view of the Day and Wensley's SPP framework and Dickson's dynamic equilibrium paradigm (Hunt and Morgan, 1995). The theory based on the resource-based view and emphasize the role of learning in explaining firm's abnormal returns. Moreover, from the perspective of marketing discipline, firm need to take the customer orientation to achieve sustainable superior performance. And customer orientation has been the most widely discussed concept in relation to performance differential between firms (Narver and Slater, 1990; Pelham and Wilson, 1996). This paper also inherited the advancements in these researches in the strategic management theories. The positioning school which represent by the five-force model (Porter, 1989) take the outside –in view and provide manager an analysis framework of business competitive environment to strategically position firm so they can achieve abnormal return. In contrast, the competence-based (Prahalad & Hamel's, 1990) take the inside-out view and direct their analysis to the valuable resources, hard-to-imitate knowledge to gain the competitive advantage (Sanchez and Heene, 1997).

Based on these theories, this paper develops the common framework for constructing the relationships between factors of CRM implementation processes. Figure 1 represent a unifying framework which combine sources of performance differentials in these theories together in a sequences based on their interrelationships. The framework starts with the "Resources" which are the sources of performance differentials from resources-based view, Hunt and Morgan's RA theory, SPP framework suggesting that the root of outstanding performance is from superior resources of an organizations. In this framework, the "Resources" part is the antecedents of "Business process efficiencies" which is the sources of abnormal returns suggested by Dickson (1992) and related researches in this view. This element is also the gap in most of the theories when most of them did not focus on and skip the specific business processes step in explaining the performance differentials. In contrast, the "Positional advantages" is suggested as the necessary step to achieve before the superior "Financial Performance" by most of the theories such as SPP framework, RA theory.

Figure 1: **Unifying framework of sources of performance differentials and decomposition of CRM implementation framework.**



Source: Own research

Using this unifying framework as the background, we define the full mechanism of success factors an organization should develop so it can achieve the competitive advantage and then lead to the superior economic returns.

## 1.2. Successful factors in integrated CRM framework

### 1.2.1. CRM processes

Three distinct approaches can be extracted from the literatures on this topic. First, some researchers define CRM processes as mainly the application of the new technology in managing customer relationship (Chang, Park, & Chaay, 2010; Sivaraks, Krairit, & Tang, 2011). Especially, there are rising interests in the e-CRM which use the Internet as the platform for the delivery of CRM function on the web (Harrigan, Ramsey, & Ibbotson, 2012). Second, some researchers define CRM processes as the strategic management system (Payne and Frow, 2005; Ernst, Hoyer, Krafft, & Krieger, 2011). In this approach, the main tasks is to define which is the key customers or customers segments and allocate the appropriate level of resources to these customers (Ryals, 2005). The advancement of technologies are employed to conduct the analytical tasks such as data warehouse and data mining to support the management decisions with customer behavior patterns (Ernst, Hoyer, Krafft, & Krieger, 2011; Minami, & Dawson, 2008). Finally, the third approach about CRM processes emphasizes on the context-dependent characteristics of any CRM implementation program ( Kim, & Kim, 2009; Reimann, Schilke & Thomas, 2010). According to this approach, the first tasks is to decide the level at which CRM is implemented in an organization. There are three levels which CRM processes should be designed: (1) functional, (2) customer facing, and (3) companywide. The first level of CRM processes is the functional approach in which the main responsibilities is on the side of IT department. The second one focuses on customer facing level. And the last approach takes the application of CRM on companywide level . In this paper, we take the third approach as the CRM processes in the integrative framework for CRM

implementation. The first level is too narrow when considering CRM as the resources in the integrative framework. On the other side, the third approach is too wide and rather overlap with other factors in the framework. The second level, however, concentrates on specific tasks of CRM on customer relationship and avoids the overlaps issue. In this level, CRM processes concentrate on the relationships between firm and customer over the customer life cycle which includes: customer initiation, customer maintenance and customer termination.

### *1.2.2. Dynamic capability processes*

Teece, Pisano & Shuen (1997) introduced the concept of “Dynamic capability” as the capability to “integrate, build, and reconfigure internal and external competences to address rapidly changing environment”. In general, dynamic capability is defined as the higher-order capability which govern the change in lower-order, operational capability (Zott, 2003; Teece, 2007; Makkonen, Pohjola, Olkkonen, and Koponen 2014). However, disagreement remain about core elements of the constructs of dynamic capabilities (Ringov, 2017). There are two very distinctive approach about the core elements of dynamic capabilities which represent by two influential seminal paper - Teece, Pisano & Shuen (1997) and Eisenhart and Martin (2000). Teece, Pisano & Shuen (1997) defined the core elements of dynamic capability are embedded into organizational routines of an organization. On the other hand, Eisenhart and Martin (2000) reject that view and claimed that the codified, analytical organizational routines form of dynamic capability can make firm not flexible enough in high –velocity environment. Therefore, dynamic capability need to be “simple, experimental and unstable processes” for rapidly creating new situation specific knowledge. In this paper, we take into account both views and attempts to give empirical evidences about the effects of each type of dynamic capability on the CRM- firms performance relationships. In this paper, we take the approach from Ambrossini and Bowman (2009) which separate dynamic capabilities into two different capabilities: Regenerative and Renewing. According to this approach, Regenerative help firms to invent the new practices of change and direct firms toward new forms of organizational changes which is closer to the approach of Teece, Pisano & Shuen (1997). Renewing is about achieving the new resources and competences which are necessary for identifying and exploiting new opportunities which is closer the approach of Eisenhart and Martin (2000). In recent researches, many scholars have attempt to incorporate the dynamic capability view in CRM implementation researches (Park, & Seo, 2012; Martelo, Barroso & Cepeda-Carrión, 2011). However, most of the researches in this stream did not clarify the relationships and specific types of Dynamic capabilities that they use. In this paper, we posit that Dynamic capability processes is necessary for CRM process to develop the efficiencies in the business processes factors in the integrative framework of CRM implementation. In addition, Dynamic capabilities also mediate the effects of CRM on the firm’s performances. Thus, the following hypotheses are formulated:

**Hypothesis 1a:** Dynamic capabilities mediate the effect of CRM processes on the specific business processes as following the integrated CRM implementation framework.

**Hypothesis 1b:** Dynamic capabilities mediate the effect of CRM processes on the Customer Value as following the integrated CRM implementation framework.

**Hypothesis 1c:** Dynamic capabilities mediate the effect of CRM processes on the Financial Performance as following the integrated CRM implementation framework.

### *1.2.3. Marketing capability*

CRM is defined as the integration of relationship marketing concepts, strategic management and the new advancement in technology (Payne & Frow, 2005). Therefore, the direct results of any CRM program should be the significant improvement in marketing capability. Marketing capability can be divided into two subsets according to Vorhies and Morgan (2003). The first one is marketing specialized capability dealing mainly with accomplishing the marketing mix tasks and routines such as pricing, advertising and communicating with customers on daily basic. The second one is marketing architectural capability which aims to formulate and design the strategic marketing orientation and execution marketing strategy. Both of these two marketing approaches should be applied to achieve the efficiencies in marketing capabilities. Although the attentions on marketing are usually about how well it is performed in marketing mix tasks, the determinant of the successful marketing capability is about the planning stage where the strategies to adapt with rapidly changing environment is formulated (Slotegraaf and Dickson, 2004). Moreover, CRM processes and its determinants such as technological factors, organizational factors and knowledge management capabilities are could strongly provide the competences and resources for the successful marketing practice (Chang, Park, & Chai, 2010). The following hypotheses are formulated:

**Hypothesis 2a:** Marketing capability is the mediating variable of the relationship between the CRM processes and Customer Value as following the integrated CRM implementation framework.

**Hypothesis 2b:** Marketing capability is the mediating variable of the relationship between the CRM processes and Financial Performance as following the integrated CRM implementation framework.

**Hypothesis 2c:** Marketing capability is the mediating variable of the relationship between the Dynamic capabilities and Customer Value as following the integrated CRM implementation framework.

**Hypothesis 2d:** Marketing capability is the mediating variable of the relationship between the Dynamic capabilities and Financial Performance as following the integrated CRM implementation framework.

### *1.2.4. New product performance*

The continuous development of new products and services is the sources for superior firm performance according to the competence- based view which views innovation and learning capability are the root for developing core competencies (Hamel & Prahalad, 2006 ). Taking these theories as the foundation for the integrative framework of CRM implementation, new product performance should be explicitly the results of CRM and dynamic capability process. Specifically, CRM and dynamic capability can

reduce the failure rate of new products by aligning the new product development processes with new customer preferences or new change in market requirements (Ernst, 2002; Henard and Szymanski, 2001). The learning capabilities, customer orientation provided by CRM and the flexibility, adaptability provided by dynamic capabilities can dramatically boot the success rate of new product development. In addition, many scholars posit the important of new products performance in sustaining firm competitive advantage (Sorescu & Spanjol, 2008; Zhou, Yim & Tse, 2005). Thus, in current paper, we argue that new product development is the mediating variable of the CRM effects on firm performances.

In addition, it can be argued that the result in new products and services launches are dependent largely on the ability of a firm to understand their customer needs (Ernst, Hoyer, Krafft & Krieger, 2011). In this sense, marketing capabilities, especially the marketing architectural capability, can help the process of developing new products and services by providing the updated information on customers' tastes and preferences. It can also help to defined in detail the requirements on costs, designs or functions which are necessary to satisfy current customers' needs. Therefore, marketing capability should be the antecedents for the performance in new product development processes. In other words, new product development can serve as the mediating factor for the relationship between marketing capabilities and firm's performances.

Based on previous analysis, the following hypotheses and research model in Figure 2 are formulated:

**Hypothesis 3a:** New product development is the mediating variable of the relationship between the CRM processes and Customer Value as following the integrated CRM implementation framework.

**Hypothesis 3b:** New product development is the mediating variable of the relationship between the CRM processes and Financial Performance as following the integrated CRM implementation framework.

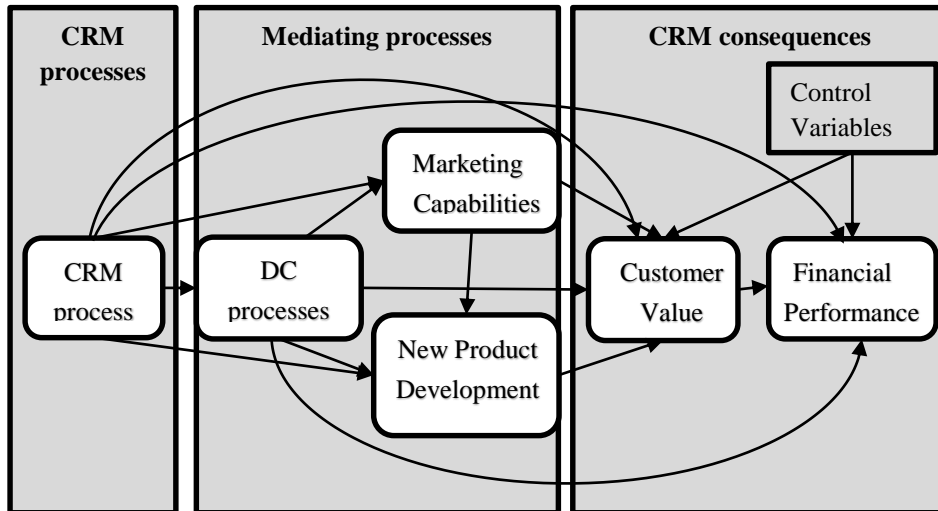
**Hypothesis 3c:** New product development is the mediating variable of the relationship between the Dynamic capabilities and Customer Value as following the integrated CRM implementation framework.

**Hypothesis 3d:** New product development is the mediating variable of the relationship between the Dynamic capabilities and Financial Performance as following the integrated CRM implementation framework.

**Hypothesis 3e:** New product development is the mediating variable of the relationship between the Marketing capabilities and Customer Value as following the integrated CRM implementation framework.

**Hypothesis 3f:** New product development is the mediating variable of the relationship between the Marketing capabilities and Financial performance as following the integrated CRM implementation framework.

Figure 2: Research model for CRM implementation framework



Source: Own research

## 2. RESEARCH METHOD AND DATA

### 2.1. Construct operationalization

All the theoretical concepts mentioned in this study cannot be measured directly. Therefore, for operationalizing these concepts, we treated them as the latent variables or unobservable constructs which were indirectly measured through their observable indicators. Then these indicators were measured through a standardized questionnaire as the main data collection instruments in which each indicator was an item on the questionnaire. We used the reflective measurement model in this study because the indicators are assumed to be the manifestations of their underlying latent variables (Bagozzi and Baumgartner, 1994). In general, managers in SMEs in tourism industries in Vietnam are asked to give their agreements or disagreements with the statements which are designed to be the indicators for measuring the interested concepts in the study. Respondents give their assessments for each statement through 7-point Likert scale with 1 to indicate “strongly disagree” and 7 to indicate “strongly agree”. All the measures used in this study are adopted from existing literature. The measurement instruments descriptions and their sources are presented in the Table 1 below. The questionnaires for collecting data for the used constructs in the study are presented in the Appendix A.



Table 1: Measurement instruments and sources.

Constructs	Descriptive for measurement items	Literatures from which items are adopted
CRM processes	19 questions measure three constructs of CRM processes as the customer facing level: CRM initiation (8 questions), CRM maintenance (8 questions) and CRM termination (3 questions).	Reinartz, Krafft and Hoyer (2004)
DC processes	13 questions measure two constructs of DC processes: Regenerative (6 questions) and Renewing (7 questions).	Makkonen, Pohjola, Olkkonen, and Koponen (2014)
Marketing capabilities	5 questions measure two aspects of marketing capabilities: Marketing planning capability and Marketing implementation capability	Vorhies and Morgan (2005)
New product development	4 questions about the performance of new product in term of their contributions to total revenue and profitability.	Ernst, Hoyer, Krafft, and Krieger (2011)
Customer value	3 questions about customers satisfaction, delivered value and Retaining valued customers	Reimann, Schilke, and Thomas (2009)
Financial Performance	Objective performance measures include 4 questions measure the perceptual firm's performances comparing with their key competitors.	Reinartz, Krafft and Hoyer (2004)

Source: Own Research

## 2.2. Data collection

For testing our hypotheses, a survey was developed and administered to managers in small and medium enterprises (SMEs) in tourism industry in Vietnam. The sample of SMEs in Vietnamese tourism industry was drawn from the data base of tourism firms registered at the Department of Taxation in number of cities in South of Vietnam which are famous for their tourism activities. We sent a structured questionnaire to firms in the data base and asking for managers to answer the questionnaires for collecting the data on firm level from June to September 2017. Wherever possible, we followed up with phone calls for increasing the response rate. The reminder emails were also sent 4 weeks after the initial mailing. Out of the data base of approximately 1600 tourism SMEs in South of Vietnam, a total of 118 firms participated in the survey. Out of those questionnaires received, there are seven questionnaires with missing data and thus eliminated. As a results, there are 111 questionnaires are usable which results in responses rate of 7 %. The respondents from SMEs consist of sales and marketing managers (35%), general manager (33%), front office managers (8%) and senior sale executives (7%). There are only 8 medium firms (7%) in the sample which have a manager who responsible for their CRM program separately. Most of the respondents in firm participated in the sample are likely to be the one who directly manage the CRM

processes which have enough expertise and insights to provide the appropriated answers to the questionnaires. A profile of the sample shows a reasonable spread in term of the size of the firms which participated in the survey. There are 66 firms (59%) which have from 50 to 200 employees which are classified as the medium-size firms. There are 39 firms (35%) small-size firms which have from 10 to 50 employees and 7 micro-size firms (6%) which have less than 10 employees in the sample. The medium-sized firms in our sample serve approximately 25000 customers per years on averages and earn average revenue about 26 billion Vietnamese Dong (about 1.2 million USD). The according numbers for small-sized firms in our sample are about 7000 customers and 7 billion Vietnamese Dong in revenue (about 0.3 million USD).

Tourism SMEs in the sample are operating in a wide range of tourism sectors from Accommodation, Adventure Tourism and Recreation, Transportation, Food and Beverage to Travel Trade according to the popular classification in the industry. However, the distribution of the data sample among these tourism sectors is not even. According to the collected data, most of the surveyed SMEs operate in Accommodation sector which account for 54% of total surveyed SMEs. They are mainly 4-star to 3-star Resorts and Hotels which located mainly in sea-side cities that are popular to both domestic and foreign tourists in Vietnam. Especially, these SMEs provided nearly full tourism services and products which are from many other tourism sectors such as Adventure Tourism or Food and Beverage. This makes the numbers of firms which operate in Adventure Tourism and Food and Beverage sectors also rather high which account for 32% and 64% accordingly. In addition, there is some small number of SMEs in the sample which are come from Travel services sectors (15%). Table 2 shows some representatives of surveyed SMEs in the data set with some of their characteristics.

Table 2: **Representatives of survey participants, their years of experience and company descriptions.**

Pseudonym - position	Years of working	Business activities – number of employees	Pseudonym- position	Years of working	Business activities – number of employees
M.T. – COO	20	4+ star resort – 160	N.N. - CE	5	4 star hotel – 120
M.L. – FM	6	4+ star resort – 156	M.V. - HM	7	3 star resort – 100
A.V. – GM	10	4 star resort – 130	H.D.- CE	7	2 star hotel – 30
M.H. – GM	14	4 star resort – 125	V.N – GM	5	2 star hotel – 25
T.T. – GM	12	4 star resort – 125	C.M- CE	4	Travel agency – 65
H.T. – GM	14	4 star resort – 120	Ch. – CE	5	Travel agency – 60
M.T. – GM	15	4 star resort – 120	H.A. – GM	15	Travel agency – 65

Pseudonym - position	Years of working	Business activities – number of employees	Pseudonym-position	Years of working	Business activities – number of employees
D.T. – FM	9	3 star resort – 100	B.L. – GM	9	Travel agency – 62
Q.T. – GM	10	3 star resort – 100	H.T. – FM	10	Travel agency – 40
M.L. – GM	10	3 star resort – 95	N.H. – CE	5	Travel agency – 35
T.M. – GM	8	3 star resort – 95	Q.V. – CE	4	Travel agency – 30
T.H. – HM	5	3 star resort – 90	T.L. – GM	5	Travel agency – 20
T.B. – GM	14	4+ star hotel – 160	H.H. – GM	17	2 star tourism site – 45
V.D. – HM	7	4+ star hotel – 150	N.A. – GM	13	2 star tourism site – 42
V.D. – GM	22	4 star hotel – 125	T.N. – vice GM	7	2 star tourism site – 40

Source: own research. \* GM: General Manager; FM: Front Office Manager; HM: Human Resource Manager; CE: Customer Executive.

### 2.3. Analysis technique

For testing the hypotheses, we used the Structural Equation Modeling (SEM) statistical technique. SEM techniques are general statistical techniques which can be viewed as the combination of factor analysis and regression or path analysis. The advantages of SEM compared to multiple regressions and path analysis include more flexible assumptions and allow the interplay between theory and data. SEM can allow the interpretation even in the face of multicollinearity; use of confirmatory factor analysis to reduce measurement error; test models overall rather than testing coefficients individually; test models with multiple dependent variables; model complex causal paths taken by mediating variables. As a result, these advantages together make SEM technique is widely used in researches which are interested in the complex relationships between theoretical constructs. This study is not an exception from this issue. However, in this study, we use partial least square approach to SEM (PLS -SEM) for structural path estimation. PLS is robust when the distribution of data is not normality and even if the error terms of indicators or constructs are not normally distributed (Chin, 1998), which is usually the case for empirical study using questionnaire as main data collection instrument like in this study. In order to perform PLS-SEM, we used SmartPLS 3.0 application in this study.

For evaluating the hypotheses which represent in PLS path analysis, we followed Chin's (1998) recommendations. First, the reliability and validity analysis are performed for the measurement model to assess the measuring ability of the used items for the theoretical constructs. Then the structural models are evaluated to testing the hypotheses relationships between the constructs. The path coefficients estimated in PLS structural model can be interpreted similar to the standardized beta weights in multiple regressions.

Then, the bootstrapping technique is employed to test the significant of direct effect and indirect effect between constructs which reinforce test of the mediating effects of a variable.

### 3. DATA ANALYSIS AND RESULTS

#### 3.1. Measurement model

We noted that all the Composite reliability coefficients are larger than .70 and all the Average Variance Extracted measures (AVE) are also above .05 as presented in Table 3. These results indicate that the measurement items are reliable and the latent constructs account for more than 50% of the variances of the indicators. We also assess the convergent validity which is defined as the level of agreement between the items intended to measure an underlying construct. The results show that the average loading for each block of items is rather high (from 0.7 to 0.9) and the range in which the loadings in each block vary is narrow. Furthermore, the t-values indicate that all the loadings are significant. These results suggest that all the items in each block help in estimating the underlying construct. For assessing the discriminant validity, we follow the criterion of Fornell and Larcker (1981) which stated that if the square root of the AVE is larger than the correlation between constructs, the discriminant validity can be achieved. The results in Table 3 show that this criterion is satisfied by all the constructs which demonstrates the discriminant validity for our model. In addition, suggested by the cross-loading results, each item loads higher on its related latent constructs than on other latent constructs. The results support that our measurement model has adequate convergent and discriminant validity.

Table 3: Correlations among latent constructs and its squared AVE and Composite Reliability coefficients.

Constructs (Composite Reliability)	CV	FP	INI	MAI	MAR	NPD	REG	REN	TER
CV (0.983)	<b>0.975</b>								
FP (0.976)	0.962	<b>0.955</b>							
INI (0.980)	0.897	0.907	<b>0.926</b>						
MAI (0.980)	0.943	0.939	0.881	<b>0.929</b>					
MAR (0.972)	0.897	0.898	0.798	0.880	<b>0.935</b>				
NPD (0.952)	0.923	0.951	0.860	0.903	0.840	<b>0.912</b>			
REG (0.980)	0.883	0.880	0.889	0.890	0.838	0.806	<b>0.943</b>		
REN (0.981)	0.930	0.898	0.858	0.908	0.828	0.861	0.927	<b>0.938</b>	
TER (0.956)	0.807	0.776	0.747	0.829	0.777	0.722	0.846	0.875	<b>0.937</b>

Source: Own research

**Note:** CV: Customer value, FP: Financial Performance, INI: Initiation, KM: Knowledge Management, MAI: Maintenance, MAR: Marketing capability, NPD: New product development, REG: Regeneration, REN: Renewing, ST: Strategic CRM organization, TECH: Technology infrastructure, TER: Termination. Squared AVEs are in bold.

### 3.2. Hypothesis testing

#### 3.2.1. The mediating roles of DC processes

Table 4 presents the evidences of the mediating roles of DC processes and two business processes in the relationship between CRM processes and performance outcomes. All three CRM processes have significant impacts on two DC processes including Regenerative and Renewing ( $p < 0.05$ ). Then, both Regenerative and Renewing show significant impact on the New Product Development process ( $p < 0.05$ ) but not the Marketing capability. These results suggest that SMEs in this study do not use or design their Dynamic capabilities to influence the Marketing capability but instead the effort in Dynamic capability is directed to focus on the New Product Development processes. Given that the paths in the route “CRM processes  $\rightarrow$  Regenerative/Renewing  $\rightarrow$  New Product Development” are all significant, the Hypothesis 1a is supported that the Dynamic capabilities mediate the effects of the CRM activities to the specific business process, the New Product Development, in the CRM implementation framework. Moreover, the paths from the Regeneration and Renewing to Customer values are positive and significant ( $p < 0.05$ ). However, the paths from Regeneration and Renewing to Financial Performance are not significant. These results suggest that in the CRM implementation framework, Dynamic capabilities mediate the relationship between the CRM processes and the customer value but not the Financial Performance. The results support the Hypothesis 1b but do not support the Hypothesis 1c.

Table 4: PLS Analysis Results

Paths	Coefficients	P Values	f-square
<b>CRM processes to others</b>			
Initiation $\rightarrow$ Regenerative	0.449	0.00	
Initiation $\rightarrow$ Renewing	0.227	0.00	
Initiation $\rightarrow$ Mark. capability	-0.001	0.91	
Initiation $\rightarrow$ New product dev.	0.351	0.00	
Initiation $\rightarrow$ Customer value	0.258	0.00	0.139
Initiation $\rightarrow$ Financial Performance	0.159	0.00	0.069
Maintenance $\rightarrow$ Regenerative	0.231	0.01	
Maintenance $\rightarrow$ Renewing	0.395	0.00	
Maintenance $\rightarrow$ Mark. capability	0.645	0.00	
Maintenance $\rightarrow$ New product dev.	0.464	0.00	
Maintenance $\rightarrow$ Customer value	0.206	0.00	0.071
Maintenance $\rightarrow$ Financial Performance	0.083	0.11	0.016
Termination $\rightarrow$ Regenerative	0.322	0.00	
Termination $\rightarrow$ Renewing	0.377	0.00	

Paths	Coefficients	P Values	f-square
<b>CRM processes to others</b>			
Termination -> Mark. capability	0.084	0.33	
Termination -> New product dev.	-0.188	0.028	
Termination -> Customer value	-0.041	0.48	0.006
Termination -> Financial Performance	-0.029	0.47	0.004
<b>DC processes to others</b>			
Regenerative -> Mark. capability	0.262	0.06	
Regenerative -> New product dev.	0.352	0.00	
Regenerative -> Customer value	0.187	0.00	0.065
Regenerative -> Financial performance	0.095	0.15	0.022
Renewing -> Mark. capability	-0.07	0.56	
Renewing -> New product dev.	0.493	0.00	
Renewing -> Customer value	0.444	0.00	0.339
Renewing -> Financial performance	-0.051	0.46	0.05
<b>Business processes to others</b>			
Mark. Capability -> New product dev.	0.464	0.00	
Mark. Capability -> Customer value	0.255	0.00	0.257
Mark. Capability -> Financial Performance	0.153	0.01	0.17
New product dev. -> Customer value	0.102	0.04	0.24
New product dev. -> Financial Performance	0.344	0.00	0.342
<b>Customer value to Financial Performance</b>			
Customer value -> Financial Performance	0.29	0.00	0.158

Source: Own Research

### 3.2.2. The mediating roles of the business processes

As presented in Table 4, both New Product Development and Marketing Capability significantly influence Customer Value and Financial Performance ( $p < 0.05$ ). Together with the fact that all three CRM process significantly and positively related to New Product Development, Hypotheses 3a and 3b are supported that New Product Development mediates the effects of the three CRM processes on Customer Value and on Financial Performance. Marketing Capability only mediates the relationships between the Maintenance activities and customer value as well as the relationships between the Maintenance activities and Financial Performance because only the path from Maintenance to Marketing Capability is significant while these kind of paths from Initiation and Termination to Marketing Capability are not significant. Thus, Hypotheses 2a and 2b are just partially supported as Marketing Capability only mediates the effects of Maintenance activities on Customer Value and Financial Performance.

Hypotheses 2c and 2d which state that Marketing capability mediates the effects of Dynamic capabilities on Customer Value and Financial Performance are not supported because both the two Dynamic capabilities are not significantly related to Marketing capability. In contrast, the significances of the paths from both Regenerative and Renewing to New Product Development make Hypotheses 3c and 3d to be supported.

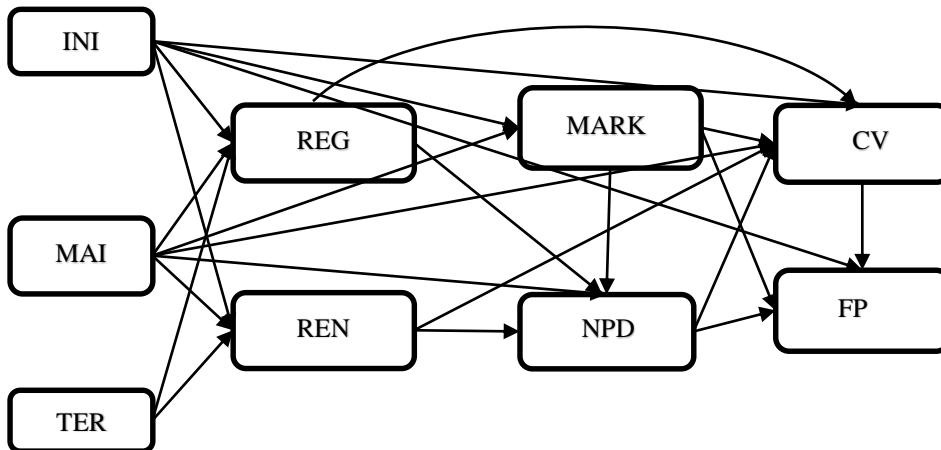
This means that in the CRM implementation framework suggested, the New Product Development but not the Marketing capability mediates the Dynamic capabilities-Customer Value relationship and the Dynamic capabilities- Financial Performance relationship. Table 4 also suggested that the Marketing capabilities are the antecedents of the New Product Development by providing the statistical significance of the relationship from Marketing capabilities to New Product Development. This also makes all the relationship significant in the two paths: Marketing capabilities -> New Product Development -> Customer Value and Marketing capabilities -> New Product Development ->Financial Performance. Thus, New Product Development can be considered as the mediating factors for the relationship between Marketing capabilities and SMEs' performance. Hypotheses 3e and 3f are supported.

Interestingly, comparing the effect sizes of all the exogenous variables to the endogenous variables consisting of Customer Value and Financial Performance, the one of Marketing capability and New Product Development are among the greatest showing that they are essential links for explaining the firm performance in the suggested CRM implementation framework.

### ***3.2.3. The mediating roles of the customer value***

Finally, the results confirm the important of Customer Value as the mediating variables in the suggested CRM implementation framework. Results from Table 4 show that Customer Value positively and significantly influences to Financial Performance ( $\beta = 0.284$ ,  $p < 0.05$ ). Results from Table 4 also suggest that all the paths from CRM processes to Customer Value, the paths from Dynamic capabilities to Customer Value and the paths from two business processes are all significant ( $p < 0.05$ ) except one case of the path from Termination to Customer Value. This means that Customer Value is the mediating variables of the CRM processes- economic performance relationships, the Dynamic capabilities- economic performance relationship and the business processes – economic performance relationship as following the integrated CRM implementation framework. Especially, except Initiation activities, all the direct paths from the CRM processes and the Dynamic capabilities to Financial Performance are insignificant. This means that Customer Value totally mediates the effects of Maintenance activities and the two Dynamic capabilities on Financial Performance suggesting that manager need to firstly improve value delivered to customers before thinking about the sustainable improvement in the economic returns. For summarizing the empirical evidences about the interrelationships between constructs in the proposed CRM implementation framework, Figure 3 represents the statistical significant relationships between constructs from the data analysis' results.

Figure 3: **Significant relationships between constructs in the proposed CRM implementation framework**



Source: own research

#### 4. DISCUSSION

##### 4.1. Theoretical contributions

The theoretical contribution of this study is about the mechanism how CRM activities can affect the firm performance in SMEs in tourism industry. This current study is one of the few which consider the Dynamic capabilities are the missing links between CRM activities and firm's performance (Wang & Kim, 2017; Martelo, Barroso & Cepeda-Carrión, 2011). Moreover, this study also conceptualized and provided the empirical evidences of the role of different types of dynamic capabilities as the mediating variables of the CRM- business performance relationship. More importantly, this study highlights the necessary of the Dynamic capabilities but also argue that their effects should be transferred into the efficiencies of particular operating business processes to have more impactful effects on firm performances. This is also consistent with the recent researches which highlight the specific business processes as the essential mediating variables for the CRM- business performance relationship (Chang, Park, & Chaib, 2010; Ernst, Hoyer, Krafft, and Krieger, 2011). In this study, it is also found that the high level of Customer Value should be achieved first then it can mediate the effects of CRM activities, Dynamic capabilities and the business processes on Financial Performance. This finding emphasizes the importance of the "dual creation value" or "co-creation" concepts (Smolčić & Soldić, 2017; Boulding et al., 2005). The concepts suggest that a firm should follow the strategy which concern not only about the value creation process for the firm itself but also about the creation of value for the its customers.



#### 4.2. Managerial implications

First and foremost, the integrated framework for CRM implementation can be used as a guideline for managers in SMEs in tourism industry to leverage the customer relationship for improving their financial performance. As found in this study, all the interrelationships between components in the framework are significant and in the expected order and direction as presented in Figure 1. The clearance in the role of each component also helps managers in SMEs to start to examine their own ongoing CRM program. Second, building the Dynamic capabilities is necessary in SMEs but it is more crucial to use the Dynamic capabilities to improve the specific business processes. In this study, the Marketing capability and New Product Development capability showed that they can be the business processes which can be utilized for this objective. Managers in SMEs should pay attention to the direct the efforts of CRM activities and Dynamic capabilities towards these two business processes. For instant, the Maintenance activities in CRM program can sustain the long-term relationship with customers by continuously examine the current stage of the relationship with a customer, then providing useful information for designing and ultimately offering the new products or services to fulfill emerging demands from this customer timely and profitability. One interesting finding is that SMEs in this study prefer to use the Dynamic capabilities to improve the New Product Development rather than the Marketing capability. In addition, the Marketing capabilities should be designed to support the performance of New Product Development processes. It might the best strategy for using Marketing capabilities in SMEs. By that, marketing capabilities in SMEs should not only focus on the promotions, prices or distributions but should mainly for developing regular improved or brand new products and services. In this sense, what really matters which determine SMEs' performance is about how fast their new products and services launch to the market and how fit they match with customers' needs comparing to their competitors. This can also explain partly why surveyed SMEs choose to direct their Dynamic capabilities on supporting New Product Developments instead of the Marketing capabilities. Finally, the "dual creation value" concept suggests that firms should treat customers as the partners and designs the procedures to engage customers continuously in the designing products and services offers. Managers in SMEs should design the performances measurement systems which include the value delivered to customers as one of the most important leading factors which need to be closely monitored. The rewards systems for employees should be designed to attach with the value delivered to customers as well for facilitating the customer relationship.

#### CONCLUSIONS

Taking the competitive advantage theories across the fields as the background, this study developed and tested a comprehensive CRM implementation framework. Our theoretical background reconciles the theories from strategic management and marketing literatures to form the unifying framework of sources of performance differentials. Following this framework, we then attempted to define and conceptualize the CRM antecedents, the specific CRM processes on customer facing level, the Dynamic capabilities, Marketing capabilities and New Product Development as the business processes and tested their interrelationships with each other and theirs effects on firm's performance as well. The

research model is tested on 111 SMEs in tourism industry in Vietnam. This research contributes to the CRM literature by integrating most of the important factors in the topic together in an ordered process chains and clearly defining their roles and interrelationships. It highlights the important mediating roles of the dynamic capabilities and specific business processes in transferring the efforts in CRM activities into firms' performance. It is interesting to find that the efficiencies in business processes play a cornerstone role in the CRM implementation process which is usually overlooked by literature in this topic. Lastly, this research also confirms the validity of "dual creation value" concepts in which the value delivered to customers will be the decisive factors for the surviving and thriving of SMEs in the long terms.

### **Limitation and future research directions**

Although the study is based on a sound theoretical background and we tested the research model with a reliable survey instrument and data, this current study has suffered some limitations. First, we did not have the access to the random sample of companies across all the country and our sample and data were collected from only some of the biggest tourism cities in the South of Vietnam. Thus, this study is relatively limited in generalizing its findings widely. Following up studies would be desired to test our suggested research model on the different regions and across the globe. These future results would shed more interesting insights on the best processes for CRM implementation for SMEs. Another limitation is that our current study did not include the context factors which influence the interrelationships in the framework. Thus, future studies can explore the moderating effects of the context factors such as the different velocity of changes to each component in the suggested CRM implementation framework.

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## Appendix A

### Constructs and the Indicator Variables (Composite Reliability) (AVE)

Construct	Questions	Indicator	Mean	SD
Strategic CRM organization (.973) (.855)	We consider retaining customers to be a top priority.	ST1	4.351	1.522
	We encourage employees to focus on customer relationships	ST2	4.45	1.517
	We consider customer relationships to be a valuable asset	ST3	4.45	1.592
	We provide employees with incentives based on customer satisfaction measures	ST4	4.414	1.574
	We evaluate our customer contact employees based on the quality of their customer relationships	ST5	4.477	1.621
	We provide education program for employees to enhance the quality of customer interactions	ST6	4.351	1.563

Construct	Questions	Indicator	Mean	SD
Knowledge Management (.982) (.870)	We encourage employees to document their experiences	KM1	4.342	1.312
	The knowledge of individuals is recorded in a structured way, so that others in the organization may benefit from it	KM2	4.117	1.406
	We have processes for integrating knowledge from different sources.	KM3	4.234	1.322
	We have systems and venues for people to share their knowledge with others in the company.	KM4	4.252	1.318
	Our employees regularly share ideas with other employees even if they are based in different departments	KM5	4.27	1.266
	We promote sharing of knowledge between work groups/teams	KM6	4.243	1.296
	Comparing with competitors, employee turnover in my firms is ...	KM7	4.306	1.279
	Comparing with competitors, employee competences in my firms is ...	KM8	4.27	1.294
Technology infrastructure (.967) (.785)	IT facilitates the acquisition of knowledge about our customers, suppliers and/or competitors	TECH1	3.694	1.113
	Knowledge is embedded in our databases and decision support systems	TECH2	3.712	1.15
	We developed information systems like Intranet and electronic bulletin boards to share information and knowledge	TECH3	3.721	1.067
	We invest in technology to acquire and manage "real time" customer information and feedback.	TECH4	3.685	1.107
	We have a dedicated CRM technology in place.	TECH5	3.586	1.061
	Relative to our competitors the quality of our information technology resources is larger.	TECH6	3.595	0.99
	Our relational databases or data warehouse provides a full picture of individual customer histories, purchasing activity and problems.	TECH7	3.523	1.012
	CRM software allows us to differentiate among customer profitability.	TECH8	3.622	1.091
Initiation (.980) (.857)	We have a formal system for identifying potential customers.	INI1	4.27	1.287
	We have a formal system for identifying which of the potential customers are more valuable.	INI2	4.207	1.274
	We use data from external sources for identifying potential high value customers.	INI3	4.27	1.355
	We have a formal system in place that facilitates the continuous evaluation of prospects	INI4	4.288	1.283
	We made attempts to attract prospects in order to coordinate messages across media channels.	INI5	4.288	1.325

Construct	Questions	Indicator	Mean	SD
	We have a formal system in place that differentiates targeting of our communications based on the prospect's value.	INI6	4.306	1.361
	We systematically present different offers to prospects based on the prospects' economic value.	INI7	4.243	1.282
	We differentiate our acquisition investments based on customer value.	INI8	4.27	1.407
Maintenance (.980)(.863)	We have a formal system for determining which of our current customers are of the highest value.	MAI1	4.604	1.268
	We continuously track customer information in order to assess customer value.	MAI2	4.658	1.305
	We track the status of the relationship during the entire customer life cycle (relationship maturity).	MAI3	4.622	1.216
	We maintain an interactive two-way communication with our customers.	MAI4	4.667	1.262
	We integrate customer information across customer contact points (e.g., mail, telephone, Web, fax, face-to-face)	MAI5	4.703	1.292
	We systematically attempt to customize products/services based on the value of the customer.	MAI6	4.649	1.299
	We have formalized procedures for cross-selling to valuable customers.	MAI7	4.685	1.185
	We have formalized procedures for up-selling to valuable customers.	MAI8	4.658	1.212
Termination (.956)(.878)	We have a formal system for identifying non-profitable or lower-value customers.	TER1	3.919	1.116
	We have a formal policy or procedure for actively discontinuing relationships with low-value or problem customers (e.g., canceling customer accounts).	TER2	3.847	1.217
	We try to passively discontinue relationships with low-value or problem customers (e.g., raising basic service fees)	TER3	3.883	1.199
Regenerative (.980)(.863)	We have developed routines to enable employees' active participation in generating ideas for new products or services	REG1	4.604	1.289
	We have developed routines to enable employees' active participation in generating ideas for new production processes or organizational procedures	REG2	4.532	1.334
	Our employees are more willing to adopt new ways of working than those of our competitors (not in the final model)	REG3	4.541	1.387
	The firm strongly encourages employees and managers to promote new visions, goals and ideas	REG4	4.468	1.348

Construct	Questions	Indicator	Mean	SD
	The firm allocates resources to increasing employees' competence	REG5	4.514	1.388
	The firm strongly encourages employees to learn from their experiences	REG6	4.577	1.359
Renewing (.981)(.880)	We systematically search for new business concepts through observation of processes in the environment	REN1	4.748	1.298
	Our firm systematically transfers resources to the development of new business activities	REN2	4.721	1.289
	Our firm has specific plans for R&D activity	REN3	4.73	1.294
	Our management promotes R&D processes	REN4	4.712	1.283
	The firm uses networks as knowledge resources	REN5	4.748	1.332
	The firm exploits the personal network of the manager	REN6	4.721	1.26
	Employees' networks are important information sources for the firm	REN7	4.64	1.374
Marketing capabilities (.972)(.875)	We set clear marketing goals	MAR1	4.162	1.227
	We develop creative marketing strategies	MAR2	4.234	1.349
	We have thorough marketing planning process	MAR3	4.18	1.357
	We allocate marketing resources effectively	MAR4	4.189	1.256
	We translate marketing strategies into action effectively	MAR5	4.198	1.361
New product development (.952)(.831)	Impact of new products launched in the last 3 years on today's total revenues.	NPD1	3.937	1.567
	Return-on-investment of new products launched in the last 3 years.	NPD2	4.018	1.698
	Impact of new products launched in the last 3 years on today's profits.	NPD3	3.811	1.711
	Profitability of new products launched in the last 3 years relative your main competitors.	NPD4	3.991	1.685
Customer value (.983) (.950)	Delivering value to our customers	CV1	4.279	1.465
	Delivering what our customers want	CV2	4.252	1.485
	Retaining valued customers	CV3	4.198	1.488
Financial performance (.976) (.912)	Achieving overall performance.	FP1	4.063	1.683
	Attaining market share.	FP2	3.991	1.706
	Attaining growth.	FP3	4.045	1.652
	Current profitability.	FP4	4.018	1.605

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