THE MEDIATING ROLE OF CUSTOMER LIFETIME VALUE ON CUSTOMER RELATIONSHIP MANAGEMENT AND BUSINESS PERFORMANCE

SETAREH FEIZ

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Azman Hashim International Business School Universiti Teknologi Malaysia

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To my beloved husband, mother, and father

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ABSTRACT

Iran is rich in touristic resources but does not collect enough shares of the international tourism revenues. The main concentration of tourism activities is in Tehran, the capital of Iran, while the other cities like Shiraz and Kish are neglected. As a solution to resolve Iran's tourism issues, improvement in the performance of tourism-related businesses like hotel services could be an effective element in solving Iran's tourism problems. Customer Relationship Management (CRM) has been proven effective in increasing hotel's profitability. Therefore, the aim of this study is to examine the relationships between CRM and Business Performance (BP), CRM and Customer Lifetime Value (CLV), and CLV and BP, as most organizations which implement CRM also implement CLV in order to develop relationships with customers. There is a lack of study examines the mediating role of CLV on CRM and BP. This study was conducted among forty hotels in Shiraz and Kish, involving 120 managers of three to five star hotels. This study used Structural Equation Modelling (SEM) together with Partial Least Squares (PLS) approach. The results showed a significant relationship between CRM and BP, CRM and CLV, and CLV and BP. The results also showed a significant mediating role of CLV on the relationship between CRM and BP. The only CRM dimensions that had influence on BP was technology and the only CLV dimensions that had influence on BP was customer development. Theoretically, this study extend our understanding on the influence of process and technology on CRM. This study reinforces CLV's role as mediator and suggests that CLV could be an important variable between CRM and BP. Practically, the study provides the hotel management with solution to improve performance of tourism-related businesses like hotel services by properly developing the CRM system. Hotels should cross-sell and upsell to customers to develop customer relationship. This study can be repeated by other industries such as telecommunications, pharmaceutical or air travel industry. Comparative studies could also be conducted among hotels and managers at different levels. Future research could also investigate the customers' point of view as well as compare the phenomena among hotels and managers at different levels

ABSTRAK

Iran kaya dengan sumber pelancongan tetapi tidak mengambil cukup bahagian daripada keuntungan pelancongan antarabangsa. Tumpuan aktiviti pelancongan utama adalah di Tehran, ibu negara Iran, sementara bandar-bandar lain seperti Shiraz and Kish telah diabaikan. Bagi menyelesaikan isu-isu pelancongan Iran, penambahbaikan dalam prestasi perniagaan berkaitan pelancongan seperti servis hotel dapat menjadi satu unsur berkesan dalam menyelesaikan masalah pelancongan Iran. Pengurusan Perhubungan Pelanggan (CRM) telah dibuktikan berkesan dalam meningkatkan keuntungan hotel. Oleh itu, sasaran kajian ini adalah untuk memeriksa hubungan antara CRM dan Prestasi Perniagaan (BP), CRM dan Nilai Seumur Hidup Pelanggan (CLV), serta CLV dan BP, di mana kebanyakan organisasi yang mengimplimentasi CRM juga mengimplimentasi CLV untuk membina perhubungan dengan pelanggan. Terdapat kurang kajian yang memeriksa peranan pengantara CLV keatas CRM dan BP. Kajian ini telah dijalankan di empat puluh hotel di Shiraz dan Kish, melibatkan 120 pengurus hotel bertaraf tiga ke lima bintang. Kajian ini telah menggunakan Permodelan Persamaan Berstruktur (SEM) bersama dengan pendekatan Partial Least Squares (PLS). Keputusan menunjukkan hubungan signifikan antara CRM dan BP, CRM dan CLV, serta CLV dan BP. Keputusan juga menunjukkan peranan pengantara CLV yang signifikan ke atas hubungan antara CRM dan BP. Dimensi CRM yang mempunyai pengaruh atas BP hanyalah teknologi dan dimensi CLV yang mempunyai pengaruh atas BP adalah pembangunan pelanggan. Secara teori, kajian ini mengembangkan pemahaman kita tentang pengaruh proses dan teknologi ke atas CRM. Kajian ini menguatkan peranan CLV sebagai pengantara dan mencadangkan yang CLV dapat menjadi satu pembolehubah penting antara CRM dan BP. Secara praktikal, kajian ini mencadangkan penyelesaian untuk menambahbaik prestasi perniagaan berkaitanpelancongan seperti perkhidmatan hotel dengan membina sistem CRM dengan teratur. Pihak hotel perlu membuat jualan bersilang (cross-sell) dan ke atas (upsell) kepada pelanggan untuk membina perhubungan pelanggan. Kajian ini boleh diulang oleh industri lain seperti telekomunikasi, farmasutikal, atau industri pengangkutan udara. Kajian perbandingan juga dapat dijalankan antara hotel-hotel dan penguruspengurus di peringkat yang berbeza. Kajian akan datang dapat juga menyiasat pandangan pelanggan dan juga membandingkan fenomena antara hotel-hotel dan pengurus-pengurus di peringkat yang berbeza.

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LIST OF ABBREVIATIONS

-	Average Variance Extracted
-	Business Performance
-	Customer Lifetime Value
-	Composite Reliability
-	Customer Relationship Planning
-	Customer Relationship Management
-	Fars Cultural Heritage, Handicrafts and Tourism Organization
-	Iran Cultural Heritage and Tourism Organization
-	Iran Cultural Heritage Organization
-	Information and communications technology
-	Information Technology
-	Iran Touring and Tourism Organization
-	Confirmatory Factor Analysis
-	Kish Free Zone Organization
-	Partial Least Squares
-	Lifetime Value
-	Customer Interaction System
-	Relationship Marketing
-	Relationship Marketing Effect
-	Relationship Quality
-	Structural Equation Modelling

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Today's tourism is considered as one of the industries which can compete with other big industries such as petroleum and automotive. This industry is one of the biggest and most efficient economic activities in the world which creates the highest amount of added-values and has its own direct or indirect effects on other economic and cultural activities (Vesalian *et al.*, 2012). Since consumption patterns, lifestyle, and business environment are changing dramatically, customers look forward to be served personally through direct communications, so companies are experiencing new business conditions. As a matter of fact, a closer relationship with customers is required (Chatham *et al.*, 2002) to fulfill their wants and expectations. This close relationship can happen through Customer Relationship Management (CRM).

The integration of the right people, process, and technology resources are at the heart of CRM. It should be a mixed and balanced approach of people, process, and technology to manage a successful CRM implementation in the hotels and this balance will help hotels to be ensure that the mix is right through all steps of the project (Goldenberg, 2008). According to Goldenberg (2002) book, when a company is ready to set up their CRM project management team, the people component plays a critical role (e.g., agreeing on who is responsible for which CRM implementation activities), process (how to optimally set up the project management team and sub teams) is also important, and technology, however, plays a minor role at best in setting up the CRM project management team. Hotels can create loyal and satisfied customers by using CRM technology, but technology is not the only part which causes success of CRM, as mentioned before, the right integration of people, process, and technology of CRM will help hotels to achieve better results (Goldenberg, 2008).

It is evident that the people factor is crucial in a CRM strategy, both from an inward perspective (organization and employees) and from an outward perspective (customers). Even with the best definitions of processes and the most advance technology, the relation between people has determining effect in any business strategy. It is important, then, to get those people involved with the strategy and motivate them to reach the objectives. This way, technology is used as a complementary tool to achieve the proposed goals (Mendoza *et al.*, 2007). Also, CRM includes all business processes in sales, marketing, and service that touch the customers. In the initiation stage of the CRM process, the ability to target profitable customers is a primary benefit associated with the pursuit of a customer relationship strategy. CRM is a coherent and complete set of processes and technologies for managing relationships with current and potential customers and associates with the company by using the marketing, sales and service departments (Chen and Popovich, 2003).

There is a low percentage of using CRM in Iranian industries, especially the hotel industry. Large chain hotels can benefit significantly from the utilization of CRM systems. A comprehensive study to identify potential customers and preserve the existing customers or find new ways to attract new ones will be advantageous to the hotel industry (Saeednia *et al.*, 2012). Dombrowski *et al.* (2010) emphasized that CRM programs are essential in hotel industry in order to monitor customers' preferences and maintain the relationships with them. CRM is becoming increasingly attractive as a way for hotel companies to differentiate themselves from their competitors (Padilla-Meléndez and Garrido-Moreno (2014). According to Saeednia *et al.* (2012) hotels in Iran need to educate and train their staffs about customer orientation approach, create a cooperative environment among them, align them with company's objectives, and apply appropriate evaluation and rewarding systems to motivate staffs to collect customers' information.

Firms in Iran need CRM because overall, there is a strong sense that CRM efforts improve firm performance (Krasnikov *et al.*, 2009) and with CRM implementation, Iranian firms will be more customer-oriented rather than product-oriented. They will also offer long term changes and benefits to businesses and interact with their customers on a whole new level (Kavosh, 2011). Overall, CRM became very famous during the 1990s. Since the 1990s to today, managers attempt to best meet their customers' needs and understand their customers, so that it will avoid customers from switching to other companies (Dibb and Meadows, 2001).

In general, it is not right to see the creation of consumer relations and their management in the same category (Pan *et al.*, 2006). As an example, Forsyth's (2001) study using a sample of about 700 organizations found the reasons of CRM failure to be of the following causes: change in the organization (29%), policies/inertia of the company (22%), low understanding of CRM (20%), and weak CRM skills (6%).

Although CRM systems showed themselves as a popular choice to be implemented in companies, it does not mean there is no failure for them (Bull, 2003). Many CRM experts emphasized that technology makes CRM capable of doing its process, but they confirmed also that technology is not the only part which affords success to CRM's performance. The Giga survey (2001) estimated that 70% of companies failed because of the underestimating the complexity of CRM, lacking of clear business objectives, and investing inadequately in CRM software.

Beside CRM, another concept called Customer Lifetime Value (CLV) is the top issue with special attention on the sustaining the profitability of businesses. CLV is a key concept for any business and understanding CLV will transform the business perspective to a great performance (Bohari *et al.*, 2011). CLV is defined as the present value of all future profits obtained from a customer over his/her life of a relationship with a firm and customer acquisition, customer retention and customer development (up-selling, cross-selling) as some CLV dimensions, determine the long-run profitability or lifetime value of the customers (Gupta and Zeithaml, 2006).

Customer acquisition is acquiring new customers that illustrates the first aim in the customer relationship process and customer retention can be led to the profitability of the company and prepare a long-term relationship with customers (Faed, 2010). In addition, customer development is about maximizing and growing the value of retained customers (Buttle, 2008) and often refers to up-selling and cross-selling different products and services to the customers (Murphy, 2005).

For all of the organizations that are implementing CRM, CLV has been always a popular research topic (Khajvand and Tarokh, 2010; Yean and Khoo, 2010b; 2010a; Hiziroglu and Sengul, 2012). A company will receive greater profits if it sets a CRM system to acquire and retain its best customers and to develop long time relations with loyal customers (Christy *et al.*, 1996), otherwise, customers that you do not serve well will be served by your competitors (Buttle, 2008).

In addition, CRM and CLV together has been always showed their influence on improving hotels' structure. Wu and Lu (2011) talked about some of the main characteristics of CLV in hotels using the CRM system. They discussed that hotels should apply CRM to equip better services to: 1) attract and retain customers, 2) meet their customers' needs, and 3) establish good interactive relationships. These three points are the exact ways of how CLV work. Furthermore, increasing the impact of CRM is a main element for hotel industries' success (Wu and Lu, 2011) and those hotel industries with CRM systems which aim to increase CLV will get greater profits (Liu *et al.*, 2007). It should be noticed that the added value by customers will provide additional income for the hotel. So, an effective CRM systems lead to increase CLV and therefore increases the business revenue (Noone *et al.*, 2003).

1.2 An overview of Iran

Iran is located between the Caspian Sea and the Persian Gulf. This country neighbors are Azerbaijan, Armenia, Pakistan, Turkmenistan, Turkey, Iraq, and Afghanistan. Iran has one of the largest areas in Middle East, which is 1,648,000 square kilometers. The Caspian Sea in the north of Iran is the largest lake in the world. INSEAD (2016) in the Global Innovation Index report of 2016 announced that Iran's population is 79.1 million with a GDP per capita US\$17,251.3 and a GDP of US\$ 387.6 billion.

In the world records, in terms of tourist attractions, Iran is in the tenth place, for diversity of tourism, in the fifth place, and about variety of handicrafts, in the third place (Lashkarizadeh *et al.*, 2012; Vesalian *et al.*, 2012). This country has a wealth of historic sites and a very old civilization (Alavi and Yasin, 2000). The outlook for travel and tourism in 2015 is very positive with total travel and tourism GDP growth forecast to reach 5.9% in 2016 and to rise by 4.7% in 2026. Much of this growth is being driven by higher consumer spending as the recovery from recession gathers pace and is becoming firmly established. Visitor exports generated IRR38,456.6 bn (1.7% of total exports) in 2015. This is forecast to grow by 2.3% in 2016, and grow by 3.7% from 2016-2026, to IRR56,479.5bn in 2026 (0.9% of total) (Turner, 2016).

Moreover, UNESCO (2017) introduced Iran as the country which is so strong and rich in cultural and heritage resources with a total of 22 listed world heritage sites and an additional of 56 on the UNESCO tentative list. It was year 2005 that Iran Touring and Tourism Organisation (ITTO) and Iran Cultural Heritage Organisation (ICHO) combined and created Iran Cultural Heritage and Tourism Organisation (ICHTO). This integration caused improvement and development in the tourism industry of Iran and also the protection organization of Iran's national cultural heritage (O'Gorman *et al.*, 2007). Furthermore, the main tourist attractions of Iran are its natural features, cultural heritage, traditions, and its archaeology (Sotoudeh, 2007).

The main fundamentals of growth and development of tourism destinations are attention to tourism attractions, tourism facilities, and necessary substructure improvements to encourage domestic and international tourism (Clare, 2002). Many of Iran's tourism activities have been established in the domestic market and many individuals and organizations are involved in the local or national market of this sector, domestic tourism also plays an important role in the national economic cycle of Iran (Vesalian *et al.*, 2012)

Finally, comparing the published statistics by ICHTO (2016) about the international tourists who have entered Iran during the years of 2015 and 2016, it shows that although during year 2015, total number of tourist arrivals was 5,181,018, this number declined by %5.4 in 2016 with 4,901,083 tourist arrivals.

1.2.1 Shiraz

The sixth most populous city of Iran is Shiraz and this city is the capital of the Fars Province. According to the latest statistic on Shiraz's government website (FCHHTO, 2012), Shiraz's population is at 1,227,331 and its area encompasses 189 square kilometers. Shiraz is the economic centre of southern Iran and is located in southwest of Iran.

The second half of the 19th century saw economic developments which had caused a lot of changes to the Shiraz economy. When the Suez Canal opened in 1869, imported goods such as inexpensive European factory-made goods came into southern Iran either directly from Europe or through India. Farmers planted cash crops such as opium poppy, tobacco, and cotton. Many of these crops for export to the Persian Gulf passed through Shiraz. Iranian long distance merchants from Fars created marketing networks for these commodities, establishing trading houses in Istanbul, Port Said, Bombay, Calcutta, and even Hong Kong.

Shiraz has many cultural and tourism attractions and its hotel industry plays an overriding function in the Shiraz tourism industry. Shiraz is one of the most popular tourist destinations in Iran and has many hotels with good facilities and amenities, including 1 to 5 star hotels. According to the announced statistics by the Fars Cultural Heritage, Handicrafts and Tourism Organization (FCHHTO) (2012), Shiraz has a total of 31 hotels, of which two are 5-stars, six are 4-stars, nine are 3stars, eleven are 2-stars, and three are 1-star. This city has 131 lodging houses, guest houses and four hotel-apartments which are not subjected to this study. Since the study focuses on 3 to 5 star hotels, it includes 17 of the Shiraz hotels. It should be noted that presented statistics belonged to the year 2012, because the data collection of this study was started on 2013.

1.2.2 Kish

Kish is a flat Island without mountains or even high hills. This island has an oval shape with the surface area of 90 square kilometers with an external boundary of 40km. Kish is located in the Persian Gulf and measures 15.45 km from its west coast to its east coast. This island has an estimated population of 26,000 residents including both Muslims and Christians. The number of the people who visit Kish annually is about 1 million (Trip Advisor, 2014).

Furthermore, this island is similar to the other Persian Gulf Islands, especially the Strait of Hormuz islands. It is on a narrow strip of tropical vegetation in the Northern Hemisphere, with the Persian plateau to the north and the Arabian Peninsula to the south. Kish has its special geographic and climatic attributes and like the other near islands is under the sway of the semi-equatorial climate. The other islands nearby Kish Island are Hindorabi, Farrow, Lavan, Shatuar, and Gheshm (Kish News, 2017).

Since the mid-1990s the Iranian government has embarked on an aggressive promotional and developmental campaign to tailor Kish as a rival to Dubai but mainly a big rival to Doha. Steps taken in order to accomplish this include launching massive construction projects and programs designed to attract foreign investment and trade. The population of the island includes significant numbers of both Muslims and Christians. Kish Free Zone total foreign trade stands at around \$9.2 billion per annum (2009) and fifteen percent of all imports to Iran are through Kish. In addition, Kish's free zone statistical data shows the change of Kish temperature from being very hot to moderately hot, with high humidity and often interspersed by heavy rains of short durations in certain seasons. With the exception of some south-eastern coastal areas and a few other islands in the Persian Gulf, Kish has the longest sunny hours in the region which is roughly 3100 hours a year. Most of the year Kish is hot and humid as it is near to the Tropic of Cancer is exposed to high tropical pressure systems, and is in the midst of hot and shallow waters (KFZO, 2012).

According to the Kish Free Zone Organization (KFZO) (2012) statistics, Kish has a total of 38 hotels in which there are three 5-stars, seven 4-stars, thirteen 3-star hotels, and the rest are under 3 stars. Since the study focuses on 3 to 5 star hotels, it includes only 23 of Kish's hotels. It should be noted that presented statistics belonged to the year 2012, because the data collection of this study was started on 2013.

Therefore, after reviewing tourism attractions and hotel industry of Shiraz and Kish, next section discusses the issues and challenges facing hotels in Iran and how successful organizations in tourism industry find a way to secure their hotel's superior performance.

1.2.3 Hotel Industry in Iran

Hospitality and tourism are the global industries. The tourism industry market is expanding so fast, therefore this industry is changing to one of the greatest business fields in the world. In this industry, prospective managers should enhance their organizational performance by providing the possibility of using appropriate opportunities for themselves (Abzari and Ghorbani, 2011). In addition, people lifestyle is changing and it is necessary to receive good service quality from the hospitality industry too. Thus, the hotel industry tries to grow faster by competing with others in the market place by discovering customers' needs and covering customers' demand (Miremadi and Mohajerani, 2012). Although Iran's hotel industry is always developing, its improvement is not comparable with other countries because of their inconsistency in managing customers' wants or shortage of tourists' number, or domestic tourists not preferring expensive hotels (Varesi *et al.*, 2012). Successful organizations in tourism industry concentrate more on customers and employees (Abzari and Ghorbani, 2011) and understand that suitable customer service increases the company's customer relationship with profit gains and this relationship relates the company's profit with customers' satisfaction, especially with the staff (James and Thomas, 2000). Employees facilitate the execution of organization strategies and its superior performance via influential connection with customers in the service section, especially in tourism (Brown and John, 2005). As a result, it is important to look forward and find a way to secure hotel's superior performance by enhancing the role of human resources.

Therefore, healthy long-term relationships with employees, suppliers, customers, and other social stakeholders are essential for success in hospitality organizations (Arasli, 2012). Also the base for the continual improvement of business performance is the effective management of frontline employees' attitudes which will enhance business quality, and satisfy employees. It will ensure loyal customers as well and establish well-rounded relations with suppliers and other social stakeholders (Arasli, 2000; 2002; Kanji, 2002; Ooi *et al.*, 2007).

According to the ICHTO (2015), the country has 1790 hotels, including hotel-apartments. These include 33 five-star, 87 four-star, 296 three-star, 443 two-star, and 931 one-star hotels. In addition, hotel industry in Iran is experiencing rapid growth. New hotels have been constructed and old hotels are being redesigned (Arasli, 2012). The direct contribution of travel and tourism to GDP was IRR37,121.0bn (2.3% of total GDP) in 2014, and is forecast to rise by 6.6% in 2015, and to rise by 5.7% pa, from 2015-2025, to IRR442,156.0bn (2.9% of total GDP) in 2025. However, the total contribution of travel and tourism to GDP was IRR651,511.0bn (6.3% of GDP) in 2014, and is forecast to rise by 6.1% in 2015, and to rise by 5.5% pa to IRR1,182,450.0bn (7.8% of GDP) in 2025 (Turner, 2015).

In 2014 the total contribution of Travel & Tourism to employment, including jobs indirectly supported by the industry, was 5.3% of total employment (1,223,500 jobs). This is expected to rise by 5.1% in 2015 to 1,285,500 jobs and rise by 4.1% pa to 1,913,000 jobs in 2025 (6.5% of total). Travel & Tourism investment in 2014 was IRR83,603.5bn, or 3.0% of total investment. It expects to rise by 4.3% in 2015, and rise by 5.5% pa over the next ten years to IRR149,446.0bn in 2025 (3.7% of total). Visitor exports generated IRR24,903.4bn (1.1% of total exports) in 2014. This is forecast to grow by 3.2% in 2015, and grow by 3.0% pa, from 2015-2025, to IRR34,604.1bn in 2025 (0.8% of total) (Turner, 2015).

Moreover, money spent by foreign visitors to a country (or visitor exports) is a key component of the direct contribution of Travel & Tourism. In 2015, Iran generated IRR38,456.6bn in visitor exports. By 2026, international tourist arrivals are forecast to total 8,578,000, generating expenditure of IRR56,479.5bn, an increase of 3.7% pa. (Turner, 2016).

Therefore, hotel industry as chosen business for this study is one of the tourism-related businesses. Tourism and hotel industry are so related together and growth in the tourism industry influences the growth in the hotel industry too (Miremadi and Mohajerani, 2012), so any failure or challenge in one sector directly affects the other one, therefore hotel industry is considered as one of the most important tourism infrastructures which warrants tourists comfort (Varesi *et al.*, 2012). Iran hotel industry is always developing but always has its own specific problems too. So, the following section discusses these problems and how they can utilize some influential management tools to guarantee their hotels' future and provide better conditions for their hotels.

1.3 Statement of the Problem

Iran has a rich and strong tourism and heritage resources, but does not collect enough of its shares in international tourism revenues (Arasli, 2012). The tourism activities, condition of residential premises, and political views of Iran have had many ups and downs in response to the tourists' needs in various political eras (Hemmati, 2012). Also, the political situation or inadequate infrastructure always impacts tourism performance within a country (Ritchie and Crouch, 2003). Moreover, the absence of information and lack of advertising have left the country unknown to the outside world (Farahani and Musa, 2008; Farahani and Henderson, 2010). Furthermore, Alipour and Heydari (2005) identified that the main part of tourism activities in Iran is concentrated only in Tehran and there are lack of such activities in some tourism cities like Shiraz and Kish. According to O'Gorman *et al.* (2007) Kish is the only developed tourism city in Iran which has developed as a destination for leisure and retail travelers to compete with Dubai and similar destinations in the domestic and international marketplace,.

Therefore, as a solution to resolve Iran's tourism issues, improvement in the performance of tourism-related businesses like hotels could be an effective element. Such an improvement in the Business Performance (BP) structure is an effective strategy to seek, gather, and store customers' information throughout the whole organization and use them for making unique guests' experiences. Although Iran's hotel industry is always developing and is capable of solving Iran's tourism industry issues, always have its own specific problems and its improvement is not comparable with other countries. Iran hotels are weak in managing the customer orientation approach (Saeednia *et al.*, 2012). They are inconsistent in managing customers' wants and have shortcomings of proper governmental facilities. Infirmity of educational, managerial and welfare issues and inconsistency of supply and demand have influenced the development speed of Iran hotel industry. Also, few number of tourists coming to the country plus domestic tourists not preferring expensive hotels all surrounded Iran's hotel industry and contributed to its unclear future (Varesi *et al.*, 2012).

Therefore, administrators within the industry should utilize the necessary management tools to ensure better outcomes and avoid poor performance (Arasli, 2012) in order to guarantee the hotels' future in aiming to improve the tourism industry's problems as well. As a result, there are some practical management tools which provides better conditions for the hotels and solve all existing problems. One

of these influential management tools is Customer Relationship Management (CRM). CRM ensures customer loyalty and further enhances BP, so it is a wise strategy for hotel industry suppliers to implement CRM in their hotels (Wu and Lu, 2011).

1.3.1 Relationship between CRM and BP

Several studies have examined the CRM influence on BP, but their difference with this study is about the CRM dimensions. People, process, and technology are CRM dimensions in this study in which people embraces top management's support and employee's commitment and process embraces marketing, sale, and service. CRM dimensions in Wu and Chen (2012) study were customer relationship planning (CRP) and customer interaction system (CIS) in investigating CRM influence on BP through Relationship Marketing Effect (RME). CRP embraced customer analysis, campaign management, and relationship optimization and CIS embraced field sales, telesales, call centre, and web. CRP is different from the three dimensions of CRM in this study, but CIS is similar to process in its sale section. The final results of the Wu and Chen (2012) study showed that CRP and CIS has significant effect on RME.

Moreover, Krasnikov *et al.* (2009) investigated the influence of relationship orientation, configuration, and customer information as CRM dimensions on BP. These three dimensions are different from the CRM dimensions of this study. They focused more on the customer-centric outcomes (e.g., revenues, customer satisfaction, retention, market share, share of wallet) and investigated the CRM influences on two metrics of BP including cost efficiency and profit efficiency. The final results of the Krasnikov *et al.* (2009) study showed that CRM implementation can have a negative effect on cost efficiency and can enhance the profit efficiency of the firms.

In addition, Wu and Lu (2011) considered internet service function, customer support function, and marketing support function as CRM dimensions in investigating CRM's influence on BP through Relationship Marketing (RM). Among these three dimensions, customer support function is different from the three dimensions of CRM in this study, but the internet service function is similar to technology dimension and marketing support function is similar to the marketing section of the process dimension. The final results of the Wu and Lu (2011) study showed that implementing CRM strategies will have a significant and positive influence on RM and BP and RM also has a positive influence on different aspects of BP. Sin et al. (2005) also identified CRM to be a multi-dimensional construct consisting of four behavioural components: key customer focus, CRM organization, knowledge management, and technology-based CRM and investigated the influence of theses dimensions on BP. Among these four dimensions, only technology-based CRM is similar to the third dimension of CRM in this study but the other three dimensions are different in which key customer focus means concentrate more on customers, CRM organization means paying more attention to the organizational challenges inherent in any CRM initiative, and key facts of knowledge management include knowledge learning and generation, knowledge dissemination and sharing, and knowledge responsiveness. The final results of the Sin et al. (2005) study showed that CRM is a critical success factor for BP and firms should care about their behavioral and internal processes to improve their relationships with customers.

Also only a few studies investigated CRM's influence on BP in the hotel business (i.e., Wu and Lu, 2011; Wu and Chen, 2012). This research focus will be on Shiraz and Kish hotels. Other accomplished studies regarding CRM in Iran (i.e., Kavosh, 2011; Soeini *et al.*, 2012) did not examined the hotel industry or were not done in the Shiraz or Kish (i.e., Sotoudeh, 2007). Moreover, there are some studies on the Iran hotels (i.e., Shishavi, 2006; Abzari and Ghorbani, 2011; Arasli, 2012) but they are neither using CRM nor conducted in Shiraz or Kish. Shishavi (2006) had focused on customer satisfaction level, Abzari and Ghorbani (2011) had investigated internal marketing effects on organizational commitment from a market-orientation view, and Arasli (2012) had examined business excellence in Iran hotels.

Furthermore, regarding the relationship of CRM dimensions with BP, Goldenberg (2002) emphasized that when a company is ready to set up their CRM project management team, people, process, and technology play a critical role and hotels can create loyal and satisfied customers by using the right integration of people, process, and technology of CRM to achieve better results (Goldenberg, 2008).

1.3.2 Relationship between CRM and CLV

Each customer has a different value to a company and to identify and retain the most profitable customers are some challenges that CRM always faces. So, Customer Lifetime Value (CLV) is a key strategy to help an organization which aims to implement CRM for acquiring, retaining, and developing customer relationship. CRM and CLV relationship have been always showed enough advantages for the hotels' improvement. There is the shortage of study regarding the relationship between CRM and CLV, some studies (Bradshaw and Brash, 2001; Chavda et al., 2001; Mathur et al., 2002; Adebanjo, 2003; Venkatesan and Kumar, 2004; Xu and Walton, 2005; Kasim and Minai, 2009; Roberts-Lombard and Plessis, 2011; Bihari, 2012) believed that the final aim of CRM is to enhance customer relationships' lifetime value, so CRM has a potential to help many business performances to acquire new customers, retain existing ones and increase their CLV. Wu and Lu (2011) also noted that hotels must first use CRM to offer better services and identify customer needs in order to acquire and retain customers, and then establish good interactive relationships. Hence, increasing the influence of CRM is a main element for hotel success (Wu and Lu, 2011) so hotel industries that use CRM systems which aim to increase its CLV will achieve greater profits (Liu et al., 2007).

Also, about the relationship of CRM dimensions with CLV, Kincaid (2003) defined CRM as the strategic use of people, technology, and process which direct customers' relationship with an organization through CLV. Also, Reinartz *et al.* (2004) referred to the consistency of the process section of CRM which aids the identification and measurement of valuable customers to acquire, retain, or developing relationship with them and believed that CRM technology is the information technology that is deployed for the specific purpose of better initiating, maintaining, and/or terminating customer relationships.

1.3.3 Relationship between CLV and BP

Although CLV is a very important figure of BP there is no study to support the exact relation of this two variables. Gupta *et al.* (2004) referred to the existence of this relationship in a way that CLV is not only important for tactical decisions, but can also provide a useful variable to recognize a firm's total value and Bolton *et al.* (2004) had also emphasized that CLV has become a popular variable within academic literature but its use regarding business is still low (Verhoef *et al.*, 2003). Studies concerning the anticipation of CLV for individual customers only had seen limited efforts (Donkers *et al.*, 2003; Malthouse and Blattberg, 2003). Several studies have confirmed that CLV is a crucial element for managing better customer relationship, but have not conducted studies on the direct influence of CLV on BP; Zhang *et al.* (2012) believed that CLV can be capable of quantifying a firm's relationship with its customers and can help the firm to identify its profitable customers. Yean and Khoo (2010a) emphasized that the role of CLV in CRM is too important and CLV can be linked to other variables and attributes to increase a company's BP.

This study aims to extend the CLV concept in Iran's hotel industry. It has been demonstrated in the Iranian banking sector (Tavakolijou, 2009; Kahreh and Kahreh, 2012) and in the Iranian medical sector by Zare-Hoseini *et al.* (2011). Respectively, these researches showed the use of CLV as a variable to measure customer value, customer loyalty influences on CLV, and customer segmentation in clinics to anticipate the probability of future purchase services and customer churn rates. The other study belongs to Khalili and Tayaran (2012) that presented a new lifetime value (LTV) model which is called the "fuzzy life time value model" and was tested successfully on two hospitals. Nikkhahan *et al.* (2011) have also calculated CLV for an online toy store for each of its customer.

Furthermore, regarding the relationship of CLV dimensions with BP, Bolton and Tarasi (2007) emphasized that targeting, acquiring, and retaining the "right" customers entail an attention to matching customers with future profitability, running company offerings, and helping the overall business risk. Retaining profitable customers increases a firm's overall profitability and leads to positive BP (Kumar and Rajan, 2009; Battor and Battor, 2010). Kotler and Armstrong (2010) concluded that, a company which is customer-oriented concentrates more on customer development to design its marketing strategies and to deliver higher values to its target customers and customer development's aim is to increase and grow the value of retained customers and continuing the relationship with retained customers plays an important role in all businesses (Buttle, 2008).

1.3.4 Relationship between CRM and BP by mediating role of CLV

There is no study that has considered CLV as a mediator between CRM and BP or between any other variables. As mentioned earlier, Wu and Li's (2011) concluded that CRM implementation in hotels positively influences the quality of "relationship with customers" and enhances CLV and CLV played the role of a dependant variable not the mediator. Also, Gupta *et al.* (2006) study showed that what a firm does (its marketing actions) influences customer behavior (acquisition, retention, cross-selling), which in turn affects customers' CLV or their profitability to the firm. Kahreh and Kahreh (2012) also determined the effects of the customer loyalty and its factors on CLV to design an enhanced CLV for the banking sector. In these studies CLV had a role of dependent variable again and none of them conducted CLV as a mediator. Therefore, up to date, this study is the first effort to explore this relationship and put CLV as a mediator between CRM and BP.

Therefore, this study tries to respond the research questions and to cover the research objectives and hypothesis. This study had inquired the relationships between the main variables of this study as well as their dimensions. So, the influence of CRM and CLV on BP in Shiraz and Kish hotels and the relationship of CRM and CLV and their dimensions had been clarified. The main part of this study is to find the proper response for this question: Does CLV mediate the relationship of CRM and BP.

1.4 Research Questions

This study aims to investigate the relationship between CRM, CLV, and BP and to explore the most influential dimensions of CRM and CLV. It also aims at investigating the mediating role of CLV. More specifically, this study aims at answering the following research questions (RQs):

RQ1-Is there any relationship between CRM and BP? RQ2-Is there any relationship between CRM and CLV? RQ3-Is there any relationship between CLV and BP? RQ4-Does CLV mediate the relationship of CRM and BP? RQ5-Which CRM dimension has more influence on BP? RQ6-Which CRM dimension has more influence on which CLV dimension? RQ7-Which CLV dimension has more influence on BP?

1.5 Research Gap and Objectives

Several studies have examined the CRM influences on BP, but according to previous investigations and researches (Day and Bulte (2002); Hooley *et al.* (2005); Sin *et al.* (2005); Krasnikov *et al.* (2009); Coltman *et al.* (2011); Wu and Lu (2011); Padilla-Meléndez and Garrido-Moreno (2014); Hendi and Hatami (2015)), there is still limited studies to explore CRM implementation in Shiraz and Kish hotels. So the first objective is:

) To investigate CRM influence on BP in Shiraz and Kish hotels

Also, the CRM and CLV relationship has always been emphasized by several researches, but still a limited studies be examined this relationship (Blattberg and Deighton (1996); Brassington and Pettit (2000); Greenberg (2001); Ahn *et al.* (2003); Chaffey (2003); Kincaid (2003); Ko *et al.* (2006); Buttle (2008); King and Burgess (2008); Wu and Li (2010); Ekinci *et al.* (2014a); Ekinci *et al.* (2014b)). Therefore, the second objective of this study is:

) To explore the relationship between CRM and CLV

Although CLV has become a popular variable, a few efforts have been made to examine CLV in Iran's hotel industry especially in Shiraz and Kish hotels. Previous investigations were done in other industries or only in developed countries (Kale (2003); Gupta *et al.* (2004); Ryals (2005); Berman and Evans (2007); Baum and Singh (2008); Epstein *et al.* (2008); Glady *et al.* (2009); Yean and Khoo, (2010a); Yean and Khoo (2010b); Zhang *et al.* (2012); Ekinci *et al.* (2014a)), so up to date, this study investigates CLV in Shiraz and Kish hotels for the first time. Therefore, the third objective of this study is:

) To investigate CLV influence on BP in Shiraz and Kish hotels

Another gap refers to many studies which have confirmed the CRM and CLV relationship (mentioned above) but none of them have considered CLV as a mediator especially in the hotels. So this study is the first effort which examines the CLV's mediator role between CRM and BP. Thus, the next objective is:

) To explore CRM influence on BP by mediating role of CLV

In addition to the mentioned gaps and objectives, this study aims to explore which dimension of CRM (people, process, and technology) has more influence on BP as well as CLV, and which dimension of CLV (customer acquisition, customer retention, customer development) has more influence on BP, so the last three objectives of this study are:

-) To recommend the most influential CRM dimension on BP
-) To recommend the most influential CRM dimension on CLV dimension
-) To recommend the most influential CLV dimension on BP

1.6 Scope of the Research

The number of research on CRM and CLV has grown during the recent years but there is a lack of studies in the case of developing countries. Most of the research in this field were done in western and developed countries. There is a need for more study and more empirical evidence from the developing countries. This study covers CRM as the combination of people, process, and technology and covers CLV as the combination of customer acquisition, customer retention, and customer development.

This study is conducted in the hotel industry and is designed to provide an overview on the CRM implementation in Shiraz and Kish. These two cities were chosen because both of them have good tourism conditions in their own specific way and there is also a lack of studies regarding Shiraz and Kish. Furthermore, Shiraz was chosen because this city is one of the most popular tourist destinations in Iran and has many hotels with good facilities and amenities, including 1 to 5 star and budget hotels. This research covers 17 hotels in Shiraz which range from 3 to 5 stars. Similarly, Kish was chosen because this city is the most popular tourist city in Iran and has a total of 38 hotels and this study covers 23 of them which are 3 to 5 star hotels.

1.7 Contribution of the Research

According to previous investigations and databases, implementing CRM has been tested a lot of times, but the majority of studies were done in developed countries or other industries rather than hotel industry. So currently, this is the first attempt to explore CRM implementation in Iran's hotel industry as a developing country. This implementation increases management knowledge regarding CRM structure in the hotels and its high ability to enhance BP revenues.

The other contribution of this research is about exploring the CRM and CLV relationship, because their relationship has always been emphasized but few attempts have been made to predict this relation. There is a lack of studies that investigate the

CRM and CLV relationship, also there is a lack of studies that investigate the CRM and BP relationship through CLV too. Therefore, this study is the first effort to examine CLV as a mediator which mediates CRM influence on BP in the hotels. Since this study discuss CLV as an influential variable between CRM and BP. CLV is able to extend customer relationships in the firms and store customers' data to use when it is needed, thus this variable can add a new knowledge to management science. So the current study can increase the knowledge in the CRM and CLV area and improve their implications too.

1.8 Operational Definitions

Several terms are used frequently in this study. It is necessary to define them to clearly understand the specific definition of each term. The following section is a brief definition of each term.

1.8.1 Customer Relationship Management (CRM)

CRM is the combination of people, processes and technology which improves and sustains profitable relationships with customers (Chen and Popovich, 2003).

For the current study, CRM is operationalized as a combination of people, process, and technology where the hotel builds a mutually beneficial long-term relationship with its customers.

1.8.1.1 People

The first key people of the company is the top management. They must be committed to the relationship with customers (Knox *et al.*, 2007) and the second key people in the company are the employees where their support to maintain and retain customer relationships have an important influence on performance (Becker *et al.*, 2009).

For the current study, people is the top management support and employees commitment. Managers and employees should cooperate in CRM implementation in the hotels to improve their performance.

1.8.1.2 Process

CRM process represents an integrated marketing, service and sales strategy that needs mutual contribution of all sectors in a company (Jocovic *et al.*, 2014).

For the current study, the processes for achieving CRM objectives are marketing, sales, and service which relate to the customers of the hotel.

1.8.1.3 Technology

Technology provides information about satisfying customers' needs, perceptions, expectations, and requirements in order to segment customers and to differentiate profitable customers from the unprofitable ones (Swift, 2001).

For the current study, CRM technology provides information in creating loyal and satisfied customers and is deployed for the specific purpose of better initiating, maintaining, and/or terminating customer relationships.

1.8.2 Customer Lifetime Value (CLV)

CLV is the combination of customer acquisition, customer retention, and customer development (Buttle, 2008) which helps organization to identify their valuable customers (Reinartz *et al.*, 2004).

For the current study, CLV is operationalized as three main management processes including customer acquisition, customer retention, and customer development which are about acquiring new customers, retaining existing customers, and developing relationships with retained customers.

1.8.2.1 Customer Acquisition

Customer acquisition is the first phase in making a customer base and refers to the first-time purchase by new or lapsed customers (Gupta and Zeithaml, 2006).

For the current study, customer acquisition is about acquiring new customers by managing the hotel-customer relationship to acquire right customers.

1.8.2.2 Customer Retention

For customer retention, firms should develop and strengthen their relationships with customers in order to result in expanded relationships, higher customer satisfaction, and increased customer revenues (Becker *et al.*, 2009).

For the current study, customer retention is about retaining the right customers which are acquired through customer acquisition.

1.8.2.3 Customer Development

Customer development is a term that usually refers to two key areas of activity, up-selling and cross-selling. Up-selling refers to sell more to the same customers and increase the share of wallet and cross-selling means selling other products to the existing customer base (Murphy, 2005). A company which is customer-oriented concentrates more on customer development to design its marketing strategies and to deliver higher values to its target customers (Kotler and Armstrong, 2010).

For the current study, customer development is about cross-selling and upselling to all customers and to increase and grow the value of retained customers.

1.8.3 Business Performance

BP refers to the revenue, occupancy levels, repeat sales, profitability, and market share of different organizations (Brown and Gulycz, 2002).

For the current study, BP is operationalized as the rate of growth in market share, profitability, sales revenue, repeat sales, occupancy levels, growth of existing customers, higher ratings from customer surveys, and overall improvements in comparison to competitors.

1.9 Outline of the Study

This research contains five chapters. The current chapter (Chapter one) includes an overview of this study. This chapter explains the research's background and an overview of Iran as the focus of this research. The problem statement is explained in this chapter. The determination of research gap, objectives, and

questions are also in Chapter One as well as other parts such as research scope, contribution and limitations of the research. Chapter Two is the review of related literature that gives information which leads this research to its framework. The literature of all variables and their relationships are described in this chapter. The theoretical framework and conceptual framework are also explained in the chapter. The chapter ends by reaching to several hypotheses which this study aims to test. Chapter Three clarifies the methodology used in this study, including research design, population design, data collection method, and data processing methods. Moreover, the definitions of instruments which have been used for each variable's validity and reliability are included in Chapter Three. The next chapter is Chapter Four which describes the study's findings and data analysis. In this chapter, the gathered data is analyzed and the discussion about the findings lead to the hypotheses' answers. Chapter Five includes the discussion and conclusion. Implications for managers and suggestions for future research are also described in Chapter Five.

1.10 Summary

Reviewing Iran and its hotel industry showed that this country with all of its rich and strong characteristics and heritage resources does not collect enough of its share of international tourism revenues. So it is clear that improvements in the performance of tourism-related businesses could solve such issues.

This chapter introduced CRM and CLV as influential management concepts which are able to solve tourism problems. CRM as the combination of people, processes and technology can improve and sustain profitable relationships with customers and CLV is a key strategy to help an organization that wants to implement CRM for acquiring, retaining, and developing customer relationship.

Hotels as the chosen business for this study should use CRM to offer better services through identifying customers' needs and establish good interactive relationships. Hence, increasing the influence of CRM seems to be one of the main elements of hotel industries' success. Hotel industries with CRM systems which aim to increase CLV will achieve greater profits.

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