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A Model for Understanding the Market-orientation Effects of CRM on the Organizational Processes

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ABSTRACT

To build an understanding of the impacts of Customer Relationship Management (CRM) on organizational behaviors and processes this study strives to develop a model of CRM effects on work practice, value-creation processes and organizational performance. Moderating factors that affect the transition results are also studied. The model is developed by iterative steps of content analysis.

The objectives of building this model are: 1) to establish a framework with propositions about the chained effects of CRM on organizational performance and the influential management activities and 2) to develop a measurement instrument of the CRM effects on market-oriented behaviors and performance.

Although the model testing and enhancement are in progress, the preliminary findings reveal that behavioral changes towards market-orientation can be reflected in two levels of work practice: coordinated intelligence management in the team work and proactive attitude with individuals. With such a market-oriented focus, CRM user organizations are more likely to develop positive market performance as well as process performance, and indirectly bring up financial performance.

Keywords

CRM, market-orientation behaviors, value-generation processes, organizational performance

INTRODUCTION

Customer Relationship Management (CRM) is a methodology that extensively employs information technology, particularly database and Internet technologies, to enhance the effectiveness of relationship marketing practices (Chen and Ching, 2004). It has been considered a vital tool for companies to coordinate all service functions (Chattopadhyay, 2001), automate customer service operations (Karimi, Somers, and Gupta, 2001), restructure all business processes (Bull, 2003; Couldwell, 1998; Chen and Popvich, 2003) and present a unified view of each customer to all those inside the enterprise (Chan, 2005).

Studies have shown that the use of a CRM system could affect the work patterns and employee behaviors and transform organizations from product orientation to market orientation with a strong focus on customer and market. However, prior researches mainly emphasized the influences of CRM on customer, market structure and the direct customer-interaction processes such as marketing, sales and customer services (Bose, 2002; Bull, 2003; Bygstad, 2003; Croteau and Li, 2003; Gefen and Ridings, 2002; Hansotia, 2002). Little attention was paid to changes in other value-generation processes such as R&D, production, logistics and fulfillment. The overall effect of the use of CRM on the value chain processes has not been examined; hence, no further information on the related management activities and linked performance is available. The lack of understanding on the impact of CRM on organizational behavior and processes has made the tangible and intangible value of CRM influence unclear and difficult to manage.

To build understanding of CRM effects on organizational behaviors and processes, this study strives to develop a model of CRM effects on employ work patterns, value-creation processes and performance. Management factors that affect the transition results are also studied. The model is developed based on literature review and content analysis. Further quantitative research is in progress for testing and enhancing the causal relationship among the CRM-affected constructs.

The objectives of building the model have two folds: 1) to establish a framework with propositions about the chained effects of CRM on organizational performance and the influential management activities and 2) to develop a measurement instrument of CRM effects on market-oriented behaviors and performance.

The next section describes the model building process and the following sections present the model with constructs and propositions explained.

METHODOLOGY AND RESEARCH PLAN

Two iterative steps of knowledge building are applied in building this CRM effect model: literature review and case analysis. The literature review and case analysis have been done iteratively for proposition verification and construct enhancement. The process is similar to content analysis (Bettman and Weitz 1983; Kotabe and Swan, 1995) where it is applied to “the technique for the objective, systematic, and quantitative description of the manifest content of communication” (Berelson, 1952) and to thoroughly analyze existing knowledge developed by both academics and practitioners.

Filed interview is planned in the next stage to validate the model developed and to get a richer understanding of the constructs. The distinctive point of the filed interview is to collect data from multiple informants from multiple cases to eliminate informant bias and to build a cohesive view of the behavioral changes in the organization.

The proposed CRM measurement instrument is drafted in the appendix with open questions asked for further elaboration on user behaviors.

Literature Review

Academic literatures reviewed are in the areas of CRM impacts, marketing theories, behavior theories and the related IT impact on value chain processes. This step provides a base for forming a semi-structured plan for case analysis and the case analysis results are then synthesized with the literature review and form propositions about the market-orientation effects of CRM.

Case Analysis

To verify and enhance the understanding of the CRM impact on various processes in the organization, a thorough review was conducted on 74 reported cases by five major CRM vendors including Siebel, SAP, SalesLogix, FrontRange, and Salesforce. After case reviews, 37 cases were selected out of the 74 cases for further analysis (summarized in Table 1). The case selection criteria are 1) these cases have applied CRM systems for both operational and analytical functions (Gefen and Ridings, 2002), 2) these cases have reported CRM effects on both behaviors and performance, and 3) these cases try to address CRM effects on all value-generated processes. Several comparison tables were created to develop case findings and the synthesized findings are presented in table 2.

User organizations	User systems	Cases selected	Case reviewed
Large sized and fortune 500	Seibel	18	8
	SAP	12	6
Medium sized	SalesLogix	12	8
	FrontRange	9	9
Small sized	Salesforce	19	5
Total cases		70	37

Table 1. Cases Analyzed

A MODEL FOR STUDYING THE ORGANIZATIONAL EFFECTS OF CRM

Bases on the above described research process the model for studying the market-orientation effects of CRM (Figure 1) is established to present the chained effects of the CRM use.

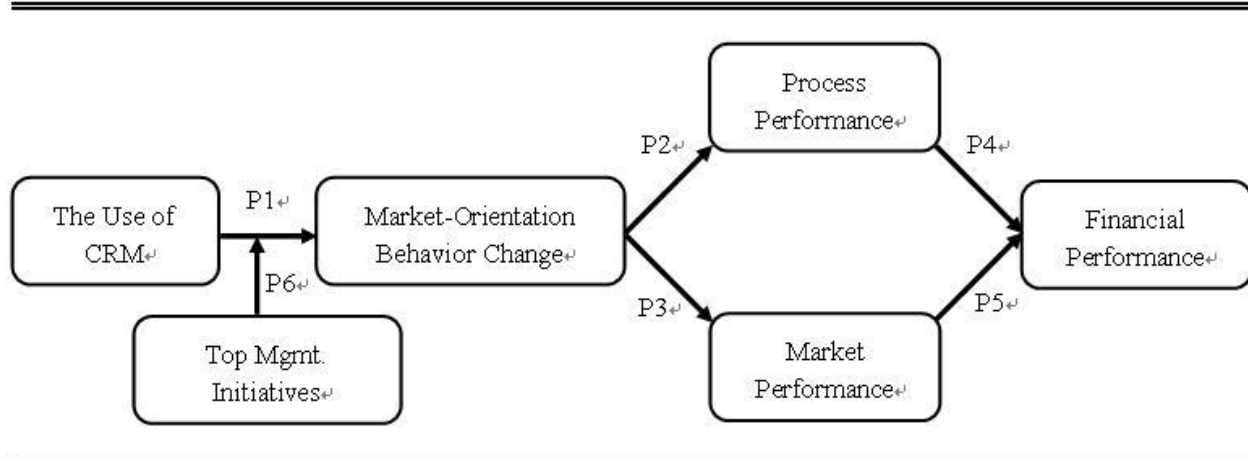


Figure 1. A Model of the Effects of CRM Use

The Use of CRM and Market-orientation Behavior Changes

The increase of customer centricity has been mentioned as one of the most achievements of CRM implementation (Chen and Popvich, 2003; McDonnell, 2001; Yu, 2001). Terms such as market-oriented, customer-focused, market-driven and customer-centric have become synonymous with proactive business strategy in firms worldwide (Deshpande, 1999). CRM users applied the system in a wish to transit from production orientation to market orientation (Bose, 2002). Market orientation has been defined, and hence measured, from two interrelated levels of organization, the group teamwork pattern and individual way of performing customer-related processes.

From the corporate teamwork view, market-orientation is defined as a set of activities or behaviors relating to market intelligence gathering, market intelligence dissemination cross-functionally within a firm and the action responses based on this intelligence (Kohli, Jaworski, and Kumar, 1993). The influence of information technology on group teamwork has been well noted (Clement, 1990, 1994). Potential IT benefits appear in employee's developing a shared vision for customers of the organization and in better communication among people, which in turn improves mutual understanding. In addition, through the integrated decision-making process, better consensus may be created for subsequent actions.

From the individual behavioral viewpoint, market-orientation means employees at all levels are free to pursue goals and objectives without the constant intervention of supervisors and the incessant surveillance of controllers (Gandz, 1990). Empowerment has been considered as a necessity for the modern enterprise (Hoffman, 1994). Several researchers (Clement, 1990, 1994; Hoffman, 1994; Malone, 1997; Sayer and Harvey, 1997) have studied the influence of integrated information and technology on employee empowerment in serving customers. The results showed that electronic communications have the potential to empower people through increased information and access.

The Impact of CRM on Value Chain Processes

To comprehend the CRM impact on various processes in the organization a thorough review was conducted on 74 cases reported by five major CRM vendors including Sieble, SAP, Saleslogix, FrontRange, and salesforce. Although these user cases may have been strongly affected by vendors, for promotion purposes, the presented instances of different processes do provide verifiable evidence for understanding the scope and areas of CRM impact. The results are summarized in Table 2.

Behavior changes in both cross-departmental teamwork and empowered individual job performance were observed in several cases. The related process performance is clearly traced. In addition to increased efficiencies in sales and marketing, the noted process performance indicators include dynamic R&D, reliable demand forecast, well-planned production, expanded delivery networks and consistent customer service throughout the service cycle.

Process	Changes in behavior	Impacts on processes
Sales and Marketing	<ul style="list-style-type: none"> Local market knowledge sharing and analysis 	<ul style="list-style-type: none"> Target chosen market segments, micro-segments or individual customers more precisely.
Inbound logistics	<ul style="list-style-type: none"> Work closely with front-end departments for planning procurement and managing warehouse 	<ul style="list-style-type: none"> Better forecasts on demand Increased purchasing efficiency
R&D	<ul style="list-style-type: none"> Collect market and customer information from other functions 	<ul style="list-style-type: none"> Dynamic R&D and spot trends accurately
Production	<ul style="list-style-type: none"> Cross-departmental planning and proactively share information with other departments 	<ul style="list-style-type: none"> Effectively address the operational requirements of events Increased forecasting accuracy Increased productivity
Outbound Logistics	<ul style="list-style-type: none"> Shared on-demand access to customer data from any location by all partners Empowered employees in serving customers Staff and managers have access to all the data they need to keep customers happy, which made staff more proactive in solving customer problems 	<ul style="list-style-type: none"> Effectively address the logistical and follow-up requirements of events Expanding distribution network
Customer service Fulfillment	<ul style="list-style-type: none"> Tightly-built chain of service information Empowered employees in fulfilling customer requests Employees coordinate with departments in serving customers Direct interaction with customers and retailers and helping retailers solve their customer's problem 	<ul style="list-style-type: none"> Consistent service on customers throughout the service cycle

Table 2. Findings of Case Review -- Changes in Behaviors and Processes

Top Management Initiatives for CRM Management

Regarding the management of CRM use, although many factors including data sharing, process change and employee training are addressed, the most powerful drive seems to be from the top business manager. In the 74 cases reviewed, more than half of the cases indicated that under the lead of top management the key performance indicators were redesigned and related movements including cross-departmental communication, data sharing, process restructuring, job redefining and training programs were implemented accordingly.

CRM is a combination of people, processes and technology that seeks to understand a company's customers (Chen and Popvich, 2003); therefore, critical factors for CRM success lie in the scope of managing and controlling people, processes and technology. Leadership in visioning and strategic planning has been emphasized as the most important factors for CRM success (Galbreath and Rogers, 1999; Rigby and Ledingham, 2004; Tafti, 2002; Yu, 2001). Furthermore, education for customer-focused transition is another key point for taking full advantage of the wealth of the customer knowledge bank (Bose, 2002; Tafti, 2002). Meanwhile, changes in measurement (Alter, 2004), job definition (Alter, 2004; McDonnell, 2001) and reward systems (Chen and Popvich, 2003; Reinartz, Krafft, and Hoyer, 2004) are the additional forces for behavior change. Although some of these success factors are carried out by mid-level managers, companies can't gain competitive edge from CRM use without top management supports.

Market Performance and Financial Performance

In addition to market share, market performance can be viewed from three aspects: customer value, customer satisfaction and customer loyalty. CRM is reported to have the ability to bring up these indexes (Croteau and Li, 2003; Kenyo and Vakola,

2003; Ragins and Greco, 2003). Financial performance is the impact of IT-enabled changes on all firm activities with metrics capturing bottom-line impacts (Melville, Kraemer, and Gurbaxani, 2004).

Proposition 1: the Use of CRM Can Affect the Market-orientation Behavior in an Organization

Based on the literature review and the case analysis, the use of CRM has been found to influence the user behavior into a market-orientation fashion in delivering process results as well as collaborating with internal functions (Bull, 2003; Chen and Popovich, 2003; Gurau et al, 2003).

Market-orientation on the team level contains three levels of customer focused actions (Homburg and Pflesser, 2000; Kohli et al., 1993): 1) market intelligence generation refers to customer interaction, customer information gathering and review of environment change; 2) market intelligence dissemination refers to cross-departmental data sharing, formal and informal organization-wide communication and customer information circulation; and 3) market intelligence responsiveness is reflected in decisions on price and product change, business plans and customer responsiveness.

Market orientation on the individual level is reflected in employee empowerment. Employee empowerment refers to employees being more proactive and self-sufficient in assisting an organization to achieve its goals (Herrenkohl, Judson, and Heffner, 1999).

Employee empowerment has become a major approach in achieving employee involvement, commitment, and unleashing employee capability and creativity in serving customers (Jarrar and Zairi, 2002). The empowered employees tend to be more responsive, deal with complaints quickly, work more efficiently and well-motivated to serve customers (Lashley, 1995).

Proposition 2: the Market-orientation Behavior Change Has a Positive Impact on the Performance of Value-creation Processes

Process performance denotes a range of measures associated with operational efficiency enhancement within specific business processes such as quality improvement of designed processes and enhanced cycle time within inventory management processes (Melville et al., 2004). Organizational processes create and deliver the value proposition for customers (Kaplan and Norton, 2004).

Proposition 3: the Market-orientation Behavior Has a Positive Impact on Market Performance

The effect of market-oriented behavior on market performance has been highlighted by several studies (Homburg and Pflesser, 2000; Kohli et al., 1993; Slater and Narver, 1994). Firms with greater use of teams, decentralized decision-making and wider breadth of job responsibilities are found to have disproportionately higher market valuation (Brynjolfsson, Hitt, Yang, Baily, and Hall, 2002).

Proposition 4: the Process Performance Has a Positive Impact on Financial Performance

In contrary to process performance which is mainly reflected in efficiency measures, financial performance is the quantitative results of the overall organizational performance (Melville et al., 2004). IT has the capability of affecting organizational performance via intermediate process performance (Kuei, Madu, and Lin, 2001; Markus, Axline, Petrie, and Tanis, 2000).

Proposition 5: the Market Performance Has a Positive Effect on Financial Performance

The indirect effect of market-oriented behavior on financial performance has also been noted (Homburg and Pflesser, 2000). Performance in the market is a necessary antecedent of financial performance (Homburg and Pflesser, 2000). Customer satisfaction and loyalty have long been noted to be positively related to financial performance (Brandt, 2000; Ittner and Larcker, 1998). Loyal customers can increase a firms' profitability through the absence of acquisition costs, lower operating costs, referrals and higher price tolerance (Reichheld, 1996).

Proposition 6: the Greater the Extent of Top Management Initiatives the Greater Is the Positive Impact of CRM Use on Market-oriented Behaviors

Based on the cases reviewed, it is important to note that the drive of top management for customer orientation seems to be the pivotal point for the organizational transformation. With the strong leading force from the top management, performance measurement were changed, complimentary training and process changes were implemented, cross-departmental work practices were altered and proactive individual behavior was encouraged.

CONCLUSION

An in-depth understanding of the CRM effect on the overall organizational behavior and processes is necessary for taking full advantage of this intellectual capital and managing all effects of the organizational transformation. Through literature review and content analysis, this study proposes a model for understanding the effects of CRM on organizational behaviors and value chain processes. Although the model testing and enhancement are in progress, the preliminary findings reveal that behavioral changes towards market-orientation can be reflected in two levels of work practice: coordinated intelligence management in the team work and proactive attitude with individuals. With such a market-oriented focus, CRM user organizations are more likely to develop positive market performance as well as process performance, and indirectly bring up financial performance. Further quantitative and qualitative researches are recommended for examining the relationship among the linked components of CRM value generation.

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APPENDIX: QUESTIONNAIRE

Market-Orientation Behavior Change – Departmental										
1. Intelligence generation										
CRM system implementation	Before					After				
	Low		High			Low		High		
1. We meet with customers at least once a year to find out what products or services they will need in the future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. We do a lot of in-house market research.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. We are fast to detect changes in our customers' product preference.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. We are fast to detect fundamental shifts in our industry (e.g., competition, technology, regulation).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Intelligence dissemination										
1. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Marketing personnel spend time discussing customers' future needs with other functional department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. When something important happens to a major customer of market, the whole business unit knows about it within a short period.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. When one department finds out something important about competitors, it is fast to alert other department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Responsiveness										
1. It takes us forever to decide how to respond to our competitor's price changes.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. We won't ignore changes in our customer's product or service needs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. We periodically review our product development efforts to ensure that they are in line with what customers want.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Several departments get together periodically to plan a response to changes taking place in our business environment.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The activities of the different departments in this business unit are well coordinated.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. What is the importance of the customer value in the balance score card.

6. Continuous improvement

- 1. The business has clearly short, middle, and long term plans of CRM.
- 2. The business continuously measures the goals of these plans.
- 3. The business would improve and response the lacks of plans after goal measuring.
- 4. Employees get appropriate reward after goal measuring.
- 5. In you opinion, what are the management initiatives that top management needs to apply?

Process Performance

1. Marketing and sales

- | | | | | | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| CRM system implementation | | Before | | | | After | | | |
| | | Low | | High | Low | | High | | |
| 1. Companies could target chosen market segments, micro-segments or individual customers more precisely. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. What else are the positive improvements of marketing and sales processes after CRM implementation? | | | | | | | | | |

2. R&D

- 1. CRM system provides powerful analytics capabilities, enables companies to spot trends.
- 2. Companies achieve dynamic R&D through cross-organizational communication.
- 3. What else are the positive improvements of R&D processes after CRM implementation?

3. Production

- 1. Customer requirement could be precisely forecasted.
- 2. Employees could easily track the customer information and quickly respond to customers.
- 3. Productivity is increased after the successful implementation of CRM.
- 4. What else are the positive improvements of production processes after CRM implementation?

4. Logistics

- 1. Companies could well manage interactions between their customers and their hundreds of retailers.
- 2. Companies could effectively address the logistical and follow-up requirements of events.
- 3. Dealers and distributors are supported by information sharing.
- 4. What else are the positive improvements of logistics processes after CRM implementation?

5. Fulfillment

- 1. Employees, in every department, could immediately fulfill customer needs.
- 2. Response time is decreased after the successful implementation of CRM.
- 3. What else are the positive improvements of fulfillments processes after CRM implementation?

Market Performance

- 1. Achieving customer satisfaction?
- 2. Providing value for customers?
- 3. Keeping current customers?
- 4. Attracting new customers?
- 5. Attaining desired growth?
- 6. Securing desired market share?
- 7. What are market performance indicators else that significantly growth after CRM implementation?

Financial performance

Over the last three years, what was the average annual return on sales of your strategic business unit? (Return on Sales)