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Jamie Carlson
Newcastle Graduate School of Business

Ranjit Voola
University of Sydney

Sukunesan Sinnappan
University of Wollongong, suku@uow.edu.au

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The Internet has the ability to profile online customers to develop effective customer relationship management (CRM) strategies for e-commerce that requires interaction and coordination between various resources within an organization. However, limited research exists in understanding CRM as an outcome of the interaction between various resources, as well as an organizational capability. This paper applies the Resource Based View of the firm to propose an integrated framework in the management of a CRM capability and suggests that this capability comprises managing the interactions between recently developed concepts such as online-profiling, service quality, satisfaction and loyalty.

Keywords

role, online, profiling, service, quality, satisfaction, loyalty, developing, CRM, capability, Propositions, Considerations

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The Role Of On-Line Profiling, Service Quality, Satisfaction And Loyalty In Developing A CRM Capability: Propositions And Considerations

Jamie Carlson, Newcastle Graduate School of Business
Ranjit Voola, University of Sydney
Suku Sinnappan, University of Wollongong

Abstract

The Internet has the ability to profile online customers to develop effective customer relationship management (CRM) strategies for e-commerce that requires interaction and coordination between various resources within an organization. However, limited research exists in understanding CRM as an outcome of the interaction between various resources, as well as an organizational capability. This paper applies the Resource Based View of the firm to propose an integrated framework in the management of a CRM capability and suggests that this capability comprises managing the interactions between recently developed concepts such as online-profiling, service quality, satisfaction and loyalty.

Key Words: CRM Capability, Service Quality, Satisfaction, Loyalty

Introduction

The tremendous growth of the Internet and its contribution to the development of e-commerce is expected to continue. For example, a study conducted by NUA (NUA 2002), revealed that more than 553 million people worldwide have access to the Internet. Another forecast indicated that spending on CRM related technology will reach USD$4.7 billion in 2008 (Jupiter Media Metrix 2003). This large global penetration of Internet adoption has led to significant improvements for customers and enterprises to communicate and conduct business via the Web. Consequently, to effectively compete in the emerging digital economy, organisations will have to reconsider their business models and strategic frameworks for successful e-business practices (Watson et al. 2002). The rapid development of Internet technology has now challenged conventional theories and concepts in both the marketing and information system (IS) disciplines.

The changing nature of competition among organisations has led to customer service emerging as a key differentiator among competitors (Gupta and Iyer 2003). As McKenna (1997: 93) explains, "It's all about giving the customer what they want, when, where and how they want it" with market leadership dependent upon the ability to nurture successful customer relationships. Consensus among researchers now suggests that advances in technology have lead to the birth of personalised marketing (Hoffman and Novak 1996). The Internet has the ability to profile customer relationships and develop customized offerings due to Internet-based applications, thus making CRM strategies possible (Sawhney and Zabin 2002). Based on customer preferences and the unique Internet-based interactions between firms and consumers, organisations can improve their product and service offerings that intensify their relationships. Along with this process of personalization and customization, customer loyalty to the organisation is likely to increase (Srinivasan et al. 2002).

Ultimately, the ability for developing successful customer relationships now lies in an organization's capacity to effectively understand its customers and their individual electronic preferences, expectations and changing needs (O'Malley and Mitussis 2002). Furthermore, Ho and Wu (1999) contend that in e-commerce all potential Internet users are potential

customers. For businesses to convert potential customers into actual customers depends on effective deployment of CRM. This has changed the customer-related business requirements for all types of companies whether they are pure online entities or traditional organizations that have implemented an e-business strategy in the business-to-consumer setting.

Despite the plethora of research into e-commerce, limited attention has been given to grounding studies in broader overarching theoretical frameworks, which can be used to guide future research activities (Romano 2001; Xavier 1999). Furthermore, limited research has been done to provide managers a framework to effectively measure and manage CRM. As such, the objective of this paper is to apply the RBV and propose a conceptual framework to manage CRM as an organisational capability. This paradigm of strategy allows for a framework that highlights how CRM contributes to sustainable competitive advantage (or SCA). Additionally, this research acts upon recent calls for research to understand the Human Factors and Technological Influences in managing effective CRM (Romano and Fjermestad 2001). To this end, this paper is structured in four key sections. The first section presents a discussion of the theoretical underpinnings of the RBV with specific attention given to the context of e-business. The second section introduces the key concepts of CRM as an organisational capability. In the third section, a conceptual framework highlighting various propositions for developing a CRM capability is presented and discussed. Finally, limitations and future research directions are discussed.

Theoretical Underpinnings

Resource Based View

Competitive advantage, which explains the varying levels of profitability, has become the centerpiece of the strategic management dialogue (e.g. Barney 1991). It can be viewed as either a superior position in the marketplace that allows for providing superior value to the customer and/or providing relatively lower costs which leads to a dominant position in market share and, comparatively better financial performance (Day and Wensley 1998). Various theoretical perspectives attempt to explain sustainable competitive advantage. For example, Mason (1939) suggested that the structure of the market determines profitability. This argument was later expanded by Bain (1956) who suggested that entry barriers at the industry level were responsible for impediments to competition. This argument was based on the industry-organisation perspective. This economics-based industry rationale was transferred to understand firm differences (Porter 1979). The "structure determines an organisation's conduct and performance (SCP)" argument suggested that the imperfect structures of the market are important determinants of profits (Porter 1980). However, due to some limitations of the SCP paradigm, RBV which has its origins in evolutionary economics has become a dominant paradigm in explaining competitive advantage. For example, a primary criticism of the industrial organisation perspective is that it ignores heterogeneity and immobility as possible sources of competitive advantage (Barney, 1991). To the contrary, heterogeneity and immobility are at the heart of the RBV. For example, the RBV suggests that an industry may be heterogeneous in terms of the resources they control and these resources are imperfectly mobile across firms (Barney 1991). This essentially suggests that resources are valuable in and of themselves, driving the choice of strategy (Rumelt 1984) and that competitive advantage is derived through a combination of unique organisational resources in obtaining virtual monopoly positions in their respective markets (Hamel and Prahalad 1994).

In explaining the RBV, various scholars have used different terms such as resources, capabilities, competencies, skills and assets (Carmeli 2004). For example, there have been

two broad lines of thought in conceptualizing resources and capabilities (Ethiraj et al. 2005). Those who define resources broadly to include assets, capabilities and firm attributes (e.g., Barney, 1991; and Peteraf 1991) and those who suggest that there is a distinct difference between resources and capabilities (Eisenhardt and Martin 2000). This paper adheres to the latter view and adopts Makadok's (2001) definition that a capability, is an asset that cannot be observed (and consequently intangible), or valued and is traded only in entirety. Furthermore, several authors have proposed characteristics of capabilities that allow them to be sources of competitive advantage (e.g., Barney 1991; Grant 1991). This paper adopts Barney's (1991) argument that four characteristics allow capabilities to be sources of competitive advantage: 1) *valuable* in terms of exploiting opportunities and /or neutralising threats in the firm's environment; 2) *rare* among the organisation's current and future competitors; 3) it must *be imperfectly imitable*; and 4) strategically *equivalent substitutes* do not exist. *CRM is conceptualised as a firm capability that possess the characteristics that allow it to be a source of competitive advantage.*

Internet and the Service Encounter

Previous research has found that customers place a significant amount of importance on relationships in service experiences (Parasuraman et al. 1991). Seminal services marketing theorists Zeithaml and Bitner (2003) argue that the Internet is "one big service", with all organizations which establish a presence on the Internet, are in essence providing services - whether a Website is giving information, performing basic customer service functions or facilitating online commerce. Thus, the tools, concepts and strategies in the field of services marketing and management have direct applications in the e-business setting (Bitner 2001). Overall, the service encounter can serve to form an overall impression of the organisation and the quality of service provided (Drummond 1992). Since the Website represents the service encounter between the customer and the Internet (Zeithaml et al. 2002), these encounters in many cases will influence customer's perception of the organisation that can be used to "engineer" branded customer experiences (Carbone and Haeckel 1994; Schmitt 2000).

## A Framework for Managing an CRM Capability

CRM as a Capability
Fundamentally, CRM involves attracting and retaining valuable customers while repelling and eliminating invaluable ones (Romano and Fjermestad 2001; Sawhney and Zabin 2002). Understanding firm specific characteristics as capabilities allows for applying the RBV to identify and leverage these capabilities for SCA. Increasingly CRM is a key differentiating factor for organizations. In various industries, CRM is expected by increasingly demanding customers. Therefore, an organization with a strong CRM capability i.e. exhibiting superiority in identifying and understanding those relationship factors in the electronic environment that influence consumer behavior, is more likely to achieve superior differentiation. Since superior differentiation enables a firm to obtain higher margins (Day 1994), an CRM capability is more likely to lead to SCA in the context of e-business.

Theoretical Framework
Figure 1 presents the theoretical framework for developing and managing an CRM capability to obtain SCA in the B2C setting. The framework proposes that the relationships among the various resources (i.e. online profiling), and responses of consumers (i.e. quality judgments, satisfaction and loyalty intentions) provide a holistic perspective in the management of an CRM capability.

Figure 1: CRM Capability: Propositions
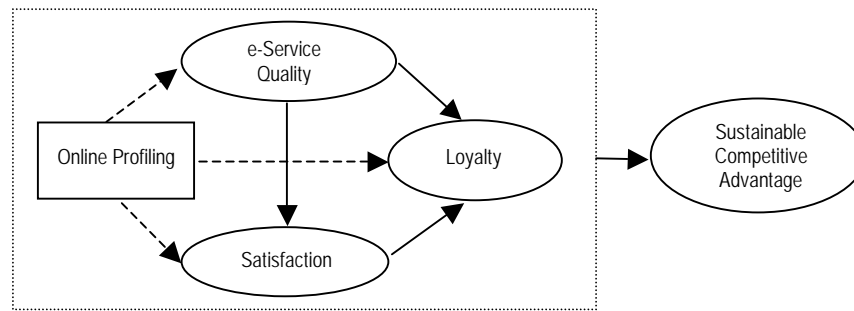
The Role of Online Profiling

Marketers are trying to create and manage customer profiles to personalize products and services according to consumer preferences (Wiedmann et al. 2002). Online profiling allows organisations to collect information from individuals across a wide range of Web activities which can be used for psychographic, behavioural and geographic segmentation (Peppers et al. 1999). This digital profile will then represent the consumer and influence their digital transaction by providing personalized and customized product and service offerings within each service encounter. We essentially argue that inappropriate online profiling may impact customer/user perceptions of service quality, satisfaction, loyalty and thus hinder obtaining SCA.

P1a: Online profiling has a positive effect on service quality.
P1b: Online profiling has a positive effect on satisfaction.
P1c: Online profiling has a positive effect on loyalty.

Service Quality

Service quality has received growing attention within the IS and marketing literatures. To increase the customer base in B2C commerce, it is strategically important to implement and continuously review the quality of electronic services (Singh 2002). Edvardsson et al. (1994) argue that sustained and continuous quality improvement is needed to provide an indication of quality performance, and to understand the effect of changes over time. To offer better quality of service on the Web, it is now imperative for organisations to investigate what existing and potential customers expect for service quality in the online environment (Zeithaml et al. 2002). Moreover, evaluation of service quality has implications for improving Website design, market segmentation and assist in formulating Internet marketing strategies that develop customer loyalty (Dutta et al. 1999).

P2: Service quality has a positive impact on loyalty.

Satisfaction

Shemwell et al. (1998) contends that as a result of current intense competition, the key to SCA lies in delivering high quality service that will in turn result in satisfied customers. It can be described as an ex post evaluation of consumers' experience with the service, and is captured as a positive feeling, indifference, or negative feeling (Anderson 1973). Although limited empirical research exists in examining satisfaction on the Internet, emerging research indicates that Website characteristics play an important role in creating customer satisfaction (Symanski and Hise 2000). Furthermore, research has found that satisfaction has a mediating relationship between service quality and loyalty (Wolfinbarger and Gilly 2003).

P3: Satisfaction has a positive impact on loyalty

Loyalty

Organisations are continually seeking new ways to forge close relationships with their most valuable customers since these loyal customers are the principal source of profits and that any reduction in defections helps grow the customer base (Reichheld 1996). Brand building on the Internet has become of strategic significance as a result of the interactive interface and exploding number of competitive choices (Gommans et al. 2001).

CRM and SCA

There has been a shift in management thinking about the strategic importance of technologies due to its wide-ranging implications. For example, they are posited to influence financial performance of a company, allow for creation of competitive advantage, reduce the time to market and increase market share (Dutta et al. 1999). The three primary methods of gaining competitive advantages are through obtaining an overall cost leadership, differentiation of the products and services and focusing on niche markets (Porter 2001). Organisations effectively deploying an e-business or an CRM strategy are envisaged to lead to competitive advantages through any of these three methods.

P4: CRM capability has a positive impact on competitive advantage.

Conclusions, Limitations and Future Research Directions

Integrating the Internet into a business's competitive strategy is an imperative given the market environment encompassing both the physical and electronic marketplace (Varadarajan and Yadav 2002). Establishing and managing a CRM capability is now of strategic importance for organizations seeking to establish SCA's in e-business. The unique contribution of this paper is that it presents a theoretical framework grounded in the RBV of strategy, to develop and manage a CRM capability in order to obtain SCA. Specifically, it highlights the importance of understanding the roles that on-line profiling, satisfaction, loyalty and service quality and the interrelationships between these resources in understanding an CRM capability. It is argued that the propositions provide fertile avenues for research in CRM. Hence, further research should further develop the theoretical framework to formulate testable hypotheses, operationalisation of measures and empirically test the proposed concepts by employing multivariate statistical methods such as structural equation modeling (SEM), since SEM enables researchers to answer a set of interrelated research questions in a single, systematic and comprehensive analysis by modeling the relationships among multiple latent and observed variables simultaneously (Gerbing and Anderson 1988). Furthermore, the use of cluster analysis is an appropriate statistical technique for on-line profiling to segment consumers based on their preferences and characteristics (e.g. cognitive, affective and behavioural judgments).

Future research can expand the framework to include other tangible and intangible capabilities such as leadership skills of management, technological infrastructure capabilities, skill of personnel, financial capital, absorptive capability and market orientation as influencing the development of an CRM capability or as part of the capability. This becomes more important as the RBV proposes that the complementarities between these capabilities and CRM capability are more likely to lead to SCA. Future research can also examine the moderating effects of Internet expertise and knowledge since expert users possess different search and browsing habits (Symanski and Hise 2000; Novak et al. 2000).

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