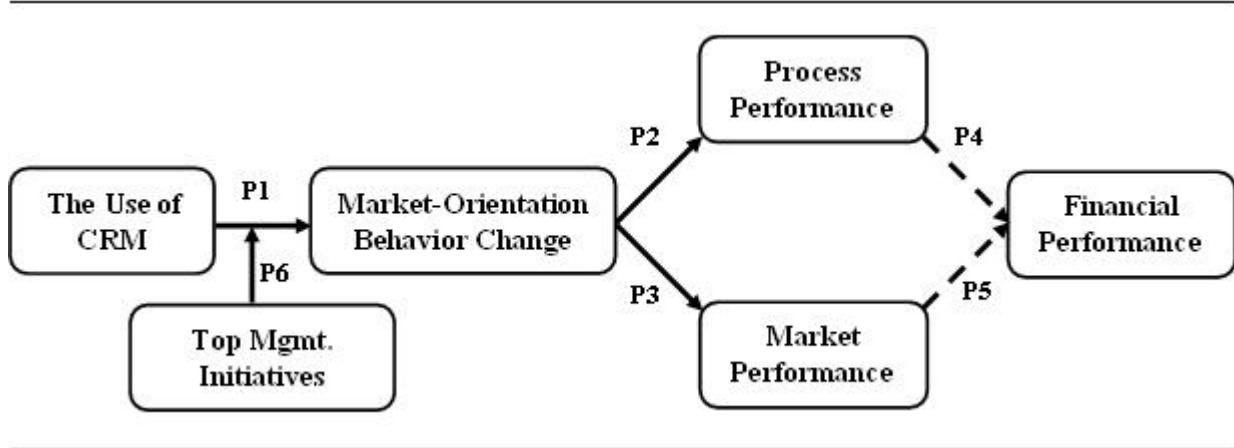


CHAPTER 2: LITERATURE REVIEW

2.1 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 is established to present the chained effects the CRM use.

Figure 2-1. A Model of the Effects of CRM Use



2.2 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 Popovich, 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). Marketing is not a specialized functional activity but rather “the whole business seen from the point of view of its final result”, that is from the customer’s point of view (Drucker, 1993). 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 technological change can serve as a catalyst for organizational realignment for decentralizing the decision-making and strengthening user power in their relation with management and enhancing capability in solving customer problems.

2.3 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 70 cases reported by five major CRM vendors including Sieble, SAP, Saleslogix, FrontRange, and salesforce. The purpose is to collect data of CRM influence on different business processes. 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 2-1.

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.

Table 2-1. Findings of Case Review -- Changes in Behaviors and Processes

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
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2.4 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. It seems that the increased performance of the value chain processes is highly affected by the enforcement of customer and market focused team-work across different functions.

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.

CRM can provide enormous competitive advantages if implemented in a co-operative environment (Kotorov, 2003). To support the strategic target, organizations strive to tackle entrenched business processes or retool its organizational structure and garner expected returns (Rigby and Ledingham, 2004). To build an integrated view of the customer, all the value-generating processes need to be integrated and streamlined, which lead to issues of technology integration (Chen and Popvich, 2003) and organizational change management (Tafti, 2002). Budgeting and planning for continuous integration among internal and external processes and technologies have become one of the most discussed issues in CRM management. In order to acquire full benefits from CRM use, the top management plays a critical role to initiate success factors, empower employees to solve customers' problems, allocate sufficient resources, and coordinate the departmental conflicts.

2.5 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; Zeng, Wen, and Yen, 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). The ultimate goal of the investment of CRM is to affect this final result.

2.6 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 Popvich, 2003; Gurau et al., 2003).

Market-orientation on the team level contains three levels of customer focused actions (Homburg and Pflessner, 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).

People will break out of narrow job specifications to find new and better ways of contributing to key business processes, changing and modifying them in the pursuit of good service, improved quality and value (Gandz, 1990).

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).

2.7 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). The performance of internal processes is a leading indicator of subsequent improvements in customer and financial outcomes. Thus, superior performance and improvement of processes are lead by the significant focus on customers.

2.8 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 Pflessner, 2000; Kohli et al., 1993; Narver and Slater, 1990; 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).

2.9 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). The dotted line of the research model means that this article doesn't discuss the proposition. Because this proposition is over widespread and the resource is limited, this article doesn't address the issue.

2.10 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 Pflessner, 2000). Performance in the market is a necessary antecedent of financial performance (Homburg and Pflessner, 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). Because this proposition is over widespread and the resource is limited, this article doesn't address the issue.

2.11 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.