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eCRM Success and The Value of Managerial Discretion.

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The performance payoff from electronic customer relationship management (eCRM) programs has become a growing concern in marketing and information technology research and practice. Yet despite a number of research reports by both practitioners and academic institutions there remains little evidence of any robust relationship between eCRM investment and performance. Building on a surprisingly sparse literature regarding the importance of managerial discretion, we show that the beliefs held by managers' matter. Three distinct types of firms populate our data, and the relationship between eCRM performance and its underlying determinants varies greatly between them. This is critical to strategic marketing because it implies that there is far less homogeneity at the individual firm level than is normally assumed.

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Abstract

The performance payoff from electronic customer relationship management (eCRM) programs has become a growing concern in marketing and information technology research and practice. Yet despite a number of research reports by both practitioners and academic institutions there remains little evidence of any robust relationship between eCRM investment and performance. Building on a surprisingly sparse literature regarding the importance of managerial discretion, we show that the beliefs held by managers' matter. Three distinct types of firms populate our data**,** and the relationship between eCRM performance and its underlying determinants varies greatly between them. This is critical to strategic marketing because it implies that there is far less homogeneity at the individual firm level than is normally assumed.

Introduction

A major focus of marketing theory and practice has attributed variation in the degree of business success to the importance of the customer and the competitive advantages associated with a *market orientation* (Rust, Zeithaml et al. 2000). Market orientation is defined as the ability to systematically gather and analyse customer and competitor information, to share this market knowledge, and then to use this knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification (Hunt and Morgan 1995 p.11). It should also come as no surprise that many marketers have turned to information technology - in particular customer relationship management (CRM) - as a way to support customer-oriented thinking, customer analysis and understanding.

However, the CRM performance literature remains fragmented and weighted heavily toward industry reports (Osmond and Wood 2003) and case studies (Wiehr and Reinartz 2003). Greater scrutiny and empirical attention is required in such a climate because without sufficient guidance, managers are prone to making investment decisions that are neither efficient nor effective. This raises an important question.

- ❖ Why does CRM performance (specifically that related to e-CRM) vary between organizations that operate within the same line of business and have access to the same information and technologies?

One of the problems with measuring CRM is that the term often means different things to different people, creating confusion and uncertainty as to how any payoff should be measured. To alleviate this problem we focus specifically on electronic customer relationship management (eCRM) programs. These programs focus specifically on process automation and the collection, synthesis and delivery of data derived from the Internet and information technology based interactions between the company and its customers/channel partners. Although, essentially capital expenditure, these investments possess characteristics that are quite different from other asset, resources and capability investments. The uniqueness stems from the fact that eCRM can be either a 'strategic solution' and/or a 'tactical project'.

As a *strategic solution,* investment in eCRM systems provides an automated toolkit to customise relationships and begin to treat dissimilar customers differently. This is particularly important given the operational reality that customers are often at different states or levels of relationship development. For example, these technologies enable the firm to discriminate and pitch marketing programs at customer markets that have the time, motivation or the energy to form relationships with your firm. Strategically, this enables the organisation to perform a trade off between long-term, customised relationships and arms-length profitability management programs. This approach underscores the need to differentiate relationships on the basis of how value is created (Johnson and Selnes, 2004) .

As a *tactical project*, eCRM and related IT investments have proven to be a source of intense frustration to managers. *Post hoc* analysis of eCRM projects indicates that even though these systems may be desirable, many organizations simply do not have the capabilities to implement sophisticated marketing and operational programs. Their IT infrastructure, legacy customer databases, and the software to manipulate customer data is simply not designed to support widely accessible customer data. The culture and power distribution can also present barriers to the type of organizational transformation necessary to support CRM strategy. This line of thinking suggests that first best strategic orientations, are often fundamentally flawed and therefore not feasible alternatives (Carson, Devinney et al. 1999).

Although, both these ways of viewing CRM investment have potentially quite different implications for firm performance they are not mutually exclusive. Instead they serve to highlight an important role for managerial discretion. In this paper we argue that whenever decision makers face unfamiliar territory - such as is the case with eCRM investment - there is greater opportunity for managerial discretion to be seen as relevant and practically important to the eCRM payoff.

Data

To evaluate the role of managerial discretion a survey was mailed to 2,000 organizations selected from a stratified random sample of firms across five industry groups- financial and business services (39%), government (20%), retail (11%), manufacturing (23%) and primary industries (7%). This cross industry sample was selected to ensure that respondent firms vary in markets and technology environments, thereby, improving the relevance and generalisability of our results. The questionnaire was addressed to senior managers, with care taken to ensure respondent competency. The number of responses totalled 365 (giving an 18% response rate). The mean and median sizes for the entire sample were 2,480 and 650 employees respectively. Tests of the distribution of returned questionnaires relative to the sample indicated that no industry or size bias existed in the responses received.

To ensure the validity of our measures, we examined key informant bias, non-response bias, common method bias, dimensionality, and convergent and discriminant validity. For the sake of brevity we have provided a short summary only. Senior managers were targeted from three functional areas (IT, marketing, and strategy), reducing the impact of *key informant bias*. Based on responses obtained from a short web-based form sent to all non-respondents, the risk of *non-response bias* was not considered high. To test for *common method bias*, we applied Harmann's *ex post* one-factor test across the entire survey. There was no "general factor" in the data that would represent a common method bias.

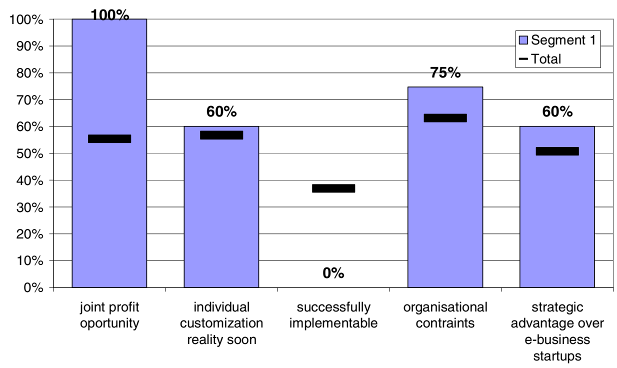
Results

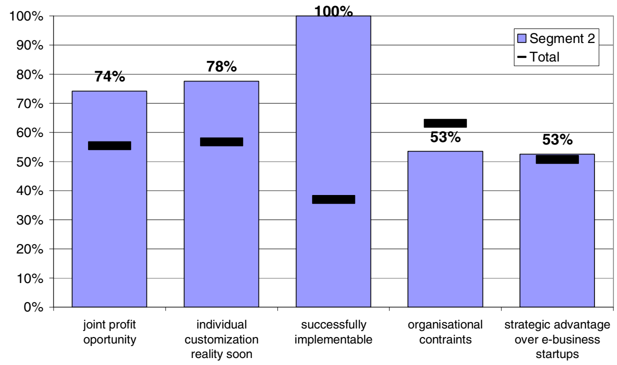
To understand how the importance of managerial discretion plays out in determining eCRM performance, we measured managerial beliefs against a set of attitudinal questions related to various external conditions and internal constraints. For example, if implemented eCRM would: (1) receive support by managers in other departments, (2) face major technological constraints, (3) provide joint profit opportunity for the firm and customers, (4) provide individual customization, (5) be successfully implementable, (6) face major organisational constraints, (7) reduce the power of buyers, and (7) provide a strategic advantage over e-business start-ups. As the agreement levels for some of these items were extremely low (10 to 20 percent), a set of five statements (with at least 40 percent agreement) was selected to provide a parsimonious representation.

The data was partitioned using topology-representing networks (Martinetz and Schulten, 1994). TRNs are self-organising neural networks that group the data points into a predefined number of clusters while simultaneously arranging those clusters to topologically represent the similarities between the resulting attitudinal segments. This procedure was chosen because TRN outperformed alternative partitioning algorithms in an extensive comparison using artificial data sets (Buchta et al. 1997). TRN solutions with cluster numbers ranging from 2 to 10 were computed on the basis of the 5 pre-selected variables. For each one of these segments, 50 repetitions were computed and the stability of repeated computations was computed. The most stable segmentation solution was found to be a 3-segment solution. The charts in Figure show the percentage of all managers in each segment who agree with each one of the statements given along the horizontal axis in the columns. Each segment profile can be interpreted in contrast to the total sample for each attitudinal score as depicted by the horizontal black line.

Segment one contains 32 percent of all respondents and is characterised by a very strong belief that eCRM offers strong joint profit opportunities. Managers in segment one consequently are seen to believe that there are serious organisational constraints standing in the way of implementation and that eCRM offers a strategic advantage over e-business start-ups. All members of segment two (32 percent) believe that eCRM can be successfully implemented. They also believe that individual customization will be reality soon and that joint profit opportunities can be harvested by building up eCRM competence. Finally, managers who are assigned to segment three (36 percent of the sample) generally do not agree with the statements in the questionnaire. The only belief shared equally with the aggregated group mean is that there are organisational constraints preventing successful implementation of eCRM.

To demonstrate external validity, the segments selected were evaluated against variables other than those used to generate the solution. Given the ordinal nature of some of these measures, we used Chi square tests based on cross tabulations. The resulting p-values were Bonferroni corrected to account for multiple testing on one data set and avoid overestimation of significant results. The results (see Table 1) are shown as percentages to aid interpretation.





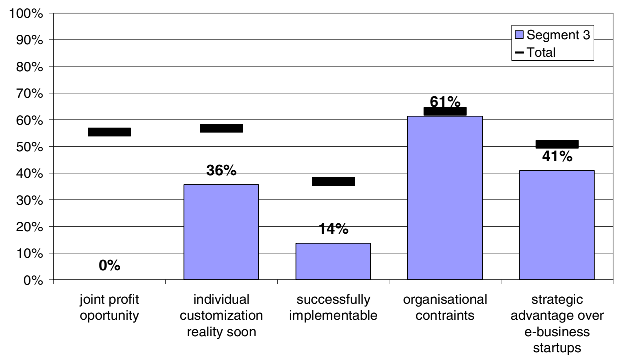


Figure 1: Attitudinal management segments

The results in Table 1 confirm the importance of implementation constraints and organisation assets to financial and operational performance. Interestingly, they also highlight differences in the type of relationship exchange that appear to explain why managers in segment three have such strong reservations about the strategic potential in eCRM.

Table 1 – Background Variable Analysis

	Per cent by segment			
	1	2	3	p-value
Environmental Pressures (agree/strongly agree):				
Internet is improving competitive standing of the firm	30	**52**	24	<.01
Type of relationship exchange (open ended contracts)	43	31	**48**	<.01
Ability to create new value for our major customers	51	**73**	37	<.01
Our relationships with major customers would have suffered if we had not implemented e-CRM initiatives	41	**51**	25	<.01
Organizational Assets (agree/strongly agree):				
Importance of customer relationship know how	**90**	87	73	<.05
Staff understand the nature of interactive media	18	**43**	21	<.01
Real time updates of customer transactional data	22	**45**	27	<.02
Level of e-CRM Implementation				
Successfully integrated into core systems	15	**28**	15	<.01
Operational Implementation Constraints (agree/strongly agree):				
Managers more concerned with immediate cash flow	**70**	34	56	<.01
Political influence & parochial interest play a crucial role	**47**	29	41	n.s.
Gaining consensus is a major hurdle	**54**	33	48	<.01
Firm financial performance (agree/strongly agree):				
Increased market share	4	**16**	6	<.03
Increased total sales (revenue turnover)	3	**22**	9	<.01
Annual growth in revenue	8	**25**	15	<.05

Operational performance (agree/strongly agree):				
Able to offer new insights into customer needs	35	**60**	31	<.01
Faster response to customer needs (agree/strongly agree)	66	**79**	52	<.01
Integrated customer data	30	**48**	27	<.02

Discussion

Our results indicate that managerial judgment appears to be an important managerial skill that is under emphasized in the literature. The most salient belief however relates to implementation feasibility. At the very least, these results indicate that if an organization does not possess the skill and mind-set to execute flawlessly an eCRM strategy, then it is better to choose a more interim option. This view of marketing strategy is consistent with recent work by Nohria, Joyce and Roberson (2003) on the role of strategy versus implementation. According to Nohria it matters less which strategy is picked by a firm as long as implementation is achievable.

What this means is that in environments such as eCRM where the linkages between actions and outcomes are often uncertain, the research design must be more explicit in an attempt to evaluate the role of managerial judgment. As noted by one manager in a large retail chain interviewed for the study, opinion matters and whose opinion is being voiced is not irrelevant! :

> *Probably the biggest impediment so far has been serious doubts by the Managing Director in particular and other senior managers about the value of e-business. Some of them think this is really a flash in the pan, they spend a lot of money then find out it's just a passing phase and then why did we bother to spend all that money and waste all that time with it.*

Marketing researchers have access to a suite of measurement techniques (e.g., discrete choice modeling) that can be used to model stated preferences and begin to better understand the role of managerial judgment. This may shed new light on a source of valuable information as to why certain firms succeed while others fail.

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