The Effect of Organizational Culture on CRM Success

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Abstract

The aim of this paper is to develop a theoretical framework exemplifying the effect of organizational culture on the success of Customer Relationship Management (CRM) systems' implementation. This is deemed significant as yet little research has investigated the role of organizational culture as a critical success factor to CRM implementation. The proposed theoretical framework is developed based on the notion that nurturing an organizational culture that promotes adaptive learning leads to better management of customer information that in turn improves the quality of customer information, which is considered a key contributor to successful implementation of CRM initiatives. The Competing Values Framework (CVF) is used to measure "Organizational Culture" since it has proven its validity in examining the effect of organizational culture on organizational effectiveness and performance.

Keywords: Organizational Culture, Customer Relationship Management (CRM), Adaptive Learning, Competing Values Framework (CVF)

1 INTRODUCTION

As organizations realize the importance of creating sustainable long-term relationships with customers to survive in the global competition, and as consumers' needs and purchase patterns are changing dramatically, companies are recognizing the need to adopt differentiated and customer-oriented marketing strategies to gain competitive advantage and to meet the various changing needs of their customers (Ko et al. 2008). Customer Relationship Management (CRM) is one specific example, adopted to create and manage relationships with customers more effectively through the detailed and accurate analysis of consumer data using various information technologies (Anderson Consulting, 1998; Buttle, 1996; Gefen and Ridings, 2002; Ngai, 2005).

CRM implementation can bring many benefits to the organization, such as management efficiency, cost reduction, improved customer services, and increased sales and profits (Kang, 2004). O'Leary et al. (2004) and Ko et al.(2004) also found that CRM helped boost profits, improve customer relationships, and increase instances of customer repurchase. Improved relationships with consumers can lead to greater customer loyalty, retention, and profitability.

Though companies are investing heavily in implementing CRM, the percentage of CRM programs that fail falls between 35% and 75% (Rigby et al, 2002; Zablah et al., 2004a), hardly justifying the cost of implementation (Lindgreen et al., 2006). CRM initiatives not
only fail to deliver the desired economic benefits, but also cause to damage the organization’s relationships with its customers. The reasons for failures proposed by Rigby et al. (2002) suggest that companies do not develop suitable relationship-management strategies, since they do not take into account the underpinning culture, attitude, and values of the organization as they work to develop their relationship-management strategies.

Since customer relationship management (CRM) is an information technology (IT)-enabled business strategy rather than an IS, it requires a strategic and cultural change from a product or process-focused culture towards a customer-focused culture (Christopher et al., 1991; Peck, 1995; Ryals and Knox, 2001). Companies need to develop a customer-oriented culture to meet customer expectation and successfully manage the implementation of a relationship management strategy (Rigby et al., 2002; Lindgreen et al., 2006). Furthermore, a customer-oriented culture is essential for the quality and extension of customer-knowledge creation and dissemination (Tzokas and Saren, 2004), which in turn is a pivotal concept in relationship marketing.

This research is intended to investigate the role organizational culture plays in the success of CRM systems, as it shows on the organization’s performance. It has come to fill up the gap in the literature since previous research that examined CRM success factors has focused on IT-related factors (Avlonitis & Panagopoulos, 2005; Roh et al., 2005; Wilson et al., 2002), others have emphasized organizational factors like human resources, organizational structure, and reward systems (Rigby et al., 2002), or business process-related factors (Campbell, 2003; Payne & Frow, 2004; Reinartz et al., 2004). The following sections reviews related literature and proposes a theoretical framework that explains how organizational culture, measured using the Competing Values Framework (CVF), has an effect on CRM success.

2 LITERATURE REVIEW

2.1 What is Customer Relationship Management (CRM)?

CRM can be considered as a business strategy that aims at generating value to the key targeted customer (Buttle, 2004; Boulding et al., 2005; Stein and Smith, 2009; Garrido-Moreno and Padilla-Meléndez, 2011) and developing long-term mutually beneficial relationships with customers (Payne and Frow, 2005; Boulding et al., 2005; Garrido-Moreno and Padilla-Meléndez, 2011), by integrating customer-related information and knowledge from internal and external sources (Boulding et al., 2005; Stein and Smith, 2009) and by diffusing this knowledge to the appropriate stakeholders using information technology (Boulding et al., 2005; Stein and Smith, 2009). CRM is frequently a central element of the knowledge management function of the organization (Stein and Smith, 2009) that requires a redesign of the organization and its processes to create a customer-oriented organization (Garrido-Moreno and Padilla-Meléndez, 2011)

2.2 Critical Success Factors for CRM systems

Many researchers have explored the critical success factors that influence the successful implementation of CRM systems. A sample of these critical success factors are shown in Table 1 below:

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<th>Critical Success Factor</th>
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<td>1</td>
<td>CRM strategy, Communication of the CRM strategy</td>
<td>Rigby et al., 2002; Kim et al., 2002; Mendoza et al., 2007; King and Burgess, 2008; Garrido-Moreno and Padilla-Melendez, 2011.</td>
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2.3 Organizational Culture

Organizational culture refers to a pattern of basic shared assumptions, values, and norms that a group learns as it solves its problems of external adaptation and internal integration, and these assumptions and values can be taught to new members as a correct way to perceive, think and feel regarding those problems (Schein, 1992). Organizational culture also refers to the tacit and underwritten rules that are needed to get along in the organization, it is considered as the ropes that a newcomer must learn in order to become an accepted member since it is the way of doing things around there (Schein, 2004).

2.4 Previous Research on CRM success

Simply introducing a CRM system cannot enhance organizational performance and cannot achieve intended benefits. Organizations should recognize that they should establish a CRM-ready infrastructure and customer-oriented business processes; they should also identify what areas need to be given more attention. For this purpose, Kim, H-S, and Kim, Y-G (2009) suggested a performance measurement framework called a customer relationship management (CRM) scorecard to diagnose and assess an organization's CRM practice. The scorecard can work as a tool for diagnosing and assessing CRM performance of the implemented initiatives, besides it serves as an organizational strategic guideline for future implementation of CRM strategies, since it helps in understanding what factors are important for performing CRM strategy. The study highlighted the role of information technology, human capital (i.e. Employee behavior, employee satisfaction, and management attitude), strategic alignment (i.e. organizational structure and inter-functional integration), and organizational culture (i.e. market orientation).

Stein and Smith (2009) highlighted the importance of "Customer relationship orientation", as an organizational characteristic, that leads to successful implementation of CRM systems in
business-to-business settings, measured in terms of overall productivity, sales force production, customer retention, average account sales, and average account gross margins. Also, Campell (2003) stressed the importance of the creation of a customer knowledge competence in the successful implementation of CRM strategies. Although knowledge management capabilities play an important role in CRM success, Garrido-Moreno and Padilla-Melendez (2011) found that even if knowledge management initiatives are carried out, the most advanced technology is acquired and a customer-centric orientation exists, the implementation of CRM will not be successful if the organization does not redesign its structure and processes and if efforts are not integrated and cultural change is not appropriately led.

2.5 Previous Research linking Organizational Culture and CRM Success

Cultural aspects are important in determining the success or failure of CRM implementations. CRM will not succeed unless a proper cultural foundation exists; an organizational cultural environment that stresses the importance of customer-focused behaviors, information and knowledge sharing, cross-functional teams, performance-based rewards, supportive relationships, adaptive and responsive attitudes to change, and a higher degree of risk-taking and innovation, is more likely to be associated with successful CRM system implementation (Bentum and Stone, 2005; Iriana and Buttle, 2006).

Stein and Smith (2009) stressed the importance of creating an organizational learning culture in CRM success, which can be translated into firm's performance. To enhance business performance, organizations should integrate the characteristics of the four cultural types into the competing values framework, implement a differentiation strategy and use information technology; in order to enhance the effectiveness of the implementation of CRM initiatives (Chung et al., 2012).

Peltier et al. (2012) developed and tested an organizational learning framework to examine the relationship between organizational learning processes, data quality and CRM success in the form of customer and business performance. They found that customer data quality is important in implementing successful CRM strategies, since it has an impact on both customer and business performance. A large portion of the impact of organizational culture on performance is mediated by customer data quality and data sharing. Data quality is enhanced through organizational learning (committed to a shared vision for CRM data), cross-functional learning (marketing/IT cooperation, marketing/IT integration) and functional learning (data sharing). Also, Iriana et al. (2013) found that organizational culture, as measured using the Competing Values Model, has a main effect on CRM success, as indicated by an index composed of a number of financial metrics. There is a strong association between adhocracy and hierarchy cultures and CRM success.

3 THEORETICAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

The primary purpose of using CRM systems is "Adaptive learning" which aims at extracting hidden predictive information from large databases to identify valuable customers, learn their preferences, and create a competitive advantage (Sun et al., 2006). Implementing CRM systems helps in creating "Learning organization" (Stein and Smith, 2009). Learning organizations are continually adaptive to their environments, monitoring external changes and adapting their internal cultures and processes to the changes surrounding them (Stein and Smith, 2009). These organizations need to think across departmental boundaries in order to add value to the customer, and there is a need for the marketing function to act as an integrating function in coordinating interaction with the customer (Wilson et al. 2002). Learning organizations also organize their functional components so that each fits with its
external knowledge environment (Achrol and Kotler, 1999). Day (2000) has proposed that successful customer relationship strategies are associated with three organizational characteristics: (1) an organizational relationship orientation, (2) developing and utilizing knowledge of the customer, and (3) effectively integrating and aligning internal and external processes. Stein and Smith (2009) proposed that relationship orientation, customer knowledge orientation and aligned internal and external resources are related to the use of CRM systems in B-to-B markets; and that CRM implementation is related to the performance of the firm in the B-to-B market space.

Peltier et al. (2012) stressed the importance of customer data quality as a key organizational asset that impacts both customer and business performance through helping in implementing successful Customer Relationship Management (CRM) systems; as having a high quality customer database is a cornerstone of successful interactive marketing strategies and tactics. Customer data quality is considered not only a technical problem but also an organizational problem, poor customer data quality may result from organizational practices, policies and processes to generate and disseminate knowledge, such as poor communication and knowledge sharing. Therefore there is a need to respond to data quality problems through functional and cross-functional learning initiatives that are facilitated through the use of CRM systems (Peltier et al. 2012).

Organizational culture, as measured using the Competing Values Model, has a main effect on CRM success. Organizations with an appropriate organizational culture are more likely to enjoy financially desirable CRM outcomes (Iriana et al. 2013). Development (Adhocracy) culture was found to have a direct impact on ERP success, while hierarchical culture, group and rational culture are indirectly related with ERP success, mediated by explicit and tacit knowledge sharing (Shao et al. 2012). In order to enhance effectiveness of ERP systems, top management needs to enact initiatives that overcome cultural barriers and bring about changes in the underlying organizational culture to increase their members’ knowledge-sharing behaviors, so as to support the integrated, cross-functional nature of ERP systems (Shao et al. 2012). Having an organizational culture that values learning and customer information leads to better CRM learning outcomes (in terms of customer performance and business performance) through creating high quality customer information and through encouraging data sharing (Peltier et al. 2012).

Based on the above discussion, the proposed theoretical framework for the current research is as shown in figure below:
3.1 Organizational Culture

The Competing Values Framework (CVF) is used in this research to measure organizational culture since many studies used this model to examine the link between organizational culture and organizational performance and effectiveness (i.e. Hartnell et al., 2011; Stock et al., 2007; Skerlavaj et al., 2007; Chung et al., 2012; Iriana et al., 2013).

An organizational culture, that encourages adaptive learning and customer-centricity, is expected to have a positive impact on cross-functional and intra-department cooperation. Having an organizational culture that values the need for customer information to achieve desired CRM outcomes encourages the cooperation between the different functions (especially marketing and IT functions) in order to share and disseminate customer information (Peltier et al. 2012). In this research, a relationship is assumed between the type of organizational culture and "Cross-functional cooperation".

H1: There is a relationship between the type of organizational culture that exists in the organization and the level of cross-functional cooperation.

As knowledge management is the primary function of the CRM system, customer knowledge orientation is a key characteristic of organizations that successfully implement CRM systems. Having customer knowledge orientation requires an organizational culture that promotes adaptive learning (Stein and Smith, 2009). In this research, a relationship is assumed between the type of organizational culture and "Customer Knowledge Orientation".

H2: There is a relationship between the type of organizational culture that exists in the organization and "Customer Knowledge Orientation".

3.2 Cross-functional Cooperation

As the successful implementation of CRM systems requires organizational learning and cultural change, and since organizational learning requires knowledge transfer, there is a need for cross-functional cooperation across different departments and organizational groups. The negative relationship between the information technology (IT) and marketing departments is a barrier to the effective implementation of information technology initiatives, particularly with regard to data needs, therefore organizations should pay special attention for the need to integrate marketing and IT functions to overcome information quality problems that result from poor communication and information sharing (Peltier et al. 2012). Cooper et al. (2008) argued that adaptive customer data quality processes require a learning network that is collaborative, open, and that allows users to interact frequently to set project priorities and generate new project ideas.

Although little research has linked cross-functional cooperation to information quality, research in information management and marketing has shown a positive relationship between IT-marketing cooperation and integration with organizational performance. For example, the MIS literature has found strong positive effects of cross-functional cooperation, coordination and information sharing on adaptive information systems development and organizational performance (Sherif et al., 2006; Tanriverdi, 2006). Findings of Peltier et al. (2012) showed that customer data quality is increased when there is cooperation between the IT and marketing departments in particular, since this cooperation increases the likelihood that project priorities are integrated and data are shared. Based on this, a positive influence for "Cross-functional Cooperation" on "Customer Information Quality" is assumed to exist.

H3: Cross-functional Cooperation is positively related to Customer Information Quality.
3.3 Customer knowledge orientation

Knowledge management is the primary function of the CRM system, so it follows that knowledge orientation is a key characteristic of firms that successfully implement integrated CRM solutions (Day, 2000). CRM implementation requires the identification of factors that are important to customers; it should promote a customer-oriented philosophy, and create a database that gives a holistic view of customers’ sales and services information. Customer-centric and learning organizations extract hidden predictive information from large databases to identify valuable customers, learn about their preferences, predict future behaviors, and estimate customer value (Stein and Smith, 2009). Based on this, a positive influence for "Customer knowledge orientation" on "Customer Information Quality" is assumed to exist.

H4: Customer knowledge orientation is positively related to Customer Information Quality

An organization that has a market orientation based on customer-centricity is expected to promote cross-functional and intra-department information learning processes (Jayachandran et al., 2005; Leidner and Kayworth, 2006; Luo et al., 2006). Therefore a positive relationship between “Customer knowledge orientation” and “Cross-functional Cooperation” is assumed to exist.

H5: Customer knowledge orientation is positively related to Cross-functional Cooperation.

3.4 Customer Information Quality

Little research examines the effect that CRM data quality has on organizational performance that results from CRM implementation, but empirical evidence in the IT management literature supports a positive relationship between data quality and IT system benefits (Seddon et al., 2010). Therefore a positive relationship between “Customer information quality” and “CRM success” is assumed to exist.

H6: Customer Information Quality is positively related to CRM Success.

3.5 CRM Success

In assessing the success of the implementation of CRM initiatives, other measures should be taken into consideration other than financial results. As successful CRM implementation results in improved organizational performance, researchers measured CRM success in terms of customer performance and business performance (Peltier et al. 2012; Garrido-Moreno and Padilla-Melendez, 2011; Chang et al. 2005). Business performance is measured using financial indices such as improved profitability or reduced costs, while customer performance is evaluated from the customer perspective using metrics such as customer retention and satisfaction rates (Peltier et al. 2012; Garrido-Moreno and Padilla-Melendez, 2011).

Customer satisfaction, loyalty and retention are critical variables that effect profitability (Stein and Smith, 2009; Rapp et al., 2010). Therefore, in this research CRM success will be measured from the customer perspective using customer performance metrics.
4 DISCUSSION AND CONCLUSION

This research attempted to fill up the gap in the literature, by examining the role of organizational culture in the successful implementation of CRM systems, as previous research has examined other factors that affect the implementation of CRM. Based on the idea that creating an organizational culture that encourages organizational adaptive learning would help in creating the change needed to gain the benefits intended from the implementation of CRM projects, a theoretical framework that explains the relationship between the organizational culture and CRM success was developed. The theoretical framework explains that customer information quality plays a critical role in the successful implementation of CRM. It suggests that improving the quality of customer information needs nurturing an organizational culture that puts an importance for customer knowledge orientation and that promotes cross-functional cooperation. A survey will be designed to validate the proposed theoretical framework, to test the hypothesis and to draw conclusions.

REFERENCES


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