WHAT LIES BEHIND THE CONCEPT OF CUSTOMER RELATIONSHIP MANAGEMENT? DISCUSSING THE ESSENCE OF CRM

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ABSTRACT

Several authors and consulting firms show statistics indicating that at least 50% of all CRM projects fail. Some of them attempt to point out a list of factors in order to guarantee a successful CRM implementation and application. However, few people (either academics or practitioners) attempt to discuss or to consider the essence of the idea of CRM. A relationship presupposes elements such as mutual trust, common goals, a “win-win approach” and long term objectives. Some of these elements are in direct opposition to many business and management goals and values. Most of CRM initiatives have as main goal to profit by improving the client value, inducing consumption, in a unilateral way.

We claim that the idea of CRM involves very serious issues about institutions, roles, power and ethical values that have to be considered. In this article, we attempt to analyse the essence of relationship, trying to go beyond the common sense about CRM, adopting a phenomenological approach. We believe that this is an essential discussion for both theory building and practical application of CRM.
INTRODUCTION

CRM (Customer Relationship Management) has recently become one of the most discussed issues in the IT (Information Technology) area. Following the path of ERP (Enterprise Resource Planning) implementations, CRM is now a buzzword, and many consulting firms have been profiting by selling this kind of “solution”, which promises to guarantee a competitive advantage by using IT to support a close relationship between one organization and its customers.

However, many companies that have tried to adopt this “solution” did not obtain the return they had hoped for. In Payne (2006, p. 20) we can see that:

- 69% of CRM projects have little impact on sales performance;
- Companies think that their CRM projects are significantly less successful than their consultants or suppliers;
- 70% of CRM initiatives will fail over the next 18 months;
- 60% per cent of CRM projects end in failure.

Attempting to explain these statistics, several authors (Boulding et al., 2005; Ngai, 2005; Payne, 2006; Newel, 2003) point out some problems that lead to CRM failure, such as:

- Lack of skills in building and using the new IT-based CRM systems;
- Inadequate investments, as many projects exceed dramatically their planned cost and sometimes even their scope;
- Poor data quality and quantity, mainly for companies that are at the early stage of CRM development;
- Failure in understanding the business benefits – many managers perceive only the high cost of CRM adoption and fail to understand the potential financial benefits at the earlier stages of the CRM project;
- Lack of leadership and top management involvement;
- Inadequate measurement systems – sometimes the organization do not know exactly what they want with a CRM adoption;
- Cultural problems – many organizations need to change their main strategy (vision, objectives, etc.) to focus their efforts on customers.

We believe that these reasons for CRM failure give us some clues, but we have to question, above all these elements: what does CRM really stand for? There is a
“solution” being sold, but for what sort of problem? What kind of phenomenon are we dealing with?

We believe that we need to question the essence of CRM itself, since this term is used for considering different meanings and approaches. In order to understand this essence, we need to begin by discussing the very concept of relationship. With this research focus, the article attempts to discuss CRM essence through a phenomenological approach (Heidegger, 1962; Introna and Ilharco, 2004; Dreyfus, 1994; Ciborra, 2002). We aim at analysing the CRM phenomenon with a critical and dialectical view.

Thus, in the next section we begin by analyzing the current definitions of CRM, and then we explore and discuss the meaning of relationship. Ultimately, we make some final considerations, pointing out issues for future research, since this work is developed within the context of a PhD research project about CRM.

THE MULTIPLE DEFINITIONS OF CRM

Throughout the literature review we can find different CRM definitions, by authors such as Payne and Frow (2005) and Ngai (2005). As consulting IT firms play a relevant role in the dissemination of CRM ideas, we have to consider the way the vendors define CRM as well.

By analyzing the different CRM definitions, we have concluded that they can be distinguished in three main “CRM approaches”. These three different perspectives on CRM are shown in table 1:

- **CRM as a philosophy** of doing businesses, that has to be considered above all kind of strategy or tool. A CRM philosophy is related to a customer-oriented culture keen on building and cultivating long-term relationships with customers;
- **CRM as a strategy**, a organizational strategy that will drive functional plans and actions toward building relationships with customers;
- **CRM as a tool**, focused on the role of IT being used to gather, to analyze and to apply data to build and manage relationships with customers.

Considering the last approach (CRM as a technological tool), CRM is frequently viewed as an information system (commonly a software package) or a group of tools (hardware and software) such as powerful databases, datamining tools, sales force...
automation applications, call centre technologies, web systems (such as portals), among others, applied in helping firms to identify customers, to support market segmentation, interaction with customers and personalization of products and services (Peppers and Rogers, 1997).

<table>
<thead>
<tr>
<th>Approach</th>
<th>Definition</th>
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<td><strong>CRM as Philosophy</strong></td>
<td>CRM refers to the idea that the most effective way to achieve loyalty is by proactively seeking to build and maintain long-term relationships with customers.</td>
<td>Zablah, Bellenger and Johnston (2004)</td>
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<td>A philosophy of doing business that will affect the entire enterprise.</td>
<td>Newell (2003)</td>
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<td><strong>CRM as Strategy</strong></td>
<td>Resources destined for relationship building and maintenance efforts should be allocated based on customers’ lifetime value to the firm.</td>
<td>Zikmund, Mcleod Jr. and Gilbert (2003)</td>
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<td>CRM is the strategic use of information, processes, technology, and people to manage the customer’s relationship with a company across the whole customer life cycle</td>
<td>Kincaid (2003, p.41)</td>
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<td>CRM is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer.</td>
<td>Parvatiyar and Sheth (2001, p.5)</td>
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<td>Resources destined for relationship building and maintenance efforts should be allocated based on customers’ lifetime value to the firm.</td>
<td>Ryals (2003)</td>
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<td><strong>CRM as Technological tool</strong></td>
<td>Software, tools and systems can be viewed as technology-based applications to support the CRM process. They include database capabilities to collect and analyze customer information using statistical techniques such as data mining.</td>
<td>Ngai (2005, p.588)</td>
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<td>“Leveraging technology to engage individual customers in a meaningful dialogue so that firms can customize their products and services to attract, develop, and retain customers”.</td>
<td>Campbell (2003, p.375)</td>
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<td>CRM is a macro level process that subsumes numerous sub-processes, such as prospect identification and customer knowledge creation.</td>
<td>Srevastava et al (1999)</td>
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<td>Technology does play a substantial role in CRM efforts by, among other things, seamlessly linking front and back office functions to provide for the efficient and defective management of interactions across different customer touch-points. (…) thus, it seems that both over and underestimating the role that technology plays in CRM initiatives can have detrimental effects on firms’ relationship management efforts.</td>
<td>Zablah, Bellenger and Johnston (2004, p.479)</td>
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<td>“To some executives, customer relationship management (CRM) is a technology or software solution that helps track data and information about customers to enable better customer service”.</td>
<td>Peppers and Rogers (2004, p.5)</td>
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According to this business logic, the main idea is using IT to develop, for instance, target marketing, saving money with untargeted, wasteful promotional campaigns. Another regular goal is to reduce costs of interacting with/attending clients, such as in the current widespread diffused “call centres”. All the above listed IT tools, especially powerful database technologies, can also be used to support up-selling and cross-selling tactics (O’Malley and Mitussis, 2002; Peppers and Rogers, 1997). Another common application of IT tools is for calculating the customer’s life-time value (Ryals and Payne, 2001).

Nevertheless, several authors agree that without a CRM philosophy or strategy, the application of IT for CRM efforts are meaningless or at least incomplete (O’Malley and Mitussis, 2002; Langerak and Verhoef, 2003; Payne, 2006; Peppers and Rogers, 2004; Gummesson, 1998; Newel, 2003).

The “CRM as a philosophy” approach is related to positive attitudes in relation to all kinds of stakeholders. It involves a deep understanding of what relationship means and of all implications related to establish a relationship (such as trust, common objectives, increasing value on both sides, etc.). This philosophy is supposed to guide organizational and functional strategies; these strategies, by their turn, would have to guide IT applications for CRM - figure 1.

If we consider that “CRM as philosophy”, is the background for any strategy and IT application, we have to better understand what it does really means. For this purpose, we have to discuss the essence of the concept of CRM, by illuminating the understanding of the very concept of relationship.
THE MEANING OF RELATIONSHIP

In order to understand the essence of CRM, we have to discuss the meaning of the concept of relationship. We start by analyzing the origins of this term. It comes from the latin relatio, relatio +onis, which means carrying back, bringing back, also with the meaning of repetition and reference, resemblance, repayment (Oxford, 2000; Randon-Webster, 1999; Handy, 1972; Simpson, 1971). Relation has the meaning of dependence between two things, liaison, friendship, to know each other, intimacy, reciprocity, political, commercial and cultural mutual interests.

By analysing these different meanings of the term, we can conclude that a relationship implies commitment, duties, mutual understanding and goals. In this line of thought, Ford et al. (2003, p.37) claim that a company’s relationship with its customers, suppliers and others is an asset for the company but is also a burden for it to carry.

Exploring the literature, we can point out a series of conditions and implications that a relationship demands:

- **Mutual knowledge** – First of all, a relationship implies mutuality. In order for any “state of affairs” to be considered a relationship, both parties have to participate in and be aware of the existence of the relationship. This means it must be inherently a two-way relation in nature. For instance, a customer can have a great deal of affection for a brand all by herself but, a relationship between the customer and the brand can only be said to exist if the brand is also aware of the individual customer’s existence (Peppers and Rogers, 2004, p.36).

- **Symmetry** - It is a function of many relationship elements, including information sharing, dependence, and power. Symmetric relationships are more stable than asymmetric ones, because asymmetry undermines the balance of power and creates motivation for the stronger party to take advantage of the weaker party, especially in difficult economic conditions. “(…) Symmetric interdependence exists when the relationship members are equally dependent on each other” (Britton and Rose 2004, p.49).

- **Long term orientation** – As the very origin of the term relationship indicates, it has to have a long term orientation, with the idea of repetition. It demands that sometimes one of the sides will have to give up some current interests to sustain the long term relationship as a whole.
• Communication - Ford et al. (2003) emphasize the importance of two-way communication that “enables the parties to become aware of each other and learn (and teach) each other about what they stand for, what they need from the relationship and what they can offer to it” (Ford et al., 2003, p.39). Communication is interpersonal and dependant upon a social context.

• Mutual benefits and satisfaction - Another characteristic of a relationship is that satisfied customers are generally more inclined to remain in the relationship. While it is accepted that there exists a positive relationship between customer satisfaction and customer loyalty, the relationship between customer satisfaction and the duration of the relationship is more complex (Britton and Rose 2004, p.46). According to O’Malley and Mitussis (2002), the idea that both parties can derive value from a relationship demands to consider the motivations, expectations, costs and rewards involved for both organizations and customers in a relationship.

• Mutual trust and fairness - While relationship quality is a somewhat subjective term, it is plausible to measure relationship quality based on the levels of trust, commitment, and ability to resolve conflicts effectively. The higher the levels of these contributors, the greater the quality of the relationship: “(…) Trust is defined as one party’s confidence in the other relationship member’s reliability, durability, and integrity, and the belief that its actions are in the best interest of and will produce positive outcomes for the trusting party” (Britton and Rose 2004, p.43).

• Mutual learning - In order for a company to develop a relationship with a customer, the learning relationship process is crucial. The more the organization is prepared to learn from a customer in a close relationship, the more the company can provide exactly what the customer wants and the more the customer will invest in the relationship. The opposite way is also true: the customer has to be involved in learning the way the company works and evolves, its products, channels for contact, etc.

• Mutual commitment and efforts from both parts - To develop an efficient relationship, both sides have to commit themselves and invest efforts, such as “time spent developing contacts with the counterpart, or developing the
offering or introducing different equipment or working practices” (Ford et al., 2003, p.40).

- **Uniqueness** – According to Ford et al. (2003, p.38) “there is no such thing as a ‘standard relationship’”; each relationship is unique in its content, its dynamics, how it evolves, how it affects the parties involved, and what it requires for each of them to succeed. Anderson and Jap (2005) say that sometimes it is necessary to make unique adaptations or investments to support a relationship.

- **Freedom** - Ford et al. (2003, p.59) remind us that all relationships are unruly: developing a relationship with someone means giving up some freedom. So unruliness is a very basic aspect of any relationship, because it can never be fully controlled by one party.

- **Uncertainty** - since relationships have a time dimension, they have a future that is uncertain and a history whose interpretation is both subjective and which can be changed (Ford et al., 2003). Their development depends on how the parties involved view each other’s capabilities and motives and how they interpret their own actions and those of others. The interpretation can change over time with new experiences.

We could analyse each of these relationship characteristics one by one, and for each one of them we could find many obstacles and challenges, considering a relationship between one organization and its customers.

Starting with the notion of mutual knowledge, we can consider the usual difficulties in knowing and gathering personal information about clients. It is not only an IT challenge, but also involves privacy and ethical issues. It is intimately related to the notion of symmetry, in the sense of information sharing, which is difficult for both parties – for the customer to access information about the firm and the firm to access information about the customer.

If we consider economic theories such as the agency theory (Jensen and Meckling, 1976), they remind us of the difficulties (not to mention the impossibility) of having informational asymmetry between agents with different and sometimes incongruent interests inside an organization. Extrapolating this “power game” beyond the organizational frontiers, it is easy to see how hard it is to believe that it would be
possible to have asymmetry in a relationship with clients, especially in a capitalist environment.

The same rationality is valid when we consider the idea of a “win-win” approach for a full and lasting relationship. In the managerial logic the background is always searching for efficiency, cost reduction and profit maximizing, which is frequently obtained at the cost of maintaining long term relationships. On the other hand, according to the theory of consumer behaviour (Williamson, 2002) customers will attempt to maximize utility for themselves, frequently without caring about the organization or loyalty issues. If self-interest, opportunism, lack of goal convergence even exist within an enterprise, how it is possible to believe in a “win-win” relationship between the firms and the customers?

If we consider only this economic rationality for analysing some IT applications for CRM, we can see these divergent interests in practice. For instance, call centres are frequently associated with CRM, while in practice we can hardly find something more impersonal, cost-reduction oriented than this kind of tool. Uniqueness (a condition for a relationship) is expensive. When a firm imposes a cold, impersonal, machine-guided interface in its interaction with customers, all the assumptions of freedom, uniqueness, caring, go away. As another example, where is the respect for freedom when a company uses IT to monitor their customers by using datamining to detect changes in the level of consumption or to impose up-selling or cross selling promotions?

If we go further, considering not only an economic perspective, but a social one, we can easily see the complexity of power, ethical and emotional elements laying on the background of the idea of relationship. If we took, for instance, the notion of mutual trust, we can see how fragile the ideal of establishing a deep, lasting, intimate relationship with clients in a world driven by contracts is (Williamson, 2002).

Britton and Rose (2004) compare personal and business relationships, claiming that they have many similarities. They say that the benefits of a successful marriage include companionship, intimacy, personal growth, shared finances, and shared household responsibilities, and must be perceived to provide value for both relationship members in order to last.

However, considering the common and current business logic, is it possible that such a kind of relationship exists between a firm and their customers? We question the very
possibility of the existence of a true relationship between them, in the complete sense of the term, with all the economical, social, ethical implications that this kind of relationship has. Some authors help us to support this claim. To Dowling and Uncles (1997) the relationship program’s goals are extremely clear and emphasize the companies’ profitability. They point out that companies want to maintain and augment their sales and profit levels, to increase the customer loyalty and value, and to induce the customer to buy. The authors wonder how this can be called as a “relationship”. They believe that the companies’ intention is one-sided. Barnes (2004, p. 51) explains that:

“(…) After all, if you were to ask a friend or even a stranger to tell you about her relationships, it is most likely that the conversation would center on relationships with family, friends, neighbours, workmates, and team member. Few, I would suspect, would begin by talking about Marriott Hotels, United Airlines, Coke, or Walmart. Relationships are intensely personal concepts. In fact, some people have great difficulty associating the term relationship with the commercial interaction between a company and its customers”.

As the author argues, relationships are based, at the end of the day, in emotional ties, it is more than a functional connection. It is characterized by dimensions such as mutual respect, caring, empathy, warmth, social support, and effective two-way communication (Barnes, 2004). He claims that a large portion of what contributes to long-term satisfaction and loyalty has absolutely nothing to do with products or prices. It has a great deal more to do with how the customer is treated, what he or she goes through, and ultimately how he or she feels about dealing with a company.

Going further, Dowling (2001) criticizes the relationship marketing idea in all kinds of company sectors since many times the customer does not want to develop a relationship with a company. A true relationship demands a lot of effort from both parts, and has to have a strong motivational drive. Dowling (2001) believes that there exist at least three kinds of relations between customer and company: a close relationship, a relationship just to maintain a dialogue, and a non-existent relationship. The author highlights that in the last case, customers can be very loyal, but do not desire to talk with companies, and this position needs to be respected.

Besides that, in order to develop a good relationship with customers, the internal relationships within a firm have to have sustainable bases. To obtain a unified view of customers, different sectors have to exchange information about all processes and topics that involve them (such as Payne, 2006).
However, over the course of a company’s management history, the organizational chart suggested that the boundaries between the different sectors were rigid. These fixed barriers had resulted in different structures, languages, control systems, symbols, stories, paradigm, etc. in each sector (Payne, 2006).

As we have mentioned, there are different agents, interests and power games within the organization, while a CRM philosophy would demand to put the customer above all these differences. Bentum and Stone (2006, p. 29) argue how difficult it is to have a “CRM culture” diffused all over the organization, since the organization itself is formed by subcultures, each one of them views the customer through different perspectives. A holistic CRM culture requires a sophisticated approach to integrate distinct subcultures, and demands continuous leadership on all organizational levels (Bentum and Stone, 2006, p. 29).

ATTEMPTING TO CONCLUDE…

After discussing the meaning and implications of a relationship, we conclude that the very concept of CRM has to be revisited. Since a true relationship is based on emotions and implies elements such as mutual knowledge, some level of symmetry, long term orientation, communication, mutual benefits and satisfaction, mutual trust and fairness, mutual learning, mutual commitment, investments and efforts from both sides, uniqueness and, above all, freedom and uncertainty, we can conclude that, first, we have to question the very existence of a true relationship between a company and its customers. There is, of course, a commercial relation, but, is it possible for a relationship to exist between them?

Second, even if we consider that some level or kind of relationship between a company and its customers is established, ranging from a continuum of a very functional relationship to a very emotional one (Barnes, 2004, p. 53), it is not possible to manage such a relationship. To manage a relationship requires a very arbitrary and unilateral attitude, which is in opposition to the very meaning of relationship. Barnes (2004, p. 53) also criticizes the notion of relationship “management” since successful relationships are bidirectional. Much of what is labelled as customer relationship management in the current business vocabulary is definitely one-sided (Barnes, 2004).
We argue that relationships have to be **cultivated** instead of managed. Inspired by the concept of cultivation proposed by Dahlbom and Janlert (1997) we would like to state that a relationship between a company and its customers is a process that cannot be totally controlled, rather it is a natural process demanding support and monitoring, protection and care. As Barnes (2004, p. 52) claims, customers do not deliberately set out to create relationships with companies: the relationships simply evolve. Relationships take time to develop and must be nurtured. This kind of approach is the opposite of thinking that a company can simply decide to have a relationship with a customer, whether or not that customer wants one.

We also believe that, even if it is not possible to have, in a commercial relation, all the elements that a true relationship implies, these elements must guide the organizational actions towards the customers, if the organization wants to cultivate some level of relationship with them.

Understanding the meaning of relationship is an essential condition for developing a "CRM philosophy" that has to guide CRM strategies or, at least, drive the use of IT to support the relations with customers. A "CRM philosophy" implies a high level of commitment, coordination and integration among all members of an organization and beyond, involving even the other actors in the value chain, towards a customer-oriented culture.

We also claim that companies have to be very critical of the goals that they set for CRM strategies and applications. Sometimes we observe that a company has great expectations from a CRM initiative, such as customer loyalty, increasing profits, etc. However, the company adopts a CRM technological approach that goes the opposite way of any action that could really nurture a lasting relationship with their customers.

As we have mentioned in the call centre example, CRM IT tools can be very hindering if used without a clear understanding of relationships. We believe that a close relation exists between what a company understands as CRM and the very concept of relationship, the company’s goals and the company’s benefits obtained by adopting a CRM initiative.

For future research we would like to highlight the importance of developing empirical research on what companies understand as relationship and on their CRM approaches
(philosophy, strategy or technological tool). Our intention here was to contribute to the discussion of this topic.

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