Chapter XVII

An Empirical Study of the Relationship of IT Intensity and Organizational Absorptive Capacity on CRM Performance

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ABSTRACT

In recent years, e-business has emerged as a mainstream business practice for engaging in global markets. To gain a competitive advantage in these highly competitive markets, many business organizations have turned to customer relationship management (CRM), an integrated system that draws upon the strengths of IT, to allow them to gain greater insights into their customers' needs. This study examines the relationship of information technology (IT) intensity and organizational absorptive capacity to CRM practices and performance. Data collected through a survey of Taiwanese financial service companies generally suggest that CRM practices mediate the effects of IT intensity and organizational absorptive capacity on CRM performance. Thus, it behooves organizations that seek to compete in global markets to invest in developing both their IT infrastructure and organizational absorptive capacity, and apply these resources toward building their marketing intelligence and innovating products and services that meet their customers' needs and expectations.

INTRODUCTION

Continual advances in information technology (IT) and the push for global marketing have led to the rapid expansion of global marketplaces and electronic business (e-business). In 1999, estimates placed business-to-business (B2B) e-business spending between $92 and $142 billion (Ah-Wong et al., 2001; Kelly, 2000), and business-to-customer (B2C) at $33 billion (Ah-Wong et al., 2001) in the U.S. Today, U.S. and worldwide B2B transactions have reached $2.4 trillion and $3.9 trillion, respectively, while U.S. B2C spending is forecasted to approach $95 billion (Mullaney et al., 2003). Future B2C spending can be expected to shadow worldwide B2B spending, estimated between $6 and $7.3 trillion for 2005. Gartner (2002) estimates the current 216.7 million adult worldwide Internet users to double in 2005. Thus, many opportunities avail themselves to businesses that pursue global electronic markets.

Yet, as more businesses transition to e-business, competition in the Internet-enabled marketplace becomes keener. Many have turned to information technology (IT) for solutions that provide a strong competitive advantage. One such IT-based solution that has gained popularity in recent years is customer relationship management (CRM), frequently described as an information system to assist the customer retention process or a methodology that extensively employs information technology, particularly database and Internet technologies, to enhance the effectiveness of relationship marketing practices. Generally, greater investments in IT provide CRM with greater capabilities. With its broader acceptance, the focus of CRM research has shifted from the examination of development and application issues to the discussion of management-oriented issues, particularly those concerned with its successful adoption, implementation and deployment.

As a competitive tool, CRM tunes the organization into listening to its customers, and allows the organization to develop customized products and services that cannot be easily duplicated, substituted or imitated by its competitors, and subsequently more precisely match its customers' needs (Peppard, 2000; Winer, 2001). Given this context, the primary objectives of CRM involve attracting, developing and maintaining successful customer relationships over time (Berry and Parasuraman, 1991; Day, 2000), and building customer loyalty (Kohli et al., 2001) through efficient and effective two-way dialogues (Peppers et al., 1999). As the customer-business relationship flourishes, both the customers and organization benefit (Yim and Kannan, 1999). Establishing these relationships becomes even more critical in e-business as the world becomes the marketplace.

Previous CRM studies have tended to focus on the virtues of using IT to improve organizational productivity and quality (Crosby and Johnson, 2001). However, as use became more pervasive, organizations discovered differences in their outcomes of CRM due to factors inherent to them. Recent studies now focus on identifying organizational factors that lead to the successful use of CRM, such as corporate culture, and process and technology improvement (Yu, 2001), and the alignment of people, processes and technology (Battista and Verhun, 2000; Crosby, 2002; Crosby and Johnson, 2000; Simpson, 2002). The results of these studies indicate that variations in these factors will affect the effectiveness of CRM. Therefore, CRM performance may vary among organizations due to organizational factors (all applications of IT being equal).

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