



# The effect of CRM use on internal sales management control: An alternative mechanism to realize CRM benefits

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## ABSTRACT

This case study investigates how effective internal sales management control is achieved through CRM use and why enhanced control is beneficial to firms, which are largely overlooked by the extant literature. The main theoretical lens is organizational control theories. Results show that CRM use strengthened formal control and informal control simultaneously. Formal control was significantly boosted by enhanced outcome measurability and process visibility of sales work. CRM use also facilitated informal control, by serving as the carrier of new institutional processes and sales philosophy, which bolstered clan control, and by functioning as tools for self-control.

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## 1. Introduction

Over the past decade, the application of customer relationship management (CRM) has experienced rapid growth. Between 2000 and 2005, organizations spent 220 billion dollars implementing CRM solutions [35], to improve customer services, satisfaction, and retention [40,46]. However, prior research has produced equivocal results on the effects of CRM on firm performance. Although some studies (e.g., [9,40]) have provided evidence of positive relationship between CRM and performance, many academic and business reports have shown disappointing results. For example, Hendricks et al. [22] analyzed a sample of 80 announcements of CRM implementations, and found insignificant improvement on long-term stock price and profitability. Moreover, the Gartner Group has found that approximately 70% of CRM projects resulted in either losses or no bottom-line improvements in firm performance [45].

To account for the apparent discrepancy between the popularity of CRM implementation and lack of consistent research findings on CRM effectiveness, there is a need to take a closer look at how CRM is used to realize its full potential benefits. Indeed, researchers have recognized a lack of understanding of the mechanisms through which CRM affects firm performance (e.g., [6,18,45]). There is a need for research that specifically examines the

mechanisms for achieving CRM benefits, and such qualitative studies in particular.

Furthermore, prior conceptualization of CRM impact on firm performance tends to be narrow, primarily focused on financial terms and customer-related benefits (e.g., [27,29,40,46]). In contrast, far less attention has been paid to operation-related benefits [50]. Similar to other enterprise systems (ESs) such as enterprise resource planning (ERP), CRM has multiple impacts on a firm. In particular, a CRM system involves the specification of standard and replicable business processes, and the automation of these processes [50]. The centralization of information, standardization of processes, and transparency of employees' work can satisfy the need of firms for better controlling internal processes. The control effect of CRM is important because CRM is usually used in departments with external boundary-spanning responsibilities, such as sales, marketing, and customer services. Employees in such sales-related departments typically spend most of their time in the field. This makes the job of monitoring and controlling these employees difficult [43]. Therefore, it is important for management to improve their control over the sales function. However, such control-related CRM benefits have been neglected in prior research. As far as we know, no prior research has directly addressed control-related CRM usage.

In this exploratory case study, we observed an interesting CRM application in a small provider of system integration services. The firm's original purpose was to use the CRM to better manage client information and make sure it stayed in the firm rather than being private to the sales representatives. However, overtime CRM use

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produced a much broader range of operational benefits including institutionalizing new procedures. For example, behaviors of sales representatives became more closely aligned with the expectation of the management. Managers could monitor the progress of sales continuous. As a result, not only the outcome but also the process of sales became visible to management. Processes embedded in the CRM provided a more structured approach to conducting sales by guiding sales representatives' work and making them more effective.

This case offers a vantage point to study CRM impact on internal processes, and to broaden understanding of CRM effect on firm performance. Since the extant literature of CRM impact offers no comprehensive theoretical explanation for what we have observed, there is a need to develop a theoretical perspective to account for the observed phenomenon. Therefore, drawing upon organizational control theories, this case study sets out to investigate: (1) *how is effective sales management control achieved through CRM use, and* (2) *why is control-related CRM usage beneficial?* "Effective" in research question (1) refers to either enabling a previously non-existent control mechanism, or substantially strengthening an existing one, for achieving management objectives. The meaning of "beneficial" in research question (2) is twofold, instrumental to achieving management objectives at the organization level, and enhancing employee performance and capability development at the individual level.

The rest of this paper is organized as follows. First, we review organizational control theories to orient our research. We then describe the case context and research methods. Next, results of data analysis are presented. Lastly, we discuss the key findings and implications.

## 2. Theoretical background

To shed new light on the operational benefits of CRM use and broaden the conceptualization of CRM impact, this section reviews organizational control theories [15,25,42]. They have been widely adopted by research in sales and marketing (e.g., [11]), information systems (IS) development (e.g., [31,49,51]), information technology (IT) outsourcing (e.g., [7,47]), and knowledge management (e.g., [53]).

### 2.1. Formal and informal controls

Consistent with prior studies, this research views control in a behavioral sense (e.g., [25,31,47]), as formal and informal processes of negotiation between organizational members (e.g., managers and employees), in which various strategies are developed to produce desired outcomes [10]. In general, there are two major *modes* of control, formal control and informal control [15,25].

Through formal control, management influences employees' behavior and activities by establishing a set of procedures to monitor, direct, evaluate, and reward them. Formal control can be further classified into two specific modes, outcome control and behavior control. The former focuses on whether interim or final outcomes are achieved without consideration to the process. Management sets performance metrics, evaluates the results and rewards employees for meeting those goals [3,11,25]. Common mechanisms for outcome control include explicitly specifying desired outcomes and then evaluating employees' performance based on the specified standards. Examples of these mechanisms for sales management include bottom-line performance results such as sales volume, gross margin, and sales expense [1,2].

In contrast, the focus of behavior control is on the means to achieve desired ends. Management prescribes specific rules and procedures, then monitors and evaluates employees' behavior, and

lastly rewards them based on the extent to which stated procedures have been followed [3,11,47]. Mechanisms for behavior control include explicitly defined rules and procedures, and information systems to help monitor and evaluate whether employees' behavior meets the specified rules and procedures. Behavior control on salespeople can be achieved via constant monitoring, frequent contact, and more subjective performance metrics such as salespeople's efforts, activities, and the like [2].

In general, informal controls emphasize social or "people" factors [32,42], including clan control and self-control, to reduce divergent preferences between organizational members. There are two specific modes. First, clan control is implemented when management promulgates shared experiences, values, and beliefs within a group of individuals [32]. Through clan control, management can "minimize the differences between controller's and controllee's preferences" ([7], p. 293) so that members will exhibit strong commitment to the clan. Clan control mechanisms include hiring and training practices, peer pressure, and team building activities [31,49]. Second, self-control aims to ensure that employees are intrinsically motivated and set task goals and procedures for their own behavior [7]. Examples of self-control mechanisms include self-set goals, self-monitoring, and self-rewarding [30].

### 2.2. Antecedents of organizational controls

Prior theories tend to feature the choice of one particular mode of control over others, instead of simultaneous exercise of a full range of control. It has been suggested that the choice of control depends upon task characteristics, and the controller's knowledge of the transformation process [7,15,30,42]. More specifically, task characteristics include behavior observability and outcome measurability. If management has ability to specify and track desired outcomes, outcome control is more likely to be exercised to evaluate employees' task performance [7,15,30]. If the appropriate behaviors of a task can be specified in advance and management has the ability to gather information about employees' behavior, behavior control is more likely to be used to ensure that the prescribed task process is followed. A manager who clearly knows the transformation process will be confident to exercise behavior control and specify the rules and procedures that employees should follow [7,30,33]. When a task is complex and the standards are difficult to set, management may exercise clan control or stimulate employees to perform self-control.

### 2.3. Organizational controls enabled by enterprise systems

To get a better understanding of CRM-enabled sales management control, it could be helpful to briefly review how other ES (especially ERP) influences organizational control. As ES has the potential to facilitate control through improved visibility of operations and standardized business processes, ES-enabled control has drawn attention of prior research (e.g., [4,17,24,41,48]). Several mechanisms have been identified to play important roles in realizing ES-enabled controls. For example, surveillance associated with ES use affords "panoptic visibility" for management [17,28,48], which is also referred to as the "informing" power of IT [56]. ES use is also seen as a disciplinary technology [14]. As carriers of organizational processes, rules and regulations [21], ES embeds institutional elements through the design and implementation [54]. In other words, assumptions about organizational processes and how organizational units should function are built into ES, and thus these assumptions emerge from ES use and constrain the behavior of organizational members [41].

Therefore, it makes sense to examine the effect of CRM use on control over employees. However, in contrast to prior studies of

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