Performance Implications of Customer Relationship Management Strategy and Market orientation organizational Capabilities

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PERFORMANCE IMPLICATIONS OF CUSTOMER RELATIONSHIP MANAGEMENT STRATEGY AND MARKET ORIENTATION ORGANIZATIONAL CAPABILITIES

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Customer relationship management can be a costly solution to implement and many of these initiatives fail to deliver their intended results. Several reasons may exist that explain why such programs fail, and this study attempts to explain CRM in terms of its use as a company strategy that, when combined with the market orientation of a firm, can lead to improved company performance. By using contingency theory to develop that a "match" between culture and strategy allows a firm to better perform, an attempt will be made to establish a relationship between CRM strategy implementation and market orientation. A methodology whereby U.S. banks where surveyed is described and the results of the hypothesis test reported. Finally, implications and conclusions are provided.

Introduction

Customer relationship management (CRM) has received much attention from companies looking to reinforce their customer focus or attempting to establish a customer focus. These programs can be very costly, in the range of $60 - $130 million dollars to implement, and about 55% of all CRM projects do not produce results (Rigby, Reichheld, and Schefter, 2002). Although they may be quite popular, there may be several reasons for their failure. One consideration is that a customer strategy may not actually exist when CRM is implemented. Another is that CRM might be rolled out before the organization is changed to match this strategy. A company that places the customer at the focal point of the business's operations will be more prepared to handle the changes associated with a CRM program. In addition, certain organizational considerations, namely organizational culture, can assist in making the implementation successful. One way to examine these two considerations is by looking at the relationship between contingency theory and market orientation. Contingency theory seeks to show that company performance is the result of the right "fit" between two or more factors. Market orientation is an organizational culture that allows for implementation of the marketing concept, placing the customer at the center of the company's activities.

The purpose of this paper is to examine the use of CRM in the banking industry and its effect on performance. In doing so, the relationship between strategy (CRM), culture (market orientation), and performance will be developed based on the premise of contingency theory that when the organizational culture "fits" the strategy, performance will be enhanced. First, a brief discussion of CRM will be presented with particular focus on the banking industry. Then, literature on contingency theory and market orientation is reviewed, with the hypothesis presented. A methodology whereby U.S. banks where surveyed is described and the results of the hypothesis test reported. Finally, implications and conclusions are provided.

Customer Relationship Management

Customer Relationship Management is a "management approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to maximize customer value, corporate profitability and thus shareholder value" (Payne, 2000: 2). CRM has garnered much attention, in no small part due to the emergence of a variety of tools and services being offered by information technology vendors and made possible by new Internet technologies. Although these programs have gained in popularity, there is certainly no guarantee of their success. One in five senior executives have report that their CRM initiatives failed to deliver profitable growth and damaged long-standing customer relationships (Rigby, Reichheld, and Schefter, 2002).

CRM is based in the Internet's ability to allow companies to choose how they interact with their customers and it is designed to help them build better relationships with those customers. The idea is for companies to "establish, nurture, and sustain long-term customer relationships" (Winer, 2001). CRM technology allows companies to do everything from track customer behavior on the web to predicting their future moves to sending direct e-mail communications. Companies have long been interested in finding out which are their best
customers so that those customers can help them achieve long-term profitability. After all, retaining customers can be much more profitable than acquiring new customers.

One of the advantages of CRM, its flexibility, can also create some degree of confusion. Many users have different ideas of what CRM means, as it could be direct e-mails, mass customization, online analytical processing, or customer interaction centers. The steps in the CRM model include building a database of customers, analyzing the data to determine "lifetime customer value", selecting customers to target, targeting those customers with individual attention or "relationship" marketing.

The typical relationship program may include a variety of elements, including customer service, loyalty or frequent shopper programs, customization, and community. All of these activities must be conducted in a secure environment, which can be an even greater challenge to those companies using third party vendors for storage or development of customer information. Recent cases of lost or stolen personal information emphasize the need for secure networks for these customer databases.

**Customer Relationship Management and the Banking Industry**

The banking industry has faced increased competition from online lenders, who make borrowing money a less complex proposition for the consumer. This competitive environment has forced the banks to become more customer-friendly, which has created a large market for CRM products and services. Peppard (2000) explains the different models of banking that have evolved from the Gatekeeper model to the Gateway model. In the old model, the bank acted as a gatekeeper, and there was a certain level of restriction involved in the number of choices a customer was given. As an intermediary that basically kept the customer from getting something they really wanted, the bank maintained control in the relationship. That relationship has changed somewhat to make the bank more flexible in providing service to its customers. The modern bank now serves as a gateway that provides access to a wide variety of products and services. Because some of those products and services may be provided by third party vendors, CRM becomes a very important part of what a bank does and helps to reinforce the relationship it has built with its customers. This has become the focus in recent years, but as Harrison (2003) indicates, the focus on customer retention and relationships has taken attention away from understanding the purchase decision process as it relates to banking customers.

Technology in the banking industry has allowed for empowerment of customers and given them the option to use technologically delivered services. The new systems allow customers to obtain up-to-the-minute bank balances and access to services at their convenience (Joseph and Stone, 2003). One difficulty in bringing successful CRM to the banking industry is the reluctance of some companies to see it as more than just a technology solution. In order to really have success, the institution must see CRM as a strategy rather than a tool. In many companies, the marketing department sees the most benefit from CRM, so the efforts are usually driven by this department (Peppard, 2000). While technology can certainly be a part of CRM, it does not necessarily require substantial investments in technology in order to work. Motivating employees to be more sensitive to the needs of customers is one method that does not require significant investment in technology, but can pay large dividends in the long-term (Rigby, Reichheld, and Schefter, 2002). The massive growth of Internet usage in the United States and the rapid development of technology have given rise to a new type of customer that demands online banking services and does not wish to conduct their banking business by traditional methods. This is in contrast to the traditional customer that may use the Internet for some transactions, but still prefers the personal contact they get in the physical bank location.

It is important to understand what customers expect when using online banking services. As an element of the purchase process, information search is a vital step that allows consumers to feel more confident in their purchase and reduce risk (Waite and Harrison, 2002). Important aspects of information search are the type of product and the format of the information. The Internet's accessibility to information makes it a popular source of information for banking customers, as it enables everything from search engines to two-way communication. Buyer search costs are considerably lower with the Internet, as efficiencies increase, but the right technology must be in place for the firm to take full advantage of what the Internet has to offer. Overall, the website for a bank must be functional with detailed information and fast, reliable customer service.

Another consideration is how consumers make decisions concerning the choice of a financial services institution. Research has shown that customers do not necessarily shop around for financial institutions, and that they are relatively satisfied (Lee and Marlowe, 2003). The more highly competitive market that exists for financial services firms has changed consumers' attitudes about how these services are purchased. These
can be somewhat dependent upon the type of financial service being purchased, as checking accounts may require much less involvement than investment alternatives. Research has suggested that the best way for a financial services company to meet the needs of its customers is by delivering products and services through a variety of channels instead of relying on only one (Howcroft, Hewer, and Hamilton, 2003).

Contingency Theory

Galbraith (1973) introduces two underlying assumptions about contingency theory, that there is not necessarily one best way to organize and that not every organizational structure or culture is equally effective. Contingency theory also acknowledges that there is no one best way to manage in a given situation, and that situational variables from both internal and external environments impact management practice. These situational variables include, in a broad sense, the external environment, the company strategy and organizational capabilities. Some of the research on contingency theory assesses the extent to which a "match" exists between strategies and a company's capabilities. Carpano and Chrisman (1995), for example, found that sales growth is enhanced by a match between the strategy pursued (e.g., global standardization of a product) and organizational mechanisms used (e.g., sharing of information between headquarters and subsidiaries). Research has shown that, with respect to the functional areas of a firm, marketing has the most influence on programs for improving customer satisfaction (Homburg, Workman, and Krohmer, 1999). This actually goes beyond the traditional variables included in contingency theory to view influence as being somewhat institutionalized. In order to examine how the implementation of a CRM program can be enhanced by using contingency theory to match it to the culture of an organization, market orientation must be considered.

Market Orientation

Marketers have shown renewed interest in the study of market orientation. According to Narver and Slater (1990: 21), market orientation is "the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business." Since the concept's introduction, an expansive literature on market orientation has evolved. Several studies have assessed antecedents and consequences of market orientation, as well as its role in impacting firm performance (e.g., Jaworski and Kohli, 1993; Kohli and Jaworski, 1990).

In order for a business to survive, it must create a sustainable competitive advantage by creating sustainable superior value for its customers (Narver and Slater, 1990). Market orientation allows a company to do just that by focusing on the customer and the competitive market. By putting the customer at the center of a firm's activities, the firm is more likely to enjoy long-term success and profitability. Market orientation can also be described as the organization culture that best creates behaviors that lead to superior value for buyers and continuous superior performance for the company. Customer orientation and competitive orientation include all activities to acquire information about consumers in any given market, and this market orientation is relevant to every market environment. The external environment of the firm is very important in determining whether a market orientation is indeed possible. The market orientation seems to have a stronger effect on performance when operating in a very dynamic market (Homburg and Pflesser, 2000).

One way to look at market orientation is as the implementation of the marketing concept, but it can also be seen as a philosophy that permeates an entire organization (Lafferty and Hult, 2001). Market orientation has traditionally been customer-focused, centering on customer needs and making profits by creating customer satisfaction. From an organizational standpoint, the firm must be able to manage both strategic and tactical decisions between the functional areas and different divisions.

In developing a market orientation, it is helpful to know which factors or variables are most important. Avlonitis and Gounaris (1999) contend that a company's orientation is based on a combination of attitude and behavior. If a company can develop market orientation as an overall philosophy, then its ability to gather market intelligence, which is the starting point in market orientation, would be described as its behavior. Of course, the gathering of data is only the first step, as it must be disseminated throughout the organization and responses must be designed to take advantage of the knowledge gained. This cultural aspect of market orientation is very important as the organization prepares to adopt a new philosophy. Harris (1999) describes the barriers to market orientation as employee focused and system focused. Certain employee behaviors can make market orientation a difficult proposition, so a "people-led" approach to developing a market orientation may work best. By developing the market orientation through
the understanding, belief, and commitment of organizational members, it may be possible to make significant progress. This involves a certain degree of internal marketing in order to sustain a high level of market orientation. By concentrating more heavily on system variables and how they affect market orientation, perhaps an understanding of how it is best implemented has not been evident.

Focusing on the more humanistic aspects seems much more effective. It is helpful, however, to examine the structural or systemic barriers to market orientation. By considering organizational dynamics and the characteristics of the organization and how they relate to market orientation, a preferred organizational environment can be suggested. Harris (2000) does this in a service environment rather than the typical manufacturing environment, where much of the earlier market orientation research was focused.

Market orientation and its effect on performance have been studied with respect to environmental variables, strategic flexibility, and strategic alternatives to simple market orientation. When looking at market orientation under different market conditions, Greenley (1995) found that market orientation may not be as advantageous in highly turbulent markets, and under conditions of high technological change and low customer power. It could be said that in earlier days, online banking and financial services may have operated in this type of environment. If the gatekeeper relationship as described by Peppard (2000) is any indication, the customer would have had low power as the industry became more technologically proficient. As new competitors entered the market for online banking, they found relatively low costs when compared to opening the brick-and-mortar financial institution. This may have put the industry in a rather turbulent state, so that the implementation of a CRM program would not have been advantageous.

With regard to market orientation and performance, much research has been done in the marketing field that explains the positive relationship between market orientation and business performance. One aspect of this relationship is the strategic flexibility of the firm. Strategic flexibility is defined by Grewal and Tansuhaj (2001) as the firm’s ability to manage political and economic risks by responding in a timely manner to market threats and opportunities. Aside from the opportunity costs of building strategic flexibility, a firm can position itself to survive downturns and take advantage of competitive opportunities. It has been said that an organization that places a great emphasis on market orientation may lock itself into institutionalized thinking about competition, but it has also been suggested that strategic flexibility and market orientation be developed together as they are complementary.

One indicator of an organization’s ability to implement market orientation is the entrepreneurial proclivity of the organization. Those characteristics that describe entrepreneurial proclivity are the same ones that could be used to describe an organization’s ability to respond to market forces. Being proactive, innovative, and willing to take risks can be effective when used in a market orientation, but they have been found to actually be negatively related to performance when standing alone (Matsuno, Mentzer, and Ozsomer, 2002). Another consideration is the role of business strategy as a moderator of the market orientation-business performance relationship. Matsuno and Mentzer (2000) explain that engaging in market intelligence activities must be combined with responsiveness in order to be useful.

Something that has not been addressed in the literature is the use of alternative strategic orientations and how that affects a firm’s performance. Other types of strategic orientations include production orientation and selling orientation. Production orientation is based on the belief that production efficiencies, cost minimization, and mass distribution can provide the customer with needed goods at reasonable prices. The selling orientation says that aggressive selling and advertising methods can be used to make customers purchase more goods and services. Traditionally, only market orientation has been studied with an attitude that there would not be another orientation if market orientation was not in effect. Noble, Sinha, and Kumar (2002) found that other competitive cultures exist that can lead to strong performance. Actually, a selling orientation was positively related to strong performance along with the competitor orientation and national brand emphasis of market orientation. Thus, a combination of factors can be used to improve performance. Depending on the competitive environment, a firm might find that different strategies work under different circumstances. In addition, Ngai and Ellis (1998) suggest that a firm look closely at its underlying business philosophy and become more focused on both customers and competition at both the functional department level and the corporate level.

Hypothesis Development

This research addresses the implementation of CRM and its impact on the performance of company units, taking into account organizational culture. Consistent with contingency theory that proposes that a
desired outcome (e.g., company performance) is the consequence of an appropriate “fit” between two or more factors (e.g., company strategy and organizational culture); the approach is conceptualized as follows:

Consistent with contingency theory, this research explores the relationship between performance and the fit between CRM strategy implementation and organizational culture of market orientation. The expectation is that the greater is a company’s emphasis on the implementation of a CRM system, the stronger needs to be its organizational culture of market orientation. Companies that pursue a CRM strategy without adopting a market orientation culture will fail to respond to customers’ expectations; therefore, the company’s performance would be subpar. Such a mismatch could be an explanation for the poor performance of companies implementing CRM systems that were mentioned earlier in the paper. Therefore, the following hypothesis is suggested:

H: Performance is positively associated with the match between a company unit’s CRM strategy implementation and market orientation. A “match” exists when usage of CRM technologies and level of market orientation are high (and vice versa). For example, a high degree of usage of CRM technologies requires a high level of market orientation.

This research is significant in several ways. First, it is timely. As mentioned previously, many companies today are investing millions of dollars in CRM systems, but having disappointing results. This research will help companies understand why these efforts are failing, and provide guidance for improving these efforts. Second, this research project fills a gap in research. No previous study has addressed the relationship between CRM strategy implementation and market orientation, and how this relationship affects a company’s performance. Finally, this research extends existing bodies of research. It extends work in two areas: contingency theory and market orientation. The two areas provide rich theoretical frameworks for marketing strategy. Contingency theory has received limited attention in the marketing area, however, and this project will extend it to the marketing domain.

**METHODOLOGY**

**Sample and Survey Instrument**

Two rounds of mail surveys were distributed to a population of banks in the U.S. based on two criteria: SIC (Standard Industrial Classification) code and company size (determined by number of employees). Specifically, the following SIC codes were surveyed:

- 6021: National Commercial Banks
- 6022: State Commercial Banks
- 6035: Savings Institutions, Federally Chartered
- 6036: Savings Institutions, Not Federally Chartered
- 6061: Credit Unions, Federally Chartered
- 6062: Credit Unions, Not Federally Chartered

Company size was restricted to these institutions with no fewer than 300 employees and no more than 10,000 employees, and senior managers within the organizations were asked to participate. Original population size was 545, and 23 surveys were eliminated from the population due to incorrect address returns or incorrect classification. Therefore, the final population size was 522. Response rate was 12 percent, with 65 usable surveys being returned. The unit of analysis in this project is the operational unit of the company.

**Construct Measurement**

**Market Orientation.** Market orientation is measured using a 21-item scale developed by Narver and Slater (1990). Participants rated the 21 items on a seven-point scale from “The business unit does not engage in the practice at all” to “The business unit engages in the practice to a very great extent.” Items assessed the extent to which a business unit engages in such activities as customer commitment, sharing resources with other business units, and functional integration in strategy. The 21 items had a high reliability ($\alpha = .883$), as did the subscales (Customer Orientation $\alpha = .825$; Competitor Orientation $\alpha = .760$; Interfunctional Coordination $\alpha = .852$; Long-Term Horizon $\alpha = .739$; Profit Emphasis $\alpha = .762$). The scale is shown in table 1.
To what extent do your customers use the following technologies online?

Table 1: Customer Relationship Management Implementation Scale

<table>
<thead>
<tr>
<th>Technology</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online training</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Online support</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Online marketing</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Online sales</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Online service</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
</tbody>
</table>

To what extent do your company use the following services in the context of business-to-customer and business-to-business interactions?

Table 1: Market Orientation Scale (Kanter and Slater, 1990)

<table>
<thead>
<tr>
<th>Service</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales force</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Marketing</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Customer service</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Customer relationship management</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
</tr>
</tbody>
</table>
CRM Implementation. This 21-item scale was developed specifically for this research using online services available at the Wachovia website (www.wachovia.com). Participants responded on a seven-point scale from “Our customers do not use this technology online at all” to “Our customers use this technology online to a very great extent” with respect to online services in the areas of online banking, online bill pay and online brokerage. The 21 items had a high reliability (α = .957), as did the subscales (online banking α = .943; online bill pay α = .933; online brokerage α = .966). The scale is shown in table above 2.

Performance. The dependent variables of company performance include perceptions of senior managers regarding new customers acquired, customer service, customer retention, and sales growth. Managers were asked “Compared to the other banks in your industry, how does your unit perform in terms of” the four measures and responded on a five-point scale from “Bottom 20%” to “Top 20%.” It was not possible to validate the measures using objective data. However, there is evidence that subjective measures of performance provided by top management are strongly correlated with objective measures (Dess and Robinson, 1984). The four items had a high reliability (α = .758). The performance variable used in the analysis is a composite of the four items.

Analysis

The hypothesis relates performance to the association of pairs of independent variables. The statistical analysis is based on deviation scores, as the hypothesis involves a matching relationship between pairs of independent variables. The difference score method of calculating deviation scores was utilized (Alexander and Randolph 1985). Each variable was measured by summing the items in each scale to measure each construct. The data were then standardized so that all the variables are uniformly scaled.

For example, if a company unit’s standardized score on one variable is -0.93, its standardized score on another is 0.80, and its standardized score on a third is 0.85, its deviation score would be -0.13 for the first two, and 0.05 for the second two. Since the interest is in the magnitude of differences, the absolute values of the differences were used.

The difference scores were then regressed against the performance measure. According to the hypothesis, a low difference score should be related to high performance. This type of statistical analysis has been used in previous studies of contingency theory (e.g., Carpano and Chrisman 1995; Carpano, Chrisman and Roth 1994).

Results

The results of the regression analysis are shown in table 3. As shown in table 3, the data do not support the hypothesis that performance is positively associated with the match between a company unit’s CRM strategy implementation and market orientation. Although both strategy and culture have a strong positive effect on performance, their “fit” does not have any significant effect.

<table>
<thead>
<tr>
<th>Table 3: Regression Test for Fit</th>
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<tbody>
<tr>
<td><strong>Dependent Variable = Performance</strong></td>
</tr>
<tr>
<td>-----------------------------------</td>
</tr>
<tr>
<td>1 (Constant)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>CULTURE (market orientation)</td>
</tr>
<tr>
<td></td>
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<tr>
<td>STRATEGY (CRM)</td>
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<tr>
<td></td>
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<td>FIT</td>
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<tr>
<td></td>
</tr>
<tr>
<td>N</td>
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<tr>
<td>F</td>
</tr>
<tr>
<td>R-sqrd</td>
</tr>
<tr>
<td>Adj R-sqrd</td>
</tr>
</tbody>
</table>

1: Hierarchical regression used. ** p < .001, * p < .01, * p < .05 (one-tailed test)

Implications and Conclusions

Empirical research on fit relationships has generated some controversy since some has supported the “fit” argument (e.g., Rumelt 1974; Egelhoff, 1982), while other studies have not (e.g., Aupperle, Acar, and Bhatnagar, 1988; Habib and Victor, 1991). Our findings did not support the argument of fit between market orientation as a culture construct and CRM as a strategy construct. The performance of banks in this sample did not seem to depend on the extent of the “fit” between strategy and culture.
Several reasons have been suggested to explain the lack of empirical support for the performance-strategy-culture relationship. The hypothesis may have not been supported because, in accordance with the resource-based theory of the firm argument, above average performance is the result of assets specific to a firm (Barney, 1991; Collis, 1991; Dierickx and Cool, 1989; Hall, 1992; Penrose, 1959; Wernerfelt, 1984, 1989). Asset stocks yield above average performance only to the extent that they are non-tradeable, non-imitable, and non-substitutable (Dierickx and Cool, 1989). Such a condition is the result of the fact that firms are intrinsically historical and social entities whose ability "to acquire and exploit some resources depends upon their place in time and space" (Barney, 1991: 107). Therefore, it can be argued that the mere description of market orientation does not capture the essence of the complex social dynamic that results from the adoption of such mechanisms.

In addition, for this sample at least, contingency theory may be less relevant. It may be that contingency theory when applied to the banking sector is relevant for only certain strategy and culture variables not included in this study, or contingency theory is not even relevant to the banking sector.

Further, expansion of the CRM measurement to include a 360-degree view of any customer in real time and differentiated service based on customer profitability (more complex CRM strategies than those measured in this study), as well as inclusion of customer perceptions of relationship management (versus manager perceptions as measured in this study), will benefit future research. These are all questions and issues that future research can seek to resolve or address.

Finally, key contingency arguments have generally also relied on the environment. The “fit” hypothesis tested here represents a match between strategy and culture variables. It is possible that for the banking industry, a configurational approach that also takes into consideration the environment is more relevant. A configurational approach to contingency theory is more appropriate when more than two factors are interacting to affect performance simultaneously. Configurational theories argue better performance for organizations that resemble an ideal type proposed by theory (Doty, Glick and Huber; 1993), where each ideal type is theoretically constructed to represent a holistic configuration of organizational factors (McKinney, 1966). Future research could use a systems approach to configurations – defining “fit” as consistency across multiple dimensions of organizational design and context (in this case strategy, culture and environment) (Doty, Glick and Huber; 1993).

REFERENCES


Claudio Carpano is an associate professor of management at University of North-Carolina at Charlotte. He teaches international management and strategic management. He has published numerous scholarly articles on international business strategy and organizational structure. He writes about the Internet and the new economy for several European business journals. Also, he is on the board of directors of International House in Charlotte.

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Hermann Ndofor is an assistant professor of management at University of North-Carolina at Charlotte. He received his Ph.D. from University of Wisconsin-Milwaukee where he taught courses in strategic management. His research on competitive dynamics, knowledge management and executive succession has appeared in several book chapters and academic journals such as Journal of Management and Academy of Management Proceedings. He has also presented papers at the Academy of Management and Strategic Management Society.