

# **Market exchange relationships in the descriptive CRM model as a base of general marketing theory**

## **ABSTRACT**

**Purpose:** From the early days of development of marketing paradigm, the marketing research is engaged in formulating a unified general marketing theory and in finding a consensus on what the central unit of analysis in marketing is. Especially in the last decades, there has been a general debate about the role of exchange and relationships in marketing and about the concept of relationship marketing as a paradigm shift. The purpose of this paper is to propose a new understanding of exchange relationships, to define a central unit of analysis in marketing and by doing so to propose the base for the unified general marketing theory.

**Method:** The work is based on literature review from marketing, relationship marketing and customer relationship management (CRM) (including Bartels, Kotler, Morgan & Hunt, Gummesson, Håkansson, Grönroos, Sheth & Parvatiyar, Vargo & Lusch, Payne, O'Malley, Tadjewski and many others). Based on the social exchange theory (Cook 1987) and the developed organizational theory (Lipovec 1987) the findings are used to explain exchange relationships in markets and to define the concepts of exchange relationship, relationship management and CRM. The conceptual descriptive CRM model is developed and placed into the centre of the marketing theory. Finally, theoretical implications of the model on the general marketing theory are applied.

**Findings:** By explaining the relationship with the developed organizational theory, it is shown that relationship and exchange are both essential parts of an exchange relationship. In fact, a relationship is a parallel process to an exchange. Marketing exchange and organizational relationship are merged into a higher theoretical construct, into the market exchange relationship. Parallel to a marketing mix, an organizational mix (duty, responsibility, authority and communication) is proposed. Marketing mix addresses what a company should do to stimulate the exchange, while organizational mix explains how to develop the relationships to achieve the marketing goals efficiently.

**Research Limitations:** Although the descriptive CRM model with its core determinants (relationship, customer, management) is developed and its broader determinants (trust, commitment, satisfaction, loyalty, power and norms) find place in the model, these broader determinants are only conceptually addressed. In addition, a key dimension of the descriptive CRM model, the psychological mix (composed of trust, commitment, satisfaction and loyalty) is only shortly addressed and not yet integrated in the CRM model.

**Main contribution:** The model shows how personal needs are fulfilled through exchange relationships in markets. The conceptual descriptive CRM model leads to a common understanding of marketing – it merges the concepts of exchange, relationship and network. By integrating organizational theory into the conceptual CRM model, marketing is placed at the core of marketing paradigm and the base of general marketing theory is proposed.

**Keywords:** exchange, relationship, network, exchange relationship, CRM model, general marketing theory

# Market exchange relationships in the descriptive CRM model as a base of general marketing theory

## Introduction

Exchange relationships have developed in parallel with the development of human civilization. In pre-historical times, such relationships developed as interpersonal relationships in which people exchanged objects and services for personal needs and interests. Exchange relationships, which can be understood as a beginning of today's market-economic relations, began to accrue in the context of the first civilizations, such as Egyptian, Sumerian, Greek and Roman (Mauss 1979). In **pre-academic era of marketing** social and economic factors related to economy and trade were explored in economics and international diplomacy by authors like Adam Smith, David Ricardo and Karl Marx (in Tajnikar 2006), from which later marketing as a multidisciplinary science emerged. Marketing occurred during the transition into the twentieth century, when the demand was significantly exceeding the supply. Therefore, researchers, primarily in the U.S., studied the problems of effective mass production, business functions, classification of products and cost-effective, specialized distribution channels. This period, **the distribution approach** (e.g. Cobb & Douglas 1928, Stigler 1941) is characterized by tendency to produce standardized products for the masses of customers. In the mid twentieth century, the development of technology raised productivity and raised the problem of how to attract and sell excess production capacity. Marketing was studying the behaviour of consumers, using scientific methods of processing data, developing marketing methods, design of marketing mix and developing marketing systems. There was a paradigm shift based on the concept of exchange. Also this **functional or behavioural marketing approach** (e.g. Dorfman, Samuelson & Solow 1958; Stigler 1966; Bartels 1964; Drucker 1957; Kotler 1969; Bagozzi 1974) was characterized by exchange of predominantly standard products between producers (sellers) and buyers, where both sides were working with lack of trust and tendency of getting higher short term value. In next decades, supply continues to grow, therefore it is increasingly more difficult to sell products and more adaptation to customer requirements is needed. The focus is, therefore, on customers. If one has previously created one version of the offer for the majority of customers, several versions are now offered to each customer. Business partners are developing joint teams, business networks and supply chains. Thus, between companies and end-consumers, competitive markets are replaced by alternative organizational relationships based on trust and cooperation. In the marketing discipline, it comes to the extension of the exchange paradigm **with relationships**, which are becoming permanent. The marketing profession is primarily looking at identifying how to develop lasting cooperation relationships with customers (e.g. Kotler & Levy 1999; Bendapudi & Berry 1997; Grönroos 1999; Egan 2003; Vargo & Lusch 2004; Palmer, Lindgreen & Vanhamme 2005; Shaw & Jones 2005, 2006; Payne & Frow 2005; Medlin & Quester 2001).

In the marketing discipline, there is a disagreement on the definition of the core element of marketing and on understanding of exchange and relationships. The purpose of this paper is to reconcile conflicts in the marketing discipline in relation to its basic element of study. To this end, we will begin by summarizing the understanding of exchange in marketing, while relationships will be explained by the developed theory of organization (DOT; Lipovec 1987). We will merge the concept of exchange and organizational relationships and propose the central unit in marketing, a *market exchange relationship*. Based on the defined market exchange relationship, we will carry out a descriptive conceptual CRM model, its marketing implications and redefinition of marketing.

## 1 Short review of the development of relationship concept in marketing

At the very beginning, marketing profession tried to understand the nature of exchange and tried to connect marketing activities with end consumers. In the second half of the twentieth century, exchange becomes the central element of study in marketing. Marketing is understood primarily as a decision process to control the marketing mix (4P) in order to satisfy the needs of the market, when creating profits for the company. In an attempt to understand the essence of exchange, marketing focused mainly on the study of transactions between actors of exchange (Berghäll 2003, p. 60). Drucker (1958), Bartels (1965), Kotler & Levy (1969) and Bagozzi (1974) present marketing as exchange in the broader context of economic and social understanding. The authors show that marketing or exchange is part of a human social nature and therefore the domain of companies and social organizations (Jančič 1999, p. 47); even more, according to Levy and Zaltman (1975, in Jančič 1999, p. 36) exchange is the most important mechanism to enable functioning of the society in general.

In the eighties, marketing discipline extends the concept of exchange to the exchange relationships (O'Malley, Patterson & Kelly-Holmes 2008). Marketing begins to redefine some classical microeconomic assumptions such as anonymity of buyers and sellers, access to information and the importance of past and future exchanges. Research attention shifts from masses to individual objectives, from individual exchanges to networks, to the creation of the extended value propositions including related services and to the importance of internal marketing as a way of creating value. The profession is also examining the inter-organizational processes, interactions and wider networks to create value.

In recent decades, the study of exchange relationships is one of the more intensively studied areas in the context of marketing discipline (e.g. Wilkinson & Young 2005, Tadajewski, 2009, Palmer, Lindgreen & Vanhamme 2005). The impact of the concept of marketing based on relationships is so strong that the emphasis shifts from exchange relationships to relationships (O'Malley, Patterson & Kelly-Holmes 2008). It is summarized in the term Relationship Marketing (RM), which first examines how to attract customers and how to establish, maintain and develop exchange relationships with end customers and later extends the study to explore relationships with suppliers, employees and even the regulatory authorities. Some researchers in marketing, including Morgan & Hunt (1994), Grönroos (1994, 1999, 2004), Ballantyne, Christopher & Payne (2003), Parvatiyar & Sheth (2000), Gummesson (1997, 2003), Bendapudi & Berry (1997) and Achrol & Kotler (1999) see findings in RM as a key turning point in the market paradigm, pointing to a change in the rules of the company's market behaviour. These findings have an impact on the definition of marketing from the American Marketing Association from 2004 to 2007 that includes customer relationship management (CRM) view. Consequently, at the beginning of the third millennium, relationships, instead of exchange, are becoming the central element of study in marketing (Coviello et al. 2002 in Plewa, Quester & Baaken 2005).

In the first decade of the third millennium, researchers are deepening and broadening the understanding of relationships marketing with many perspectives. Schools of marketing relationships are formed; 1) School of Industrial Marketing and research that studies organizational relationships in business networks (e.g. Håkansson & Ford 2002; Håkansson & Easton 1996; Möller & Halinen 1999; Nude et al. 2009), 2) Nordic school that studies the concept of service marketing and a process of value co-creation (e.g. Grönroos 2006; Gummesson 1997), 3) Anglo-Australian school that studies relationship management with key stakeholders markets of a company (e.g. Payne 2006; Ballantyne, Christopher & Payne 2003; Patterson & Kelly-Holmes 2008; Ballantyne & Varey 2006), and 4) North-American school that studies influence of long term relationships as factors of business success and a

process of value exchange (e.g. Parvatiyar & Sheth 1999; Morgan & Hunt 1994).

The concept of RM draws primarily from the theory of social exchange, which examines interpersonal exchange relations. To illustrate market exchanges, often the metaphor of interpersonal relationships is used, which in the professional thoughts leads to the transfer of meaning from the metaphor of interpersonal relationships to market exchanges (O'Malley, Patterson & Kelly-Holmes 2008, p. 177). Using the metaphor leads to blur facts and thus to limit focus of research.

There are many disagreements among schools of relationship marketing and even diametrical conflicts in substantive understanding of the area and its historical development. In the scientific literature (C)RM is not unequivocally identified (Palmer, Lindgreen & Vanhamme 2005; Blois 2003). Primarily initials RM and CRM characterize Field study of marketing relationship. RM stands for Relationship Marketing, which should, at least with reference to the name, study philosophy and concept of marketing based on relationships. CRM as Customer Relationship Marketing indicates that CRM should be based on the philosophy and concept of RM and that it should study particular methods of management of relationships with customers. Wilson, Clark & Smith (2007, p. 770) even state that in literature, initials RM and CRM are often used interchangeably.

While part of the profession understands the concept of RM as a paradigm shift in marketing, others believe that it is just its semantic reinterpretation, or deepening and extending of the existing marketing concept based on exchange. Among the more radical views are the theses of Grönroos (2004, p. 103) who states that in the core of relationship marketing should not be the exchange, rather management of relationships. Also, understanding of IMP school that schools of RM are only using the same word (relationship) for describing the space between companies (McLaughlin & Horan 2002 in Čater 2006, p. 51). Furthermore, according to O'Malley, Patterson & Kelly-Holmes (2008, p. 177), the term interpersonal relationship is only used as a metaphor for market exchange. In addition, according to Tadajewski & Saren (2008) and Tadajewski (2009) relationship marketing is just a semantic revision of the existing marketing concept.

In the last decades, members of different schools of RM and groups of researchers (Brodie, Glynn & Durme 2002; Peppers & Rogers 2004; Jarratt 2004, Boulding et al. 2005; Payne 2006; Håkansson 2005, Wilkinson & Young 2005; Bohling et al. 2006; Grönroos 2006, 2006a; Vargo & Lusch 2004, 2006; Buttle 2009; Finnegan & Currie 2009) attempt to create an integrated model of customer relationship management. Their significant contribution to the field of (C)RM is that they try to go beyond individual schools and take appropriate links to all findings in the field. However, despite numerous attempts and partial successes, the basic concepts remain undefined or understood differently (Egan 2003).

## **2 Market exchanges and organizational relationships**

### **2.1 Market exchanges**

Marketing in the twentieth century examines exchanges. Marketing is defined as a special method of meeting needs through mutual exchange of value between actors on the market (Houston & Gassenheimer 1987, p. 4), where exchange is defined in Wikipedia as a transfer of ownership of goods and services from one actor to another. In the mid eighties, the profession generally accepted exchange as the central element of marketing (Houston, Gassenheimer 1987, p. 17). The majority of researchers, including Alderson, Bagozzi, Hunt and Kotler (Houston & Gassenheimer 1987, p. 3), agree with this thinking.

*Marketing is the exchange, which takes place between consuming groups and supplying groups (Alderson 1957, p. 15)*

*Marketing is the process whereby the society, in order to satisfy their own needs, develops a distributive systems composed of participants who, through participation within the technical-economic and socio-ethical limits of creating streams of transactions, deal with market distortions and are reflected in trade and consumption (Bartels 1968, p. 32).*

*Marketing is ... the science of exchange and dealing with problems associated with it. (Bagozzi 1975, p. 39).*

*The core concept of marketing is transaction, where transaction is the exchange of values between parties (Kotler 1972).*

*Marketing is a social process by which individuals and groups achieve what they want by creating and exchanging products and value with others. (Kotler in Houston & Gassenheimer 1987, p. 4).*

*Marketing is a process of planning and execution of design, pricing, promotion and distribution of ideas, products and services to exchange and meet personal and organizational goals (AMA 1985).*

According to Bagozzi (1974), marketing deals with a wide range of activities related to exchange, which encompass the transfer of something tangible or intangible, real or symbolic between two or more players. Exchange is not just about exchange of items or services for money, but primarily the use of value that participants get with the exchange. Bagozzi distinguishes between a narrow exchange, which is seen as a bilateral reciprocal relationship, and an overall sequential exchange between at least three actors and a complex exchange that is happening in a system of relationships among at least three players, with each player having at least one direct exchange relationship. General and complex systems of exchange are part of social and economic relations through which modern society (individuals, groups, and firms) pursues their own benefits. In order to meet their own needs, actors stimulate exchange with money, persuasion, punishment, power and ethical commitments. Human behaviour is directed, conscious and motivated. In primitive societies and today's modern market systems, exchange and the pursuit of self interest are the basic social fabric and/or the mechanism of the »invisible hand« defined by Adam Smith (Bagozzi 1975, p. 34). Marketing is therefore a social, economic and psychological process of creating exchange relationships between actors. Relationships are links between participants or between their roles (Bagozzi 1974, p. 78).

Levy and Zaltman (1975) describe marketing as social system that consists of set of related persons or groups who have ties with each other and strive to achieve with exchange the common goal (in Houston & Gassenheimer 1987, p.10). According to Houston and Gassenheimer (1987), it would be better to define marketing within the social system, because the social system shares common values, but in marketing process, individuals have different goals and satisfy their needs differently.

The basic condition for the exchange to happen is exchange of value with the aim of satisfying needs. Participants in the exchange can therefore increase their satisfaction. Paying attention to the purely individual, one-time exchange would mean to deny the essence of marketing (Houston & Gassenheimer 1987, p. 10). The central theme of market behaviour is

therefore building long-term relationships (e.g. franchise). The method of implementation depends largely upon the cultural environment; however, its primary objective remains the development of trust between trade partners, which leads to long-term relationships.

Kotler (1972, p. 48) identifies five necessary conditions for the exchange; 1) at least two actors, 2) both must have something that has value for others, 3) both must be capable of communication and delivery of the object of exchange, 4) each are free to reject or accept exchange and 5) each must consider that it is appropriate and worth trading with another. Actors must agree on the terms of exchange and believe that they will get greater or at least the same value from the exchange in order that the change actually occurs. In this context, it is possible to argue that within exchange, actors actually exchange value. Hunt (1994) believes that marketing is the science of the behaviour of customers, which seeks to clarify the relations of exchange.

Ballantyne, Christopher & Payne (2003, p. 161) believe that value, or exchange of value, is the core element of RM. They differentiate three value perspectives, 1) hierarchical value included in company's offer and exchanged between the actors, 2) interactive value created by mutual interactive process and delivered through the duration of the relationship, and 3) network value created and distributed in the interactions resulting from the network of relationships. Therefore, the challenge of modern marketing is to define the value and to explain (Ballantyne, Christopher & Payne 2003, p. 162) the process of its creation within the management of internal and external relationships in the network of value creation.

From the broader perspective, the main motivation for exchange in a society with a division of labour is exchange of value (Shaw & Jones 2005). Therefore, exchange represents a process of maximization of two or more utility functions, taking into account all available alternatives (Houston & Gassenheimer 1987, p. 9).

## **2.2 Organizational relationships based on developed organizational theory (DOT)**

Developed organizational theory (Lipovec 1987) defines the relationship as its core element of study. Bellow in this section we summarise the key elements of DOT (Lipovec 1987). DOT studies organization of social units as set of dynamic relationships. Organization, understood as a set of relationships in a social unit, is composed of human beings, who act together to achieve their common goals. By doing so, personal goals of its members will be achieved, too (Rozman 1999, p. 5). Lipovec (1987) defines organization as a system of relationships among people, who through relationships become members of a formed social unit. Organization assures identity, existence and specific characteristics to the social unit and assures a rational achievement of the goal of the unit. This definition is composed of a structural, static part and of dynamic, process part.

When individuals join a social unit, they start to influence each other. By joining the organization of the social unit, they loose part of their autonomy and must adapt to other members and to roles that they take. Their relationships are linking them into an organization. The structure of the organization is a network of these relationships. Relationships are expressed through roles that individual actors take; therefore, the structure of relationships is at the same time also a structure of roles. Organizational structure has to change to ensure the existence and functioning of the social unit. With the goal of on-going efficient operation, the social unit and its organization has to change by informal and formal organizational processes.

Let us have a look at the basic organizational structures first. There exist four basic uniform

organizational structures: 1) technical, 2) communicational, 3) motivational and 4) power-based structure.

*Technical organizational structure:* The business of the company is usually so complex in terms of content, time, and quantity that manager divides the main task into smaller tasks, and assigns them to employees. However, the assigned tasks are connected and related. With splitting the whole business goal to tasks and by assigning them to employees, the uniform technical organizational structure is formed. This structure represents the base for all others uniform organizational structures or formal organizational relationships. Technical structure is a structure of tasks, subtasks, working places and departments and has to ensure efficiency.

*Communicational organizational structure:* As the tasks of employees are connected, they have to communicate. A communication flow of information between the sender and receiver has to be established. The main task of the communication is the execution of coordination. Communicational channel offers a technical opportunity for communication, but communicational relationships arise only with actual communication between sender and receiver of information. Managers can prescribe the direction, content, field, quantity and strength of the communications between formal organizational roles.

*Motivational organizational structure:* motivated behaviour is behaviour towards a determined goal, which is supposed to fulfil a need. Motivation or motivating means setting up such goals or needs. Employees' needs, goals, interests, rewards are interrelated. They can sustain each other, adjust to each other or interfere with each other. A structure of needs, goals, interests, rewards is called motivational organizational structure. Motivational structure determines the direction and intensity of engagement of individual actors. If psychology explains why individuals act, DOT explains why individuals in a social unit act in a coordinated way.

*Power-based organizational structure:* Within organization, power is a process or ability to influence decisions or actions of actors or organizational roles. Power derives from the ownership, position in the organizational structure, personality, professionalism and ability to reward or punish. The source of all power in the company is the owner in the form of authority, who delegates its formal power to the general manger. Power is always connected to the relationship. In the formal sense, we talk of authority, which derives from the position. Authority is the privilege of acting, giving orders and taking decisions.

The four uniform structures usually appear together. They have to adapt one to each other, in most cases to authority structure. In the process of coordination, the technical structure leads to duties, motivational leads to responsibilities, power-based structure leads to authority and every working position gets its place in the communication process. Thus a composed organizational or managerial structure is formed. In the formal organization, duty (technical structure), responsibility (motivational structure), authority (power-based structure) and communication determine the role or position of every individual or actor.

In order to assure rational achievement of social unit goals, relationships between roles have to change. Working together leads to adaptation of members and changes in relationships. Sharing of experiences, knowledge and behaviour take place. Through adaptations and continuous cooperation within the social unit, norms and rules are developed. Those again minimize the possibility of conflicts and assure the rational behaviour of the social unit. If the interests of members do not yield adaptation and cooperation of members, the stability and existence of social unit becomes jeopardized.

Through establishment of norms and rules, the organizational processes of change and development become formal. The most formal organization process is the (governing-) managerial process conducted by managers. Management is an executive function of owners to achieve their goals.

The managerial process consists of planning, organizing, leading and controlling. Due to distinction between social unit (firm) and its organization, this process can be better explained as consisting of 1) planning business and organization, 2) actuating organization and executing business and 3) control of organization and business (Rozman 2009). Management thus consists of two interwoven processes (appendix 1): planning, executing and controlling business (the goal is effectiveness) and planning, actuating and controlling organization (the goal is efficiency and rationality).

Planning is a process of thinking ahead about the desired goals and the process of achieving them. Business planning proposes business goals, strategies, and tactics to achieve them. Planning organization means deciding in advance about the duties, responsibility, authority and communication of employees and about organizational processes.

Planned organization structures have to be implemented. It is obvious that they can be implemented by members, or even better, by their roles or their resources. The establishing of actual organization is conducted by HRM business function. Leadership triggers or starts the actual execution, like production, sales etc. Thus by actuating organization, which consists of HRM and leadership, the execution starts. However, the actual organization always differs from the planned one. It is the task of control, especially auditing, to compare actual and planned organizational structures and processes, look for differences and their causes and to respond appropriately. The same process runs within the business control, which cares that actual business processes run according to the planned ones.

Within the organization, structures and processes conflicts arise. Each role within the organization observes the other and its own role from the viewpoint of the role. As roles are different, there are always differences in the understanding of roles. These differences or conflicts always exist. Such differences and conflicts might lead to new solutions; however, if they increase they might destroy the social unit. Due to existence of conflicts, the coordination is required.

Whereas business process is defined by purpose (of assuring rationality in business processes), the organizational process, on the other hand, is defined by content - coordination. General managers are coordinating the organization to achieve compliance within all its parts. Coordination is the content of their work; coordination is not a function, rather the basic principia of management. Managers do not coordinate just the technically divided labour but all the relationships and structures (e.g. goals and interests, authority, communication). Coordination thus means linking and adjusting all uniform organizational relationships and processes with each other and with external factors.

### **3 The basis for descriptive CRM Model**

#### **3.1 Forms of organizational relationships and their management**

As discussed, formal and informal organization is developed through interaction among employees in companies. Which one occurs first is not always prescribed. It can happen that in an informal social unit, a common vision or an idea leads the members to establish a company and create formal organizational relationships. In such cases, members of the social

unit are firstly linked only with the existing informal relationships and only later, common goals motivate them to create formal organizational relationships among them. On the contrary, when an individual starts to interact with a formal organization prevalently because of a common vision or goal, formal organizational relationships develop first. With the execution of their daily formal organizational role, individuals interact with each other and so develop interpersonal, informal relationships too.

Businesses grow and need new employees to perform additional formal organizational roles. Also in such cases, a new member of the social unit can be appointed primarily because of his already existing, good informal relationships with the social unit. Such individual can have a (pre-existing) great informal compatibility with members of the social unit that leads to the extension of his duties and obligations in it, to the acquisition of a formal organizational role. On the other hand, an individual can be applied for a formal organizational role due to his professionalism, competences and engagement. While he executes his formal organizational role, he is exposed to other members of the social unit; therefore, he develops also informal relationships with the members of the social unit.

In summary, there are two basic forms of relationships in a social unit, formal and informal. Social exchange theory (SET; Cook 1987) explains informal exchange relationships between members of the social unit, while DOT (Lipovec 1987) explains both, informal and formal organizational relationships.

1) According to DOT, *formal organizational roles* in companies are prescribed by the manager of the company in the way that the structure of these relationships assures rational achievement of the goals of the firm. Manager prescribes, coordinates and controls relationships between organizational roles. Individuals execute their organizational roles with their voluntary, directed actions and with doing so they create actual organizational relationships. Before entering in a formal organization, an individual usually knows the requirements of a specific organizational role. He takes and accepts his role voluntarily and rationally.

2) *Informal social relationships* in the companies develop spontaneously. There must be a pre-existing formal organizational structure, which is composed of individuals, who are executing their formal roles. These individuals are chosen by a manager according to their competences, personal characteristics and goals that are required for the formal role in the organization. Employees by executing their formal roles interact with each other. In parallel to formal relationships, they develop also informal relationships according to their personal interests. These informal relationships cannot be directly managed.

Individuals enter into a formal organization to help the organization to achieve its main goal and by doing so, to achieve their personal goals that they cannot achieve alone. Their personal goals must therefore be in harmony with formal organizational goals. Individuals usually agree to exchange their competences, knowledge, time and efforts for a payment and other rewards for their work. This is a basic reason that links an individual employee to the social unit of the firm. *Essential exchanges between members of the social unit are explained with SET. Based on SET and DOT, an individual enters in the organization and accepts a formal organizational role, when he expects a positive value out of exchange of work for reward. His motivation (want) derives from his cardinal value domain.*

In order to develop a CRM model, we will propose two additional “hybrid” forms of relationships that, according to our understanding, can arise in an organization (company).

3) *Voluntary formal organizational relationships* develop among employees, when managers create an appropriate working environment. This means selection of employees with similar or related goals, clearly communicating formal goals of the organization, establishing a reward system that stimulate working in groups, allowing horizontal communication and leaving the initiatives and operational decisions to members of the organization. The purpose is that those who know the specific area of work can develop optimal solutions in forms of organizational relationships between formal roles. These solutions provide rational achievement of company goals. A manager is not using his authority to coordinate organizational relationships; rather he allows that employees develop relationships among their formal organizational roles voluntary. *In such cases, managers do not coordinate relationship roles; rather they manage conditions that stimulate voluntary creation of formal organizational relationships.*

4) *Indirectly managed social informal relationships* occur when managers in the company affect the expectations, attitudes or behaviour of employees. As according to SET, social relationships cannot be directly managed, managers try to influence expectations, needs or attitudes of employees. Managers are making promises, influencing, explaining and persuading or even misleading employees. *They are trying to affect the behaviour of employees in the way that employees would behave according to manager's expectations. In such cases, managers are managing expectations of employees.*

*In above section we have shown that between members of social units not only spontaneous social relationships that are explained by SET and conscious, formal organizational relationships explained by DOT can develop. There are also two "hybrid" forms of relationships. Those are voluntary formal organizational relationships in firms where managers manage **organizational conditions** and indirectly managed informal social relationships among members of the social unit where managers manage **expectations of employees.***

### **3.2 The role of individuals in the CRM model**

An individual is an important part-taker in informal and formal organizational exchange relationships. He is having the role of a customer, of an employee by the seller or buyer, and he is having a role in formal and informal social unit. According to DOT, formal and informal organizations can be established only with the recruitment of individuals. SET is explaining exchange relationship between individuals in informal social units. An individual is clearly a necessary condition for development of formal and informal relationships; therefore, his role in a CRM must be highlighted.

According to DOT, an individual is taking a role in a formal organization of the company to achieve some personal goals that he cannot achieve alone. However, the company has to fulfil also needs of shareholders, suppliers, customers. The common formal goal of the company is therefore not only the sum of all goals of stakeholders; rather it is a new, composed goal of the firm. The manager of the company, who is coordinating the interests of all internal and external stakeholders, defines this goal according to social economic system.

Employees in the formal organization of the company act in a coordinated way to provide services (offers of value) to the market. The value proposition is exchanged on the market, usually for money that is used to reward shareholders, employees and suppliers. The reward for execution of a formal organizational role in the firm is usually agreed and predetermined in contracts. Interestingly, employees usually do not exchange directly between themselves (immediate payment for their services), rather they are rewarded in a form of a monthly

salary. Therefore, the exchange, reward for their work, is not happening directly between members of the organization, but operates through the formal organization of the company, therefore is indirect and hidden.

Similarly, there are exchanges between two or more companies on B2B markets. The companies are pursuing the fulfilment of their individual, formal goals in order to fulfil individual objectives of stakeholders of each company. Exchanges between companies develop and endure, if total benefits from trade exceed total costs, and if exchanges lead towards achievement of common objectives of the firms, thus achieving individual goals of stakeholders of the company.

*In the case of exchanges on B2B, as well as on B2C markets, an individual remains in the formal organization of the firm and executes his role, unless and until he in the return for the execution of a formal organizational role, gets the agreed reward, with which he can reach his goal, or satisfy his need. From this perspective, we understand the formal organization as a mean of stakeholders (owners, employees and others) with which they achieve their individual goals. Thus, between employees (stakeholders) and companies relationships of exchange arise, in which employees are exchanging their services (implementation of organizational roles) for the reward that derivates from the total reward of the company. The individual's motivation, for entering into a formal organization and to adapt to a formal organizational role, is thus explained by the principle of value domain and cardinal utility in SET, and relationships, resulting from formal organizational roles, are explained with DOT.*

### **3.3 The role of customers in the CRM model**

We will use 1) the concept of imaginary organizations: "... a system where crucial resources, processes and actors exist and are managed also outside of legal boundaries..., the imaginary organization consists of its own base, which in turn consists of a leader company and an imaginator; a business mission which keeps the network together;" ...The boundaries between internal and external activities – us and them – become less clear..." (Hedberg et al. 1994 in Gummesson 1996, p. 35, 37), 2) the concept of customers as assets of the companies (Achrol & Kotler, p. 158; Moeller 2008) "Marketing is the process of investing in customers with a long-term view of future returns from these investments" (Grönroos 2003, p. 172) and 3) the concept of internal marketing (Grönroos 1994) to define the role of customers.

From the concept of internal marketing, imaginary organization and definition of customers as assets of the company, we can develop a construct, the pseudo organization (appendix 3) that is composed of customers (as individuals or firms) and suppliers. From a formal point of view, the enterprise and the client are separated entities, but in the pseudo organization, customers are understood as its assets. The company invests in them, manages them and dispose with them. Customers are therefore part of the pseudo organization. If customers are part of the pseudo organization, then formal organizational roles must be coordinated between companies and customers, namely with the formal organizational relationships. We can therefore imagine that the pseudo organization is continuing from the company through a customer, that consumers are performing their formal organizational roles, which are defined by a uniform organizational structures and that relationships between them are designed in the way that they assure rational operation of the pseudo organization. Customers in the pseudo organization therefore execute technical tasks, communicate, have authority and bear responsibility.

Customers as individuals or companies, in accordance with the construct of the pseudo organization, represent an integral part of the network of relationships. The basic

organizational relationship between customers and firms (appendix 3) is based on their interest to interact and exchange with each other. These relationships consist of many formal interactions between members of the customer and members of the seller. Based on market research, a company develops a value proposition for each market segment or for a specific customer. If the customer can get greater or equal value in use than value paid, the customer will be interested in further exchanges of value. Both actors are therefore *motivated (have responsibilities)* to exchange, have *power (authority)* over each other in fact they adopt to each other, both *communicate* with each other and both must perform certain *tasks (have duties)* to get the value from the exchange.

### **3.4 Management of market organizational relationships with customers**

*Exchanges between sellers and customers are repeated, if formal organizational relationships on the market (in pseudo organization) assure value out of the exchanges for both, the seller and the customer. If a relationship is formed between a seller and a customer (as individual or company), this relationship can be defined as a pseudo-organizational relationship on the market. In DOT relations that ensure efficient achievement of organizational objectives are defined as relationships, therefore it can be argued that companies perceived as organizations, are connected to customers with formal organizational relationships in the market or "market" organizational relationships. Formation and management of market relationships with customers, therefore, can be explained with DOT and SET.*

In accordance with the concept of pseudo organization, customers are an integral and inseparable part of the organization. Management must therefore handle relationships with customers on the same basis, as it manages relationships with the employees in the company.

From the previous findings, we know that according to SET, a manager in the formal organization cannot directly manage informal social relationships. Also in the pseudo organization, informal relationships between actors form spontaneously and are beyond the domain of management principals. In the pseudo organization, as in a real formal organization, the manager can manage informal social relationships among organization and its customers only indirectly, by influencing the expectations of customers.

Market organizational relationships in the pseudo organization are a part of all organizational relationships in the company. An important distinction between the real, formal organization and the construct of pseudo organization is the role of the general manager, who is not the source of all power in relation to customers. Expected benefit from the exchange is the only motive for interaction in the form of voluntary coordination between businesses and customers. Companies and customers are interacting in a voluntary coordination; therefore, classic organizational relationships cannot develop in the pseudo organization. Moreover, successful formal exchange is a precondition for meeting individual needs of members of formal organizations. *Market organizational relationship is developed through voluntary self-coordination in the pseudo organization between the role of the customer and the role of the supplier.*

*In the next section, we will explain market organizational relationship with the help of previous findings, where we recognize that in firms understood as social units, not only informal (SET) and formal organizational (DOT) relationship are formed, but also their hybrid forms arise; 1) voluntary formal organizational relationships, and 2) indirectly managed informal social relationships (appendix 2). We believe that customer relationship management can be explained with the interpretation of these forms of relationships.*

### **3.4.1 Formal voluntary pseudo organizational relationships**

*Formal, voluntary pseudo organizational relationships* are, according to findings in chapter 3.1 formed on a voluntary base between actors in the company. As customers are formally not a part of the supplier's organization, managers do not have a formal authority over them. Managers can only manage the relationships of their firm in a way that the value proposition of the firm will stimulate exchanges with customers. In fact, there must always be a common interest for cooperation. This is an expected benefit out of the exchange, where exchange terms depend on cultural environment, knowledge, availability of alternatives and perception of value. Therefore, formal, voluntary organizational relationships with customers have to lead to exchanges that will satisfy (business) goals of both actors. Only in such cases, each actor (firm) can fulfil expectations that are arising out of its internal exchange relations with employees (or other stakeholders).

Formal, voluntary organizational relationship is a specific form of organizational relationship, where manager indirectly manages working environment; he chooses the employees, motivates horizontal communication and formation of a common goals, rewards solutions of common problems and customer centric culture. Based on these factors, employees in interactions with customers co-create a value proposition. The co-creation of value proposition between supplier and customer is conditioned by their individual power (*power-based uniform structure*). In the negotiation process they agree on what each of them will do (*technical uniform structure*; e.g. customer will go to the aqua park, he will buy a ticket, he will swim / supplier will prepare clean water, safety personal, showers,...), how they will communicate (*communication uniform structure*; e.g. forms of informing on opening hours, design, advertising, market research,...) and on the relation between the value proposition and the price (*motivational uniform structure*; e.g. lower price or better services stimulates interaction).

*Voluntary formal organizational relationships develop between suppliers and customers in pseudo organizations. In the negotiation process, they agree on such pseudo organizational roles that allow them to achieve their goals efficiently. Management creates an environment that allows employee to agree on uniform organizational structures. These structures have a direct influence on internal organizational relationships of each firm. Therefore, in pseudo organizations, managers do not prescribe organizational roles, rather they manage conditions that allow and stimulate formation of such formal, voluntary organizational relationships in pseudo organizations that motivate actors toward continuous exchanges on the market.*

### **3.4.2 Indirectly managed informal social exchange relationships**

Informal or social relationships cannot be managed directly (SET 1987). Managers can only influence the expectations of actors (Håkansson & Ford 2002, p. 135). Firms try to influence expectations of actors (individuals or business) in order to influence their behaviour and by doing so stimulate exchanges. Firms are doing this with marketing communications, PR, creation of trends and fashions, organization of marketing events, development of brands and products, setting prices and making promises. Organizations are using classic marketing methods defined with the marketing mix to inform customers, help them to develop attitudes, to differentiate their value propositions, to assure customers safety and minimize risk in exchanges, to help them to acquire a social position, or wanted state of mind.

*Firms are influencing actor's needs, wants and behaviour with the execution of the marketing mix. They are indirectly managing informal social exchange relationships.*

### 3.5 Marketing mix and organizational mix

In the previous sections, we have explained the concept of indirectly managed social exchange relationships and a concept of formal, voluntary pseudo organizational relationships. The former are indirectly managed with planning and executing of the *marketing mix*, the latter develop through a voluntary cooperation and are expressed in a specific pseudo organizational relationship, in the *organizational mix*. The management of customer relationships therefore consists of management of marketing and organizational mix (appendix 4).

In the modern, open economy, businesses are built around wants of customers. Companies respond to those wants with value propositions that are defined with the marketing mix and the organizational mix. In order that managers (as carriers of all responsibility and power) can plan and execute a marketing mix, they have to manage organizational relationships within the organization, as well within key stakeholders in the pseudo organization, therefore also with customers. Relationships with customers are managed by creating an environment that allows creation of formal, voluntary organizational relationship with customers and by performing marketing activities that influence customer attitudes and behaviour. Such activities define not only relationships in a pseudo organization, but also internal organizational relationships of each actor. Management, who is responsible for the performance of the whole company, therefore manages and is responsible for both 1) marketing and 2) organizational processes. The question for the management is how to manage the organization in order to motivate customers to exchanges? This is a task of marketing function, which is communicating with customers markets and designing marketing goals of the firm. Marketing, as a business function in the firm, defines the elements of the marketing mix, like the object of the offer, price, distribution channels, people, services and communications with customers. Based on the marketing requirements managers plan and execute the organization of the firm in order to achieve an optimal value proposition for selected customers or market segments. In order to do that, firms execute the marketing mix that was designed by the marketing department; managers coordinate relationships in firm's organization and in pseudo-organization. Management therefore assures efficient achievement of the marketing goals of the company.

*In companies, marketing mix and organizational mix work in parallel and in accordance with each other (appendix 4). Both are designed around the want of the customer. Marketing mix defines what a company should do, while organizational mix arranges to do it rationally and efficiently. Both mixes are connected through employees of the seller and the buyer, who have a formal organizational role and informal social role in the pseudo organization. The broader concept of marketing based on exchange and marketing mix is well integrated in the "bible of marketing" Marketing management (Kotler 1996), while the concept of organizational theory is defined in DOT (Lipovec 1987).*

*Management in cooperation with customers develops the organization of the firm in the way that the organization is capable of designing a marketing mix, which crates a value proposition that provokes exchanges. Managers do not prescribe the marketing mix; they rather create and coordinate organizational relationships between roles in the (pseudo)organization. Management also leads with a vision and coordinates employees in the process of voluntary self-coordination with customers, whereby employees define marketing goals and rationally achieve them. By doing so, pseudo organization is a mean to achieve the exchange and is therefore part of the value proposition. Goals of pseudo organization are indeed not defined in the organizational process, but in the marketing (business) process. Organization deals only with rational achievement of those goals.*

### 3.6 Exchange and relationship in the market exchange relationship

An exchange relationship in the market is composed of many interactions between members of the firm of the supplier and the customer. Those interactions are an essential part of the value proposition. They are a part of the service that is the object of the exchange and at the same time a part of the pseudo-organizational relationship. A single interaction between roles in the pseudo-organization is at the same time defined with marketing and organizational parameters. In the process of cooperation, marketing is designing and adjusting the marketing mix according to a specific want of the customer or market segment. In parallel, firms are adjusting their (pseudo) organizational relationships in the way that they enable rational development, execution and adaptation of the value in exchange.

We have to distinguish social exchange relationships (SET), formal organizational relationships (DOT) and their hybrid forms in order to understand the management of customer relationships. Exchange or better, expected benefit out of the exchange, is the basic motivation for establishing, developing and sustaining social and formal (pseudo) organizational relationships; they do not form because of their selves. Social and formal organizational relationships enable rational exchanges, where the benefit resulting from those exchanges is a needed condition for their development and persistence.

*We argue that, if all actors on the market have positive experiences with exchanges, they continue exchanging value through pseudo-organizational relationships. Therefore, we can define repeated exchanges between actors in the market as market exchange relationships. **Market exchange relationship is a higher order theoretical construct composed of pseudo-organizational relationships and market exchanges.** The construct is directly defined with the classic understanding of marketing as exchange (marketing mix) and with DOT (organizational mix). SET defines market exchange relationships only indirectly, with the explanation of informal, social exchange relationships between individuals and formation of social units.*

*Based on the literature review from the field of RM, CRM, SET and DOT we have shown why and how relationships and exchanges in the markets are formed. We have also highlighted the basic principles of how to manage such market exchange relationships. For the need of the CRM model, we will define that between two actors in a market exchange relationship, one composed formal organizational and one composed informal relationship is developed and that in each relationship many interactions accrue.*

### 3.7 Determinants of the CRM model

The market exchange relationship is defined from the marketing and organizational perspective. Therefore, we should consider both when studying customer relationship management. We define 1) **market exchange relationship**, 2) **customer** and 3) **management** as basic elements of the CRM model (appendix 5). When studying the literature from the field of CRM we were able to recognize also other, broader determinants studied by the field of marketing, among them 4) value, 5) quality of the relationship, 6) reciprocity 7) trust, commitment satisfaction and loyalty 8) power and 9) norms. The construction of the CRM model is based on three main determinants, while determinants of the broader model are used to sustain the model. They are only mentioned and conceptually summarized from the literature review. They are separate research topics and their investigation is beyond the scope of this article. However, we intend to continue the research and fully integrate them into the CRM model in our future work.

*CRM means management of market exchange relationships with the aim to achieve the marketing goals of the firm efficiently.*

1) *Market exchange relationship* is a construct of market exchanges and organizational relationships. It is linking two parallel processes, marketing and organizational process into the key managerial responsibility and central business process. It is merging the marketing and organizational mix into a value proposition of the firm. It explains what should companies do and how should they act to fulfil market wants in the way to maximize shareholders value and their satisfaction.

2) *Customer* is an actor who is in the relationship with the organization and usually buys by the organization. According to Shum, Bove & Auh (2006) he is a key to successful CRM.

3) *Management* is an organizational function and process, which allows managers, to decide upon and coordinate the execution of the complete task of the firm. This is done with planning, delegating, executing (leading and selection of human resources) and controlling. Coordination is the basic method of management (Rozman 2002, p. 3).

4) *Value* is defined as an outcome of the exchange. It is the difference between the sum of all benefits and all losses from the market exchange relationship. A value proposition is formed through the marketing and organizational mix of the organization. We acknowledge the difference between value that is exchanged with the customer for the reward (usually money) and between value in use, which is determined by the customer with the actual consummation of the value in exchange (Payne, Holt & Sue 2001; Grönroos 1996, 2008).

5) *Quality* of the relationship is defined with the value proposition and the degree to which the agreed or expected services of the offer are fulfilled. Quality of the relationship is determined with delivery performance, reclamations, availability, pre and after sale services, flexibility, kindness, respect and other determinants of the value proposition. It is reflected in the satisfaction of customers.

6) *Reciprocity* is the core principle of all exchanges in the society (Cook 1987). It is indirectly expressed also in the market exchange relationships.

7) *Trust, commitment, loyalty and satisfaction* are psychological constructs in which the quality of the market exchange relationship is reflected.

*Trust* is defined by Morgan & Hunt (1994, p. 23) as willingness to rely on an exchange partner in whom one has confidence, a belief that a trustworthy partner is reliable and has high integrity. Trust is a pre-condition for constructive cooperation (Blomqvist & Ståhle 2000, p. 3) that leads to long-term relationships.

*Commitment* is defined by Morgan & Hunt (1994, p. 23) as an exchange partner believing that an ongoing relationship is so important as to warrant maximum efforts at maintaining it. Buttle (2009, p. 30) states that commitment develops from trust, common values and from believes that the partner is difficult to replace. Committed exchange partners will sustain long-term relationship instead choosing short-term advantages. Commitment is expressed through investments in the exchange partner and can be attitudinal and behaviour.

*Satisfaction* is defined (Geyskensova, Steenkamp & Kumar in Čater 2006, p. 95) as pleasure when reaching a goal or satisfying a want, as customers perceived experience, or positive

emotional outcome. Gil-Saura, Deltoro & Cervera-Taulet (2009, p. 597) believe that satisfaction is based on rational judgment expressed in emotional reactions. They differentiate 1) economical and non-economical, 2) inter-personal and inter-organizational and 3) transactional and summery satisfaction.

Trust, commitment, loyalty and satisfaction form a psychological mix that is one of the basic dimensions of the CRM model. This dimension should be better integrated in the model in the future.

8) *Power* in the market exchange relationship is defined with actor's needs, competences, knowledge and the availability of alternatives. An actor has a structural power and power in use. With use of power, an actor influences a market exchange relationship and development of psychological constructs of the customer; like trust, loyalty and satisfaction (Cook 1987; Duarte & Davies 2000, p. 2).

9) *Norms* are informal rules in the market exchange relationships that are formed in a specific moment in place and time (Ivens & Blois 2004) in the social unit. They are generated form the cooperation between actors, who act according to their self-interest (Medlin & Quester 2001).

The conceptual, descriptive CRM model (appendix 5) shows how actors (individuals or firms) are connected on the markets with each other from the exchange, organizational and psychological perspective. The key figure in the model is an individual, who has his personal attitudes, believes values, judgments and wants. Wants are addressed on the markets by actors. Actors cooperate according to their self-interest. Due the division of labour, they exchange objects and services in the form of value propositions. The value proposition addresses a want of the actor. It is determined with the marketing and organizational mix and reflected in the psychological mix in the form of the market exchange relationship. Market exchange relationship arises in a self-coordination process among actors in the pseudo-organization that is composed of firms of sellers and customers. Firms further interact in wider networks (Lipovec 1987) of actors.

An actor is exposed to others when performing a role in the (pseudo)organization. This interaction leads to on-going adaptations of relationships. In these interactions psychological constructs develop. They are conditioned with experiences (e.g. trust) and future orientation (e.g. commitment). They are the drivers of actors' behaviour.

A relationship is defined in DOT with four the uniform organizational structures; 1) motivational, 2) power-based, 3) technical and 4) communicational.

The motivational uniform organizational structure is determined with the wants of actors in the market exchange relationship. It is expressed in the formation of value proposition and agreement on the exchange conditions by which actors in the relationship achieve their goals and maximization of value.

The power-based uniform organizational structure is determined with the factors like marketing position, knowledge, alternatives, value proposition or commitment. This structure influence all others uniform structures.

The technical uniform structure in the pseudo organization is represented with the actual division of the complete technical task between seller and buyer. It determines elements of

marketing mix like place and product, but also amount and quality of services or supposed activities of customers. The agreement on technical uniform structure is conditioned by the power of each actor.

The communicational uniform organizational structure is defining all communications between actors. Those are direct conversations, discussions, negotiations, communication procedures and protocols, documents, project reports, marketing research, day-to-day operative communications, marketing communications like advertising or PR and others.

*With the interpretation of DOT we were able to propose a definition of market exchange relationship and develop an abstract, general descriptive CRM model. With the developed model we have explained the management of market exchange relationships and described the reasons and method of their formation, development and interruption. The model can be used to understand, explain and predict the behaviour of actors on the markets. Thus, the model is an abstract, general explanation that can be used to describe concrete, singular exchange relationships on the market. However, to understand the management of relationships with customers fully, it is fundamental to analyse and further integrate other determinants and concepts (e.g. psychological mix) in the CRM model.*

### **3.8 Development of marketing paradigm explained with DOT**

Companies are defined as social units in the developed organizational theory (Lipovec 1987), therefore management tries to optimize the organization of the social unit of the firm and the whole value chain. At the beginning of marketing, the science is focused on exchanges among sellers and vendors. With the development of production technologies, complex social structures and specialized division of work, the need to understand and manage formal organizational relationships arise. This need leads to link understanding of marketing with organizational theory. As we explained, marketing is focused on what, while organization is focused on how.

At the beginning of marketing science and in its first decades, the discipline is analysing the economy from the macro perspective, contrary in the last decades of the twenties century it takes a micro perspective and it is focused on exchange, economics, optimization of internal and external relationships of the companies. At the beginning of the marketing paradigm there were predominantly short profit focused transactional relationships, only in the last decades companies massively concentrate on long lasting, satisfying business relationships.

From the DOT perspective, there were predominantly technical composed organizational structures until the functional or behavioural marketing approach. At the time of production, companies were producing and selling their product to predominantly unknown final customers. Distribution networks and big trading companies had the role of distribution. Therefore, the interdependence between production companies and final customers was blurred. Firms were producing standardized products and there were not many, complex interaction between firms.

In the middle of the twentieth century, supply overcomes demand. Marketing activities are focused on differentiation and customization of the value proposition. There is a common interest to interact among network of companies and final customers. Firms are developing uniform motivational organizational structure to propose better value propositions. To do so, firms are establishing teams that are cooperating with business partners and developing offerings and relationships.

There is more interaction and communication within the development and marketing teams, so also the uniform communicational structure is developing.

In the last decades of the twentieth century, the general offer on the market significantly exceeds the demand. The interaction between business partners is becoming very complex. Adaptation of business structures and processes to the new, more competitive and complex environment is needed through the whole network of value creation. The full technical task is organized and coordinated between actors, firms, members of the value creation network. Through supply chains as type of networks, managers try to optimize the chain by coordinating relationships among actors: it means that managers try to optimize both, producer and customer. Instead of relationship based on distrust and competition, trust and cooperation arise. Instead of maximization of short-term profits, companies strive for sustainable development and social responsibility. Within these processes, the power based uniform structure is arising. Partners in business networks can have similar structural power, but in many cases, a leading or an umbrella organization, develops a branched and hierarchic network of partners (e.g. tier 1, tier 2, tier 3 supplier). Complex, composed organizational relationships are developed. Those structures are coordinated within the network; they are planned, executed and controlled.

To conclude: we have shown that the DOT includes all elements within the organization explained in a systematic and logic way. We could easily understand that competition is changing to cooperation, mistrust to trust, profit to social responsibility etc. Even between companies the discussed relationships are formed and changing the market forces. We talk about networks and their organization.

## **IMPLICATIONS ON THE MARKETING PARADIGM**

In this paper, we have focused on analysing the unexplained dilemmas on exchange relationships and management of relationships with customers. Instead of critics of existing concepts and highlights of differences in the understanding of networks and their management, we have used the existing knowledge to upgrade the understanding of exchange and relationships into a developed and unified marketing concept.

The most important finding of this article is that DOT (Lipovec 1987) is an appropriate base to explain the market exchange relationships, for defining the concept of customer relationship management (CRM) and for contributing to the general development of the marketing paradigm.

The highlights and key findings of this work are summarized below. They suggest that:

- According to SET, exchanges between members of an informal social unit occur based on value domains on an unconscious, also irrational and spontaneous level. Marketing is not needed for these exchanges to happen. Exchange is therefore a principle of self-determination of the society.
- The core of marketing is not the exchange, rather coordination of relationships in the organization and in the pseudo organization, all with the scope to create a value proposition that will lead to exchanges between actors.
- If exchange is a characteristic of the society and marketing deals with management of exchange, then marketing is a process of the society - a social process.
- Economic or market exchanges are a specific form of social exchanges.

- RM is not a radical shift in the marketing paradigm, rather an extension of the paradigm with the organizational science (e.g. developed organizational theory).
- Market exchange relationships are defined with marketing, organizational and psychological mix.
- From the perspective of DOT, there is always a pseudo organizational relationship between the supplier and the customers. This means that there cannot be pure transactional exchanges, as the supplier has to know its customer and design the value proposition in order that exchanges can happen.
- CRM is a part of the marketing strategy of the firm. In it is integrated the marketing concept that has customer wants at its core.

Based on the findings we suggest a revised definition of marketing:

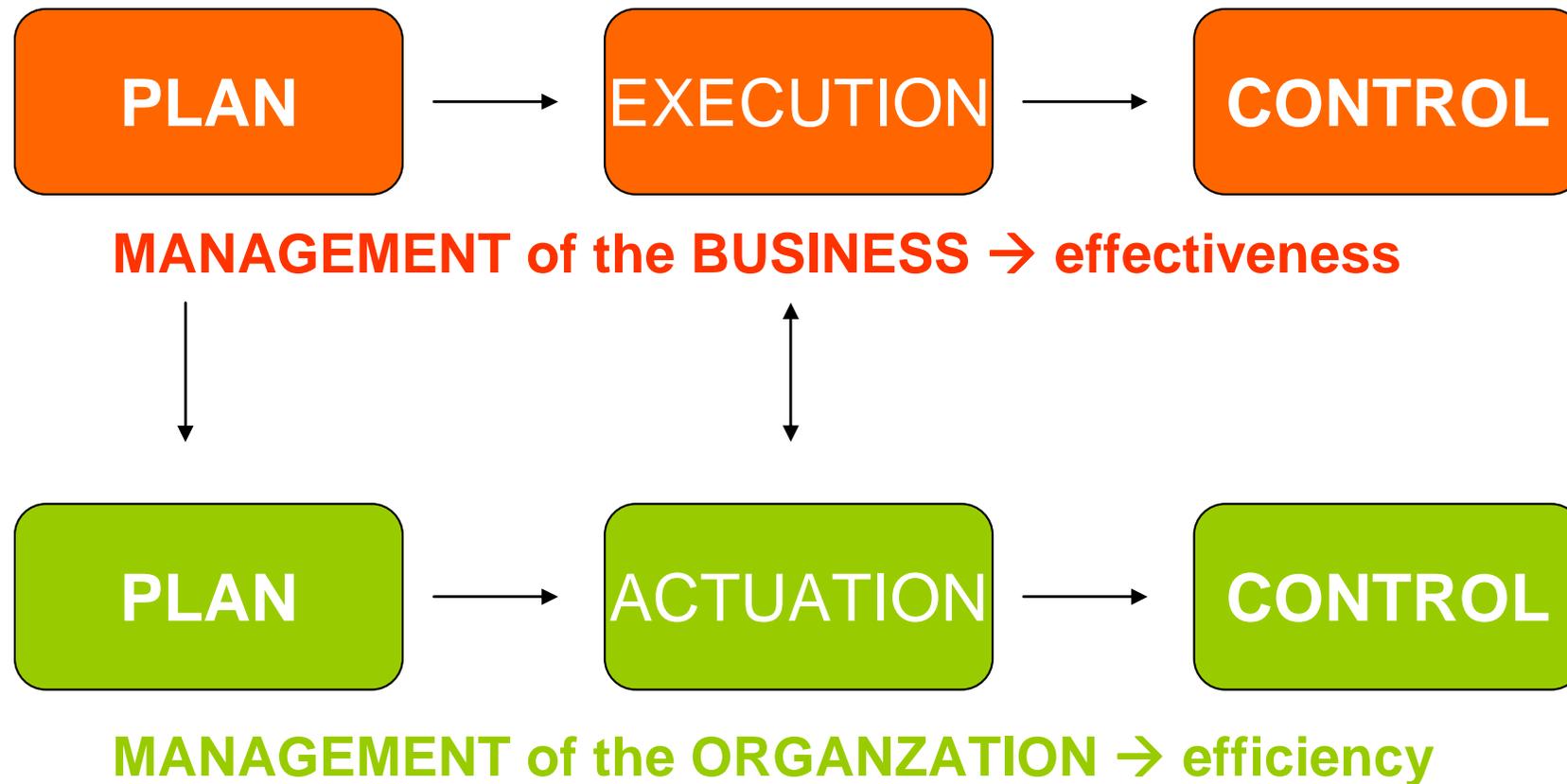
*Marketing is a conscious social process of self-realization of the society by which suppliers sustain customers (individuals or firms) with value propositions in the process of customers' value self-creation and with doing so, stimulate exchanges that maximize value for both* (developed from Bartels 1968, p. 32; Gummesson 2003, p. 168; Grönroos 2003, p. 172, Vargo & Lusch 2006, 2008).

*Our research leads to a new understanding of CRM. The research answers some of the key dilemmas of the marketing paradigm, especially in the field of CRM. It expands the concept of exchange with organizational relationships. The key contribution of the article is based on the finding that behind the metaphor of exchange relationship actually lays a theoretical construct of formal pseudo organizational relationship and a construct of market exchange. The research therefore indirectly answers the dilemma about the basic unit of analyze in marketing. Our research clearly shows that the basic unit of research in marketing is not exchange, neither relationship, rather a higher-level theoretical construct composed of organizational relationships and market exchanges, the market exchange relationship.*

*The proposed descriptive conceptual CRM model is only the starting point towards the understanding of customer relationship management. The CRM model is like a core that has to be explored and upgraded, particularly with the findings of psychology (psychological mix) but also other related sciences. The goal of the marketing paradigm therefore is to motivate the research on unexplained professional dilemmas within related sciences and to incorporate those findings in CRM model and in a marketing paradigm. We believe that with a deeper knowledge of mechanisms of relationship exchanges, we will be able to understand the role of marketing in the firm and in the society and we will have the knowledge to act to contribute to better fulfilment of needs of single individuals, firms and society.*

Appendixes

Appendix 1: A two dimensional management process of planning, executing and controlling



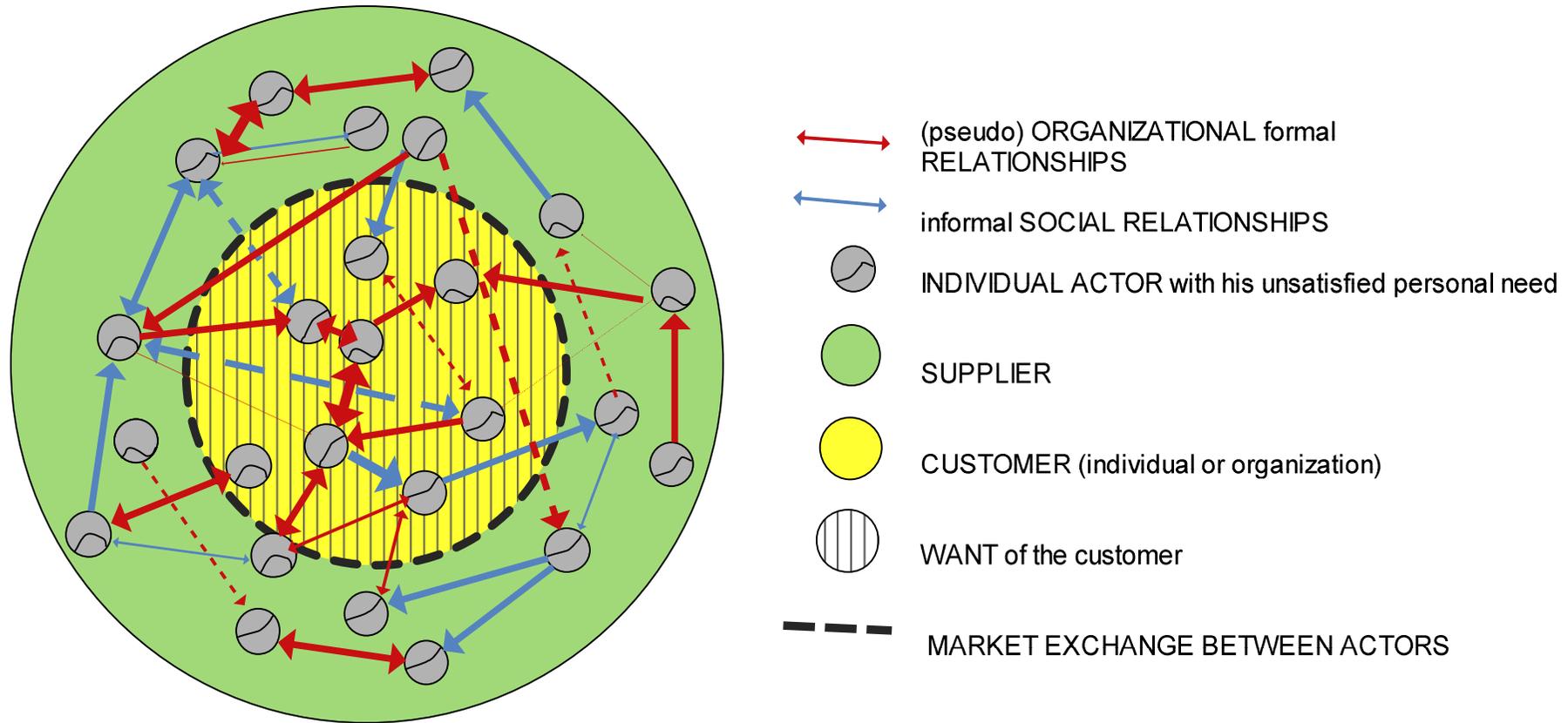
Source: Rozman, 2010

Appendix 2: Types of relationships in pseudo organization

RELATIONSHIPS	FORMAL	INFORMAL
<b>BASIC</b>	formal organizational relationships * management of relationships	informal social relationships * spontaneous – they can not be managed
<b>HIBRID</b>	voluntary organizational relationships * management of conditions	indirectly managed social exchanges * management of expectations

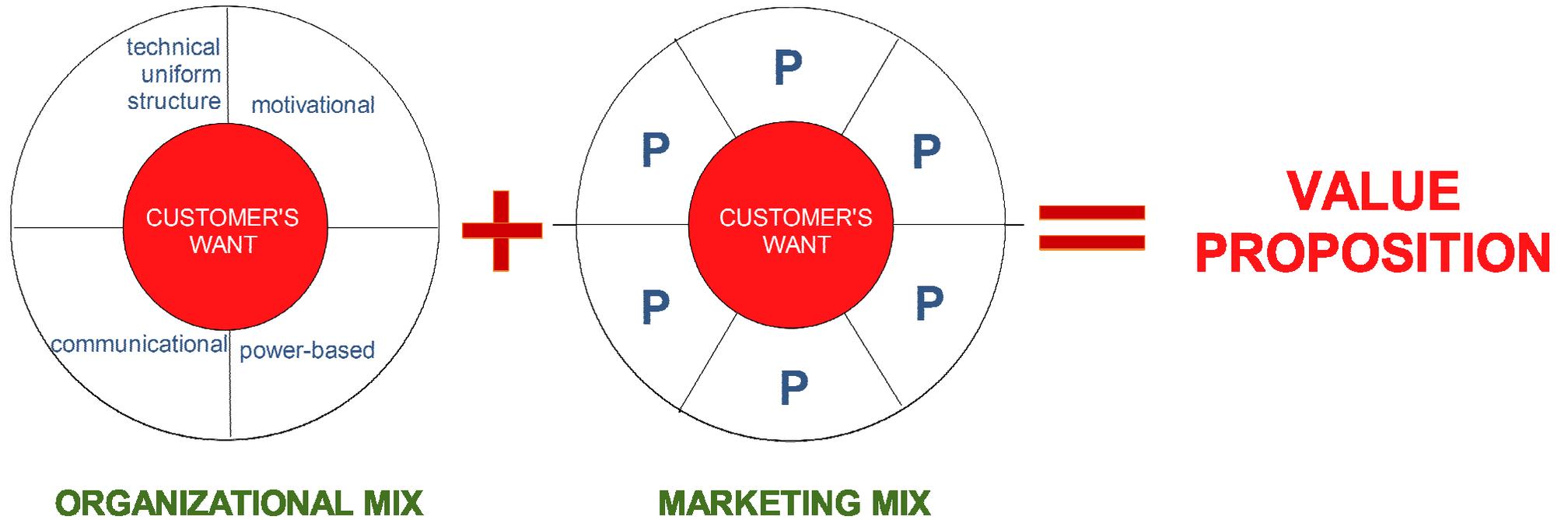
Source: author's interpretation

### Appendix 3: PSEUDO ORGANIZATION



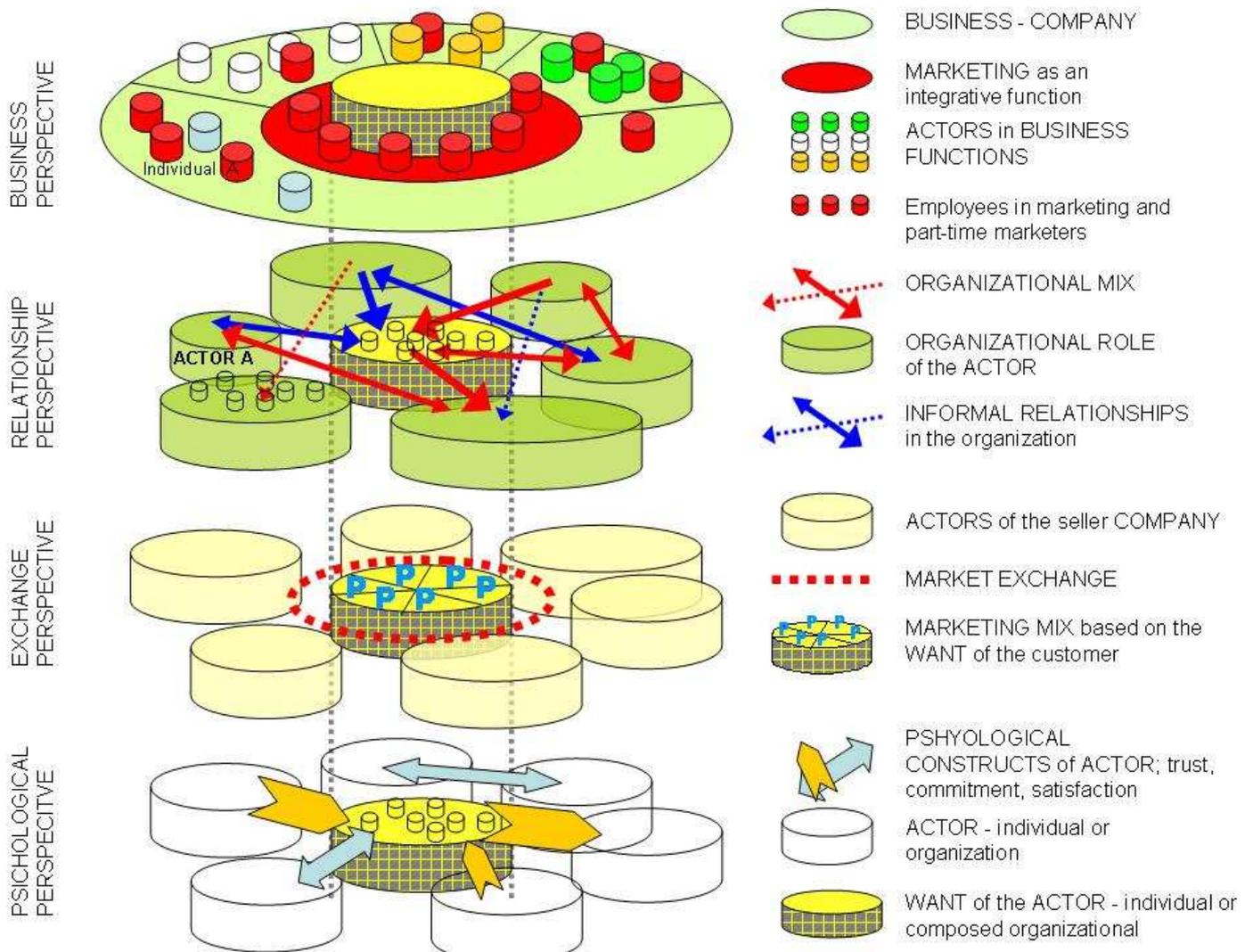
Source: author's interpretation

Appendix 4: VALUE PROPOSITION



Source: author's interpretation

## Appendix 5: Conceptual, descriptive CRM model structure



Source: author's interpretation

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**social unit:** group of individuals that have their specific relationships, roles and norms

**firm:** formal entity composed of a group of individual actors that have organization roles and are coordinated by the manager to achieve the goals of the firm

**organization:** a system of relationships among actors that allows rational achievement of goals of a social unit, firm or network