When Customers Take Initiative in Participation: Determinants, Consequences, and Boundary Conditions in the B2B Context

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Track: Services Marketing

Abstract

Research on customer participation often focuses on the extent to which companies take initiative to ask customers to participate in the co-creation process (firm-led participation). A less emphasized view of customer participation is the extent to which customers take initiative (customer-led participation). We incorporate service-dominant logic and equity theory in the business-to-business context to develop a theoretical framework of customer-led participation to empirically examine its three types (suggestions, invitations, and sharing), determinants (suppliers' operand and operant resources), consequences (customers' perceived value, perceived backfire, and repurchase intentions), and boundary conditions (customers' perceived intimacy, organizational culture, and perceived contribution). We use a mixed-method approach (interviews and surveys). We first interviewed four managers from a multinational logistics supplier in Indonesia. The purpose was to confirm whether the proposed constructs and links in the conceptual framework exist in the real world in exchanges between suppliers and their customers. We then collected data from customers who are in direct contact with suppliers and used structural equation modeling as our main analytical method. The findings show that operand resources decrease while operant resources increase customer-led participation. The impacts of operand and operant resources are conditioned on perceived intimacy (stronger for customers perceiving less intimacy), organizational culture (stronger for customers in a desired organizational culture), and perceived contribution (stronger for customers having more contributions, but the signs of the effects of operand and operant resources are reversed [positive for operand resources and negative for operant resources]). A warning for suppliers is that customer-led participation increases not only perceived value but also perceived backfire, which indirectly influences repurchase intentions.

Keywords: Co-creation, Customer-led participation, Service-dominant logic

Research on customer participation often focuses on the extent to which companies take initiative to ask customers to participate in the co-creation process (firm-led participation). A less emphasized view is the extent to which customers take initiative (customer-led participation). In the same vein, service-dominant logic (SDL) proposes that customers should be the ones who control participation and evaluate what value they gain from participation (Vargo and Lusch 2004). This reversed view is conceptually discussed in the literature on SDL and customer participation but has received limited empirical examinations so far, despite its importance in the business-to-business (B2B) context, particularly for suppliers, to understand how to exploit the opportunity to co-create value for their own and also their business customers' benefits. For example, a team from McKinsey (Noor et al. 2013) finds that suppliers benefit from customer-led participation, such as being more competitive by improving core capabilities; however, convincing business customers (customers hereafter) to initiate collaboration with suppliers is often difficult. We thus ask three questions regarding customer-led participation in the B2B context: (1) What is customer-led participation? (2) What are the determinants and consequences of customer-led participation? and (3) Are there any boundary conditions influencing customer-led participation?

To answer these questions, we develop a conceptual framework (Figure 1) and expect three contributions. First, there may be different types of customer-led participation (Dong and Sivakumar 2017). In this study we consider three types with different participation levels (from low to high): providing suggestions to improve suppliers' performance quality (mainly one-way participation for customers' own benefits), inviting suppliers in decision-making processes (two-way participation), and sharing internal information with suppliers (two-way participation). Second, we provide theoretical development on the determinants, consequences, and boundary conditions of customer-led participation by incorporating 10 fundamental premises (FPs) of SDL (Vargo and Lusch 2004, 2008) and equity theory. The FPs suggest two resources as the determinants of customer-led participation: operand and operant. The former are "resources on which an operation or act is performed to produce an effect" (Vargo and Lusch 2004, p. 2); the latter are "the fundamental source[s] of competitive advantage" (Vargo and Lusch 2008, p. 6). The consequences include perceived value (i.e., collaboration effectiveness and customer learning) and perceived backfire (i.e., suppliers' opportunism and credit-taking), which in turn influence customers' decisions to continue or terminate contracts with suppliers (repurchase intentions). We also consider three customer characteristics as boundary conditions on the links between suppliers' resources and

customer-led participation: perceived intimacy, organizational culture, and perceived contribution. We use a mixed-method approach (interviews and surveys). The results provide suppliers in the B2B context guidance on how to motivate customer-led participation under different boundary conditions and be cognizant of its positive and negative consequences.

Hypotheses Development

Impacts of Operand and Operant Resources on Customer-Led Participation

Equity theory proposes that customers will participate and remain in exchanges when suppliers contribute valued resources in a fair way (Glass and Wood 1996). SDL further distinguishes two types of resources: operand and operant. Compared with operand resources (e.g. basic services), operant resources (e.g., strong expertise) are core and inimitable capabilities that produce effects and changes (Vargo and Lusch 2004). We thus hypothesize that operant resources are more likely to be regarded as valued items to initiate exchanges and positively influence customer-led participation. In addition, Blocker et al. (2011, p. 219) find that managers avoid doing more business when suppliers give only "what they ask for" (characteristics of operand resources). However, operand resources could be valued only when being acted on via operant resources to create something of enhanced value. That is, while operand resources may have negative impacts on customer-led participation, operant resources may positively mediate the impacts of operand resources on customer-led participation. Thus:

H1a: Operant resources are more likely than operand resources to positively influence customer-led participation.

H1b: Operant resources positively mediate the link between operand resources and customer-led participation.

Impact of Customer-Led Participation on Perceived Value and Perceived Backfire

Perceived value. We expect that customer-led participation creates value for customers. Payne et al. (2008) suggest that through the exchange process, potential value to customers derives from suppliers' contribution to effectively improve customers' competence in completing missions (i.e., collaboration effectiveness) and help in customers' use of available resources (i.e., customer learning) in the business process. We propose that customer-led participation in invitations and sharing, but not in suggestions, improves perceived value. As noted previously, providing suggestions tends to be one-way participation, and the improved performance is likely to be attributed to customers' suggestions rather than to suppliers' effort. Thus:

H2: Invitations (a) and sharing (b) increase perceived value.

Perceived backfire. Exchanges may increase not only perceived value but perceived backfire as well. For example, Edvardsson et al. (2011, p. 335) posit a range of consequences of exchanges, "from trade with mutual gain, to persuasion, to fraud, and ultimately to theft by force." The dark side of exchanges is under-examined, compared with the bright side (Heidenreich et al. 2015). We explore two types of perceived backfire: suppliers' opportunism and credit-taking. Business actors are assumed to be self-interested, implying that they might behave opportunistically during the interactions with partners (Edvardsson et al. 2011). In addition, to provide better services to customers' end clients, customers may invite suppliers to co-create better value. However, end clients might not always understand to whom they should attribute good services, which can lead to credit-taking. Thus:

H3: Suggestions (a), invitations (b), and sharing (c) increase perceived backfire.

Moderators on the Links between Suppliers' Resources and Customer-Led Participation

We adopt social contracts to explain the moderating impacts of customer characteristics.

Perceived intimacy. We assume that customers with formal contacts (i.e., lower levels of perceived intimacy) tend to comply with social contracts and fair treatments (Vargo and Lusch 2008) and react more strongly to the links between suppliers' resources and customer-led participation than customers with informal contacts (i.e., higher levels of perceived intimacy). Customers with informal contacts may pay less attention to the resources provided by suppliers because they may obtain more valuable elements from informal contacts than the resources. That is, no matter how customers perceive the resources, the perception is less likely to be transferred to the decisions in customer-led participation. Thus:

H4: Perceived intimacy weakens the links between suppliers' resources and customer-led participation.

Organizational culture. We assume that customers in desired organizational cultures are more likely to comply with social contracts and norms than customers in less desired organizational cultures. A desired organizational culture emphasizes communal sharing, equality matching, and capabilities and involves complying with social contracts and norms. Thus:

H5: Desired organizational culture strengthens the links between suppliers' resources and customer-led participation.

Perceived contribution. Compared with goods-dominant logic, SDL infers that production and consumption of value-in-use often take place simultaneously; this is known as inseparability, one of the four differences between good and services. Inseparability implies

that suppliers and customers interact simultaneously, share responsibilities for service task success/failure, and contribute fairly to service provision. However, while customers perceive more contributions in exchanges, they may be less likely to follow social contracts and norms because of unfair exchanges. Therefore, they are less likely to transfer resources provided by suppliers to customer-led participation. Thus:

H6: Perceived contribution weakens the links between suppliers' resources and customer-led participation.

Methodology

To be able to collect information from both customers and suppliers, we used a mixed-method approach. First, to collect supplier data, we interviewed four managers from a multinational logistics supplier in Indonesia. The four managers provide logistic services for four multinational retailers (from Sweden, the United States, Japan, and Germany) in the fashion industry (e.g., apparel, shoes). The goal of the interviews was to confirm whether the proposed constructs of the conceptual framework exist in the real world in exchanges between the supplier and customers. Second, to empirically examine the conceptual framework, we collected customer data and generated 472 usable questionnaires. All respondents were in direct contact with their suppliers.

Measures

We used 7-point scales for each item. To examine reliability, Cronbach's α is between .87 and .90 and composite reliability is between .77 and .94, showing good reliability of the items of each construct. To examine discriminant validity of the items, we used confirmatory factor analysis, which showed good model fit (CFI = .934, TLI = .922, RMSEA = .052, SRMR = .057), implying that the items have good discriminant validity. To examine common method bias, we used the common method factor. The average method-based variance (.08) is lower than the average substantive factor-based variance (.55), showing that common method bias is not a serious concern in this study.

Results

Interview Results: Suppliers' Perspective

In summary, the interviews show that most of the constructs in the conceptual framework (except credit-taking and perceived contribution) exist in suppliers' interactions with customers. Furthermore, the interviews provided indirect evidence of the links in the framework.

Survey Results: Customers' Perspective

Main Effects

We adopted structural equation modeling with Stata 15 to test the hypotheses. Table 1 shows the results of the main and moderating effects. Regarding the links between suppliers' resources and customer-led participation, we found that operand resources negatively influence customer-led participation in suggestions (–5.02, $p < .01$), invitations (–7.08, $p < .01$), and sharing (–7.67, $p < .01$). By contrast, operant resources positively influence customer-led participation in suggestions (6.98, $p < .01$), invitations (10.23, $p < .01$), and sharing (11.16, $p < .01$). These results provide support for H1a. In addition, operant resources positively mediate the links between operand resources and customer-led participation in suggestions (.24, $p < .01$), invitations (.60, $p < .01$), and sharing (.67, $p < .01$), in support of H1b. Regarding the links between customer-led participation and perceived value, suggestions do not significantly influence collaboration effectiveness (–.11, $p > .1$) and customer learning (.03, $p > .1$). However, invitations and sharing positively influence collaboration effectiveness (invitations: .37; sharing: .57, $p < .01$) and customer learning (invitations: .25; sharing: .63, $p < .01$). The results provide support for H2a and H2b. Regarding the links between customer-led participation and perceived backfire, suggestions have a significant, positive impact on opportunism (.63, $p < .01$) but have no impact on credit-taking (.17, $p > .1$), in partial support of H3a. Invitations have a significant, positive impact on opportunism (.35, $p < .01$) and credit-taking (.53, $p < .01$), in support of H3b. Sharing has a significant, negative impact on opportunism (–.53, $p < .01$) but a significant, positive impact on credit-taking (.21, $p < .05$), in partial support of H3c. Regarding the links between perceived value/backfire and repurchase intentions, collaboration effectiveness (.06, $p > .1$), customer learning (.06, $p > .1$), and credit-taking (–.03, $p > .1$) do not significantly influence repurchase intentions, but opportunism (–.04, $p < .1$) marginally negatively influences repurchase intentions.

Moderators

We used two-step clustering analysis to split the sample on the basis of the items of each moderator. Calinski-Harabasz pseudo-F shows three groups for perceived intimacy, two groups for organizational culture, and two groups for perceived contributions.

Perceived intimacy. To simplify the discussion, we mainly compared two groups: high versus low levels of perceived intimacy. In addition to the link between suppliers' resources and invitations, we found that customers who perceive low levels of intimacy (i.e., more formal contacts) with suppliers tend to react more strongly to the negative impact of operand

resources on suggestions ($\Delta\chi^2 = 2.73$, $p < .05$) and sharing ($\Delta\chi^2 = 3.88$, $p < .05$) than customers who perceive high levels of intimacy (i.e., more informal contacts) with suppliers. Similarly, customers who perceive low levels of intimacy with suppliers tend to react more strongly to the positive impact of operand resources on suggestions ($\Delta\chi^2 = 2.26$, $p < .05$) and sharing ($\Delta\chi^2 = 3.79$, $p < .05$) than customers who perceive high levels of intimacy with suppliers. Thus, H4 is partially supported.

Organizational culture. We found that customers in a desired organizational culture react marginally more strongly to the negative impact of operand resources on suggestions ($\Delta\chi^2 = 1.80$, $p < .1$), invitations ($\Delta\chi^2 = 1.85$, $p < .1$), and sharing ($\Delta\chi^2 = 1.75$, $p < .1$) than customers in a less desired organizational culture. In addition, customers in a desired organizational culture react (marginally) more strongly to the positive impact of operant resources on suggestions ($\Delta\chi^2 = 1.93$, $p < .1$), invitation ($\Delta\chi^2 = 2.02$, $p < .05$), and sharing ($\Delta\chi^2 = 1.87$, $p < .1$) than customers in a less desired organizational culture. Thus, H5 is (marginally) supported.

Perceived contribution. We found that customers who perceive more contributions react more strongly to supplier resources than customers who perceive less contributions. Surprisingly, customers who perceive more contributions positively react to the impact of operand resources on suggestions ($\Delta\chi^2 = 6.32$, $p < .01$), invitations ($\Delta\chi^2 = 5.71$, $p < .01$), and sharing ($\Delta\chi^2 = 6.65$, $p < .01$) than customers who perceive less contributions. However, customers who perceive more contributions negatively react to the impact of operant resources on suggestions ($\Delta\chi^2 = 6.28$, $p < .01$), invitations ($\Delta\chi^2 = 5.14$, $p < .01$), and sharing ($\Delta\chi^2 = 6.09$, $p < .01$) than customers who perceive less contributions. Thus, H6 is not supported.

Discussion

Theoretical Implications

Due to the page limitation, we discussed only why H6 is not supported. While the links are also stronger for customers who perceive more contribution, the effect of operand resources becomes positive and the effect of operant resources becomes negative. The negative effect of operant resources is a surprise. A possible explanation for this negative effect is when customers cast doubt on suppliers' ability to provide operant resources. For example, customers may wonder why they contribute more to exchanges when working with knowledgeable and skillful suppliers. By contrast, customers might feel satisfied and fair

about suppliers who do good basic jobs (i.e., operand resources), even if they contribute more to the exchanges.

Managerial implications

Also due to the page limitation, we discussed only the moderating finding of perceived intimacy. Intimacy weakens the impact of operant resources on customers' intentions for co-creation. To avoid this, we advance one suggestion. Suppliers could create intimacy but in a structured way that does not hurt their professionalism (i.e., controlled intimacy). For example, interviews with the logistics supplier revealed that it keeps a detailed track record of each supplier, and late delivery is only granted once a month; the second time it happens, the supplier receives a penalty.

Limitations and Further Research

Our study has several limitations. First, we do not have dyadic (supplier–customers) or triadic (supplier–customers–end clients) data. Second, we do not have longitudinal data. Third, we do not examine the framework of customer-led participation in a B2C context, but we conjecture that firms can apply the framework in this context as well.

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Table 1. Results

Paths	Main effect	Perceived intimacy			$\Delta \chi^2$	Organizational culture		$\Delta \chi^2$	Perceived contribution		$\Delta \chi^2$
		High n = 138	Moderate n = 85	Low n = 245		High n = 261	Low n = 204		High n = 279	Low n = 193	
	β (se)	β (se)	β (se)	β (se)		β (se)	β (se)		β (se)	β (se)	
Suppliers' resources -> customer-led participation											
operand resources -> suggestions	-5.02(1.65)**	-.73(.34)*	-1.66(.58)**	**-2.14(.39)****	2.73*	**-6.67(2.07)****	-2.38(1.19)*	1.80+	**4.26(.67)****	.03(.20)	6.32**
operant resources -> suggestions	6.98(2.18)**	1.49(.42)**	2.41(.79)**	**2.98(.51)****	2.26*	**10.09(3.03)****	3.52(1.56)*	1.93+	**-6.01(.96)****	.11(.25)	6.28**
operand resources -> invitations	-7.08(2.29)**	**-2.89(.86)****	-.89(.46)+	**-3.05(.54)****	.16	**-10.33(3.20)****	-3.60(1.74)*	1.85+	**4.20(.74)****	-.20(.30)	5.71**
operant resources -> invitations	10.23(3.03)**	**4.57(1.05)****	1.96(.63)**	**4.75(.70)****	.14	**16.20(4.68)****	5.69(2.30)**	2.02*	**-5.38(1.05)****	.53(.39)	5.14**
operand resources -> sharing	-7.67(2.60)**	-.69(.34)*	-1.15(.54)*	**-3.47(.63)****	3.88*	**-11.00(3.47)****	-3.99(1.99)*	1.75+	**5.07(.76)****	.09(.31)	6.65**
operant resources -> sharing	11.16(3.43)**	1.86(.43)**	2.28(.74)**	**5.37(.82)****	3.79*	**17.13(5.09)****	6.44(2.63)*	1.87+	**-6.55(1.08)****	.39(.40)	6.09**
Mediating effects of operant resources											
operand resources -> suggestions	.24 (.04)**				-			-			-
operand resources -> invitations	.60 (.06)**				-			-			-
operand resources -> sharing	.67 (.05)**				-			-			-
Customer-led participation -> perceived value											
suggestions -> collaboration eff.	-.11 (.07)	.10(.14)	-.35(.18)+	-.03(.09)	-	-.17(.08)*	.13(.14)	-	-.35(.11)**	-.05(.11)	-
suggestions -> customer learning	.03 (.08)	.21(.17)	-.35(.19)+	.14(.10)	-	.00(.09)	.21(.15)	-	-.39(.12)**	.43(.13)**	-
invitations -> collaboration eff.	.37 (.06)**	.22(.33)	.82(.24)**	.40(.07)**	-	.50(.08)**	.32(.10)**	-	.09(.08)	.46(.08)**	-
invitation - customer learning	.25 (.06)**	.30(.38)	.77(.22)**	.24(.08)**	-	.31(.09)**	.36(.10)**	-	.05(.09)	.32(.09)**	-
sharing -> collaboration eff.	.57 (.07)**	.56(.47)	.35(.19)+	.50(.08)**	-	.41(.09)**	.50(.12)**	-	1.12(.14)**	.35(.08)**	-
sharing -> customer learning	.63 (.08)**	.61(.55)	.52(.19)**	.54(.09)**	-	.48(.10)**	.48(.13)**	-	1.16(.15)**	.34(.09)**	-
Customer-led participation -> perceived backfire											
suggestions -> opportunism	.63 (.13)**	.25(.29)	.95(.31)**	.55(.14)**	-	.74(.17)**	.38(.21)+	-	1.21(.22)**	.03(.16)	-
suggestions -> credit-taking	.17 (.11)	-.06(.22)	.09(.25)	.20(.14)	-	.26(.14)+	.00(.19)	-	.15(.16)	.11(.16)	-
invitations -> opportunism	.35 (.10)**	1.27(.43)**	-.39(.30)	.16(.11)	-	.17(.15)	.57(.14)**	-	.43(.17)**	.36(.11)**	-
invitations -> credit-taking	.53 (.09)**	1.14(.26)**	.42(.22)+	.41(.11)**	-	.51(.14)**	.66(.14)**	-	.67(.14)**	.37(.11)**	-
sharing -> opportunism	-.53 (.12)**	-1.25(.51)+	-.31(.30)	-.46(.12)**	-	-.24(.17)	-.59(.17)**	-	-.98(.26)**	-.37(.11)**	-
sharing -> credit-taking	.21 (.11)*	-.32(.30)	.25(.21)	.19(.13)	-	.25(.15)	.16(.16)	-	.34(.21)	.19(.11)+	-
Perceived value/perceived backfire -> repurchase intentions											
collaboration effectiveness	.06 (.05)				-			-			-
customer learning	.06 (.04)				-			-			-
opportunism	-.04 (.02)+				-			-			-
credit-taking	-.03 (.02)				-			-			-

+ $p < .1$; * $p < .05$; ** $p < .01$

Figure 1. Conceptual framework