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Building sustainable business ecosystems through customer participation: A lesson from South Korean cases

Jaehun Joo ^a, M. Minsuk Shin ^{b,*}

^a Division of Management, College of Business Administration, Dongguk University, Gyeongju, South Korea

^b Department of International Trade, College of Commerce & Economics, Konkuk University, South Korea

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ABSTRACT

A sustainable business ecosystem is a source of competitiveness for firms as well as a manageable resource for gaining a competitive advantage. Strategy from the perspective of business ecosystems is particularly critical for the conglomerate or government-driven Asia Pacific business environment. Among members of business ecosystems, this study focuses on customers, whose roles are overlooked in existing studies as an agent of building a sustainable business ecosystem. This study examines effects of customer participation on creating economic value and social value within the business ecosystem by conducting in-depth interviews with multiple firms in South Korea. Based on the interview data, this study develops seven propositions for the relationships between customer participation and a sustainable business ecosystem. Then, the study proposes alignment, systemization, socialization, and coevolution as four strategic actions for building sustainable business ecosystems. Also, this study offers result area of the strategic actions as the accumulation of both economic value and social value for both firms and the society. Implications based on these strategic actions and the result areas are suggested for academics and practitioners.

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1. Introduction

In the Asian business culture, there often exist cases of leader-follower relationships between power abusing larger businesses and the dependent small and medium-sized businesses (Cho, Yu, Joo, & Rowely, 2014). For example, Namyang Dairy, one of the largest dairy businesses in South Korea, is taking a nationwide boycott following a customer uproar caused by one of its sales representatives dumping unreasonable sales quota on its distributors (Park, 2013). Such case represents adverse aspects of strategies focusing solely on short-term gains of a business while overlooking the health of the entire business ecosystems.

Recently, Management scholars have started to observe a shift in firms' strategic focus from the performance of individual firms to the development of business ecosystem-based strategies (Lin & Wang, 2015; Markus & Loebbecke, 2013). A business ecosystem

refers to mutually dependent systems interconnected by a loose foundation of various ecosystem members such as customers, suppliers, partners, and other stakeholders (Jansiti & Levien, 2002; Lin, Kung, & Wang, 2015; Moore, 1993; 1996). In other words, as opposed to the conglomerate-driven or development-oriented strategies, the ecosystem-based strategy attempts to achieve competitive advantage for firms by enriching a business ecosystem or building a sustainable business ecosystem through a collaboration and coevolution of the members of the ecosystem (Moore, 1993; 1996).

Despite the diverse spectrum of the members of business ecosystem, most studies have considered only participating firms of a business ecosystem as the strategic subjects (Freeman, Martin, & Parmar, 2007). In other words, such studies have overlooked customers from the strategic subjects enriching the business ecosystems (Fragidis, Koumpis, & Tarabanis, 2007). However, the view on customers has been changing from passive buyers to an active and major participants behaving as co-producers or co-creators of value within the ecosystem (Blazevic & Lievens, 2008).

Customers are traditionally viewed as passive buyers with no competitive input of sustainable business ecosystems. However, it

* Corresponding author.

E-mail address: shinm@konkuk.ac.kr (M.M. Shin).

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is important to include customers under the scope of the management of business ecosystems. Comparable to how employees gain psychological ownership toward their organization through organizational socialization (Joo & Shin, 2016), customers also experience customer socialization toward the business ecosystems. Thus, firms must analyse and define their business ecosystems together with customers as the central members of business ecosystems when investing in, managing, and enhancing their business ecosystems (Bush, Bush, & Orr, 2010).

To bridge the gap in existing studies, this study examines the influence of customer participation on business ecosystems, develops propositions on the relationship between customer participation and business ecosystems, and draws a course of actions for building sustainable business ecosystems from the propositions. This study uses a multiple case study methodology and analyses data collected from in-depth interviews with current practitioners on their perceptions and experiences concerning customer participation of business ecosystems in South Korea. South Korea is selected as the case for this study because it presents a conglomerate-driven business environment and social scandals surrounding those large companies are frequent news items in South Korean media. For instance, large South Korean companies from Namyang Dairy to Korean Air caused scandals criticized for bossy and arrogant behaviour over their customers and employees (Won, 2016).

These results are expected to facilitate academic discussions on business ecosystems strategies driven by customer participation. In particular, this study sheds special light on Asian business environments as many Asian economies are in transitions from the conglomerate-driven to the business ecosystem-driven economy. In addition, the results provide a different perspective for practitioners by illustrating the possibility of customer participation as a key strategic resource for building sustainable business ecosystems.

2. Literature review

2.1. Business ecosystems

This study takes the definition of business ecosystem as a mutually dependent system interconnected by a loose foundation of various members such as customers, suppliers, partners, and other stakeholders based on following studies. Starting in the 90's, Management scholars demonstrated ecology as a metaphor for the business world's living organisms and introduced the term 'business ecosystem' (Moore, 1993). Since then, the business ecosystem studies have largely been focusing on (1) conceptually defining business ecosystem or describing its framework (Moore, 1993, 1996, 2006; Peltoniemi & Vuori, 2004), (2) developing business ecosystem-based strategy (Adner, 2006; Adner & Kapoor, 2010; Iansiti & Levien, 2002, 2004a, b; Kim, Lee, & Han, 2010), and (3) introducing the cases of business ecosystem level management (Cusumano, 2010; Isckia and Lescop, 2009; Wnuk, Runeson, Lantz, & Weijden, 2014).

Previous studies of business ecosystems have paid little attention to the role of customers or their participation into the business ecosystem. These studies focused mainly on firms as the protagonists within the ecosystem. For instances, Iansiti and Levien (2004a) classify firms in business ecosystems into keystone companies, which own and shape the ecosystem, niche players, and dominators. They develop strategic directions of the business ecosystem from the keystone companies' perspective. Other researchers, similarly, focus on platform leaders and orchestrators as the subject of developing strategies to enrich business ecosystems (Gawer & Cusumano, 2008; Markus & Loebbecke, 2013).

However, Wnuk et al. (2014) identified the end customer

demand as a key factor that allows third party developers' participation in the ACAP (Axis Camera Application Platform). Frigidis et al. (2007) also mentioned that there could be no business ecosystems without customers. Customers' role is crucial for sustainability of the business ecosystem and influences every aspect of the ecosystem. In other words, it is important for firms to understand customers' role in the business ecosystem and the process through which they become active participants of the ecosystem. However, at its infancy of business ecosystem research, scholars did not consider customers as a directly participating member of business ecosystems. In fact, the study on customer participation in business ecosystems may help solving unreasonable leader-follower relationships embedded in Korean manufacturing or retailer ecosystems like Namyang Dairy.

2.2. Customer participation

Customers participate in business operations in various ways from the self-service model in the fast food industry to user created contents (UCC) in online services (e.g., Blazevie and Lievens, 2008). To understand the mechanism of customer participation it is helpful to understand how employees become socialized to an organization through the concept of organizational socialization. Organizational socialization refers specifically to the process of learning employee-related skills, knowledge, and attitudes as a member of an organization (Schein, 1968; Van Maanen & Schein, 1979). Kelley, Donnelly, and Skinner (1990) extend this concept to service delivery. Because service delivery occurs with the customer presence, the input or participation of customers is crucial for the successful completion of a service. Customers' organizational socialization pertains to customers undertaking a process of appreciating the value of firms, understanding what firms expect through their participation, and learning knowledge and skills required for service delivery (Claycomb, Lengnick-Hall, & Inks, 2001; Kelley et al., 1990). Through this socialization process, customers become service firms' partial employees (Kelley et al., 1990).

Along with customers' organizational socialization, many scholars have examined a concept of consumer socialization (Moschis & Churchill, 1978), which refers to the process of young or inexperienced consumers becoming savvy ones by developing attitudes, knowledge, and skills concerning what and how to purchase (Goodwin and Sewall, 1992).

Customers' organizational socialization and consumer socialization both adopt the socialization concept to explain behaviours. However, the major difference between these two concepts lies not in different domains but in their perspectives. Consumer socialization takes a consumer-oriented perspective and views consumers as a main entity of the market, thereby explaining consumers' behaviours in the market for their own purchasing activities. However, customers' organizational socialization takes a firm perspective, viewing customers as participants in business processes of firms. Therefore, the main purpose of customers' organizational socialization is to help customers perform their roles as partial employees through socialization mechanisms or tactics (Claycomb et al., 2001; Kelley et al., 1990).

Customer participation in services generally refers to customers' ability to influence the process and quality of service delivery. Marketing and consumer behaviour scholars have long paid close attention to customer participation at the level of individual firms (Bowen, 1986; Namasivayam, 2003). One of the major characteristics of service is the indivisibility between production and consumption. Because customer participation for service firms ends with the completion of the service delivery process, customers are viewed as partial or transient employees (Bowen, 1986; Namasivayam, 2003). In particular, customer participation is

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