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## Asia Pacific Management Review

journal homepage: [www.elsevier.com/locate/apmr](http://www.elsevier.com/locate/apmr)

## Co-production and the roles of dependence and service importance

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## ARTICLE INFO

## Article history:

Received 9 July 2012

Accepted 24 April 2014

Available online 3 June 2015

## Keywords:

Service

Perceived importance of service

Dependence

Co-production

## ABSTRACT

Recent research suggests that there are increasing opportunities for customer-firm co-production as a means to achieve competitive advantage. This study proposes a model of co-production and investigates the link between co-production and its antecedent factors in a financial services context. The model is empirically tested in a survey of 288 customers of banks (or financial holding companies). Support is found for a contingency model involving customer expertise, service provider expertise, communication and interpersonal relationships along with perceived importance of service and dependence. Theoretical and managerial implications of findings are discussed.

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## 1. Introduction

Customers are increasingly being encouraged to take on more active roles in producing goods and services (Bendapudi & Leone, 2003; Verhoef, Reintez, & Krafft, 2010). The service marketing literature has focused on customer participation in service firms. For instance, Kelley, Donnelly, and Skinner (1990) suggest that service organizations view customers as quasi employees and manage their behavior similar to employees. Recent work supports increasing opportunities for customer-firm co-production as a means to achieve competitive advantage (e.g., Payne, Storbacka, & Frow, 2008). Specifically, co-production can enhance perceptions of value because customers create value with firm (e.g., Oh & Teo, 2010). Firms should embrace co-production to organize their service delivery. Increasingly clients can decide how much of a service they want to produce for themselves, which means that previously obvious producer-customer divide has become more blurred. Therefore, the product is likely to become more and more a process into which the customer can immerse oneself and can provide inputs (Firat et al., 1995). Coproduction requires a shift to a buyer-centric business model, through that client preferences can be

expressed in real time and then products/service will be customized. The interface between the customer and the firm represents an important component of a service delivery process in which the client has direct input into the production of the final service (Auh, Bell, McLeod, & Shih, 2007).

Customer coproduction is highly relevant for service firms and has attracted significant academic attention. Etgar (2008) suggests that researchers analyze co-production as a distinct area of consumer behavior and develop empirical research models. A deeper understanding of how consumers decide whether or not to engage in co-production is imperative (Etgar, 2008). Prior studies have demonstrated several drivers of customer coproduction behavior, for example customer motivation, customer ability, or knowledge (e.g., Auh et al., 2007; Büttgen, Schumann, & Zelal, 2012; Lengnick-Hall, 1996; Schneider & Bowen, 1995). Customer motivation to participate is important to for effective co-production (Büttgen et al., 2012). One of the factors influencing the co-production motivation is customer-service provider relationship (Kuusisto & Paallysaho, 2008). Guo and Ng (2011) conclude that interpersonal relationships influence service co-production. Besides, since expertise facilitates efficient and effective service, in that customers are better able to provide accurate information to advisors. Therefore, this study considers the antecedents of co-production widely accepted in past literature: customer expertise and interpersonal relationship (Auh et al., 2007; Etgar, 2008; Guo & Ng, 2011; Lengnick-Hall, 1996; Meuter, Bitner, Ostrom, & Brown, 2005). In addition, since expertise facilitates efficient and effective service and communications between service employees and

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Peer review under responsibility of College of Management, National Cheng Kung University.

clients help improve task clarity (Lengnick-Hall, Claycomb, & Inks, 2000), two other antecedent factors are considered: provider expertise and communication. This study extends past research by examining the moderating effect of perceived importance of service and dependence on the relationships between co-production and its antecedents (i.e., customer expertise, service provider expertise, communication, and interpersonal relationship).

It is possible that the relationships between co-production and its antecedents vary depending on the perceived importance of service and on customer dependence. One of the factors influencing the co-production motivation is perceived importance of the service (Kuusisto & Paallysaho, 2008). Furthermore, previous work has found that perceived importance is a key moderator in the relationship between service performance outcomes and their drivers (Tokman, Davis, & Lemon, 2007; Yang, Li, Tan, & Teo, 2007). Tokman et al. (2007) conclude that service importance play a prominent role in shaping customer switch-back intentions. Yang et al. (2007) demonstrate that the perceived importance of learning positively moderates the relationship between utilitarian outcome expectancy and participation forum intention. Researchers have explained the moderating role of importance by reference to customers' willingness to be more active processors of cognitive information when making purchase decisions (Ray et al., 1973). Co-production also involves cognitive determinants, so this work wants to examine whether the relationship between co-production and its antecedents is also moderated by the perceived importance of service.

Dependence is a closely related concept. Rodríguez, Pérez, and Gutiérrez (2007) demonstrate that dependence moderates the relationship between satisfaction, trust and commitment. Satisfaction has a higher positive impact on trust and commitment in situation of high perceived dependence between customer and service provider than when dependence is low. It may follow from this result that when a customer is dependent on service provider, the customer's satisfaction about customer expertise, service provider's expertise, communication, and interpersonal relationship may be a driver of co-production.

Here we propose and empirically analyze an integrative framework that considers customer expertise, service provider expertise, communication, and interpersonal relationship as antecedents of co-production. In particular, this work examines the moderating roles of perceived importance of service and dependence in the relationship between co-production and its antecedents. Understanding how these factors related to co-production and the boundary condition of their relationship can help managers effectively increase customer co-production and customize marketing offers. For example, if service provider expertise has a stronger effect on co-production for customers with high perceived dependence than it has for customers with low perceived dependence, a manager should pay particular attention to increasing service provider expertise to promote co-production for high-dependence customers.

## 2. Literature review

Etgar (2008) indicates that co-production encompasses all cooperation formats between consumers and production partners. Auh et al. (2007) define co-production as constructive customer participation in the service creation and delivery process, and clarity that it requires meaningful, cooperative contributions to the service process. Bendapudi and Leone (2003) define customer participation (or co-production) as joint production of outcome. A broader perspective on co-production is found in interpretive marketing literature (e.g., Firat & Venkatesh, 1993). These researchers suggest that consumers are usurping the privileged status previously accorded to the producers and they may

become participants in the customization of their world (Bendapudi & Leone, 2003). Scholars have argued that customers and firms are involved in co-production during the exchange mechanism (Bitner, Faranda, Hubbert, & Zeithaml, 1997), and highlight the simultaneous production and consumption characteristic of services.

This study adopts the view of co-production as “engaging customers as active participants in the organization's work” (Lengnick-Hall et al., 2000, p. 359). Co-production has two major benefits. First, involving the customer in co-production will lower costs and increase productivity for service providers. For example, customers arrange their own airplane tickets over the Internet. Second, co-production can help to customize firms' offerings to customers' need (Etgar, 2008). For example, in the delivery of financial services, haircuts, medical consultations, or education clients make provision of input to the decision-making process. The benefits of co-production are not limited to high-contact services; even in low contact services, customers may find co-production attractive since they enjoy increased perceived control over the service delivery process and additional opportunities to make choice (Schneider & Bowen, 1995).

### 2.1. Communication

Sharma and Patterson (1999) define communication as the formal and informal sharing of meaningful and timely information between a client and advisor in an empathetic manner. In the financial service context of our study, the content of communication focuses on providing investment strategies, explaining financial concepts, forecasting economic situations, and responding to customer requests for information. Communication flow is central to the establishment of strong relationship and trust (Sharma & Patterson, 1999), which is beneficial to customers' coproduction. Communication also socializes clients about the procedures and norms of the firm by helping them identify with a particular role within the firm which also is critical for effective co-production (Mills, Chase, & Margulies, 1983). The extent to which clients identify themselves as co-producers will influence their willingness to participate co-production. Accordingly, communication relates positively to co-production (Auh et al., 2007). Therefore, this work hypothesizes:

**H1.** Communication positively influences co-production.

### 2.2. Provider expertise

Expertise entails having a special skill or knowledge that represents mastery of a particular subject (Stewart, 1989). Because experts are more influential than non-experts (Busch & Wilson, 1976), the quality of the relationship is enhanced by seller competency (Crosby, Evants, & Cowles, 1990). The greater the provider's knowledge or expertise about customer questions and concerns, the more likely the service provider is to enhance the customer's role clarity (Dellande, Gilly, & Graham, 2004) and to enhance the trust and satisfaction of customers towards the service provider (Smith, 1998). Most service marketers recognize the importance of building more sustainable and long-lasting relationship with their clients when considering the performance of services vary on the degree of complexity, the intimate nature of exchange and co-production of services outcomes (Lovelock, 1996). Service provider and customers bring their knowledge and skills and apply their own resources in order to create services and value is co-created by this reciprocal and mutually beneficial relationship (Vargo, Maglio, & Paul, 2008). In short, service provider expertise is important for customers to participate co-production. Therefore, this work hypothesizes:

**H2.** Provider expertise positively influences co-production.

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