



Provider and relational determinants of customer solution performance



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ABSTRACT

Given the increased use of business-to-business customer solutions, it is important to understand what factors may influence solution performance. Although the literature has addressed a wide number of areas related to customer solutions, there is limited knowledge on the specific issue of customer solution performance. This study contributes to the emerging value co-creation literature by investigating the influence of solution provider determinants and relational interactions between the provider and client on customer solution performance. The findings from an empirical study of a sample of high-tech companies in China reveal that the provider's adaptiveness, customer emphasis, and cross-functional coordination are positively related to customer solution performance. In addition, relational interactions of joint problem solving and conflict management play a positive role in enhancing solution performance. These findings offer important theoretical and managerial implications for the management of customer solutions.

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1. Introduction

In recent years, the service-dominant logic of marketing has evolved from the traditional product-centric view (Grönroos, 2011; Payne, Storbacka, & Frow, 2008; Vargo & Lusch, 2004). The service-dominant view suggests that value is co-created by the service provider and the client working in a collaborative process (Grönroos & Voima, 2013; Lusch, Vargo, & O'Brien, 2007; Paulin & Ferguson, 2010; Payne et al., 2008). The value co-creation process involves collaborating firms developing solutions to meet specific client needs (Möller & Rajala, 2007; Parida, Sjödin, Wincent, & Kohtamäki, 2014). Consistent with the theoretical development of the service-centered view, many companies and industries have recognized the need to advance from providing individual goods and services to developing customer solutions (Epp & Price, 2011; Helander & Möller, 2008; Kohtamäki, Partanen, & Möller, 2013).

Customer solutions represent customized and integrated combinations of goods and services that meet client needs (Davies, Brady, & Hobday, 2006; Helander & Möller, 2008; Sawhney, 2006; Tuli, Kohli, & Bharadwaj, 2007). A customer solution provider typically develops services to design, integrate, operate, and finance products or systems across their life cycles (Davies et al., 2006; Helander & Möller, 2008). This process has become prevalent in virtually every industry as a means of competitors differentiating themselves from one another (Payne et al., 2008; Tuli et al., 2007). Customer solutions have been widely used in utilities, telecommunications, imaging, transportation,

and biotechnology industries in business-to-business and business-to-consumer markets (cf. *Energy Weekly News*, 2012; *Manufacturing Close-Up*, 2011; *Journal of Transportation*, 2010; *Biotech Business*, 2007). Many companies such as IBM, General Electric, Hewlett Packard, Rolls-Royce, Ericsson and EDS all compete by selling integrated customer solutions (Davies et al., 2006). Although customer solutions have been widely embraced, many organizations have only seen marginal returns or have failed to develop successful solutions that meet client expectations (Epp & Price, 2011). Some providers have even lost money providing solutions (Tuli et al., 2007). If the solution provider cannot manage the opportunities and challenges properly, it may even result in a “service paradox” with a declined overall firm performance (Kastalli & Van Looy, 2013).

Anecdotal evidence has underscored the importance of customer solutions, however, theoretical and empirical studies that explicitly articulate the value co-creation process and the determinants of customer solution performance are surprisingly scarce in the marketing literature (Payne et al., 2008; Tuli et al., 2007). The emerging value co-creation literature recognizes the critical role of processes within the context of service-dominant logic, including the “supplier value-creating processes,” the “customer value-creating processes,” and the “encounter processes” (Payne et al., 2008, p. 85). This process-based framework provides an effective theoretical lens to study customer solutions. Within the supplier value-creating process, the supplier uses its resources and skills to manage the design, production, and delivery of customer solutions and its relationship with the client. Within the customer value-creating processes, the customer contributes to value-co-creation through the usage of its own resources and knowledge (Grönroos & Voima, 2013; Ordanini & Pasini, 2008). The encounter

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process involves a series of longitudinal and dynamic relational interactions between the solution provider and the customer (Payne et al., 2008). According to this process-based perspective, customer solution performance is mainly determined by the provider, the client, and their collaborative interactions (Grönroos & Voima, 2013; Payne et al., 2008; Tuli et al., 2007). Besides the theoretical development and advocacy of this process-based perspective of value co-creation, there are very limited theoretical and empirical studies investigating the effectiveness of customer solutions and their determinants on the supplier, the client, and the relational interaction process (Grönroos & Voima, 2013; Sawhney, 2006; Tuli et al., 2007). This paper extends the value co-creation research stream by investigating the impact of solution provider determinants and relational interactions on customer solution performance within the process-based framework (Payne et al., 2008; Tuli et al., 2007).

This study is based on a sample of 238 high-technology enterprises in China that are actively engaged in value co-creation for industrial buyers, such as providing system integration and developing new products for clients. The use of China-based companies for this research is particularly significant as China now is the largest emerging economy in the world, and understanding corporate behaviors in emerging economies is pivotal for marketers in this new era (Sheth, 2011). The existing studies about customer solutions and value co-creation are primarily conducted in the developed economies, including the U.S. and Europe. Since the research context can serve as an important determinant of the focal outcome variables or moderate the hypothesized relationships (Johns, 2006; Zahra, 2007), it is important to extend the existing research about value co-creation to a new research setting (Johns, 2006). In addition, Chinese companies have a long tradition of using relational processes to govern business relationships (Sheng, Zhou, & Li, 2011). This provides a logical and robust setting to examine the impact of the provider and encounter processes on customer solution performance.

This research makes two essential contributions to the literature. First, it furthers the stream of research on the service-centered view of value co-creation. Although marketing scholars and business practitioners highlight the importance of value co-creation (Epp & Price, 2011; Grönroos, 2011), there is limited research investigating the performance outcomes of value co-creation customer solutions. Secondly, the research addresses calls in the literature to examine how customer solution performance may be influenced and enhanced by provider-determinants and the interactions between the provider and the client (Payne et al., 2008; Sawhney, 2006; Tuli et al., 2007).

2. Conceptual framework and hypotheses

2.1. The service-centered view of customer solutions

Customer solutions can create a number of significant competitive advantages for companies. They can help companies avoid direct price competition (Sharma & Iyer, 2011), compete against commoditized products (Kastalli & Van Looy, 2013), and provide higher sales revenue and profit margins to the solution provider due to an enlarged product and service portfolio (Sawhney, 2006). Customer solutions can address client needs precisely and effectively (Wise & Baumgartner, 1999) and build competitive differentiation by integrating expertise, resources, and networks of the provider and the client (Lovelock & Gummesson, 2004). Although the traditional view of customer solutions has been that of an integrated combination of goods and services to meet client needs (Davies et al., 2006; Sawhney, 2006; Sharma & Iyer, 2011), a process-based perspective provides a useful approach in understanding the determinants of customer solutions within the context of service-dominant logic (Payne et al., 2008).

The process of value co-creation starts from an understanding of the customer's needs and wants (Payne et al., 2008; Tuli et al., 2007). In a synthesis of the literature, Tuli et al. (2007) postulate that customer

solutions are a combination of goods and services that are selected and designed/modified to address business clients' needs and requirements. These requirements, seen from the client side, underscore the importance of the provider's customer-oriented processes (Payne et al., 2008). According to the service-centered view, market value is co-created by the interactions between the provider and the client taking place through the relational process (Tuli et al., 2007; Vargo & Lusch, 2004). A closer examination of the determinants of solution performance from the provider side is thus warranted.

The service-centered view of customer solutions has evolved to emphasize the interactions between the service provider and the client which are aimed at meeting the needs of and creating value for the client (Grönroos & Voima, 2013; Payne et al., 2008; Töllner, Blut, & Holzmüller, 2011). The interactions between the provider and the client are often multidimensional (Helander & Möller, 2008; Cannon & Homburg, 2001). Customer solution providers have shifted their role from a product supplier to a business provider which builds a long-term relationship with the client (Helander & Möller, 2008). The collaboration and cooperation between the service provider and the client is instrumental to the value co-creation of customer solutions (Paulin & Ferguson, 2010). The solution provider and client thus share resources, technologies, knowledge, and capabilities through this relationship to improve the solution performance (Ordanini & Pasini, 2008; Payne et al., 2008). In addition, the collaboration and cooperation between participating companies may help define the perception of an effective customer solution through client-perceived value (Cannon & Homburg, 2001; Paulin, Ferguson, & Payaud, 2000).

2.2. Solution provider determinants

The first variables that are examined in their relationship to customer solution performance are customer-centric solution provider determinants (Vargo & Lusch, 2004). The service provider has to collaborate with and learn from its customers by adapting to their ever-changing needs. The efficiency of adaptation and collaboration hinges on the service provider's internal customer-centric orientation in three dimensions. The service provider needs to be readily capable of initiating changes in its own marketing and technology capability to fit with the client's requirements. In order to adapt to the customer, the service provider needs to closely monitor, listen, and appreciate the client's dynamic needs. This can be achieved only if the service provider has a customer-emphasis culture, and develops the solution from the client's perspective (Helander & Möller, 2008; Grönroos & Voima, 2013). In addition, the service-centered view of customer solution implies that the service provider's goal is to customize offerings by maximizing the customer's involvement and input. The cross-functional, intraorganizational boundary spanning enables companies to integrate their customers' dynamic marketing and technology needs. Coordination across different units/departments remains a key challenge for customer solution provider (Payne et al., 2008; Tuli et al., 2007). Overall, this study considers three dimensions of the customer-centric culture: adaptiveness, customer emphasis, and cross-functional coordination.

Adaptiveness refers to the provider's ability to understand and react to the client's requirements. The purpose of a solution is to address a client's business needs, which are usually idiosyncratic and dynamic (Vargo & Lusch, 2004). As a result, customer solution providers must make strategic choices concerning initiatives they will undertake using their organizational capabilities to achieve alignment between customer needs and its offerings (Helander & Möller, 2008). These choices can involve the development of novel responses to environmental demands or copying successful responses from other organizations (Abrahamson, 1991), both of which depend on a company's adaptive capability. Adaptive capability has two related but different aspects: the commitment to monitor the environment, and to reconfigure internal resources in response to a changing environment

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