



## “Towards a co-creation framework in the retail banking services industry: Do demographics influence?”



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### ABSTRACT

Although many firms profess to adopt a customer-centric approach many are yet to embrace the notion that value is not solely created within the boundaries of the firm, that it is created co-jointly with outside parties. As such, value co-creation has increasing importance in modern marketing, impelled by Service-Dominant Logic. While co-creation is a hot-topic in the marketing literature, services marketing literature recognizes the impact of demographic characteristics in consumer behavior. However, literature analysing the effects of demographics in co-creations models is very scarce.

Therefore, the aim of this paper is to examine a set of outcomes of co-creation (satisfaction, loyalty and WOM) from a customer perspective. More, this research also analyses the potential moderating effect of demographic characteristics such as gender and age in this co-creative framework.

The results show that co-creation directly affects customer satisfaction, customer loyalty and WOM. Co-creation also results in increased levels of customer satisfaction, which in turn mediates the effect of co-creation on customer loyalty and positive WOM. Data also reveal different patterns of behavior depending on gender and age.

This paper contributes to the understanding of co-creation from a customer viewpoint. Firms should strive to foster co-creation initiatives as this can lead to increased levels of customer satisfaction, more loyal customers and the possibility of attracting new customers through positive WOM by current customers. Customers databases must be segmented for higher levels of marketing campaigns efficiency.

### 1. Introduction

For little over a decade a fundamental shift in the way value is perceived has occurred. The debate is still very much alive today concerning co-creation (Andreu et al., 2010), with debates ranging from what it is (Vargo and Lusch, 2016; Grönroos, 2012), the importance of customer interactions and experiences (Prahalad and Ramaswamy, 2004a) and the positive effects of co-creation (Hunt et al., 2012).

The search for alternative ways to create customer value is

epitomized in the work by Vargo and Lusch (2004a). Understood as a significant paradigm shift in the field of marketing (Karpen and Bove, 2008; Schulz and Gnoth, 2008) the foundational premise of Service-dominant logic that has sparked the most intense interest and debate is the concept of value co-creation. The idea that firms are not the sole providers of value and customers should be viewed as active participants in the value creating process has caused much stir. Highlighted by the Marketing Science Institute as a research priority for two successive terms, in 2010–2012 and 2012–2014, co-creation represents an area of great interest in the marketing research area.

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As Chen (2015) recently highlighted, the intense competition in the retail market emphasizes the need to satisfy and retain existing customers. As such, co-creation has important implications for both firms and other actors. Authors such as Payne et al. (2008) and Guillard (2014) argue, by enhancing the way in which value co-creation is managed companies can obtain a competitive advantage. In this highly competitive world, where “*even the most ingenious invention will be a market failure if it does not meet the needs of the customers*” (Kristensson et al., 2008, pp. 474), companies need to strive for a competitive advantage. Thus, value co-creation offers one possible avenue through which to achieve this.

Furthermore, given that customer behavior is intrinsically linked to value co-creation, this offers an opportunity to examine the relationship between co-creation, customer satisfaction and loyalty. Whilst some studies exist that analyze these concepts (Vega-Vazquez et al., 2013; Navarro et al., 2014), none have empirically measured the direct relationship between these variables. Given the lack of studies that assess co-creation from a customer perspective (Fyrberg-Yngfalk, 2013) and the shortfall of those measuring the effects of co-creation on all of the following variables in one study—satisfaction, loyalty and WOM—the aim of this paper is to examine, from a customer perspective, whether co-creation can yield positive outcomes for customers. Moreover, although services marketing highlights the relevance of demographic factors such as gender, age, education or income level in consumer behaviors (Verhoef, 2003; Homburg and Giering, 2001; Mittal and Kamakura, 2001) the literature considering the potential effects of demographics in co-creation frameworks is very scarce.

Therefore, to solve the gaps identified in the literature the objective of this study is twofold. First, we aim to propose a co-creation model which considers key relevant outcomes such as loyalty and WOM. Second, our research analyses, from an exploratory point of view, how demographic variables such as gender and age may influence co-creative processes.

To achieve these objectives, the paper is structured as follows. Section 2 provides a review of the literature, with specific reference to the Service-Dominant Logic, co-creation, and the variables considered in relation to these concepts (satisfaction, loyalty and WOM). The subsequent section outlines the hypotheses proposed, followed by details of the empirical study. We then evidence the findings based on the retail banking sector. This sector is vital for an efficient economy. The 2008 banking crisis threw many retail banks into turmoil with numerous closures, mergers and acquisitions. As such, consumer confidence was severely eroded and is still to be fully restored, meaning that banks need to strive harder for customer satisfaction, loyalty and positive WOM. All these variables were chosen as they can strongly influence business performance, and given the recent checkered history of the retail banking industry, co-creation may offer one possible avenue through which to restore customer confidence. The final section provides the conclusions drawn, limitations of the study and potential future lines of investigation.

## 2. Service-Dominant Logic and co-creation

In the realm of customer management literature (Verhoef and Lemon, 2013) there is an abundance of literature which examines customer satisfaction (e.g., Fournier et al., 1999; Gupta et al., 2006; Kumar et al., 2013). Some studies even exist that examine the relationship between co-creation and satisfaction (Hunt et al., 2012; Vega-Vazquez et al., 2013). Additionally, although the relationship between satisfaction-loyalty and satisfaction-WOM is widely accepted in the marketing literature (Kumar et al., 2013), no study has yet empirically tested these within the context of co-creation.

Our research aims to address this gap by examining the effect of customer satisfaction with co-creative processes in both transactional (loyalty by means of repurchases) and non-transactional behaviors

such as recommendations and worth-of-mouth which also may affect the companies' profitability. This study is grounded in the SDL framework to conceptualize co-creation and analyzes the possible effects of co-creation on customer satisfaction, loyalty and WOM.

### 2.1. The Service-Dominant Logic

In the field of marketing, Service-Dominant logic (SDL) has emerged as a new paradigm since the seminal work of Vargo and Lusch (2004a, 2004b). Their work prompted numerous discussions (Karpen and Bove, 2008; Schulz and Gnoth, 2008), special issues (Journal of the Academy of Marketing Science, 2008; Marketing Theory, 2007, 2011), and has been the focal point of several conferences. Whilst the academic community both praises and questions the paradigm (Grönroos and Voima, 2013; Grönroos, 2008, 2006; Gummesson, 2004) it has unquestionably had a strong influence on how exchanges in markets are viewed, as well as interactions between entities in the organization's value network – with particular reference to co-creation with customers.

Notably, SDL challenges the traditional neo-classical economics view of markets (Goods-Dominant Logic), to adopt a more extensive approach, in that companies should not view themselves simply as producers of goods/services and sole creators of value; rather, that services are the foundation of any exchange and that value is co-created by all the actors' interactions (Vargo and Lusch, 2004a, 2004b). Companies can only make value propositions; it is the users who determine the value through their use in their own context.

Vargo and Lusch (2004a, 2004b) sustained that the marketing discipline was fragmented and a paradigm shift was needed. Their research offered an integrative approach to the emergence of new theoretical concepts – relationship marketing, quality management, market orientation, supply and value chain management, resource management and networks – which marked the increasing importance of intangible resources, exchange processes and relationships and a clear emphasis on co-creation typically observed in service industries. In effect, SDL offers a unified approach to the underlying themes of the marketing concepts that have emerged since the 1980s and signals a tentative step toward a general theory of marketing (Brodie et al., 2011).

Of particular interest is the idea that the “*co-creation of value is the purpose of exchange, and, foundational to markets and marketing*” (Vargo and Lusch, 2016, p. 9). Value is conjointly created by all the entities involved in any economic exchange (organization, employees, government, stockholders, customers etc.) through the combination and integration of resources-knowledge and skills; but ultimately customers are the ones who benefit from the end product/service and determine its value (Vargo et al., 2008; Vargo, 2008), ‘value-in-use’, as it is the result of actually using the product/service in their own context. This is in marked contrast with the Goods-dominant logic (G-D logic), which adopts a value-in-exchange (Zeithaml, 1988; Cronin et al., 1997) perspective, where value is measured in terms of sacrifices vs. benefits.

Thus, customers are central to value creation and their role transcends that of passive receivers to active contributors to the process of marketing, consumption, and delivery of products/services (Dong et al., 2008). We must highlight the importance of the interactions between companies and consumers to create value. Therefore, in the race to create superior value firms have begun to appreciate the potential benefits of customer involvement in value creation, i.e. value co-creation (Pralhad and Ramaswamy, 2004a; Saarijärvi et al., 2013).

### 2.2. Co-creation in the retail banking services industry

As Fisher and Smith state (2011, p. 326), “*the co-creation of value is emerging as the new frontier in marketing.*” Based on the new service-centered logic, co-creation is understood as a means of

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