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Buyer (dis)satisfaction and process innovation: The case of information technology services provision

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ABSTRACT

Studying buyer satisfaction within business services is important because if buyer expectations are not addressed, it can endanger the relationship. Dissatisfied buyers can remain silent or switch supplier without notice, damaging the supplier-buyer relationship. Therefore, suppliers often invest substantial effort in collecting feedback with an expectation that it will foster improvements and innovation in processes. However, using a mixed method sequential research design, we find that there is no direct association between the level of dissatisfaction and process innovation: this poses questions about redundancy of feedback collection. We find that there is a time lag between dissatisfaction identification and problem resolution. We also find that there is a cognitive gap between a supplier's interpretation of the buyer's expectations and the buyer's actual expectations. Further, existing processes that are improved repetitively using discontent feedback suffer from diminishing returns. Suppliers need to proactively seek solutions rather than reactively dealing with buyer problems.

1. Introduction

The impact of buyer satisfaction for a supplier has significant implications because losses from dissatisfied customers are potentially greater than the gains from those who are satisfied (Anderson & Sullivan, 1993). It costs more to replace than retain a customer (Lapré, 2011). Dissatisfied buyers can have damaging effects on multiple fronts (Cho & Song, 2012; Ferguson & Johnston, 2011; Yi, 1990). Thus, buyer satisfaction is academically and managerially relevant, and assessing satisfaction in a services context is therefore a twofold challenge. First, services are defined by their simultaneity of production and consumption, which involves continuous interaction between buyer and seller who communicate, coordinate and adapt activities. The depth of this interaction (positive and negative) shapes the service exchange; hence 'servicing' a buyer's needs gives a partial explanation of knowledge intensive bonds. Second, the complexities arising from service consumption/production simultaneity elevates the importance of managing service interactions, *especially* where processes involving the end consumer are impacted. Relational complexity in business services is well suited to theorizing with an interaction approach because it allows the assessment of the detailed exchange processes involving buyer satisfaction (Hakansson, 1982). According to Wynstra, Axelsson, and Van Der Valk (2006) interaction encompasses the communication, co-ordination, and the adaptation of activities and resources that buyers and suppliers are using or providing in the relationship. Relational governance mechanisms are therefore communication patterns, administrative routines and systems understood as features of co-ordination behaviours among different parties (Hakansson & Snehota, 1995).

Where differences exist in perceptions, frictions in relational exchange are created and will be articulated as dissatisfaction. In this context, value is not just the provision of service at the request of a buyer but also a problem-coping process. This accounts for an "actor's interpretation of the worth of the service's contribution towards coping with one or more specific problems of the actor, identified by that actor" (Ford & Mouzas, 2013, p. 12).

Suppliers failing to satisfy buyer expectations can use feedback as an enabler of process innovation to address the shortcomings, which can lead to innovations (Dong, Evans, & Zou, 2008; Lapré, 2011). Such innovations can lead to a supplier's offerings becoming more attractive by improving process efficiency, thereby creating positive goodwill between the parties (Kumar et al., 2010). However, it is unclear if positive supplier outcomes always arise after the buyer signals lower satisfaction (Szymanski & Henard, 2001). Where, although on-going buyer-supplier interaction is costly, the opportunity to reduce friction in interaction might not be automatically taken up by suppliers. Suppliers seem

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challenged on many fronts when capitalising on feedback for informing their innovation priorities (Fundin & Elg, 2010). Innovation is not a straightforward linear learning process (Freeman, 2010), with process innovation in particular requiring complex interaction between buyers and suppliers (Santos & Spring, 2015). When dissatisfied, buyers can remain silent, or even switch suppliers, incurring the cost of building a new relationship with another supplier, as well as the costs of abandoning an existing relationship.

Declining levels of buyer satisfaction may encourage greater collaboration to address particular relational frictions. Responding to negative feedback may act as a bond, further 'locking in' the buyer-supplier collaborations (Hakansson & Waluszewski, 2002). However, the benefits derived from dissatisfaction information are unlikely to be automatic. This is because the ability to act on discontent feedback requires commitment of internal resources to develop absorptive capacity (Cohen & Levinthal, 1990). Thus, our research question is: *How is buyer feedback used for process innovation within a relational context?*

Information Technology Services (ITS) is an ideal empirical context as there is a high degree of human interaction, which is especially prone to failure (Li-Hua, 2012). ITS provision brings together the supplier's human capital, and the needs and experiences of the buyer. Thus, ITS is a type of 'instrumental service' where buyer-seller dialogue is critical in infoming both parties about the extent to which the service impacts the buyer's primary processes (Van der Valk, Wynstra, & Axelsson, 2008). ITS delivery involves adapting already customised solutions in response to the often-unique requirements of buyers through exchange. Suppliers of such embedded services depend on multiple points of contact to evolve process innovations, which translate information gained from ad-hoc buyer developments into codified knowledge. This aids the supplier's ability to enhance their organisational routines for projects outside the existing relationship (Miles, 2006; Salter & Tether, 2014). Process development is intrinsic to this type of supplier-buyer relationship, so it becomes hard-to-imitate. Responses to different levels of buyer satisfaction could therefore result in noticeable differences in a supplier's strategic resource commitment and interaction. Taking this argument further requires exploring how suppliers respond to different levels of buyer satisfaction, and scholarly research in this area is limited (Van Der Valk & Wynstra, 2014).

The paper is structured as follows: the theoretical thrust of the research is explained and hypotheses are drawn together within the context of an interaction approach. Next, the theoretical and methodological rationale for using a novel research design is explained: a sequential quantitative (core) and qualitative (supplemental) mixed method. The point of interface for the results is the discussion where our contribution to theory and practice will tease out the relationships between different levels of buyer satisfaction and ITS firms' process innovation activity.

2. Theoretical background and hypotheses

In the context of instrumental services, buyers are also users. They consume and co-produce value with suppliers and expect to benefit from use of a service, within the context of on-going interaction. Services are shaped when produced and consumed, causing actors to communicate, co-ordinate and adapt activities and resources according to specific norms accumulated within the interactive atmosphere. Relationships in this context comprise mutually-oriented interactions between two reciprocally committed parties, where over time interdependence is created with both positive and negative features for both parties (Hakansson & Snehota, 1995, p. 25). *Buyer satisfaction* is defined as temporally specific crystallisation of a buyer's perception of the service (or product or process) versus the buyer's value judgment (needs, wants, or desires); disconfirmation is the gap between the buyer's perception of performance and baseline expectations; where disconfirmation leads to dissatisfaction (Yi, 1990). Although innovation may be a supplier-led activity that does not necessarily rely on buyer collaboration, the on-going buyer-supplier interaction may change the buyer's perception of improved or new methods of service delivery (Johnson & Medcof, 2007). This is particularly important in relation to process innovations, defined as changes to organisational methods leading to outcomes such as higher quality or faster service delivery for one or both parties (Sumo, Van Der Valk, Duysters, & Van Weele, 2016). D'antone & Santos, 2016, p. 183) highlight that interactive relationship for knowledge-intensive business services involve process innovations where "suppliers help their customers improve their work environment and develop capabilities to allocate human resources and money efficiently to innovation activities. As such, [post-purchase interactions] can lead to process innovation within buying organizations".

Schuhmacher and Kuester (2012) suggest buyers dissatisfied with existing services are more likely to be motivated to jointly innovate with the supplier. Buyers are known to enhance products, processes or services for self-use and are often more effective at developing innovations as compared to suppliers (Hienerth, Von Hippel, & Jensen, 2014). The supplier's strategy towards buyer engagement is also fundamental in services provision, and especially so for instrumental services where there is a high degree of interactivity (Van Der Valk et al., 2008). Suppliers showing willingness to collaborate with buyers enable access to buyers' need and context of use information, which is not only expensive but also hard to transfer thus cultivating inimitable buyer-supplier bonds (von Hippel, 2005). Buyers also contribute to this sort of problem-solving innovation: they validate latent needs, provide insights into their experience, and share their perspective of the value-in-use of any process innovation (Salter & Tether, 2014). Finally, buyer knowledge has significant relevance for co-created products and services because the consumer and the supplier collaborate jointly to innovate a solution for specific problems (Doroshenko, Miles, & Vinogradov, 2013).

Buyer collaboration has two dimensions: the buyer's integration in the process development journey and a buyer's influence in the adoption and diffusion of the process innovation in response to buyer dissatisfaction (see Fig. 1).

2.1. Buyer collaboration

Although not explored in depth by scholars, it is evident that extensive interaction can occur because of low buyer satisfaction that is focused on dealing with specific frictional points in a relationship (Dong et al., 2008). Drawing from studies of new services development it seems to be the case that emergent solutions are the result of joint action (Hakansson, Ford, Gadde, Snehota, & Waluszewski, 2009; Wiessmeier, Thoma, & Senn, 2012). In these circumstances buyer involvement stretches beyond knowledge sharing and involves direct engagement in various activities related to problem solving. Lüthje and Herstatt (2004) also suggest this type of interactive collaboration moderates the risk of failure of innovation projects. Furthermore, La Rocca, Moscatelli, Perna, and Snehota (2016) propose that such involvement entails open-ended mutual commitments between the interacting actors. Where neither actor can anticipate the features of an emergent solution then open-ended mutual commitment is crucial. In this case buyers are better at describing their needs and at visualising the value-in-use of the solution, while suppliers should have a better ability to develop the solution (von Hippel, 2005). Joint working will also open up access to the buyers' knowledge; and this enhances the translation of needs into successful process, product or service innovation (Lüthje & Herstatt, 2004). The engagement of buyers with the potential to influence the success of new processes improves the market acceptability of this innovation (Bilgram, Brem, & Voigt, 2008). Hence;

Hypothesis 1. (H1). Buyer collaboration is a second-order latent construct whose sub-dimensions are buyer integration (H1a), and buyer influence (H1b).