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Customer Engagement and Service Innovation

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Abstract: In this research, we aim to investigate the impacts of customer engagement on service innovation practices and identify the influence factor of management support, service provider characteristics, customer characteristics. A multiple level analysis approach will be adopted to empirically examine the proposed model and corresponding hypotheses. From the results of analysis, we suggested the insurance companies need to provoke a customer oriented work atmosphere and encourage customers to participate in the service/purchasing processes.

Keywords: customer engagement, service innovation, insurance service, management support

1. Introduction

Service is highly important to the global economy nowadays. Service industry is counted for more than 70% of Gross Domestic Product (GDP) for many developed countries in recent years. Service Dominant Logic (SDL) (Vargo and Lusch, 2004, 2008) has become more important in service and marketing research. One of the major fundamental propositions of SDL emphasizes “the customer is always a co-creator of value”, which stress out the service relationships are given by service providers that are rather interactive and co-creative nature of value creation (Brodie, Hollebeek, Jurić, & Ilić, 2011).

Engagement is a terminology that has been discussed in various academic areas, such as sociology, psychology, political science, and organizational behavior in the last ten years (Achterberg et al., 2003;

Resnick, 2001; Saks, 2006). However, there are only few marketing and service literature that bring out the issue of customer engagement (Brodie, et al., 2011). Thus, this study aims to define customer engagement; identify the influencing factors of customer engagement and examine the relationships with service innovation. Moreover, there have been some studies on in-purchase behavior (Marsha L. Richins, 1986) or after purchase behavior (Hoyer, 2010) of customer engagement. Yet, we hardly find researches that study on pre-purchase behavior of customer engagement, or study on pre-purchase, in-purchase, and after-purchase of customer engagement at the same time.

2. Literature review and hypotheses development

This research focuses on the concept of customer engagement, which is based on the foundational propositions states (Vargo and Lusch, 2004, 2008). The research is extended by the concept of Service Dominant Logic (SDL) by Vargo and Lusch in 2004 and 2008. SDL focuses on the new idea of service of intangible resources, relationships, and the value co-creation. In this research, we focus on the intangible resource and value cocreation. This research is grounded on three theories, which are Service Dominant Logic, Customer Engagement, Service Innovation, and the extended views. The research is developed based on the concept of Doorn (2010) and Brodie et. al. (2011).

2.1 Service Dominant Logic (SDL)

The concept of SDL has gradually become im-

portant in the research of marketing in current years. The viewpoints of SDL are resulted from the concept of Good-Dominant Logic, which focuses on if the goods are tangible resources; if the goods can be sold; if the firm can offer a better products and value than their competitors. Meanwhile, SDL focuses on if the firm has clear core competences, essential knowledge, and skills that leads to win competitive advantages; if the firm has continuous improvement in order to meet customers/potential customers needs; if the firm analyze their financial performance and come back to adjust their ways of offerings to enhance their financial performance.

SDL is quite potentially foundational for a general theory of the marketing (Vargo & Lusch, 2008; Venkatesh, 2006). There are ten foundational premises (FPs) in SDL, which are FP1: Service is the fundamental basis of exchange. FP2: Indirect exchange masks the fundamental basis of exchange. FP3: Goods are a distribution mechanism for service provision. FP4: Operant resources are the fundamental source of competitive advantage. FP5: All economies are service economies. FP6: The customer is always a co-creator of value. FP7: The enterprise cannot deliver value, but only offer value propositions. FP8: A service-oriented view is inherently customer oriented and relational. FP9: All social and economic actors are resource integrators. FP10: Value is always uniquely and phenomenological determined by the beneficiary (Vargo, 2008). This research is developed base on FP1 FP6, and FP8, which emphasize the direct character of service in exchange, and the use of operant resources (knowledge and skills) is the basis in service for all exchange; which emphasize value creation is interactional; emphasize service-centered view is inherently customer oriented and relational (Vargo, 2008).

There are a number of studies that discussed about the phrases "engage" and/or "engagement" with

the concept of SDL in the current literature. Most of them are discussed in 2007, which around 65% discussed about business to consumer (B2C) relationships, and others are discussing about business-to-business (B2B) relationships. The terms "engage" and/or "engagement" mostly discussed about processes, co-creation, interactions, and marketing-related forms of service exchange (Brodie, et al., 2011). In this research, we focus on B2C relationships and focus on co-creation, interactions, and service exchange.

2.2 Customer Engagement

The role of customer engagement (CE) is nowadays increasingly concerned due to the dynamic and interactive environment of business. The importance of customer engagement is drawn attentions to both of the researches and businesses. (Brodie, et al., 2011). Customer engagement plays a vital role under the dynamic and radical environmental changes to enhance organizational performance, which includes sales growth (Neff, 2007) and profitability (Voyles, 2007). Customers also play a major role in terms of engagement in a marketing activity through introducing or recommendations the particular service, brands, or products to other potential customers in a new service/product development (Hoyer, 2010; Kothandaraman, 2001; Nambisan & Nambisan, 2008) and to co-create experience and value (Brakus, 2009; Prahalad, 2004). Customer engagement behavior is caused from motivational driven, which the word-of-mouth (WOM) activity, customer-to-customer (C2C) interactions are included (van Doorn et al., 2010).

The concept of engagement is now not a new word, which has already existed in business for some ten years (Haven, 2007) and being largely mentioned in business situation e.g., seminars, conference, roundtables, meetings. In the last twenties years, the

term engagement has been used in several fields, including psychology (Achterberg, 2003; Social, 2010), sociology (Jennings, 2003; Morgan, 1994), political science, organizational behavior, and student engagement (Bryson, 2007; Hu, 2010). Furthermore, there are several researchers studied on defining and measuring the concept of customer engagement (Brodie, et al., 2011). In this research, we focus on customer engagement.

The 2011 Journal of Service Research titled "Customer Engagement: Conceptual Domain, Fundamental Propositions, and Implications for Research" is specifically developed a the theoretical model linking customer engagement behaviors to certain customer, firm, and antecedents and consequences (Brodie, et al., 2011). Customer engagement is The following five foundational propositions (FPs) can mainly define the customer engagement and the related concept of participation and involvement (Brodie, et al., 2011). FP1: CE illustrates a psychological situation, which happens through interactive customer experiences within specific service relationships under a focal agent/object. FP2: CE happens within a dynamic, repeated process of service relationships that co-creates value. FP3: CE is a central part within a nomological network of service relationships. FP4: CE is a multidimensional concept subject to stakeholder expression of related cognitive, emotional, and behavioral dimensions. FP5: CE happens within a particular set of situational conditions generating different levels of CE. These above five foundational propositions are the present studies that are seen as the core of defining customer engagement. Therefore, the role of repeated customer experience and a co-created value are the basis of conceptual foundations of CE. In this study, we focus on customer co-creation and interaction (Brodie, et al., 2011).

2.3 Organizational Support

Since the emergence of internet-based social media is booming, companies can provide products and activities to engage hundreds or thousands of other people to participate their events. Although, social media is customer to customer communications, it can also be considered and integrated to be a part of companies' strategies, which is called integrated marketing communications (IMC) strategies. Managers and subordinates must learn how to do to be coherent with firm's mission, objectives, and goals through applying the technique to engage customers e.g., social media tools and promotional tools. Social media can be thought to be a hybrid element of promotional mix. The use of social media has two major functions: (1) social media enables organization to talk to their customers, (2) social media enables customers to talk to other people (Mangold, 2009). Sales promotion has categorized into two kinds: one is to customer, which is consumer sales promotion; another one is to sales people, which is called trade promotion. In this study, we aim to focus on the firm level, which is the trade promotion. Trade promotion aims at employers encourage to teach sales people to promote their own products or brand. Meanwhile, (Landy, 1989) claims that most managers agree with the planning of training programs are needed. Besides, the importance of the evaluation of sales training programs has become comprehensive and intuitive (Cascio, 1987). On the other hand, it is heavily agreed that the IT will become lower cost, faster, cheaper, and easier way to communicate. Also, IT can be improved its system in order to enhance the efficiency and quality for a better customer-personnel relationship performance (S. O. Kimbrough, 1992). Therefore, base on these, we infer:

H1: Organizational Support has positive impact on customer engagement

H1a: Promotion has positive impact on customer en-

gement

H1b: IT system has positive impact on customer engagement

2.4 Service Provider Characteristic

It is claimed that researches should not simply discuss customer satisfaction data since they are not adequate and could be misleading, rather it is suggested that customer engagement should have include a more sufficient measurement to evaluate the relationship between customers and employees since their relationships are based on emotional feeling. The emotional feeling can be gauged by integrity, confidence, pride, and passion(Chrusciel, 2006; McEwen & Fleming, 2003). Integrity is evaluated by using the Human Sigma framework and to have positive effect on the level of customer engagement(Thompson, 2008). People are influenced by perceptions of their service providers if their words and actions are consistent (Simons, 2002). Also, the characteristic of integrity includes judgment(Cummings, 1996), and interpersonal justice(Bies, 1986). The dialogue or conversation is so vital since it stimulates groups or teams to really share why they have to support each other and what they depend on one another in the win-win information. The result of updating the related information and status can be expected to increase the engagement (Hutchings & Knox, 1995) Therefore, the study aims to hypothesize service provider has positive effect on customer engagement.

H2: Service provider characteristic is positive association with customer engagement

H2a: Integrity is positive association with customer engagement

H2b: Dialogue is positive association with customer engagement

2.5 Customer Characteristic

People become easy to communicate when they are rapport, which is a behavior of subconscious rather more than conscious. In the meaning of recent customer relationship management, rapport stands for knowledge can make you and others have somewhat similarity and synergy. Customer rapport stimulates the cycle of customer engagement and interaction. Consequently, customer rapport leads to positive result of customer engagement. (Djavanshir & Agresti, 2007)There are a variety of researches contribute to customer-employee relationships. In this study, we focus on the customer engagement and customer's characteristics e.g., social rapport. Customers who connect or have rapport with service provider will become loyalty(Price, 1999). Hence, the more rapport of the customer, the tighter the relation bond as well as the stronger for the relationship between customer and service provider(Lewicki, 1995). Meanwhile, people can through dialogue. Therefore, the hypothesis infers that customer has positive effect on customer engagement.

H3: Customer characteristic has positive effect on customer engagement

2.6 Service Innovation

There are many researches that discuss and explore the similarities and differences between new product development and service innovation at the same time (Brentani, 2001; Cooper, 1994; Easingwood, 1986; Griffin, 1997). Service innovation is defined as innovations in processes or/and innovations in firm for existing service products (Gadrey, 1995). Innovation is the development and appropriate application of new and creative ideas(Daft, 1978; Nayak, Agarwal, & Director; Van de Ven, 1986).It consists of six various models of innovation that are divided by Gallouj and Wenstein (1997), which are radical innovations, improvement innovations, incremental innovations, ad hoc innovations,

re-combinative innovations, and formalization innovations, respectively. Innovation is developed as a main driver for companies in order to survive. Therefore, companies are encouraged to be innovative. However, the abilities are needed to adjust the technique base on different types of innovation (Benner & Tushman, 2003; Henderson & Clark, 1990). Service innovation have to be thought based on development process and interaction of a variety of design elements (Bitran & Pedrosa, 1998).

There are many service innovation researches have been studied. For instance, Barras' model is based on technological innovation. Also, Barras (1986) found that the innovation approach is opposite to that of manufacturing approach. Therefore, Barras summarizes that innovations are described as a reverse product cycle (RPC). There are three phases for RPC: (1) the investment in new technology in order to enhance the efficiency of delivery of contemporary services called improved efficiency phase, (2) the technology is implemented to improve the service quality called improved quality phase, (3) the formation and production of new services called new products phase (Barras, 1986).

The researches about innovation have generated in a new and wider perspective about the nature of innovations, which are radical technological innovations are not only thought to be a single type of innovations, and it also not considers as the only way to create something innovative. Moreover, the incremental and less tangible or intangible improvements are seen as parts of innovations in recent years. Therefore, to every company, the creations of innovations have become their daily issue that need to be pay attention to (Lundvall; Schienstock, 1999; Schienstock & Hämäläinen, 2001). Meanwhile, these concepts are important for every type of innovations. They are only seen as important in service arena. Consequently, the essential to improve service inno-

vation has already been recognized (Toivonen & Tuominen, 2009).

Customer engagement can increase the co-create innovation of a company (Fleming, 2005). Customers need to engage in the innovation process. All of the customer engagement (EC), collaborative agility (CA), entrepreneurial alertness (EA), and collaborative innovation can have effect on service innovation result (Agarwal & Selen, 2009). Therefore:

H4: Customer engagement has positive impact on service innovation

Companies should put in more efforts in innovation to be accepted by customers and to enhance their performance (Kuo, Y, 2006). Continuous improvement on billing service system can generate more income (Buellingen, F, 2004). To get the potential market, companies should investigate and do the business model and keep enhancing their technology to meet the rapid change market (Coursaris, C, 2003). Therefore, in this hypothesis, we infer:

H5: Service innovation has positive impact on financial performance

Financial Performance

Engagement is a collection of customized informational and financial transactions that can enhance customers' value to the company and increase the companies' value to the customers at the same time (Peppers, 2005). Researches show that customer engagement can lead to better financial performance. Also, the level of customer engagement has effect on the percentage of people who re-purchase services or who introduce the firm to other people. The engaged customers are the most profitable capital to the company itself (Thompson, 2008). Moreover, companies with an appropriately interaction of employee engagement and customer engagement can generate more financial revenues (Fleming, 2005). Therefore, in this hypothesis, we can infer that:

H6: Customer engagement has positive impact on

financial performance

One of the major purpose of this research is to explore if the characteristics of organization, the characteristics of customer, and the characteristics of service provider influence the degree of customer engagement. Therefore, we separate them into two parts, one is individual-based level, which is customer and service provider. Another one is organizational-based level, which is organization. Another main purpose of this research is to find out the relationship among customer engagement, service innovation, and financial performance.

3. Research Methodology

To verify the conceptual model and the hypotheses that proposed in this research. A questionnaire was developed to find the relationships between the antecedents and its effects on customer engagement and its impact on service innovation and financial performance. This analyzed base in this study focus on both individual level and organizational level in insurance industry in Taiwan.

3.1 Instrument Design

The questionnaire was developed and designed according to the academic and empirical study to form the research framework. We developed the questionnaire carefully through six constructs, which include organization, customer, service provider, customer engagement, service innovation, and financial performance. All the constructs were measured with 5-point Likert type scales ranging from 5 (strongly agree) to 1 (strongly disagree). The questionnaire consists of a total sixty three statements.

The results will be examined from empirical evidence from all the measurement items and there are some secondary data found from the official website.

3.2 Sampling

Data of this research are planned to collect from 22 insurance companies and 28 insurance broker companies in Taiwan. Each insurance company are going to have 5 to 10 respondents based. The respondents are sales people from insurance companies and insurance broker companies. One way of the sample gathering are to get the email contacts from internet and their own office website. Salesperson receive the research questionnaire after one email was sent to ask salespersons' whether they are willing to fill out their questionnaire. Another way of gathering the respondents is to visit their sales representatives of the insurance companies and insurance broker companies.

4. Conclusion

In this research, we aim to investigate the impacts of customer engagement on service innovation practices and identify the influence factor of management support, service provider characteristics, customer characteristics. A multiple level analysis approach will be adopted to empirically examine the proposed model and corresponding hypotheses. This research is still underway and we are in the data collection stage. We have now received more than 240 valid responses from 43 insurance companies. We will adopt the HLM statistical technique and expect to have the results and discussion presented at the conference.