

University of Groningen

Going beyond transactions

Beckers, Sander Floris Marie

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version

Publisher's PDF, also known as Version of record

Publication date:

2016

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Beckers, S. F. M. (2016). *Going beyond transactions: Theoretical perspectives and empirical studies on customer engagement behavior effectiveness*. [Thesis fully internal (DIV), University of Groningen]. University of Groningen, SOM research school.

Copyright

Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

The publication may also be distributed here under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license. More information can be found on the University of Groningen website: <https://www.rug.nl/library/open-access/self-archiving-pure/taverne-amendment>.

Take-down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): <http://www.rug.nl/research/portal>. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.

1

INTRODUCTION¹

¹ This chapter is largely based on Beckers, Sander F. M., Hans Risselada, and Peter C. Verhoef (2013), “Customer Engagement: A New Frontier in Customer Value Management,” in *Handbook of Service Marketing Research*, Roland T. Rust and Ming-Hui Huang, eds. Cheltenham UK: Edward Elgar Publishing Ltd., 97-120.

1.1 IMPORTANCE OF CUSTOMER VALUE MANGEMENT

Nowadays, amongst others due to new social media (e.g., Facebook and Twitter), the connectivity amongst customers and between customers and firms increased substantially (e.g., Liu-Thompkins and Rogerson 2012). Many customers are very active on social media and social networks, in which they, for instance, discuss companies and their brands (Hennig-Thurau et al. 2010). Another prominent development in firms, and specifically within marketing, in the last decades has been the increasing amounts of customer data (e.g., McAfee and Brynjolfsson 2012). Firms have also heavily invested in customer relationship management (CRM) systems (Band 2010). To date, firms have developed models to predict customer lifetime value and customer churn (Kumar and Shah 2009; Neslin et al. 2006). These developments have resulted in an increasing importance of customer value management as an important function within marketing and firms. To illustrate, the share of customer value in enterprise valuation is rising (from less than 10% in 2003 to almost 20% in 2013; Binder and Hanssens 2015), research company Forrester speaks about a new era of 'the age of the customer' (Band 2012), more than 72% of business-to-customer (B2C) firms regard regaining customers as one of their top priorities (Band 2010), and over 80% of chief marketing officers report to expect a rising use of online customer behavior data within their companies (cf. www.cmosurvey.org). Companies have thus shifted their strategic focus from building brands to building customer relationships (Binder and Hanssens 2015), especially due to the growing influence of customer relationships on economic (firm) outcomes.

Conceptually, customer value management (CVM) has its roots in relationship marketing. It entails maximizing the value of a company's customer base and analyzing individual data on prospects and customers. Firms use the resulting information to acquire and retain customers and to drive customer behavior with developed marketing strategies, in such a way that the value of all current and future customers is maximized. Companies can increase the value of their customer base by (1) attracting new customers, (2) increasing customer retention, (3) creating customer expansion, (4) winning back old customers, (5) supporting (active) relationship termination, and (6) effectively allocating resources among customers and marketing actions (that is, acquisition and retention) (Bolton, Lemon, and Verhoef 2004; Verhoef, Van Doorn, and Dorotic 2007).

Owing to the increasing interest in practice for CVM and the huge availability of customer data, researchers have extensively studied several topics in CVM, such as the implementation of CVM, customer lifetime value (CLV) models, and multi-channel

customer management (for example, Neslin et al. 2006; Rust, Lemon, and Zeithaml 2004; Venkatesan and Kumar 2004). Verhoef and Lemon (2013) have discussed six major lessons that can be derived from this research. Although multiple steps have to be made, one can observe that CVM is moving to new frontiers. Specifically, Verhoef and Lemon (2013) argue that managing customer engagement behaviors is an important new emerging field within CVM (see also Verhoef, Reinartz, and Krafft 2010). Kunz and Hogreve (2011) also consider customer engagement (behaviors) as an important new research field within service research. In line with the Marketing Science Institute (2010) and Van Doorn et al. (2010), and as elaborated upon later in this Chapter, we define customer engagement behaviors as non-transactional customer behaviors, such as being active within a brand community, providing ideas for new products, recommending a product to a friend, and so on. The increasing prevalence of new social media (for example, Twitter, Facebook, and YouTube) and the increasing acknowledgment of the importance of customer networks (for example, Van den Bulte and Wuyts 2007) are important facilitators of the increasing interest in customer engagement behaviors, since they have substantially increased the connectivity of customers (Libai et al. 2010), decreased the customer-firm interaction costs (Godes et al. 2005), and in some cases improved the quality of these interactions (for example, in terms of sensory content) (Libai et al. 2010; Ostrom et al. 2010). Customers communicate with other customers and/or companies more widely, faster, and with more qualitative detail than ever before. For instance, customers do so by tweeting about the latest movie they saw, by liking or commenting on a company's Facebook page, or by posting videos of themselves driving an expensive car. Hence, in a networked and information-rich environment, customer engagement behaviors become very relevant for companies. Within CVM this mainly implies that customers provide value to firms through transactions with firms (that is, being loyal, cross-buying), but also through non-transactional behavior. This is not a totally new idea. Already Hoekstra and Huizingh (1999) supported an extension of the CLV concept by arguing that it should also include the value of non-transactional behavior. The enormous adoption of the Net Promoter Score (Reichheld 2003) in practice also emphasizes that firms believe that non-transactional behavior (in this case, word-of-mouth) is an important value driver. Still, CVM research and specifically research on CLV has so far mainly focused on transactional behavior as an important value driver. Only recently have we started to acknowledge that CLV is a broader concept and should include customer engagement behavior (Kumar et al. 2010).

Given these noted developments, we focus in this dissertation on customer engagement behavior as a new frontier in CVM. Our main objective is to investigate the outcomes of customer engagement behaviors. In doing so, in this chapter, we first provide a historical perspective on customer to firm orientations. Next, we discuss customer engagement as a new frontier in CVM and explain how customer engagement behaviors can be seen as a next phase in customer–firm interactions in which customers become inside the domain of company value creation; hence the firm–customer relationship goes beyond a bilateral relationship (Prahalad 2004). To do so, we discuss the theory on customer engagement and emerging perspectives on its definition and scope, in which we amongst others motivate that we primarily focus on the behavior dimension of the overarching customer engagement construct. We then, at the end of this chapter, state the aimed contributions to the customer engagement behavior field of this dissertation and provide an overview of how various research projects are meant to make these contributions.

1.2 CUSTOMER MANAGEMENT DEVELOPMENTS

Both academic and managerial interest in customer engagement is increasing and shows no signs of flagging, even to such extent that the term ‘customer engagement’ can be considered a new buzzword in customer management (Verhoef, Reinartz, and Krafft 2010). ‘Customer engagement’ yields over 70 million hits on Google and has an own Wikipedia page. Also, many companies adopt this important new term and many prestigious academic and managerial conferences include at least a section on the topic of customer engagement.

The next frontier of customer engagement behavior within CVM can be best described from the historical perspective on customer-to-firm interactions (see Figure 1.1). Before the attention for relationship marketing and subsequently CVM (Dwyer, Schurr, and Oh 1987; Morgan and Hunt 1994; Payne and Frow 2005), firms mainly focused on getting attention from customers by sending their messages to customers through mass media and sometimes more directed media, such as direct mailings. Within relationship marketing and customer management we observed a stronger focus on bi-directional relationships between customers and firms, in which customers and firms actively interact with each other. In these interactions both social value and economic value (that is, transactions) were exchanged (Fournier 1998). Still customers are not involved in the firm. In the era of customer engagement behaviors, we actually observe

two developments. First, customers now can become actively involved in specific value-creating processes (Vargo and Lusch 2004). Second, customers also actively participate in customer networks, in which they also can create value for the firm through, for example, referrals. In the next section we elaborate on this important trend. We start with highlighting emerging perspective on the definition and scope of customer engagement (in which we explain our focus on the behavioral dimension of the customer engagement construct), followed by a discussion on how customer engagement behavior constitutes the next frontier in CVM.

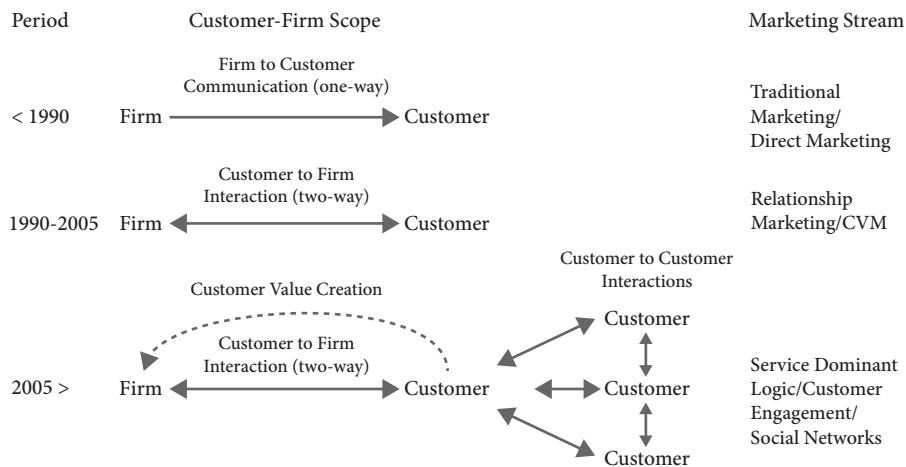


Figure 1.1: Scope of customer–firm interaction within marketing research

1.3 CUSTOMER ENGAGEMENT

1.3.1 Definition of Customer Engagement

There remains debate about the meaning of customer engagement. As Bolton (2011, p. 272) points out: “Although many organizations consider CE [customer engagement] important, this term has different meaning for different people”. For instance, although various consultancy companies have started to develop measurement instruments for customer engagement (for example, www.allegiance.com), they attach different meaning to the construct. From an academic perspective, Van Doorn et al. (2010, p.253) were among the first to formally define customer engagement. They emphasize the behavioral

focus of the term 'engagement' and consequently define customer engagement behaviors as "the customer's behavioral manifestations toward a brand or firm, beyond purchase, resulting from motivational drivers," a definition that is consistent with that provided by the Marketing Science Institute (2010). Later, Brodie et al. (2011) started a debate surrounding this conceptualization. Precisely, they attempt to explore the theoretical foundations of the customer engagement construct and the term 'engagement' and argue that besides a behavioral dimension, customer engagement also contains an emotional and cognitive dimension. Based on five fundamental propositions resulting from a synthesis of 'engagement' literature, Brodie et al. (2011, p. 260, emphases in original) define customer engagement as "a *psychological state* that occurs by virtue of *interactive, cocreative customer experiences* with a *focal agent/object* (for example, a brand) in focal service relationships". Reconciling both views on customer engagement, customer engagement can be seen as a psychological disposition, which translates into observable customer engagement behaviors.

Beyond these two leading conceptual studies on customer engagement, both Hollebeek, Glynn, and Brodie (2014) and So, King, and Sparks (2014) took up the challenge to develop a multifaceted customer engagement scale. To a large extent based on employee engagement literature, So, King, and Sparks (2014) view customer engagement as a second-order factor comprising five first-order factors; identification, enthusiasm, attention, absorption, and interaction. In contrast, Hollebeek, Glynn, and Brodie (2014) derive three dimensions underlying customer engagement; cognitive processing, affection, and activation. Their work presents managers a tool to measure customer engagement outcomes, without which managers tend to focus on other more accessible outcomes, such as increased sales.

Nonetheless, the exact dimensionality of the customer engagement construct remains debatable. In the emerging customer engagement literature there appears to be growing consensus that customer engagement is a multi-dimensional construct containing a cognitive, emotional, as well as a behavioral dimension. Yet, although there is merit for both cognitive and emotional dimensions as well as a behavioral dimension of customer engagement, similar to the construct of customer loyalty (Van Doorn 2011), the latent side of customer engagement needs further refinement. Most importantly, it is unclear yet how the emotional and psychological dimensions of customer engagement delineate (especially, empirically) from alternative well-established constructs in customer management, such as commitment and satisfaction. Conceptually, So, King, and Sparks (2014, p. 313) argue for the overall customer engagement construct that "engagement

requires more than the exercise of cognition” and that activity sets engagement apart from other constructs. Hence, it is the behavioral aspect that distinguishes customer engagement from other constructs. How the psychological and emotional aspects of customer engagement delineate from other constructs in customer management (for example, flow, involvement, or commitment) is theoretically discussed on a fine-grained level by Patterson, Yu, and De Ruyter (2006), Hollebeek (2011a, in particular table 3 on p. 793), and Hollebeek (2011b). Yet, these authors also underline that (the latent side of) customer engagement shares important overlaps with other constructs. While their theoretical studies have true merit in addressing conceptual nuances between customer engagement and other, more well-established, customer management constructs, it is unsure (yet) whether the psychological and emotional aspects of customer engagement in fact can be empirically (and thus, managerial actionably) distinguished from other constructs, especially given the detailed and nuanced differences. Given this uncertainty, in marketing practice the psychological state belonging to customer engagement is acknowledged, “however, consistent with Van Doorn et al. (2010), managers tend to focus on measurable CE behaviors that extend beyond customer-firm purchase transactions” (Bolton 2011, p. 272).

Given the lack of clarity as to how the cognitive and emotional dimensions differentiate from other constructs in customer management (especially, empirically), and foremost, the managerial emphasis on dealing with observable customer engagement behaviors, throughout the remainder of this dissertation we will primarily focus attention on the behavioral aspects of customer engagement (which we, for means of clarity, will denote as customer engagement behaviors).

1.3.2 Types of Customer Engagement Behavior

Under the behavioral dimension of customer engagement a wide range of specific behaviors are classified, such as customer-to-customer interactions, customer co-creation in new product development, and customer feedback (cf. Bijmolt et al. 2010; Verhoef, Reinartz, and Krafft 2010). Customer-to-customer interactions refer to communication between consumers about a company and/or brand (that is, word-of-mouth) (cf. Kumar et al. 2010); for example, asking a friend for advice on mobile phone network providers. Another example is Jetstar, which set up a community where customers can share travel stories. Customer co-creation in new product development is “a collaborative new product development activity in which consumers actively contribute and select various elements of a new product offering” (Hoyer et al. 2010, p. 283). Ample examples of

customer co-creation can be found in multiple industries. For instance, in the airline industry, Air France invited customers to help design new tableware and Airbus held a contest in which customers could provide ideas for making aviation greener. Finally, customer feedback (that is, voice) is companies listening-in on their (potential) customers (Hirschman 1970). Informing a hotel about the quality of your stay is an illustration of an act of customer engagement that falls within customer feedback.

1.3.3 Customer Engagement Behavior: Next Frontier in CVM

The growing importance of customer engagement behaviors is not merely a new attention point or a new point on the radar for companies, but actually changes the rules of the game in customer–firm interactions. By undertaking the above mentioned customer engagement behaviors, customers become involved “in activities that were once reserved for the firm: promoting the brand, suggesting ideas for new products, choosing advertising copy, deciding on logos, and even reacting to competitive actions” (Libai 2011, p. 275). For instance, in online communities, customers “take over service functions traditionally provided by the host company, oftentimes without getting any monetary compensation or other direct rewards” (Wiertz and De Ruyter 2007, p. 350). This development challenges the ‘classic’ marketing productivity chain, in which customers are outside the domain of value creation (Lehmann 2004). By taking over (part of) company activities, customers move inside the domain of value creation, which makes them co-producers of value (Vargo and Lusch 2004). This new reality means that “firms no longer control marketing, but rather customers (via the Web, for example) define what a company is (and is not)” (Leeflang 2011, p. 78). In other words, the boundary of the firm and the distinction between the firm and its customers are getting blurred (Sawhney and Prandelli 2000). In short, customer engagement behaviors are not a new light on the company’s dashboard, but customers are actually put in the driving seat of the company and take over (part of) the steering wheel. We see this as a next step in the development of customer–firm interactions.

1.4 DISSERTATION CONTRIBUTIONS

1.4.1 Research Aims and Contributions

Despite the theoretical (especially for the field of customer management) and managerial relevance of customer engagement behaviors, thorough empirical research on the effectiveness of customer engagement behaviors is largely lacking (e.g., Bijmolt et al. 2010; Hollebeek, Glynn, and Brodie 2014). Illustrative, in the field of customer based models almost all research focuses on transactional interactions (Van Doorn et al. 2010; Verhoef, Reinartz, and Krafft 2010). Furthermore, the research that does focus on customer engagement behaviors (i.e., non-transactional customer-firm interactions) primarily studies distinct forms of customer engagement behaviors in isolation, which are only part of the broader customer engagement construct (Bijmolt et al. 2010). Exemplary are studies on the impact of word-of-mouth and customer recommendations (for example, Chevalier and Mayzlin 2006; Luo 2009; Trusov, Bucklin, and Pauwels 2009), customer voice (for example, Van Oest and Knox 2011), and customer participation in new product development (for example, Burroughs et al. 2011; Hoffman, Kopalle, and Novak 2010). In spite of customer engagement behaviors being often studied in isolation, our understanding of them can be enhanced by analyzing them from an integrated perspective. These separate behaviors conceptually belong to an overarching construct and share, the above mentioned, communality in that they change the way value is created within customer-firm interactions.

The goal of this dissertation is to fill this gap by investigating the effects of customer engagement behaviors. While research on antecedents of customer engagement behaviors (i.e., reasons why customers undertake customer engagement behaviors) also needs further attention (e.g., Brodie et al. 2011; Nambisan and Baron 2009), we decided to focus our attention on outcomes of customer engagement behavior. First, the underlying customer motivations to participate in customer engagement behaviors are relatively more well-known than the outcomes of these behaviors. For instance, with respect to customer co-creation in new product development there are concrete and empirically supported current insights with respect to customer motivations, whereas outcomes are merely theoretical identified and measurement of outcomes is in its infancy (Hoyer et al. 2010). Second, we feel outcomes of customer engagement behaviors are likely more diffuse. Customer motivators to undertake customer engagement behavior can generally be classified into psychological, technological, financial, and social motivators, and are in general expected to have a positive impact on undertaking customer engagement

behavior (e.g., Hoyer et al. 2010; Nambisan and Baron 2009), whereas potential outcomes of customer engagement behaviors are more widespread and the valence of outcomes is unknown (e.g., Hoyer et al. 2010). For instance, managers face difficulties in establishing the ROI of their social media campaigns, including difficulties which metrics to include to determine ROI and have a hard time in general to determine positive outcomes (e.g., Carrabis 2014; Cespedes 2015; Sass 2015). Third, eventually marketers interest in customer engagement behaviors is “tied to the ability to demonstrate the contribution of such interactions to the firm” (Libai et al. 2010, p. 275). Therefore we feel it is a logical first step within the field of customer engagement behavior research to establish the impact of such behaviors.

Hence, the overarching goal of this dissertation is investigating the effects of customer engagement behaviors. Thereby we fill the gap of the lack of (empirical) research on the outcomes of customer engagement behaviors and, as primary practical relevance, determine the impact customer engagement behaviors have on firms and other stakeholders, which is a striking issue in today’s marketing practice (e.g., MSI 2010; MSI 2014). More fine-grained, this dissertation is meant to achieve three interrelated objectives. The first objective is to identify suited theoretical perspectives on outcomes of customer engagement behavior. Our second objective is to empirically study customer engagement behavior outcomes. Across various projects we will study the impact of customer engagement behaviors on an individual customer performance metric (i.e., customer satisfaction) and an aggregated firm performance metric (i.e., market valuation). The third and final objective of this dissertation is to identify contingencies that drive these outcomes. We will investigate contingencies for all categories that are deemed relevant contingency categories within marketing strategy research (e.g., Homburg, Vollmayr, and Hahn 2014). Precisely, we investigate a customer characteristic contingency, firm strategy contingencies, company contingencies, and a marketplace contingency. The objectives of this dissertation can be translated into a conceptual framework forming the backbone of the thesis. Figure 1.2 displays this conceptual framework.

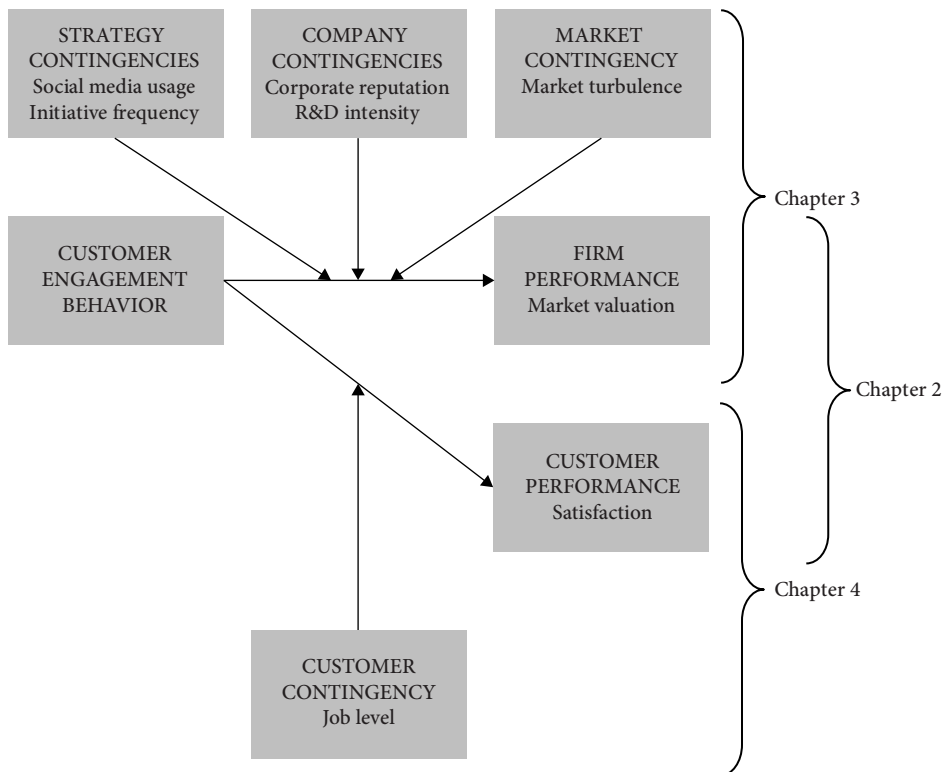


Figure 1.2: Conceptual framework dissertation

1.4.2 Overview of Projects

To accomplish our three research objectives we carried out three interrelated research projects (we summarized the empirical characteristics and main findings of our empirical projects, i.e. Chapters 3 and 4, in Table 1.1):

- In the first project of this dissertation (Chapter 2) we provide the first overview of empirical research on economic outcomes (at the customer-level, firm-level, and other-level) of customer engagement (behavior). Additionally, based on the findings and conclusions from this overview, we introduce the need for and the applicability of three traditional (organizational) theories (transaction cost economics, the resource-based view, and social exchange theory) in order to (further) study outcomes of customer engagement behavior.

- In the second project of this dissertation (Chapter 3) we study the effect of company initiated customer engagement behaviors on firm performance (as measured by shareholder value). This project studies a performance metric, market valuation, and uses a research method, the event study methodology, which has not been related to customer engagement behavior in previous literature. Furthermore, in this project we investigate if and how initiative frequency and social media utilization (as strategy contingencies), corporate reputation and R&D intensity (as firm contingencies), and market turbulence (as market contingency) impact the relationship between customer engagement behavior initiatives and abnormal stock returns.
- In the third project of this dissertation (Chapter 4) we investigate the impact of both passive and active online support community usage (as well as traditional service request activity) on customer satisfaction. We thereby, instead of studying all distinct customer engagement behaviors, zoom in on online (support) community usage. Key contribution of this project to current literature is to show the relevance of a novel moderator, job level, which impacts how customers evaluate online (support) community usage.

Finally, in Chapter 5 we draw overall conclusions, managerial implications, and future research opportunities from these research projects.

Table 1.1: Overview of empirical projects

	<i>Chapter 3</i>	<i>Chapter 4</i>
Outcome metric	Shareholder value	Customer satisfaction
Data source	Secondary	Primary
Theoretical foundation	Multiple theories	Principal-agent theory
Type of customer engagement behavior	All (word-of-mouth, voice, co-creation)	Online community usage
Main finding	A firm's stimulation of customer engagement behavior reduces shareholder value	Online customer community support increases customer satisfaction (for users and upper managers), static online support decreases customer satisfaction (only for upper managers)
Key contingency(ies)	<ul style="list-style-type: none"> – Strategy characteristics (social media usage, initiative frequency) – Company contingencies (corporate reputation, R&D intensity) – Market contingency (market turbulence) 	<ul style="list-style-type: none"> – Customer characteristic (job level)

