

Preliminary Master Thesis Report at BI Norwegian Business School

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Table of Contents

1. Introduction	1
2. Literature Review	3
2.1 Customer Participation and Co-Creation Terminology	3
2.2 Value outcomes of co-creation	3
2.3 The Reciprocity Heuristic and The Ben Franklin Effect	4
2.4 Anthropomorphism	5
2.5 The Role of Involvement in Co-Creation	6
3. Plan for data collection	8
4. Thesis progression	8
References	9

1. Introduction

Marketing literature is increasingly focusing on customer participation in value creation, and more and more companies are engaging their customers in collaborative processes to create new offerings or improve their services (Mustak, Jaakkola, & Halinen, 2013). For example, phone service providers tend to ask customers to evaluate the quality of their customer service with the objective of improving the company's customer service. Customer participation in value creation, or co-creation, is also utilized by companies developing various types of software through alpha and beta tests (i.e., computer games).

Research conducted on customer participation has resulted in identification of several valuable outcomes for both the company and the consumers, such as higher repurchase rates, lower price sensitivity, more favorable perception of the brand image, participation in service recovery, and higher satisfaction (Mustak et al., 2013; Cermak, File, & Prince, 1994; Hsieh & Chang, 2004; Woisetschläger, Hartleb, & Blut, 2008; Dong, Evans, & Zou, 2008; Hibbert, Piacentini, & Hogg, 2012; Vega-Vazquez, Revilla-Camacho, & Cossío-Silva, 2013). However, less is known about *why* or *how* customer participation leads to value creation. Several researchers explicitly state that this is a clear research gap in the field of service marketing (Fliess, Dyck, & Schmelter, 2014; Grönroos & Voima, 2013; Vega-Vazquez et al., 2013). So, which dimensions should one consider when trying to explain the causality of such value generation in customer participation processes?

Firstly, we consider it essential to assess economic consequences, such as added or reduced costs, of applying co-creation. Companies that utilize customer participation may generate economic value and reduce costs by assigning a part of the company's productive task to the customers (Mustak et al., 2013; Lovelock and Young, 1979; Mills, Chase, & Margulies, 1983). However, participating consumers may also receive economic value through cost reductions, discounts, and rewards, which form a cost for the firm respectively (Bitner, Faranda, Hubbert, & Zeithaml, 1997; Prahalad & Ramaswamy, 2004).

When companies utilize compensation in customer participation, the process emulates the dynamics of an exchange relationship in which parties benefit each other through fulfilling obligations back and forth through a continuum (Batson, 1993). In such scenarios, the reciprocity heuristic will impact participating consumers' potential changes in attitudes towards the firm (Cialdini,

2001). Conversely, when companies choose not to compensate participating consumers, and instead frame participating consumers' effort as a favor of which the firm is very grateful, then the co-creation scenario is more adherent to a communal relationship. In communal relationships, the underlying concern is the recipient's well-being. Dissonance theory states that we will most likely like a person more after doing him (or her) a favor (Jecker & Landy, 1969), which has been coined the Ben Franklin Effect (BFE) (Aronson, Wilson, & Akert, 2010). We believe that this process reflects the underlying psychological mechanism in consumers' attitude change, when the participation in co-creation is framed as a favor with no reward. Furthermore, if a company would be able to activate this psychological mechanism in its co-creation process, it might be able to arrive at customer satisfaction without reciprocation, and thus reduce the costs of applying co-creation.

Secondly, we consider it important to assess how the nature of co-creation varies in degree of involvement across scenarios, which is the most obvious difference between the two examples illustrated above (phone service providers vs. software developer). Evaluating customer service typically involves reporting a number on a scale, whereas in an alpha test the software developer is looking for more elaborative feedback on both design and technical issues. Hence, the present study aims to explore how low –or high-involvement processes moderate effects of giving compensation in customer participation processes.

Finally, the present study is unique as it bridges research from service marketing and branding with psychology in a way that sheds light on the causality of the value outcome satisfaction in customer participation. The study also demonstrates boundary conditions for the effects of compensating consumers, and thus helps companies cut costs in their co-creation activities.

The paper is organized as follows. Firstly, the literature review gives an overview on the fields of customer participation, value outcomes, consumer psychology, and customer involvement. Secondly, we draw on the relevant literature to present our hypotheses and briefly explain our method. Finally, we present our plan for thesis progression.

2. Literature Review

2.1 Customer Participation and Co-Creation Terminology

Mustak et al. (2013, p. 341) define customer participation as the “customer’s contribution of labor or resources to the creation of offerings”. It encompasses, for example, co-creation of brands, product customization, and new product –and service innovation. There are several aspects to customer participation. Research has looked at different customer roles, such as partial employee, quality evaluator, and co-producer (Mustak et al., 2013), as well as different customer behaviors and resources they can offer to companies. The actual mechanism of how customer participation can benefit companies is nevertheless under-researched, as most of the literature in the field focuses solely on the end-result of the process, such as economic gain (Vega-Vazquez et al., 2013).

A range of terms has been used to describe the different aspects and parts of the process of co-creation. Many of them intertwine in meaning, and researchers have used them interchangeably and sometimes inconsistently. For clarity, we have looked at existing literature to define some of the key words that we use later in this paper. According to Fliess et al. (2014), *customer participation* means the activities and the degree of effort the customer contributes during the process. Customer participation research has extended to *customer co-creation*, a field of study that sees the customer as an equal actor in the process of value creation. The value is determined by the customer, in accordance with service dominant logic (Vargo, & Lusch, 2004). Because of the increasing attention that co-creation is gaining within marketing research, it is only suited that more research should focus on the way in which customers define the value of the service-provider.

2.2 Value Outcomes of Co-creation

There are many papers that determine certain value outcomes of co-creation, predominantly outlining the positive impact that customer participation has on efficiency, economic value, relationship value, and innovation value from the seller’s perspective (Lovelock & Young, 1979; Rosenbaum, Ostrom, & Kuntze, 2005; Kaufmann, Lehner, & Tödting, 2003). The few articles that have taken the consumer’s perspective, highlight benefits such as better fit of offering, skill enhancement, and economic value, but there are still significant gaps in

understanding the consumer's perspective in the process (Bateson, 1985; Bitner et al., 1997; Grönroos, 2008).

Specifically, satisfaction has gained less attention in customer participation literature, even though it has been suggested to stem from co-creation (Navarro, Llinares, & Garzon, 2016). Hunt, Geiger, Oneto, and Varca, (2012) show in their field study that co-production between consumers leads to satisfaction, and that commitment and behavioral involvement serve as moderators for the effect. Nevertheless, the study focuses specifically on co-production in community-supported agriculture programs, and thus cannot be generalized to also apply in co-creation.

Similarly, research conducted by Vega-Vazquez et al. (2013) focuses on the value creation process from a customer perspective and confirms that co-creation indeed can lead to satisfaction. The study was conducted by analyzing interviews instead of an experimental design, in addition to which the results still leave a lot of questions unanswered about the underlying reasons for such causal relationship. Thus, co-creation as an antecedent of satisfaction and the underlying mechanism poses a large research gap that is worth examining more, as some research already indicates that such relationship exists.

2.3 The Reciprocity Heuristic and The Ben Franklin Effect

Customer participation as a research field reaches over to other disciplines outside of marketing as well, as only half of published articles are found in marketing journals (Mustak et al., 2013). Thus, our research is also heavily influenced by psychology research, and we apply research conducted on interpersonal relations to ones between brands and customers. Typically, customers are either rewarded for their efforts in co-creation, or they are simply asked to do a favor without any compensation. Similar patterns of compensation can be seen in interactions between people: you either expect something in return for your actions or complete a favor out of sheer will to help.

The expectation of a two-sided goodwill stems from one of Cialdini's (2001) persuasion heuristics, reciprocation. An example of this was demonstrated by Regan (1971) who conducted an experiment, where a confederate purchased a soda for the other participants and later requested the purchase of raffle tickets. The results show that humans have a normative pressure to reciprocate favors done to them, such as purchase raffle tickets after receiving a soda. This result

also applied when the confederate was not liked, meaning the human need to reciprocate also applies to unpleasant targets.

Interpersonal favors are shown to stem from another psychological process in addition to reciprocity. The so-called Ben Franklin Effect (BFE) was coined after the famous politician Benjamin Franklin (1900, pp. 216-217), and refers to a situation where the person completing the favor will increase their liking towards the target of the favor. Based on this theory, Jecker and Landy (1969) hypothesized that if you do a favor towards another person who you are neutral or negative towards, you will end up liking them more than if you had not completed the favor. They claim that this consequence is due to Festinger's (1962) cognitive dissonance theory, and show that a favor indeed increases liking towards a previously disliked stranger. According to the theory of cognitive dissonance, when we complete actions that are contradictory to our existing attitudes or beliefs, we change those beliefs to better justify our actions. When attempting to lower cognitive dissonance, one can also end up changing one's attitudes towards another person, especially after behaving either kindly or cruelly towards that person (Aronson, Wilson, & Akert, 2010). This would mean that favors completed towards neutral or negative parties, as well as more demanding favors completed towards positive parties, would create dissonance and subsequent dissonance reduction will lead to an increased liking of the party.

2.4 Anthropomorphism

Although dissonance theory, the reciprocity heuristic, and BFE have been widely studied within psychology and interpersonal interactions, the effects have not been thoroughly examined in human-to-brand interactions. As brands are widely present in our lives through marketing communication, social media, consumption, and human representatives, especially strong brands tend to become anthropomorphized (Aggarwal, & McGill, 2011). Anthropomorphism is the tendency for humans to assign humanlike characteristics to nonhuman agents, making them more likeable and approachable for humanlike interaction (Epley, Waytz, & Cacioppo, 2007). According to Aggarwal and McGill (2011), anthropomorphized brands activate people's in-built goals for a successful social interaction, and can thus elicit similar psychological responses as when dealing with other humans. Consequently, because brands and companies can be

perceived as humans, we believe that reciprocity and BFE can both work in an interaction between customers and brands.

2.5 The Role of Involvement in Co-Creation

While co-creation always requires some level of involvement from the customer, their commitment and attention to the task can range from simple single tasks to demanding and time-consuming assignments. Involvement is a determinant of the level of elaboration a consumer uses to complete the task, as described by the elaboration likelihood model (ELM) (Petty, Cacioppo, & Schumann, 1983). During high-involvement tasks consumers take the central route, where attitudes are changed through the consumer's careful consideration of information. Low-involvement tasks are processed through the peripheral route, where the consumer uses heuristic cues to arrive at an attitude change (Petty et al., 1983).

The present study examines the moderating properties of involvement in co-creation processes and is based on the notion that priming the consumers with a co-creation task that includes either reciprocity or BFE should also lead to different outcomes when paired with different processing styles. As one of Cialdini's (2001) persuasion heuristics, reciprocity offers a mental shortcut for information processing and consequent attitudes. Petty et al. (1983) show that heuristic peripheral cues work best in a low-involvement setting. We therefore hypothesize that in low-involvement co-creation settings participants will report higher satisfaction towards the company due to heuristic cues of reciprocity. Conversely, in the BFE condition participants are likely to not notice the framing of conducting a favor for the company and the explicitly stated gratitude for this favor. Hence, participants in the BFE will not exhibit higher satisfaction respectively.

H₁: Utilizing reciprocity in a low-involvement customer participation scenario will lead to higher satisfaction for the company than utilizing BFE.

Jecker and Landy (1969) suggest that the BFE works best for attitude formation when the required task is effortful enough to activate cognitive dissonance. More specifically, when priming with BFE in a high-involvement co-creation setting, we believe that consumers are likely to elaborate on the fact that they have

exhibited significant effort in helping a company. This will cause cognitive dissonance due to lacking justification heuristics. Consumers will then engage in dissonance reduction, which makes them likely to change their attitudes towards the company to be more in line with the fact that they have done the company a favor.

Conversely, when priming with reciprocity in a high-involvement co-creation setting, the effort exhibited by consumers is not framed by the firm as favor for which it has high gratitude. The customer participation is rewarded through discounts or monetary gains, and this reciprocity will serve as justification for the consumers' effort. We therefore believe that if the compensation is fair, the reported satisfaction will be conducive to the control conditions, whereas if the compensation is regarded as too low or unfair, the participants are likely to report lower satisfaction. Hence, we hypothesize that in high-involvement co-creation settings, the BFE condition will lead to higher satisfaction for the company than the reciprocity condition.

H_2 : Utilizing BFE in a high-involvement customer participation scenario will lead to higher satisfaction for the company than utilizing reciprocity.

The hypothesized causal relationships are depicted in Figure 1.

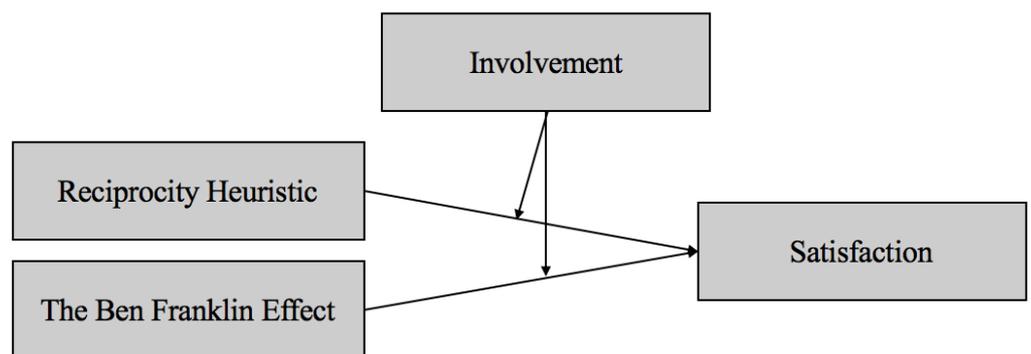


Figure 1: Conceptual framework of the present study.

3. Plan for data collection

Our current research plan will employ a 3 (reciprocity, BFE, and control) x 2 (High vs. low involvement) between-subjects factorial design. This means we will have four experimental groups and two control groups, with a goal of having 20 to 30 participants in each condition. We have decided upon random sampling using Amazon Mechanical Turk for data collection, whereas the actual survey will be conducted on Qualtrics.

4. Thesis progression

Our goal is to be finished with our Master's thesis by June 14th, 2018. We will spend January and February writing our introduction, literature review, and planning our data collection. During February we will finalize our plans for the method and experiment procedure, and start data collection in the beginning of March, the latest. Data analysis will be completed during March and early April, after which we will finalize our method and result sections, as well as revise our introduction and literature review. Discussion, conclusion, managerial implications, and suggestions for further research will be written in May. Whatever time we have after that will be used for revision and writing the abstract.

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