

# **Research proposal**

## **Consumer choice of service provision in services industries**

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## **I. Introduction**

In the past decade the range of service provision modes in services industries has increased considerably especially as information technology got increasingly sophisticated. Accordingly, the phenomenon of multiple service provision options, owned by one company and providing similar services simultaneously is relatively new (Neslin et al. 2006). Moreover, modified consumer habits and lifestyles have led to altered attitudes concerning modes of service provision. At the same time, there has been a growing call for a paradigm shift to customer focus and value creation (see for instance, Sheth and Sisodia 2003). In line with this, the notion of the consumer's part in value creation has changed. Consumers now are seen as actively involved in creating value instead of being only passive responders (Beckett and Nayak 2008; Vargo and Lusch 2004; Xie et al. 2008).

## **II. Statement of the Problem and Purpose of the Study**

The research is intended to focus exclusively on the consumer's perspective concerning the choice of service provision in services industries. This is regarded as consistent with applying a Market-Based View (MBV). A market-based perspective deriving from industrial organizational economics implies that successful companies are externally oriented and market-driven (see for instance, Day 1994; Webster Jr. 2002). Privileged market positions serve as a basis for above-normal future returns and thus higher current firm value (Bain 1959; Mason 1939; Porter 1980, 1985). Firms have to track and respond to changing marketplace needs (Jaworski and Kohli 1993; Narver and Slater 1990). Insight into markets and industries is essential. In particular, a base of knowledge about customers, their characteristics, perceptions, expectations, needs, wants and preferences, decision-making processes and bargaining chips is at the core of a successful business (Porter 1980, 1985; Webster Jr. 2002). Nevertheless, the importance of a firm's current resource base is acknowledged as it is considered to be a potentially limiting condition on the firm's ability to implement the best business strategy (Wit and Meyer 2004, p. 251).

A study by McGahan and Porter (1997) reveals that industry effects especially account for a large portion of profit variance in services industries. Accordingly, a services organization's marketing strategies and activities have to be determined by the attractiveness and requirements of the market. Focusing on the consumer's perspective and referring to types of service provision this signifies that a services firm should provide the mode of service provision that matches best the demand and requirements of the target group(s).

Moreover, value is co-created through the combined efforts of firms and customers.[1] To provide services, customers integrate and apply their own resources. The service proposed can be provided directly or indirectly through a good (Vargo et al. 2008). In some cases self-service technologies play an important role in the mode of service provision (Meuter et al. 2000). Any period of time during which a consumer directly interacts with a service can turn out to be an important service encounter (Shostack 1985, p. 243). In particular, the moment of a consumer's choice of a particular mode of service provision is considered to be a 'moment of truth', where the services firm has the opportunity to offer the customer, i.e. the potential co-creator, the desired option. If it cannot meet the demands or fulfil the requirements, the moment of opportunity will be lost and the customer might be gone or at least dissatisfied. The customer cannot be satisfied until a new moment of truth has been created (Grönroos 2007, p. 81; Normann 1984, p. 8f). The services firm's focus consequently has to be on relationships rather than on once-only transactions.

The purpose of this study is to develop and empirically test a model to identify the critical factors that influence the consumer choice of service provision in services industries in situations in which consumers have a choice among service provision alternatives. In

particular, the nature of the interrelationships between the different influences and their impact on consumer behaviour shall be examined.

### **III. Review of the Literature**

Previous research has mainly focused on the choice behaviour concerning the distribution of goods (see for instance, Nicholson et al. 2002; Strebel et al. 2004). Where the provision of services has been investigated, the implicit assumption often seems to be that the provision of services is a logical corollary of the distribution of goods, to which the same terminology applies and which even can be seen in the same conceptual framework as choice of product (see for instance, Balasubramanian et al. 2005; Morrison and Roberts 1998; Schoenbachler and Gordon 2002). Furthermore, it is commonly dealt with from the perspective of the firm referring to issues such as efficient channel management and design (see for instance, Falk et al. 2007). However, the customer's evaluation often differs from the firm's perspective (Grönroos 1994; Zeithaml 1988). The notion that service provision in services industries implies distinguishing specifics particularly with regard to the necessity of viewing the consumer as a co-creator of value is also widely neglected. Yet, service provision in general implicates that customers apply and integrate their own resources and requirements. As Vargo and Lusch (2004) state, the roles of firms and consumers are not distinct, meaning that value is always co-created.

Where the perspective of the consumer has been investigated, it is typically in relation with attributes that refer to the choice of an outlet within a given type of service provision or rather the geographical location where the services are offered (see for instance, Craig et al. 1984). The largest part of literature referring to the choice of service provision in services industries is related to financial services, which is likely due to the long tradition of multichannel service provision in this sector (see for instance, van Birgelen et al. 2006; Black et al. 2002; Ding et al. 2007; Frambach et al. 2007; Thornton and White 2001).

Recently, in response to the increasing role of technology in services, customer perception and usage of new service provision methods and technologies has received considerable attention. Meuter et al. (2005), examine the critical factors that influence trial of self-service technologies as part of an adoption process in situations in which consumers have a choice among service provision alternatives. Selnes and Hansen (2001) examine the effects of personal service usage and self-service usage on social bonding and subsequently customer loyalty. Reinders et al. (2008) investigate within the context of a railway company the impact of forcing consumers to use technology-based self-service instead of the traditional full-service encounter. Despite an emerging body of research on the role of new technologies in services, a profound analysis how characteristics of interpersonal interaction or an absence of human interaction influence the consumer choice of service provision is virtually absent in the literature. Moreover, although the choice of individual modes of service provision and the adoption of new technologies have been widely researched, there is little to suggest that we have a more general understanding of which modes of service provision consumers as co-creators would prefer by themselves. That applies in particular to services industries.

### **IV. Research Questions**

The two basic assumptions that are underlying the planned exploration are that the consumer has a free choice among service provision modes; that is, the services firm offers a range of choice concerning service provision options and there is no force from its side, such as fees to make some options less attractive. This is in line with literature that has identified that consumers seem to want some choice between service provision modes (Bitner et al. 2002,

p. 105; Reinders et al. 2008). Given these assumptions, the following research questions motivate the study:

1. Which are the relevant dimensions of choice concerning the provision of services in contrast to the distribution of tangible goods?
2. Which are the critical factors, that influence the consumer choice of service provision in services industries in situations in which consumers have a choice among service provision modes?
3. Which conclusions can a services firm draw to ensure a customer-oriented configuration of its service provision modes?

## **V. The Design – Methods and Procedures**

To address the research questions, two studies ought to be undertaken in a two-phase research design (Creswell 1994). In a first step, I am going to develop a conceptual model using both qualitative depth interviews of consumers and insights from related research streams such as behavioural sciences and New institutional economics. Depth interviews are planned to be conducted to gain a better understanding of the consumer choice of service provision modes, to focus on variables that are relevant and important to customers and to ensure that key variables are not overlooked. In particular, depth interviews ought to be used as they can provide a deeper understanding from the consumer's perspective (Hudson and Ozanne 1988).

In a second step, a quantitative survey ought to be conducted to test the conceptual model and further develop the findings of the first study. Rather than confine my study to one category of services industry, I am going to select several categories. In the literature various schemes for classifying services have been proposed. See Cook et al. (1999) for a review. Bowen's taxonomy (1990) however is one of the few with an empirical basis permitting generalization to a broader range of services industries furthermore using data directly deriving from consumer's perceptions of services. Bowen distinguishes between three services types: The first group is characterized by a high degree of customer contact with individually customized services solutions performed on people (e.g. health care, real estate agencies). A second group represents moderate customer contact, semi-customized services such as photofinishing or laundry directed at an individual's property ("things") and a third group is characterized by moderate contact, standardized services directed at people (e.g. budget hotels, spectator sports). As such, I am going to follow Gwinner et al. (1998) as well as Danaher et al. (2008) in developing a questionnaire using Bowen's three-group classification typology. The specific services industries chosen from Bowen's study, representing his taxonomy will be decided upon on basis of the depth interviews. Nonetheless, as almost all survey respondents should be able to rate their perceptions, all chosen services types ought to be considered as commonplace.

To assess the hypotheses empirically, I plan to analyze either a series of multiple regression and logistic regression models or structural equation modeling, naturally depending on the developed model.

## **VI. Limitations and Main Challenges**

Applying a market-based perspective exclusively, can raise severe criticism, especially from the line of research of the Resource-Based View and the Competence-Based View of the firm (e.g., Nelson 1991; Rumelt 1991). Resource theories generally emphasize the importance of resources and capabilities as valuable inputs for the firm. Internal factors are regarded as central to understanding competitive advantage and superior profitability ('inside-out' perspective) (Barney 1991; Wernerfelt 1984). Specifically in the context of services the importance of resources (e.g. human resources) is widely stressed and commonly considered

to be crucial to service quality and customer satisfaction (e.g., Bharadwaj et al. 1993; Carlzon 1987). Currently, Ngo and O'Cass (2009) as well as Arnould (2008) highlight the importance of resources as bridging element between service-dominant logic and resource theories. According to their argumentation, further theoretical development and empirical research positioning within the service-dominant logic should necessarily be based on resource theories. The issue of effective and efficient management concerning actually and potentially available resources however will not be analyzed with regard to the provision of services. It is considered to be of minor relevance from the customer's perspective. Furthermore, as the research is intended to focus exclusively on the consumer's perspective concerning the choice of service provision in services industries, the 'outside-in' perspective is considered to be more appropriate. As Webster Jr. (1994) states, "The value-delivery concept of strategy is based on the fundamental assumption that value is defined in the marketplace-not in the factory. It is defined by customers who continuously assess competitive product offerings as well as their own needs and preferences, which change as the customer learns" (p. 25). The Market-Based View nevertheless is not considered to be the single truth. The study rather follows the argumentation that both perspectives can be regarded as complementary rather than contrasting (cf., Hollensen 2002, p. 28ff.).

In order to reduce complexity, the study will be limited to services industries, although I am aware that "service provision" is not limited to "services" (Vargo and Lusch 2008).

As the analysis will focus on the perception of types of service provision in services industries from the point of view of the customer, the modes of service provision will be regarded in a kind of aggregated, idealized form that neglects specific differences between them that are expected to be hardly perceived by consumers or barely relevant to them. Moreover, only a limited aspect of the whole decision process will be analyzed as part of the study. Other aspects and processes that are related with the entire decision process, such as preferences for certain services firms, brands, types of services or points of time will not be considered. Furthermore, the study will exclusively focus on customer behaviour models that imply a high degree of cognitive control. Decisions with only limited cognitive control that imply unconsciously made decisions will not be analyzed as assumptions concerning preferences are considered to be highly risky (Dabholkar 1994; Howard and Sheth 1969; Swait and Adamowicz 2001).

One of the main challenges that exists presently is the huge variety of possible influences that might affect the choice of a service provision mode in services industries. Consequently, suggestions concerning any aggregation or reduction of those potential factors would be highly appreciated. Moreover, despite using Bowen's taxonomy of services that is commonly applied by services researchers the generalizability of the expected findings is considered to be possibly problematical. Furthermore, I am aware of the obstacle to escape the paradigmatic grasp and lexicon of goods-dominant logic, especially as I am focussing on "services industries".

## **VII. Significance of the Study**

The study shall offer several insights into strategic marketing for services marketers. First, a deeper understanding than currently exists of why consumers choose specific modes of service provision can offer some useful insights to the literature of marketing consumer services. Specifically, the findings shall lend empirical support to the question which modes of service provision, consumers as co-creators of value would prefer by themselves. Second, the study shall provide new insights into the MBV literature by positioning it within the service-dominant logic framework.

From managerial perspective, the study shall provide important implications for managers in relation to the value-creation process. The services companies need to know how to

enhance the process of service provision and value co-creation to get the most value-in-use. Therefore they have to understand what the consumers, as co-creators of value want, which is expected to be a key managerial implication of the planned study.

## Note

[1] I am aware that value is co-created through the combined efforts of firms, employees, customers, stockholders, government agencies, and other entities related to any given exchange (Vargo et al. 2008, p. 148). However, the study intends to focus exclusively on the firm-customer part of this entire network of value-creation.

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