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Departament d'Economia de l'Empresa

**Doctoral Dissertation**

**CONNECTING CUSTOMERS WITH THE COMPANY:  
THE ROLE OF INTERACTIVENESS AND ITS EFFECT ON  
PERFORMANCE**

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## Abstract

The aim of this dissertation is to explore the concept of interactiveness in marketing, to understand managers' attitudes and perceptions about interactiveness and to assess empirically the effect of interactiveness on the generation of marketing assets and firm performance. The motivation behind this dissertation is the growing concern among marketers stemming from an increased difficulty to connect with customers and to prove the contribution of marketing to firm's financial performance.

We first review the roots and the drivers behind the use of the terms interaction and interactivity, which have seen growing popularity in marketing. Interactiveness is suggested as a unifying concept that refers to continuous interaction and dialogue between marketers and consumers in both online and offline marketplace.

The review of the literature revealed that while interactiveness is likely to bring competitive advantages to firms committed to continuous dialogue with consumers, it will also require organisational changes and will pose managerial challenges. Thus, we further focus on a qualitative research approach based on interviews with managers in order to provide in-depth understanding on how managers perceive interactiveness. We used the techniques and procedures of Grounded Theory in the process of gathering and analysing data.

Based on the analysis of the interviews and a review of the relevant literature, we conceptualise and theoretically anchor interactiveness as a dynamic capability and we suggest models of analysis and hypotheses linking interactiveness with marketing assets, innovation, stakeholder involvement and performance, as well as a model linking interactiveness with innovation efficiency and consequently to profitability. To test the hypotheses, we used survey data. We ran several different analyses, employing Confirmatory Factor Analysis, Structural Equation Modelling, Data Envelopment Analysis, Free Disposal Hull analysis, Tobit and Truncated regressions.

The results revealed that interactiveness influences positively customer and brand assets, as well as stakeholder involvement and innovation. This way, interactiveness helps achieve competitive advantage, which is translated consequently into improved performance. In addition, interactiveness helps improve the efficiency with which innovations are converted into higher customer satisfaction and perceived brand value (innovation efficiency), thus influencing indirectly profitability. A major implication is that the results of interactiveness at the performance level are not seen directly and immediately, since interactiveness works through building and leveraging intangible firm-specific assets. Interactiveness drives firms toward more flexible, participative culture and co-creation of value with consumers, thus helping firms to re-connect with customers and to enhance performance.

**Keywords:** *interactiveness, value co-creation, marketing assets, stakeholder involvement, innovation efficiency, performance*

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# **CONNECTING CUSTOMERS WITH THE COMPANY: THE ROLE OF INTERACTIVENESS AND ITS EFFECT ON PERFORMANCE**

## **Chapter 1**

### **INTRODUCTION**

#### ***1.1. Marketing's Changing Role in Society***

During the first decades of the evolution of marketing as an academic field marketing was anchored in economics and its focus was mainly on distribution. The AMA definition of marketing from 1948 states that: “marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user”. Much in line with Adam Smith’s “Consumption is the sole end and purpose of all production” (1776: 385), marketing has been involved in delivering the standard of living enjoyed today in many countries through connecting production and consumption. With the progression of the field, focus has shifted towards the consumers and making the possible to assure that production meets consumers’ needs. As Wilkie and Moore (1999) suggest, “In many organizations, marketers act as internal advocates who represent the customer in decisions on what to produce”.

While the focus on the customer has now long been a primary concern in marketing, recently a different concept of the customer has emerged. Daub and Ergenzinger (2005) claim that existing marketing theories fail to make sufficiently clear when addressing the needs of the customers that the idea of the “customer” is only one part of a person’s identity. They call for a holistic and multidimensional way to address the customer satisfaction and propose the notion of “generalized customer”, where the clients are not only purchasers of a firm’s products and services but also actual or potential members of groups in society operating as stakeholder groups vis-à-vis companies (p. 1006). Consumers and other stakeholders have raised voice and are demanding that business take adequate responsibility for its impact on its stakeholders’ interests. Thus, nowadays marketing scholars acknowledge that marketing is about creating and delivering offerings that have value not only for customers, but also for society at large (AMA 2007).

## ***1.2. Problem Statement: Marketing's Failure to Connect with Consumers and to Prove its Contribution to Company Performance***

Notwithstanding its increasing concern for satisfying consumers' and other stakeholders' needs, marketing has been criticised as a field for being manipulative, and for invoking imbalance between the firm and the consumer (Wilkie and Moore 1999). A survey among consumers about how they view marketing revealed that while acknowledging several benefits stemming from marketing, consumers often use words like manipulative or aggressive/exaggerated when talking about marketing (Heath and Heath 2008). Besides, studies have shown that when people are not familiar with the marketing field, they tend to equate marketing with advertising or selling (Wilkie and Moore 1999). This has led to an underappreciation of the richness of the field and to a loss of trust on behalf of consumers (Sheth and Sisodia 2005). Studies have shown that consumers believe that marketing and advertising are "out of control" and many consumers consider that advertising affects negatively their everyday life (Smith et al. 2005). According to Sheth and Sisodia (2005) the reason for this disconnection between marketers and consumers is that "marketing has become excessively driven by a managerial agenda and has lost sight of its fundamental mission, namely, to represent the customer's interest to the company" (p. 160).

While consumers are becoming more suspicious towards the veracity of marketing messages, companies' boards are questioning marketing's contribution to the financial well-being of the firm. During the last few decades expenditures in manufacturing and general management have been declining while marketing costs have risen (Sheth and Sisodia 1995). In circumstances of fierce and constantly increasing competition both locally and internationally, the pressure for marketing to demonstrate its value in improving the company performance is greater than ever. Marketing's accountability and the financial contribution of marketing have been consistently ranked among the most important issues that deserve attention and research by the Marketing Science Institute (MSI) members. Companies are nowadays more interested than ever in understanding and measuring the returns obtained from marketing investments (MSI 2008; Luo and Homburg 2008).

### ***1.3. Interaction Approach in Marketing: Suggested Path to Re-Connect with Customers and to Improve Performance***

How to re-connect with customers and at the same time justify the role of marketing for improving firm performance? While the goals of the firms and the consumers can be seen as conflicting (each party strives for a bigger share of the value created), they can also be seen as complementary. As Sheth and Sisodia (2005) explain, if marketing is approached with wisdom, it can align corporate activity with customer needs in mutually beneficial ways. Consumers are nowadays increasingly knowledgeable and socially active, often connected in networks that span across physical boundaries (Urban 2004; Lindberg-Repo and Grönroos 2004; Pires et al. 2006). Consumers can directly influence companies' policies, requiring certain levels of corporate responsibility or specific products/services (Wind and Rangaswamy 2001). However, consumers are also increasingly willing to provide feedback and to participate in diverse company programmes that can bring innovation and efficiency, and thus improved firm performance (Prahalad and Ramaswamy 2000, 2004). Marketing scholars have suggested that value is nowadays increasingly co-created in an interactive dialogue between firms and consumers (e.g., Vargo and Lusch 2004a, 2008a). An interaction approach to marketing acknowledges the right of each party to satisfy its needs/goals through the creation of efficient and effective solutions that make both parties better off.

The importance of interaction for value creation has gained increasing attention in the marketing literature recently. Scholars in management and marketing have started to underline that value is co-created with customers in an interactive process (Ramirez 1999; Prahalad and Ramaswamy 2000, 2003, 2004), in which firms can offer value propositions (Normann and Ramirez 1993), but it is ultimately the customer, in the process of experiencing the value offerings, who determines the value (Ponsonby and Boyle 2004; Grönroos 2006). According to this view, the consumer is not a passive recipient (or value destroyer), but on the contrary is an active co-producer, because value cannot happen “until an offering is used for something and experienced as satisfying a need for somebody” (Gummesson 2002: 587). Value in this setting refers to “value-in-use”, i.e. value is derived from the experience of the particular actors in interaction since things have value only insofar as they serve needs (Vargo and Lusch 2004a; Ballantyne and Varey 2006). The recent re-emergence of the value-in-use

concept places an emphasis on interaction with customers in the value creation process as a central activity of marketing (Vargo and Lusch 2004a; Ballantyne and Varey 2006).

In addition to that, the advance of information and communication technologies (ICT) and the Internet have provided consumers with more power than ever. Today's consumers are smarter shoppers, far harder to reach and can avoid pushy marketers by taking control of their own purchase decisions (Urban 2004). ICT and the Internet help consumers to find quickly a broad range of independent information about the company and to communicate with other consumers, sharing information about suppliers and their value propositions (Lindberg-Repo and Grönroos 2004; Urban 2005; Pires et al. 2006). By influencing the way people communicate and increasing the speed of the communication, technology helps consumers learn about different products and thus changes product demand (Leek et al. 2003), requiring more innovative customised solutions.

In these settings, how marketers interact with consumers is likely to become a determinant of the effectiveness of the marketing function (Ramani and Kumar 2008). In a dynamic environment with high levels of competition customers turn out to be a source of competence for the company (Ramirez 1999) and the willingness and ability to interact and co-create value with customers becomes a source of competitive advantage (Prahalad and Ramaswamy 2004). Through interactiveness, the continuous exchange of information between company and customers brings ways to extensive learning, which in turn enhances the innovative capability of the firms (Lundvall 1993; Wikström 1996). Dialogue and interactions assure continuous knowledge renewal between the firm, customers and other stakeholders, and knowledge (renewal) is viewed as the fundamental source of sustainable competitive advantage (Ballantyne and Varey 2006).

The co-creation of value and the interaction as the locus of value creation challenge the traditional view on the roles of the firm and the consumer. The firm and the consumer no longer have their separate, predetermined roles, but rather converge as the value co-creation process evolves. Scholars have suggested that this view poses difficulties to traditional management since it requires completely different managerial competences and abilities and a change in the managerial mindset (Gibbert et al. 2002), but it also promises new possibilities, such as efficiency gains and speeding up the innovation capabilities of the firm (Prahalad and Ramaswamy 2004). The interaction approach resonates with the "customer advocacy" idea put forth by Urban (2005).

Advocacy is suggested as a mutual dialogue and partnership which assumes that if the company advocates for its customers, the customers will reciprocate with trust, loyalty, purchase and word of mouth. Thus, committing to interaction and dialogue, and working in customers' best interest is expected to bring ultimately profits to companies that work as partners with customers and mutually help each other achieve their goals (Urban 2005).

#### **1.4. Literature Gap, Purpose and Research Questions**

The idea of close interaction and co-creation of products/services with customers is not new in B2B marketing (see e.g. Ford and Hakansson (2006a,b), Hakansson and Snehota (2006) for recent reviews on the topic); however, recent advancements in the marketing field bring the concept to mainstream B2C marketing also. Marketing theory is likely experiencing a paradigm shift. The "conventional" dominant logic of marketing was based on economics, had focus on exchange of goods and on tangible resources and outputs. However, as Vargo and Lusch (2004a) claim, the focus is shifting now away from tangibles and toward intangible resources, the co-creation of value, and relationships. The service-dominant logic presented by Vargo and Lusch (2004a), implies a centrality of interaction in marketing theory (Ballantyne and Varey 2006). According to Ballantyne (2004) marketing exchange is an open-ended process in which interactions with customers occur across time and place. Thus, through interaction customers build their own consumption experiences co-creating unique value for themselves (Prahalad and Ramaswamy 2003). Moreover, the service-dominant logic of marketing implies that service is a social interaction whose purpose is to improve the quality of life of a person (Ballantyne and Varey 2006). Therefore, the interaction capability of the firm becomes a central intangible resource of marketing.

While conceptual works supporting this view are gaining prominence in the literature, two issues are particularly important for the advancement of the knowledge on the topic. First, interactive marketing has been defined in different ways in the literature, some definitions being focused exclusively on the technical aspects (e.g., use of interactive media as a marketing tool), while others take a more strategic approach and see interactive marketing as a way of doing business focused on reciprocity and dialogue (e.g., Coviello et al. 1997; Grönroos 2006). It is therefore necessary to review the roots and developments of the interaction approach and to try to reconcile diverse

views with the aim of taking advantage of different streams in marketing to the benefit of the field. Second, empirical research on the topic in mainstream (B2C) marketing is still in its early stage (e.g., Ramani and Kumar 2008). Newly developed ideas and concepts need to be tested if they are to become part of the body of marketing knowledge.

Thus, the purpose of the current investigation is twofold. On the one hand, we aim to explore conceptually the meaning of interactiveness on the basis of different streams of marketing literature, proposing a unifying concept. On the other hand, we will undertake an empirical investigation (with an initial qualitative phase and a consequent quantitative phase) in order to understand the role of interactiveness in marketing strategy and practice and assess its effect on company performance. In doing so, we seek to answer three groups of research questions:

1. What is interactiveness? How can it be conceptualised?
2. How do companies perceive interactiveness? To what extent do companies embrace the idea of interactive dialogue with consumers? Do firms consider interactiveness as important capability leading to competitive advantage?
3. Can interactiveness help to improve firm performance? What is the effect of adopting greater interactiveness on the generation of marketing-related performance, such as customer satisfaction, loyalty and brand value?

The first set of research questions addresses the notion of interactiveness from a theoretical and conceptual point of view. The second set of questions focuses on a qualitative exploration of the role of interactiveness in companies looking at managerial perceptions. Finally, the third set of questions assesses quantitatively the effect of interactiveness on different performance variables.

### ***1.5. Why Is this Topic Important to Marketing Practice?***

Marketers across diverse business sectors are recognising that traditional approaches to marketing (e.g., push/pull marketing) are no more as effective as they used to be. Customers are nowadays not only more difficult to reach, but also resentful of marketing practices (Sheth and Sisodia 2005). Customers are also increasingly demanding, requiring personalised service. A Harris Interactive poll found that 95% of people believe it is at least somewhat important that companies know “who I am, my buying history, past problems or complaints, preferences and billing record” (Bulik 2008). Forrester Research analyst Bruce Temkin states that “Today there are many more

opportunities for the customer to interact with your brand - and there are many more opportunities for people to discuss the interaction they had” (Bush 2008). This makes necessary that companies approach customer interactions as a central activity of marketing.

In a search for a solution to reach consumers’ minds and hearts, marketers have started increasingly to implement diverse technology-supported solutions, such as Customer Relationship Management (CRM) systems that have the potential to help companies to personalise products, services and interactions and thus contribute to customer satisfaction and brand image. However, while the ideal is for a positive customer relationship, oftentimes CRM programmes are just a technology solution, that is used even for more invasive marketing (Urban 2005). It is not wonder then that many CRM programmes have failed (Freeland 2003). A strategic understanding of interactiveness is needed before tactical implementation.

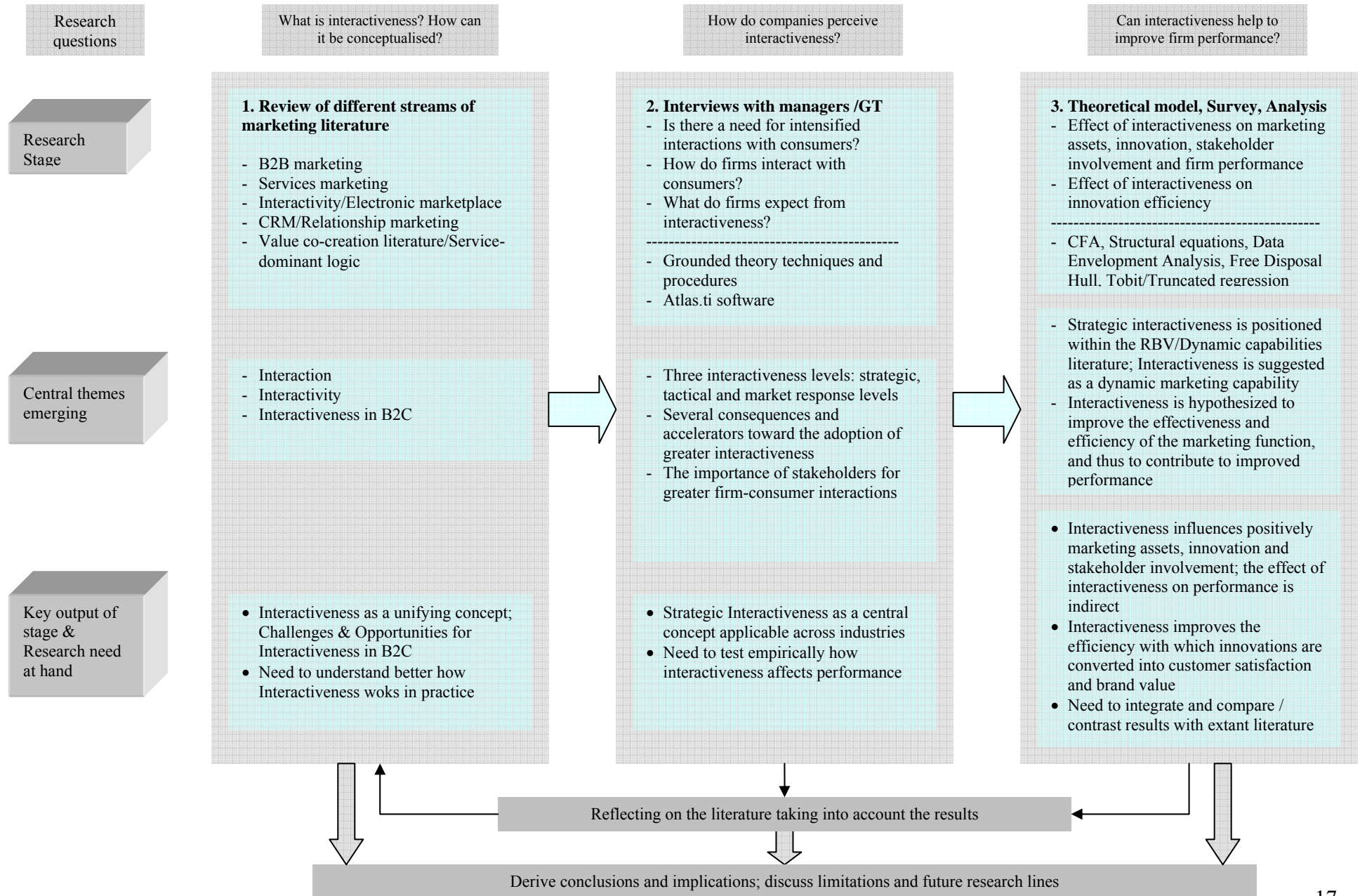
In 2006 member companies of the MSI ranked among the top marketing issues “connecting customers with the company” and the research priorities of MSI for 2006-2008 reflected this preoccupation (MSI 2006). The current MSI research priorities for the period 2008-2010 show a continuing concern on the topic, ranking among the top issues “Understanding Consumer/Customer Behaviour” and “New Approaches to Generating Customer Insights”. In a rapidly changing world companies are looking for ways to understand consumers and to develop relationships with customers that would permit them to retain the customers in a long run. Many companies already recognise that interaction is a key factor in this process and ask for insights that can help them to re-connect with customers and to improve company performance.

### ***1.6. Research Approach and Brief Description of the Chapters***

In an attempt to respond to the aforementioned concerns of marketers and in view of the voids in the current state of the literature, this research suggests a conceptually grounded model of interactiveness and its role for enhancing firms’ performance. The research approach consisted of several interrelated stages (see Figure 1). Addressing the first set of research questions (what is interactiveness and how can it be conceptualised?) chapter 2 reviews the roots and the drivers behind the use of the terms interaction and interactivity, which have seen growing popularity in marketing. Interactiveness is suggested as a unifying concept that refers to continuous interaction and dialogue between marketers and consumers in both online and offline marketplace.



**Figure 1: Research Approach**



The aim of the chapter is to suggest interactiveness as a broader construct incorporating the interaction and interactivity concepts and to draw attention to its relevance and applicability in B2C marketing. In so doing, we review related definitions and discuss key drivers of the increasing adoption of the terms interaction and interactivity in the marketing literature, and the growing importance of interactiveness in B2C marketing. We draw on different streams of marketing research (Services marketing, B2B marketing, Relationship marketing, Service-dominant logic in marketing) to suggest conceptual lenses that can help deepen our understanding of the role of interactiveness in contemporary marketing.

Chapter 3 seeks to respond to the second set of research questions (how do companies perceive interactiveness?). The review of the literature revealed that while interactiveness is likely to bring competitive advantages to firms committed to continuous dialogue with consumers, it will also require organisational changes and will pose managerial challenges. Thus, in chapter 3, we focus on a qualitative research approach based on interviews with managers in order to provide understanding on how firms perceive interactiveness, what tools they use to bring consumers closer to the firm, what are the business conditions in which the interactions take place and what consequences are aspired to. We used the techniques and procedures of Grounded Theory (GT) in the process of gathering and analysing data (Glaser and Strauss 1967; Strauss 1987; Corbin and Strauss 1990, 2008). GT is a qualitative research method that focuses on creating conceptual frameworks or theories based on the data, through inductive analysis (Charmaz 2006). A major strength of GT is that it provides a rigorous step-by-step approach that forces the researcher to look beyond the superficial, to apply every possible interpretation before developing the final concepts, as well as to demonstrate these concepts through explication and data supported evidence (Goulding 2005).

One of the major findings from the GT study was that interactiveness can be seen at three different but interrelated levels: strategic, tactical and market response levels. While the tactical and the market response levels showed great variety across industries, the strategic interactiveness level appeared to be equally applicable independently of the type of industry.

Thus, addressing the third set of research questions, in chapter 4 the focus is on strategic interactiveness and its possible effect for enhancing firm performance. Here we position the concept of interactiveness within the Resource-Based View (RBV)

literature and we suggest interactiveness as a dynamic marketing capability. RBV suggests that valuable and rare resources and capabilities permit firms to achieve higher effectiveness and efficiency (Barney 1991). Addressing the *effectiveness* dimension, we hypothesise that interactiveness will improve the generation of marketing assets (such as customer and brand-related assets), which in turn will enhance performance. Innovation and stakeholder involvement are suggested as additional paths to increase marketing assets. Since many authors have pointed out that consumer interactions have the potential to increase innovation (e.g., von Hippel 1978, 1988; Kristensson et al. 2004; Hsieh and Chen 2005), in addressing the *efficiency* dimension our focus is on the efficiency with which innovations are converted into higher customer satisfaction and perceived brand value. We hypothesise that interactiveness would help improve the innovation efficiency, which would consequently effect positively profitability.

In this stage of the research we focused on quantitative research techniques. Based on the analysis of the interviews and a review of the relevant literature, a questionnaire was designed. An online survey was sent to members of the Association of Marketing Professionals in Barcelona. With the data received we ran several different analyses, employing Confirmatory Factor Analysis (CFA), Structural Equation Modelling (SEM), Data Envelopment Analysis (DEA), Free Disposal Hull (FDH) analysis, Tobit and Truncated regressions. The results revealed that interactiveness influences positively customer and brand assets, as well as stakeholder involvement and innovation. This way, interactiveness helps achieve competitive advantage, which is translated consequently into improved performance. In addition, interactiveness helps improve the efficiency with which innovations are converted into higher customer satisfaction and perceived brand value, thus influencing indirectly profitability.

Finally, chapter 5 presents conclusions and implications from the research. The chapter outlines the main contributions of the research and draws future research lines. Suggestions for further theoretical linkages and empirical extensions are delineated.

## **Chapter 2**

### **INTERACTIVENESS IN MARKETING:**

#### **REVIEWING THE ROOTS OF THE INTERACTION APPROACH IN MARKETING AND THE PATH AHEAD**

The concept of interaction has been developed as a key construct in services marketing and in the network approach to industrial marketing over 30 years ago, and consequently has been taken over by relationship marketing (Grönroos 2004). A service encounter, for instance, has been defined as a “face-to-face interaction between a buyer and a seller in a service setting”, with a focus on the interdependence of both individuals in order for the interaction to run smoothly (Solomon et al. 1985). The importance of the customer’s participatory role has long been recognised in services marketing. Similarly, within the industrial marketing literature, interaction assumes that outcomes in business are the result of actions or proposals and responses between counterparts and therefore, interaction means that no action by an individual is either isolated or independent (Ford and Hakansson 2006a). In the same vein, relationship marketing has been defined as marketing based on interaction within networks of relationships (Gummesson 2004).

With the advance of information technology and its wider use in marketing, another research stream has sprung where the concept of interactivity has gained a central role. Internet has become an important marketing tool since the web offers unique advantages over other media in terms of targeting and direct marketing (Briggs and Hollis 1997). Interactivity is considered one of the main reasons that make Internet a substantial marketing and advertising vehicle (Roberts and Ko 2001). Although different definitions of interactivity have been provided in the literature (e.g., Steuer 1992), there is a common view that in an interactive environment the marketing communication is changed from one-way to two-way process (Stewart and Pavlou 2002), where on the one hand, marketers have the advantage to identify customers, differentiate them, and customise purchasing and post-purchase service (Robert and Ko 2001), and on the other hand, consumers have more influence on the process by selecting advertising, and choosing whether, when and how to interact (Pavlou and Stewart 2000).

While the evolution of the concepts of *interaction* and *interactivity* has been largely independent from one another, the underlying logic of both is the focus on bidirectional relationship and a dialogue between customers and firms. In line with the services marketing and industrial marketing tradition, Steward and Pavlou (2002) within the interactive media stream suggest a focus on continuous interaction among actors where consumers and marketers are interdependent and influence each others' development and evolution, in contrast to the traditional perspective in marketing communication of focusing on one or the other side of the consumer-marketer interaction.

The aim of this chapter is to track the development and the use of the term interactiveness in marketing. In this chapter interactiveness is used as involving both interaction and interactivity, i.e. it is a unifying concept that refers to continuous interaction between marketers and consumers in both online and offline marketplace. In so doing, we review related definitions and discuss the key drivers of the increasing adoption of the terms interaction and interactivity in the marketing literature. We draw on different streams of marketing research to suggest theoretical lenses that can help us deepen our understanding of the role of interactiveness in contemporary marketing.

## ***2.1. Marketing and the Value Concept***

To begin with, let us briefly take a look at selected definitions of marketing. The idea of what is marketing about has travelled long way from “Marketing is the performance of business activities that direct the flow of goods and services from producers to consumers” (AMA 1948), going through the 4Ps – “Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives” (AMA 1985), to the nowadays increasingly agreed upon idea that marketing is fundamentally about **creating value**. Thus, the most recent definition of the American Marketing Association states that:

*Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (AMA 2007).*

An alternative definition, proposed by Grönroos (2006), and rooted in the services marketing and the industrial marketing literature, reads:

*Marketing is a customer focus that permeates organizational functions and processes and is geared towards making promises through value proposition, enabling the fulfilment of individual expectations created by such promises and fulfilling such expectations through support to customers' value-generating processes, thereby supporting value creation in the firm's as well as its customers' and other stakeholders' processes.*

While there are important conceptual differences between the two definitions, which we will not discuss here, the single underlying logic for marketing, according to both definitions, is value creation. This is in line with other developments in marketing, affirming that the role of marketing is to assist the firm to create value for its customers that is superior to competition (e.g., Tzokas and Saren 1999; Lindgreen and Wynstra 2005). Value has been positioned in the last decade as a critical marketing variable (Grönroos 2006). Notwithstanding its importance, there is no consensus on how to define value and consequently how to measure it. For the sake of example (and not exhaustiveness) table 1 presents some definitions revealing how the notion of value has changed in the last decade. The value concept has shifted from being viewed as merely a trade-off between benefits and sacrifices towards being a process of *interaction* in which consumer and firm collaborate to jointly create value. If marketing is about creating value, and value is about interaction, then the ability of the firm to interact with its customers assumes a central role. However, as mentioned, the term value has had multiple uses in marketing; it is, therefore, important to clarify the different streams of value research and to position our ideas on the value map.

Lindgreen and Wynstra (2005) identify two value research streams in industrial marketing, called “value of goods and services” and “value of buyer-seller relationships” respectively. Within the first stream of research value is defined as having multiple components, where perceived benefits (e.g., a combination of physical attributes, service attributes, and technical support) are balanced against perceived sacrifices (e.g., price) (see for example the definition of Grönroos 1997 in table 1). Importantly, value is a function of the individual perceptions since it is perceived subjectively by the customers, and it is relative to competition as customers compare different offers and the expected benefits from them (Ulaga and Chacour 2001).

Value as stemming from the buyer-seller relationship has been the focus in the Industrial Marketing and Purchasing (IMP) Group research and the relationship marketing literature. This view on value acknowledges that the relationship itself can have a major influence on how value is perceived (Ravald and Grönroos 1996). Value is

created over time as buyers and suppliers interact to develop a long-term relationship. Thus, the notion of return on relationship emerges. Gummesson (2004) defines it as: *Return on relationships (ROR) is the long-term net financial outcome caused by the establishment and maintenance of an organization's network of relationships (and in narrow sense the establishment and maintenance of individual customer relationships).* Among the most important prerequisites for building successful relationships are trust and commitment (Morgan and Hunt 1994). The long-term orientation and the trust between partners mean that the relationship itself has value beyond the value of the products and services exchanged. Related to this stream of research is the customer relationship management (CRM) concept, which has been enjoying exponentially growing attention in both academia and practice in the last decade.

**Table 1: Value definitions**

Total episode value = Episode benefits + Relationship benefits / Episode sacrifice + Relationship sacrifice	Ravald and Grönroos (1996)
Value is a function of what a customer gets, the solution provided by an offering, and the sacrifice of the customer to get this solution.	Grönroos (1997)
Value creation is synchronic and <i>interactive</i> , value is co-produced with customers, and customers are managed as factors of production (assets).	Ramirez (1999)
Customer-perceived value in industrial markets is the trade-off between the multiple benefits and sacrifices of a supplier's offering, as perceived by key decision makers in the customer's organisation, and taking into consideration the available alternative suppliers' offerings in a specific-use situation	Ulaga and Chacour (2001)
Value will increasingly have to be co-created with consumers. Consumer-company <i>interaction</i> is the locus of value creation.	Prahalad and Ramaswamy (2000, 2003, 2004)
Consumer value is an: <i>interactive</i> , relativistic, preference experience. Experiential value results from consumers' <i>interaction</i> with the object (product, service, event).	Ponsonby and Boyle (2004)
Value can be seen as the sum of the communication processes and outcomes the consumer integrates with his or her brand relationship. Through this process, the role of the consumer is established in value generation through his or her <i>interactive</i> participation.	Lindberg-Repo and Grönroos (2004)
Value is not delivered by a firm to customers but created in customer processes through support to those processes and through co-creation in <i>interactions</i> with customers.	Grönroos (2006)
Value-in-use: the enactment of the value propositions that buyers and sellers express... Value is derived from the service experience of the particular actors in <i>interaction</i> .	Ballantyne and Varey (2006)

The focus on CRM has given rise to the notion of customer lifetime value (CLV) which is defined as the present value of all future profits generated from a customer (e.g., Gupta and Lehmann 2003). This view is consistent with another line of research that tackles the economic value of customers under the premises that existing customers represent a valuable asset to the firm. It should be noted, however, that the economic value of customers is an output and not an input for the value creation process

and therefore, customers become valuable assets to the firm only if the firm has something of value to offer to them (Lindgreen and Wynstra 2005: 736).

A somewhat different view of relationship value has developed recently, as marketers recognise the increasing importance of customers in the value creation process (see table 1). While the focus is still on relationship value, it is not the value of the relationship per se, but the value created through (in) the relationship that is the key concern in this literature. Scholars in management and marketing have started to underline that value is co-created with customers in an interactive process (Ramirez 1999; Prahalad and Ramaswamy 2000, 2003, 2004), in which firms can offer value propositions (Normann and Ramirez 1993), but it is ultimately the customer in the process of experiencing the value offerings that determines the value (Ponsonby and Boyle 2004; Grönroos 2006). According to this view, the consumer is not a passive recipient (or value destroyer), but on the contrary is an active co-producer, because value cannot happen “until an offering is used for something and experienced as satisfying a need for somebody” (Gummesson 2002: 587).

To further clarify the idea that value is created through interactions between firms and consumers, consider the difference between value-in-exchange and value-in-use. The value-in-exchange concept has been inherited from the classical economic theory, developed during the industrialisation. Value in this setting was perceived as the value embedded in the manufactured goods and therefore, value was created by producers in the manufacturing process (Vargo and Lusch 2004a). Consumers could only use (and thus destroy) the value of the goods. The focus was on the utility of the product, its physical attributes and the trade-off between what consumers get and what they pay, and there was no possibility for the consumption, and therefore the consumer, to create value (Ponsonby and Boyle 2004).

In contrast, the value-in-use concept postulates that value is derived from the experience of the particular actors in interaction since things have value only insofar as they serve needs (Vargo and Lusch 2004a; Ballantyne and Varey 2006). As Gummesson (1998: 247) states it, “if the consumer is the focal point of marketing, value creation is only possible when a good or service is consumed. An unsold good has no value, and a service provider without customers cannot produce anything”. According to this view, value is co-created with the consumer. In the services marketing literature the idea that the consumer is a co-producer has long been recognised since a service cannot be delivered without the participation of the consumer. The recent re-emergence



of the value-in-use concept, however, widens this view placing an emphasis on interaction with customers in the value creation process as a central activity of marketing (Ballantyne and Varey 2006). Since the focus here is on the experiential aspect of value and the notion that consumers gain significant value in the consumption experience through interactions with the object, which can be a product, service, or event (Holbrook 1994; Ponsonby and Boyle 2004), a focal point in marketing should be the creation of experience environment where consumers can co-create personalised experiences through active dialogue and interaction with the firm's offerings (Normann and Ramirez 1993; Prahalad and Ramaswamy 2004).

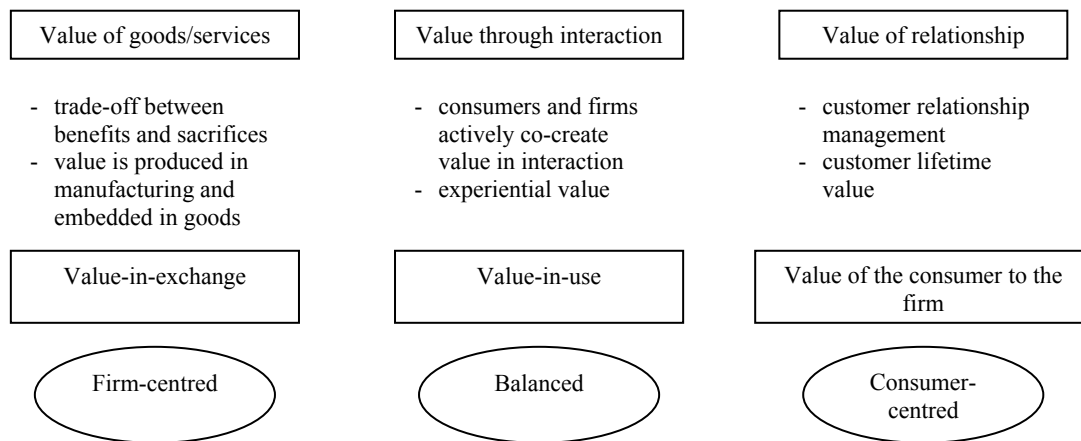
Figure 2 presents a value map with a typology of the different uses of value in marketing. The first type of value concept refers to the value of the goods as expressed in the value-in-exchange notion, and it is firm-centred. On the other extreme is the consumer-centred view with a focus on CRM and the value that a relationship with customers has for the firm. Finally, the balanced approach to value refers to the value created jointly in the process of interaction between the firm and the consumers. This approach assumes explicitly that consumers are active co-creators of value because it is the experience of the consumer with the product offering that grants the setting for value creation (Vargo and Lusch 2004a). On the other hand, it is important to recognise that both the consumer and the firm can be active in this process, since "interactions make customers' co-creation of value possible and at the same time they enable active marketing efforts directly during the consumption process" (Grönroos 2006). Interaction implies that there are at least two actors, who jointly determine by their decisions the pattern of the interaction and the outcome of it (Steward and Pavlou 2002). Therefore, an appropriate approach to value in marketing would be the "balanced centrality" put forth by Gummesson (2002), according to which customer-centricity and production-centricity need one another. As further argued by Gummesson (2008: 16):

*"By separating suppliers and customers we deprive them of context and interdependency; co-creation of service is a necessity. We therefore have to move away from one-party centrality—either supplier-centric or customer-centric—to two-party centrality which simultaneously zooms in on both suppliers and customers."*

Summing up, the importance of interaction for value creation has gained increasing attention in the marketing literature recently. Scholars recognise that both firms and consumers can play an active role in the process of value creation. In these settings, how marketers interact with consumers is likely to become a determinant of the

effectiveness of the marketing function. In the next section we trace the evolution of the interactiveness approach in marketing and highlight its role for sustaining competitive advantage.

**Figure 2: The value map**



## **2.2. Interactive Marketing: Looking for a Common Ground**

How is interactiveness perceived in marketing? We can identify two distinct streams that suggest two different ideas about what is interactive marketing. Table 2 presents a summary of selected definitions for the purpose of comparison. The first stream of research originates in the network approach to industrial marketing and the services marketing literature. Interactive marketing, according to this stream, refers to the moment when a buyer and a seller interact, usually face-to-face and/or as a part of continuous relationship. The second stream is based on the use of interactive media, e.g., Internet, in marketing and the definitions of interactive marketing within this stream involves the use of interactive technologies in the communication between firms and consumers. Are the two approaches completely different or there can be found a common underlying logic between them? We turn now to a discussion of each of these streams.

**Table 2: Interactive marketing defined from two different standpoints**

The approach of the industrial marketing and the services marketing literature	The approach of interactive technologies/ electronic marketplace literature
<p>Interactive marketing is what takes place during the interactions when the simultaneous production and consumption occur. (Grönroos 1982)</p> <p>The marketing and purchasing of industrial goods is seen as an interaction process between two parties within a certain environment. (Hakansson 1982)</p> <p>[Marketing is]...<i>interactive</i>, i.e. bilateral and multilateral supplier-customer activities to produce and deliver goods and services, primarily in a person-to-person communication (Gummesson 1987)</p> <p>Interaction Marketing implies face - to- face interaction within relationships. Interaction Marketing is truly “with” the customer, as the individual and firm invests resources to develop a mutually beneficial and personal, interactive relationship. (Coviello et al. 1997)</p> <p>Marketing is interaction in networks of commercial relationships. (Gummesson 2003)</p> <p>Interactions make customers’ co-creation of value possible and at the same time they enable active marketing efforts directly during the consumption process. (Grönroos 2006)</p>	<p>Fully interactive strategies are those involving mass customization, virtual stores, customer and channel linking through technology, and IT-facilitated collaborative learning. (Day 1998)</p> <p>e-Marketing essentially involves using the Internet and other interactive technologies to create and mediate dialogue between the firm and identified customers. (Coviello et al. 2001)</p> <p>Interactive Marketing [includes] Internet advertising and sponsorship, marketing Web sites and extranets, e-mail marketing, online promotions and incentives, and new media (wireless, iDTV). (Barwise and Farley 2005)</p> <p>Interactivity in the electronic marketplace is the degree to which computer mediated communication is perceived by each of the communicating entities to be (a) bidirectional, (b) timely, (c) mutually controllable, and (d) responsive. (Yadav and Varadarajan 2005)</p>

### 2.2.1. Interaction in B2B and Services Marketing

Over two decades ago the IMP Group brought the attention of marketing scholars to the interaction process between buyer and seller in the industrial marketing, challenging the traditional marketing logic (Hakansson 1982). In particular, as Ford and Hakansson (2006a) state, the IMP project “*challenged the idea that marketing consisted of independent action by a supplier in constructing its marketing mix and projecting it at a passive market. Instead we observed interaction between active suppliers and customers, both of which could be involved in determining, developing and implementing the transactions between them.*” The IMP Group postulates that both buyer and seller are active participants in the market and the relationship between them is often long term, and involving a complex pattern of interaction between and within each company (Hakansson 1982). The process of industrial marketing and purchasing is specified as having four elements: 1. the interaction process; 2. the participants in the interaction process; 3. the environment within which interaction takes place; 4. the

atmosphere affecting and affected by the interaction (p. 23). Importantly, this approach emphasises that interaction implies that the actions of both buying and selling companies will affect each other, and therefore the actions of one party will produce changes in the actions or behaviour of the other party (p. 314). Thus, the interaction approach to industrial marketing situates the interactive relationship between companies at the centre of their marketing or purchasing activities.

Ford and Hakansson (2006b) identify five crucial issues in studying interaction in business markets:

*Time.* The time dimension is important because history matters in interaction and because time defines the nature of interaction as a process, i.e. as sequential events related to each other. It is difficult to delimit interaction in time since the interactions that take place between two actors are the outcome of previous interactions, the anticipation of future interactions, as well as current interactions with third parties. Importantly, the interaction between two actors evolves over time through learning and experience.

*Interdependences between actors.* A crucial consequence of the interaction over time is the development of interdependences between the actors. At the heart of these interdependences are the resources. This is so because although actor's own resources (physical, financial, human and technological) form the basis of its operations, it is the interactions that provide access to and activate the actor's resources. Therefore, through interactions resources are transformed into capabilities that have value to others. Furthermore, through interactions existing resources of other actors can be activated and used as complements to actor's own resources. Thus, interactions provide the basis for the actors' resources to "co-evolve".

*Relativity.* An interaction cannot be described in isolation, but only in the related context. This means that an interaction is always relative: a firm will make use of its resources differently for different customers; interdependences between parties will develop differently; and the value of actor's resources will be different depending on the relationship for which they are employed.

*Jointness.* When companies interact with each other, the interaction will influence their individual development. The interdependences that are developed over time through interaction will provide the basis for joint (collective) actions of the two actors toward third parties. Also, the interactions of two actors together will be affected by the interactions of each of them with third parties.

*Subjective interpretation.* Subjectivity is an important dimension because each actor in the interaction will interpret the meaning of their own interactions and those of the others subjectively. Therefore, there will always be variations between the interpretations of the different actors. Subjective interpretations are a consequence of each actor's previous experiences and interactions.

According to Ford and Hakansson (2006a), the idea that transactions are episodes in continuous relationships<sup>1</sup> between suppliers and buyers has had much wider acceptance in marketing literature than the idea of the importance of interaction. The reasons behind this are, the authors suggest, that relationships are easy to observe and to document while interaction is much more difficult to demonstrate, to analyse, to conceptualise, and to translate into a management technique, and it is also much more challenging for the established theory. Interaction, however, has assumed a central role in the services marketing literature, which has been developed as a separate stream within the marketing.

Research in services marketing has identified four characteristics of services: intangibility, heterogeneity, inseparability of production and consumption and perishability (Zeithaml et al. 1985). Importantly, inseparability implies simultaneous production and consumption of the service, which means that marketing and production of services is highly interactive (Grönroos 1978). In services marketing it has long been recognised that the customer is a co-producer (Normann 1991) since “if the customer does not co-operate – the patient not taking the prescribed medication, the product manager not briefing the agency properly, the air passenger not appearing at the gate on time - the service cannot be produced” (Gummesson 1987: 14). Therefore, a service is partially produced in an interactive relationship between the firm and the consumer.

Solomon et al. (1985) define the service encounter as a “face-to-face interactions between a buyer and a seller in a service setting”. Solomon and colleagues further explain that it is crucial to understand the consumer's participatory role since the service experience is manufactured by both the firm and the consumer. In parallel to the industrial marketing literature (Ford and Hakansson 2006b), Solomon et al. place an emphasis on the interdependence of both parties in the interaction process.

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<sup>1</sup> Transactions are not treated as relationships. Rather, the idea is that instead of looking at transactions, we should look at the continuous relationship between buyer and seller, with numerous transactions taking place within the relationship. Thus, individual purchases/sales are not seen as transactions, but as part of the relationship between buyer and seller.

In a similar vein, Grönroos (1990: 27) suggests the following definition of service: *“A service is an activity or series of activities of more or less intangible nature that normally...take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.”* Grönroos (1990) identifies four categories of interaction with the service organisation:

- Interactive communication between employees and customers;
- Interactions with a range of physical and technical resources of the firm (vending machines, documents, waiting room facilities, tools and equipment, etc.);
- Interactions with systems, e.g., waiting systems, seating systems, billing systems, systems for deliveries, etc.;
- Interactions with other customers simultaneously involved in the process.

In each of these service interactions, there is the opportunity for marketing the service by the creation of favourable “moments of truth”, that is the moment of the interaction between the company and the customer (Normann 1991). These moments of truth can occur between the customer and different resources of the firm; e.g., a piece of machinery is delivered to a buyer, a restaurant guest is being served by a waiter, or a person operates an automatic teller machine (Grönroos 1990: 14). What happens in the interaction will encourage (or not) the customer to return and give referrals to friends (Gummesson 1987). Accordingly, Grönroos (1982, 2006) delineates interactive marketing as “what takes place during the interactions when the simultaneous production and consumption occur”.

### **2.2.2. Interactivity in the Electronic Marketplace**

A multidisciplinary research has generated numerous definitions of interactivity (for a review see e.g., Yadav and Varadarajan 2005). In marketing, the term has usually been used in relation to the use of IT, and frequently Internet, as a marketing and advertising tool. Internet advertising attracts attention because of the shift in advertising strategy in favour of deriving maximum response from selected target groups instead of maximum exposure to many unknown audience groups (Yoon and Kim 2001: 53). Researchers underline Internet’s capability of addressing individual customers (Deighton 1997), thus its unique advantages over other media in terms of targeting and direct marketing

(Briggs and Hollis 1997), and the fact that it allows customers to seek unique solutions to their needs (Sheth et al. 2000). Importantly, Internet is an interactive environment in which marketing communication is changed from a one-way to a two-way process (Stewart and Pavlou 2002). Thus interactivity provides marketers with the advantage of identifying customers, differentiating them, and customising purchasing and post-purchase service (Robert and Ko 2001), and on the other hand, provides consumers with more influence on the process by selecting advertising, and choosing whether, when and how to interact (Pavlou and Stewart 2000).

Column 2 of table 2 presents some definitions indicative of the approach of the electronic marketplace literature to interactive marketing. Within this stream of research interactive marketing and interactivity are defined with reference to the information technology and its use in marketing. Thus, Barwise and Farley (2005) define interactive marketing as including Internet advertising and sponsorship, marketing web sites and extranets, e-mail marketing, online promotions and incentives, and new media. Besides the focus on IT, this definition is geared toward a firm-centred view of interactivity.

On the other hand, Coviello et al. (2001) and Yadav and Varadarajan (2005), while maintaining the view that interactive marketing is placed in an IT-based setting, take a different approach, more similar to the one of the B2B and services marketing literature discussed above. Coviello et al. (2001) use the term e-Marketing to delineate the use of the Internet and other interactive technologies in the process of dialogue between the firm and identified customers. Yadav and Varadarajan (2005) go further suggesting that interactivity should be defined as the degree to which computer mediated communication is perceived by each of the parties involved to be bidirectional, timely, mutually controllable, and responsive. These definitions recognise the need for a dialogue and take a more balanced approach where both the firm and the consumer exercise an influence on the process of exchange at the marketplace.

Day (1998) conceptualises interactive strategies as those involving mass customisation, virtual stores, customer and channel linking through technology, and IT-facilitated collaborative learning, with an emphasis on dialogue and collaboration with customers. Haeckel (1998) also ascertains that collaboration will probably become a very important form of interactivity and suggests the notion of collaborative marketing, i.e., *a recasting of business as a game with customers, rather than as a game against competitors* (p. 69), a process in which the technology has a major role because of its potential for providing a basis for collaboration at a large scale. In a similar vein,

Stewart and Pavlou (2002) claim that technological innovations have changed the way in which people interact in important ways, and that interactive media, with its inherent feature of enabling two-way communication, places interaction of the marketer and consumer at the core of the marketing communication process. This is so because the effectiveness of the interactive communication “hinges not only on how the marketer’s message influences the consumer but also on how the consumer shapes the interaction” (Stewart and Pavlou 2002: 380).

Scholars active in electronic marketplace and interactive communication research have pointed out the importance of dialogue, collaboration and two-way flow of information in the process of using IT in marketing. Many of the definitions of interactivity and interactive marketing found within this stream of research stress that information technology enables more interaction between company and consumers, but that interaction has a broader meaning. It is evidenced from the discussion of definitions above that there is a common basis on which interactive marketing, as defined in B2B and services marketing, on the one hand, and in the electronic marketplace literature, on the other hand, can be looked upon and examined. There is no doubt that technology has changed and augmented the ways available for firms and consumers to interact. But it is ultimately how the actors in the interaction make use of the possibilities of the technology that will determine the extent of the interaction within the boundaries of the technology. As Ford and Hakansson (2006b: 9) state:

*“All interaction is concerned with the physical world. The economic effects of interaction appear in the physical world and the outcomes of interaction are within the constraints of that physical world. Interaction can be seen as the interplay between different actors, but also as the interplay between the abstract ideas of those actors and the physical constraints that surround them. In this way, interaction provides the link between technology and economy.”*

What is the implication of our discussion for the role of interactiveness in contemporary marketing? More than half a century ago McKitterick (1957) defined the principal task of marketing as “not so much to be skilful in making the customer do what suits the interests of the business as to be skilful in conceiving and then making the business do what suits the interest of the customer”. Marketers are now looking again at this approach by emphasis on value co-created with customer, increasing dialogue and customer collaboration and use of interactive media for more effective marketing communication. While technology has a crucial role to play in this process, Nambisan and Baron (2007) argue that *the critical challenge in customer value co-*



*creation will not be in devising the technological infrastructure, but in creating and maintaining a rewarding “innovating experience environment” for the customer.* Interactiveness in this setting becomes a key to creating and continually renewing this experience environment.

Interactiveness becomes even more critical when we comprehend that in a rapidly changing business environment there is no “one size fits all” organisational template readily applied to all situations (Day 1998). Business landscapes are constantly changing and business recipes can quickly become outdated. Dramatically expanded technological frontier, increased customisation, and new technologies providing ways for satisfying individual needs without sacrificing economic efficiency are among the factors that make ready business recipes not appropriate in a changing business world (Gadde and Araujo 2007). Many markets today can be usefully characterised by the Heraclitus’ *“You cannot step into the same river twice, for fresh waters are ever flowing in upon you.”* Interactiveness capability then becomes a key competence that can guide firms in their navigation. Through a focus on continuous, open dialogue in an interactive setting, firms can come closer to customers and better understand and serve them. Industrial marketing and services marketing scholars have laid the ground for understanding the process of interaction, while researchers in the interactive communication stream have provided insights into the role and use of technology in this process. Recently, the interaction approach has started to gain prominence also in the “mainstream” B2C marketing. We discuss now the drivers behind this and outline important implications for marketing research and practice.

### **2.2.3. The Rise of Interactiveness in B2C Marketing**

We suggest that there are five main factors that drive the increasing attention to interactiveness in mainstream marketing research and in marketing practice in B2C markets. First, technological advancements have given greater possibilities to consumers to actively participate in different aspects of business processes, thus requiring more interactions with the firms. Second, relationship marketing and CRM practices are enjoying growing popularity among practitioners and researchers, opening the way to getting closer to individual consumers and knowing better their needs and expectations. Third, marketing scholars have increasingly recognised that the differences between B2B and B2C, as well as the distinction between services and

goods firms is getting less relevant (Vargo and Lush 2004b; Lovelock and Gummesson 2004), and that concepts developed in B2B and services marketing literature (e.g., interaction) can be usefully applied to B2C and goods marketing. Fourth, marketers have started to debate on a new logic for marketing (Vargo and Lush 2004a) that emphasises the co-creation of value in the process of interaction between consumers and firms. Fifth, this new logic is well aligned with developments in the strategy literature moving away from the value chain toward “value constellations” (Normann and Ramirez 1994) where value is created jointly by firms, consumers and other collaborators (Prahalad and Ramaswamy 2000). We turn now to a discussion of each of these driving forces.

### **2.2.3.1. The Advance of IT and Consumer Empowerment**

The advance of information technologies and the Internet have provided consumers with more power than ever. Today’s consumers are smarter shoppers, far harder to reach (e.g., by signing up for “no-call” protection against telemarketers) and can avoid pushy marketers by taking control on their own purchase decisions (Urban 2004). IT and the Internet help consumers to find quickly a broad range of independent information about the company and to communicate with other consumers sharing information about suppliers and their value propositions (Lindberg-Repo and Grönroos 2004; Urban 2005; Pires et al. 2006). By influencing the way people communicate and increasing the speed of the communication, technology helps consumers learn about different products and thus changes product demand (Leek et al. 2003), requiring more innovative customised solutions. Empowered customers can now directly influence companies’ policies and strategies (Wind and Rangaswamy 2001).

On the other hand, the information revolution has brought a tremendous increase in computing and data storage, thus helping firms to collect and analyse data at an individual consumer level, and consequently to interact at this level in an economically viable way (Rust and Chung 2006). In an environment where empowered consumers drive the exchange process, firms should change the focus from influencing people what, when and how much to buy towards better responding to consumer demands through consumer-firm interaction, in which technology and the Internet will be a key platform (Sheth et al. 2000).

Wind and Rangaswamy (2001) suggest “customerization”, a redesign of marketing from the customers’ perspective, as a marketing strategy responding to the greater consumer power in the information age. In customerization, consumers are active participants at every stage of the product development, purchase and consumption process. Customers are viewed as co-producers since customer interactions drive new product developments. The basis for competitive advantage therefore, is to engage the consumer as a partner through interactive, integrated, customised marketing communication. Wind and Rangaswamy suggest that the firm becomes an agent of the customer. This resonates with Urban’s (2004, 2005) notion of “customer advocacy”. The growth of customer power, according to Urban (2004), means that firms should establish a dialogue with customers and advocate for their needs. Customer advocacy refers to *“firm representing the customers’ interest by providing them complete and unbiased information, advice on which product is best for them (including fair comparisons with competitors), joint design of products, and a partnership that breeds long-term loyalty”* (Urban 2005: 155). Urban further argues that committing to customer advocacy would bring long-term profits for firms since it will increase customer trust and loyalty in the process of partnership between firm and customers for the mutual benefit of both.

Denegri-Knott et al. (2006) identify three models from which consumer power can be viewed. The first one, consumer sovereignty model, assumes that consumers are well-informed autonomous agents that can make free rational choice. The second one, the cultural power model, views consumers as resisting or struggling within the market, caught in political and cultural forces beyond their control. Finally, the discursive power model is suggested as reconciling the first two models through its view of consumers as co-creators of markets. Indeed, while the consumer sovereignty and the cultural power model are rife with “war” terminology suggesting that firms and consumers fight in the market using different strategies and tactics, the discursive power model assumes that consumer and market power are complementary and not antagonistic forces. Denegri-Knott et al. (2006: 965) suggest that *“instead of quantifying levels of power and pondering how the seduced are oppressed, marketing and consumer research should attempt to conceptualize consumer empowerment as generated via the iterative interplay between consumers and producers”*.

### **2.2.3.2. Relationship Marketing and CRM**

Relationship marketing has been defined as the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, where this is done by a mutual giving and fulfilment of promises (Grönroos 1989, 1997). Although initially developed in services marketing and industrial marketing, the concept of interaction has become a key issue of relationship marketing. According to Grönroos (2004: 103), “as the exchange of a product is the core of transaction marketing, the management of an interaction process is the core of relationship marketing”. Similarly, Gummesson (2004) defines relationship marketing as “marketing based on interaction within networks of relationships”. Value is also an important constituent of relationship marketing. One of the key premises here is that besides the core offering, the relationship itself provides additional value for both the supplier and the customer and may have a major influence on how value is perceived by customers (Ravald and Grönroos 1996). Value is created through interactive processes over the lifespan of the relationship. Interaction in this view is a “social process with economic outcomes, where value is created and shared collaboratively by agreement between the parties involved” (Ballantyne et al. 2003: 161). Relationship marketing goes beyond the firm-customer dyad (Gummesson 1996) and includes markets, society and internal organisation as networks of relationships, within which interaction takes place (Gummesson 2004). The increasing adoption of relationship marketing in B2C (O’Malley and Tynan 2000) means that interaction is gaining more prominence in marketing practice.

Stemming from relationship marketing, the concept of customer relationship management (CRM) has become a buzzword in the last decade. CRM programmes provide firms in consumer markets with the opportunity to establish personalised relationships with consumers in an economically viable way due to the rapid advance in information and communication technologies (Sun 2006). However, CRM should not be equated to CRM technology since this can lead to neglecting the human aspect and CRM failure (Gummesson 2004; Payne and Frow 2005). While CRM is the integration of marketing ideas and new technologies, the strategic aspect of CRM should be present and should drive the way technology is used. Boulding et al. (2005: 157) define it as:

*“CRM relates to strategy, the management of the dual creation of value, the intelligent use of data and technology, the acquisition of customer knowledge and the diffusion of this knowledge to the appropriate stakeholders, the development of appropriate (long-term) relationships with specific customers and/or customer groups, and the integration of processes across the many areas of the firm and across the network of firms that collaborate to generate customer value.”*

In a similar vein, Payne and Frow (2005: 168) suggest a definition that integrates strategic and technological aspects in the process of development of relationships with customers:

*“CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders. CRM provides enhanced opportunities to use data and information to both understand customers and cocreate value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications.”*

Those definitions, however, do not fully reflect the real business practices. Payne and Frow (2005) found that for some companies CRM was simply an IT solution to acquire new customers. In the same line, Urban (2005) argues that while the ideal is for a close relationship with customers, the reality is often “more invasive marketing”. This is so because many CRM programmes are developed with the idea of building a huge data warehouse, mining the data, identifying segments and then using push/pull marketing through aggressive e-mail, telephone or Internet promotions. Law et al. (2003) concur with this, stating that many companies, although apparently accepting that customers should be treated as an active group, continue conducting business largely in the same way and this can be seen in their CRM implementation. The authors propose that CRM should have the customer as a starting point for interactions with firms and other stakeholders, and a focus on establishing a co-creative environment for all involved parties to work together. Law et al. (2003) further suggest that companies are actually dealing with customer-managed relationships (CMR), and the key is to integrate and balance CRM and CMR to enable customers to take part in corporate strategy formulation and to encourage companies to cooperate with other stakeholders in serving customers.

### **2.2.3.3. The Blurring Limits between Services/Goods and B2B/B2C**

During the 1970s and 1980s service researchers have argued that services present distinctive management challenges that are not addressed by manufacturing research and teaching (e.g., Shostack 1977). Similarly, industrial marketing researchers observed that prevailing theoretical approaches in marketing cannot explain what is happening in industrial markets (e.g., Hakansson 1982). Thus, research in marketing has been bifurcated in consumer and industrial marketing, as well as goods and services marketing. This distinction has led to the development of separate streams of marketing over the years. Recently, however, some scholars have started to challenge this distinction through an emphasis on the common characteristics and not the differences between the streams. For example, the advance of IT and the growing competitive pressure in consumer markets have made possible and even desirable the development of relationships with individual customers in both consumer and industrial markets (Wilson 2000). Anderson (2006) explains that in the future, mainstream marketing is likely to get closer to B2B marketing, relationship marketing and services marketing, than to the traditionally dominant perspective of marketing durable and nondurable goods.

Taking a buying behaviour perspective, Wilson (2000) argues that many individual consumer buying decisions can be seen as collective decisions (similar to organisational buying) because they are influenced by many others, e.g., family members or cultural influences. Further, in organisational buying decisions more emphasis should be placed on the personal and social aspects of the buying process vs. the pure rational aspects. Thus, Wilson (2000) suggests a unifying approach to buying behaviour with a focus on the similarities between consumer and organisational buying. The distinction between consumer and industrial markets is neither clear-cut from a seller perspective. For instance, IKEA sells both home and office furniture, Dell has both individual consumers and business customers, and for a food product to come to the point of sale (a restaurant or a store) there are several B2B stages, starting from the raw material purchasing, manufacturing and wholesaling (Gummesson 2004).

Furthermore, many traditionally product-based firms have increasingly started to gain more revenues from services, and to view themselves primarily as services. IBM and General Electric are said to have derived their improved performance since the mid 1990s from their shift to a service focus. Besides, as Araujo and Spring (2006) claim,

relationships between firms and customers should not be based on either products or services, since they usually involve a wide range of product and service elements. On a conceptual level, researchers (Lovelock and Gummesson 2004; Vargo and Lusch 2004b) have even challenged the four distinguishing characteristics of services – intangibility, heterogeneity, inseparability and perishability (IHIP). Table 3 presents some of these challenges.

**Table 3: The IHIP characteristics revisited**

<b>Characteristic</b>	<b>Traditional wisdom</b>	<b>Challenges to the traditional wisdom</b>
Intangibility	Services lack the tactile quality of goods	<p>Pure goods and pure services are the extremes, but most items are a mix of tangible and intangible elements.</p> <p>Intangibility is associated with pre-purchase activities when the consumer has no previous experience with the service, but this is equally the case for some goods.</p> <p>Services often have tangible results. In services such as surgery, haircuts or cleaning, customers want to obtain tangible changes in themselves or their possessions.</p>
Heterogeneity	Output of services cannot be standardized as the output of goods	<p>Many tangible goods are heterogeneous, while many services are standardized.</p> <p>From a marketing point of view, heterogeneity is a normative goal. Customisation strategies are relevant to both manufactured products and services, in B2B and B2C context alike.</p>
Inseparability	Simultaneous nature of service production and consumption; the service customer is a co-producer of the service	<p>There are many separable services, where the consumer is not involved directly and the consumption and production are not simultaneous (e.g., transporting freight, laundering clothes, maintenance of equipment).</p> <p>Many goods manufacturers are involving the consumers in production.</p> <p>Consumers are always involved in the value creation since tangible offerings cannot provide benefits until the consumer interacts with the good.</p>
Perishability	Services cannot be produced at one time, stored and then sold at a later point of time	<p>There are some highly durable service outputs. Certain performances can be recorded and used many times (education, entertainment, music, news). Many services have long-lasting benefits (e.g., surgery).</p> <p>Tangible goods are also perishable. From a demand perspective, all market offerings are subject to perishability because of the changing tastes, expectations and needs of consumers.</p>

*Source: Based on Lovelock and Gummesson (2004) and Vargo and Lusch (2004b)*

According to Vargo and Lusch (2004b) the attempts to define services counterposing them to tangible goods deprives us from a full understanding of the role of services and likewise prohibits the understanding of the role of tangible goods in exchange. Vargo and Lusch argue that “the strategy of differentiating services from goods should be abandoned and replaced with a strategy of understanding how they are related” (p. 334). In a similar vein, Lovelock and Gummesson (2004) state that:

*The “goods versus services” debate of the 1970s and early 1980s was useful and fruitful in highlighting the crucial but neglected role of services in management and marketing, yet the very nature of that debate obscured the necessary synergies between manufacturing and service businesses, and much work remains to be done to develop an understanding of the mutual interaction and interdependence between goods and services. (p.37)*

The blurring borders between different marketing streams nowadays invite scholars to reconsider concepts and constructs developed over the years as “pertaining” to one or another stream and to look for the application of these concepts across diverse areas in marketing. Interaction is one of these concepts that has been developed in services marketing and industrial marketing and is now becoming often used in the everyday lexicon of marketers. CRM strategies and programmes try to help marketers interact better with their customers and the advent of IT and the Internet further enhance marketing ideas through interactive devices that permit ever growing levels of dialogue and faster response to emerging customer needs. Researchers in B2C marketing can take advantage of the conceptual developments made in B2B and services marketing and build a strong conceptual basis that would allow us better understand the role of interactiveness in contemporary marketing.

#### **2.2.3.4. The Debate on the Service-Dominant Logic for Marketing**

The service dominant logic (S-D logic) for marketing has been put forth by Vargo and Lusch (2004a) and followed by an active discussion, including special issues of *Marketing Theory* in 2006 and *Journal of the Academy of Marketing Science* in 2008. The “conventional” dominant logic of marketing was based on economics, had focus on exchange of goods and on tangible resources and outputs. However, as Vargo and Lusch (2004a) claim, the focus is shifting now away from tangibles and toward intangible resources, the co-creation of value, and relationships. Tangible goods are viewed as appliances for service provision rather than as ends in themselves. Goods



become “but one resource in a bundle of resources – other physical products, people, information, etc. – with which customers interact” (Grönroos 2006: 326).

The use of the word “service” in S-D logic implies a “process of doing something for someone” and is not intended to point to the differences between services and goods, but rather to consider the relationship between them, where a good is viewed as an appliance used in service provision. Service is defined as “the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself” (Vargo and Lusch 2004a; Lusch and Vargo 2006). Thus, service does not refer to the traditional services industries but is a broader concept implying that exchange is about the process of parties doing things for and with each other, rather than trading units of output, tangible or intangible (Vargo and Lusch 2008b).

According to the S-D logic, marketing is a social and economic process in which the concept of interaction has a central role (Ballantyne and Varey 2006; Lusch and Vargo 2006). The customer is considered an operand resource (co-producer) and not an operand resource (a target). Therefore, interactions and relationships with customers become of prominent importance. The S-D logic views value as “value-in-use”, i.e., the firm can make a value proposition, but it is the customer in interaction with the firm offering that determines and co-produces the value. As Vargo and Lusch (2004a: 11) explain:

*“From a service-centered view of marketing with a heavy focus on continuous processes, the consumer is always involved in the production of value. Even with tangible goods, production does not end with the manufacturing process; production is an intermediary process. In using a product, the customer is continuing the marketing, consumption, and value-creation and delivery processes.”*

Importantly, the debate on the S-D logic is leading to an evolution of its ideas and terminology. While initially the term co-production was used to describe the customer participation in the value creation process (Vargo and Lusch 2004a), in later works co-production is distinguished from co-creation. Thus, Lusch and Vargo (2006) explain that co-production involves customers’ participation in the creation of the core offering through e.g., co-design and it is a process nested in co-creation. Co-creation is a broader, superordinate concept implying that value is created in the consumption process as viewed in the value-in-use notion. A different view is taken by Ballantyne and Varey (2006), who suggest that co-creation refers to “more spontaneous, collaborative and dialogical interactions, where putting things together that others do

not think go together achieves something new and unique in the process leading to competitive advantage” (p. 344).

Related to the co-creation/co-production issue is the suggestion of Vargo and Lusch (2004a) that firms can only make value propositions, implying that firms cannot participate in the value creation process at the consumption stage. However, Grönroos (2006) states that both firms and consumers can be active participants in every stage and firms should be involved in the value fulfilment through interactive marketing efforts supporting the value creation process. Ballantyne and Varey (2006) suggest the notion of “reciprocal value propositions” operating to and from firms and customers seeking an equitable exchange, i.e. value propositions are always two-way. Gummesson (2008) goes further introducing the “balanced centricity” concept, according to which not only the supplier and customer participate in the value creation, but many different stakeholders, all of which have the right of satisfaction of their needs. Indeed, according to the S-D logic, marketing exists to provide both social and economic processes, including a network of relationships to provide skills and knowledge to all stakeholders (Vargo and Lusch 2004a). In this setting, dialogue becomes an advanced form of marketing communication, which provides the basis for co-creation of value. Dialogue and interactions assure continuous knowledge renewal between the firm, customers and other stakeholders, and knowledge (renewal) is viewed as the fundamental source of sustainable competitive advantage (Ballantyne and Varey 2006). The evolution of the S-D logic debate helps to look at interactiveness as a key issue in marketing, which on the one hand, drives to competitive advantage, and on the other hand, serves as a convergent tool bringing companies closer to customers and other stakeholders.

#### **2.2.3.5. Value Chain vs. Interactive Value Co-Creation**

The traditional industrial economy model of thinking about value implies that each company occupies a place in a value chain. Porter’s (1985) value chain starts with inputs provided by suppliers, then the firm manufactures products adding value to these inputs and passes it to the next in the chain, the customer. This view of value is firm-centred since the chain stops when the consumer buys the product, i.e. consumption is not a value-adding activity and there is no possibility for the consumer to participate in the value creation process. Porter’s ideas shaped the dominant model in strategy during the 1980s. In the early 1990s the strategy literature started to release conceptually

different ideas, underlying that in a volatile competitive environment strategy was no longer a matter of positioning on the value chain, but should be focused on the value creating system within which diverse actors – firms, customers, allies – were co-producing value together (e.g., Normann and Ramirez 1993). This is how Normann and Ramirez (1994) explain it:

*Economic actors no longer relate to each other in the simple, unidirectional, sequential arrangement described by the value chain notion. The relationship between any two actors tends to be far more complex than can be conceptually captured by the unidirectional “make/buy” model underlying the value chain. Instead of “adding” value one after the other, the partners in the production of an offering create value together through varied types of “co-productive” relationships. (p. 29)*

In an environment based on this logic of value the resources that matter are knowledge (company’s competences) and relationships (customers). Effective dialogue between competence development and customer development becomes a key in business competition (Normann and Ramirez 1993, 1994). Hierarchies and control dissipate, and what is needed is flexibility and vision for the future (Arthur 1996; Hamel and Prahalad 1994, 1996). Moreover, customers are managed as assets, or factors of production, and are considered co-producers of value (Ramirez 1999). Value is viewed as synchronic and interactive, described in terms of “value constellation” instead of value chain (Normann and Ramirez 1993; Ramirez 1999).

In a similar vein, Prahalad and Ramaswamy (2000) claim that the unit of strategic analysis has moved toward “extended enterprise” where the firm is supported by a constellation of suppliers and where the consumers are a source of competence: “competence now is a function of the collective knowledge available to the whole system – an enhanced network of traditional suppliers, manufacturers, partners, investors, *and* customers” (p. 81). As customers play an increasingly important role in this constellation, collaboration with customers and ongoing dialogue become the basis for competence and value creation. Prahalad and Ramaswamy (2004) further explain that high-quality interactions enable customers to co-create unique experiences and provide firms with the basis for unlocking new sources of competitive advantage. Thus interaction between the firm and the consumer becomes the locus of value creation. The building blocks of consumer-company interactions according to Prahalad and Ramaswamy (2004) are those four:

- (1) *Dialogue*. Dialogue implies engagement, interactivity and propensity to act on both sides, i.e. it is a communication between equal and joint problem solvers. Dialogue should focus on the interests of both the consumer and the firm.
- (2) *Access*. Access means that the company should provide information, tools, etc. to customers so that they can engage in dialogue and be able to co-create value for themselves.
- (3) *Transparency*. Traditionally firms have enjoyed information asymmetry, but this asymmetry is quickly disappearing since consumers have access to ever increasing information about companies and their offerings. If a firm does not provide full information to customers, customers have a pull of other sources, including communities of customers sharing information and opinions on Internet. Therefore, transparency becomes a necessary condition if a firm wants to engage in interactions with consumers.
- (4) *Risk-benefits assessment*. Dialogue, access and transparency jointly can lead to more precise assessment on behalf of the consumer as regards of the actions and decisions related to a specific company or company's offerings. This means that consumers can make informed choice (e.g., to use or not certain medication).

The co-creation of value and the interaction as the locus of value creation challenges the traditional view on the roles of the firm and the consumer. The firm and the consumer no longer have their separate, predetermined roles, but rather converge as the value co-creation process evolves. This requires completely different managerial competences and abilities. Managers should invest in building infrastructure and governance capabilities that would facilitate interactions with customers. While this view poses difficulties to traditional management it also promises new possibilities, such as efficiency gains and speeding up the innovation capabilities of the firm (Prahalad and Ramaswamy 2004).

### **2.3. Implications for Research and Practice**

Our review of the literature has revealed that the interaction approach in marketing has different facets and yet, a common logic. With the advance of technology, interactions are no more limited to face-to-face encounters. Interactiveness includes technology and infrastructure that permits two-way communication and ongoing dialogue between firms and consumers, but it goes much beyond this technical aspect. Interactiveness

implies a change in the managerial mindset. It is a philosophy, a culture and as such it should be built throughout the organisation. Interactiveness means a dialogue of equals for joint problem solving taking into consideration the interests of all involved parties. Interactiveness recognises that consumers have multiple roles in a society, they are not only consumers, but can also be parents, colleagues, environmental activists, members of different organisations, etc. An interaction approach then considers explicitly the different actors involved in market exchange in their settings, as parts of the whole, as active participants in the system and in the value creation.

For managers, the concept of interactiveness might pose substantial challenges. As a general case, the majority of the practicing marketing managers have been trained in the traditional marketing school. A change of the way of viewing customers and a change toward continuous dialogue with customers therefore imply intellectual efforts, personal involvement, organisational commitment, time and resources to build appropriate infrastructure and climate. Value co-creation requires high levels of trust, risk sharing and joint decision making (Tynan and McKechnie 2008). However, for firms that have already implemented market orientation and/or CRM practices, it will be easier to go further and take the direction toward interactiveness. Market-oriented firms have learnt how to know better the customer, and CRM in addition has provided the basis for technological and organisational changes necessary for a quicker response to individual customer needs and two-way communication. Now firms have to allow the customer to know them better, they have to invite the customer in an open dialogue for mutual value creation.

For researchers the increased interest to interactiveness in B2C markets opens up exciting possibilities. To what extent do B2C companies embrace the idea of interactive dialogue with consumers? Do firms consider interactiveness an important capability leading to competitive advantage? What are the consequences of adopting interactiveness as a business philosophy? Does interactiveness lead to increased efficiency, innovativeness and overall firm performance? How do firms in different industries perceive interactiveness and what strategies and actions they undertake to improve the interactions with customers? Those are but a handful of noteworthy questions about interactiveness.

## Chapter 3

### THE MULTIPLICITY OF INTERACTIVENESS:

#### A QUALITATIVE INQUIRY INTO FIRM-CONSUMER INTERACTIONS

The word “interaction” implies at least two parties for the interaction to be possible, e.g. firm and consumer. Seeing the phenomenon from the point of view of each party in the interaction is crucial in order to bring to a higher order the understanding of the concept. However, our goal here is to understand how firms perceive interactiveness, what tools they use to bring consumers closer to the firm, what are the business conditions in which the interactions take place and what results (consequences) are aspired to. Therefore, we take a firm perspective in an attempt to explore the meaning(s) and use(s) of interactiveness in marketing with a focus on marketing strategies and practice. Our hope is to contribute to the development of a deeper understanding on firm-consumer interactions by providing insights on one component (side) of the puzzle, while leaving for future research avenue the task to complete the other.

#### **3.1. Research Approach**

Driven by the need for in-depth understanding of the phenomenon of interactiveness and the research objectives (explore the meanings and use of interactiveness among marketing practitioners), a qualitative research method was deemed appropriate since it is a methodological stance for understanding human behaviour from the participant’s own frame of reference (Collis and Hussey 2003). In addition, researchers have argued that there is a need for theoretical development in the marketing discipline (e.g., Kerin 1996) since its practical value lies in improved managerial decision-making and problem solving, as well as understanding of the way in which the marketing system functions (Saren 1999; Kuznesof 2008). That is why the study presented here used the techniques and procedures of Grounded Theory (GT) in the process of gathering and analysing data (Glaser and Strauss 1967; Strauss 1984, 1987; Corbin and Strauss 1990, 2008). GT was first introduced by sociologists Barney Glaser and Anselm Strauss in 1967 with the seminal work “*The Discovery of Grounded Theory*”. GT is a method of developing qualitative research that focuses on creating conceptual frameworks or

theories based on the data, through inductive analysis (Charmaz 2006). Within GT, theory refers to a set of well-developed categories (themes, concepts) that are systematically interrelated through statements of relationship to form a theoretical framework that explains some phenomenon (Hage 1972: 34).

A major strength of GT is that it provides a rigorous step-by-step approach that forces the researcher to look beyond the superficial, to apply every possible interpretation before developing the final concepts, as well as to demonstrate these concepts through explication and data supported evidence (Goulding 2005). GT has started to gain increasing application in management and marketing research lately (Goulding 2002; Rahman 2003; Grant and McLeod 2007) as researchers recognise its potential to deliver vigorous insights, to develop theory and to assist in management decision making. According to Goulding (2005), however, within the field of marketing, GT is still mainly applied in experiential consumer behaviour studies and its potential for theoretical developments across a range of marketing phenomenon is not yet fully taken advantage of.

As its name suggests, GT implies developing theory from the data. This means that the researcher is expected to develop the theory not based on prior knowledge, but on actual findings from the field. The extant literature is consulted as a part of an iterative process of data collection and analysis as far as it has relevance to emerging concepts that form the evolving theory (Goulding 2005). Nevertheless, Charmaz (2006: 10) suggest that “we construct our grounded theories through our past and present involvements and interactions with people, perspectives, and research practices”. Indeed, as Corbin and Strauss (2008: 147) explain, “the direction the research takes depends upon the nature of the data and the analyst’s interpretation of the data, bringing the researcher and data together in the process”. This challenge is already contemplated in the classic “Discovery...” book by Glaser and Strauss (1967: 253):

*“The core categories can emerge in the sociologist’s mind from his reading, life experiences, research and scholarship; [furthermore] no sociologist can possibly erase from his mind all the theory he knows before he begins his research. Indeed the trick is to line up what one takes as theoretically possible or probable with what one is finding in the field.”*

GT has been constantly developing since its emergence in the 1960s and several different versions of GT have been advocated. According to Corbin and Strauss (2008: 303) what unites the many versions are the following procedures that are consistent across the versions: the “constant comparative” method of analysis, the use of

concepts and their development, theoretical sampling, and saturation. We explain these procedures next.

Analysing data in GT starts with line-by-line analysis of the first piece of data and “open coding”, which is the interpretive process by which data are broken down analytically. In open coding, instances in the data are compared with others for similarities and differences and are then given conceptual labels. Through open coding conceptually similar instances, such as events or actions/interactions are grouped together to form categories and subcategories (Corbin and Strauss 1990). Therefore, constant comparison means the exploration of similarities and differences across incidents in the data. This is the way of generating concepts and their properties on the basis of recurring patterns of behaviour (Goulding 2002). The constant comparative method generates successively more abstract concepts through inductive processes of comparing data with data, data with category, category with category, and category with concept (Charmaz 2006).

Theoretical sampling means sampling directed by the emerging theory (Glaser and Strauss 1967). It is recommended that in the initial stages sampling should be open and relatively unfocused, since the researcher goes to people/organisations/events that would provide relevant information. As the process evolves, the researcher should direct the sampling according to the emerging theory to achieve broader reach of interpretation (Goulding 2002). With theoretical sampling the researcher aims at developing the properties and dimensions of the emerging categories / theory, and not to sample randomly selected populations or to sample representative distributions of a particular population (Charmaz 2006). After several categories are developed, the researcher tries to theoretically saturate them as much as possible. Theoretical saturation is achieved when additional data no longer contribute to discovering anything new about data in theoretical terms (Strauss 1984).

### **3.2. Data**

The initial data gathered for this study consisted of nine interviews with marketing managers, general managers or managers responsible for clients/external relationships. The firms varied in terms of size and business sector. There were firms primarily focused on services, as well as production and distribution. Additionally, annual reports, financial reports and other company information data have been collected. Table 4



presents synthesised information about the firms. Each firm is labelled with a letter: A, B, C, etc. For ease of exposition, in what follows we will use those labels to indicate the source of the quotations, e.g. if we are citing the marketing manager of the financial institution denoted by “A”, we will indicate this by placing the letter A after the quotation.

**Table 4: Brief description of the firms that participated in the qualitative stage**

Firm	Business sector	Job position of the interviewed person	Firm size (No. of employees)	Geographic coverage
A	Financial	Marketing manager	9929	International
B	Pharmaceutical	Marketing manager	1232	International
C	Fast-moving consumer goods	Marketing manager	1834	International
D	Fast-moving consumer goods	Marketing manager	3658	National (Spain)
E	Transportation (Airline)	Marketing and Sales Director	720	International
F	Car/machines rentals	General manager	171	International
G	Supermarket chain	External relations manager	61500	National (Spain)
H	Fast-moving consumer goods	General manager	130	National (Spain)
I	Water-delivery	Manager clients relationships	20360	International

The field work was completed within three months – from April to June 2008. Each interview lasted approximately one hour and was recorded and subsequently transcribed. The interviews were semi-structured with the main topics included covering the ways of interaction between the firm and its consumers, is there a perceived need to interact more in the current business setting, and what are the results that are expected from an intensified firm-consumer interaction.

The initial set of interviews was decided upon with the aim to cover different business sectors, as well as to be able to interview both services and non-services firms (thus, the first three interviews were with marketing managers of a financial institution, a pharmaceutical company and a fast-moving consumer goods company). This was essential since the importance of interactions with consumers has already taken its place for services firms and in services research, but for non-service B2C firms the concept and its application are not yet clearly defined. Thus, including different sectors was aimed at discovering of (possible) similarities and differences in the perception and practices of firm-consumer interaction among firms in diverse business sectors. During the subsequent collection of data, the GT principle of *theoretical sampling* has been followed. To give an understanding of how the principle of theoretical sampling has been applied, we present here two examples.

*Example 1:* After conducting the third interview, it became clear that fast-moving consumer goods firms would possibly have different means of interacting (more limited) because of (1) the large number of consumers (and consumption acts), (2) the

fact that their products usually do not go directly to consumers, and (3) the power that intermediaries (distributors) can exert. Therefore, the following step was to contact another fast-moving consumer good company (Interview No. 4). Shortly after the fourth interview had finished we realised the need to include a major distributor company since the distributors' role can be prominent in the interaction between consumers and producer firms. During the interview with a manager of the distributor firm we discovered that a different relationship between distributor and producer - one based on trust and long-term commitment (a code we termed "win-win relationship") – can have a major impact on the way producers interact with their consumer. This fact placed us back at the necessity to interview another producer, but one working closely with this particular distributor firm, in order to delve deeper into the concept of "win-win relationship" since it seemed a promising strategy to boost interactions between producer firms and consumers. Thus, the decision about what kind of firm we should interview next was driven by the theoretical need at hand.

*Example 2:* Toward the end of the line-by-line analysis of the interviews an interesting and potentially important category appeared ("optimising consumers' resources") which however had not sufficient links to instances within the text. This required the collection of additional material about the firms interviewed since only with the available information we did not have enough data to develop and saturate the category. Thus, annual reports, published interviews with company managers, company websites and other relevant data were collected until the category was developed.

### **3.3. Analysis**

One of the principles of GT is that analysis and data collection occur simultaneously, i.e. analysis should start as early as possible in the research process. This is important since further sampling is subject to the theoretical need of the emerging concepts/theory. Thus, following the principles of GT, the analysis process comprised of several interrelated and iterative stages:

- Line-by-line analysis of all pieces of information (interviews transcripts, company reports, documentation).
- Discovery, naming, and formulation of categories and their relationships (coding).

- Making of comparisons following the principle of the constant comparative method.
- Sampling was directed by the evolving categories according to the theoretical sampling procedures.
- Analysis was aimed at identifying diverse categories, conditions, strategies, interactions, consequences, which give variation and allow the development of relationships among the categories.
- The evolving integration of the conceptual framework was achieved by the use of memos, figures, and tables summarising the emerging categories and their relationships.

Memo writing and integrative diagrams are major means of integrating the evolving categories. Memos help to keep track of coding results, to summarise codes and to further asking of theoretical questions and looking for saturation of categories (Strauss 1984). That is why memo writing is considered an integral part of doing GT (Corbin and Strauss 1990). In addition, integrative diagrams make visually and conceptually clearer the many connections among major elements of the emerging theory (Strauss 1984). Summarising the evolving concepts and their relationships through memos and integrative diagrams and figures proved to be very helpful in the stage of integration of the findings.

In addition, in the process of data analysis the software *Atlas.ti* has been used. *Atlas.ti* is a scientific software designed to assist qualitative research, whose structure is very much supportive to GT analysis, since it is organised in:

1. Hermeneutic Unit: provides the data structure for each project in *Atlas.ti*. The Hermeneutic Unit Editor is the main workspace, where all documents (and related quotes, codes and memos) are stored. This provides quick and easy access to the whole research project.
2. Primary documents: represent the text, graphical, audio, and/or video materials that the researcher wants to interpret.
3. Quotes: segments from primary documents that are interesting or important to the researcher.
4. Codes (and Super Codes that combine several related codes): used as classification devices at different levels of abstraction in order to create sets of

related information units for the purpose of comparison, i.e. labelling of categories.

5. Memos: capture researcher's thoughts about the text. A memo may "stand alone" or it may refer (be linked) to quotations, codes, and other memos.

Moreover, *Atlas.ti* is organised in two principal working modes: textual and conceptual. While the textual level assists in discovering and labelling concepts and their relationships, as well as writing memos, the conceptual one is an excellent tool for graphical visual representation of concepts and categories, and thus for integrating the emerging conceptual framework.

The analysis resulted in a total of 39 codes. Some of them were "in-vivo codes", i.e. codes labelled with the words used by the interviewees (for example, the codes "educate and inform consumers", "win-win relationship"). Other codes were labelled with concepts derived from existing literature, such as the code "co-creation". The 39 codes were further analysed and 10 major categories related to the core category of interactiveness have been identified. Those categories refer to: (a) 3 groups of accelerators/drivers toward the adoption of greater firm-consumer interaction: accelerators related to the broader social/economic structure, the technological structure and the target market structure (consumer dynamics); (b) 3 interactiveness levels: strategic, tactical and market response level; and (c) a category we called "interactiveness as a multiparty process" which refers to the involvement of different stakeholders in the process of firm-consumer interactions; (d) 3 groups of consequences of interactiveness: consumer-level, firm-level and broader stakeholder network level consequences.

In what follows we describe in detail the findings of the study. We begin with a summary of main findings and proceed to discuss each of the major categories. The analysis is accompanied with quotations from the field research as well as links to relevant extant literature.

### **3.4. Findings**

#### **3.4.1. Brief Outline of Major Points**

The results of this study identified a range of accelerators for the adoption of greater firm-consumer interactions, as well as several consequences that will be discussed in detail below. In addition, we found that interactiveness can be looked at from three

different, but closely interrelated perspectives: strategic, tactical and market response levels. Strategic interactiveness refers to a company-wide dialogue culture that provides the basis for value co-creation, and can be extended to other interested parties (stakeholders). Tactical interactiveness includes multichannel marketing activities that enhance firm-consumer interactions (as well as firm's interactions with other stakeholders), by means of direct contact or technology solutions. Market response level of interactiveness refers to how firms organise and integrate market response in their organisational processes, i.e. the activities related to taking advantage of market response coming in the form of consumer feedback in order to introduce changes, adaptations and improvements in products, services or processes.

Our findings suggest that the need to continuously interact with consumers and the belief of customer-centeredness of marketing activities are fundamental to marketing managers. To appreciate how managers define the importance of customer centeredness and continuous interactions, exhibit 1 presents a number of quotations from the interviews.

**Exhibit 1: Belief in customer centeredness and interactiveness**

“...fundamentally the task of marketing is to be in interaction with customers.” (C)

“...we try not so much to find customers, but to find partners. Do not try to “sell and disappear” but to maintain a stable and long relationship.” (F)

“...The company mission is to be a prescriber, not just a distributor. We have to understand the needs of customers and tell the suppliers that we need... If you go to the doctor, you tell him what hurts you; do not tell him what medications he should give you. Our philosophy is that the relationship with our consumers has to be similar, we are the prescriber. The employee does the work of the prescriber.” (G)

“It is essential to interact with the consumers on a personal level. Internally, we call the consumer “the boss”. (G)

Interactiveness is a bidirectional as well as a multidirectional process that involves continuous adaptations. The most salient property of interactiveness is that the interacting parties are co-creating a range of changes. Interactions mould the firm and the customer as the process of interaction evolves. In this process the two main stakeholders involved – firm and consumer – move forward towards changes in habits (for customers) and business processes (for the firm). While there are other important changes involved in the process, such as changes in products/services offered (innovations) or changes in the tools/channels used for interacting, those are intermediate outcomes of interactiveness. The “final” outcome of the continuous

interactions is a change in the business structure (model) which becomes more fluid/flexible giving more space for consumers' participation. Note, however, that the word "final" is arbitrary since the process of interaction is a continuous one and thus involves inherently a permanent, "never-ending" change.

The co-creation of change, however, has more than two stakeholders. While the relationship firm-customer is in our focus of analysis, this relationship cannot be viewed completely without a reference to other relevant parties. A major theme emerging from the study is that interactiveness is increasingly a multiparty process, not just bidirectional, but a multidirectional one. Our data indicates that "one-way marketing is over"; however, what is important for managers to recognise is that two-way marketing is only one possible marketing philosophy. More and more prominence of different stakeholders in diverse aspects of the business life makes necessary to think about interactiveness as a multidirectional process. This is especially relevant, for example, in the case of businesses that do not have a direct contact with consumers, such as producers of fast-moving consumer goods that usually need a distribution channel (another company) to reach the consumer. Achieving greater levels of beneficial firm-consumer interaction in this case is, to a large extent, subject to the kind of relationship that producers have with their distributors. Another stakeholder with a key role in interactiveness is employees, since they are the ones that have the constant day-to-day and often face-to-face interaction with consumers.

Clearly, this complicates the tasks of marketers. While marketing researchers have called for participation of all the staff in marketing as "part-time marketers" (Gummesson 1991), it seems that marketers will need to become "part-time human resources, purchase or supply specialists", that is, marketers need to take a broader vision of the organisation's life and undertake a holistic approach towards the firm-consumer interactions, "holistic" meaning not only from the point of view of marketing goals, since (the achievement of) those goals are closely related with other areas such as HR management, Supply/Purchase management, etc.

*"...on the other side, marketing departments increasingly assume functions that are related not only to interaction with the consumers, but also to internal reporting, project management, etc. ..."* (D).

Therefore, we posit that two major properties of interactiveness are:

- *Continuity*. Interactiveness is a continuous process, accompanied with changes. Some of the changes are conditions/prerequisites for greater (denser)

interactions to occur, others can be thought of as strategies/actions as they are planned and implemented consciously by firms with the aim to come closer to consumers, while still others can be seen as the results/consequences of the interactions, such as changes in habits or behaviour for the consumers, or changes/adaptations of the business model for the firm.

- *Multidirectionality*. Interaction has long been considered in the literature a dyadic process (e.g., Solomon et al. 1985). However, our findings suggest that interactiveness is not only a bidirectional but also a multi-party process, that is, it engages different actors (stakeholders) and thus can be thought of as multidirectional, not only a bidirectional (firm-consumer) process. Taking a broader view, increased need of interactiveness is brought about by series of changes in the social, economic, and technological structure, which has given rise to increased consumer dynamics. Therefore, the process of firm-consumer interaction and the concrete strategies and action firm use in it, is influenced by diverse stakeholders, such as society, e.g. by means of changes in social and environmental awareness levels, or other firms that are introducing new products/technologies permitting faster and more efficient interactions.

### **3.4.2. Accelerators that Drive towards Greater Interactiveness**

#### **3.4.2.1. Broader Social and Economic Environment**

##### **(a) Increased market complexity**

Marketing managers perceive today's markets as increasingly complex and competition as fierce. Changes come at rapid pace and firms need to adapt quickly to new market circumstances. Consumers are often sensitive to even light movements in the market (e.g., price differences).

*"...increased competition and increasing complexity of markets." (D)*

*"...what is complex in this industry is that everything is going very fast. Competition is fierce." (E)*

For marketers, a big part of the complexity is brought by the fact that communication media are becoming more diverse and the market is more fragmented. Nowadays it is more difficult than ever for marketing messages to reach their intended target and to have the intended impact.

*“...we see that products are becoming more differentiated, there is greater difficulty for launching novel and different messages ...” (B)*

What is observed is that consumers become more sophisticated and diverse. So do communication media channels and other marketing-related decisions, such as packaging, or additional service provision. Consider the following excerpt:

*“...lifestyles are changing and society as whole is changing... how many single-person families we have right now? How many families of two? What is the average age of consumers? People over the age of 60 or 65 are very important consumers... life expectancy is greater, we have more elderly people, families are shrinking, there are fewer persons per each family, therefore the packaging has to be adapted or the formats have to be tailored to the needs of these people. Then there is the aggressive influence of all consumer products, the influence of American and Anglo-Saxon culture, eating out of home is influencing us, these factors are factors that you have to analyse...” (H)*

On the one hand, demographic changes pose new challenges to firms. Products need to be adapted to new family members' number, lifestyles, and specific age-related needs. On the other hand, consumers are increasingly educated, demanding and looking for maximum value for their money. To reach those consumers and to differentiate from the competition, marketers are starting to look progressively more at new interactive media. While traditional ways for “knowing better” the consumer, such as market research methods, continue to have important role, many firms are adopting more interactive channels in their marketing strategies. True, for some companies interactive efforts still represent a negligible portion of their marketing budget. However, as markets are gaining more and more complexity and resources are getting scarcer, marketers recognise the potential of interactive media for connecting with consumers and generating better performance in a more efficient manner.

An important point to mention here is that the decision of the extent of adoption of interactive attitude and/or interactive media is to a certain degree conditioned by the specificities of the sector and the number of consumers and consumption acts, as well as whether or not the firm has a direct access to and possibility to interact directly with consumers. In financial services, for example, interactive media was considered a “must”. On the other hand, a marketing manager of a fast-moving consumer goods company stated that *“we are actually going in this direction, but we have to make many adjustments...” (C)*. Therefore, while a company's strategic position can be toward adopting greater interactions with consumers, the level of actual implementation of interactive tactics and activities, e.g., new interactive media, can range between small percentage of the marketing budget and heavy reliance on interactive media, depending on various structural conditions.



**(b) Raised society awareness**

Today's consumers are not only more educated and demanding; they are also more sensitive towards social and environmental concerns, as well as towards health and nutrition issues, among others. Our interviewees perceive that *"We are witnessing an increase in social awareness"* (A). Importantly, firms cannot overlook this increased social awareness. As consumers become more concerned with different societal issues, a certain level of "pressure" is created. Firms "must" adopt some measures and actions because, *"...(there are things that) companies have to do because consumers are more sensitive."* (A). Raised society awareness can "force" firms to implement new interactive ways of communication and dialogue. As one manager expressed it:

*"We must have a blog because if we don't have it the consumers ask, 'Why the firm doesn't have a blog? Does it have something to hide?'"* (A)

Firms increasingly recognise that consciousness about social issues important for their consumers should be part of the functioning of different levels and departments of the company. For a food distributor company, for example, it was crucial to adopt a system for nutrition management with a focus on more healthy products. Moreover, since many of this firm's consumers had special nutrition needs, e.g., people that suffer from celiac disease, the firm has started to produce a range of products without gluten. This has led to more interaction and collaboration not only with a particular group of consumers, but also with a broader network of associations and nutrition organisations, as well as producers.

Increased firm consciousness about social and environmental issues can also be seen in the following excerpt from an interview with the marketing manager of an airline company: *"...companies have to give back to society what belongs to society, in our case the environment"* (E). The airline company has started an initiative of re-forestation in the area where its main operation centre is situated. The firm has implemented an interactive initiative inviting consumers to contribute to the firm's efforts in the re-forestation. The manager explained that:

*"We have thousands of contributions from people and that's great because that means that if you make things concrete and tangible, people respond. And there is increasing environmental awareness."* (E)

Consumer social consciousness and firms' awareness can be mutually reinforced. On the one hand, many firms start implementing diverse programmes because they believe that their consumers are sensitive to certain issues. This raises the

level of social and environmental consciousness of firms' actions. On the other hand, firms' willingness to contribute to the awareness movement leads them toward more and diverse interactions with their consumers and the society at large with the aim to promote greater sensitising toward an issue at hand.

Summing up, increased social consciousness is reflected in both consumers' changing habits and actions and firms' ways of communicating to and interacting with consumers. Consumers are increasingly sensitive to social and environmental issues. Awareness can lead businesses and consumers to interact more, where consumers seek to "be heard", demanding and "pressing" firms to adopt certain interaction channels and tactics. Firms can contribute to this process informing the consumer of new developments in areas of their consumers' interest and also by adapting to new necessities of consumers that result from increased social awareness, such as the need for more and transparent information about the company, its products and operations, or quicker response and solution delivery. Thus, firms can respond more rapidly and propose better solutions. Higher levels of interaction may lead in turn to an even greater awareness levels, where firms seek not only to develop solutions for their consumers, but also to "educate and inform" them further about social, environmental or health issues.

#### **3.4.2.2. Technological Changes**

The constantly changing technological structure has dramatically altered the ways firms and consumers can nowadays interact. Technological advances bring new ways and possibilities for interaction among consumers as well as between consumers and firms. Technology empowers consumers and gives them more alternatives to share information about companies and their products, and thus "control" to a certain way the behaviour of firms, or at least the veracity of marketing messages.

*"Technology globalises the world... Time and distance barriers disappear. Everybody competes with everybody, and consumers interchange information among them." (A)*

New technologies can also help consumers to manage more efficiently their resources (e.g., time, money). (*"...technologies ... are helping ... are somehow decreasing the costs of access to some things for the consumer. (E)*). Innovations in services offered by firms on the basis of technological advances can provide consumers with better choice options as regards the organisation of, e.g., their bank operations,

travel arrangements, invoice payments, etc. Thus, firm-consumer interactions become faster and more fluid. The use of new technologies in firm-consumer interactions opens the way to optimising consumers' time and other scarce resources.

Firms, on the other hand, can also benefit from the implementation of new technologies. New interactive ways of getting closer to the consumers permit firms to gain insights about the needs and expectations of their consumers more rapidly and less costly. In addition, the implementation of technology-based systems of customer relationships management brings the possibility for firms to have constant, real-time flow of information about consumers' preferences and behaviour.

Most importantly, technologies can boost and make easier and smoother cooperation between consumers and firms. Use of new technologies that enable greater level and density of interactions bears the prospect of "win-win" situations and solutions in which both firms and consumers have gains. Take for example the excerpt below:

*"By information systems the suggestions that come to Customer Service are sent to the people who are responsible to solve the problem in different departments of the company." (G)*

Technology solutions in this case allow fast internal communication and decreased bureaucracy, and therefore fewer resources committed to solving specific customer problems. For customers, this means quicker response to their needs and suggestions. Thus, technological advances can lead to mutual benefits in the firm-consumer interactions.

### **3.4.2.3. Consumer Dynamics**

Consumer dynamics is a concept that reflects raising levels of requirements and expectations of consumers towards the firms that come out of changing consumer habits, education level and also changes in the broader societal and technological environment. More demanding consumers that use a variety of media channels and feel empowered by new technologies pose to the companies the need to look for ways to engage consumers with companies' products/services and interact more in order to gain insights and respond to increased consumers' expectations.

Consumers look for timely solutions to their constantly more complex needs. Managers perceived that this situation is going to become even a more pronounced trend and consumers are going to be more difficult to engage and satisfy in the future,

since their sensitivity towards firms, products and services and their own needs will continue to increase.

*“This is a market where passengers tend to look increasingly for multiple options when planning their journeys in accordance with the specific needs for each occasion, whether these be for business or for pleasure.” (E).*

*“The consumer is very sensitive... And I believe that in the years to come consumers will be even more sensitive, more demanding. We have to work more to achieve fidelity.” (H).*

Managers indicated that one-way marketing is no more a viable solution. Consumers expect firms to behave in certain ways or to comply with certain “rules”. Consumers have increased levels of awareness about a range of social, economic, and environmental issues. They demand a constant flow of information and transparency, and expect a dialogue aptitude on behalf of firms.

*“Our clients ... demand a very high level of information and dialogue...” (B)*

Besides the overall increased society awareness levels, there are two other important drivers of consumer dynamics. On the one hand, we observe changing demographic, educational, and lifestyle characteristics. Managers agree that *“the consumer is now more educated” (D)* and also that *“the consumer is much more dynamic, more fragmented, changes more...” (D)*. According to one of the interviewees:

*“There is a new consumer who holds the reins of the relationship; this consumer is spending more time watching YouTube than watching television.” (A)*

Diverse factors, such as age, socio-cultural interests or demographic factors play role in the fragmentation of markets. Therefore, firms have to deal with markets characterised by constant evolution of consumer needs:

*“... greater complexity, i.e. the consumer is not a single profile, the market is segmented ... factors of age, socio-cultural backgrounds, this causes greater fragmentation; thus you're looking not to lose touch with the consumer and try to cover a reality that is becoming broader and more fragmented and more complicated, because as you go on covering the needs, the needs are becoming more sophisticated.” (D)*

On the other hand, consumers feel empowered by new developments in information and communication technologies. The new consumers that rein the firm-consumer relationship live in a “flat world” where they can exchange information beyond the boundaries of time and distance and without hierarchies. There is a big part of potential consumer markets that firms cannot address with standard media and that require the employment of interactive media in marketing strategies and tactics. Managers have come to acknowledge that *“The consumer has a lot of power.” (A).*

Consumers can exercise this power by posing requirements for transparent two-way interaction:

*“...the contact with the clients is very fluid, even they require this level of relationship, so we are obligated, the relationship manufacturer - client is very close” (B)*

#### **3.4.2.4. Company Responses to Market, Technological and Consumer Dynamics**

What can managers do to connect consumers to their companies in an environment of growing consumer expectations and increasing market and technological complexity? Firms need to interact more with their consumers, getting closer to their worlds and adapting to the changing lifestyles of consumers, and therefore implement new forms to reach them and engage them in dialogue. Managers are aware that greater interactiveness is crucial in order to respond to consumer dynamics. Constant interaction with consumers can give firms insights about possible adaptations and innovations that consumers would welcome. Consider the following excerpt:

*“We have not stopped looking for new services, we are working continually thinking of the services needed by the passengers, both leisure passengers, who demand certain services, and business travellers who demand different services.” (E)*

The quotation exemplifies the willingness and efforts of the firms to adapt to raised consumers' expectations, be it by means of adopting new communication and interaction channels to get closer to their consumers or by innovating in services adapting to consumers' requirements. However, firm can go further and participate in the change of habits of their consumers, anticipating future needs and offering efficient solutions. Thus, for example, a low-cost airline company has continually been launching messages with the aim to attract business travellers. The company has been developing specifically for this segment certain services and features, using technology platforms to make smoother and faster the interactions with consumers and to optimise customers' time and money. Thus, the company has been informing continually and “re-educating” business travellers to reach the point of changing consumer habits:

*“Every day we see more “ties” and “dress coats” on our airplanes, business men and women who are changing their habits.” (E).*

Therefore, while consumers are constantly increasing their requirements, demanding quality at low prices, firms can take advantage of this process. In interaction with consumers, firms can involve in the change by informing consumers about

products/services that can provide more value and by offering innovative and efficient solutions.

### **3.4.3. Levels of Interactiveness**

Interactiveness can be thought of as a concept that has three levels of analysis: strategic, tactical and market response levels. Strategic interactiveness refers to company's culture and strategy as regards relationships with consumers, and implies organisational commitment towards a dialogue-based firm-consumer interaction in which employees at different levels participate actively. At the tactical level interactiveness refers to diverse activities implemented with the aim to boost firm-consumer interaction, such as interactive media or building long-term personal relationships with consumers. While there are many factors that can influence both the strategic and tactical levels of interactiveness, those two levels can be considered to a great extent firm-controlled. The third level, however, the market response, is relatively more consumer-controlled. Whether or not to respond to an interactive initiative of a firm, or whether or not to give feedback to the company in the form of e.g., complaints or suggestions, is in the hands of consumers. However, what firms can do is to motivate consumers to participate and to provide feedback, as well as to take actions on feedback received from consumers and thus adapt strategic understanding and tactical activities. Therefore, market response level of interactiveness here refers to how firms organise and integrate market response in their organisational processes.

The three levels of interactiveness are inherently related to each other. Strategic decisions are the ones that determine the implementation of tactics and activities. Also, to a great extent the market response is a subject of appropriately defined and implemented strategy. On the other hand, implementation of interactive activities and the response from consumers to them feeds back at strategic and tactical levels, thus helping to adapt both tactics and strategic decisions on the basis of the received market response. Therefore, interactiveness is dynamic in its nature and requires readiness to change, flexibility and commitment on behalf of managers and employees. In what follows we discuss each of the three levels of interactiveness and we support the analysis with evidence from the field research.

### 3.4.3.1. Strategic Level of Interactiveness

At a strategic level the concept of interactiveness refers to the philosophy/culture of the firms as regards its relationship with consumers and the strategic decisions related to it.

Main properties of interactiveness at this level are:

- interactiveness entails the whole organisation and not only part of it, i.e. the marketing department is not the only one responsible for the interaction process
- interactiveness implies a dialogue culture
- interactiveness requires that firms provide the basis for co-creating value with customers

#### **(a) Strategic focus: Interactiveness requires commitment of the whole organisation**

Interactiveness can function as a strategic capability that brings consumers closer to the companies. In order to achieve this, however, interactiveness should be a part of the corporate culture that permeates the whole organisation independent of the different hierarchy levels.

*“...I think the most important part is that (the owner of the company) believed in its policy and all the people of the company believed in the policy, because the policy can be described but if nobody believes in it, it doesn't last, and in this case it is working because everyone believed it..” (H)*

*“.....presenting the results of the customer survey (to all employees) helps to promote this idea that the customer is behind any activity and it is not only philosophy; we believe it...” (I)*

The vision of interactiveness at the strategic levels requires commitment on behalf of the management. Oftentimes there are high costs related to the implementation of programmes or technologies, as well as internal organisational changes aiming to achieve greater firm-consumer interaction. Therefore, strong management commitment is crucial for the success of such activities. In addition, management commitment is important in order to reach organisational flexibility that would allow quick response to consumer demands arising out of the interaction process.

*“When we receive consumer feedback... if it is a quality issue everybody moves around it, if it is a suggestion, the same day or within the same week at the committee meeting ... we will debate this input or suggestion.” (H)*

However, management commitment alone is not enough. Employees are the ones that have the direct face-to-face or technology-mediated interaction with consumers. They are the face of the company to the consumer and the providers of feedback.

*“...and then the whole team on board. That is, how the customer interacts with our brand? On the web when you buy the ticket and at the airport if you have to check in because you have not got a boarding pass online, there you will interact with someone who represents the brand. The client goes in the plane and all the staff on board and everything they do (good or bad) works for the brand.” (E)*

*“...the meetings are very critical because of course they (the employees) are waiting. Because they are face-to-face with consumers, when there are problems they are handling the problems, and when you get to that meeting they expect you. At the end those are very positive meetings.” (H)*

That is why employees at different levels of the company should be involved in interactiveness. A key role of the marketing department here is the circulation of relevant consumer information to all other departments and to the management. It is crucial that company policies about interactiveness as well as feedback from consumers reach all employees. This way, interactiveness becomes part of the organisational culture and processes and therefore, respective appropriate actions on plans and feedback can be implemented.

*“When we receive consumer surveys we analyse them and set action plans and we spread them throughout the firm; it is not something that we put aside. Then we decide which actions we shall carry on and, sometimes more slowly, sometimes more rapidly, it affects our internal firm processes.” (I)*

### **(b) Interactiveness implies a dialogue culture**

For a dialogue to be possible firms should not only release information and communicate to consumers, but also be ready to stop for a while and listen to the consumer. Listening to consumers was considered a crucial part of interactiveness by our interviewees.

*“The company has to listen before it starts talking.” (A)*

*“...it is necessary not only to release information, but also to receive.” (B)*

Nowadays, many firms turn to innovative technologies in order to build consumer databases that will permit them to interact with individual consumers. However, interactiveness requires that such technologies be used from the stand of a dialogue, a conversation between equals (Prahalad and Ramaswamy 2004), since this is the way to understand consumer needs and consequently to respond to them. Multichannel, technical integration of various channels or CRM-supportive technologies are not the end, but the means by which greater interaction can be achieved. Failure to understand this can lead to failure of the implementation of the CRM or other technology-based interaction programme (Gummesson 2004; Payne and



Frow 2005). Therefore, these means should be subsumed to a culture of dialogue and permanent listening to the voice of the consumer.

*“To satisfy consumers, first it is necessary to understand their needs, something which is only possible through an attitude of dialogue and continuous listening.” (G)*

A dialogue culture also means humbleness. Many companies claim to collect feedback from their consumers, but do they really listen to it? The important question here is whether the firm is ready to *act on the feedback*. Our interviewees revealed that many times consumers' suggestions are highly valuable and can help firms, among other things, to achieve innovation, internal efficiency and improved performance. However, firms need to approach with humbleness the interaction process, since while companies do develop products and services aiming to satisfy consumers, consumers in turn can provide useful inputs in the process:

*“... For us it is a necessary stimulus that consumers contribute ideas. And you can get surprised; sometimes there are ideas that leave us tremendously surprised.” (H)*

Today's consumers are more demanding and require a dialogue aptitude on behalf of firms. Listening to consumers and looking for their feedback is important in order to understand their needs and their opinion about companies' products/services. But this process can go far beyond. Consumer feedback can be acted upon and useful innovations and adaptations can be achieved. On the one hand, this helps to build paths for providing greater value for consumers and thus, achieving higher levels of consumer satisfaction and loyalty. On the other hand, if firms are willing to implement changes in their business processes on the basis of the feedback received in the process of interaction, they can reap the benefits of efficiency gains stemming from innovative processes, and therefore, better performance.

*“...we work at the level of associations and patient associations and they obviously also require a constant flow of information ... they explain their needs as to what improvements can be made, how we can advance the doctor-patient interaction...” (B).*

*“...after visiting stores and talking to “the boss” (as we call the consumer), we tested in a number of stores to put downside the product label, it is something so simple and easy, and it was a success.” (H).*

Our findings are in line with recent development in the marketing and management literature that place the consumer as a knowledgeable partner of the firm co-creating products, services and experiences in an interactive continuous dialogue (Prahalad and Ramaswamy 2000, 2004; Vargo and Lusch 2004a; Grönroos 2006; Lusch and Vargo 2006). This dialogue posture invites consumers to share opinions and knowledge with the firm and within an enhanced network (Prahalad and Ramaswamy

2000) of consumer communities and other stakeholders and to participate actively in the value creation process.

### **(c) Providing the basis for value co-creation**

How can a firm provide the basis for value co-creation? Take the example of banks that substitute ad posters in their offices with touch screens that allow consumers themselves to design their own personalised proposals/offers about e.g., insurance policy, or other financial services. Consumers can have personalised service offer according to their needs quickly, while the bank saves labour, time and money transferring part of the work to the consumers. In order for this win-win situation to be reached, firms need to recognise that providing the tools necessary for co-creation is vital part of interactiveness. Consumers are nowadays more active than ever and more willing to participate in design of products/services or to give feedback to firms. In turn, firms need to invite consumers to participate by providing them with the necessary basis in the form of tools, technology solutions, and information or even “educating” consumers about the possible gains from participating and the ways to do it. Therefore, co-creation from the point of view of the firm, means (1) providing the consumer with the knowledge and the tools necessary in order for the consumer to be able to contribute to the business processes, (2) inviting the consumer to participate, and (3) informing and “educating” the consumer about the benefits of co-creation.

Inviting consumers to participate in innovating products or services has been discussed in the literature as a way to achieve innovations faster, cheaper and closer to consumers’ needs (e.g., Thomke and von Hippel 2002). For our interviewees, consumers’ participation in the innovation process was also found to be very important. As already mentioned, listening to the consumer with appreciation is crucial in this process, since managers recognise that consumer inputs can be overlooked and firms can fail to take advantage of them if consumer feedback is only collected but not appropriately acted upon.

*“.....visiting and talking with consumers ... bring you a wealth of information, what happens is that you have to be very humble to listen to consumers as well, because sometimes you might think “this is nonsense”, but at the end you can see it is not nonsense...” (H)*

However, in this process of co-creation, firms should not take a passive, listening only, role. Today’s consumers are dynamic and changing, but firms can take part in this change educating consumers about new possibilities of gaining value, and

optimising consumers' resources. A co-creation process can require a change in the habits of consumers. For example, a supermarket could launch a new service of on-line purchase and home delivery that would save time to consumers, but the firm may need to motivate or "teach" certain consumer segments to use the new service. Therefore, firm should make available the basis for co-creation not only by providing tools and technology, but also by educating consumers, by offering information and knowledge. If firms go beyond implementing a supportive technological infrastructure and adopt proactive measures facilitating interactions, consumers are likely to respond with a higher willingness to participate in value creation activities (Nambisan and Baron 2007) and consequently increased appreciation for the product/brand.

Co-creation can occur at the level of product or service design and innovation, but it can also be extended to a broader level of business processes, inviting consumers to give opinions about management decisions. For example, consumer participation in water policy decision making can result in a more flexible business model where consumer's voice is taken into account. Firm responsibility is to invite consumers to participate and inform them about the principles and objectives of what is aimed to be achieved. Consumers in turn can contribute with suggestions about possible improvements in the process.

*"The Water Directive at European level talks about three main principles, one of which is citizen participation in water management. This is the line that we think is interesting. If you explain well and set the objectives to be achieved, set the rules of participation, I think it's a very interesting mechanism to capture what the customers may perceive from our service, then they can go on bringing ideas for actions to improve our processes." (I)*

An important part of this kind of process innovation, in which consumers have a role, is firm's willingness to invite consumers to participate directly. Yet, co-creating process innovation and adaptation can occur without explicit invitation, when firms act on feedback received by consumers and introduce internal process changes/adaptations. In this case internal process innovations within the firm might be consumer-driven although this might not be formally admitted.

Summing up, co-creation from the stand of the company means:

- providing both the tools/technology and the information/knowledge in order for co-creation to be possible;
- firms need to take both passive role (listening to consumers) and active role (educating consumers);
- co-creation can refer to products and services, but also to processes and business

models;

- firms can explicitly invite consumers to participate or this participation can be indirect, as when firms act on consumers' feedback and implement innovations/adaptations.

The notion of “providing the basis for value co-creation” invites consideration of ideas developed in experiential marketing. Researchers have suggested that firms do not sell experiences (derived from products/services) but rather provide the artefacts and contexts on the basis of which consumers are able to co-create their own experiences (Caru and Cova 2003, 2007; Gentile et al. 2007). Similarly, for Schmitt (1999), what marketers need to do is to provide the appropriate environment so that desired customer experiences can emerge.

### **3.4.3.2. Strategic Considerations before Tactical Implementation**

#### **(a) Investment planning**

Interactiveness cannot become reality until the firm takes the strategic decision to invest in processes and tools that will permit greater firm-consumer interactions. Thus, investment planning becomes the glue that brings together strategic focus on interactiveness with tactical implementation. The amount of the investment can vary greatly depending on the purpose of the investment project and the tools used. Investments need to be carefully considered and aligned to company policies, availability of resources and marketing objectives.

*“.....depending on the resources available in each area, these processes are more or less developed; for example in the area of customer segmentation, obviously because of the required resources or the issue of availability of computer systems, including customer attention systems, depending on the resources we can go further with these processes.” (I)*

For instance, the implementation of CRM information systems can be expensive and time consuming and can require many organisational changes and/or additional personnel. Therefore, managers would expect greater return on this investment.

*“And it (the CRM system) will certainly allow us, or at least we will be required to, bring benefits, given the investment involved.” (I)*

On the other hand, a firm may decide to launch a new web page related to company products and to recollect reactions and opinions from consumers on the web. This investment is likely to be of smaller amount and correspondingly the expected

level of return would be different from the one of a CRM information system investment.

How big an investment is required is related to the level of risk inherent. Bigger investment projects bear greater risk. In this situation it might be advisable to share the risk by means of including more parties in the investment project. Initiating joint investment projects that would permit the participating partners to get closer to consumers, communicate with them and receive insights about their needs and expectations is one way of planning big investment projects. This path is especially relevant for firms that do not have enough resources to implement the project themselves or when the investment is considered too big. For B2C firms that need a distributor company in order to reach the end consumer, such a project can be initiated together with the distributor and /or other suppliers.

The amount required and the outcomes expected from investment in interaction processes and tools will determine the extent to which the investment is perceived appropriate or justified. A bank or a car dealer can reach directly all of its consumers and can implement CRM technology system that will help the firm keep record of all transactions with individual consumers, thus making possible the customisation of solutions for individual consumers that can pay off. The same CRM system would be unjustified expense for a fast-moving consumer goods company. Therefore, the means of firm-consumer interaction and the extent of implementation of new technologies in the process will be subject to the adequacy of the required investment. Ways of interaction and investment in it should be carefully chosen depending on the specificity of the target market.

*“There is a big difference here coming from the number of consumers and the number of consumption acts. In our product categories the consumption acts are millions. Therefore, the interaction is different. It is easy for a car dealer to send e-mails to all its customers directly. For me... I don't even think about it!” (C)*

The adequacy of investment in particular interactiveness project requires consideration of the following issues:

- What is the purpose of the investment?
- What types of interactive tools/technologies or processes can help to achieve the objective? What is the amount that each of the investment options requires?
- How many parties will be involved in the investment project? Can the firm reduce the costs and risks by joint investment with interested partners?
- What are the expected results / return on investment? Does the project pay off?

An important issue that firms should consider at this point is that interactiveness is a long-term process and requires strategic commitment. Consider how there is a long pathway between the initial goal of the airline company (attract business passengers) in our example and the results achieved:

“...for *several years* we have tried to talk to the business passenger just to break that equation, because the new companies are not necessarily worse.” (E)

Therefore, return should be evaluated in the light of a long-term dedication to the process of interactiveness.

### **(b) Multiple stakeholders involved in firm-consumer interactions: Interactiveness as a Multiparty Process**

There are diverse stakeholders that influence the firm-consumer interaction. The most relevant stakeholders can vary depending on the type and sector of operation of the firm and the specificities of the market, and can encompass, among others, a few or more of the following: employees, providers, distributors, consumer associations, other types of associations, political and local authorities, or society as a whole. As a means of example, we discuss here a case of a water delivery company.

#### **Stakeholders involved in the interaction process**

A water delivery company is implementing a programme of participation of consumers in water policy decision making. The firm has decided that this is a good way to get closer to consumers by not only interacting more with them but also inviting them to actively give feedback, opinions and suggestions about how the water delivery and management can be improved. Consumers' feedback and active participation in the management decisions, is, according to the company, a suitable way of understanding consumers needs and expectations. In the process of implementing this strategic decision, the firm has to take into account that there are many stakeholders involved in the interaction process.

The water delivery is regulated by laws and *authorities on national and regional level*, so the company has to align its policies to the regulations. On an international level, the company wants to comply with the *European Directives* that regulate citizens' participation in water policies. In order to inform consumers about this initiative, the company has developed an agreement with a *university* and has started internal education programmes in which *employees* of the company participate actively. The company has started regular meetings with *consumer organisations* with the aim to explain the objectives of the project and to explore possible fruitful ways of organising further activities. Thus, at the moment the firm interacts with an individual consumer, this interaction is already influenced by at least six stakeholders. Further, the company wants to implement CRM technology system that will permit tracking its interactions with consumers. Another key stakeholder – the *technology solution supplier* – enters the scene. The quality of the relationship between the water delivery firm and its technology provider will influence the quality of the CRM system and thus the outcome of the interaction with consumers.

A multiple stakeholder view of the interaction process is important because it situates the consumer in its broader environment and helps firms to take a holistic view of the consumer, i.e. the consumer in the context of the society (Daub and Ergenzinger 2005). Taking this perspective, firms can reach deeper insights about consumers' concerns, needs and expectations. While it is fashionable nowadays for firms to build an image of "a good corporate citizen" by involvement in social programmes, the multiple stakeholder approach toward interaction is not about corporate social responsibility programmes. It refers to dialogue and collaboration with different stakeholders with the aim to connect the company with the most important stakeholder for marketing: the consumer. The role of stakeholders here is viewed to the extent to which different stakeholders are involved and contribute to (or do not contribute / hold back) interactions between firms and consumers. We turn now to discuss three of the most important stakeholders identified in our analysis: employees, suppliers and distributors.

### **The role of employees**

One of the key stakeholders in connecting the company with its consumers is the employees. Interactiveness is not the job of the marketing department only. Interactiveness should be managed at all levels, since the experience of consumers with the company is dependent on diverse interactions with employees. Thus, as suggested in the extant literature (Gummesson 1991), employees at all levels become part-time marketers. The role of employees is considered crucial because they are the ones that have the direct contact with the end consumer.

*"The employee factor is principal, since the direct contact with consumers is in employees' hands." (G)*

*"The role of the commercial employees is crucial. The direct contact, on site..." (F)*

In one of the companies there were employees exclusively dedicated to work with consumers, inform them about new tendencies, products and solutions, as well as educate them in special seminar sessions, thus developing close relationship with consumers. Employees in this company are trained periodically for the job of part-time marketers. This way they are able to provide useful feedback to the company and its suppliers or other relevant stakeholders/partners about consumers' opinions, suggestions and preferences.

Employees' feedback is something that can be (and is often) overlooked by management. However, it bears a great potential to boost the firm-consumer interaction, improve consumers' satisfaction and loyalty and thus increase firm performance. Our interviewees suggested that both in relation to consumers and to employees, what is necessary in order to really capture the benefits of feedback is to listen with *humbleness* and to be open to change. Employees' feedback need to be regular and to have a clear pathway to reach the management.

In addition, to reap the benefits of employees' feedback about interaction with consumers, company policies should seek employee satisfaction and job stability. Satisfied employees lead to satisfied consumers and help to establish trust relationship between firms and their consumers. This is how one manager presented it:

*"...in this company all employees have fixed contracts; there is very little rotation. And this creates confidence relationship between the consumers and the employees (H).*

On the other extreme, another manager explained that a very high employee rotation prohibits the firm form a continuous relationship with clients and thus provokes inconsistencies in firm-consumers interactions that are consequently reflected in performance:

*"...there was a lot of rotation. Then we realised that when we lose a commercial employee we lose a lot of information because the information was in his/her agenda or head or personal computer... then we had problems ... people were going out and we were losing all the information and then we had to start from scratch in the area." (F).*

Therefore, the role of employees as a key stakeholder in interactiveness should be recognised by managers and the necessary procedures should be undertaken in order to organise in a structured manner employees' feedback.

### **Supplier – distributor relationships**

Involvement of a range of stakeholders in the interaction process is especially relevant in some cases (industries) where direct interaction with all consumers is not feasible. While a bank can reach directly all of its consumers individually and trace the effect of any marketing programme down to individual level, this is not the case for a fast-moving consumer goods company that reaches its end consumers via another firm – the distributor. For companies that have an intermediary in the way to the end consumer, the scope of interaction with consumers and receiving their feedback will be to an extent bounded by the relationship between supplier and distributor. The quotes in Exhibit 2 exemplify that an unbalanced supplier-distributor relationship, where the distributor



“has the power”, prohibits suppliers (producer companies) from the opportunity to get closer to their end consumers, interact more with them, receive feedback and therefore, be able to take actions on the feedback in order to satisfy consumers’ needs.

**Exhibit 2: Unbalanced supplier-distributor relationship**

“What has happened in the food industries, in recent years is that ... the distribution is concentrated; it is less store-to-store so that the relationship that could exist before between manufacturer - shopkeeper - consumers, i.e. consumers gives feedback to the shopkeeper and the shopkeeper transmits it on the chain, this is lost...” (D)

“...at the point of sale it is also becoming more difficult because the distributors know that they have power and they charge for it.” (E)

A different relationship between producer companies and distributors, one based on mutual long-term commitment and common goals, has the potential to grant the suppliers the opportunity to interact more closely with the end consumer. To appreciate how a win-win relationship between supplier and distributor can enhance interactiveness, examine the case of Cunicarn and Mercadona presented below.

**Cunicarn – Mercadona: Example of Multiparty Interaction**

Cunicarn is a family business company that produces rabbit meat. A few years ago, contrary to all conventional business logic, the company decided to sell all of its production through only one channel: the supermarket chain Mercadona. The manager of Cunicarn describes the business relationship with Mercadona as “*a long-term confidence relationship on the basis of the principle that both parties should gain and should be eager to develop products that satisfy consumers*” (H). This win-win relationship between supplier and distributor is the antithesis of how the same manager describes the relationship with other distributors that the firm had worked with in the past: “*negotiating the annual plan was a true disaster, a real despair, distressing*” (H).

Why is it important to have a dialogue-based, open relationship between producer and distributor? According to the manager of Cunicarn, one of the most important results of this kind of relationship is that the producer can have a direct contact with and feedback from the end consumers, and besides, the two parties are able to jointly develop solutions to better satisfy consumers’ needs. A manager from the distributor company, Mercadona, explained: “*This way we look for the best possible quality and price. In this case the producer company works very closely with the distributor and therefore is much closer to the end consumer*” (G). Moreover, the employees of the distributor company in this case work as “part-time marketers” also for the producer since they are well-acquainted with the products of Cunicarn, have regular meetings with its management and serve as a key provider of important feedback from consumers.

Another crucial point coming out of the “win-win relationship” is that innovation decisions are better planned and more easily executed because the producer company has confidence in the innovation project stemming from the regular market feedback, the constant dialogue among

the partners/stakeholders (producer, distributor, employees, consumers) and the long-term relationship with the distributor that guarantees a certain level of future sales. Therefore, a common focus and joint actions between producer and distributor, with the aim to satisfy consumers' needs, make possible the implementation of innovative, more efficient solutions. Consider the following example explained by the manager of Cunicarn: *"We had to accept the challenge and to say: "we will increase our costs independent from the loss of competitiveness that this can produce, because at the end when we made all the calculus, till the moment in which our products reach the supermarket shelf, or till the return of the empty crate, in general in the whole process we gain". If this was not part of a common long-term project, it would be impossible to do it, because everybody would look only its own benefit. (H)"*. Efficient innovative solutions, in turn, make possible the provision of quality products at better prices, which consequently leads to optimisation of consumers' resources and higher satisfaction levels.

Moreover, this common focus has allowed the partners to employ technology-based system for quick feedback and interaction with consumers that encompasses the distributor and its suppliers: *"Mercadona has a phone line "900" that is connected to a system called "Trinity gate" used by Mercadona and all of its suppliers, and this permits us to receive the complain, suggestion or input from "the boss", as we call the consumer, in real time. We receive it in the same time as e.g., the commercial department of Mercadona...via an intranet system. This means that in the moment the consumer input is produced we and Mercadona receive it simultaneously." (H)*

#### **3.4.3.3. Tactical Level of Interactiveness**

At a tactical level interactiveness includes diverse practices and activities aiming at connecting customers with the company. Some of these activities are relatively new and technology-driven; others follow classic marketing tools, such as market research methods, while still others rely on personal relationships models of behaviour or on alliances among different interested parties. However, the tendency is towards the use of more and more "new" tactics and techniques such as interactive media, Internet, CRM-supportive technologies, and multichannel communication. Importantly, new technologies can be usefully applied for traditional marketing purposes such as when consumer satisfaction questionnaire is filled-in online by consumers. This permits flexibility and quick feedback gathering, which can be turned into faster firm response and increased consumer satisfaction levels.

There is a great diversity of activities that can be implemented at tactical level in order to increase firm-consumer interactions. For the sake of simplicity, we group the analysis in four types of tactical level interactiveness: (a) activities aiming at knowing the consumer; (b) real-time two-way communication between firms and consumers (supported or not by new technologies); (c) co-operative multiparty interaction; and (d) informing and educating the consumer. However, it is important to note that there is no (and should not be) clear-cut line between those types of activities. Marketing activities

within each group and between groups are related and support one another. In reality, marketers are ever more inclined toward multichannel and multi-tactics interaction. Different marketing tools are combined differently depending on the sector specificities, the target market, or the number of consumers (and consumption acts) and whether direct interaction with the whole consumer base is feasible.

*“...increasingly programs that are multi-action are being put in place.” (D)*

*“...we call it multichannel attention. So we are talking not only about telephone but also virtual office”. (I)*

*“...the marketing strategy we develop is basically oriented toward “multi-touch”. For this reason, major media and means we use are conventional advertising on television, magazines, radio, Internet campaigns, actions in different outlet in which we are present, as well as conducting promotional activities.” (C)*

Among the major drivers toward multichannel marketing are the growing consumer dynamics, market complexity and evolving technological structure that we have discussed previously. For example, the TV is no more the major communication channel, particularly for certain age groups. If those consumers are to be reached, new interactive media communications are better suited.

*“Today for example there is a percentage of the population that you cannot catch on television, adolescents who have a high TV consumption, but less than before and a huge consumption of Internet.” (E)*

Marketers recognise that *“consumers are increasingly segmented and it is increasingly difficult to access them” (E)*, and therefore multichannel activities are crucial in order to reach consumers. More sophisticated consumer demands require firms to personalise communication messages and channels, ways of interaction, and services.

*“There are certain clients who need to make a consumption demand management; they request monthly readings or even weekly or daily. What we have assembled is a delivery service with the privacy required by the client through a portal, a website where they can enter and consult the consumption. It would be an example of a product, a product that tries to see customers’ needs, adapt to them and offer a solution. We do this with modems, with radiofrequencies and ICTs that can be used depending on the location...” (I)*

Multichannel interaction permits customisation of communication and services according to consumers’ lifestyles, needs, requirements or habits.

Having established this point, we proceed now to a discussion of the different types of activities implemented in firm-consumer interaction, situated in a multichannel framework.

### **(a) Knowing the consumer**

Classic marketing activities that follow under “knowing the consumer” section include market research, focus groups, or meetings with consumers and consumer organisations. Willingness to listen to the consumers and to know better their needs and expectations is a crucial part of building a dialogue culture in the organisation. Using market research methods is especially relevant for B2C firms with large marketing budgets but limited direct contact with end consumers (e.g., fast-moving consumer goods). Market research in this case provides feedback from consumers about product / service quality, ad spots perceptions, purchase probability, etc.

Importantly, new technologies are increasingly used for interaction purposes, to reach better understanding of consumers’ needs. For companies with a large consumer base, where direct interaction with all consumers individually is not possible, the web provides a variety of possibilities and can be a useful tool to know better the consumers and to adapt to their needs and expectations. This is how a marketing manager of a fast-moving consumer goods company describes it:

*“...the first thing is being on the Internet ... start on this path, but the idea is clearly interacting... Now, ideally I’d like this project we now begin to allow us direct communication with 300 thousand to 400 thousand, to whom I can send a report say every 2 months, and eventually send them personal promotion. I would know better certain types of clusters (of consumers), some are interested in receiving information, or search for knowledge, others are interested in promotion, or looking for value, others are simply looking to interact, what they need is contact and somebody to listen to them....” (C)*

New technologies can be usefully applied to serve traditional marketing purposes. On-line market research is one example of how firms take advantage of technological developments and consumer dynamics to reach insights about consumers. In addition to that, marketers recognise that personal direct contact with consumers is the best way to know them and new technologies can complement the process tracking all consumer contacts. Direct contact helps the firm to consider a complete picture of the consumers in their broader environment and thus get closer to them.

*“I know when you called, with whom you spoke, in that language, what you asked ... the full picture. The client feels that “I am important for the company”. If you do not have it clear what the client looks for, you’re out of the market.” (A)*

Therefore, while to reach each consumer individually might not be feasible, direct contact with consumers is an indispensable part of the interaction process. Consider the following examples of activities aiming at knowing the consumer. The company that has implemented them cannot reach all of its consumers directly since its

consumer base is 4.5 million consumers, and besides the company uses a variety of distribution channels none of which is own. However, direct contact is considered crucial in order to understand consumers' needs and preferences.

*"...we have begun a systematic program of visits to the homes of our customers. Now, quite often home visits of consumers is one of the tasks that make up the job description of the department of marketing and research. The conceptual basis of this program is that the best way to know consumers is to visit them in their homes on an ongoing basis."* (C)

*"In the sales area we are also developing programs to accompany consumers to make purchases. These 'shop visits' are offering some really surprising results."* (C)

### **(b) Real-time two-way communication**

For services companies, direct face-to-face interaction with consumers has been long considered distinctive characteristic. Nowadays, direct interaction might not be face-to-face, but is increasingly technology mediated. In addition, direct interaction is no more a showground of services industries only, since consumers expect firms of all types of business activities to be open to dialogue and interact with them. Marketing activities aimed at real-time two-way communication with consumers correspond to the strategic understanding of interactiveness as a bidirectional process that implies the whole organisation.

#### Technology-supported interaction

Real-time interaction between employees and consumers, supported by technological solutions, (e.g., via Call Centres) has the potential to provide quick inputs in the form of complains or suggestion of consumers, as well as help firms provide fast response to consumers' problems. Technology helps firms organise better the flow of consumer information throughout the organisation and thus respond quickly to consumers' demand.

Two-way communication using new interactive media, such as Internet, has a constantly growing percentage in communication activities. This is so because the Internet is believed to be highly cost-effective relative to other media, particularly when taking into account its ability for more precise targeting and two-way dialogue with customers (e.g., Briggs and Hollis 1997). Internet's capability of addressing individual customers (Deighton 1997), its interactivity (Peterson et al. 1997), and the fact that it allows costumers to seek unique solutions to their needs (Sheth et al. 2000) makes it a rich platform for communication.

*"Within the campaign plans interactive media are incorporated with increasing weight in*

*recent years.” (D)*

Technologies that permit greater interaction and flexibility are increasingly implemented in new services options:

*“...we have enabled many channels, both face-to-face and virtual channels for consumer interaction...” (I)*

New technologies allow firms to engage customers more broadly and to respond to their demands more quickly. They help firms to create ongoing dialogue with customers and to access specific customer knowledge at low cost (Sawhney et al. 2005). Aligning changing consumer demands with the possibilities of new technologies allow firms to offer greater variety of interactive service options that provide flexibility, speed and comfort for consumers. This, on the one hand, bears the potential to increase consumers’ satisfaction, and on the other hand, can reduce firms’ costs and time devoted to particular consumers, thus leading to efficiency of marketing operations.

Moreover, companies from different sectors are increasingly implementing CRM-supportive technologies with the aim of enhancing two-way communication with consumers.

*“...now we have a new program and we will start with that, all that is related to CRM, is critical, the client’s world... to know clients’ satisfaction, what do they think of us in relation to competition, what would they ask us to improve, where we have strengths, where we have weaknesses...” (B)*

*“...we are strongly opting for CRM system, and perhaps later than other companies but we will implement it slowly but surely.” (I)*

### Face-to-face interaction

Direct face-to-face interaction with consumers and building long-term personal relationships between consumers and company’s employees is one of the key marketing activities in relation to interactivity. Firms need to pay attention to every detail about the interaction with consumers in order to be able to provide timely, efficient solution to consumers’ needs. Face-to-face communication with consumers has the potential to provide more depth to the interaction process. According to one of the managers, meeting consumers face-to-face is a more efficient way to interact since those meetings provide deep insights about consumers’ needs and preferences, something that cannot be achieved using traditional marketing communication.

*“We organise sessions with clients to give them information on various topics. We explain from a professional point of view what we know about the subject and also new products related to the subject. This way we optimise resource better than with advertising ... there is more depth in*

*the interaction.” (G)*

Direct contact with all consumers, however, is not always possible or feasible, especially for big companies that have a large number of consumers. Nevertheless, managers recognise that *“there is no substitute for the direct contact with consumers”* (C). That is why firms develop a range of activities to get closer to consumers in a face-to-face interaction as in the following example.

*“In May 2006, with the aim of strengthening the local dialogue in Spain and to communicate the vision and values of the company, we invited members of an organisation that protects the interests of housewives, on an “open house” with a headquarter in Barcelona.” (C)*

Face-to-face interaction aimed at relationship building can achieve consumer loyalty. When loyalty and long-term relationship with consumers is the objective of the interaction, the role of employees is vital. The link between employee satisfaction and customer satisfaction has been found substantial and highly significant in the literature (e.g., Brown and Lam 2008). Employees who are customer-oriented and focus on understanding of customer needs, interpersonal care and trustworthy behaviour contribute to the strength of customer-employee relationship over time (Beatty et al. 1996; Jamal and Adelowore 2008) and this affects positively customer loyalty (Beerli et al. 2004). That is why a company-wide understanding of interactiveness should be promoted.

*“The “culture of the shopkeeper” is still present among our employees; they develop close relationship with the customer.” (G)*

### **(c) Cooperative multiparty interaction**

A dialogue culture within the organisation and commitment of all employees to interactiveness is a vital part of the process of firm-consumer interaction. However, this process can go beyond the boundaries of the firm to include other relevant parties. A win-win type of relationship between firms and other stakeholders involved in interactiveness makes possible the cooperative implementation of diverse activities aiming at better understanding and satisfying of consumer needs.

Cooperative behaviour can be initiated with a variety of purposes. Examples of multiparty cooperation goals are:

- work together to achieve better customer experience;
- promote a company and its products/services;
- direct involvement of stakeholders in the interaction with consumers;

- joint development of communication channels.

That is how a marketing manager of an airline company explains some of the cooperative activities the company has initiated:

*“We are collaborating with the team of the director of the El Prat airport, and I think that in Barcelona, which is our principal place of business, we are having a lot of tuning to take actions to make a nicer experience for our customers. We all know that often the greatest discomfort does not occur during the flight but in what occurs before, and that's something we need to solve...” (E)*

*“...we are doing various initiatives and campaigns with Bilbo Air, which is the organisation that deals with the promotion of the airport in Bilbao.” (E)*

In another example, a stakeholder (in this case a university) was directly involved in the interaction with consumers:

*“...since last year and in an agreement with the university we began a line of work based on the creation of workshops on which we meet with consumer organisations.” (I)*

A more complex illustration of cooperative activity is the project initiated by 15 firms, suppliers for a supermarket chain. The aim of the project is the creation of common communication policy and activities, as well as development of educational and informational activities for consumers:

*“We have created an association, which composes the 15 suppliers of meat, eggs and cooked dishes and the main objective of this forum is to educate and inform consumers. This is our goal.” (H)*

*“... parallel to the board we have created a scientific committee with prominent national and international researchers to develop studies that directly affect our products and serve us as tools to convey information to society...” (H)*

Cooperative activities have the potential to help firms reach more consumers, improve consumers' experience with company's products/services and enhance communication and feedback. The focus on cooperation with different actors can lead to the development of a “customer-oriented network” (Vanhaverbeke 2001) where different economic actors such as firms, suppliers, and business partners work together to achieve better interaction with consumers. Cooperation among various parties involved in the value creation enables different types of externalities for the participating actors. Multiparty cooperation, while relevant for all types of firms, can be especially useful for firms with limited marketing budgets since cooperation provides a way of enhancing interaction with consumers at shared costs of the project:

*“...we could not do it by ourselves. Or even each of the providers by themselves could not do it. But together, the first year of operation we have had a budget of 600-700 000 Euros to start work and that represented a negligible percentage of our sales...” (H)*



#### **(d) Informing and educating the consumer**

A dialogue culture requires that a firm both listens to the consumer (*looking for feedback* in order to better know consumers' needs), and informs and educates the consumer (*giving feedback*, providing knowledge to consumers and letting the consumers know the firm). We have already discussed previously that today's consumers have the power and tools necessary to influence firms' sensibility levels and make them adapt to new consumer demands (Urban 2004, 2005). On the other hand, by providing knowledge to consumers, firms can generate or motivate changes in consumers' habits, social sensibility, and readiness to give feedback and participate in the value co-creation process. The role of firms in informing and educating consumers is thus a key part of interactiveness.

*"...We have a service for schools, there is an enabled service for visits to the water treatment plant. They have a well prepared environment with models that explain not only the facilities and water service in the metropolitan area ... but also try to explain the domestic use of water so that the children, when they go back home, can explain what is the water, what is a good use of water, how its consumption can be reduced..." (I)*

*"...promote sustainable consumption through environmentally friendly and ethical products, informing consumers and raising their awareness." (C)*

Informing and educating consumers is a three-step process. First, the company needs to inform and train employees, since they are the ones that are in a day-to-day and often face-to-face contact with consumers.

*"We organise periodic training for the employees, in which the providers also participate... we also touch on topics such as what can providers do to make it easier for employees in their day-to-day contact with consumers." (H)*

On the second step, when the organisation is committed to interactiveness and employees are prepared, they can work toward informing and educating consumers, providing relevant knowledge about the firm and its broader environment, its products/services, or other topics of mutual interest for the firm and the consumers.

*"We have "animators" who are devoted exclusively to work with the clients, and to provide not only information but also training. The animators personally invite clients to discussion meetings..." (G).*

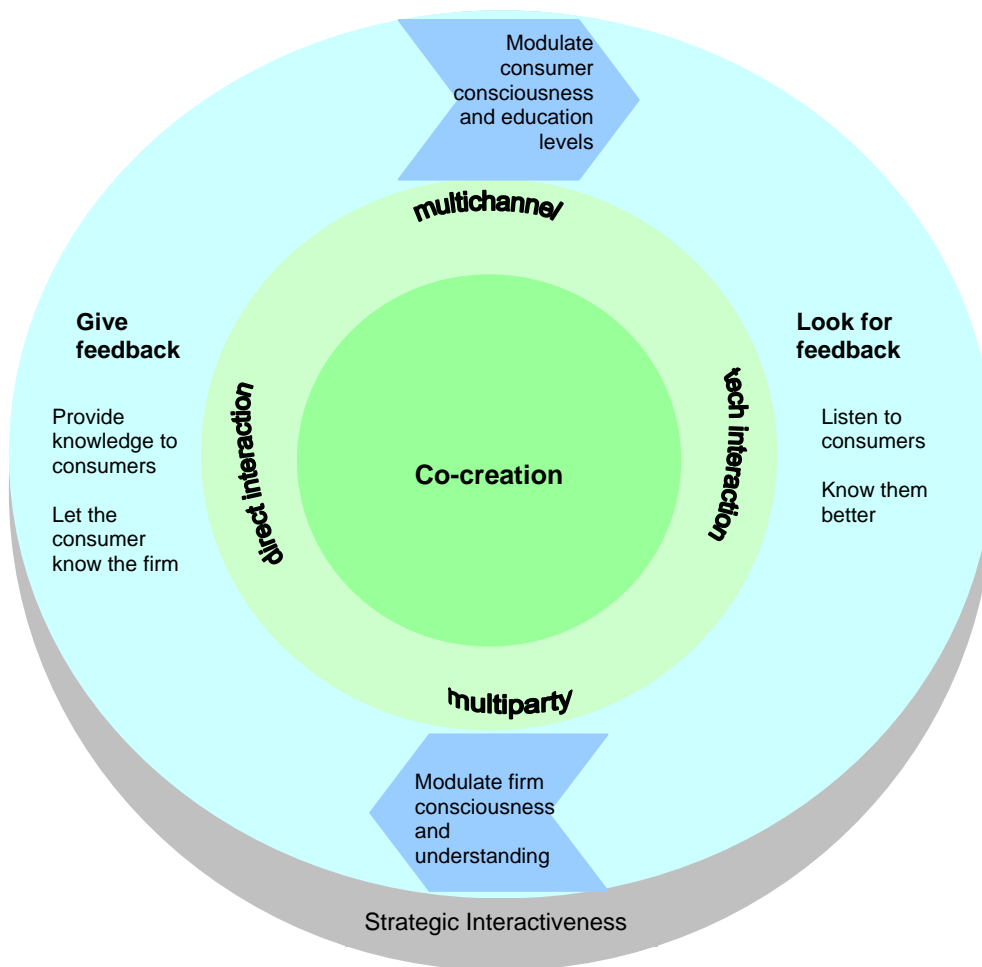
*"...Also we have for example a teaching area that takes advantage of the structure of the company to try to extend lines of communication, teaching what is the water in our lives. That is why we created the Water Museum..." (I)*

On the third step firms can motivate consumers to actively participate in value co-creation. This can be done through diverse activities aiming at raising consumers' consciousness and enhancing their willingness to express needs, requirements and suggestions. Thus the third step of informing and educating consumers feeds back at the

organisation by receiving consumers' feedback, insights or ideas about possible innovations of products/services or adaptation of business processes.

To sum up, Figure 3 presents the role of tactical interactiveness as a bridge between strategic interactiveness (promoting a company wide dialogue culture), and co-creating value with consumers. Crucial activities pertaining to tactical interactiveness are: (a) looking for consumer feedback which will alter firm's consciousness and will increase its understanding of consumers needs, and (b) providing knowledge to consumers which will boost consumers' information and education level, thus contributing to the empowerment of consumers and their willingness to participate in value creation. This is done in a multichannel and often multiparty framework, where both direct face-to-face interaction and technology-mediated interaction have their role.

**Figure 3: Tactical level of interactiveness: the path from dialogue culture to co-creation**



#### **3.4.3.4. Market Response Level**

While it is in the hands of consumers to give or not feedback and to participate or not in interaction, firm's role is (1) to provide the basis for interaction and feedback to be possible, and (2) to take advantage of market response coming in the form of feedback in order to introduce changes, adaptations and improvements in products, services or processes. That is why the market response level of interactiveness will be addressed here from the stand of the firm, or how firms organise and integrate market response in their organisational processes.

##### **(a) Consumer feedback**

The purposes that firms pursue with collecting consumer feedback can vary and this will influence the scope, density and specific ways of organising and systematising feedback. Firms could look for consumers' ideas about possible innovations in products, or about ways to improve the interaction process. Going further in this process, firms could pursue a more active participation of consumers in some areas of decision making, as in the case below:

*"...the final decision is in hands of the management, but this does not mean that we cannot establish paths of communication, assessment, customer participation in decision making, with ideas how a service should be ... and that will allow us to detect many customer needs." (I)*

Depending on the specific firm goals, consumer feedback can vary in scope from feedback on a single product or service (*"We are very interested to understand what is the perception of our customers about the call services" I*), to feedback on various company processes and performance from the point of view of consumers (*"...we measure with surveys on-board every month how satisfied customers are with the check-in service, with the boarding, with the catering ..." E*).

The information load or density of feedback can also differ depending on firm's policy, structural conditions and goals. In some instances, feedback can be collected in a structured manner in predetermined periods, while in others day-to-day feedback is preferred (*"...as we carry the product almost every day at the shop we have more ability to collect everyday feedback from the consumer." D*).

The concrete ways of collecting consumer feedback can rely on technology solutions, such as call centres or online consumer surveys or can be based on direct face-to face contact with consumers.

*"...The company has a Customer Service with more than 90 people. The work of this*

*department is of special importance, becoming one of the main sources of information on needs and suggestions from customers.” G)*

- Pathway of the feedback within the firm

It has already been discussed that interactiveness requires commitment on behalf of the whole organisation. That is why it is crucial that consumer feedback reaches all employees who have interaction with consumers and who will be responsible for taking the appropriate actions related to the specific inputs received. One of the companies in our sample, for example, had developed a technology-based system to re-direct automatically all consumer suggestions or complains to the corresponding departments within the firm in real time and with a specific deadline to resolve the issue. If feedback is received through the employees in a face-to-face contact with consumers, it reaches the respective department and responsible person within it also in a structured manner. Therefore, a key part of the market response level of interactiveness is that consumer feedback should arrive at all contact points in the company and the corresponding actions should be taken.

- Acting on feedback

Acting on feedback is the essence of market response level of interactiveness. It is through undertaking specific measures based on the feedback that companies move the dialogue with consumers into actions that can be beneficial for both parties. Analysis of consumer feedback, responsiveness to it and acting on feedback has the potential to introduce improvements in products, services and processes (Joshi and Sharma 2004), as well as in the interaction process per se.

*“...we try to “sense” what the customer thinks about the service that we are giving and to establish improvement actions in each of our processes.” (I)*

*“Increasingly there are claims by customers who have excess consumption due to internal malfunction and there we can try to do something, to warn the customer in case of breakdown. For example, the schools close during the summer. When they come back in September they might have had some damage, a leak of water, and there is excess consumption. In those cases it is possible for us to do something. We have to detect those small things.” (I)*

Through acting on feedback, on the one hand, increased consumer satisfaction can be reached, and on the other hand, firms can reap the benefits of reducing costs and achieving greater efficiency.

*“...with feedback analysis you can minimise the number of complaints contacts; this means that you are moving forward to fulfil customer needs and expectations. We have less cost because*

*we need to spend less on customer attention, and the customer is better served... that's the way we see it." (I)*

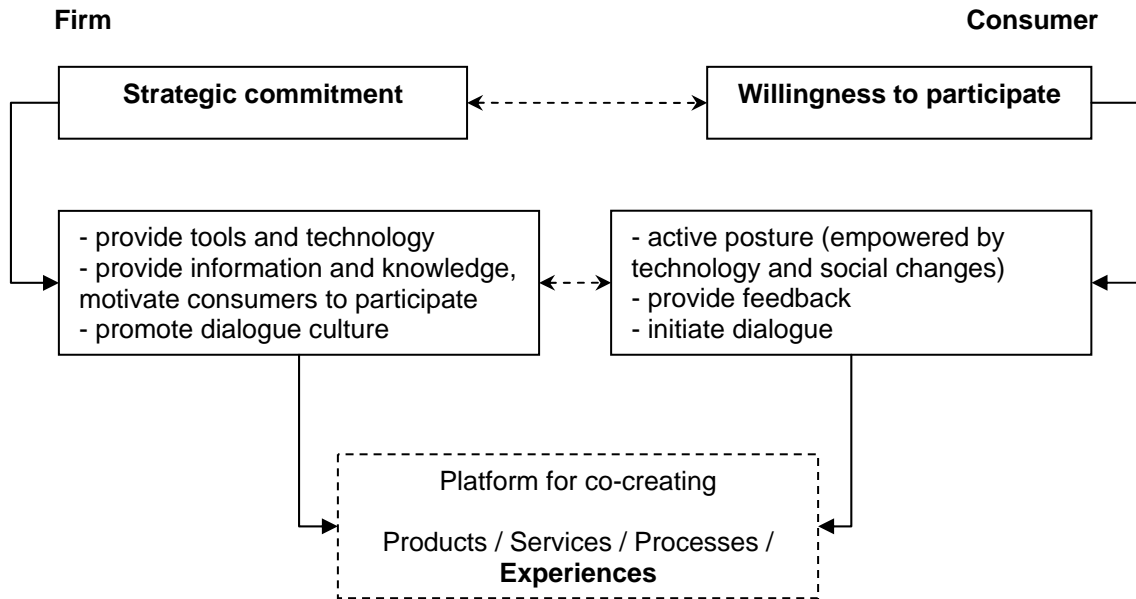
### **(b) Value co-creation**

Co-creation is the core of interactiveness. Strategic understanding of interactiveness requires firms to devote efforts and resources in order to provide the basis for co-creating value with consumers. However, co-creation cannot occur unless consumers decide to participate. We have discussed how firms can motivate consumers to take part in product, services or process adaptations and innovations. Co-creation, however, is always subject to consumer's participation (Vargo and Lusch 2004a) and consumers should be significantly motivated to take part in co-creation activities (Auh et al. 2007). That is why the goal is to mobilise consumers to create their own value from the company's offerings (Normann and Ramirez 1994). Consider the following example:

A low-cost airline company provides a great variety of destinations at low cost. In addition, the company has developed an online platform, where consumers can "produce" their journey from the comfort of their homes. The platform allows flexibility in the choice of seats, and consumers can print their boarding cards and thus avoid unnecessary queuing at the airport and save time. Moreover, consumers can make a reservation of hotel and car rentals, and thus "produce" their holiday beyond the travel. In addition to that, the company launches a variety of both online and offline communication campaigns to inform consumers about their services. The company promotes a culture of "all the staff works for consumers' perception about the firm" and also works with the airport management in order to make more pleasant the experience of consumers before the flight. Therefore, the company (1) provides tools and technology in order for the consumers to co-create their journey experience; (2) provides information and knowledge to consumers; and (3) promotes dialogue culture throughout the organisation. Now it is consumers' turn to make possible the co-creation of the experiences by using firm's services and providing feedback for further improvements.

Therefore, co-creation cannot occur if consumers take passive posture, do not show interest in participating and/or giving feedback to firms, and are unwilling to engage in dialogue. In order for co-creation to occur, both firms and consumer have to commit to the process of interactiveness. Figure 4 summarises the role of both parties – firm and consumer - in value co-creation.

**Figure 4: Framework for value co-creation**



Summing up, as regards the market response level of interactiveness, the role of the firm is in, first, promoting a dialogue culture and motivating consumers to participate in value co-creation by providing the necessary information, knowledge, and tools; and second, acting on the feedback received by consumers to introduce improvements in its products/services and processes.

### 3.4.4. Consequences/Results of Interactiveness

#### 3.4.4.1. Consumer-Level Results

##### (a) Optimising consumers' resources (maximising value for consumers)

Optimising consumers' resources refers to providing solutions (products and services) that help consumers to maximise the received (perceived) value from their interactions with firms. Consumers' resources, such as time and money, are scarce, just as firm resources are. Therefore, a dialogue culture requires firms to approach the interaction with consumers as a process looking for win-win solutions where both firms and consumers work toward optimising their resources.

Consumer satisfaction and loyalty is dependent on the perceived value that consumers receive, and this value is greater when scarce consumer resources are

optimised as a result of solutions provided by the firm (Grönroos 1997). Greater interaction with consumers helps firms to better understand consumers' needs and offer appropriate solutions that deliver higher value by optimising consumers' time, money or other resources.

Increased consumer dynamics has made firms recognise that consumers are changing their habits and are looking for solutions that bring efficient use of their resources. Ever more complex consumer needs bring the necessity to innovate and offer products and services that help consumers organise in a more efficient manner their resources:

*"...meet the growing needs of consumers for products that use scarce resources efficiently." (C)*

On the other hand, firms can contribute to the process through a dialogue posture, by providing information and tools that sensitise consumers about the importance of using wisely the available resources.

*"...consumer organisations have told us to explain better what is the water, because in the end the people's perception is that it is something that's there available so why we must pay so much for it. If you explain better what is behind it and all we do, they (consumers) can understand that this is complex, there is a complicated purification plant, etc... and this can help a bit so that consumers also convey a part of that is done wrong in the domestic water management and how to improve it." (I)*

Table 5 presents examples of how firms see the importance of optimising diverse consumer resources.

### **(b) Consumer satisfaction and loyalty**

Greater firm-consumer interaction bears the potential to increase consumer satisfaction since interactiveness permits firms to be better acquainted with consumers' needs and requirements. When firms provide the basis and tools for dialogue, consumers can provide in turn feedback faster and easier, be it positive feedback or complains. On the other hand, consumer dissatisfaction (e.g. complains received) can be taken advantage of to improve services/products and thus increase future customer satisfaction.

*"The analysis of complaints is essential in order to be able to figure out why consumers are complaining and what we can do to prevent it" (I)*

Consumer satisfaction brings more feedback and thus more opportunities for firms to perceive what customers need and to act on the feedback. Greater satisfaction brings greater willingness of consumers to cooperate with the firm and to work together towards innovations and efficient solutions for both parties.

**Table 5: Optimising consumers' resources – examples from the field**

Consumer resources	Examples from the field research
<p><i>Optimising money</i></p>	<p><i>“A month ago there was an article in a newspaper which was very interesting. They had calculated the average price of tickets (for the Easter holidays) departing from Madrid and Barcelona, and Barcelona was half price because of the presence of companies as ours... we have given to citizens in Catalonia and Barcelona concretely over 50 destinations that they did not have before.” (E)</i></p> <p><i>“...you have only to compare some prices: you can fly from Barcelona to Rome for 30 Euros; how much will it cost to go by car or train? As I said before, we made possible flying to certain destinations to be within the reach of many people.” (E)</i></p>
<p><i>Optimising time</i></p>	<p><i>“...because our products pass with a high speed... one of the indices that are measured in Mercadona is the queuing time at the checkout” (H)</i></p> <p><i>“...to manage well customers' time (a capital T for this segment), and to make as smooth as possible the entire flight experience from buying the ticket until reaching the destination” (E)</i></p>
<p><i>Optimising received product/service quality</i></p>	<p><i>“...ensuring that throughout all the interaction channels the customer will be treated in the same way. For us this is essential. That is, a client can use all the channels wherever he/she is and will be equally cared for....” (I)</i></p> <p><i>“...in 10 years we have advanced from selling everything in bulk to selling everything packaged, labelled and everything in protective atmosphere so that a store in A Coruña can have the same product quality as a store in Tarragona or Barcelona ...” (H)</i></p>
<p><i>Optimising processes</i> <i>(Complex solutions leading to consumer efficiency)</i></p>	<p><i>“And business travellers can also enjoy this same price advantage whilst at the same time benefiting from greater flight frequencies, better timetables, access to major airports and service features that up until now they could only find at the conventional airlines, by paying full fare. These service features include the possibility to change tickets and schedules, VIP lounges, Iberia Plus and the being able to make reservations through the appropriate business segment channels.” (E)</i></p> <p><i>“In 2007 we strengthened the implementation of “Shops by Environments”, with the aim that consumers can make their purchase comfortably in a more ample and streamlined environment, with better distribution of goods, allowing optimisation of their purchasing act.” (G)</i></p>

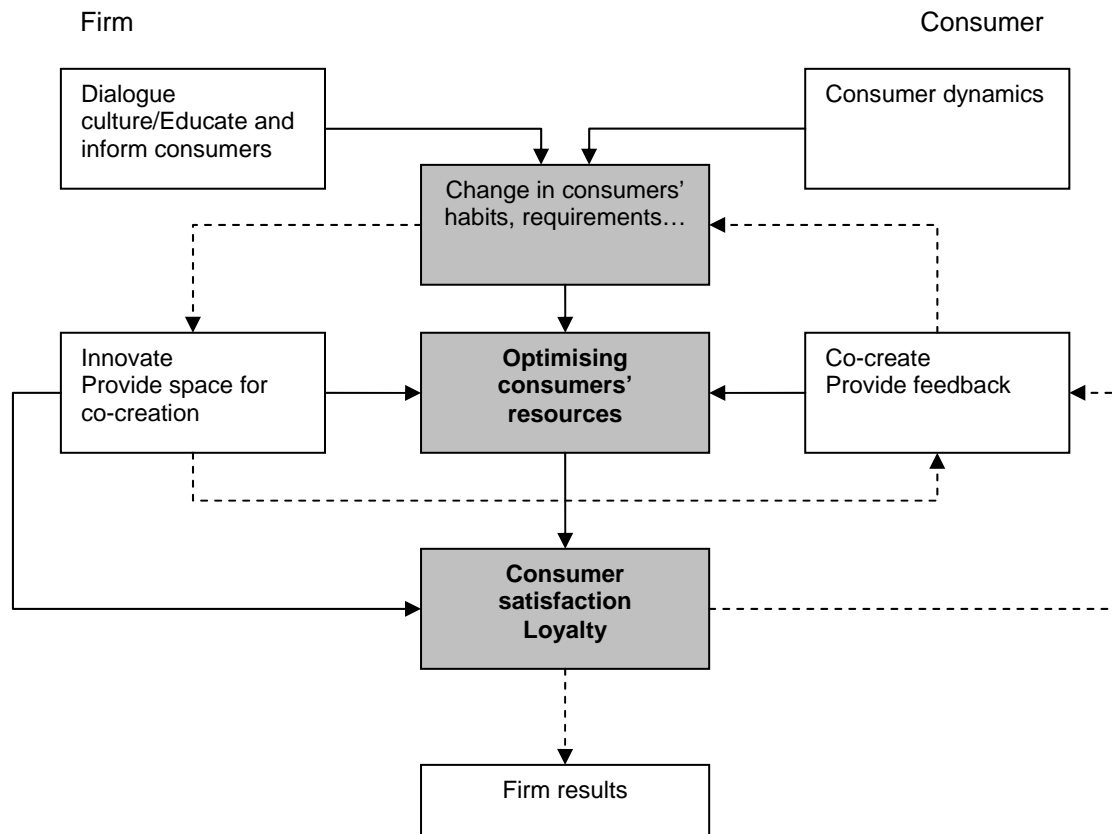
Satisfaction, combined with personal engagement stemming from a good personal relationship with company's employees, enhances consumers' loyalty. Direct interaction between employees and consumers is a key for achieving loyal consumers. Good relationships between customers and employees lead to greater commitment and loyalty to the organisation (Hennig-Thurau et al. 2002; Jamal and Adelowore 2008). That is why, it is crucial that interactiveness be understood at all hierarchy levels of the company.



*“We have the advantage to have very loyal customers who develop a close relationship with our employees. (H)*

Figure 5 summarises the major consequences for consumers stemming from interactiveness.

**Figure 5: Interactiveness consequences: Results for consumers**



### 3.4.4.2. Firm-Level Results

#### (a) Adaptation

Interactiveness brings a range of changes for the firm. While firms look for greater interactiveness with the aim of getting closer to consumers and thus reach firm’s marketing goals and desired performance, in the course of interaction the firm needs to make several adaptations and changes. One driver of change is company’s own dynamics, originating from e.g., increase/decrease in number of clients, distribution points, and sales. Another important driver is consumer dynamics. Greater consumer requirements bring the need to interact more. This in turn leads to the necessity for firms to adapt to the new consumer demand levels, and to the diverse interaction channels, including interactive media, in order to reach certain consumer segments. Firms can take advantage of consumer information (feedback) received in the

interaction process to adapt, developing products and services that match increasingly complex consumer needs.

*“...we have information systems that are structured and organised, and that allow us to analyse each customer and help us to start thinking on different processes based on the needs that vary for each segment.” (I)*

*“...customer service as something dynamic to improve, to adapt in the light of new developments.” (I)*

Marketers adapt the channels of interaction to meet the needs of diverse consumer segments. Both in communication channels and in design of services, where face-to-face or technology-mediated interaction is produced, firms have to adopt interaction tools that comply with changing consumer requirements. The trend is toward the use of more interactive media and technology solutions in the interaction process, since they provide flexibility and broad reach as well as the possibility to track results and actions back to individual consumers or groups of consumers.

*“We adapt also because every day there is more demand on this, the requirements about accessibility ... and about including more channels that are not face-to-face.” (I)*

Adaptations in the communication / interaction channels and the products and services can further lead to adaptation of internal firm processes or even re-thinking of the business model to match increased market and technological complexity and consumer dynamics. Companies are likely to undergo significant organisational transformation as they embrace interactiveness and collaborative practices. The evolution toward co-creation of value with customers can require a redesign of marketing processes in order to make them supportive for continuous dialogue with customers and systematic knowledge sharing (Sawhney et al. 2005).

*“... People want more speed every day, more simplification in the processes, I mean more simplicity, more access, more accessibility, more personalised attention and all this makes us rethink the channels of interaction continuously. Therefore the face-to-face channel will be adapted to this new reality and we will be adapting more other channels, at a distance.” (I)*

## **(b) Innovation**

Innovation is what permits a firm to stay ahead of its competitors and interactiveness is a key to achieve new products and services that meet consumer requirements. This is so because interactiveness implies sharing of ideas and knowledge within the firm and with customers (Ballantyne and Varey 2006). Thus, through interactive dialogue the consumers can be valuable source of new ideas that would lead to greater innovation

capacity (e.g., Prahalad and Ramaswamy 2000). Consumer inputs are found to be extremely valuable in the innovation process.

*“Closeness with consumers is crucial throughout the whole innovation process.” (C)*

Consumer involvement in innovation can be explicit, as when firms invite formally and motivate consumers to give opinions on certain products, services or processes. More often, however, consumers participate in innovations implicitly, i.e. when firms act upon feedback received by consumers and introduce improvements and innovations.

*“But the product itself ... especially when you have a traditional product and you want to innovate, it seems complicated, but gradually you are discovering needs that the consumers are asking you to respond to, but you have not responded so far.” (H)*

Interactiveness helps firms to introduce innovations that solve concrete consumer problems quickly and efficiently. Direct or technology-mediated constant flow of two-way communication with consumers permits firms to understand consumer needs and to provide timely solutions, as well as flexibility in the interaction. Thus, interactiveness culture helps firms to introduce innovations in the communication process or in the products/services that contribute to the optimisation of consumers' resources.

*“...We made an express communication to the schools, saying “please have in mind that a closed plumbing for a month can cause problems in the water quality ... etc.”. The point is that we started a new communication, trying to make them see the importance of this so that they make running the water before the children consume it....” (I)*

Greater interactiveness also has the potential to contribute to innovations that bring efficiency for the firm. The implementation of new interactive technologies or new services required by consumers can drive toward optimisation of firm's resources and more efficient use of them. The use of online virtual office for example saves time to company's employees, while providing consumers with the flexibility to receive the required service from the comfort of their home or office.

*“Apart from the channels that I've explained, we have our web channel, we have a virtual office for customer service; the truth is that it is continually evolving technologically ... but we are developing it slowly but surely and we are adapting it. The fact is that we have a website from which you can access a virtual accountant where you can see your bills, bill notices you receive, you can request duplicate invoices, etc.” (I)*

### **(c) Efficiency**

Better managed interactions with consumers lead to efficiency of company's operations. Interactiveness helps firms to get clearer idea about the needs and expectations of consumers, as well as bears the potential of delivering a constant flow of communication and information that firms can use to get closer to consumers. Therefore, marketing activities can be better focused and thus greater efficiency can be achieved.

*"The immediate results are efficiency and effectiveness, because we have a clearer idea of what customers want, and also because the resource loss is less and we can use resources for other activities." (A)*

Greater efficiency in operations, in turn, leads to more resources available to invest in other projects that can bring value propositions for consumers. That is how some of the managers interviewed explained the importance of achieving greater efficiency:

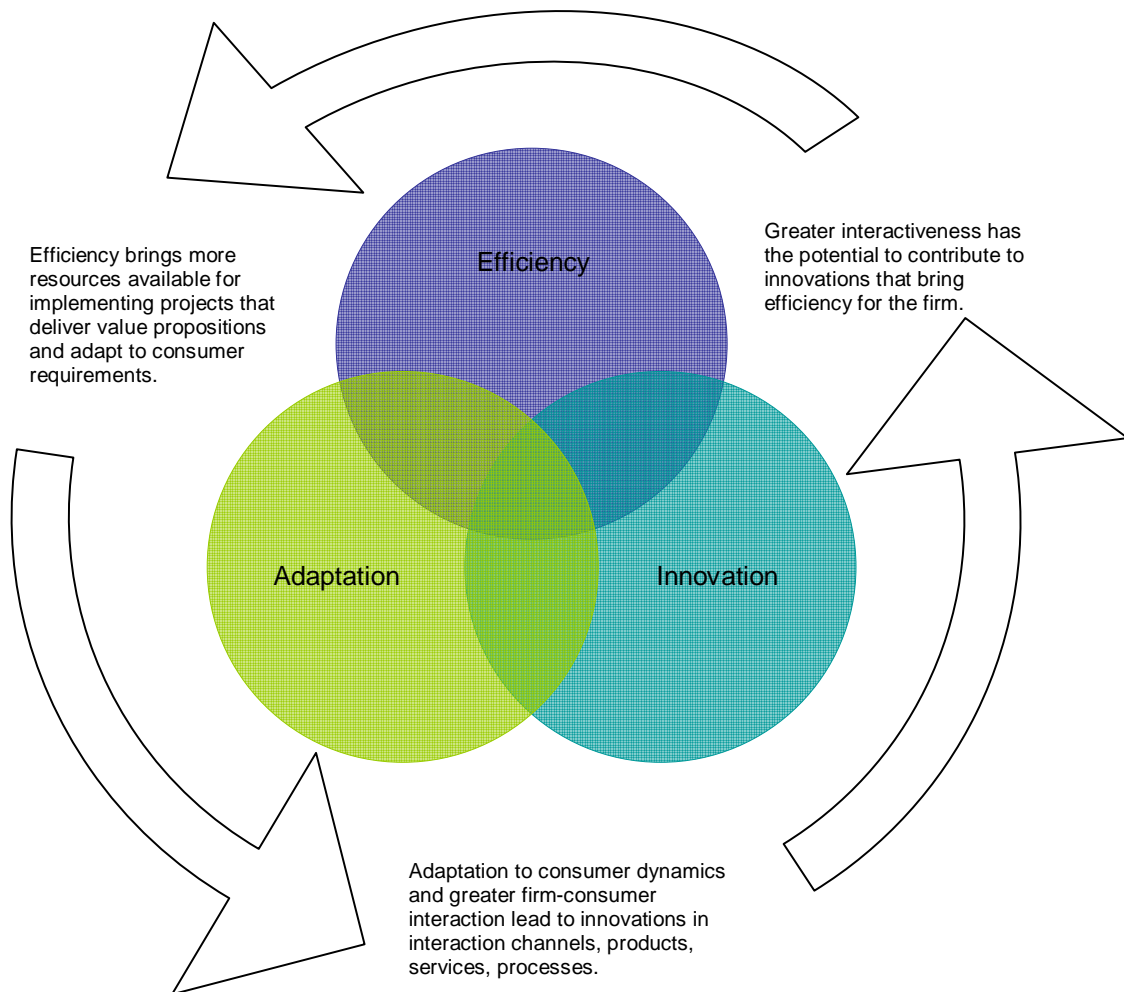
*"...the continuous invoicing that we are implementing, will allow us to optimise the resources available to put in customer service... We will be able to better optimise resources and dedicate resources to things that can provide more added value." (I)*

*"The company places great emphasis on efficiency with the aim of offering the best prices to passengers." (E)*

This finding is in line with recent developments in the marketing literature which posit that higher efficiency is converted into cost savings, and more working capital available which can be invested in other value generating projects that affect performance (Mittal et al. 2005; Luo and Donthu 2006).

To summarise, adaptation, innovation and efficiency are major consequences of interactiveness at the level of firm results, but they also nurture each other as the process of interaction evolves. Figure 6 provides example of how the three firm-level results are related to one another.

**Figure 6: Interactiveness consequences: Results for firms**



### **3.4.4.3. Broader Stakeholder Network Results**

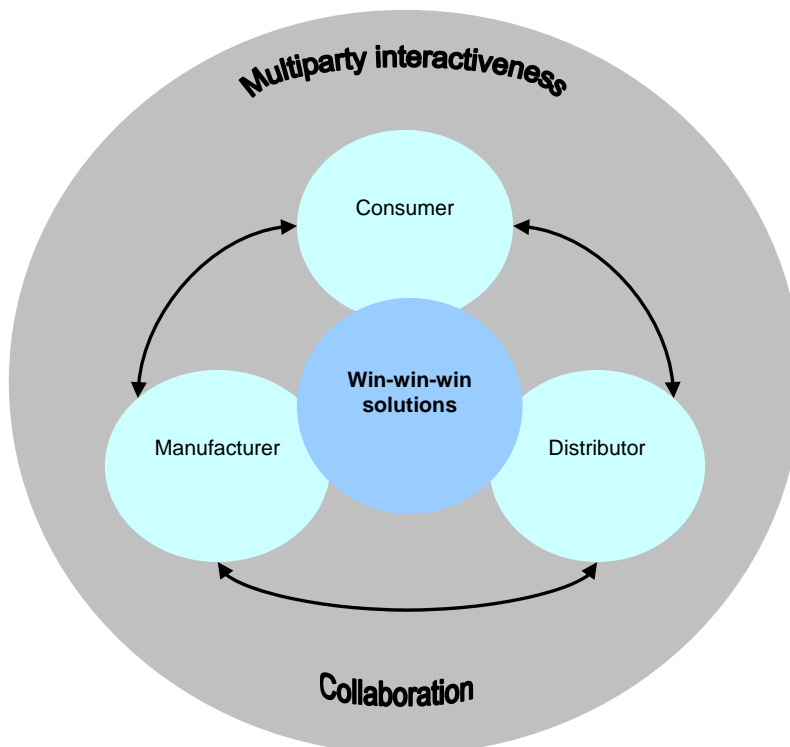
Interactions with individual consumers can be a challenging task, especially for fast-moving consumer goods companies. Our results indicate that interactiveness is increasingly not only a two-way dialogue, but a multiparty dialogue. For companies that do not enjoy easy direct access to individual consumer information, multiparty interactiveness is particularly relevant. Interactions among diverse stakeholders engaged in satisfying consumers' needs provides the potential for win-win solutions where manufacturers and distributors join their efforts and share costs, thus achieving gains in terms of internal efficiency and getting closer to consumers and satisfying their needs. Results stemming from interactiveness culture thus go beyond immediate firm-level results to reach the broader stakeholder network. Our findings are in line with the

literature on Efficient Consumer Response and Collaborative CRM (ECR 2003), which sustain that jointly, manufacturers and retailers can share the know-how of their respective markets, develop synergies in analytical processes and methods, and combine store and brand loyalty, thus achieving more efficient and effective collaborative solutions. Importantly, this kind of multiparty interaction ultimately results in win-win-win situations in which consumers also gain.

*“.....the relationship with our distributor is a relationship of a common project, a project that is based on win-win, the two sides gain, and this project has as a primary objective (an objective that you have to be able to transmit to the entire chain of your company) the being able to meet the needs of the end consumer.” (H)*

Figure 7 below exemplifies the path toward win-win-win solutions. If manufacturers and distributors join their effort to achieve better products and services that satisfy consumer needs, a constant flow of communication and information among the parties is achieved. Win-win partnership-based relationship between manufacturer and distributor allows manufacturers to be better prepared for investment and innovations, which in turn leads to greater consumer satisfaction. Satisfied consumers lead to greater sales levels and more willingness to provide feedback and initiate dialogue with both the distributor and the manufacturer.

**Figure 7: Multiparty interactions and win-win-win solutions**



This win-win-win model can be extended to include several pertinent stakeholders, such as employees, consumer associations, or other relevant organisations.

*“For years, we have been particularly sensitive to the needs of the celiac group of consumers, that is why we have a wide selection of gluten-free products, which regularly undergo strict quality control ... Because of all these initiatives, the collaboration with the Celiac Federation of Spain is growing ... We address all our consumers, regardless of the dietary and nutritional needs of each.” (G)*

By involving diverse stakeholders, interactiveness moves the firms into exploring new business models in which consumers and other relevant parties take a more prominent role. Changing business models can involve consumers by giving them the possibility of direct participation in management decisions or by inviting them to participate in the design of new products and services. Interactiveness brings the opportunity to all employees to be involved in building relationships with consumers and achieving greater satisfaction. Collaboration with different stakeholders in the process of interactiveness can help firms more efficiently and effectively reach consumers and understand their needs. Therefore, interactiveness culture moves the firms toward adopting more flexible and participative business models. The move towards empowering consumers as active knowledgeable partners and collaborating with diverse stakeholders to continuously adjust to dynamic consumer needs will likely require a change in the managerial mindset (Day 1994; Gibbert et al. 2002) and therefore, can posit substantial challenges. However, it also brings the potential for efficiency gains and sustained competitiveness. As explained by Teece (2007), a key for sustainable profitable growth is the ability to adjust and recombine organisational assets and structures as markets and technologies change. With its focus on dialogue and knowledge sharing, interactiveness helps firms to continuously adapt to changing market requirements through “watching for the next wave that is coming” (Arthur 1996) and positioning the firm to participate in shaping its environment (Teece 2007; Augier and Teece 2008).

### **3.5. Summary and Concluding Remarks**

Within GT, theory is viewed as a process, that is as an ever-developing entity and not as a perfect product (Glaser and Strauss 1967: 32). In line with qualitative constructivist thinking, proponents of GT suggest that “there are many different stories that can be constructed from data.” (Corbin and Strauss 2008: 47). A constructivist approach aims

to show the complexities of particular worlds, views and actions and emphasises understanding rather than explanation, looking at theoretical perspectives as abstract and interpretive (Charmaz 2006). However, GT as *theory* contains both interpretivist and positivist inclinations (Charmaz 2006: 127). Strauss and Corbin's (1998) understanding of GT has some positivist leanings since for them theory means "a set of well-developed concepts related through statements of relationships, which together constitute an integrated framework that can be used to explain or predict phenomena" (p. 15). The original "*Discovery...*" text also shows positivist linkages:

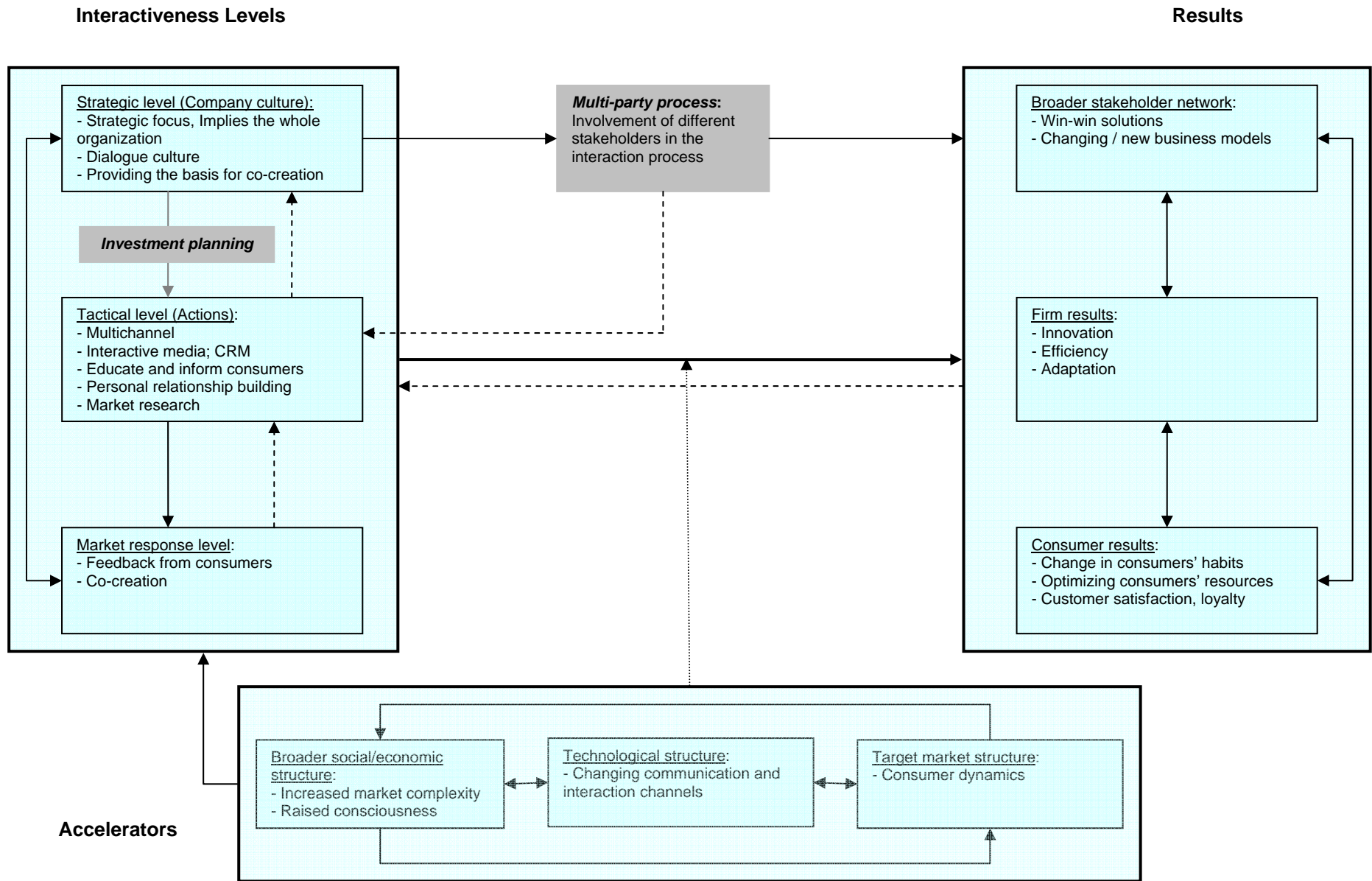
*"The theory should provide clear enough categories and hypotheses so that crucial ones can be verified in present and future research; they must be clear enough to be readily operationalized in quantitative studies when these are appropriate."* (Glaser and Strauss 1967: 3)

This research attempted to gain understanding on the process of firm-consumer interactions, the conditions that drive toward adopting greater interaction and the results that are expected. In so doing, we urge the reader to bear in mind that: "*Different analysts focus on different aspects of data, interpret things differently, and identify different meanings. Also, different analysts arrive at different conclusions even about the same piece of data... In all depends upon the angle or perspective that the analyst brings to the data.*" (Corbin and Strauss 2008: 50). That being said, it is our belief that the findings presented here are plausible and true to the data, since the procedures prescribed by GT have been closely followed in order to reach credibility of the concepts developed. Further, in keeping with the dual interpretivist and positivist proclivity of GT, we present an integrative model of the findings that can be easily approached from a positivist position (see figure 8 below).

The model summarises the main findings and identifies the relationships between the constructs. In the figure solid lines show main effects (relationships) between variables, dashed lines refer to reversed effect and dotted lines refer to moderator effects. As a means of example, a quantitative study could focus on a relatively narrow, concrete issue within the framework presented in the figure, and to measure the effect of the use of one (or more) of the tactical level interactivity tools, such as the use of interactive media in marketing communication, on one (or more) of the firm-level results, for instance firm's marketing communications efficiency.



**Figure 8: Integrative model of interactivens levels, accelerators and results**



A study with a broader scope could examine the effect of different components of strategic interactiveness as a company culture on diverse consequences, such as consumer-level results (e.g., satisfaction) and firm-level results, e.g., innovation, efficiency or general firm performance.

Summing up, our analysis indicates that one-way marketing is considered obsolete and firms are increasingly recognising that the communication with consumers should be bidirectional.

*“One-way marketing is over. Firms that rely on one-way marketing will not survive in future. Consumers want to be heard. The typical marketing actions are no more valid.” (A)*

This is so because consumers are ever more sensitised, educated and demanding transparency and dialogue. Empowered by new technologies and with increased social awareness consumer can have greater levels of relevant information about companies and their products, and can demand certain behaviour on behalf of firms. This makes necessary that firms adopt interactive marketing posture that takes into account consumer’s voice. Thus, change in consumer dynamics intensifies the need of strategic understanding of and an approach to interactiveness as a two-way flow of communication and a dialogue of equals for joint problem-solving.

In addition, more and more prominence of different stakeholders in diverse aspects of the business life makes necessary to think about interactiveness in a multidirectional facet. We identified three major stakeholders – employees, suppliers and distributors. It was argued that especially for B2C companies that are producers and need a distributor to reach their consumers, employees and distributors will be the most relevant stakeholders involved in interactiveness. Therefore, companies placing a strategic emphasis on interactiveness can leverage their relationships with diverse stakeholders in a search of innovative and efficient solutions for customer needs.

## Chapter 4

### THE ROLE OF INTERACTIVENESS FOR ENHANCING MARKETING ASSETS AND FIRM PERFORMANCE

Based on the analysis of the field research and the relevant literature, interactiveness has been defined as a complex construct that can be viewed as consisting of three separate but interrelated levels: strategic, tactical and market response level. We have discussed that the tactical and market response levels may vary significantly in their implementation depending on the type of sector/industry and whether or not direct interaction with all consumers is feasible. However, the strategic level has been conceptualised as pertaining more to the firm culture and strategic emphasis, and thus the strategic interactiveness construct can be pertinent to firms across different industries. Since the focus of this dissertation is on a higher order concept of interactiveness that can be applicable to both B2B and B2C, as well as services and non-services firms, this chapter is concerned with interactiveness at the strategic level.

A study by Homburg et al. (2007) reports that with respect to customer responsiveness and firm-consumer interactions, the factors that most strongly influenced the level of customer responsiveness in the firm were related to customer-related values, beliefs and norms. Thus, the affective (cultural) element was crucial in achieving customer responsiveness in the firm, which in turn influenced performance. An organisational culture (viewed as beliefs and norms that govern the way people relate to one another in the organisation and the way the organisation sees itself and the world around it) has been demonstrated to influence firm performance since strong cultures help form a shared vision among employees to meet organisational goals (Bharadwaj et al. 1993). In addition, a culture that supports the implementation of a strategy is considered difficult to copy or imitate and therefore can be a basis for achieving sustainable competitive advantage (Barney 1986; Hult et al. 2004).

Following this literature, we will conceptualise strategic interactiveness as a way of achieving competitive advantage. To do so, we will draw on the resource-based view (RBV) and dynamic capabilities streams. After that, empirical literature linking interactiveness with different performance measures will be reviewed. The literature review will be followed by development of hypotheses and model of analysis with the aim to examine how interactiveness help attain competitive advantage and superior performance. RBV posits that valuable and rare resources and capabilities permit firms

to achieve higher effectiveness and efficiency (Barney 1991; Hunt and Morgan 1996). Addressing the *effectiveness* dimension, we hypothesise that interactiveness will improve the generation of marketing assets (such as customer and brand-related assets), which in turn will enhance performance. Innovation and stakeholder involvement are suggested as additional paths to increase marketing assets. Since many authors have pointed out that consumer interactions have the potential to increase innovation (e.g., von Hippel 1976, 1978; Kristensson et al. 2004; Hsieh and Chen 2005), in addressing the *efficiency* dimension our focus is on the efficiency with which innovations are converted into higher customer satisfaction and perceived brand value. We hypothesise that interactiveness will help improve the innovation efficiency, which would consequently effect positively profitability. After developing the hypotheses, the research design and the results will be presented, followed by discussion of findings.

#### **4.1. Theoretical Framework: Resources, Capabilities and Interactiveness**

##### **4.1.1. Resources and Capabilities Defined**

The Resource-Based View (RBV) of the firm posits that firms can be seen as bundles of resources and that heterogeneity among firm resources and the way they are deployed is the fundamental reason for differential performance (Penrose 1959; Wernerfelt 1984; Barney 1991). Firm resources, according to Barney (1991: 101) are “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness”. Resources can be both tangible, such as materials, capital, premises, etc., and intangible, such as reputation, customer loyalty and brand image. According to the RBV of the firm, although firm’s physical resources are important determinants of performance, the primary emphasis is placed on the intangible skills and resources of the firm as they are considered to be non-tradable, more difficult to imitate and take time to build internally (Amit and Shoemaker 1993). Sustainable competitive advantage, and thus increased performance, stem from resources which are valuable, rare, imperfectly imitable and non-substitutable (Dierickx and Cool 1989; Barney 1991; Collis 1991).

With the progression of the RBV literature, an important distinction has been made between resources and capabilities. Amit and Shoemaker (1993) define resources as “stocks of available factors that are owned or controlled by the firm”, while

capability refers to “firm’s capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end” (p. 35). Likewise, Helfat and Peteraf (2003) state that: “A resource refers to an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis. An organizational capability refers to the ability of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result” (p. 999). Similar distinctions between resources and capabilities have been suggested by others (e.g., Makadok 2001). A capability is not a single resource, but rather a distinctive way of allocating resources through complex processes across the organisation and therefore, is collective and socially embedded in nature (Schreyögg and Kliesch-Eberl 2007). It follows, then, that while (at least some) resources might be available to many competitors, capabilities are more firm-specific since they emerge out of the interactions of cultural and structural elements in the organisation (Bitar and Hafsi 2007), and are therefore harder to imitate and non-tradable, thus bringing the potential for a sustainable competitive advantage (Narasimhan et al. 2006).

#### **4.1.2. From Capabilities to Dynamic Capabilities**

Several authors have suggested the notion of capabilities as routines, where a routine is referred to as an organisational behaviour which is learned, highly patterned, repetitious and founded in part in tacit knowledge (Winter 2003). Thus, Collis (1994: 145) defines capabilities as “socially complex routines that determines the efficiency with which firms physically transform inputs into outputs”. Winter (2000: 983) suggests that a capability is a “high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization’s management a set of decision options for producing significant outputs of a particular type”. Bitar and Hafsi (2007) conclude that “capabilities are neither inputs (resources) nor outputs (results/performance) but rather problem-defining and problem-solving routines that allow organizations to make sense of their environment, prioritize issues, and develop and implement solutions”. Therefore, it is argued that since organisational capabilities determine the efficiency with which inputs are converted into outputs, they can provide a firm with a unique product market position, and thus with competitive advantage. However, a static efficiency can be easily competed away by a firm possessing a

dynamic capability to improve the efficiency of production (or organisational processes) over time (Collis 1994). Thus, the literature distinguishes between (1) operating routines (ordinary/operational capability), or in Winter's (2003) terms, a zero-level capability, and (2) a higher order capability, referred to as a dynamic capability (Teece et al. 1997).

**Table 6: Defining dynamic capabilities**

Author(s)	Dynamic capability definition/characterisation
Teece, Pisano, and Shuen (1997)	Dynamic capability is the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments.
Eisenhardt and Martin (2000)	The firm's processes that use resources—specifically the processes to integrate, reconfigure, gain and release resources—to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die. Dynamic capabilities are the antecedent organizational and strategic routines by which managers alter their resource base—acquire and shed resources, integrate them together, and recombine them—to generate new value-creating strategies. As such, they are the drivers behind the creation, evolution, and recombination of other resources into new sources of competitive advantage.
Zollo and Winter (2002)	A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness.
Zott (2003)	Dynamic capabilities create and shape a firm's resource positions, capabilities, operational routines, and activities. In turn, these mediating variables determine the firm's product market position and therefore its performance. This chain of causality implies an indirect link between dynamic capability and firm performance.
Teece (2007)	Dynamic capabilities can be harnessed to continuously create, extend, upgrade, protect, and keep relevant the enterprise's unique asset base. Dynamic capabilities can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets.
Augier and Teece (2008)	Dynamic capabilities' refers to the particular (non-imitable) capacity business enterprises possess to shape, reshape, configure, and reconfigure assets so as to respond to changing technologies and markets and escape the zero profit condition. Dynamic capabilities relate to the enterprise's ability to sense, seize, and adapt, in order to generate and exploit internal and external enterprise-specific competences, and to address the enterprise's changing environment.

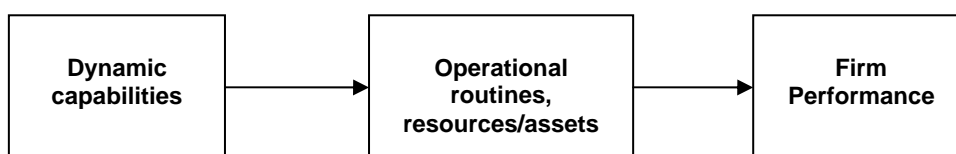
To understand the nature of dynamic capabilities, table 6 presents selected definitions. From the definitions it is evidenced that dynamic capabilities:

- (1) Combine, enhance and *reconfigure existing resources and capabilities, and create new ones to achieve alignment with rapidly changing environment* (Teece et al. 1997; Eisenhardt and Martin 2000; Teece 2007; Augier and Teece 2008).
- (2) Alter and *leverage other resources and capabilities for achieving sustainable competitive advantage* and improved performance (Eisenhardt and Martin 2000; Zollo and Winter 2002; Zott 2003; Teece 2007).

(3) Are concerned with *change*. Dynamic capabilities govern the rate of change of ordinary capabilities (Zollo and Winter 2002; Winter 2003). Dynamic capabilities help meet changing customer needs (Teece 2007) through creation and reconfiguration of organisational assets, but they also change the organisation's environment by contributing to creating new business models/business reconfiguration and shaping competition and marketplace outcomes (Eisenhardt and Martin 2000; Teece 2007; Augier and Teece 2008).

Teece (2007) explains that while operational capabilities help sustain firm's technical fitness through a focus on operations management (and thus can provide a short-term competitive advantage), dynamic capabilities undergird evolutionary fitness through a focus on continuous adaptation and change, and thus help build long-term competitiveness. Since dynamic capabilities are concerned with change, adaptation and assets reconfiguration, they are especially relevant in rapidly changing environments, e.g. markets with high technology changes or changing consumer needs and attitudes. Dynamic capabilities rely on real-time information and market feedback that alerts managers about necessary adjustments and helps them quickly understand and take actions to adapt to the situation (Eisenhardt and Martin 2000). Further, as Eisenhardt and Martin (2000) explain, long-term competitive advantage is achieved through the resource configurations that organisations build using dynamic capabilities. Therefore, the relationship between dynamic capabilities and firm performance is indirect, that is dynamic capabilities build and leverage asset positions/resources that in turn sustain competitive advantage and lead to improved performance (Zott 2003), as exemplified in figure 9 below.

**Figure 9: The link between dynamic capabilities and performance**



*Source: Adapted from Zott (2003)*

### **4.1.3. Marketing Resources and Capabilities**

Srivastava et al. (1998, 2001) identify two types of marketing resources (or market-based assets in their terminology) – relational and intellectual. Relational assets refer to relationships with external stakeholders, such as customers. The way marketing can aid the firm to sustain the competitive advantage is through an emphasis upon the value customers perceive and experience through interactions with the firm and its offerings (Srivastava et al. 2001). Customer relationships have the potential to increase customer loyalty and satisfaction. The accumulation of such relational customer assets in turn increases overall brand reputation and augment brand strength and value (Keller 1993), thus giving rise to the development and accumulation of brand assets. Both customer and brand assets are intangible resources, built over time in complex interactions between the firm and its customers, and are therefore, firm-specific, difficult to imitate, and immobile (Barney 1991).

Intellectual assets, on the other hand, refer to the knowledge the firm possesses about its competitive environment and market heterogeneity in demand, i.e. customer preferences. Obtaining insightful knowledge about customers and their needs requires firms to invest in processes that achieve high quality customer feedback through continuous interactions (Srivastava et al. 2001).

Relational and intellectual assets are inherently related to one another. Intellectual assets in the form of customer knowledge help firms better understand customer needs and develop products/solutions that meet (or even exceed) customer requirements, thus leading to customer satisfaction and contributing to customer relationships. Long-term relationships, in turn, allow for better and faster customer feedback, thus generating knowledge about customer needs and preferences.

According to Day (1994), two marketing capabilities are especially relevant in order for marketing to contribute to competitive advantage – customer linking and market sensing. Customer-linking capability comprises “the skills, abilities, and processes needed to achieve collaborative customer relationships so individual customer needs are quickly apparent to all functions and well-defined procedures are in place for responding to them” (p. 49). Customer-linking capability can easily be recognised as a tool for building and leveraging relational market-based assets, in particular, customer relationships.



The second capability - market sensing - determines “how well the organization is equipped to continuously sense changes in its market and to anticipate the responses to marketing actions” (p. 49). Market sensing is the logical link to generating intellectual marketing assets in the form of knowledge and understanding of market demand and customer preferences. Therefore, a marketing capability can be referred to as the ability of the firm to understand and forecast customer needs and to effectively link its offerings to customers (Krasnikov and Jayachandran 2008).

Recall from our discussion above that the value of capabilities resides in the resource configurations they can build and leverage to achieve sustainable competitive advantage and thus increased performance (Eisenhardt and Martin 2000). Following this line of theorising, a dynamic marketing capability would continuously augment, build and reconfigure customer-linking and market sensing capabilities and market-based assets to achieve better market position than competitors. A dynamic marketing capability, then, should be able to sense market changes, seize opportunities and quickly adapt to the changing environment (Teece 2007) through a focus on constant market feedback as a result of continuous interaction with customers. We propose *Interactiveness* as a dynamic marketing capability that can help firms to constantly build and reconfigure its marketing resources according to changing market/customer needs and to contribute to reshaping the market environment through the development of new solutions and business models. We turn now to explain the potential of interactiveness as a dynamic capability and the rationale behind our reasoning.

#### **4.1.4. Interactiveness as a Dynamic Capability**

##### **4.1.4.1. Beyond the Firm-Centric View of Capability**

The RBV has shifted the search of sustainable competitive advantage from the external environment to the firm itself. An exclusively firm-centric view, however, can be limiting to the explanatory power of the theory. Several researchers have questioned the one-sided thinking about resources and capabilities claiming that the locus of corporate competences, and thus knowledge and capabilities, has moved beyond the corporate boundaries (e.g., Prahalad and Ramaswamy 2000; Gibbert et al. 2002; Zander and Zander 2005). According to Prahalad and Ramaswamy (2000), company competences are the result of collective knowledge based on a constellation of different stakeholders, among which customers, suppliers, investors, and partners. Customers have an

especially important role since the interaction between a firm and its customers is becoming the locus of value creation (Prahalad and Ramaswamy 2004). Customers are empowered to become knowledgeable partners that co-create experiences with firms. As Gibbet et al. (2002) assert some companies are realising that customers are more knowledgeable than many firms would think, and therefore, firms should look for knowledge through direct interaction with customers. Companies have started to recognise that through interactive dialogue the consumers can be valuable source of new ideas and problem-solving capabilities that would lead to greater competitiveness (Prahalad and Ramaswamy 2000; Zander and Zander 2005).

It should be noted that references to customers as external to the firm sources of valuable resources can be found in the RBV literature as early as in the seminal Penrose's work (although this idea has not received much attention in subsequent RBV literature). Penrose (1959) introduces the notion of "inside track", or a preferred position (and specific knowledge) that a firm achieves as a result of established relationships with customers:

*"When a significant part of the market-creating process consists of the personal sales efforts of a firm's staff, several important changes take place. A relationship is established between the firm and its customers which, other things being equal, places the firm in a preferred position compared to complete newcomers. Frequently this relationship goes much further than a friendly and personal confidence of one man in another and extends to 'technical' matters. For example, the selling firm makes special efforts to adjust the quality and characteristics of its products to the customers' requirements, and the buying firm makes special efforts to inform the seller of its peculiar requirements in order to get the seller's help in meeting them and in solving its own problems. This tends to give a firm that has succeeded in establishing such relationships an **'inside track'** (emphasis added) with the buyer should it become interested in supplying other products quite different from those it is selling at the time. Consequently after a firm has established such relationships with customer firms it is faced with a different set of productive opportunities. These opportunities may continue to grow as the firm learns more, not only about its markets, but also about the technical potentialities of its own resources."* (p. 117)

Thus, the "inside track" helps firms to continuously learn about changes in market demands and customer preferences as well as new ways of combining and recombining resources to achieve competitive advantage.

Building on the Penrose's "inside track" notion, Zander and Zander (2005) suggest four aspects of the role of customers as a source of competitive advantage. We follow their approach and support it with dynamic capabilities background to explain why interactiveness can serve as a dynamic marketing capability:

- It provides inside access to information about emerging customer needs. Therefore, real-time information and market feedback are available to managers that can take actions to adapt and reconfigure firm resources accordingly (Eisenhardt and Martin 2000).

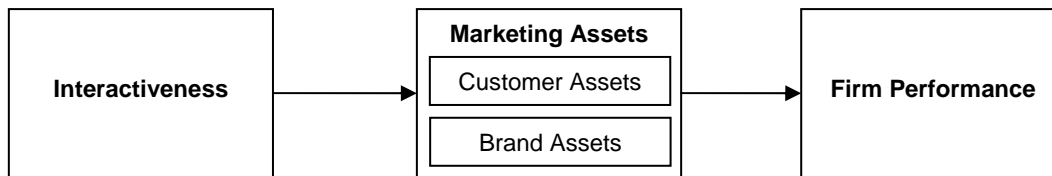
- It allows assimilation and exchange of customers' knowledge through joint problem-solving activities. Thus, co-creation of efficient solutions can be achieved in a process of knowledge sharing and co-development of ideas and solutions (Prahalad and Ramaswamy 2000).
- Rapid assimilation of new and previously unexploited skills and resources. This allows renewal of firm's resources and capability to face changing environment and customer needs (Teece 2007).
- It provides protection against imitation through time-compression diseconomies and causal ambiguity (Dierickx and Cool 1989). This is so because once established, "inside tracks" are difficult to imitate. They are developed in a complex process of continuous interaction over time and involve tacit knowledge sharing that cannot be easily understood from outside (Zander and Zander 2005).

#### **4.1.4.2. Interactiveness as Leverage for Marketing Assets**

Because of its focus on continuous dialogue, knowledge sharing and co-creation of value between firms and customers, interactiveness can be viewed as a dynamic capability that helps firm to constantly renew its market understanding and quickly adapt to changing consumer needs and preferences, thus altering the firm-specific resources and capabilities that bring competitive advantage and improved performance. Interactiveness is difficult to imitate because the processes of generating and integrating customer insights through a continuous dialogue with customers are embedded in organisational cognitive activities and are not observed readily from outside (Prahalad and Hamel 1990; Day 1994). Interactiveness is also immobile, since these processes are created within the firm in a continuous bi-directional communication flow and are therefore firm-specific and cannot be purchased in the market (Dierickx and Cool 1989; Barney 1991; Amit and Shoemaker 1993). Interactiveness allows the firm to respond to a changing environment (e.g. the emergence of new customer needs), and effectively manage the adaptation, integration and reconfiguration of internal and external resources and leverage them to achieve competitive advantage (Teece et al. 1997; Eisenhardt and Martin 2000; Zollo and Winter 2002; Zott 2003; Teece 2007). Therefore, we suggest that interactiveness is a dynamic marketing capability and can

serve as leverage for intangible marketing assets such as customer and brand related resources that in turn lead to improved performance (see figure 10).

**Figure 10: Interactiveness as a dynamic capability leveraging marketing assets**



#### **4.2. Interactions, Co-Creation and Performance Outcomes: Empirical Evidence**

Recent conceptual and theoretical developments in the marketing and management literature suggest that opportunities for greater firm-consumer interaction and co-creation of value would lead to competitive advantage and thus improved performance (e.g., Prahalad and Ramaswamy 2004; Vargo and Lusch 2004a, 2008a). However, with some notable exceptions (e.g., Ramani and Kumar 2008), the empirical literature supporting this thesis is sparse and focused either on a specific industry where interactions with customers have long been recognised as crucial (such as services, or B2B), or on a specific topic (for example customer participation in new product development (NPD) within the broader firm-consumer interaction framework. That is why, in order to shed light on the role of interactions and co-creation for achieving competitive advantage and increased firm performance, we review different streams of literature that can help us present a picture of the possible outcomes of interactiveness and how interactiveness can assist firms in sustaining competitive advantage (table 7).

The reader should bear in mind, however, that we do not intend to draw a line between different streams of research. Often a study can pertain to more than one of the boxes that we expose in table 7, as for example a study in B2B industry focusing on the role of customer interaction for new product success (e.g., Gruner and Homburg 2000) or the role of client interaction in professional service firms, which is both B2B and service (e.g., Fosstenlokken et al. 2003). Another point to keep in mind is that not all empirical literature presented here follows strictly a resources and capabilities and/or competitive advantage theoretical approach. Some of the studies are embedded in the e.g., relationship marketing literature, the knowledge-based perspective or the

innovation literature (e.g., Gruner and Homburg 2000). Nevertheless, we borrow from different literature streams and theoretical approaches in order to gain understanding of the diversity of possible outcomes of interactiveness. Thus, the focus here is on empirical studies investigating the role of firm-customer interactions and co-creation for achieving diverse performance outcomes, such as marketing performance (e.g., customer and /or brand related outcomes), learning outcomes, relationship building, new product success, and overall firm performance.

A final consideration before proceeding with the literature review is the use of the concepts customer participation/involvement, co-production and co-creation. For example, co-production has been defined as “engaging customers as active participants in the organization’s work” (Lengnick-Hall et al. 2000: 359). In a similar vein, customer participation in services has been defined as “the degree to which the customer is involved in producing and delivering the service” (Dabholkar 1990: 484), while in the NPD literature customer participation is referred to as the extent to which the customer is involved in the manufacturer’s NPD process (e.g., Fang 2008). A broader definition is proposed by Matthing et al. (2004), where customer involvement is defined as the processes, deeds and interactions by means of which a firm collaborates with current (or potential) customers to learn about the market and alter organisational behaviour. Thus, for the purposes of this literature review we will use the terms customer participation, involvement, and co-creation/co-production interchangeably in keeping with Wikström (1996) and Prahalad and Ramaswamy (2000, 2003, 2004) that co-creation is about joint creation of value by the company and the customer, in a continuous company-customer interaction (social exchange), adaptation and learning.

The literature on *services* marketing has provided numerous examples of the importance of customer interaction. Since many services are inseparable from the customer, co-creation of services is increasingly recognised to be the norm in many industries. In service settings interactions are found to lead to increased loyalty (Auh et al. 2007), increased satisfaction (Dong et al. 2008), trust and commitment (Ouschan et al. 2006), as well as generation of innovative ideas and greater user value (Matthing et al. 2004). Similarly, research in *B2B* marketing has recognised the central role of interactions for achieving competitive advantage, emphasising that both buyer and seller are active participants in the market and it is the interactions that provide access to and activate the actor’s resources (Hakansson 1982; Ford and Hakansson 2006b). Recent studies in B2B settings focus the attention on knowledge sharing and development in

the interaction process as a major driver of competitive advantage (Bettencourt et al. 2002; Fosstenlokken et al. 2003; Skjolsvik et al. 2007).

Knowledge development and sharing between consumers and firms is gaining more prominence also in B2C settings through the use of *new technologies*. Ongoing dialogue with consumers online permits firms to absorb social customer knowledge and scan knowledge of potential or competitors' customers (Sawhney et al. 2005). New technologies are also considered to play crucial role in customer relationship management (CRM) activities (Campbell 2003; Reinartz et al. 2004). However, it is important to underline that in order for CRM technology to produce a positive effect on performance it is necessary to build a customer focus into the different functional areas of the company, taking a holistic view of the organisation. Failure to do so will likely result in ineffectiveness of the CRM process and disappointment at the time of assessing the effect of CRM on performance (e.g., Rigby et al. 2002). Thus, it is crucial to recognise that competitive advantage lies not in technology, but in the way it is used. A company culture that supports interactiveness and ongoing dialogue with consumers is a prerequisite for the success of interactive technology solutions.

An interdisciplinary research has generated numerous insights about customer involvement in *innovation* (for a review see e.g., Matthing et al. 2004). Customer interaction is found to affect new product value, improving the supplier's NPD processes, and to contribute to new product success through original and valuable ideas (e.g., Gruner and Homburg 2000; Joshi and Sharma 2004; Fang et al. 2008). Payne et al. (2009) develop the case for co-creating brands. Co-creation opportunities are found to be an important strategic option for suppliers to create increased brand meaning for customers. Technology solutions and innovations with the active participation of customers help enhance the brand co-creation experience (Payne et al. 2009). Although customer interaction and involvement is found to be valuable for new product ideas and their development, the empirical research is inconclusive on whether customer interaction pays off in terms of innovation performance (Campbell and Cooper 1999). Authors claim that the existing case for user interaction in NPD is contradictory (Hsieh and Chen 2005) and that customer participation does not always lead to desirable new product outcomes (Fang 2008). In particular, Hsieh and Chen (2005) suggest that while user involvement in NPD enhances the effectiveness of the NPD process, it is not clear what its effect on efficiency is, since customer partnership activities incur additional cost for the firm. Therefore, more research is needed in order to understand the effect of

consumer interactions on innovation as well as on the efficiency with which innovations are converted into customer value and satisfaction, and how ultimately it affects performance.

Several recent studies tackle with *the co-creation experience* often in a broader framework of firms, customers (or customer communities) and other stakeholders (Cova and Salle 2008; Baron and Harris 2008; Kristensson et al. 2008). Literature dealing with the topic adopts the S-D logic (Vargo and Lusch 2004a) as a conceptual framework, since it provides a basis for moving beyond the philosophy of “market to” the customer and embracing a philosophy of “market with” the customer in a joint co-creation of products, services and experiences. In addition, S-D logic acknowledges the role of other relevant stakeholders in both the firm’s and consumer’s network for enhancing interactions and value co-creation. Research has found that value is enhanced as a result of interactions and solutions developed in a broader stakeholder network, including supplier’s network and customer’s network (e.g., Cova and Salle 2008).

Finally, a few studies direct the attention towards *Interaction orientation / Interactive strategy* as a broader concept and suggest that it can serve as a basis for competitive advantage. Normann and Ramirez (1993) suggest an interactive strategy moving away from value chain and toward value constellation, where companies in cooperation with customers, suppliers and other parties create value offerings, but it is the customers in interaction with the company’s offering that create unique value for themselves. Early exploratory research in B2C markets by Wikström (1996) found that consumers are becoming active partners in design, production and marketing and therefore, their role is no more limited to the transaction and consumption stages. According to Wikström (1996), companies should see the consumers, with their experience, knowledge, visions and preferences as an extremely valuable resource in their own production, and therefore should continually interact on a day-to-day basis to access the information provided by consumers. Gibbert et al. (2002) refer to Customer Knowledge Management (CKM) to describe a continuous strategic process by which companies enable their customers to move from passive information sources and recipients of products and services to empowered knowledge partners, seeking knowledge through direct interaction with customers. The authors suggest that the outcomes of such a strategy are competitive advantage, innovation and customer satisfaction. However, this strategy is a cultural challenge that requires managers to re-think the role of the customer in a process of joint value creation.

**Table 7: Summary of empirical research on interactions and co-creation**

Literature focus on	Representative authors (Examples of empirical research)	Results (Outcomes of Interactions / Co-creation efforts)	How the current research differentiates from / extends the extant literature?
Interactions and customer participation in <i>service</i> delivery/recovery	Auh et al. (2007) Dong et al. (2008) Matthing et al. (2004) Ouschan et al. (2006)	loyal customer base; increased perceived value and satisfaction; innovative ideas, user value; trust and commitment	The role of customer interaction in services and B2B settings has long been recognised as an important element for achieving satisfied and loyal customers, and for renewing the knowledge base of the company. We suggest Interactiveness as a company culture-level concept that is applicable across different industries independent of whether the primary focus of the firm is on services/products or B2B/B2C markets.
Interactions and co-creation in <i>B2B</i> settings	Bettencourt et al. (2002) Fosstenlokken et al. (2003) Komulainen et al. (2007) Skjolsvik et al. (2007)	knowledge accumulation and sharing; increased likelihood of goal achievement; knowledge development; increased perceived value; efficient and effective co-production; client satisfaction	
The role of <i>New Technologies</i> in interactions, customer empowerment and co-creation	Nambisan and Baron (2007) Sawhney et al. (2005)	positive attitudes and perceptions regarding the host firm; customers' willingness to continue their participation on future occasions; Internet allows firms to engage customers more broadly, more richly, and more speedily; firms can access knowledge at low cost from individual customers as well as from communities of customers	Focuses the attention on a company-wide understanding of the importance of firm-consumer interaction and dialogue culture before proceeding to implement tactical actions (e.g. CRM, the use of Internet to increase interaction).
The role of <i>CRM</i> systems	Campbell (2003) Reinartz et al. (2004)	The sophistication of CRM technology is not enough to improve performance. A customer focus needs to be built deep into the different functional areas of the company.	



Table 7, cont'd

<p>Customer participation in <i>New Product Development</i></p>	<p>Fang et al. (2008)            Gruner and Homburg (2000)            Hsieh and Chen (2005)            Joshi and Sharma (2004)            Kristensson et al. (2004)            Fang (2008)            Campbell and Cooper (1999)</p>	<p>new product value, improving the supplier's NPD processes;            new product success;            positive effect on NPD performance;            original and valuable ideas for new products</p> <p>Customer participation does not always lead to desirable new product and performance outcomes.</p>	<p>The existing case for user interaction in NPD is contradictory and it is not clear what its effect on efficiency is. Therefore, (1) we assess the effect of interactiveness on innovation; and (2) we introduce the notion of Innovation Efficiency and assess the effect of Interactiveness on the efficiency with which innovations are converted into customer value and satisfaction, as well as the consequent effect of innovation efficiency on profitability.</p>
<p>The <i>co-creation experience</i>            - Co-creating brands/ meanings            - Co-creating in a broader customer network (customer community) or with various stakeholders</p>	<p>Payne et al. (2009)            Baron and Harris (2008)            Cova and Salle (2008)            Rowley et al. (2007)</p>	<p>increased brand meaning for customers;            reinforcement of the brand community experience;            consumer feedback;            value is enhanced as a result of solutions developed in a broader stakeholder network, including supplier's network and customer's network;            customers work in partnership with the company to build excitement and develop skills</p>	<p>Examines several performance consequences of co-creation efforts of firms within the broader framework of interactiveness. The importance of various stakeholders in firm-consumer interactions was found to be crucial also in our qualitative GT study. That is why we introduce stakeholder involvement as a mediator in the empirical model assessing the effect of interactiveness on building marketing assets that in turn enhance performance.</p>
<p><i>Interaction orientation</i> / Interactive strategy as a broader concept reflecting strategic focus on continuous firm-consumer interaction and joint value creation</p>	<p>Gibbert et al. (2002)            Ramani and Kumar (2008)            Wikström (1996)</p>	<p>competitive advantage, innovation and customer satisfaction;            superior customer-level performance, which in turn leads to superior firm-level performance</p>	<p>Interactiveness is suggested as a dynamic capability that leverages firm's resources and capabilities to achieve better performance. Thus, a theoretically sound model of interactiveness and its consequences is developed and tested, including the following constructs: innovation, stakeholder involvement, customer assets, brand assets and overall firm performance.</p>

More recently, Ramani and Kumar (2008) develop and empirically test an interaction orientation scale with four elements: the customer concept, an interaction response capacity, customer empowerment and customer value management. The empirical application of the study finds that interaction orientation leads to improved customer-level relational performance which in turn enhances aggregate-level business performance. While very helpful in identifying how firm-consumer interactions help improve performance, their study includes measures of interaction orientation with reference to specific marketing practices aimed at one-to-one interaction with each customer individually, e.g., “the sophistication of a firm’s systems to record, identify, access, and predict individual-level transactions” or “the extent to which the firm has skills and processes in place to compute individual-level profits, predict individual-level profits, and record revenues accruing from individual customers for every marketing action” (Ramani and Kumar 2008: 32). Thus, their approach excludes some B2C firms (e.g., fast moving consumer goods companies) that because of the nature of their industry and the number of consumers and consumption acts cannot have those procedures in place. At best, these companies will be classified as business-to-retailer (and thus B2B). In contrast, our approach focuses specifically on the strategic and cultural issues related to interactiveness and therefore can be applied across different industry types (B2B and B2C, services and non-services).

The last column in table 7 explains how the current research extends (and/or differentiates from) past studies. In keeping with the importance of interactions in B2B and services marketing, we suggest that B2C firms can also benefit from greater interactiveness. We propose interactiveness as a company culture-level concept that is applicable across different industries independent of whether the primary focus of the firm is on services/products or B2B/B2C markets. Further, while acknowledging the important role of technology for intensifying interactions, we focus the attention on a company-wide understanding of the importance of firm-consumer interaction and dialogue culture before proceeding to implement tactical actions. We also recognise the role that diverse stakeholders play in interactions and we model stakeholder involvement as an additional path to achieving greater levels of customer assets. Since the innovation literature has been inconclusive as to the effect of customer involvement in innovation, we assess the effect of interactiveness on innovation, and the role of innovations to boost brand assets, as well as the effect of interactiveness on the efficiency with which innovations are converted into customer value and satisfaction.

Finally, interactiveness is conceptualised as a dynamic capability that leverages firm's resources and capabilities to achieve better performance. Thus, a theoretically sound model of interactiveness and its consequences is developed and tested.

### **4.3. Hypotheses and Models of Analysis**

#### **4.3.1. Interactiveness, Marketing Assets and Performance**

##### **Interactiveness and Customer Assets**

In the previous sections we introduced the rationale for interactiveness as a dynamic capability leveraging marketing assets to achieve improved performance. Following the RBV and dynamic capabilities framework, we argued that the extent to which an organisation develops superior dynamic capabilities will determine the level of intangible assets it will create, reconfigure and leverage, and therefore the level of performance (Teece 2007). Customer assets, such as customer satisfaction and loyalty and long-term customer relationships, are important intangible resources for the firms (Wernerfelt 1984; Srivastava et al. 2001). Interactiveness helps build and leverage customer assets since it allows for continuous knowledge exchange between firms and consumers and therefore, sensing and adapting to market changes and customer preferences (Day 1994) and reconfiguring resources to meet changing market needs (Eisenhardt and Martin 2000).

Interactiveness helps build an “inside track” (Penrose 1959) thus developing customer relationships and placing the firm in a preferred position, contributing to customer loyalty, knowledge exchange and co-creation of efficient solutions (Prahalad and Ramaswamy 2000). Continuous dialogical interaction between firms and consumers contributes to development of trust thus further facilitating learning and knowledge exchange (Ballantyne 2004). Further, as Srivastava et al. (2001, p. 789) state, “scanning, perceiving and transforming become easier and more insightful when current or potential customers are active participants in the two-way flow of data and information, when they are actively collaborating in discerning their own latent needs”. With its focus on continuous dialogue and co-creation of value between firms and consumers, interactiveness helps firms to constantly renew their market understanding and develop solutions that meet and exceed customer requirements, thus achieving customer satisfaction and loyalty. Therefore we suggest that:

***H1: Interactiveness affects positively customer assets.***

## **Interactiveness and Brand Assets**

Besides customer assets, another important marketing contribution to intangible firm resources is brand assets (Srivastava et al. 1998). Brand equity, as an “off-balance sheet” asset, is considered one of the major drivers of the market value of an organisation (e.g., Vargo and Lusch 2004a; Keller and Lehmann 2006) and an important intangible asset that brings competitive advantage (Grant 1991; Amit and Sschoemaker 1993). Branding has received much attention in the marketing literature and many brand equity models have been proposed (e.g., Keller 1993; Aaker 1996). Recently, however, scholarly attention is shifting from brand producers (i.e. from a firm perspective) to an understanding of how consumers’ responses create brand meaning (Schroeder and Salzer-Mörling 2006) placing an emphasis on a firm-consumer interaction and co-creation perspective in branding (Brodie et al. 2006; Payne et al. 2009).

In the services marketing literature, a service brand is defined as “a holistic process beginning with the relationship between the firm and its staff and coming alive during the interaction between staff and customers” (Dall’Olmo Riley and de Chernatony 2000: 138). A quotation from an interview with a brand consultant states: “*a brand is about creating a relationship and a dialogue with a customer or a consumer*” (Dall’Olmo Riley and de Chernatony 2000: 147). This interaction approach to branding is becoming prominent also in B2C through co-creating brand experiences and brand meaning with consumers (Payne et al. 2009). The brand communities literature (e.g., Muniz and O’Guinn 2001; McAlexander et al. 2002) also suggests that brands (and brand meanings) are developed in a continuous interaction between firms and consumers and among consumers, as well as other stakeholders (Brodie et al. 2009). According to McAlexander et al. (2002), marketers can take an active role in brand communities building through creating the context in which interactions among consumers occur and through participating in the establishment of brand community rituals and meanings. With its focus on dialogue and co-creation of value with consumers, interactiveness helps develop brand meanings and unique experiences thus contributing to the strength of the brand assets. It can be argued, therefore, that interactiveness helps develop and reconfigure (Eisenhardt and Martin 2000; Teece 2007) brand assets.

***H2a: Interactiveness affects positively brand assets.***

Although distinct branding perspectives have emerged in the literature, as Leone et al. (2006) explain, the branding models have in common a number of basic premises, most importantly, the different branding models recognise that “the power of a brand lies in the minds of consumers and what they have experienced, learned, and felt about the brand over time” (p. 126). This mind-set will ultimately result in outcomes for the brand in terms of performance in the marketplace or how consumers react to the brand in the marketplace (Ambler et al. 2002). Similarly, Woodside and Walser (2007) contend that brand strength depends on the experience of consumers with the brand, because it is after purchasing and using a product that consumers form attitudes and beliefs about the brand (Smith and Swinyard 1983). In addition, satisfied and loyal customers are likely to contribute to the brand strength and image through positive word-of-mouth (e.g., Anderson 1998; Hogan et al. 2002; Ambler et al. 2002). Thus, brand value is created when consumers interact with the firm and its products and respond to brand-related marketing activities (Ngo and O’Cass 2009).

There is also a growing body of research suggesting that consumers form relationships with their brands (e.g., Rozanski et al. 1999; Muniz and O’Guinn 2001; Smit et al. 2007). Research findings suggest that positive brand and personal interactions are a key element in building successful brand relationships (O’Loughlin et al. 2004). In addition, Prahalad and Ramaswamy (2004) and Payne et al. (2009) suggest that brand identity is co-created with consumers and it evolves with the experiences of consumers with the brand. Therefore, brand assets build-up and consequently brand performance is determined by the accumulated customer assets, such as customer satisfaction and loyalty built as a result of consumers’ interactions and experiences with the brand. Thus, we expect that:

***H2b: Customer assets affect positively brand assets.***

***H2c: Customer assets will mediate the relationship between interactiveness and brand assets.***

## **Marketing Assets and Firm Performance**

### *Customer assets and performance*

The RBV literature suggests that intangible resources are the primary generator of competitive advantage for firms since those resources are usually highly firm-specific, accumulate over time and are difficult to imitate (e.g., Amit and Sschoemaker 1993). Within the RBV literature customer assets are considered intangible firm resource that

helps firms achieve competitive advantage (e.g., Srivastava et al. 2001). An “inside track” (Penrose 1959) cannot be bought in the market and is therefore a firm-specific resource. The process of achieving satisfied and loyal customers is embedded in firm routines and customer relationships are built over time in a continuous interaction process that is not easily imitated. Insights provided by loyal customers in their interaction with firms are not easy to substitute by other resources. The customer assets built in interaction between a firm and its customer base are therefore a platform for market understanding and sensing that provides a focal firm with a competitive advantage.

In the marketing literature, for years marketers have sustained that customer assets are an indicator for a firm’s performance (e.g., Kotler 1991; Chan et al. 2003). Several studies have confirmed that satisfaction is positively associated with financial performance (Anderson et al. 2004; Rust et al. 2004; Gruca and Rego 2005; Mittal et al. 2005). The logic is that by increasing customer retention, satisfaction affects positively future cash flow and reduces costs of acquisition (Fornell 1992; Anderson and Sullivan 1993; Rust and Zahorik 1993; Srivastava et al. 1998; Mittal and Kamakura 2001). Loyal customers and greater customer retention rates are associated with less vulnerability from competition and environmental changes, and therefore, stable revenues (Anderson et al. 2004).

***H3a: Customer assets affect positively firm performance.***

*Brand assets and performance*

There is an agreement in both the marketing and the strategy literature that brands can be valuable intangible firm resources (e.g., Grant 1991; Amit and Schoemaker 1993; Keller 1993; Aaker 1996; Srivastava et al. 2001). The interest on measuring brand equity in the marketing literature suggests that brands are rare and valuable resources (Capron and Hulland 1999). Several studies in marketing have demonstrated that brand equity influences positively firm value (e.g., Simon and Sullivan 1993; Capron and Hulland 1999). Among the important advantages stemming from creating a strong brand are that strong brands enable rapid customer acceptance of brands extensions, contribute to pricing flexibility (allowing the firm to charge price premium), and help obtain support from supply chain partners (Hsieh 2004; Kay 2006; Leone et al. 2006; O’Cass and Ngo 2007). In addition, Farquhar (1989) suggests that brands bring competitive

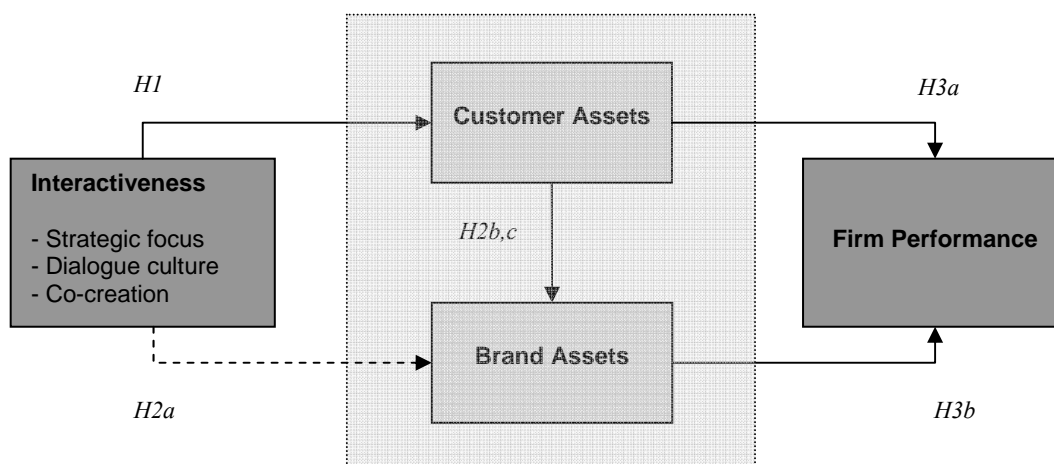
advantage to the firm because they provide resistance from competition since a dominant brand can be a barrier to entry in some markets.

The intangible nature of brands makes them difficult to imitate (Srivastava et al. 1998). Brands are usually built with consistent efforts (and substantial marketing budgets) over the years in order to build consumer awareness and positive associations with the brand. The unique path of brand development and its relationships with consumers suggest that it cannot be imitated easily (Capron and Hulland 1999). Besides, since it is difficult to duplicate the effect of strong brands with other strategic resources, substitutability is low (Capron and Hulland 1999). Furthermore, Grant (1991) suggests that brand reputation depreciates relatively slowly and that increased environmental turbulence does not diminish brand strength, but can even boost it. Thus, brands are viewed as one of organisation's primary intangible resources contributing to competitive advantage and thus, to performance (Hsieh 2004; Kay 2006; O'Cass and Ngo 2007). Therefore, we expect that:

***H3b: Brand assets affect positively firm performance.***

Figure 11 below summarises hypotheses 1-3. The hypothesised sequence of effects is that interactivensness will influence customer assets, which in turn contribute to building strong brand assets, thus influencing performance. A direct effect of interactivensness on brand assets is also hypothesised, although presented with dashed line in the model, since we expect that customer assets will mediate this relationship.

**Figure 11: Interactivensness, marketing assets and performance**



The model is in parallel with the dynamic capabilities literature, which suggests that dynamic capabilities do not directly influence performance, but rather build and leverage asset positions that in turn boost firm performance (Eisenhardt and Martin 2000; Zott 2003; Teece 2007).

#### **4.3.2. Additional Paths to Enhance Marketing Assets through Interactiveness**

While interactiveness is hypothesised to influence directly marketing assets, the qualitative stage of the research and the reviewed literature pointed to additional mechanisms that firms can use to take advantage of interactiveness in order to build market positions. Here we focus the attention on two of them: stakeholder involvement and innovation. During the interviews with managers stakeholder involvement was found to be a crucial factor for achieving better customer solutions, and thus increased satisfaction and improved relationships with customers. New developments in marketing and management also point to the increasing importance of involving diverse stakeholders in the process of interaction with consumers in order to reach mutually beneficial solutions and therefore, satisfied and loyal customers (e.g., Ramirez 1999; Prahalad and Ramaswami 2004; Vargo and Lusch 2004a). Thus, we develop below the rationale for stakeholder involvement as a path to build customer assets.

In addition, innovation has been identified as one of the major consequences of interactiveness. While innovation is often seen as a performance outcome itself, recently some researchers direct the attention to innovation as a way to influence brand perceptions (Simpson et al. 2006; Veloutsou and Moutinho 2009) and thus as a driver for corporate brand assets (Aaker 2004). Moreover, through a focus on launching new products/services that better meet customer needs, innovations help increase customer satisfaction and loyalty (Simpson et al. 2006). In keeping with this research, we model innovation as leverage for customer and brand assets.

#### **Interactiveness and Stakeholder Involvement**

The RBV approach has been mainly focused on firm-specific resources and capabilities as sources of competitive advantage. However, it also recognises the importance of inter-firm linkages and relations with diverse stakeholders as potential sources of valuable and difficult to imitate resources, such as specific knowledge generation and



sharing, synergies and efficiencies (Das and Teng 2000; Song et al. 2005). Barney (1991) includes within the organisational capital resources “informal relations among groups within a firm and between a firm and those in its environment” (p. 101). Although dialogue with stakeholders has been mostly studied from the perspective of stakeholder theory (Freeman 1984), recently researchers are framing stakeholder relationships as an organisational capability within the RBV (e.g., Hart and Sharma 2004; Ayuso et al. 2006). Stakeholder engagement is said to result in competitive advantages in form of trust and reputation (Rodríguez et al. 2002; Ayuso et al. 2006). Dyer and Singh (1998) also recognise that critical resources can be found beyond firm boundaries, embedded in interfirm routines and processes. Interactions and dialogue with stakeholders provides unique experiences and unique knowledge content that contributes to competitive advantage (Tzokas and Saren 2004).

In the marketing literature, stakeholder relationships are also considered an important intangible firm resource that generates knowledge and competencies and helps meet changing customer needs and adjust to market and technological turbulences (Srivastava et al. 2001). In particular, the relationship marketing literature has given special attention to the role of long-term relationships with both customers and other stakeholders (e.g., Grönroos 1994; Gummesson 1995; Payne et al. 2005). Several approaches to classifying stakeholders have been suggested, among them the models of Christopher et al. (1991), Morgan and Hunt (1994), Doyle (1995) and Gummesson (1994). The relationship marketing approach recognises stakeholders as active partners contributing to the effectiveness of the marketing function through the provision of superior value propositions and customer satisfaction (Tzokas and Saren 2004). This view of stakeholders implies that the boundaries between firm-specific internal resources and resources developed through external relationships become blurred (Gadde and Hakansson 2001). Therefore, researchers suggest that interaction capabilities are increasingly needed since they permit firms to relate successfully to other stakeholders developing and sharing knowledge and working toward efficient and effective customer solutions (Tzokas and Saren 2004; Jonsen and Ford 2006).

The importance of stakeholders is also recognised in the S-D logic literature, according to which marketing exists to provide both social and economic processes, including a network of relationships to provide skills and knowledge to all stakeholders (Vargo and Lusch 2004a). S-D logic implies that firms should collaborate with stakeholders and integrate resources with them (Cova and Salle 2008). This is in line

with Normann and Ramirez (1994), who advocate the value constellation concept where value is co-created in a constellation of actors from both the suppliers' and the customers' network. In this setting, interactive dialogue becomes an advanced form of marketing communication, which provides the basis for co-creation of value. Dialogue and interactions assure continuous knowledge renewal between the firm, customers and other stakeholders, and knowledge (renewal) is viewed as the fundamental source of sustainable competitive advantage (Ballantyne and Varey 2006).

Summing up, stakeholder involvement can provide access to resources such as knowledge, efficient routines and processes that can help the firm to better understand consumer needs and satisfy them, thus creating intangible marketing assets such as customer satisfaction and loyalty. Interactiveness, through its focus on dialogue culture both inside the firm and beyond its boundaries, can lead firms to look for customer solutions outside of the firm-controlled resources, thus placing emphasis on involving diverse stakeholders – inside and outside the company – in satisfying customer needs. Therefore, we can expect that interactiveness culture will lead the firm toward developing broader stakeholder involvement; and, in turn, stakeholder involvement will contribute to the generation of customer assets, such as customer satisfaction and loyalty. Thus, we hypothesise:

***H4: Interactiveness affects positively stakeholder involvement.***

***H5: Stakeholder involvement affects positively customer assets.***

### **Interactiveness and Innovation**

There is an agreement in academia and practice that value creation and growth are only possible if companies continuously innovate. Innovation has been found fundamental to competitive advantage and firm profitability (e.g., Calantone et al. 2002; Hult et al. 2004). However, innovations (and notably innovations that meet customer needs and innovations which are profitable) are increasingly recognised to come from non-traditional sources, i.e. outside of the company itself (e.g., von Hippel 2005; Dahlander and Wallin 2006). Researchers and practitioners are turning to customers as a source of new ideas for products and services (Thomke and von Hippel 2002). There is an increasing recognition that customer interaction is a driver of successful innovative new products/services (Alam 2006).

The view that customers can provide valuable innovation ideas is not new. Back in late 1970s and 1980s von Hippel popularised the concept of lead users as

primary generators of new products. Recently, however, research into the role of consumers in innovations has been intensified as researchers are turning their attention to the notion of value as co-created with consumers (Vargo and Lusch 2004a). Prahalad and Ramaswamy (2003: 12) explain it this way:

*“Managers are discovering that neither value nor innovation can any longer be successfully and sustainably generated through a company-centric, product-and-service-focused prism. A new point of view is required, one that allows individual customers to actively co-construct their own consumption experiences through personalized interaction, thereby co-creating unique value for themselves.”*

In a world where innovations and value are increasingly created jointly with customers, interactiveness becomes of high importance as a drive to innovate. As Enkel et al. (2005) argue, for companies that want to improve their innovation capabilities, one of the greatest means is to integrate customers into the innovation process. Interactiveness, with its focus on firm-consumer dialogue and co-creation of value, helps firms to continuously gather relevant market information and stay ahead in their knowledge about market trends and needs (Kohli and Jaworski 1990; Day 1994). Strong market knowledge, in turn, is in a better position to provide the R&D department with consumer feedback that can drive innovations (Dutta et al. 1999). Teece (2007) also recognises that the probability of a successful commercial innovation is highly correlated with understanding of customers’ needs. Similarly, Di Benedetto et al. (2008) argue that the ability to effectively interact with customers and to adapt to market changes is crucial in new product development.

Innovation studies, framed within the RBV literature, see innovation as a response to market and/or technological changes (Garcia and Calantone 2002; Harmancioglu et al. 2009). Dynamic capabilities that drive to successful innovations are associated with firm’s ability to gather and assimilate external knowledge and transform it into novel ideas and products that fit customer needs (Eisenhardt and Martin 2000; Branzei and Vertinsky 2006). Continuous interactions between a firm and its customers develop a common language and specific knowledge-sharing structures that are conducive for efficient feedback gathering. In turn, efficient knowledge exchange provides for shorter NPD cycle and the development of products/services that better fit market needs (Zander and Zander 2005). Since these processes are embedded in specific firm-consumer interaction routines, they are difficult to imitate or replicate (Barney 1991). Thus, customers not only provide new valuable ideas to firms, but they also can drive the firm towards the assimilation and exploitation of previously unexploited skills

and resources to achieve innovative new products and services (Penrose 1960, Zander and Zander 2005). Summing up the exposed literature, we expect that:

***H6: Interactiveness affects positively innovation.***

Innovations are designed to offer something new to customers, and thus to meet changing customer needs. Managers consider that among the major market advantages stemming from innovation are advantages related to customer, such as increased customer satisfaction and loyalty (Totterdell et al. 2002; Simpson et al. 2006). This is so because innovations make possible adaptation to customer requirements and the development of unique value propositions. Innovative firms anticipate customer needs and respond accordingly creating greater value through innovative solutions (Simpson et al. 2006). In the same line, Luo and Bhattacharya (2006) report a positive effect of innovativeness on customer satisfaction. Similarly, Szymanski et al. (2007) ascertain that greater innovativeness generates customer excitement and positive word-of-mouth, as well as satisfaction and loyalty, and the innovations are translated into repeat purchase for new products/services that better satisfy consumer needs (Mukherjee and Hoyer 2001). Therefore, through focusing on offering new solutions that better meet changing customer needs, innovation helps build customer assets.

***H7a: Innovation affects positively customer assets.***

Companies that continuously innovate are considered to be market-driving (Jaworski et al. 2000; Kumar et al. 2000; Carrillat et al. 2004) shaping new developments and changing industry 'rules of the game'. As Carrillat et al. (2004) explain, market-driving organisations can shape the market structure as well as influence the behaviour of the market players. In so doing, they improve customer value by simultaneously improving their company's performance. Because innovations help companies to shape the markets, they have the potential to drive brand performance (O'Cass and Ngo 2007).

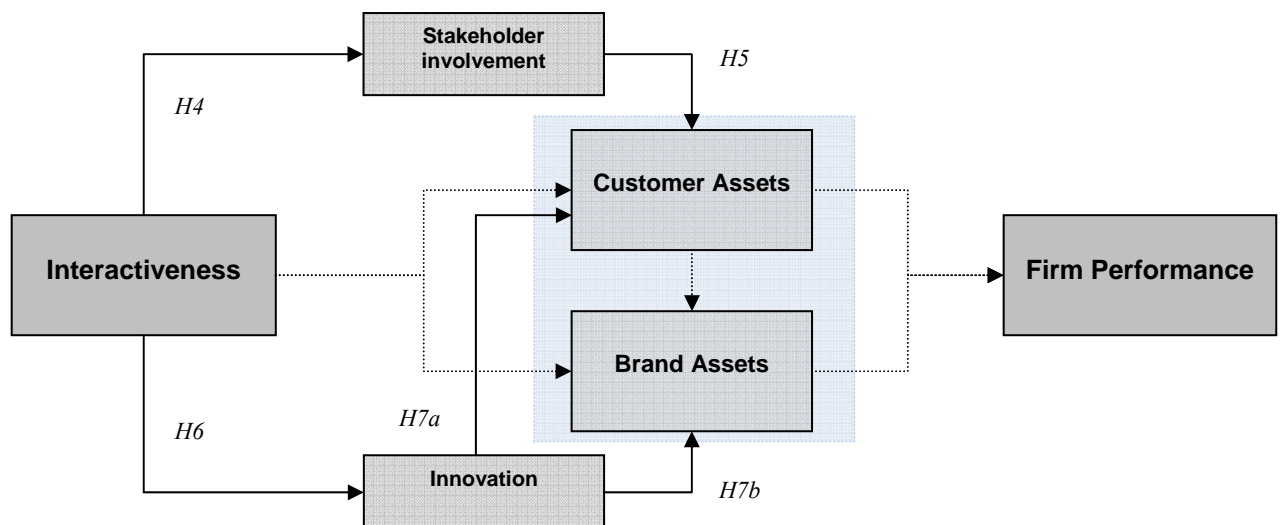
Researchers claim that building a successful brand requires not only responding to consumers' needs but also translating the received market feedback into innovations that offer superior value propositions for consumers (O'Cass and Ngo 2007). Aaker (2004) argues that innovations, along with quality and customer concern, are seen as drivers of corporate brands. This is so because a reputation for innovation increases firm credibility and makes acceptance of new offerings easier (Aaker 2004).

In the same line, a recent study by Simpson et al. (2006) reports a quote from an interview with a marketing manager, stating that innovation “creates brand awareness in the marketplace. Consumers want to be a part of that brand and they want to take hold of it however they can”. Similarly, Veloutsou and Moutinho (2009) explain that people want to deal with companies that they perceive as innovative and they expect emotional benefits from the brands. Company’s reputation for product innovation enhances the perceptions of the brand and facilitates the acceptance of brand extensions (Keller and Aaker 1992, 1998). Therefore, we expect that:

***H7b: Innovation affects positively brand assets.***

Figure 12 below presents an integrative model of analysis. Although interactiveness has been hypothesised to directly influence intangible marketing assets, there are other additional paths to enhance them, such as through stakeholder involvement and innovation. Collectively, these firm assets help build competitive advantage which is translated to superior performance.

**Figure 12: Additional paths to enhance marketing assets through interactiveness**



#### 4.3.3. Interactiveness, Innovation Efficiency and Profitability

##### Interactiveness and Innovation efficiency

Under the RBV, firm’s valuable capabilities are those that enable the firm to implement its strategy more effectively and efficiently than competitors (Barney 1991). Scholars have been pointing out that interactions and customer involvement in co-creation have the potential to enhance marketing strategy effectiveness and marketing operations

efficiency (Lovelock and Young 1979; Mills et al. 1983; Kalaignanam and Varadarajan 2006). Here we focus on the efficiency dimension and we argue that interactiveness helps firms achieve greater innovation efficiency. A primary goal of innovation is to develop new or modified products/services for enhanced profitability, something that depends on satisfying customer needs more efficiently than competitors (Hauser et al. 2006).

We define efficiency following the definition of technical efficiency, i.e. the ability to minimise input use in the production of a given output vector, or the ability to obtain maximum output from a given input vector (Kumbhakar and Lovell 2000). Several studies in marketing have used this approach in estimating efficiency of marketing, including advertising efficiency (e.g., Luo and Donthu 2001, 2005), evaluation of relative performance of salespeople (Boles et al. 1995), and service marketing efficiency (Keh et al. 2006) among others.

Following Kumbhakar and Lovell (2000) we should determine relevant outputs and inputs, on the bases of which the level of innovation efficiency will be assessed. From a marketing point of view, the outputs expected from innovations are related to increased customer value and customer satisfaction (Hunt and Duhan 2002). Thus, innovation efficiency is defined here as the ability of the firm's brand(s) to provide higher customer value and the ability of the firm to achieve higher customer satisfaction than the competitors under the same level of innovation. We define innovation with reference to both the quantity (i.e. the number of new products/services) and the quality (i.e. the market reaction and acceptance) of the innovations. This is necessary since, as Simpson et al. (2006) explain, the literature has largely ignored innovation quality, with some small exceptions. Yet, innovation quality was considered crucial according to their study respondents (Simpson et al. 2006).

Note also that innovation efficiency is defined in relative terms, i.e. relative to competitors. Marketing scholars have recognised that efficiency must be measured relative to competitors in the industry as well as benchmarks established in similar industries (Sheth and Sisodia 2002). Failure to account for competition might provide misleading results. As Gupta and Zeithaml (2006) exemplify it, "the service quality of a firm may be improving over time but may have no impact on customer satisfaction if the service quality of competitors is improving even faster" (p. 734). Similarly, company's innovations might not produce the desired effect on customers' perceptions of its brand as innovative if the competition is innovating at a faster pace. Having

defined innovation efficiency for the purposes of this study, we now proceed to explain the rationale for interactivity as a driver to innovation efficiency.

Interactivity implies sharing of new ideas and knowledge within the firm and with customers (Lundvall 1993; Wikström 1996; Ballantyne and Varey 2006). Companies have started to recognise that through interactive dialogue consumers can be a valuable source of new ideas that would lead to greater innovation capacity (e.g., Prahalad and Ramaswamy 2000). Wikström (1996) argues that the most efficient way of increasing the knowledge base is through interactive processes (p. 363). Innovation efficiency is increased through interactivity also because customer involvement helps to reduce information asymmetries between the company and its customers (Von Hippel 2005). Greater knowledge-sharing in firm-consumer interactions means that firms are better prepared to develop products/services that fit customers' requirements. Designing new offerings with the active participation of the customer would likely increase the market acceptance of the product/service and the customer satisfaction with it because customers know their needs better than firms do (Thomke and von Hippel 2002). In addition, through interactions firms are able to educate consumers about the potential benefits of the innovations (Carrillat et al. 2004), thus additionally influencing the perception of value of the new products/services.

Another significant benefit of customer interaction is that customer input reduces the amount of work and time needed to get a new product/service idea started (Alam 2006). In addition, because interactivity gives firms the opportunity to screen and assess various innovation ideas in collaboration with customers before actually launching the product, there is less cost associated with new product failures (Alam 2006). Similarly, Carrillat et al. (2004) argue that interactive learning between the firm and its consumers reduces the chance of failure of new launches and increases the payoff. Ramaswami et al. (2009) further explain that the process of interactive learning (feedback) and product testing until a satisfactory solution is arrived upon enhances the ability of the firm to develop successful products. Therefore, through its emphasis on company-wide dialogue and continuous knowledge exchange with customers, interactivity will help the firm in developing innovations that are better suited to customer needs, thus leading to higher levels of marketing assets (e.g., customer satisfaction, perceived value) under the same level of innovation. Thus, we hypothesise:

***H8: Interactivity affects positively innovation efficiency.***

In addition, competitive intensity has been suggested as an important variable influencing the marketing function's results (Jaworski and Kohli 1993). Besides, dynamic capabilities are said to be highly relevant in rapidly changing markets where the competitive pressure is high (Teece et al. 1997). Since interactivensness is conceptualised as a dynamic marketing capability, we expect that its effect on innovation efficiency will be stronger in markets with high competitive intensity. Thus, we hypothesise that competitive intensity will moderate the relationship between interactivensness and innovation efficiency:

***H9: Interactivensness will have a stronger effect on innovation efficiency in markets with higher competitive intensity.***

### **Innovation efficiency and Profitability**

While innovation has long been considered crucial for competitive advantage, the empirical literature on the effect of innovation on firm performance is inconclusive. For example, in a recent review of the existing empirical literature for a meta-analysis Szymanski et al. (2007) report that some studies have found positive relationship (Firth and Narayanan 1996; Gatignon and Xuereb 1997; Song and Parry 1999; Danneels and Kleinschmidt 2001) while others have found negative relationship (Meyer and Roberts 1986; Yap and Souder 1994; Atuahene-Gima 1996) between product innovativeness and new product performance. One of the reasons for a negative relationship is that R&D has long been a costly and (oftentimes) inexact process (Thomke and von Hippel 2002). Involvement of consumers in the innovation process, however, has been found to reduce costs and increase the fit of the new products to the market needs (von Hippel 2005). In this way, interactivensness leverages innovation efficiency to achieve superior marketplace performance.

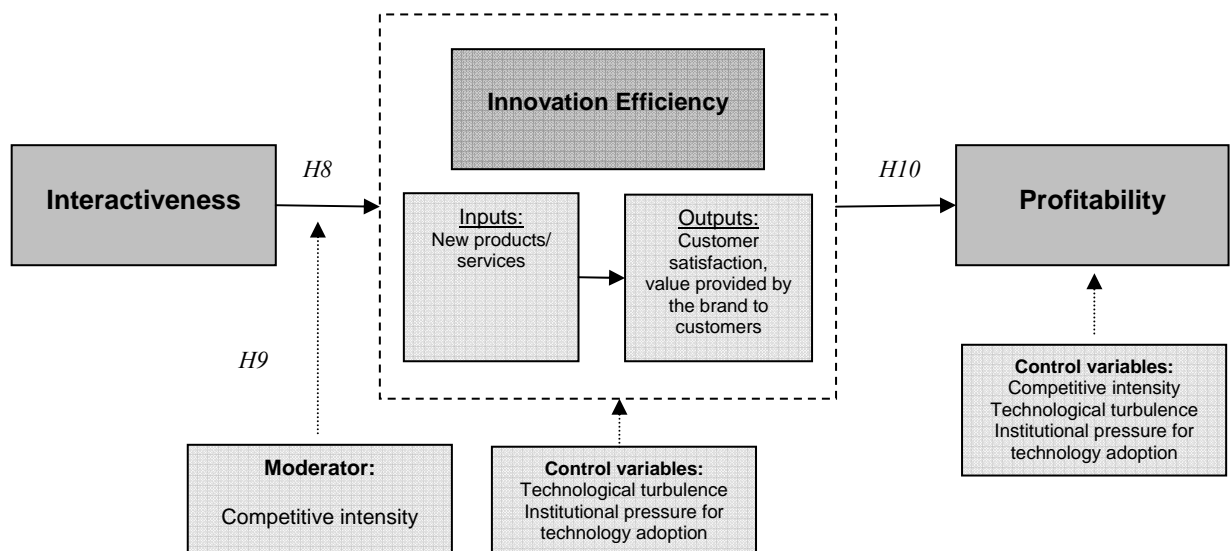
We argue that innovation will affect positively firm profitability to the extent that it is efficient. If the firm achieves higher (than the competitors) levels of customer satisfaction and customer value with its innovations, then that firm is innovation-efficient. As already exposed, being innovation-efficient means less loss from failures of new products/services (Alam 2006), as well as faster acceptance of the new products due to higher perceived value and satisfaction, and thus cost savings in marketing communication. Higher efficiency is converted into cost savings, and more working capital available which can be invested in other high net present value projects that affect performance (Mittal et al. 2005; Luo and Donthu 2006). Thus, we posit that:



***H10: Innovation efficiency affects positively profitability.***

Figure 13 exposes the model of analysis. Since the literature suggests that other factors, such as technological turbulence and the institutional pressure to adopt interactive technologies can influence the output of the focal firm's innovation efforts and firm performance, we include those variables in the model as control variables. When institutional (or normative) pressure is high, i.e. when many competitors adopt new interactive technologies, a firm would tend to invest in new technologies because of the sheer number of businesses that already have done so (Wu et al. 2003; Ramany and Kumar 2008). This might strengthen firm's internal capabilities, but because of the high investment required it may also cause short-term loss of efficiency and/or profitability (Krasnikov et al. 2009). Technological turbulence and competitive intensity can also influence firm's performance (Jaworski and Kohli 1993) and have been long considered as controls in marketing studies; thus, we incorporate them in the model as control variables.

**Figure 13: Model of analysis: Interactiveness and innovation efficiency**



## **4.4. Research Design**

### **4.4.1. Sample and Data Collection**

To test the hypotheses, we used survey data. We followed a convenience sample approach that has been used in other studies in marketing (e.g., Ramani and Kumar 2008). This ensured that key informants were chosen as respondents and that they had sufficient knowledge of marketing activities and appropriate marketing-related positions in their organisations. We approached the Association of Marketing Professionals with headquarter in Barcelona, Spain with a request to conduct a survey among their members. The Association kindly agreed to support the research. In October 2008, Members of the Association of Marketing Professionals were sent e-mails directly by the Association requesting their participation in an on-line survey (a total of 878 members of the Association were approached). Two weeks after the first e-mail, a second reminder e-mail was sent. Ten days after the second e-mail, the on-line survey was closed. A total of 162 responses were received, 129 of which were usable, giving an effective response rate of 15%. We conducted several t-tests on different variables to compare early and late responses and no statistically significant differences were found.

For the sake of generalizability of results we did not constrain the sample to particular industries. 55.6% of the firms in the sample were B2B, the rest 44.4% were B2C. The respondents were from a wide variety of industries among which food (12%), textile (3.4%), chemicals (12.1%), construction (1.7%), retail (3.4%), financial services (5.2%) and real estate (2%). The majority of the respondents were marketing executives (45%), managing directors (21.7%), commercial managers (15%), and customer relationship managers (10%). Respondents had in average 14.7 years of experience in marketing in general. 69% of respondents had been working in the marketing area since they are in the firm. From those who came from another functional area within their company, the majority were from general management (12.8%) and finance (10.3%).

### **4.4.2. Measure Development**

Based on the analysis of the interviews from the qualitative stage of the research and an extensive review of the relevant literature, a questionnaire was designed. The questionnaire was presented to six marketing managers and in addition, discussed in two rounds with 3 marketing professors. In this process, some items were modified, and others were deleted for the sake of conciseness and clarity. The final questionnaire

covered the following main themes: interactiveness, innovation, stakeholder involvement, customer assets, brand assets and overall firm performance. All constructs were measured on a 5-point multi-item Likert-type scale<sup>2</sup>, ranging from “strongly disagree” (1) to “strongly agree” (5). Existing measures were adapted where possible. However, several new items were developed for this study. Table 8 presents the items’ source, descriptive statistics and Cronbach’s Alpha.

*(1) Interactiveness*

Recall that the results of the qualitative phase of the research revealed that on the strategic level, interactiveness refers to company’s culture and strategy as regards relationships with consumers, and implies organisational commitment towards a dialogue-based firm-consumer interaction in which employees at different levels participate actively. Thus, the interactiveness items reflected the three interrelated concepts already discussed in the preceding chapter: strategic focus on interactiveness, dialogue culture throughout the organisation, and providing the basis for co-creation of value with customers. The items pertaining to Strategic focus (SF) on interactiveness reflect a firm belief that the consumer is in the centre of firm’s operations and interaction with consumers is considered competitive advantage. Dialogue culture (DC) refers to promoting dialogue culture within the organisation and beyond the boundaries of the organisation through empowering consumers to share their opinions/ideas with the firm and with other consumers. The co-creation (CC) sub-construct refers to providing the basis for co-creation of value with customers, i.e. providing the technology and processes necessary to receive regular feedback from consumers, as well as acting on the feedback received by consumers by delivering innovative solutions. Since interactiveness consists of three sub-constructs, it was designed as a second-order construct. Some of the items were adapted from the interaction orientation scale of Ramani and Kumar (2008). However, since several of the items of Ramani and Kumar’s scale were deemed to pertain to issues related to tactical Interactiveness (e.g., the implementation of CRM technology), we designed several new items to reflect the strategic interactiveness concept developed in chapter 3.

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<sup>2</sup> The 5-point Likert-type scale is commonly used in marketing research (e.g., Jaworski and Kohli 1993, Ramani and Kumar 2008).

### *(2) Innovation*

Recall from the discussion on innovation efficiency above that we define innovation with reference to both the quantity (i.e. the number of new products/services) and the quality (i.e. the market acceptance/continuity) of the innovations. We follow this approach because authors have been pointing out that it is important to account for quality in addition to the quantity of the innovation (Simpson et al. 2006). We use two items, one reflecting the quantity of innovation relative to the main competitors (adapted from Aragón-Correa et al. 2007), and the other reflecting the market stability of the new product/service (proposed by interviewed managers).

### *(3) Involvement with stakeholders*

The importance of different stakeholders for the successful firm-consumer interactions was one of the insights of the qualitative phase of the study. Well aligned with this finding is the recognition of stakeholder relationships within the RBV as drivers to achieving higher levels of customer-related assets and competitive advantage. Following the findings discussed in chapter 3 as regards the main stakeholders involved in firm-consumer interactions, we included one item to account for the relationships with employees, adapted from Maignan et al. (1999); one item reflecting the importance of relationships with suppliers, adapted from Matsuno and Mentzer (2000) and Min et al (2007); and one item reflecting the importance given to social trends (e.g., environmental consciousness), also following Matsuno and Mentzer (2000) and Min et al (2007).

### *(4) Customer assets*

We operationalize customer assets with three items reflecting customer satisfaction and loyalty. We adopted one item from Ramani and Kumar (2008) to account for customer satisfaction relative to competitors, and two items from Maignan et al. (1999) referring to customer loyalty and repeat purchases. Thus the construct reflects both the importance of satisfying customer needs, as well as building relationships with customers to achieve loyalty and repeat purchasing.

### *(5) Brand assets*

In the extant literature there is no available measure of brand assets based on managerial perception. That is why we developed three items based on the brand literature to reflect the strength of the brand, its ability to generate revenue (premium) and the brand image

(in terms of value it provides to consumers) relative to competitors. In designing the items we followed Keller (1993), Aaker (1996) and Ailawadi et al. (2003).

*(6) Firm performance*

Overall firm-level performance was measured in reference to profit, market share and sales volume achieved. We adapted one item from Deshpande et al. (1993) to account for profits relative to competitors. Based on Aaker (1996) we included one item accounting for market share relative to the main competitors. The final third item was adapted from O’Cass and Ngo (2007) to reflect sales volume relative to competitors. In line with other researchers in marketing (e.g., Matsuno et al. 2002; Joshi and Sharma 2004) we measured performance in competitive terms, i.e. we used the main competitors’ performance as a reference point to which to compare the firm’s performance. The items ranged from 1 (much lower) to 5 (much higher). Subjective measures of performance similar to ours have been used widely in marketing (e.g., Matsuno et al. 2002) and have been shown to be highly correlated to objective measures of performance (Dess and Robinson 1984; Slater and Narver 1994).

**Table 8: Items’ source and descriptive statistics**

Items	Source	Mean	Std. Dev.
<b>Interactiveness</b>			
<b><i>Strategic Focus on Interactiveness (Alpha 0.70)</i></b>			
This firm believes that the principal task of marketing is to support the value-creation processes of its customers (SF1) <sup>a</sup>	New item	4.29	.86965
This firm believes that collaboration with customers is a source of competitive advantage (SF2)	New item	4.57	.80043
This firm instils a culture of dialogue and permanent listening to the customer (SF3)	New item	4.07	1.06203
<b><i>Dialogue Culture (Alpha 0.81)</i></b>			
This firm encourages customers to share opinions of its products or services with the firm (DC1)	Ramani and Kumar 2008	3.91	1.00024
This firm encourages customers to share opinions of its products or services with other customers (DC2)	Ramani and Kumar 2008	3.16	1.19564
This firm encourages customers to participate interactively in designing products and services (DC3)	Ramani and Kumar 2008	2.93	1.20666
<b><i>Providing the Basis for Co-Creation (Alpha 0.87)</i></b>			
This firm invests resources (e.g., personnel, time, money) in technology and processes that will permit a two-way communication with customers at an individual level (CC1)	New item	3.54	1.15925
There exists a high degree of communication and feedback between the firm and our customers (CC2)	New item	3.54	1.13198
In this firm we take advantage of the experience of our customers to stay ahead of new tendencies and to provide innovative and efficient solutions (CC3)	New item	3.74	1.12694

Table 8, contd.

Items	Source	Mean	Std. Dev.
<b>Innovation (Alpha 0.64)</b>			
Relative to our main competitors, for the last 3 years, our firms' rates of new product/service introduction is much higher (Inn1) <sup>b</sup>	Aragón-Correa et al. 2007	3.64	1.060
More than 50% of the new products launched by the firm in the last 3 years are still on the market (Inn2) <sup>b</sup>	New item	4.18	1.034
<b>Involvement with stakeholders (Alpha 0.70)</b>			
We have programs that encourage the diversity of our workforce (in terms of age, gender, or race) (Stakeh1)	Adapted from Maignan et al. 1999	3.82	1.153
In our company, we collect and evaluate information concerning general social trends (e.g., environmental consciousness, emerging lifestyles) that might affect our business (Stakeh2)	Adapted from Matsuno and Mentzer 2000, Min, Mentzer & Ladd 2007	3.82	1.080
In our company, we spend time with our suppliers to learn more about various aspects of their business (e.g., manufacturing process, industry practices, clientele) (Stakeh3)	Adapted from Matsuno and Mentzer 2000, Min, Mentzer & Ladd 2007	3.56	1.117
<b>Customer assets (Alpha 0.77)</b>			
The overall satisfaction level of our customers is higher than the satisfaction levels of these customers with our competing firms (CA1)	Ramani and Kumar 2008	3.95	.807
The large majority of our sales are made up of repeat purchases (CA2)	Maignan et al. 1999	4.38	.785
Customer loyalty is a major strength of our business (CA3)	Maignan et al. 1999	4.18	.873
<b>Brand assets (Alpha 0.82)</b>			
Our brand name is a major strength of our business (BA1)	New item, Based on Ailawadi et al. 2003	3.99	1.119
Our brand(s) provides good value for the money, relative to our main competitors (BA2)	New item, Based on Keller 1993 and Aaker 1996	3.77	.874
A high percentage of our revenues is due to our brand image (BA3)	New item, Based on Ailawadi et al. 2003	3.70	1.030
<b>Firm Performance (Alpha 0.86)</b>			
Relative to our firm's main competitors, currently our profits are (Perf1)	Adapted from Deshpande et al. 1993	3.21	.773
Relative to our firm's main competitors, our market share is (Perf2)	Based on Aaker 1996	3.27	.963
Relative to our firm's main competitors, our sales volumes are (Perf3)	O'Cass and Ngo 2007	3.09	.955

<sup>a</sup> Item consequently dropped from analysis after CFA because of low factor loading.

<sup>b</sup> Log transformation has been applied to the variable in the subsequent analysis in an attempt to correct for multivariate normality problems.

### ***Test for Common Method Bias***

Since all the data we collected came from the same respondents with the same questionnaire format, there is a potential that a common method bias exist. Following the approach of other researchers in marketing (e.g., Joshi and Sharma 2004), to assess whether a common method bias posed a threat to our data we performed the Harman's one-factor test on the items. If there is a substantial amount of common method variance, then either a single factor will emerge from the factor analysis, or one general factor will account for the majority of the covariance among the variables (Podsakoff and Organ 1986). In our case, common method bias was not a problem. The factor analysis resulted in 8 factors with eigenvalue greater than 1 (accounting for 74% of the total variance); the first factor accounted for only 26% of the variance. Thus, common method bias does not pose threat to our data although the data came from the same respondents.

## **4.5. Techniques, Analyses and Results**

### **4.5.1. Developing the Second-Order Construct of Interactiveness**

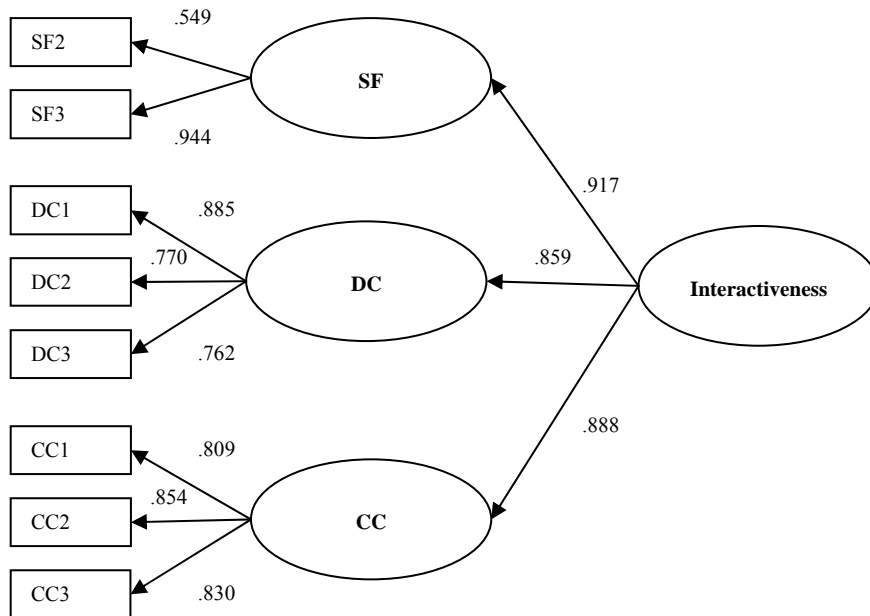
In order to evaluate the measurement properties of the Interactiveness construct we run confirmatory factor analysis (CFA). Raw data was used as the input to a maximum likelihood estimation procedure.

Since Interactiveness was conceptualised as a higher-order construct containing three sub-constructs, Interactiveness was designed as a second-order construct with the three sub-dimensions corresponding to first-order factors that were measured through their respective indicators. CFA revealed that one of the items in the Strategic focus sub-construct (SF1) had too low factor loading (0.40). Thus, this item was excluded and CFA was run again. The second-order CFA model fit was found appropriate based on several fit indexes: chi-square = 20.735 (d. f. = 16), comparative fit index (CFI) = .991; Tucker–Lewis index (TLI) = .981; incremental fit index (IFI) = .992; RMSEA = .048.

We examined the path coefficients between the indicators and their respective first-order factors. All were significant at the  $\alpha = .01$  level. In addition, all the path coefficients between the second-order construct of Interactiveness and its three dimensions (SF, DC and CC) were also significant at the  $\alpha = .01$  level. All factor

loadings were above the cut-off point of 0,5 (Hair et al. 2006). Figure 14 presents the second-order construct of interactiviness.

**Figure 14: Second-order construct of interactiviness**



#### 4.5.2. Testing Hypotheses 1-3: Interactiviness, Marketing Assets and Performance

##### 4.5.2.1. Measurement Model

To examine the measurement properties of the hypothesised model linking interactiviness with marketing assets and performance (as depicted in Figure 11) we run CFA where the second-order interactiviness construct was included together with the constructs of customer assets, brand assets and firm performance. Table 9 below presents the results of the CFA analysis. The composite reliability of the constructs (a measure of the shared variance among the set of observed variables that are used to measure a latent construct) ranged between .78 and .91, which is above the recommended threshold value (Fornell and Larcker 1981). The average variance extracted (AVE) for all constructs was above the recommended value of 0.5 (Fornell and Larcker 1981). The model exhibited good fit with the data: chi-square = 164.839 (d.f. 109), CFI=.951, TLI=.938, IFI=.952, RMSEA=.06. All factor loadings were



statistically significant and ranged between 0.56 and 0.95. Thus, the constructs exhibited convergent validity (Bagozzi 1994).

**Table 9: Results from CFA – Interactiveness, marketing assets and performance**

Factors / Items	Factor loading	Composite reliability	AVE
<b>Interactiveness</b>			
<i>Strategic Focus on Interactiveness</i>	.951	<b>.73</b>	<b>.58</b>
SF2	.559		
SF3	.926		
<i>Dialogue Culture</i>	.843	<b>.85</b>	<b>.65</b>
DC1	.893		
DC2	.765		
DC3	.761		
<i>Providing the Basis for Co-Creation</i>	.879	<b>.87</b>	<b>.69</b>
CC1	.809		
CC2	.853		
CC3	.831		
<b>Customer assets</b>		<b>.78</b>	<b>.55</b>
CA1	.587		
CA2	.730		
CA3	.875		
<b>Brand assets</b>		<b>.82</b>	<b>.61</b>
BA1	.832		
BA2	.689		
BA3	.812		
<b>Firm Performance</b>		<b>.87</b>	<b>.70</b>
Perf1	.633		
Perf2	.934		
Perf3	.912		

Model fit: Chi-square = 164.839, d.f. 109, CFI=.951, TLI=.938, IFI=.952, RMSEA=.06

We examined discriminant validity following the procedure suggested by Fornell and Larcker (1981) and widely used in marketing research (e.g., Kandemir et al. 2006; Ramani and Kumar 2008), i.e. we compared the average variance extracted by the items corresponding to each of the latent constructs with the highest shared variance among the factors in the model. The AVE was always higher than the shared variance, thus suggesting that discriminant validity was achieved (see Table 10).

**Table 10: Discriminant validity of the measures**

	Interactiveness	Customer assets	Brand assets	Firm performance
Interactiveness	.80			
Customer assets	.10	.55		
Brand assets	.04	.28	.61	
Firm performance	.001	.03	.19	.70

Note: The squared correlation (shared variance) between constructs is below the diagonal, the AVE is on the diagonal.

#### 4.5.2.2. Structural Model

We used structural equation modelling (SEM) to test hypotheses 1-3. The structural model exhibited good fit with the data: chi-square = 167.374 (d.f. 111), CFI=.949, TLI=.930, IFI=.951, RMSEA=.063. The results of the structural model are presented in table 11. The model supported H1, stating that interactiveness will affect positively customer assets. Indeed, we found a positive impact of interactiveness on customer assets (b =.317, p=.002). The results also present support for H2b, as customer assets affect positively brand assets (b = .636, p =.000). Furthermore, we found that brand assets influence positively overall firm performance (b = .243, p =.000), as H3b suggests; however, contrary to the expectations customer assets did not have effect on performance.

**Table 11: Structural model results – Interactiveness, marketing assets and performance**

Construct-direction-construct	Estimate	Standardized estimate	S.E.	C.R.	P
Customer assets <--- Interactiveness	.317	.327	.101	3.130	.002
Brand assets<--- Customer assets	.636	.531	.129	4.938	***
Firm performance<--- Brand assets	.243	.465	.070	3.490	***
Firm performance<--- Customer assets	-.043	-.069	.074	-.581	.561

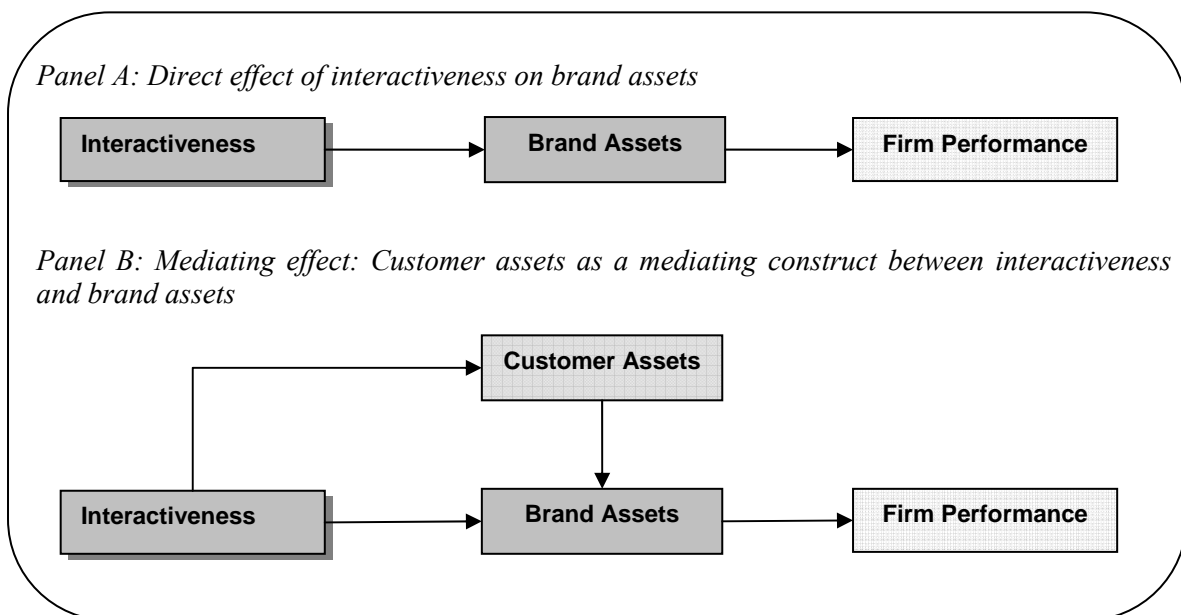
Model fit: Chi-square = 167.374, d.f. 111, CFI=.949, TLI=.930, IFI=.951, RMSEA=.063

In order to test H2a and H2c (the effect of interactiveness on brand assets and the mediating role of customer assets in this relationship) we performed separate SEM as suggested by Hair et al. (2006). A mediating effect occurs when a third variable (construct) intervenes between two other related constructs. Mediation is said to exist if on the introduction of the mediating variable into the model, the original independent variable becomes insignificant (Baron and Kenny 1986; Poddar et al. 2009). If the independent variable does not become insignificant, but its effect is reduced, then partial mediation is said to exist. Thus, to test whether there is a positive effect of interactiveness on brand assets (H2a) and whether customer assets mediate this relationship (H2c), we first tested a model in which the customer assets construct was not included, i.e. we tested a direct effect of interactiveness on brand assets, and the subsequent effect of brand assets on performance (Panel A in Figure 15 below). The model exhibited good fit with the data (chi-square = 97.330 (d.f. 71), CFI=.973,

TLI=.965, IFI=.973, RMSEA=.05) and interactiveness influenced positively brand assets ( $b=.213, p=.083$ ). Thus, we found support for H2a.

Another SEM was run including the customer assets construct as a mediating variable along with the main effect of interactiveness on brand assets (Panel B in Figure 15). This model had good fit with the data (chi-square = 116.686 (d.f. 111), CFI=.951, TLI=.940, IFI=.952, RMSEA=.06), similar to the main model results presented in table 11. Note that in difference with the main model, the model presented in Panel B of Figure 15 includes a direct relationship between interactiveness and brand assets. This allows us to test whether the relationship interactiveness – brand assets remains significant and unchanged with the inclusion of customer assets in the model. The results provided support for H2c. With the inclusion of customer assets in the model, the effect of interactiveness on brand assets was reduced to .021 and became nonsignificant ( $b=.021, p=.859$ ). Thus, we found that the customer assets construct fully mediates the relationship between interactiveness and brand assets.

**Figure 15: Direct and mediated effect between interactiveness and brand assets**



Since customer and brand assets are closely related constructs theoretically, and customer assets affect brand assets, thus influencing indirectly firm performance, we performed additional analysis to understand whether customer assets would have a significant positive effect on performance in the absence of brand assets in the model, i.e. although not previously hypothesised, we performed a mediation test, similar to the

one presented in Panel A, but this time with brand assets as a mediator in the relationship between customer assets and performance. When the brand assets construct was not included in the model, customer assets did have a significant positive effect on firm performance as H3a predicts ( $b=.192$ ,  $p=.082$ ). The model exhibited good fit with the data:  $\chi^2 = 107.055$  (d.f. 71), CFI=.961, TLI=.951, IFI=.962, RMSEA=.063. Thus, we found partial support for H3a. Importantly, “brand assets” appears to be a strong construct that connects other marketing related assets to firm performance.

#### **4.5.3. Testing Hypotheses 4-7: The Role of Stakeholder Involvement and Innovation in Enhancing Marketing Assets**

Besides the direct effect of interactiveness on marketing assets, the literature suggests that interactiveness can leverage other assets, such as stakeholder involvement and innovation, to enhance the generation of marketing assets. We hypothesised that stakeholder involvement will influence the generation of customer assets, such as customer satisfaction and loyalty, and that innovation will affect brand assets because of the expected positive association of the brand as being innovative and providing more value. Therefore, here we test these additional hypotheses, including the constructs of stakeholder involvement and innovation in the model (as depicted in Figure 12: Additional paths to enhance marketing assets through interactiveness).

The procedure and techniques we apply are similar to the ones we used for testing hypotheses 1-3, i.e. we first run CFA model to assess the measurement properties of the constructs and then SEM to test the proposed model.

##### **4.5.3.1. Measurement Model**

To examine the measurement properties of the hypothesised model we run CFA where the constructs of interactiveness, customer assets, brand assets and firm performance were included together with the constructs of stakeholder involvement and innovation. The results of the CFA analysis can be seen in table 12. The composite reliability of the constructs was adequate and the average variance extracted for all constructs was above the recommended value of 0.5, with the exception of the innovation construct, which was lower but close to the threshold level (0.48). The model fit with the data was acceptable:  $\chi^2 = 283.651$ , d.f. 190, CFI=.929, TLI=.914, IFI=.932,

RMSEA=.06. All factor loadings were statistically significant and ranged between 0.56 and 0.96. Therefore, we conclude that the constructs exhibit convergent validity.

**Table 12: Results from CFA – Integrative model**

Factors / Items	Factor loading	Composite reliability	AVE
<b>Interactiveness</b>			
<i>Strategic Focus on Interactiveness</i>	.964	<b>.72</b>	<b>.58</b>
SF2	.563		
SF3	.920		
<b>Dialogue Culture</b>	.832	<b>.85</b>	<b>.65</b>
DC1	.890		
DC2	.768		
DC3	.755		
<i>Providing the Basis for Co-Creation</i>	.884	<b>.87</b>	<b>.69</b>
CC1	.806		
CC2	.855		
CC3	.831		
<b>Innovation</b>		<b>.65</b>	<b>.48</b>
Inn1	.618		
Inn2	.763		
<b>Stakeholder involvement</b>		<b>.74</b>	<b>.51</b>
Stakeh1	.523		
Stakeh2	.962		
Stakeh3	.565		
<b>Customer assets</b>		<b>.78</b>	<b>.55</b>
CA1	.613		
CA2	.728		
CA3	.856		
<b>Brand assets</b>		<b>.82</b>	<b>.61</b>
BA1	.831		
BA2	.694		
BA3	.809		
<b>Firm Performance</b>		<b>.87</b>	<b>.70</b>
Perf1	.633		
Perf2	.934		
Perf3	.912		

Model fit: Chi-square = 283.651, d.f. 190, CFI=.929, TLI=.914, IFI=.932, RMSEA=.06

To examine discriminant validity we compared the average variance extracted by the items corresponding to each of the latent constructs with the highest shared variance among the factors in the model (Fornell and Larcker 1981). As it can be observed in table 13, the AVE was always higher than the shared variance; therefore discriminant validity was achieved.

**Table 13: Discriminant validity of the measures in the integrative model**

	Interactiveness	Customer assets	Brand assets	Innovation	Stakeholder involvement	Firm performance
Interactiveness	.80					
Customer assets	.11	.55				
Brand assets	.04	.29	.61			
Innovation	.20	.14	.18	.48		
Stakeholder involvement	.13	.15	.12	.07	.51	
Firm performance	.001	.03	.19	.04	.008	.70

*Note: The squared correlation (shared variance) between constructs is below the diagonal, the AVE is on the diagonal.*

#### 4.5.3.2. Structural Model

We used structural equation modelling to test hypotheses 4-7. The model fit with the data was deemed appropriate based on several indexes: chi-square = 290.903, d.f. 197, CFI=.929, TLI=.917, IFI=.931, RMSEA=.061. The results of the structural model are presented in table 14. We found support for H4, stating that interactiveness will affect positively stakeholder involvement (b=.288, p=.003). The results also present support for H5, since there was a positive effect of stakeholder involvement on customer assets (b=.237, p=.008). We also found that there was a positive effect of interactiveness on innovation (b=.137, p=.001) in support of H6. Furthermore, we found that innovation influences positively customer assets (b=.587, p=.045) and brand assets (b=.936, p=.048), as H7a and H7b suggest. Interestingly, the inclusion of the two additional paths to enhance customer assets (through stakeholder involvement and innovation) made nonsignificant the direct effect of interactiveness on customer assets. Thus, the two variables taken together mediate the relationship between interactiveness and customer assets.

We performed additional analyses to verify whether each of the variables in itself mediates this relationship. The results revealed that neither innovation, nor stakeholder involvement separately mediate the interactiveness-customer assets link. It is the combined effect of the two variables that act as a full mediator. Therefore, interactiveness enhances customer assets by means of delivering innovative solutions for constantly changing consumer needs, and by involving different stakeholders in the

process of working towards customer satisfaction and loyalty. Interactiveness thus works through delivering both pragmatic value (innovations that meet customer requirements) and social value (developing stakeholder relationships). Thus, important implication for managers is that they should focus on both the pragmatic aspects, through developing innovative new products, and the broader stakeholder aspects of developing relationships with different stakeholders in the process of delivering customer value and satisfaction.

**Table 14: SEM results – Integrative model**

Construct-direction-construct	Estimate	Standardized estimate	S.E.	C.R.	P
Stakeholder involvement<--- Interactiveness	.288	.353	.098	2.924	.003
Innovation <--- Interactiveness	.137	.436	.043	3.210	.001
Customer assets <--- Stakeholder involvement	.237	.295	.090	2.646	.008
Customer assets <--- Interactiveness	.071	.109	.081	.888	.375
Customer assets<--- Innovation	.587	.282	.292	2.009	.045
Brand assets<--- Innovation	.936	.243	.474	1.976	.048
Brand assets<--- Customer assets	.826	.446	.227	3.648	.000
Firm performance<--- Brand assets	.224	.425	.057	3.941	.000

Model fit: Chi-square = 290.903, d.f. 197, CFI=.929, TLI=.917, IFI=.931, RMSEA=.061

*Note: Because of the mediation effects discussed earlier, we did not include in this model direct relationships between interactiveness and brand assets, and between customer assets and performance.*

#### **4.5.4. Testing Hypotheses 8-10: Interactiveness and Innovation Efficiency**

##### **4.5.4.1. Method**

To test hypotheses 8-10, we should first estimate the innovation efficiency as specified in Figure 13 (Model of analysis: Interactiveness and innovation efficiency). There are different methods of efficiency estimation available and commonly used in the literature. The literature distinguishes between two groups of efficiency estimation: (1) stochastic, such as Stochastic Frontier Analysis (SFA) and (2) non-parametric, such as Free Disposal Hull (FDH) and Data Envelopment Analysis (DEA). A major difference between DEA and FDH is that DEA assumes convexity in the technology while the FDH estimation method does not require the convexity assumption. DEA and FHD are based on mathematical programming, they are flexible and do not impose a specific functional form and they can easily accommodate multiple inputs and outputs (Daraio and Simar 2007). An important feature of DEA/FHD is that they build an efficient frontier comprising of all the efficient units, thus allowing comparison to the best performers. In contrast, regression models, although quantitatively robust, provide information about “average” performers.

SFA is a parametric approach, which explicitly considers the stochastic properties of the data, and distinguishes between firm-specific effects and random shocks (something that deterministic approaches cannot do). However, SF is not without criticism. Among the problems with stochastic frontiers are that the implementation requires the choice of an explicit functional form for the production function, which is not always appropriate, and that the researcher imposes strong distributional assumptions on the error term.

Here we will focus on non-parametric approaches (DEA and FDH) since they allow flexibility and, importantly, they accommodate easily efficiency estimation in a multi-input multi-output framework, as is our case (recall that we have 2 inputs and 2 outputs in the formulation of the innovation efficiency). Non-parametric approaches, and especially DEA, are becoming prominent in marketing research. Marketing researchers have noticed that DEA could be especially useful to benchmark specific domains of marketing like advertising, pricing or distribution relative to the successful firms in the industry (Shoham and Fiegenbaum 1999). Several studies have been reported using DEA, among them Kamakura et al. (1988) to measure welfare loss and market efficiency; Mahajan (1991) for operations in insurance industry; Boles et al. (1995) for evaluation of relative performance of salespeople; Kamakura et al. (1996) for retail stores and Keh et al. (2006) for service marketing (hotel chains). Over the last decade, a few studies have applied DEA methods to evaluate advertising efficiency in competitive settings. Luo and Donthu (2001, 2005) assessed the best advertising practices among the top 100 U.S. advertisers. Färe et al. (2004) estimated the cost efficiency in advertising in the U.S. beer. Büschken (2007) revealed eight percent inefficiency of brand advertising spending in the German car market. Lohtia et al. (2007) used DEA to evaluate banner advertisements efficiency. Thus, non-parametric approaches are becoming increasingly popular in marketing, as researchers recognise their potential in benchmarking different domains of marketing activities.

Non-parametric approaches like FDH and DEA, while particularly useful in some situation, have been criticised over the years:

- Since they envelop all observation points, they are very sensitive to outliers.
- As they are deterministic models they fail to account for the influence of statistical noise.

To correct for these drawbacks, researchers have developed novel techniques aiming at the analysis of the statistical properties of the nonparametric estimators, and



allowing for statistical inference and rigorous testing procedures (Daraio y Simar 2007). We apply these novel efficiency estimation techniques in the current study. In particular, we apply bootstrap DEA and order- $m$  FDH estimation.

The method employed in this study consists of several steps:

- First, we estimate innovation efficiency based on bootstrap DEA and order- $m$  FDH. We use both DEA and FDH to assure robustness of the results.
- The second stage uses the DEA/FDH estimates as a dependent variable in a regression analysis to assess the effect of interactiveness on innovation efficiency. Since DEA/FDH efficiency coefficients are censored, the traditional ordinary least squares model is not appropriate when DEA/FDH estimates are used as a dependent variable. Instead researchers have suggested that *tobit regression* (Ray 2004) or *truncated regression* (Simar and Wilson 2007) should be preferred in this case. To assure robustness of the results, we estimate the effect of interactiveness on innovation efficiency using both tobit and truncated regression.
- Finally, a separate regression analysis is run to assess the effect of innovation efficiency on profitability.

A detailed explanation of the efficiency estimation methods follows.

### **DEA and Bootstrapping**

Data Envelopment Analysis has become an important tool in efficiency measurement in the last two decades. It is based on the seminal work of Farrell (1957) and was originally developed by Charnes et al. (1978), with constant returns to scale, and later extended by Banker et al. (1984) to include variable returns to scale. DEA is a non-parametric, linear programming based technique designed to measure the relative performance of decision making units (DMUs) where the presence of multiple inputs and outputs poses difficulties for comparisons. DEA uses the ratio of weighted inputs and outputs to produce a single measure of total factor productivity (relative efficiency). Efficient DMUs are those for which no other DMU generates as much or more of every output (with a given level of inputs) or uses as little or less of each input (with a given level of outputs). The efficiency of each unit, therefore, is measured in comparison to all other units. An important feature of DEA is that it builds an efficient frontier comprising all of the efficient units, thus allowing a comparison to the best performers (Charnes et al. 1978). The efficient DMUs have an efficiency score of one (or 100%),

while the inefficient ones have efficiency score more than one (or more than 100%) in the output-oriented DEA model, and less than one but greater than zero in an input-oriented model. An input-oriented model will look for efficiency by proportionately reducing inputs, while an output-oriented model will focus on increasing outputs given the observed inputs consumption. In the case of measuring efficiency of marketing activities, the output-oriented model seems to be preferable since marketing plans and budgets are usually preliminarily decided and the goal is maximisation of outputs with the available/planned activities and budget (Piercy 1987; Low and Mohr 1999). The DEA models employed in our study are, therefore, output-oriented and with variable returns to scale in order to control for possible different economies of scale at which companies operate. The model is presented below.

$$\begin{aligned}
 & \text{Max. } \beta_t, \\
 & \text{s.t.:} \\
 & \sum_{k=1}^K \lambda_k \cdot y_{ikt} \geq \beta_t \cdot y_{it}^o, \quad i=1, \dots, I, \\
 & \sum_{k=1}^K \lambda_k \cdot x_{jkt} \leq x_{jt}^o, \quad j=1, \dots, J, \\
 & \sum_{k=1}^K \lambda_k = 1, \\
 & \lambda_k \geq 0.
 \end{aligned} \tag{1}$$

Where  $\beta_t$  is the efficiency coefficient for the unit under analysis in period  $t$  ( $\beta_t = 1$  indicates that the DMU under analysis is efficient, and  $\beta_t > 1$  that this DMU is inefficient.  $\beta_t - 1$  determines the output growth rate required to reach the frontier),  $y_{it}^o$  is the observed outputs vector of the DMU under analysis in period  $t$ ,  $x_{jt}^o$  is the observed inputs vector of the DMU under analysis in period  $t$ ,  $y_{ikt}$  and  $x_{jkt}$  refer to outputs and inputs vectors for the  $k$  ( $k=1, \dots, K$ ) DMUs forming the total sample, and  $\lambda$  stands for the activity vector.

DEA efficiency scores are measured based on an estimate of the true, but unobserved, production frontier. Therefore, because statistical estimators of the frontier are obtained from finite samples, the obtained measures of efficiency are sensitive to the sampling variations. The research by Simar and Wilson (1998, 2007) demonstrates that DEA efficiency coefficients are biased estimations of the true, unknown, efficiency levels, and this bias is potentially amplified when the number of units included in the

sample under analysis is relatively small. The solution for correcting the bias, proposed by Simar and Wilson (1998) is the bootstrap DEA approach. As explained by Simar and Wilson (1998: 49), “bootstrapping is based on the idea of repeatedly simulating the data-generating process (DGP), usually through resampling, and applying the original estimator to each simulated sample so that resulting estimates mimic the sampling distribution of the original estimator”.

The “smoothed” bootstrap approach of Simar and Wilson (1998) is used here, and the theoretical underpinnings can be found in the extensive work by Simar and Wilson (1998, 1999, 2000a,b). The key assumption behind this approach is that the known bootstrap distribution will mimic the original unknown distribution if the known data generating process (DGP) is a consistent estimator of the unknown DGP. The bootstrap process will, therefore, generate values that mimic the distributions which would be generated from the unobserved and unknown DGP (Simar and Wilson 1998, 2000a,b). Because DEA estimates a production frontier boundary, generating bootstrap samples is not straightforward. The “smoothed” bootstrap is based on the DEA estimators themselves by drawing with replacement from the original estimates of beta, and then it applies the reflection method proposed by Silverman (1986).

The steps in this procedure are as follows:

1. Solve program (1) and obtain the original efficiency scores  $\beta_1 \dots \beta_k$ .
2. Define a sample  $\beta_{B1} \dots \beta_{Bk}$  generated from  $\beta_1 \dots \beta_k$ .
3. Smooth the sample.
4. Obtain the final value  $\beta_1^* \dots \beta_k^*$  by adjusting the smoothed sample so that the variance of the final bootstrap sequence is asymptotically correct.
5. Adjust the original outputs using the ratios  $\beta_1 / \beta_1^* \dots \beta_k / \beta_k^*$ .
6. Resolve model (1) using the adjusted outputs to obtain  $\hat{\beta}_{b1}^* \dots \hat{\beta}_{bk}^*$ .
7. Repeat Steps 2 to 6 B times to obtain B sets of estimates (usually 2000).

Once the desired number of samples is obtained, the bias of the original estimates  $\beta_1 \dots \beta_k$  is calculated as follows:

$$bias \hat{\beta}_k = \frac{\sum_{b=1}^B (\hat{\beta}_{bk}^* - \beta_k)}{B} \quad [2]$$

which finally provides the bias-corrected estimator of the true value of  $\beta_1 \dots \beta_k$ :

$$\hat{\beta}_k^* = \beta_k - bias \hat{\beta}_k \quad [3]$$

### FDH and Order-m Estimators

FDH can be regarded as a more general nonparametric frontiers estimator than DEA, or as a non-convex version of DEA (Daraio and Simar 2007). Convexity means that if two observations are possible, then all the linear combinations that lie between them are also possible. Unlike DEA, FDH does not imply convexity. It relies on the free disposability of inputs and outputs to define the production possibility set (Daraio and Simar 2007). Thus, FDH relaxes convexity, while maintaining free disposability (Deprins et al. 1984).

$$\begin{aligned}
 & \text{Max. } \beta_t, \\
 & \text{s.t. :} \\
 & \sum_{k=1}^K \lambda_k \cdot y_{ikt} \geq \beta_t \cdot y_{it}^o, \quad i=1, \dots, I, \\
 & \sum_{k=1}^K \lambda_k \cdot x_{jkt} \leq x_{jt}^o, \quad j=1, \dots, J, \\
 & \sum_{k=1}^K \lambda_k = 1,
 \end{aligned} \tag{4}$$

$\lambda_k$  is an integer variable.

As can be observed, program [4], the output-oriented FDH estimation, is very similar to program [1], the output-oriented DEA program in variable returns to scale technology. Basically, the difference consists in the activity vector  $\lambda$ . In the DEA models,  $\lambda$  is a non-negative continuous variable while in FDH is an integer variable, having a specific  $\lambda$  a unitary value (indicating which is the unit taken as a benchmark) while the remaining values for  $\lambda$  are zero.

### Determining robust FDH estimators: order-m frontiers

One approach for estimating robust FDH estimators is subsampling. This approach has been proved to provide consistent approximations of the sampling distribution (Jeong and Simar 2005). Such a partial frontier approach provides the advantage that, since it does not envelop all data points, it is more robust to extreme values and outliers (Daraio and Simar 2007). In addition, as a consequence of their statistical properties, the resulting robust measures of efficiency do not suffer of the *curse of dimensionality*. This is very important for empirical works since it implies that the researcher can work with

moderate samples sizes instead of requiring large samples to avoid imprecise estimation (Daraio and Simar 2007).

The order- $m$  estimators were proposed by Cazals et al. (2002) and are based on the expected minimum input (or expected maximal output) frontier of order- $m$ . As Daraio and Simar (2007: 71) note, “order- $m$  frontiers are estimators of the frontier that for finite  $m$ , do not envelop all the observed data points and therefore, are less sensitive to extreme points and/or to outliers”. Order- $m$  estimators do not impose the assumption that the production set is convex. Furthermore, order- $m$  estimators permit noise in input measures (Daraio and Simar 2007).

To give an understanding of order- $m$  frontier, we provide here the explanation for single-input, single-output case found in Wheelock and Wilson (2004). The expected minimum input frontier of order  $m$  is estimated as follows (Wheelock and Wilson 2004: 12):

- (i) For each firm, identify all other firms that produce at least as much output as that firm.*
- (ii) Draw  $m$  times, independently, with replacement, from this set of firms, identifying the firm among the  $m$  draws that uses the minimum amount of input.*
- (iii) Repeat step (ii)  $k$  times.*
- (iv) Compute the mean input usage of the  $k$  firms identified in the sampling of steps (ii) and (iii). The estimated expected minimum input frontier constitutes the means computed for each sample observation.*

For any DMU, the order- $m$  estimator is obtained by computing the distance from the DMU to the estimated order- $m$  frontier (Wheelock and Wilson 2004).

It is also relevant to note that, as Cazals et al. (2002) state, the choice of  $m$  is arbitrary. That is why it is recommended that a few values of  $m$  be used in order to guide the evaluation of the performance. However, efficiency estimates using different values of  $m$  have been found to be highly correlated (Wheelock and Wilson 2004). We thus use different values of  $m$  (25, 40, and 80) and compare the results obtained using those values.

#### **4.5.4.2. Data and Results**

Data from the same survey source as in the SEM models have been used for estimating the efficiency, as well as for testing the effect of interactiveness on innovation efficiency, and the effect of innovation efficiency on profitability. As input variables for the estimation of efficiency we used the two variables reflecting the quantity and quality of innovation (items Inn1 and Inn2 in Table 8). As output variables in the efficiency

estimation we used one item reflecting customer satisfaction and one item reflecting the perceived value of the brand (items CA1 and BA2 in Table 8).

Interactiveness was measured by computing the mean of the items used to measure the different components of interactiveness. For profitability we adapted two measures: one reflecting profitability relative to competitors, and another reflecting profitability relative to last year. For the moderator variable (competitive intensity) we adapted standard, often used in marketing research existing measure, following Jaworski and Kohli (1993). The control variables were also measured using existing scales: for technological turbulence we adapted one item from Jaworski and Kohli (1993); for institutional pressure for technology adoption we adapted two items from Wu et al. (2003). All variables were Likert-type, ranging from “strongly disagree” (1) to “strongly agree” (5). For the profitability variables, the items ranged from 1 (much lower) to 5 (much higher). Where two or more items were used to measure a variable, we computed the mean and used it as the final variable. Descriptive statistics and correlations between the variables are presented in table 15 below.

**Table 15: Descriptive statistics and correlations between variables**

Variables	Mean	Std.Dev.	1	2	3	4	5	6	7	8	9
1. Interactiveness	3.71	.7887951	1								
2. IE <sup>a</sup> (bootstrap DEA)	1.23	.2161791	-.23***	1							
3. IE (Order-m 25)	1.18	.1987321	-.21**	.97***	1						
4. IE (Order-m 40)	1.20	.2061942	-.20**	.97***	.99***	1					
5. IE (Order-m 80)	1.21	.2098793	-.19**	.97***	.99***	.99***	1				
6. Profitability relative to competition	3.19	.7729304	.01	-.21**	-.16*	-.16*	-.17*	1			
7. Profitability relative to last year	3.25	.8288231	.25***	-.16*	-.16*	-.16*	-.16*	-.04	1		
8. Competitive intensity	4.02	.7869996	-.12	-.20**	-.20**	-.19**	-.19**	-.19**	-.10	1	
9. Institutional pressure	3.50	.9152086	.28***	-.05	-.06	-.04	-.04	-.21**	.24***	.23***	1
10. Technological turbulence	3.60	1.110477	.21**	-.15*	-.15	-.15	-.15	-.02	.08	.31***	.52***

\*\*\* p<.01, \*\* p<.05, \* p<.10

<sup>a</sup>Note: IE refers to Innovation Efficiency.

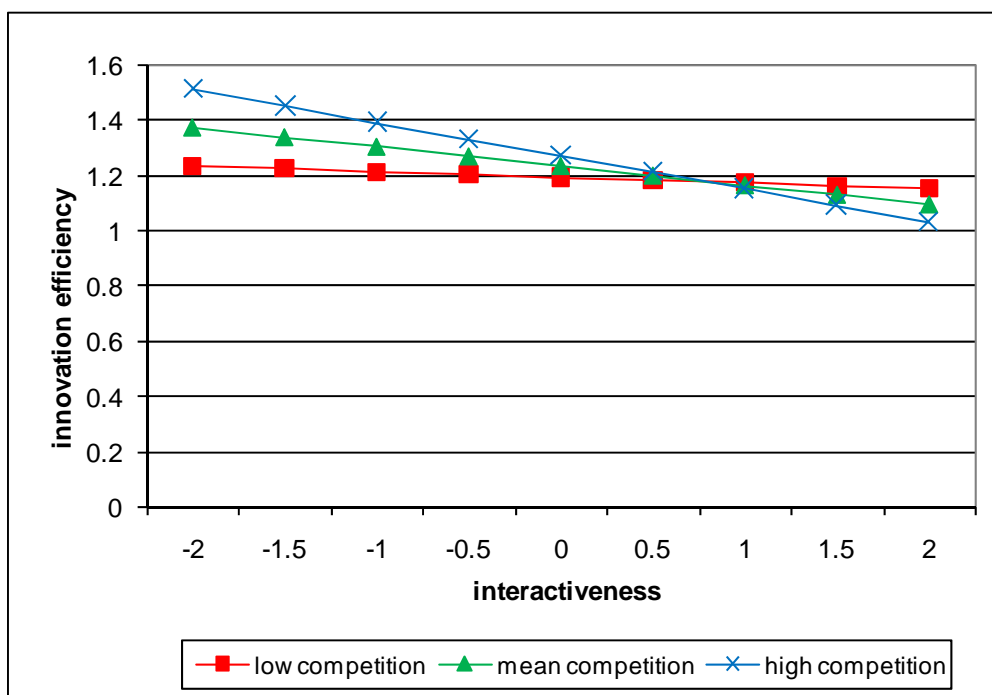
Since we have hypothesised a moderator effect of competitive intensity on the relationship between interactiveness and innovation efficiency, to avoid multicollinearity problems (often seen when moderation effect is included), we mean-centred the independent variables, following Aiken and West (1991). Mean centred solutions are used in marketing research when multicollinearity poses a threat (e.g., Luo and Donthu 2006; Luo and Homburg 2007). To estimate the interaction variable, we first mean centred the original independent variables (interactiveness and competitive

intensity) and then we estimated the interaction using these mean centred variables. The control variables were also mean centred to avoid collinearity problems.

The results from the tobit and truncated regression can be seen in table 16. As hypothesised, interactiveness reduces the inefficiency levels. Recall that our efficiency estimations are output-oriented, i.e. higher levels of efficiency coefficient correspond to higher levels of inefficiency. Therefore, the negative relationship between interactiveness and innovation efficiency means that higher levels of interactiveness lead to lower levels of the efficiency score; thus interactiveness helps reduce inefficiency, or in other words, helps improve the innovation efficiency. This result is valid independently of the efficiency estimation method (bootstrap DEA, order- $m$  25, 40, 80), as well as with both the tobit and the truncated regression models. Thus, hypothesis 8 is supported.

Competitive intensity also has a negative effect on the innovation efficiency, hence reducing inefficiency. Importantly, the hypothesised moderation of competitive intensity (“Interactiveness X Competitive intensity”) has also a significant effect on innovation efficiency. To understand how competitive intensity moderates the relationship between interactiveness and innovation efficiency, observe Figure 16 below.

**Figure 16: Moderator effect of competitive intensity on the relationship between interactiveness and innovation efficiency**



From the figure it is clear that while inefficiency is reduced with higher levels of interactiveness, this reduction is greater when competition is high. Therefore, in higher competitive intensity interactiveness has a greater effect on innovation efficiency. Thus, the results support hypothesis 9. The control variables technological turbulence and institutional pressure did not have significant effect on innovation efficiency. Thus, the results suggest that interactiveness can have a beneficial effect on innovation efficiency independently of the level of technological turbulence or the institutional pressure for adopting technology.

Finally, table 17 presents the effect of innovation efficiency on profitability. For both profitability relative to competitors and profitability relative to last year, innovation efficiency had significant negative effect. Therefore, lower levels of the efficiency coefficient (corresponding to better innovation efficiency) lead to higher profitability. The results are valid across different estimation methods of efficiency (bootstrap DEA, order- $m$ ), as evidenced by models 1-4 in table 17. Thus, hypothesis 10 is supported.

In addition, competitive intensity was found to decrease profitability both relative to competitors and relative to last year. However, another control variable - institutional pressure for technology adoption had a significant negative effect on profitability relative to competitors, and significant positive effect on profitability relative to last year. The literature suggests that in situations of high normative pressures, organisations might adopt innovations and introduce new technologies not based on their assessments of the potential efficiency and returns from the innovation/new technology, but because of institutional pressure caused by the high number of firms in the industry that have already done so (Homburg et al. 1999; Wu et al. 2003). This might cause decreased profitability in relation to the competition. However, the adoption of new technologies can help firm to learn how to use them to improve its internal processes and interactions both within the firm and with customers and other stakeholders. This might ultimately produce a beneficial effect and improve profitability in comparison to previous years. Thus, in order for new technologies to contribute to profitability in relation to competitors, they should be integrated into company strategy and be used in a continuous process of learning and adaptation to achieve efficient interactions and better customer solutions.



**Table 16: Effect of interactiveness on innovation efficiency**

	Tobit regression				Truncated regression			
	Dependent variable: Innovation efficiency measured by				Dependent variable: Innovation efficiency measured by			
	Bootstrap DEA score	FDH Order-m (25)	FDH Order-m (40)	FDH Order-m (80)	Bootstrap DEA score	FDH Order-m (25)	FDH Order-m (40)	FDH Order-m (80)
	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)	Coef. (std.err.)
Constant	1.232824*** (.0181545)	1.179941*** (.0169702)	1.199963*** (.017743)	1.208817*** (.0181048)	.845145*** (.2005025)	.9403319*** (.1112284)	1.001015*** (.0918322)	1.022008*** (.0866452)
Interactiveness	-.0719381*** (.0247922)	-.0586776*** (.0231665)	-.0574645** (.0242086)	-.0560666** (.0247012)	-.168922** (.0879312)	-.1197397* (.0642546)	-.1050554* (.0598742)	-.098978* (.0585718)
Competitive intensity	-.0629643*** (.0250351)	-.0545838** (.0233768)	-.0546657** (.0244633)	-.0553954** (.0249623)	-.1415176* (.0816816)	-.1074284* (.0570576)	-.096171* (.0533522)	-.0949442* (.0523374)
Interactiveness X Comp. intensity	.0654753*** (.0226443)	.0547931*** (.0211574)	.053736*** (.0221185)	.053492** (.0225686)	.0841698* (.050418)	.0641739* (.038022)	.0647497* (.0366614)	.0644688* (.0361592)
Technological turbulence	-.0213654 (.0198863)	-.017713 (.0186101)	-.0190465 (.0194254)	-.020601 (.0198208)	-.0713898 (.0710462)	-.0455561 (.050305)	-.0480765 (.0472174)	-.0498624 (.0464942)
Institutional pressure	.0388268 (.0240431)	.0295914 (.0224711)	.0316008 (.0235024)	.0327843 (.0239815)	.1199687 (.088029)	.0729048 (.0583356)	.0748475 (.0546048)	.0751143 (.053637)
Prob > chi2	0.0003	0.0016	0.0034	0.0044	0.0005	0.0000	0.0000	0.0000
Number of observations	118	118	118	118	118	118	118	118

\*\*\* p<.01 \*\* p<.05, \* p<.10

**Table 17: Regression results for the effect of innovation efficiency on profitability**

	Dependent variable	
	Profitability relative to competitors	Profitability relative to last year
	Coef. (std.err.)	Coef. (std.err.)
<b>Model 1</b>		
IE <sup>a</sup> (Bootstrap DEA)	-.8916201 (.3201234)***	-.7379958 (.3482323)**
Competitive intensity	-.2209192 (.0916675)**	-.2013457 (.0997165)**
Technological turbulence	.0917394 (.0735574)	-.0290027 (.0800162)
Institutional pressure	-.1982179 (.0867098)**	.2638212 (.0943235)***
Constant	4.282085 (.3990592)***	4.161104 (.4340992)***
R2	0.14	0.12
Prob > F	0.0017	0.0072
<b>Model 2</b>		
IE (FDH Order-m 25)	-.7603148 (.3520569)**	-.7750825 (.3785131)**
Competitive intensity	-.2111336 (.0928083)**	-.1994499 (.0997826)**
Technological turbulence	.098567 (.0744232)	-.0263992 (.0800159)
Institutional pressure	-.2036923 (.0877848)**	.2606467 (.0943816)***
Constant	4.080997 (.4197589)***	4.166169 (.4513028)***
R2	0.12	0.11
Prob > F	0.0063	0.0082
<b>Model 3</b>		
IE (FDH Order-m 40)	-.7256029 (.3391449)**	-.7589496 (.364267)**
Competitive intensity	-.2091966 (.0927212)**	-.1982826 (.0995895)**
Technological turbulence	.0971983 (.0745238)	-.0282527 (.0800441)
Institutional pressure	-.2009116 (.0878767)**	.263743 (.0943862)***
Constant	4.054784 (.4115207)***	4.162487 (.4420041)***
R2	0.12	0.12
Prob > F	0.0065	0.0077
<b>Model 4</b>		
IE (FDH Order-m 80)	-.7247806 (.3332202)**	-.7506462 (.3580543)**
Competitive intensity	-.2098694 (.092674)**	-.1986669 (.0995808)**
Technological turbulence	.0961762 (.0745131)	-.029134 (.0800664)
Institutional pressure	-.1997803 (.087844)**	.2648134 (.0943908)***
Constant	4.060263 (.4074517)***	4.159244 (.437818)***
R2	0.12	0.12
Prob > F	0.0061	0.0075

\*\*\* p<.01 \*\* p<.05, \* p<.10

<sup>a</sup>Note: IE refers to Innovation Efficiency.

#### **4.6. Discussion**

The aim of this chapter was to focus the attention on the notion of strategic interactiveness, to conceptualise interactiveness as a dynamic capability and to suggest theoretically and test empirically how interactiveness can influence different firm resources in order to enhance competitiveness and thus, firm performance. Based on the RBV and dynamic capabilities literature, we hypothesised that interactiveness will influence marketing assets such as customer and brand-related assets. We also hypothesised that interactiveness would influence those marketing assets not only directly, but also through additional paths: leveraging stakeholder involvement and innovation.

The results from the structural equation modelling revealed that interactiveness does indeed affect positively customer assets, as well as brand assets. Importantly, customer assets proved to be mediating the relationship between interactiveness and brand assets. This finding resonates with the literature on brand communities (e.g., Muniz and O'Guinn 2001; McAlexander et al. 2002) as well as the notion that brands are nowadays increasingly co-created with customers (Payne et al. 2009). It is therefore, important for firms to recognise that their brand performance is dependent upon the customer satisfaction and loyalty, and the way customers perceive the firm. Customer assets are the first marketing assets to be created by marketing efforts and thus, firms should focus efforts on the build-up of customer assets through the creation of solutions that bring more satisfaction and loyalty. Customer assets in turn contribute to strong brand position, which influences positively overall firm performance.

Brands have been suggested as an important intangible marketing resource (Grant 1991; Amit and Sschoemaker 1993; Srivastava et al. 2001) that can bring competitive advantage and help improve performance. Our findings support this view, as we found that brand assets influence positively firm performance. Therefore, managers should focus on the creation of favourable brand associations through the development of strong brands that deliver high value to customers. The marketing literature has also established a positive relationship between customer satisfaction and different

performance measures such as cash flow and Tobin's Q (e.g., Anderson et al. 1994, 2004; Gruca and Rego 2005). In line with this research, in our study customer assets were found to influence positively firm performance. However, this relationship was fully mediated by brand assets. This has important implications for both research and practice. From a research perspective, the reason for this result might lie in the measurement approach. Following the branding literature (Keller 1993; Aaker 1996; Ailawadi et al. 2003), brand assets were conceptualised and measured in our study with reference not only to the strength and image of the brand, but also to the financial implications of a strong brand that provides high value to customers. Thus, because of the way we measured brand assets, customer assets can be said to influence financial performance even in the absence of significant relationship with the construct of performance in our study. Customer assets were found to influence strongly brand assets, and therefore, firm's financial performance. For managers, the results suggest that the effect of customer satisfaction and loyalty on financial measures of performance might not always be direct. Customer assets do, however, influence positively brand performance. Therefore, the implication is that the creation of customer assets is the first and necessary step to building strong brands that consequently provide improved performance.

In addition, we found that interactiveness influences positively stakeholder involvement, which in turn influences positively customer assets. The importance of different stakeholders for achieving desirable customer solutions has been already discussed in the qualitative study in chapter 3. Our empirical results suggest that stakeholder involvement is an important path to build customer satisfaction and loyalty. Diverse stakeholders involved in the creation of customer solutions bring different resources and work together towards the development and delivery of products/services that are able to boost customer assets. This finding is in line with the S-D logic in marketing (Vargo and Lusch 2004a) according to which marketing should provide skills and knowledge to all stakeholders. Working together in a constellation of stakeholders allows for achieving solutions in a broader network of suppliers and customers where value is ultimately co-created (Normann and Ramirez 1994; Cova and Salle 2008). A broader stakeholder orientation in marketing (Murphy et al. 2005; Maignan et al. 2005)

has the potential to contribute to the development of marketing assets, and consequently to improve financial performance.

Another path to boost marketing assets is through innovation. Interactiveness was found to help increase innovation, which in turn affects favourably brand performance, building an image of innovative brand that constantly looks for new solutions for customers. Innovation also affects customer assets through the creation of new products/services that better meet changing consumer needs. Taken together, those firm assets contribute to building competitive advantage and thus increase firm performance.

We performed additional analysis in order to test whether a direct effect of interactiveness on firm performance would improve the SEM model. However, interactiveness turned out not to be significantly related to performance directly. Moreover, the SEM model did not perform any better. Thus, the findings support the dynamic capabilities literature that claims an indirect relationship between dynamic capabilities and firm performance (Eisenhardt and Martin 2000; Zott 2003). Dynamic capabilities build and leverage asset positions that in turn influence performance. This has important implications for managers. Efforts to achieve interactiveness culture in the organisation are not likely to bring immediate short-term effect on performance. Interactiveness works through other resources, leveraging customer and brand assets, as well as involving diverse stakeholders and innovations to build market position that influences firm performance. The effect of interactiveness, therefore, will not be seen in short-term. It has to be traced throughout different firm processes and asset positions. This poses challenges to marketing metrics since it is difficult to measure directly the effect of interactiveness. However, our results suggest that interactiveness pays off, as it ultimately leads to building competitive advantage that is turned into better performance.

We also found that interactiveness influences the efficiency with which innovations are converted into customer value and satisfaction. This is so because interactiveness helps achieve better fit between firms' processes and customers' needs reducing information asymmetries (Von Hippel 2005) and thus reduces costs of failures on the market (Alam 2006). Being more efficient in bringing customer solutions ultimately improves profitability, since firms are able to allocate resources to different

value-adding activities and projects. Thus, interactiveness not only helps improve the effectiveness of the marketing function by influencing the creation of marketing assets, but also helps improve the efficiency of the firm's innovation efforts assuring better fit between market needs and innovative products/services offered by the firm. This effect is even more pronounced in highly competitive markets, where competition is fierce and managers need to constantly adjust to changing markets and to deal with competitive pressure. In this setting, interactiveness helps firms to stay ahead of competition through constant market feedback and real-time information about market dynamics.

## Chapter 5

### CONCLUSION

#### ***5.1. Summary of Dissertation and Contributions***

In the introduction chapter of this dissertation we focused the attention on two critical aspects in contemporary marketing: the need to reconnect to customers and the need to prove the financial contribution of marketing. Marketers are nowadays “between the hammer and the anvil”, striving to deliver efficient and effective solutions to customers, while keeping with the task to provide cash flow to their companies. Customers are not only increasingly suspicious and resentful to marketing; connected in networks and empowered by technology they require innovative, efficient solutions to their needs. Companies are demanding increased marketing effectiveness and efficiency and want marketers to demonstrate the role of marketing in achieving better financial performance.

In this research we suggested interactiveness as a way to connect with customers as knowledgeable partners and work together towards mutually beneficial solutions. We first conceptualised interactiveness based on cumulative knowledge from different marketing streams. Interactiveness was proposed in this research as a unifying concept that refers to continuous interaction and dialogue between marketers and consumers in both online and offline marketplace. We then discussed the findings from a grounded theory study based on interviews with managers in order to discover how managers perceive interactiveness and what consequences they expect from it. Strategic interactiveness emerged as a central concept applicable to both B2B and B2C firms across industries. The qualitative study results suggested that interactiveness is expected to deliver higher customer satisfaction and loyalty, innovation and efficiency. A further quantitative testing revealed that interactiveness works as a dynamic capability, leveraging firm-specific intangible marketing assets (customer and brand assets) to achieve competitive advantage and consequently improved financial performance. Innovation and stakeholder involvement were found to additionally influence the generation of marketing assets. We also found that interactiveness helps increase the

efficiency with which innovations are converted into customer value and satisfaction, thus indirectly influencing profitability. Therefore, our research contributes to solving the dilemma of simultaneously reconnecting with customers and improving firm performance through pointing to possible pathway that managers could embrace – committing to building interactiveness culture and strategic emphasis in their organisations.

On a more detailed level, this dissertation offers the following contributions:

- a. *Integrates disperse knowledge from different marketing streams* and takes advantage of the developments in those stream to arrive at a common concept with a particular importance in contemporary marketing: interactiveness as a dialogue culture and continuous firm-consumer interactions in both online and offline marketplace.
- b. *Delineates the challenges and possibilities stemming form interactiveness.* Among the key challenges identified is the need for a different managerial mindset capable of viewing customers as partners and working in the best interest of all involved parties. This changed mental model will need intellectual efforts, personal involvement, organisational commitment, time and resources to build appropriate infrastructure and climate. Key benefits from interactiveness are the possibility of increasing innovation, efficiency, customer satisfaction and loyalty and consequently enhancing overall firm performance.
- c. *Provides in-depth insights as to how interactiveness is perceived by managers* and how managers work to connect better with consumers. Using the grounded theory approach, this research derives a conceptual framework based on real-life data, embedded in marketing practice and current challenges. Importantly, we identify three levels of interactiveness and underline the significance of strategic interactiveness as a concept that is applicable across industries.
- d. *Anchors strategic interactiveness within a solid theoretical framework* and justifies the role of interactiveness as a dynamic capability leveraging firm-specific assets to achieve competitive advantage and improved firm performance. Moreover, this research is in line with recent theoretical developments that go beyond a narrow firm-centred view of resources and capabilities (Prahalad and



- Ramaswamy 2000; Gibbert et al. 2002; Zander and Zander 2005) to emphasise the importance of a broader view where customers and other stakeholders unlock and help build resources and capabilities.
- e. *Empirically tests the effect of interactiveness* on customer assets, brand assets, innovation and stakeholder involvement and demonstrates how interactiveness builds marketing assets that contribute to enhance firm financial performance.
  - f. *Introduces the notion of innovation efficiency from a marketing point of view.* Innovation has long been of primary importance to marketers; however, the effect of innovation on performance until now has not taken into account how innovation influences the creation of marketing-specific outputs such as customer satisfaction and value derived from the brand. Consequently, conflicting results have emerged as to the effect of innovation on performance. We contend that innovation is beneficial to profitability if it is marketing-efficient, i.e. if it can achieve higher than the competitors satisfaction and perceived value. To the best of our knowledge, this is the first conceptualisation of innovation efficiency from marketing point of view. In addition, this research empirically tests the effect of interactiveness on innovation efficiency and the subsequent effect on profitability.
  - g. *Introduces novel, refined techniques* to measure innovation efficiency, based on bootstrap DEA and order-m FDH. We encourage marketing researchers to take advantage of developments in other fields, e.g. operations management, and to make use of new measurement techniques that improve the robustness and reliability of estimation.

## **5.2. Implications for Managers**

Interactiveness has many facets and its implementation (tactical interactiveness) can vary greatly depending on the type of sector/business. Yet, the strategic and cultural aspects of interactiveness can be valid across sectors. While it has been long discussed in the literature that firm-customer interactions are of crucial importance to services firms, and to B2B firms, changing market and technological structure as well as changing consumer

dynamics make necessary for mainstream marketers to look at interactiveness as a way to connect with customers and consequently to achieve competitive advantage. Interactiveness presents a range of challenges to the firm. It requires strong organisational commitment and support at a management level, but it also requires understanding of interactiveness across the company and employee commitment. Building an interactiveness culture in the organisation is not a short-term process. Besides, a transition toward a culture of co-creation and empowerment of consumers might face resistance in traditionally-minded organisations. Thus, managing organisational change (Ramirez 1999) becomes an important task for enabling interactiveness and co-creation of value.

Interaction with customers has been positioned as a central activity for marketing (Lusch and Vargo 2006) and value is argued to be derived from the experience of the particular actors in interaction (Ballantyne and Varey 2006). Therefore, firms embracing interactiveness culture should work toward the development of an environment conducive to firm-consumer dialogue and toward building the necessary conditions for interactions and experience to be possible, i.e. providing the basis for value co-creation. Our research suggests that firms should provide not only tools and technology, but also information and knowledge to customers, as well as promote dialogue culture throughout the organisation. Scholars advocate for a marketing approach based on a mutual dialogue in the hope of maximising the interests of all involved parties (e.g., Urban 2004). This approach views customers as knowledgeable partners co-creating value with the firm and other stakeholders (Vargo and Lusch 2004a, Prahalad and Ramaswami 2004). Our research implies that such an approach has the potential to bring companies closer to their customers and to provide them with a competitive advantage.

An important point to keep in mind is that the results of interactiveness at the performance level are not seen directly and immediately, since interactiveness works through building and leveraging intangible firm-specific assets. In line with the dynamic capabilities literature (Eisenhardt and Martin 2000, Zott 2003) our empirical results reveal that the effect of interactiveness on firm performance is indirect. Dynamic capabilities are said to create, update and keep relevant firm's unique assets and to sense

and shape opportunities and threats as well as to seize opportunities thus maintaining competitiveness (Teece 2007). Our research shows that interactiveness creates and fosters diverse firm-specific assets such as customer and brand related assets, as well as innovation and stakeholder involvement, which taken together bring competitive advantage and improved performance. Thus, managers interested in adopting interactiveness approach should take a holistic view of the processes through which interactiveness work and adopt appropriate marketing metrics far from trying to relate directly interactiveness with financial performance. We suggest that customer-based metrics (satisfaction, repurchase, loyalty, perceived value) can be suitable since they connect marketing efforts with brand performance and consequently overall firm performance. Research has demonstrated that CEOs consider customer loyalty, as well brand strength, as important drivers for revenue growth (NYSE 2009). If CEOs are aware of the significance of marketing metrics for enhancing financial performance, marketers should first connect their marketing activities and capabilities to those metrics.

In addition to that, firms need to use their resources smarter. Efficient use of resources brings more working capital that can be invested in projects increasing sales and profits. Our results suggest that greater efficiency in innovation is converted into higher profitability, and interactiveness can foster innovation efficiency. How the market responds to innovations is therefore, not only a matter of the amount of R&D invested, but also to be “wise” in innovating, i.e. to make use of the available resources in an efficient manner achieving greater fit with consumers’ needs and requirements, and thus greater satisfaction and value. Interactiveness helps firms to improve innovation efficiency, thus indirectly influencing profitability.

Another relevant implication of this research is the increasing importance of involving different stakeholders in the interaction process. Stakeholders acting as partners to the company contribute to the effectiveness of the marketing function through the provision of better solutions and customer satisfaction (Tzokas and Saren 2004). This is so because continuous knowledge exchange in interaction with e.g., employees, providers, suppliers can foster market understanding and lead the firm to develop and offer value propositions that are superior to those of the competitors. Knowledge renewal

in interaction with diverse stakeholders also helps the firm to be better prepared to face challenges coming from constantly changing markets and consumer dynamics.

### ***5.3. Limitations and Future Research Lines***

This dissertation has several limitations that provide avenues for further research. First, our focus here has been on the managers' perceptions, experiences and challenges in relation to interactiveness. Thus, future research is needed in order to delve into consumers' point of view, e.g., interviews with consumers and/or consumer surveys. It has become clear in the process of the qualitative analysis phase that interactiveness is not only bidirectional but oftentimes (and increasingly) a multidirectional process. Therefore, it is important that further research be conducted taking into account the experiences and perceptions not only of customers, but also other relevant stakeholder groups, so that we can arrive at a more wide-ranging understanding of the interaction process.

One of the relevant stakeholder groups in interactiveness that deserves further research attention is the employees. We encourage cross-disciplinary research taking advantage of developments in marketing and human resources management in order to tackle the importance of employees at different hierarchy levels for achieving greater interactiveness that is beneficial to both the company and its customers. Other stakeholders, such as providers, distributors, society at large, have also proved to influence significantly the way firms and consumers relate and interact. While we have approached stakeholders from a RBV theoretical perspective, future research can use insights from stakeholder theory (Freeman 1984) and/or network theory (Granovetter 1985, 1992) and to complement and strengthen the conceptual anchoring of the importance of stakeholder involvement in interactiveness. For example, stakeholder theory suggests that firms considering their stakeholders in the development and implementation of their strategies and activities would gain the support of different stakeholder groups. As customers are increasingly viewed not as just customers, but also as members of different stakeholder groups in the society (Daub and Ergenzinger 2005), the generation of intangible marketing assets such as customer satisfaction and brand

value will be dependent on the image of the company, which is constructed in the interactive dialog with stakeholders. Research in marketing has found that stakeholder relationship marketing orientation significantly enhances business financial performance beyond that achieved by a customer relationship marketing orientation (Murphy et al. 2005). Thus, stakeholder theory can be useful in explaining additional mechanisms by which firms can achieve greater customer-related assets based on its relationships with stakeholders.

In addition, network theory has also seen increasing attention in marketing and can have considerable implications in the study of interactiveness. This is so because researchers recognise that hierarchy, power, and contracts decrease in managerial significance and are increasingly replaced by relational mechanisms of governance where networks have a particularly important role. As Achrol and Kotler (1999) note, “in network organizations, marketing is pushed closer to being an agent of the customer as opposed to the agent of the firm or seller” (p. 147). Therefore, a network perspective can help managers to realise the potential of consumers as partners co-creating value with the firm. A network theory approach also underlines that firms do not survive and prosper only because of their efforts, since each firm performance is dependent upon the activities and performance of others, e.g. partners, and therefore, is dependent on the quality of relationships and interactions in the network (Wilkinson and Young 2002). This shifts the focus from centrally controlling activities and relationships towards adaptation and flexibility and co-created solutions.

On a methodological level, there are also several limitations of this study that provide corresponding worthwhile research directions. Future research can test the effect of different moderator variables (e.g., firm size, respondents’ experience) in the relationship between interactiveness and marketing assets (and consequently firm performance). In this study it was not possible to include those moderators because of data limitations; although we did include in the questionnaire items reflecting different possible control variables related to characteristics of the firm and the respondent, only a few respondents provided information about these variables. Another limitation is the use of Likert-type scale for performance measurement. Future research can include objective performance variables such as revenues, profits, and also forward-looking performance,

such as Tobin's  $q$ . In the current study again data limitation precluded us from using objective performance measures – although we asked respondents to identify their company so that we could be able to collect secondary data about financial performance, a very limited number of respondents provided us with their company name.

The use of Likert-type scale in the efficiency estimation is also a limitation. However, other marketing researchers have done DEA estimations with similar scales when no other information is available (see Lohtia et al. 2007). Future research can use for example customer satisfaction scores as output variable in the innovation efficiency. This type of data is available in some countries such as USA, Sweden, Norway, etc. (ACSI and EPSI databases) but is not available for Spain. When data is available, cross-cultural comparative studies can be done.

Finally, longitudinal studies are needed as interactiveness is likely to have greater impact in long-term rather than in short-term temporal frame. This is so because interactiveness works through the generation of intangible marketing assets that are accumulated over time. It is therefore important to conduct several-years investigation of the impact of interactiveness and its relevance for achieving competitive advantage.

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