

## Customer Engagement Consequences for Firms

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### Abstract

**Purpose:** Customer engagement (CE) is a customers' voluntary resource contribution to firms' functions, and it goes beyond transactions during customers' behavioral manifestations toward the brand or firm's offerings or activities. The effective CE management requires to understand the potential CE effects, and leverage the potential benefit and threat of CE, however negative consequences or risks of CE have remained unexplored in existing literature. Therefore, this paper explores both negative and positive consequences of customer engagement for firms. **Methodology:** Based on computer-assisted telephone interviews with 402 firms operating in the field of consumer goods and services, descriptive statistics and structural equation modelling were used in this study. **Findings:** This study recognizes firm-level risks of CE associated with customer resource integration and reveals the linkages between those risks and firm-level benefits of engaging customers by firms. **Originality/value:** The paper proposes realistic view on firm-level consequences of CE and provides insights into how firms should manage CE by understanding the dark-side of CE resulting from integrating customers' resources in business processes.

**Keywords:** Customer engagement, Firm-level risks of customer engagement, Firm-level risks of customer engagement.

**JEL classification:** M31

### 1. Introduction

End-users, customers and user communities are network actors, in addition to other types of actors, such as developers, research organizations, or competitors (Aarika-Stenroos and Rittala 2017; Żyminkowska 2019). Therefore, consumers and consumer communities are the source of new competencies for firms that have access to the competence and investment of time and effort from those actors, in addition to the firm's resource base (Prahalad and Ramaswamy 2004; Żyminkowska 2019). The new marketing concept of customer engagement (CE) refers to the abovementioned phenomenon of consumers' activism in offering their resources during interactions with the brand or firm's offerings or activities, often involving others in the social network created around the brand, offering or activity (Vivek et al. 2014; Żyminkowska 2018). CE is a customer's voluntary resource contribution to a firm's marketing function above and beyond financial patronage (Harmeling et al. 2017; Żyminkowska 2018; Żyminkowska 2019). In other words, CE is a customer's behavioural manifestations towards the brand or firm that goes beyond transactions (Verhoef et al. 2010, Żyminkowska 2019). The marketing literature suggests the need for customer engagement management (Żyminkowska 2019; Palmatier et al. 2018; Alvarez-Milán et al. 2018; Beckers et al. 2018; Venkatesan 2017;

Harmeling et al. 2017; Kumar and Pansari 2016; Kumar 2013). Firms should develop a set of capabilities and resources to manage customer engagement (Verhoef and Lemon 2013). Such management efforts should leverage the potential benefits or threats of CE internally and externally (Verhoef and Lemon 2013, Żyminkowska 2019).

However, most existing studies on managing customer engagement represent the optimistic view on CE outcomes for companies, focusing on CE benefits, positive consequences or value co-creation (Żyminkowska 2019). CE is perceived as the mechanics of a customer's value addition to the firm through indirect customer contributions (e.g., customer feedback, social media conversations, etc.) (Pansari and Kumar 2017; Kumar et al. 2010). Positive firm-level consequences of CE outlined in the literature include higher sales (Wirtz et al. 2013), customer equity (So et al. 2014), and shareholder value (Beckers et al. 2016). On the other hand, negative outcomes or firm-level risks of CE have rarely been noted (Żyminkowska 2019). Despite the general awareness of possible CE threats for firms due to the shift of control over some aspects of a firm's marketing functions from the firm to the customers (Harmeling et al. 2017), detailed risks of customer engagement have remained unexplored to date (Żyminkowska 2019).

In response to this research gap, this study proposes a realistic approach to the customer engagement consequences for firms and refers to CE risks next to CE benefits (Żyminkowska 2019). Thus, it aims to explore the following research questions:

RQ1. What are the potential CE risks from the managerial perspective?

RQ2. What is the level of CE risks in firms in the context of CE benefits?

RQ3. Does the growing intensity of engaging customers in firm business practices result in higher levels of risks?

Based on the research results, this paper makes two main contributions. First, drawing on the literature in regards to risks associated with the integration of external, customer resources, this study identifies potential firm-level risks of customer engagement (i.e., customer's voluntary resource contribution to a firm's marketing function that goes beyond financial patronage). Understanding the existence of such risks is useful for scholars and managers focused on profitable CE management (Żyminkowska 2019). Second, the paper examines the relationship between the intensity of engaging customers in firm business practices and CE benefits and risks. All forms of CE are combined in this analysis in order to discover the consequences of this multi-faced concept.

The paper is organized as follows. The next section reviews customer engagement concepts in a managerial perspective and its firm-level outcomes. Next, we present a discussion on risks associated with the integration of external, customer resources by firms, followed by an overview of the research methodology deployed to collect and analyse the data. Then, the findings are presented. The paper concludes with a discussion of the theoretical and managerial implications arising from this research.

## **2. Theoretical background**

### **2.1. Interpretation of customer engagement in a managerial perspective**

In managerial research, customer engagement (CE) is defined as a customer's behavioural manifestations towards a brand or firm, that has a brand or firm focus, extending beyond purchases, resulting from motivational drivers (van Doorn et al. 2010). CE goes beyond transactions (Verhoef et al. 2010; Beckers et al. 2018); it is a customer's voluntary resource contribution to a firm's marketing functions (Harmeling et al. 2017; Żyminkowska 2018; Żyminkowska 2019).

The literature distinguishes among different forms of customer engagement that occur in interactions between firms and customers and between customers themselves (Żyminkowska

2018; Żymkowska 2019). Jaakkola and Alexander (2014) identified two general types of customer engagement behaviours in the existing literature. The first is customer involvement in product development and innovation and signifies that customers help to improve or develop the firm's offerings by providing feedback, ideas, and information, or by participating in product design or assembly. The second one, customers' communications about the focal firm or brand, implies that customers may acquire new customers for the firm through firm-incentivized referral programmes or influence other customers' perceptions on their own initiative through word-of-mouth, blogging and other forms of customer-to-customer interactions. Verleye et al. (2014) distinguishes five forms of customer engagement behaviours: cooperation (customers' benevolent acts to help employees to do their work), feedback (giving feedback to the firm and its employees via suggestions for service improvements or through participation in new product and service development processes), compliance (the degree to which customers comply with organizational rules and procedures), helping other customers (by expressing empathy, encouraging each other to show appropriate behaviours, helping each other to get better service experiences), and spreading positive word-of-mouth or recommending the firm to other customers.

## 2.2. Outcomes of customer engagement

Engaged customers may be perceived as specific collaborators with the firm in value formation (Żymkowska 2019). Value propositions are mutually determined and co-created and seek active engagement of a customer through sharing resources and contributing to mutually rewarding outcomes (Payne et al. 2017). Such a co-creation is not only based on the customer-provider dyad (i.e., promises of reciprocal value between service providers and their customers), but its coverage should be broadened to multilateral settings and networked environments (Kowalkowski 2011; Żymkowska 2019). Firms should identify customers that would such as to engage (actors), understand the potential effects of their engagement, and evaluate the likely consequences in terms of short- and long-term objectives (van Doorn et al. 2010; Verhoef and Lemon 2013).

The consequences of customer engagement for firms include marketing metrics (Żymkowska 2019) such as customer retention, customer lifetime value / customer equity, new product performance (Verhoef et al. 2010), firm performance (Kumar and Pansari 2016; Pansari and Kumar 2017; Harmeling et al. 2017), and firm value (Verhoef et al. 2010). These consequences are perceived to be positive and include higher sales (Wirtz et al. 2013), higher customer equity (So et al. 2014), and higher shareholder value (Beckers et al. 2016). The optimistic view on CE outcomes for firms predominates in the marketing literature (Żymkowska 2019). However, some authors recognize the negative outcomes associated with the negative engagement valence form, such as negative word-of-mouth (Bowden et al. 2017; Azer and Alexander 2018). Few studies have highlighted the potential negative consequences of customer engagement for firms (Żymkowska 2019). Customer engagement may result in employee job stress or decreases in product innovation and speed to the market (Beckers et al. 2016) and thus negatively affect companies' financial measures (Beckers et al. 2018). CE may also cause a state of vulnerability for the firm or increases in negative word-of-mouth (due to amplifying customers' actions by providing them platforms and audiences that increase their reach) and may disrupt existing mechanisms that facilitate repurchase behaviours or inflate costs (Harmeling et al. 2017). Recent research has revealed that customer engagement decreases the market value of the firm on average (Beckers et al. 2018).

### 2.3. Risks of customer resource integration

Customer engagement management is strictly combined with integrating the customers' resources in the firm's marketing process (Żyminkowska 2019). Customers make voluntary resource contributions that have a brand or firm focus but go beyond what is fundamental to transactions (Jaakkola and Alexander 2014; Żyminkowska 2018). CE comprises an investment of cognitive, emotional, temporal, and monetary resources by consumers (Masłowska et al. 2016). Customer-owned resources contribute to a firm's marketing function through engagement, including network assets, persuasion capital, knowledge stores, and creativity (Harmeling et al. 2017; Żyminkowska 2019).

External resources (including customer resources) cannot be controlled directly by a firm (Doz and Hamel 1998). Therefore, during the interactive value formation not only value co-creation but also value co-destruction is possible (Echeverri and Skålén 2011) because customer resources allocated during value formation may be utilized not only positively to the benefit of the firm (resource integrator) but may be misused in a detrimental manner (Plé et al. 2010). Thus, customer engagement may bring considerable risks such as other customer activism in contributing his/her resources to the interactive value formation reflected in the concepts of customer participation, customer integration or customer co-creation. Drawing on the research findings that refer to the abovementioned concepts and its potential negative consequences or risks, we may better understand the risks of customer activism that may impede co-creation of additional value in cases of customer engagement (Żyminkowska 2019).

Customer participation may decrease the efficiency of the firm operations (Żyminkowska 2019) because the firm is losing control of quality and the waste may increase, which in turn brings about an increase in operation costs (Hoffman and Bateson 2006). Additional costs appear at times, such as when new or changed inputs are needed (Fließ and Kleinaltenkamp 2004), as well as increased job stress or role conflicts for service providers' frontline employees (Mustak et al. 2016; Hsieh and Yen 2005).

Customer integration in innovation may also be associated with some risks because developing innovation from external sources can be time consuming, expensive, and laborious (Żyminkowska 2019). The search for external sources of knowledge may hinder innovation performance, as the costs of openness exceed the benefits (Laursen and Salter 2006). Moreover, close ties with customers may lead to inertia against change and innovation (Piller and Ihl 2009). Detailed risks of customer integration include customers' conflicts in regards to scarce resources and rewards, misunderstandings between employees and users, disagreements about the ownership of intellectual property, customers' limited domain of expertise and customers' inability to articulate their needs, wishes and ideas (Song et al. 2013). Regarding virtual customer integration, the potential risks include similar disadvantages: customers' inability to articulate their needs, intellectual property problems, lack of secrecy, disturbance of internal processes, and unbalanced target group orientation (Bartl et al. 2012). This phenomenon is consistent with the findings of Siakas and Siakas (2016) regarding challenges in open innovation and customer integration that encompass lack of control, protection of intellectual property rights, difficulties in managing and integrating incoming ideas, insights, concepts, and solutions, as well as coordination and control of overhead costs and loss of know-how (Żyminkowska 2019).

The general risks of customer co-creation include diminished control over strategic planning, increased complexity of a managing firm's objectives, and the complexity of managing mis-performance and selection of consumers' ideas (Hoyer et al. 2010). The main challenges in consumer co-creation involve concerns about secrecy of information (since co-creation involves their revelation to consumers, and, through them, potentially to competitors), concerns about the ownership of intellectual property, information overload (since co-creation

can yield large volumes of consumer input), and the risk that consumer co-creators provide ideas infeasible from a production standpoint (Hoyer et al. 2010).

### 3. Research Methodology

We conducted an empirical study in firms operating in the field of consumer goods and services (Żymkowska 2018; Żymkowska 2019). The sampling framework was stratified by industry type and number of employees to represent the population structure of firms registered in Poland employing at least 5 persons. The sample was selected from the Polish Bisnode database by Dun & Bradstreet since all firms registered in the Central Statistical Office in Poland are included in Bisnode. The total number of firms in this database is approximately 6.3 million. We focused on firms operating in the following consumer markets: fashion, food & beverages, household appliances, and banking & financial services. In each firm, one manager responsible for marketing or marketing-related activities (such as customer relationship management, promotion campaigns, customer complaints management, new product development and innovation) was interviewed. The data were collected through computer-assisted telephone interviewing (CATI) between August 22<sup>nd</sup> and September 21<sup>st</sup> 2017. From a total sample framework of 9,384 companies, we collected data from 402 firms.

It is important to highlight that our research refers to the CE management practices that firms undertake towards the certain type of customers, i.e. individuals. We then refer to consumer buyers, final consumers, or consumer end-users of particular consumption goods and services. To measure customer engagement risks, benefits and intensity in firms' business practice we adopted and developed the conceptualizations and sets of items based on the existing literature (Żymkowska 2019; Żymkowska 2018; Bartl et al. 2012, Siakas and Siakas 2016, Hoyer et al. 2010, Beckers et al. 2016, Verleye et al. 2014, Muntinga et al. 2011, Stauss and Seidel 2007, Jaakkola and Alexander 2014, Rohrbeck et al. 2010). To operationalize the items 5-point Likert scales were used to measure all variables. We supported convergent validity of all measures (Żymkowska 2018; Żymkowska 2019) as all standardized factor loadings and average variances extracted (AVE) surpassed (or were close to) the recommended value of 0.50 (MacKenzie et al. 2011) and all composite reliability scores exceeded the recommended value of 0.70 (Hair et al. 2010). All scales internal reliability is significant: all constructs present the Cronbach Alphas above the recommended values of 0.70 (Nunnally 1978, Churchill 1979) (see Table 1).

*Table 1. Validity and reliability statistics for the variables used in the research*

Construct	Mean	Number of Items	Average Variance Extracted	Composite reliability	Alpha Cronbach
CE risks	3.21	6	0.520	0.884	0.894
CE benefits	3.90	7	0.448	0.829	0.833
Customers' communication	2.57	7	0.478	0.864	0.849
Customer complaints	3.50	6	0.418	0.798	0.787
Customer collaboration	2.13	9	0.465	0.885	0.896

To explore the risks of CE in a management perspective, in the context of firm-level benefits gained, we used structural equation modelling (SEM) and Mplus (version 8) for the analysis (Muthén and Muthén 2017). We conducted structural equation modelling (Żymkowska 2018; Żymkowska 2019). The fit indices, i.e., CFI, TLI and RMSEA, revealed that the model fit was quite good (Bentler 1990; Tucker and Lewis 1973; Steiger 1990). In our analysis, both CFI and TLI were above 0.95 and close to 1.0, which confirms the goodness of fit of the model. The RMSEA estimates were less than 0.05, which indicates that the estimated model approximates the true model appropriately.

## 4. Research Results and Discussion

### 4.1. Descriptive data

To assess the intensity of customer engagement in firms' practices, the managers were asked to refer to detailed examples of consumer activism for each particular CE form. Generally, the potential of customer collaboration, similar to the customers' communication capabilities, is still weakly utilized by the surveyed firms (Żyminkowska 2019). The mean of engaging consumers by companies ranges from 2.1 for collaboration with consumers to 2.57 for managing consumers' communication to 3.50 for using customers' complaints.

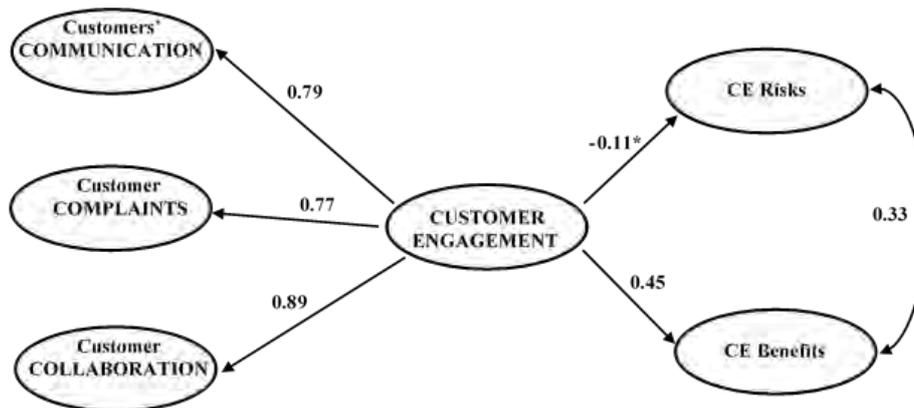
The frequency of engaging customers in the surveyed companies also varies. Concerning customers' communication about focal brand or firm in the interactions among consumers, the most frequent firms' practices include reactions (answering) to the negative consumers' comments (66% of firms agree, strongly or somewhat, to undertake such efforts), and encouraging customers to click 'likes' in social media (62%). Relatively few firms initiate customers' communication about brand or firm: only 37% of companies initiate the discussions in the firm's media (website, fan page), and 23% initiate such conversations in the external channels (internet forum, discussion groups, etc.). The companies quite rarely collaborate with independent bloggers to make them initiate consumers' discussions about products or firms (only 12% of surveyed companies). On the other hand, firms are more operative in utilizing customer complaints. More than three quarters of companies make use of complaints provided verbally during or after purchase (81% of firms agreed) and in writing (75%). Quite frequently, companies used customers' input provided when the complaints were received (73%). With regard to companies' practices in utilizing customer collaboration behaviour, organizing events dedicated to brand or firm is the most frequent activity (48% of firms agree, strongly or somewhat, to doing this), next to giving consumers the opportunity to personalize the offer (44%). Only 6% of surveyed companies organized crowdfunding to finance product prototypes, and 8% organized customer voting for the products or brands offered.

Although the overall intensity of customer engagement in firms' business practices is still rather low, managers recognize negative aspects of engaging customers (Żyminkowska 2019). The most important risks include receiving ideas infeasible from a firm standpoint due to the lack of customer knowledge (56% managers agreed that this is a risk in their companies), information overload (54%), the loss of secrecy of information or know-how to the competitors' advantage (51%), and additional costs of integrating customers' ideas in business processes and coordinating those processes (46%). On the other hand, only one third of surveyed companies perceived the lack of target market orientation and the lack of / or diminishing control of business processes as CE risks (32% and 33% respectively). It is quite surprising that the lack of / or diminishing control was ranked lower. Perhaps this risk is perceived as more general than the others, and thus, the managers pay more attention to the current impediments in their management practice, but this potential explanation requires further research (Żyminkowska 2019).

Positive outcomes of CE in the surveyed firms are recognized more often (Żyminkowska 2019). Increased customer satisfaction and acquisition of new customers turned out to be the highest ranked benefits of CE in the surveyed companies (respectively 87% and 86% of managers agree, strongly or somewhat, that these are the CE benefits in their firms). Other highly ranked CE benefits include increased market share (73%) and increased customer retention (72%). These findings correspond with the Convero study (Convero 2016), in which 88% of companies declared that customer engagement programmes in place drove significant increases in customer loyalty and 51% indicated that it increased sales to existing customers (Żyminkowska 2019).

## 4.2. Structural model

The results of structural equation modelling lead to three key findings. First, taking the entire model structure into consideration, the analyses provide support for a link between the intensity of engaging customers in firms' business practices (customer engagement variable), delineated by three forms of customer activism: customers' communication, customer complaints and collaboration, and firm benefits. This linkage is moderate and positive (0.45,  $p < 0.01$ ); CE explains 21% of the variance in this latent variable of CE benefits.



\* / not significant

Figure 1. Research model

Second, the relationship between the intensity of engaging customers in firms' business practice and the CE risks, which are negative and weak, is not statistically significant in the context of the entire model structure comprising CE benefits. This does not allow us to make a claim that there is a negative weak relationship ( $-0.11$ ) between these two concepts. However, it could be tested further if more range and intensity of engaging customers by firms is associated with less CE risk. This would be in line with the concept of a learning curve effect in CE management (Day and Montgomery, 1983).

And third, there is a weak and positive correlation between firm-level CE risks and firm benefits from engaging customers (0.33,  $p < 0.01$ ). In other words, the more value firms attempt to capture from customer engagement, the more the risks need to be managed and minimized. This requires adequate firm's competencies and investments to develop them, i.e., an effective process of CE management (Żyminkowska 2019; Palmatier et al. 2018; Alvarez-Milán et al. 2018; Beckers et al. 2018; Venkatesan 2017; Harmeling et al. 2017; Kumar and Pansari 2016; Kumar 2013). This is associated with firms' decisions on developing engagement orientation, since some firms may prefer not to be engagement-oriented due to the potential risks involved (Żyminkowska 2019). For example, some companies in the same industry, such as fashion, decide to engage customers intensively (e.g., Betabrand or Threadless) while others engage customers to quite a limited extent (e.g., Zara).

## 5. Conclusion

This study revealed customer engagement risks for firms resulting from external, customer resource integration. The most important risks include receiving ideas infeasible from a firm standpoint due to the lack of customer knowledge, information overload, the loss of secrecy of information or know-how to a competitors' advantage, and additional costs of integrating customers' ideas into business processes and coordinating those processes. It was also found that the average level of CE risks in firms is slightly lower than the average level of

benefits obtained from customer engagement (Żyminkowska 2019). These research findings also shed light on the links between CE risks and firm-level benefits of engaging customers by firms. The more value firms attempt to capture from customer engagement, the more risks need to be managed and minimized, which requires an effective process of CE management and developing the engagement orientation in the firm.

Based on the research results, this paper makes the following theoretical contributions. First, drawing on the literature on risks associated with the integration of external, customer resources (Żyminkowska 2019), this study identifies potential firm-level risks of customer engagement (i.e., customer's voluntary resource contribution to a firm's marketing function that goes beyond financial patronage). Thus, it offers a realistic approach to the customer engagement consequences and contributes to the developing theory of CE management (Żyminkowska 2019), termed CE marketing, focusing on a firm's deliberate effort to motivate, empower, and measure a customer's voluntary contribution to the firm's marketing functions beyond the core, economic transaction (Harmeling et al. 2017). Second, this study offers a holistic picture of engaging customers by firms and related risks and benefits for firms. It combines all forms of CE to discover the consequences of this multi-faced concept including customers' communication, customer complaints and customer collaboration (Żyminkowska 2018). Thus, this paper fills the gap identified by Beckers et al. (2016), who posited that most research studies only evaluate the effectiveness of a single CE behavioural manifestation in isolation, instead of the overarching multi-faced CE construct.

Our findings also provide managerial implications. It identifies potential firm-level risks of customer engagement that may impede co-creation of additional value. By recognizing CE risks that must be addressed, we suggest that customer engagement may lead both to positive firm-level effects (value is co-created) but also that the opposite situation is possible, where firm-level value is co-destroyed, when CE risks are not managed properly. Proper evaluation of those risks is an important element of effective CE management. In addition, our study provides insights into how firms can better manage customer engagement by understanding the potential CE risks, which is in line with the recent suggestions discussed in the literature (Żyminkowska 2019; Beckers et al. 2018; Harmeling et al. 2017).

The findings of this study should be interpreted in light of its limitation related to the research sample. It comprises only the companies registered in Poland which represents the developed economy. Future studies could replicate our study across other countries representing emerging economies.

The current research examines the relationship between the intensity of engaging customers in firm business practices and CE risks. The findings confirm that firms face a dark side of engaging their customers that consists of receiving ideas infeasible from a firm standpoint, information overload, or additional costs of customer engagement, among others. However, this study does not confirm a direct, statistically significant relationship between the intensity of engaging customers in firm business practices and CE risks. Thus, further research is necessary. First, it could be tested if more range and intensity of engaging customers by firms paradoxically decreases CE risks. Second, CE risks could be examined as the moderator of the relationship between the CE management process and firm performance, as previously suggested in the literature (Żyminkowska and Żyminkowski 2018).

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