

CUSTOMER EMPOWERMENT AND FIRM PERFORMANCE: BENEFITS AND POTENTIAL HARM

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ABSTRACT

There is an emerging stream of research concerning the role that customers play in today's competitive environment. Technological advances allow customers to influence the nature of interactions with companies either directly by communicating with firms or indirectly, through collaborations with other customers and by exchanges of information, opinions, and ideas about company's products or services. Many organizations are trying to meaningfully connect with customers using multiple available communication channels and thus empower customers to co-create value with the company. These activities are believed to bring greater benefits to organizations. Yet, there's no clear understanding of the mechanism through which customer empowerment influences firm performance. This research is set to try to provide deeper understanding of this process.

We use market orientation as an underlying construct in this study. Though recent research indicated that with more companies becoming market oriented it became a cost of competing rather than a source of competitive advantage, market orientation is still very important for organizations. Moreover, we tend to believe that customer empowerment is closely related to market orientation and for now could not be considered as a sole predictor of firm performance.

Based on the preliminary analysis of data from 952 Finnish companies, several notable results can be indicated. First, customer empowerment is positively related with market orientation. More market oriented companies tend to perform customer empowerment initiatives more than others. Second, customer empowerment is indeed influences several firm performance indicators such as turnover, ROI, ROA, and relative profit from past accounting year. However, it does it not directly but through customer related constructs like customer satisfaction, customer value creation and creation of offerings that match customer needs. Customer empowerment has positive and significant relationships with these constructs which, in turn, positively affect performance indicators. Importantly, the direct effect of customer empowerment on ROI (with customer related constructs taken into account) is significant and negative. The direct effects on ROA, market share and relative profit from past accounting year is also negative, though the results are not statistically significant.

The results of the preliminary analysis lead to several important conclusions. First of all, customer empowerment may lead to better performance but only through customer related constructs like customer satisfaction or customer value creation. It means that the performance of customer empowerment initiatives should be aligned with customer related indicators rather than with direct financial indicators. Next, the negative direct effect of customer empowerment on performance shows that it might be that many companies have yet to find ways to effectively manage customer empowerment in order to get greater performance benefits. For now, we advise to take any customer empowerment initiatives with caution. Though they might lead to certain performance benefits, they might also bring some undesirable effects.

References available upon request.