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Modeling customer value perceptions in cross-cultural business markets

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ABSTRACT

Even as customer value research in business-to-business markets burgeons, scholars still circumscribe its progress to studies performed in domestic, Western markets and call attention to the ongoing lack of consensus for how to model customer value. To advance the validity and usefulness of this emerging core construct in marketing, this study investigates the measurement equivalence and modeling of customer value perceptions with business managers across five culturally-diverse countries. Analyses draw clarity to the divergent modeling of customer value in the literature by exploring alternative measures and model specifications within structural equations modeling (SEM) and partial least squares (PLS). Comparisons of eight models reveal several valid and invalid conceptualizations reported previously in the literature and generate guidance for managers and scholars modeling customer value in various research contexts.

1. Introduction

Scholars propose that firms who gain deeper insights into the sources of value creation can craft superior value propositions in a competitive global marketplace (Anderson and Narus, 2008; Blocker and Flint, 2007a,b; La et al., 2008). Business marketers agree and cite the need to better understand the drivers of customers' value as a top priority (Oliva, 2005). Yet, as firms heed the call to conduct more customer value research (Anderson et al., 2006), they still face a key unanswered question. How applicable are existing measures and models of customer value—which have been developed primarily in the United States—for culturally-diverse markets such as India? The notion of customer value rests at the heart of marketing. Yet, as firms aggressively pursue global opportunities using market research, what constitutes "superior value" across the globe should not be assumed as universal. Rather, like other key marketing constructs, it requires rigorous cross-cultural testing (Steenkamp, 2005). Without reliable and invariant measures, firms who simply translate their market surveys into other languages may be drawing the wrong conclusions about customers' needs (Ueltschy et al., 2004) and cascading these misinterpretations down into poorly defined segmentation and customer relationship strategies. As it stands, customer value research is a nascent area (Smith and Colgate, 2007) and has yet to advance rigorous insights into these questions. In response, this study addresses two significant gaps in the measurement and modeling of customer value in global business markets.

First, empirical research examining value perceptions for business customers is mainly bound to domestic, Western markets (Woodruff and Flint, 2006) and has "largely ignored" (Homburg et al., 2005: 2) cross-cultural measurement. Thus, scholars and practitioners lack evidence to know if customer value is a culturally-transferrable construct and if it carries power for explaining relationship performance. Without empirical evidence, the field must question whether a growing base of customer value research can reach beyond its roots and gain status as a topic of enduring theoretical interest similar to satisfaction or loyalty. This study addressed this gap by measuring customer value and value drivers with 800 managers across five culturally-diverse countries: India, Singapore, Sweden, United Kingdom, and United States.

Second, modeling of the customer value construct and its drivers has progressed along divergent paths, leaving little consensus for research and practice. Scholars have captured customer value using reflective and formative approaches, unidimensional and multidimensional measures, and specified value as a first and second-order construct. Whereas varying contexts may call for different models, poor conceptualization can be slippery slope that significantly hinders the validity of a study or a stream of research (Mackenzie, 2003). This disparity in customer value research is addressed in the present study by comparing different measures using structural equations modeling (SEM) and partial least squares (PLS) to stimulate guidance for researchers. Based on eight models, analyses reveal four invalid approaches and four valid approaches for measuring customer value under various conditions.

By addressing these gaps, this study provides critical evidence for the open-ended question of cross-cultural generalizability for customer value and offers helpful guidance for scholars and managers seeking to model customer value in global markets. The paper is structured as follows. In the first four sections, I provide a brief background on customer value research in business contexts, set forth a testable framework, and address the first gap of cross-cultural equivalence. In the fifth section, the study turns to focus on the second

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gap of modeling customer value by undertaking eight model comparisons and assessing their fit using the pooled data set of five culturally divergent sub-samples. Finally, suggestions for measuring customer value under varying research goals are offered, and I discuss the implications for global market intelligence.

2. Measuring customer value in business-to-business contexts

2.1. Customer value research

Customer value in B2B contexts is defined as the customer's perceived trade-off between benefits and sacrifices within relationships (Blocker and Flint, 2007a,b; Ulaga and Eggert, 2006). Scholars agree that benefits, sacrifices, and value are perceived by customers in the market and not determined by sellers in the "factory" (Anderson and Narus, 2008). Thus, providers can only generate value propositions and must constantly learn what creates value for customers (Vargo and Lusch, 2004). Benefits and sacrifices stem from all product, service, and relationship dimensions that customers believe are facilitating or blocking their goals (Woodruff, 1997).

Customer value has been articulated using means-end theory (Hofstede et al., 1999) social exchange theory (Liu et al., 2005), and equity theory, among others. Scholars also refer to an emerging "customer value theory" or customer value theory of the firm (Menon et al., 2005; Slater, 1997; Woodruff, 1997). Work to this point on building customer value theory in B2B contexts has focused on defining the concept (what is customer value, Woodruff, 1997), measuring its antecedents (what drives customer value, Ulaga and Eggert, 2006), and exploring value creation as a process (Grönroos, 2000) that dynamically unfolds in relationships (Blocker and Flint, 2007b; Flint et al., 2002). This study contributes to customer value theory by advancing its measurement. The next section describes the framework used to explore cross-cultural validity and generate model comparisons.

2.2. Customer value drivers in business relationships

To conceptualize customer value, I draw upon a framework developed qualitatively and empirically tested by Ulaga and his colleagues (Ulaga, 2003; Ulaga and Eggert, 2005, 2006). The framework indicates that customer perceptions of offer quality, personal interaction, service support, and provider know-how are key benefits that positively affect customer value—and conversely that perceptions of direct, acquisition, and operation costs are key sacrifices that negatively affect customer value (Fig. 1). Given that the framework was developed with U.S. buyers of manufactured goods, two factors—delivery and time-to-market—which refer to delivery of physical products and reducing cycle-time through providing parts faster are deemed tangential to B2B services; thus these two value drivers are excluded from the present study. Although scholars continue to propose a diverse set of value drivers (e.g., supplier reputation), this study's aim was not to comprehensively test all potential value drivers. Rather, this study seeks to capture perceived benefits and sacrifices that have been tested most frequently (Ulaga and Eggert, 2006) in an expansive industrial and cultural context that might allow for higher degrees of generalizability.

2.2.1. Perceived benefits

Offer quality corresponds to a commonly tested construct of "product quality" and represents perceptions about the excellence and superiority of a provider's product or service (Lapierre, 2000). The positive effect of offer quality on customer value perceptions has ample empirical support (Menon et al., 2005; Ulaga and Eggert, 2006). Business customers also seek social benefits in their provider relationships (Gremler and Gwinner, 2000). "Personal interaction" with a provider accounts for this factor, which captures perceptions of

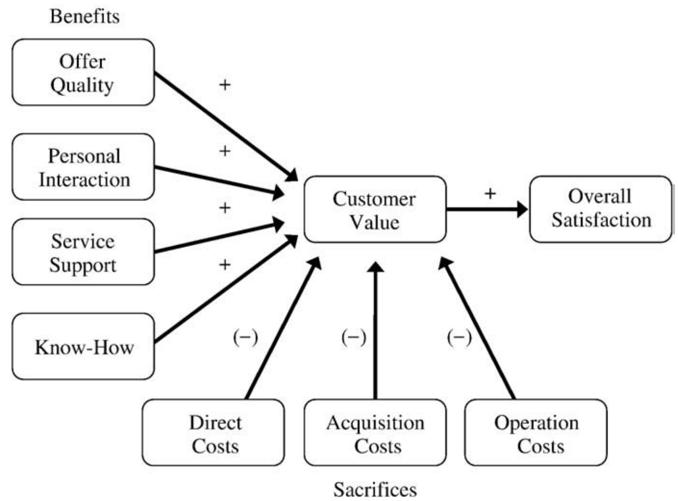

Fig. 1. Conceptual framework for measuring customer value and value drivers in business services relationships.

how a harmonious working relationship facilitates interaction with providers (Gao et al., 2005; Ulaga and Eggert, 2005, 2006). Customers also desire the benefit of "service support" which refers to ancillary services and information that facilitate the use of the core solution and help customers deal with day-to-day issues (Homburg et al., 2005; Lapierre, 2000; Ulaga and Eggert, 2005, 2006). Finally, empirical research shows that a provider's know-how or expertise contributes to customers' perceived benefits in a relationship (Lapierre, 2000; Ulaga and Eggert, 2006).

2.2.2. Perceived sacrifices

Whereas the four benefits discussed above are judged to positively impact value, three sacrifices: direct, acquisition, and operation costs are countervailing factors that can detract from customer value. The direct costs (price) a provider charges for its core offer, represents the dominant sacrifice that business customers assess (Gao et al., 2005; Menon et al., 2005; Ulaga and Eggert, 2005, 2006). In addition to price, customers incur acquisition costs in the process of obtaining products and services from a provider (Cannon and Homburg, 2001); these include implementation, ordering, and administrative costs to coordinate the initial set-up with a provider. Finally, customers incur ongoing internal operation costs as they use products and services (Cannon and Homburg, 2001). Operating costs involve the ongoing costs to maintain the service, monitor provider performance, and coordinate communication between the customer firm and the provider. Empirical studies validate both acquisition and operation costs as a perceived sacrifice for customers (Cannon and Homburg, 2001; Menon et al., 2005; Ulaga and Eggert, 2005, 2006).

2.3. Customer value

Customer value is commonly conceptualized as the customer's perceived trade-off between benefits and sacrifices within relationships (Blocker and Flint, 2007a; Lapierre, 2000; Woodruff, 1997). Yet, it has been operationalized in a wide variety of ways. Ulaga and Eggert, (2006) suggest that customer value is best measured as a formative, second-order construct composed of first-order benefits and sacrifices. Formative measurement is theoretically reasoned from buyer behavior research (Cannon and Perreault, 1999) showing that value drivers are not necessarily correlated with each other. For example, a buyer may feel that a provider rates high on "personal interaction" but low on "offer quality." By this logic, causality flows from antecedent benefit and sacrifice driver constructs to customer value. Customer value can also be construed as a summary judgment