Are services marketing and the marketing of products different?

A governance approach

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A governance perspective

Abstract

Recently, the ongoing discussion concerning the existence of silo-type subdisciplines in the field of marketing has received new input in the form of a much remarked article presenting a "new dominant logic" for the field of marketing (Vargo and Lusch 2004). One can subscribe or not to the conceptual arguments these authors and others make when defending the need or the non-sense of fragmenting marketing because of their logic, yet empirical support for one hypothesis or the other may be a useful complement. In this perspective, this paper presents the results from a quantitative study based on two samples, one from the area of industrial services and the other from the area of industrial goods. It compares the use of several governance mechanisms in dyads from both fields. iit also looks at the impact the use of these governance mechanisms has on customer commitment in the dyads. The results provide no evidence for substantial differences between governance approaches in the two industry sectors.

Governance

Governance forms

As Heide (2003, p.18) underlines, "*much of the recent research on interfirm relationships in marketing has relied on the theoretical notion of governance*". Economic exchange processes can be organized in various ways. Although numerous authors classify inter-firm exchange along a continuum with two extreme points, different bodies of literature, e.g. transaction cost analysis (Williamson 1985, 1991), legal sociology (Macneil 1978, 1980), or marketing (Arndt 1979), provide different classifications. One end - usually referred to as market governance - is often described by attributes such as "*complete transferability, primary focus on the substance of exchange, a sharp division of benefits and burdens and price as a regulatory mechanism*" (Dwyer, Schurr and Oh 1987, p.12). The other end is constituted by organizational or quasi organizational forms as regulatory mechanisms. Depending upon the theoretical school of thought, long-term business relationships are positioned somewhere between the two poles of the continuum. They are referred to as the hybrid form (Williamson 1991), domesticated markets[1] (Arndt 1979, p.70), relational exchange (Macneil 1980), or

[1] In a comment on Arndt's article, Stidsen (1979) points to the work of Commons (1934) who already discussed forms of exchange which he referred to as rationing transactions. Goodman (1979) mentions the work of Alderson (1965) and Commons (1934): "The idea of continuity in relationships (...) is clearly evident from Commons, Alderson, and nearly all

clans (Ouchi 1980). In a marketing perspective, Heide (1994) proposes the term "non-market governance”. These arrangements comprise horizontal forms of cooperation (e.g. joint ventures, strategic alliances or R&D partnerships), and vertical buyer-seller relationships (Arndt 1979).

Governance mechanisms

Our paper focuses on the topic of governance mechanisms, not on the broader topic of "governance". For Heide (1994) *"the original framework as developed by Williamson (1975) views the governance decision as fundamentally a choice between a "*market*" based on a governance trough a price mechanism, and a "*hierarchy*" imlplying governance trough a unified authority structure*" (p.73) . Williamson and Ouchi (1981) define governance as "*a mode of organizing transactions*". Thus, a governance mode can be defined by a place (market, organization, …), a mechanism (price, authority,…), and something else that encompasses contract, and other forms of control or monitoring. For instance Heide (1994) insists on the fact that governance "*includes elements of establishing and structuring exchange as well as aspects of monitoring and enforcement*". Our paper is specifically concerned with monitoring or enforcement aspects of governance. Against this background, the design of effective governance structures is a critical issue. The challenge lies in the large number of available control mechanisms (Bradach and Eccles 1989). Recent contributions to plural form research focus on three governance mechanisms: formal contracts (e.g. Cannon, Achrol and Gundlach 2000, Lusch and Brown 1996, Stinchcombe 1985), relational norms (e.g. Dant and Schul 1992, Heide and John 1992, Pilling, Crosby and Jackson 1994), and specific investments (e.g. Gundlach, Achrol and Mentzer 1995, Jap and Ganesan 2000). In empirical research, scholars have studied the interaction between formal contracts and norm-based behavior (Lusch and Brown 1996), and the effect of contracts and norms on relationship performance (Cannon, Achrol and Gundlach 2000). The most detailed study available to date (Jap and Ganesan 2000) examines the time-dependent nature of contracts, norms, and specific investments on commitment in retailer-supplier dyads.

Purpose of the paper

In this paper, we pick up the question whether services marketing and product marketing are truly different subdisciplines. Recently the number of scholars expressing doubts whether the differences between the two areas are as important as specific communities have suggested in

the work in organizational buying”.

the past is increasing. The article published by Vargo and Lusch (2004) in the *Journal of Marketing* and the related comments by some of the leading scholars in the field of marketing have intensified the discussion. Based on an empirical study among 297 companies selling industrial services or industrial products we tested for systematic differences between the two sectors along five variables. The five variables selected are typical control mechanisms in long-term business relationships: contracts, value-creation norms, value-claiming norms, specific invstements and trust which will be discussed in more detail in the full paper.

Methodology

Data collection and sample

The study is based on a written survey carried out among managers involved in professional purchasing processes. Two industries were selected: the packaging industry and market research. The first represents a classical industrial goods market, whereas the second was chosen as an industrial service market. In both industries, long-term relationships play an important role. Questionnaires were distributed to purchasing managers of packaging goods during the leading German trade fair “FachPack”. Potential participants were identified as they entered, asked to complete the questionnaire at their office and return it within four weeks. For the market research industry, questionnaires were sent out to the members of the leading German market research association (BVM) who deal specifically with the purchasing process of market research information.

The questionnaire contained only closed questions. The respondents were asked to answer by concentrating on one selected supplier with whom they had been working for at least two years. The choice of supplier was left to them. A total of 1142 companies were contacted in the two industries (packaging goods and market research). 340 questionnaires were returned, 43 of which were incomplete or referred to foreign suppliers. In order to avoid any cultural bias, only questionnaires referring to German suppliers were taken into account. The final available database consisted of n = 297 cases. An analysis of potential non-response effects (Armstrong and Overton 1977, comparison of early vs. late responses) revealed no significant differences regarding the core constructs.

In all cases, the respondents had been involved in the relationship for a minimum of two years, so we can assume that they have enough information to work with. The participating client companies span across all three major industry sectors (industry, retail and services). The sample consists of small and medium-sized companies as well as large companies. The size distribution within the sample is in close correlation to the relative importance of these companies in their markets. Hence, the representativity of samples appears to be established.

Measures

With the exception of relationship safeguarding through formal contracts, all relevant constructs were operationalized based upon measurement instruments documented in the extant literature (see appendix). Scales which had initially been developed for alternative research settings (e.g. channel relationships) needed to be reformulated to fit the two industries selected for this study. In order to test the questionnaires usability, in a pre-test phase all scales were intensively discussed and where necessary modified in interviews with buyers as well as sellers from both industries. This process led to the final questionnaire which was pre-tested again with a different set of buyers and sellers from both industries.

Scale reliability was tested in two steps. First, coefficient alpha was calculated. Results for both sub-samples as well as for the complete sample are documented in Table 1. All scales fulfill the generally accepted criterion of alpha > 0.7. In addition, each construct was assessed using confirmatory factor analysis. The results are all satisfactory (table 2).

Coefficient alpha, basis: n = 297 (sample 1 “market research”, n = 206; sample 2 “packaging”, n = 91)				
multi-item-scale	no. of items	sample 1	*sample 2*	***total sample***
trust	6	,8539	,8896	**,8623**
Value-creating norms	6	,8171	,8312	**,8266**
Value-claiming norms	3	,7998	,8522	**,8328**
commitment	5	,8392	,8781	**,8434**
specific investments	5	.8519	.8613	**.8554**

Table 1: Reliability of multi-item scales

Scale	**FR**	**AVE**	**t-values**
Trust	0.89	0.58	10.12< t <15.18
Value-creating norms	0.82	0.59	09.35< t <17.63
Value-claiming norms	0.94	0.78	15.44< t <21.35
Specific investments	0.89	0.57	12.45< t <23.90
Commitment	0.85	0.53	10.57< t <16.16

Table 2: Core constructs’ goodness criteria[2]
(FR = factor reliability, AVE = average variance extracted)

Results from the empirical study

[2] According to Homburg and Baumgartner (1998) FR should be > 0.6, AVE > 0.5 and t-values > 1.645.

In order to verify whether services and product marketing differ along the five dimensions we focus upon in our paper, we first conducted a series of t-tests. The results are documented in table 3.

Governance mechanism	*Mean Services*	*Mean Products*	*Sign.*
Specific investments	3.07	3.79	0.000
Trust	4.68	4.89	0.106
Formal contract	3.76	3.71	0.825
Value creating norms	4.54	4.47	0.591
Value claiming norms	5.09	4.82	0.047

Table 3: Differences between the means for the two subgroups across five control mechanisms

The results of five t-tests between the sub-samples show that significant differences exist concerning the level of specific investments (at the 99% confidence level) and for value-claiming norms (at the 95% level). For trust, formal contracts, and value-claiming norms, no significant differences exist between the two types of business.

In addition we conducted a regression analysis for the impact of the five mechanisms on the customer’s commitment (table 4). Customer commitment is a helpful variable because it is seen as a key outcome in long-term business relationships serving as an indicator for relationship quality. We find that for both sub-samples, the five control mechanisms allow explaining an important part of the variance in the dependent variable customer commitment. Hence, they are relevant when attempting to explore our topic. Moreover, in both regression models, only two variables have a significant impact on customer commitment: trust and value creating norms. Against the background that the level of trust and value-creating norms is not significantly different between the two sectors we believe that the results provide some argument for the community of researchers expressing doubts about the true importance of differences between services and product marketing.

Governance mechanism	*Services*	*Products*
Specific investments	0.107	0.153
Trust	0.246***	0.24**
Formal contract	0.02	0.144
Value creating norms	0.552***	0.36***
Value claiming norms	0.105	0.097
R^2	.524***	.412***

Table 4: Regression of control mechanisms on customer commitment

Discussion

The article published by Vargo and Lusch (2004) in the Journal of Marketing comes up with a provocative “new dominant logic” for the field of marketing. It questions the differences between the marketing of goods and services. Some of the main arguments made by these authors are the following:

- material goods are only distribution mechanisms for service distribution
- knowledge is the fundamental source of competitive advantage
- all economies are service economies
- the customer is always a co-producer.

With this article, these authors place themselves in a line of scholars who have questioned the justification for maintaining the “silos” between marketing subdisciplines. For example, Cova and Salle (2003) have recently questioned the utility of industrial marketing “Don Quixotes” pointing their lances at Kotlerian windmills. We believe that the general question raised in the “tear-the-silos-down” stream of papers is one of paramount importance for our discipline. To practitioners as well as to students it is sometimes hard to explain why we distinguish between so many sub-disciplines and why our scientific marketing community is such a fragmented group of people. We also buy into many of the arguments made in the contributions cited. However, most of these articles tackle the question from a conceptual point of view. They identify overlap in models and relativate the often artificially constructed chasms described by proponents of the “silo world”. What we do lack is a larger empirical basis allowing us to verify whether identical phenomena (variables; main, interaction, and moderating effects; and the like) are systematically identical or different across samples drawn from different “silo domains”.

This paper provides some evidence that for a well specified aspect, the governance mechanisms used to control the risk of opportunism in long-term business relationships, and within a clearly delimited field, two industries which we assume to be representative of typical industrial goods and industrial services markets, no important differences between the marketing of physical goods and services can be identified. The means for the use of several control mechanisms (trust, formal contracts, and value creating norms) show no statistically significant differences. The only control mechanisms where important significant differences are observed is the use of specific investments. However, it is obvious that the degree of specificity of investments into production lines and other assets involved in the production and distribution of physical goods may be higher than the one of investments required in the production and distribution of intangible services. The fact that the effect structure and the two regression models reveals a similar distribution of statistically significant and insignificant parameters combined with the observation that the variables having a significant impact are the ones for which we do not observe relevant differences in their means provide additional evidence for our conclusion that based on the results of this study, the “silo perspective” on marketing obtains no support.

On the other hand, we only interpret our results as one clearly delimited contribution to answering the question whether a differentiation between services marketing and the marketing of goods is useful and justified. One reasons for this is that we acknowledge limitations in the design of this research. Among others, the fact that we rely on single respondents per case, that we focus on only two industries per sector, and that we conducted our study in only one national environment may seem particularly important. A second reason is that some of the conceptual contributions questioning the differences between services marketing and the marketing of goods “construct” their argumentation against significant differences by taking a somewhat biased perspective. For example, Vargo and Lusch (2004) exaggeratedly present what they call the “traditional goods-centered dominant logic” as a product- and company-focused approach. They do not mention that marketing approaches outside the field of services marketing have long acknowledged the fact that customers determine what relevant value propositions are. Furthermore, they give the impression that the traditional marketing approach has been blind regarding the existence of product-accompanying services. Their “service-centered new dominant logic” comprises many ideas present in concepts such as relationship marketing or network marketing, but also in the IMP literature (interaction, integration, individualization, and the like) which are not particularly new. And finally, the high level of abstraction in many of the arguments they develop hides relevant differences between services and goods. For example, Vargo and Lusch argue that customers are always integrated, even in the marketing of conmsumer goods, because companies conduct market research. However, it appears obvious to us that the intense integration of customers in the complete production process of a service is quite different from the use of certain anonymous customers in order to collecting information used to design products, price systems, or communication campaigns for comsumer goods.

Summarizing, we interpret our study as one element to be considered in a much broader discussion on the question whether there are substantial differences between services and (industrial) goods. We hope to stimulate more research on the topic in order to enhance the development of an empirical complement to the conceptual stream of research on the “silo issue”.

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Appendix A : scales

The total questionnaire contained ten pages. The questions dealt with the relationship (e.g. duration, type of products / services purchased), the respondent (e.g. function, experience with this supplier in years, role in buying process), focal supplier (e.g. company size, location of headquarters), as well as the following scales developed in order to measure the focal constructs.

Unless otherwise indicated, all measurement instruments described below were based upon the 7-point Likert-type response scheme (1 = totally disagree, 7 = totally agree; R = reverse scaled).

* indicates that the item was deleted before final data analysis.

(R) indicates that the item is reverse scaled

FL = factor loadings

Trust (based upon Doney and Cannon 1997)

1 This supplier keeps the promises it makes to our firm	.745
2 This supplier is not always honest with us (R)	.828
3 We believe the information this supplier gives us	.747
4 This supplier is truly interested in our own success	.716
5 This supplier is trustworthy	.852
6 We find it necessary to be cautious with this supplier (R)	.766

Value-creating norms (based on items from Ganesan 1994, Boyle et al. 1992, Pilling, Crosby, and Jackson 1994, Kaufmann and Stern 1988, Heide and John 1992, Lusch and Brown 1996)

1 This supplier formulates plans for the future of our relationship	.832
2 Maintaining an ongoing relationship with us is important to this supplier	.862
3 This supplier wants both parties to benefit from the relationship	.836
4 This supplier is committed to improvements that may benefit our relationship as a whole and not only themselves	.817
5 When some unexpected situation arises, the parties would rather work out a new deal than hold each other to the original terms.	.906
6 This supplier informs us in a timely manner about changes which concern us	.863

Value-claiming norms (based upon Kaufmann and Dant 1992)

1 This supplier carefully examines the reasons why conflicts arise in our relationship	.932
2 In difficult situations this supplier is ready to put us under pressure (R)	.922
3 This supplier only makes use of his power basis when he is sure that it will not threaten our relationship	.852

Specific investments (based upon Werner 1997)

… have adapted their data collection approach to our needs	.792
… have adapted their IT equipment (hardware or software) to our needs	.867
… have adapted their usual way of documenting or presenting data to our needs	.912
… have adapted their human resources to our needs	.834
… have made a strong investment in their relationship with us	.901
If we changed supplier, the investments they made would be difficult to transfer to another supplier)	.933

Formal contracting

Each time we deal with this supplier, the mutual obligations are comprehensively documented in a written contract

Commitment (based upon Werner 1997)

1 We intend to maintain our relationship with this supplier as long as possible	.839
2 We do all we can not to threaten the relationship with this supplier	.821
3 We are ready to invest more than usual in this relationship	.779
4 Our cooperation with this supplier is frictionless	.737
5 From time to time we seek alternatives to the products we buy from this supplier	.751