

Expanding organization theory: five approaches to the study of customer-organization relations

Torstein Nesheim

The author points out that there is a lack of attention to customers in organization theory. With a focus on organizational design issues, five approaches to the study of relations between organizations and individual customers are clarified. First, the customer has been regarded as a demand generator in the environment of organizations. Secondly, the service management literature has pointed out that the interaction between a customer and a representative of the organization is a vital contingency for organization and management. Some implications for organizational design are discussed. Thirdly, the customer-organization interface can be conceived as a design dimension, a relation that can be organized. Four key questions are addressed. While the first three approaches allow us to specify theoretical constructs and research questions, the manager and prosumer views are less developed approaches which may bring forward interesting research. The five approaches are compared and taken to be supplementary in the study of design questions.

Key words: Customer, organizational design, service management.

1. INTRODUCTION

There has been a relative neglect of the *customer* in theories of management and organization. While academics, consultants and managers point to market orientation and customer responsiveness as essential in the 90's, there is a lack of theoretical understanding of the importance and role of customers in work organizations. The customer is an actor that most often is absent in organization studies (Peters and Waterman 1982, Bowen 1986). This lack of attention is evident in recognized readers in organization theory, for example Pfeffer (1982), Morgan (1986) and Scott (1987) and in books on organizational design (Mintzberg 1979, Van de Ven and Ferry 1980, Child 1984, Grandori 1987).

In this article I will discuss the role of the individual customer for organization and manage-

ment. My aim is to clarify how the customer-organization relation can be conceived, and how customer characteristics are related to management issues. Focusing on contributions to the study of *organizational design*, I will discuss five approaches to customers in work organizations. The underlying premise is that attention to customers can enrich our understanding of organizational structure and design. Some of the ideas of this paper are inspired by the service management literature. Earlier, I have shown how the core arguments of this research can be reformulated in a structural contingency framework (Nesheim 1990). One contingency is the degree of interaction between the customer and a representative of the firm, which leads to specific options and constraints for organizational design. Framing the customer-firm interface as a design contingency points to *one* important approach in assessing the importance of customers for organizational design. Here I will clarify four other approaches to the study of customers and clients in questions related to the structuring of organizations.

The *concept of customer* is a general one. I define customer as a beneficiary or receiver of an *individual* good or product. The product is delivered by a *work organization* (includes state and municipal agencies as well as private firms in the market sector) to an *individual customer* who is the *end-user* of the product. The recipient is a customer regardless of the degree to which he pays the "real price" of the product. This wide definition encompasses students, airline passengers, welfare clients, retail customers and innumerable other "kinds" of customers. As a starting point the reader may consider the five approaches valid for the study of customers in this general sense. However, the specific arguments presented most often will have a narrower range of application.

The approaches to customers are as follow (cf. figure 1): a) The customer is a part of the envi-

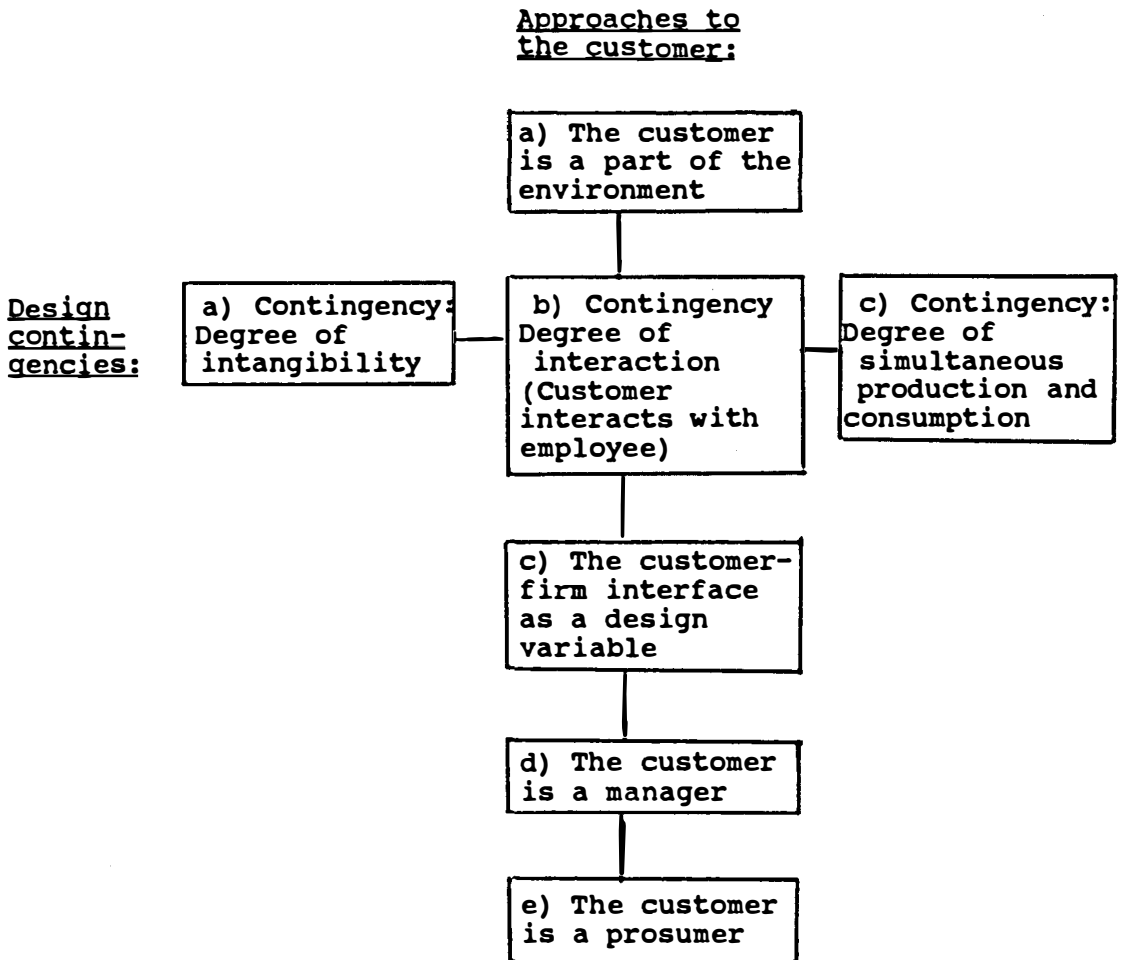


Figure 1: Approaches to the study of customers (this paper) and design contingencies derived from Service Management (Nesheim 1990).

ronment of the organization. b) Design contingency: The customer interacts with a representative of the firm. c) The customer-firm interface is a design variable. d) The customer is a manager. e) The customer is a prosumer.

I will discuss the implications of each approach for management and organization, emphasizing organizational design (Mintzberg 1979, Child 1984, Grandori 1987) issues. While the customer-organization connection invites a variety of theoretical perspectives, an instrumental and partly prescriptive approach is taken here.

2. THE CUSTOMER IS A PART OF THE ENVIRONMENT OF THE ORGANIZATION

The early development of organization theory, was characterized by rational and natural, organic models. While the two perspectives differed in their approach to organization structure, they shared one important premise; organizations are *closed* systems, which can be studied by focusing on internal variables only (Scott 1987). How the organization interacted with different parts of the environment was not emphasized neither in

scientific management (Taylor 1911), administrative theory (Fayol 1919), nor in human relations theory (Mayo 1945). These approaches ignore both customers and the environment.

In the sixties, the *open system* perspective on organizations emerged. An open system means not simply that the organization is involved in interchanges with the environment, but that this interchange is essential for the organization's viability (Buckley 1967, Scott 1987). Based on the contributions of Burns and Stalker (1961), Woodward (1965) and Lawrence and Lorsch (1967) a contingency theory of organizations emerged from the open systems approach. A central assumption of this theory is that there is not *one* best way of organizing. The best way to organize depends on the nature of certain contingencies, of which dimensions of the environment are essential. To be effective, management should adapt the organization to environmental contingencies. However, with the notable exception of Thompson (1967), the contingencies do not explicitly acknowledge the importance of customers.

Mintzberg (1979) summarizes the substance of contingency theory. The contingency variables age and size of the organization, technology and power are not related to the customer. As regards the environment, this contingency is defined in terms of four variables; stability, complexity,

market diversity and hostility. The variables point to characteristics of environments in general, not to specific customer-environments. However, customers are one group of actors whose characteristics can affect the overall environment, to which the organization must adapt. For example, as regards *environmental stability*:

"A variety of factors can make an environment dynamic, including unstable government; unpredictable shift in the economy; *unexpected changes in customer demand* or competitor supply (or for that matter, rapid changes in the size of the organization itself); *clients demand for creativity* as in an advertising agency, job shop, newspaper, or TV network; a rapid changing technology, or knowledge base, as in the case of an electronic manufacturer; even weather cannot be forecasted, as in the case of farms and open-air theater companies" (Mintzberg 1979: 268, the italics are mine).

Dynamic environments make the organization's work unpredictable, and tend to lead to an organic, non-bureaucratic structure. As regards *market diversity*, this may be the result of *customers* having different characteristics, but also the consequence of different products and several geographical areas. The more diversified the organization's markets are, the greater the propensity to group the activities into market-based units (Mintzberg 1979). The relations between the environmental and structural variables are shown in Figure 2.

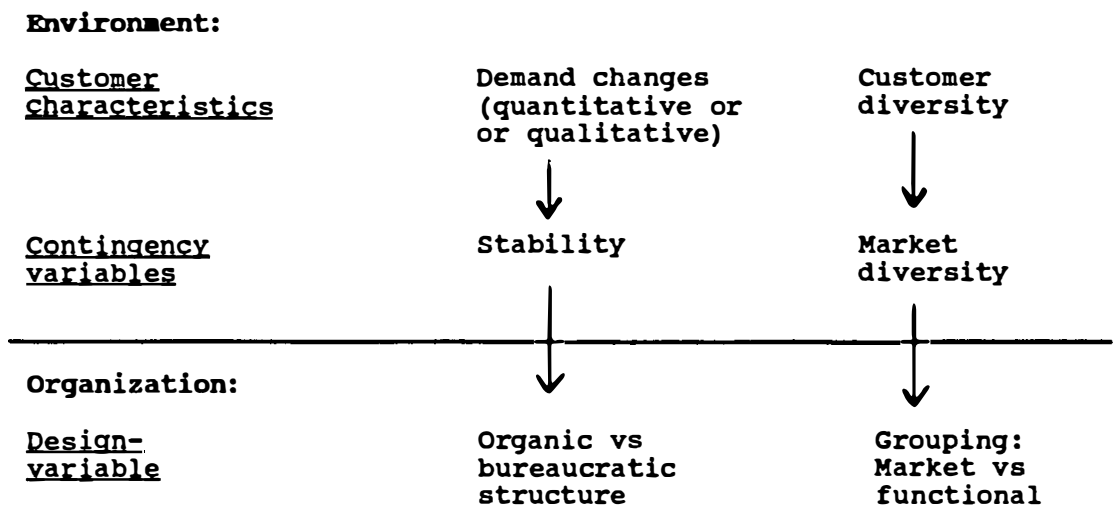


Figure 2: Customers as part of the environment: Contribution from contingency theory.

In contingency theory, the organization (most often through managerial actions, see Scott 1987, Child 1984) adapts to the environment. The approach is mainly *re-active*; management act to create fit between given contingencies and organizational design. However, organizations can also take a more *pro-active* (Astley and Van de Ven 1983) stance towards the environment, of which customers play a vital part. There is room for *strategic choice* (Child 1972) in the organization-environment relation. This approach, which allows for discretion and influence on the part of managers is inherent in much of the prescriptive *strategy* literature. Here, it is emphasized how management actively seek out customers, create and develop market niches.

Taking Porter (1980) as an example of the prescriptive approach to strategy, a firm can choose from three generic strategies; low cost, differentiation and focus. The focus strategy includes a conscious choice of which customer group to serve, marketing efforts towards target customers to create and shape demand and build customer loyalty (Kotler 1988), creating competitive advantage towards competitors and developing organizational structure and processes to serve the chosen customer group (Normann 1984, Heskett 1987). The customer is still a part of the *environment*. Customers are "out there", but they can be "*created*" and developed through organizational action. The managers of organizations do not adapt to given market niches and customer demands, as implied in contingency theory. Strategic managers may instead play an active part in the structuring of customer environments.

In the public provision of services, the recipients are not only customers, but *citizens* (Marshall 1950) as well. The status of citizenship includes certain social rights (e.g. health services, pensions, education) as well as political rights and duties. The relation between the customer and the citizen roles as important environmental dimensions may generate important research questions.

3. DESIGN CONTINGENCY: THE CUSTOMER INTERACTS WITH A REPRESENTATIVE OF THE ORGANIZATION

In the provision of welfare as well as in other ranges of production, the customer is often extensively involved with representatives of the organization. The insights gained from looking at

the customer as part of the environment, located outside organizational boundaries are important, but limited. When the customer *interacts* with a representative of the firm, this creates important challenges for the organization. The extent and intensity of the encounter varies from patients and elderly clients needing constant treatment to routine transactions at news agents and buses. The encounters do not take place exclusively in the service sectors. In manufacturing organizations where customized goods are produced, engineers and technical workers may develop the product in interaction with the customer. When there is a *high degree of interaction* between a customer and a representative of the firm, the customer is not exclusively a "demand generator". Instead he *transcends* organizational boundaries, and there is personal interaction in the "moment-of truth" (Normann 1984).

In a rare treatment of the customer-organization interface, Danet (1981) specifies three elements of the personal encounter; the resources transferred; the procedures followed; and the interpersonal styles of the participants in the relation. She explains how the encounter is influenced by environmental factors, organizational variables and situational factors. Here, I will address a more specific issue; how the personal interaction between customer and front-stage employee operate as a contingency on organizational design (Nesheim 1990). Taking the amount and intensity of personal interaction as given, we can ask what constraints and options arise, and how they can be managed through conscious design choices.

The customer transcends organizational boundaries and is involved in a face-to-face interaction with a representative of the firm. From a managerial point of view, the personal interaction offers both opportunities and threats. The product is partly produced at "the moment of truth" when the customer meets the front-stage employee. The employee must provide the service there and then, building on whatever input the customer provides in terms of information needs or preferences. In this relation, the two actors are left alone. Management has no direct influence on what happens (Normann 1984).

A key concept in analyzing the personal interaction is *unpredictability*. "The moment of truth" is a relation which is not easily predictable. The output of the interaction will be a function of the skills and competences of the employee and of the interpersonal competences of the two parties. On the side of the employee, the source of un-

predictability lies in his own ability to perceive the customers' needs and preferences and to work out good solutions on the spot, while following organizational policies as regards quality and costs. When customer preferences are vague or differentiated, standardization by rules and procedures is difficult to apply. The jobs of people who deal continually with other people cannot be completely specified, by developing procedures for all possible situations. The interface cannot easily be governed by way of standardization.

The first design implication, therefore, is that when there is a high degree of personal interaction in the customer-organization interface, *standardization of work processes* (Mintzberg 1979) through developing procedures of how employees should act towards customers is not effective. Coordination in this relation should be achieved by other means. Standardization of the interaction will only be rational when the interaction is of short duration and has low personal involvement on the part of the customer, like in MacDonald's hamburger outlets (Morgan 1986).

In their interaction with customers the front-stage employees have the best *knowledge of the customer's needs, preferences and problems*. It is the employees who work directly with the customer who can also identify the customer's wishes, and provide him with a solution that fulfil these wishes. The front-line personnel have developed competence in dealing with customers, and their customer-related knowledge and skills may be a big potential for the organization. When the interaction between customer and employee is of vital importance to the delivery process, some *decision-making authority should be delegated to front-stage employees*. Carlzon (1987) puts it as follows:

"What is then SAS? ... SAS is the interaction between a single customer and each SAS employee working front-stage ... Last year SAS had 10 million customers. On average each interacted with five employees, and this interaction lasted on average 15 seconds ... If we are to develop a service in accordance with customers' needs, we have to delegate the responsibility for analysis, ideas and decisions to those who *are* SAS during those 15 seconds. If instead, one has to go upward the hierarchy to make a decision, the 15 seconds have passed before we can act... (Therefore) it is not possible to have specialists governing the firm with rules and procedures, as if all customers were alike, with identical needs. The responsibility must be moved to employees working front-stage" (Carlzon 1987, my translation of the Norwegian edition).

Through delegation to the front-line one can achieve more flexible and rapid response and

better adaption to customer preferences. To achieve a decentralized organization, the *role of middle managers* should change accordingly. Traditionally, this group has had an instructing, commanding role; they implement the organization's policies through direct supervision. If the front-stage employees are allowed more discretion, there should be changes at the middle levels. First there will be fewer middle managers, because their traditional functions to some extent will disappear. Secondly, middle managers should adapt a more supportive and facilitating role towards the front-line, as well as being engaged in horizontal communication across functions (Carlzon 1987, Peters 1987).

When the front-line personnel have considerable decision-making authority and the role of middle management is lessened, the hierarchy can be reduced. There is less need for an extended hierarchy as a vehicle for transmitting directives and policies. Besides, many layers of management tend to inhibit communication and understanding because they place barriers between senders and receivers of messages (Zeithaml et al. 1988). The design suggestion is to *reduce the layers of management to a minimum*. In this way, unnecessary hierarchial control mechanisms may not be allowed to grow, while the quality of upward communication can be improved. "Flattening" the hierarchy may enable a change in organizational focus where mobilization of resources — management, staff, back-office — to support the customer contact activities is emphasized (Grønroos 1990).

The four design options suggested above are connected, and are well in tune with values of personal autonomy, self-control and the ideology of employees as human resources. However; in terms of organizational effectiveness, a number of questions arise: If hierarchial referral and standardization through rules are not rational, *how can coordination be achieved?* The delegation of decision-making authority may provide opportunities for offering customers better products, but how do managers know whether employees can *handle this responsibility*, and whether they will use their new autonomy to promote the goals of the organization? Delegation without coordination and control may have negative effects, such as *opportunistic actions* (Williamson 1985) or *suboptimization/local rationality* (Child, 1984). Because more depends on the *competence* of the employees actually serving the customer and their ability to find good solutions, new problems of coordination arise (Colb-

jørnsen, forthcoming).

Two coordination options will be suggested here. An alternative to standardization through rules is *the standardization of norms and values* (Mintzberg, 1979). Managers can emphasize cultural control in the coordination of the activities in the organization. By developing a set of customer-oriented values, a firm can create a relatively unique and consistent way of dealing with customers. Strong corporate cultures can reduce employee ambiguity and foster behavioral consistency among employees (Parasuraman 1986). Control is embedded not in specifications of how to act in different situations, but in the standardization of the way employees perceive and experience their working situation. This provides the foundation for their interaction with customers.

Standardization of skills is a potential form of coordination (Mintzberg 1979). While professionalization is well known, one can question whether the largeley self-defined professional standards are always congruent with organizational goals and the needs of the customers. Another design option would be to focus on a different skill: When the front-line employees are involved in face-to-face interaction, managers should recruit people possessing *inter-personal competence* and emphasize the development of such skills. The concept of interpersonal competence is related to the ability to communicate and interact with customers, and is relevant to most boundary-spanning personnel in organizations (Bowen and Schneider 1985). The promotion of this skill could improve their ability to listen to, understand, negotiate with and handle difficult customers, as well as the ability to act in critical incidents like accidents and fires.

The design options discussed here are consistent with many of the recommendations in the literature on organizational design. My point is that the alternatives are *not* universal prescriptions for management, but structural solutions arising from *one particular contingency*, the interaction between a customer and a representative of the organization. The design suggestions thus build on an organizational model where the customer transcends organizational boundaries.

4. ORGANIZING THE CUSTOMER-FIRM INTERFACE: A DESIGN QUESTION

While the notion of customer-employee interaction as a design contingency may yield impor-

tant insights, a supplementary view of "the customer as an insider" will now be presented. The customer-organization interface is a *relation that can be organized*. This relation regarded as a *design dimension*, is our third approach to the customer.

In an early discussion of the customers' impact on organizations, Thompson (1967), the recommendation was to *buffer* the technical core from environmental — including customer — disturbances. This view of the customer as a problem and a source of input uncertainty is echoed in parts of the service management literature. Production processes characterized by extensive customer involvement are perceived as limited in their production efficiency because of the uncertainty the customer introduces into the process. Customers pose problems for the organization because of the diversity and unpredictability of their demands, because they disrupt routines, because of their lack of attention, their unreliability, their failure to comply with procedures and so forth. Taking this argument to its logical conclusion, design strategies involve "*decoupling*" the customer from the production process, *mechanizing* the delivery, and *routinizing* the interaction (Chase and Tansik 1983, Northcraft and Chase 1985).

On the other hand, a case can be made for the customer as a knowledgeable actor, engaging in various *productive activities* in various stages of the service delivery process. These activities may include the provision of information, doing physical work (e.g. filling out forms, self-service) and the marketing of the product to potential customers. The participation of the customer is an opportunity and a resource, and may enable the organization to achieve greater efficiency in its operations. Customers may be regarded as "partial" employees within the organization's boundaries, and can be managed as human resources (Mills and Morris 1986, Bowen 1986).

The options of *buffering* vs *involving* the customer in organizations capture important viewpoints on the customer-firm interface. However, one should be able to clarify more *specific* design variables as well as avoid the universal, one-best-way-of-organizing prescriptions implicit in the two approaches above (cfr. Lovelock 1983). I would suggest that the study of the customer-organization interface consider four questions:

- a) How should the transaction between the organization and the customer be governed (mode of *contract*)?

- b) What are the optimal form and amount of *customer contact* in the process of service delivery?
- c) What *productive activities* should the customer be involved in?
- d) How can the customer be *managed*?

**a) Customer-organization interface:
Mode of contract**

Reve (1990), who builds on transaction cost and agency theory has developed a model of organization as a nexus of internal and external *contracts*. Extending this approach, a vital part of an organization is its contracts with *customers*. To handle economic transactions between the recipient (personal customer as end-user) and supplier (organization) of products, different governing mechanisms or contracts can be used. Customer-firm contracts are bilateral arrangements that involve reciprocal expectations and behaviours.

The contracts can range from highly, *formalized* agreements to *implicit*, often vague understandings that may not be well defined (Kalleberg and Reve 1990). Another dimension is captured by the continuum from discrete, "one-off" transactions (*spot market*) to recurrent, long-lasting exchanges where personal relations may be involved. Such *relational contracts* often depend heavily on trust and the personal networks between the customer and representatives of the firm (Granovetter 1987, Bradach and Eccles 1989).

Taking an *economic* approach, modes of contract can be predicted from characteristics of the customer-firm transaction (Bowen and Jones 1986, Jones 1987), such as asset specificity, performance ambiguity and frequency. However, from a *power* perspective, the importance of the product involved for the customer as well as the existence of alternative suppliers should be considered.

Since Williamson's "Markets and hierarchies" (1975), the study of organizational boundaries and governing of transactions have become central themes in organizational studies. However, the relations usually involve buyer-seller transactions where intermediate products are concerned and/or the transaction partners are two work organizations. Here, the focus is on the organization-*customer* interface, with the personal customer as an *end-user* of the product. The study of these specific relations may bring new light on the governing of transactions, while the range of

application of the contract approach can be extended.

b) Form and amount of customer contact

This variable capture whether the customer is *physically present* during the service delivery, and the extent of *personal interaction* between the customer and employees of the organization. In low contact service delivery systems, production efficiency could be achieved by limiting the amount of face-to-face contact and the physical presence of the customer. In high-contact systems, the customer is extensively involved with representatives of the organization. This introduces elements of uncertainty in the delivery, but may bring potential benefits as well. Low contact in general maximize production efficiency, while high contact has the greatest potential for sales (Bowen 1986, Chase and Bowen 1990).

Chase and Bowen (1990) present a typology of six modes of service delivery options, which differ in *forms* (nature of interaction) and *amount* (length of time in interaction) of customer contact. The choice of contact mode should be made according to a decision rule: "Find the form and amount of customer contact that balances the efficiency potential from low contact with the sales opportunities from high contact".

The service delivery options are; mail contact (1), phone contact (2), one-site technology (3), face-to-face tight specifications (4), face-to-face loose specifications (5), face-to-face total customization (6). Options one and two do not require the customer to be physically present, in the third the customer is present without interaction with employees, e.g. Automatic Teller Machines inside banks. Options 4–6 involve customer-employee interactions with different amounts of interaction and degrees of customization. Examples of the face-to-face options are fast-food restaurants (4), full service restaurants (5) and medical service (6).

Often, the design of service delivery options is not much of a choice, or is directly implied by the organization's strategy (for example regarding the degree of standardization vs. customization). Here, the typology merely systemizes and describes contact modes. However, in other cases prescriptions can be derived. For example, different design options have different requirements in terms of skill. The competence needed to fill different positions can thus be specified (Chase and Bowen 1990).

Northcraft and Chase (1985) maintain that an appropriate means for the delivery of service, is one that utilizes merely the level of expertise and customer contact required to provide the service most efficiently. Account transactions should be processed by Automatic Teller Machines, the cashing of checks by live tellers, while certificates of deposits require interaction with employees having more expertise and discretion. Further, the form of contact chosen have implications for the two remaining interface choices. We now turn to the question of how the customer can create value for the firm by engagement in task-related activities.

c) Productive activities on part of the customer

An important observation is that the customer can be involved in productive activities in the organization. Customer participation is a potential for saving labour costs and creating better quality in output. Normann (1984) has identified several different functions the customer can have, including specifying the product needed, engaging in co-production by doing part of the physical work required, development of the service delivery system and marketing. The customer may bring physical, intellectual or emotional contributions to the delivery process (Normann 1984).

The increase of customer participation has been used strategically in positioning firms towards their competitors. IKEA can be used as an example. The home furniture market in Scandinavia changed when IKEA emerged on the scene. An important element in the firm's low-price strategy is the way they involve the customer. The outlets are based on self-service. The customers transport the furniture parts to their homes themselves, and then start putting these parts together. In this way, labour costs are saved, and the firm is able to maintain lower prices than their competitors.

In general, one would expect a high degree of standardization of products being compatible with a low-cost strategy. Where outputs are meant to be standardized, production efficiency can be achieved through routinization. From the literature, one would expect that the higher the degree of product standardization, the more the customer should be sealed off from production, and avoid the disruption of these routines (Chase and Tansik 1983). Here another angle is proposed: Customers can participate in production re-

gardless of the degree of standardization, but will make different contributions in the delivery of highly *standardized* vs. highly *customized* products.

Customers who seek out a standardized service can contribute to *production efficiency* if they know their preferences, define what products they want (e.g. retail customers bringing their receipts with them), order in advance (e.g. plane tickets), have necessary information and documentation available (e.g., bringing identity cards and records), act as co-producer (e.g. filling out forms) and do the work themselves without interacting with the personal of the firm (e.g. laundromats).

Customized products refer to the recognition of the customer's uniqueness as an individual (Suprenant and Solomon 1987). It is the customer's unique needs and preferences that have to be satisfied, or her unique problem that has to be solved. The customer can assist in providing a high quality product, enhancing *effectiveness* rather than efficiency. In psychological therapy, for example, it is important to give information that can help to specify the client's problem. To enable competent employees to work out good solutions, customers should be able to specify problems, needs or preferences. Customers can play an important role to shape the atmosphere at the service location, and make work less stressing for employees, while they contribute to a pleasant experience for other customers. On the other hand, nasty, rude or drunken customers can affect the climate of the service location in the wrong direction.

In manufacturing, customers may be vital in the production of "tailor-made" goods. To involve customers to generate ideas, designs, production planning and quality control have a potential for enhancing total product quality and consumer satisfaction.

Summing up, I suggest that the degree of standardization vs customization is important in specifying *what* activities the customer should perform, not only the extent of customer participation. The more standardization, the more the customer can contribute to production efficiency and cost savings. The higher the degree of customization, the more the customer can contribute to effectiveness and product quality.

d) Managing the customer

One implication of the above discussion is that customers are not just distant spectators, but may

be active participants, supplying information and physical labour to the production process. This has led to the suggestion that customers should be viewed as "partial employees" of the service organization. One implication of regarding customers as part of the organization is that they must be *managed* along with employees (Bowen 1986, Mills and Morris 1986).

According to Bowen (1986), one key to the management of customer performance is to develop Human Resource Management practices in three areas. First, the customer must *understand* how she is expected to perform. An initial role expectation is to "go to the right counter". The customer should be directed to the appropriate employee(s) or machine(s). During the personal encounter it is important that the customer's role is clear. Organizations need to develop ways in which the role making process is facilitated (Mills and Morris 1986). Secondly, there is the question of the customer's *ability* to perform. Just as in the management of employees, a conscious selection and training policy can be used to acquire on-site customers who are able to perform as expected. In this way the participation skills of the customer can be improved (Grønroos 1990). Finally, there must be valued rewards to enhance the customers' *motivation* to perform. When a customer prefers face-to-face interaction, but the firm wants him to use automated self-service, managers have to point out the rewards associated with this delivery mode. Differentiating prices for the use of different delivery modes is one example of how incentives can be provided for the customer.

In Mintzberg's (1979) synthesis on organization design, one dimension is the design of individual positions. When we conceive of customers as "partial employees" performing task-related activities for the organization, our focus is on the design of *customer* and not employee roles. To some extent, the customer can be managed through the conscious structuring of customer roles. Using the conceptual scheme of Mintzberg (1979) the questions to be asked are:

- * What task-related activities are the customer expected to perform (*specialization*)? This variable allows us to capture the extent and form of customer participation in the production process.
- * To what extent is the behaviour inherent in each task standardized through mechanization or written procedures? What is the degree and content in customer *behaviour formalization*?

- * What *skills and knowledge* are required of the customer? How can the customer be trained to acquire the necessary competence?

While my main point is that the *customer-organization interface* is a vital aspect of organizational design, to speak of design of customer roles emphasizes that some concepts used to capture the internal structuring of organizations can be extended to the study of interface issues. Interface research could therefore proceed by the integration of concepts from "mainstream" organizational research (for example contracts, design of individual positions) with service management research addressing the organization-customer interface specifically.

5. TWO EXTENSIONS: THE CUSTOMER AS MANAGER AND PROSUMER

The foregoing discussion has shown how three different approaches to the customer bear on organizational design issues.

While there is a lack of systematic empirical research on customer-organization issues, the existing literature allows us to specify theoretical constructs and variables, as well as to develop some research propositions. This section will briefly address two alternative approaches to the customer, the customer as *manager* and as *prosumer*. These approaches are novel, rare and not yet well developed. It remains to be seen how they relate to organizational design issues. Here, I merely suggest that the two views may have a potential in bringing forward interesting research questions.

a) The customer as a manager

Earlier in this section it has been pointed out that control is difficult when serving the customer involves face-to-face interaction. Traditional control mechanisms such as hierarchical referral, monitoring through personal control and standardization through rules and procedures will often not be appropriate. In section three other options were discussed, based on established coordination mechanisms in organizations (Mintzberg 1979, Child 1984).

Another alternative is to use customers as "substitutes for leadership" (Bowen 1983). Customers

can be encouraged and/or taught to engage in *quality control*, providing daily feedback to employees. For example, when cleaning is done during office hours (with the customer present), this enables the customer to take on important functions of quality control (Normann 1984). On the other hand, service employees have been found to be as satisfied with the *supportive behaviours* of their customers compared to their immediate supervisor (Bowen and Schneider 1988). This suggests that supportive and facilitating functions sometimes can be performed by customers and not only by first-line managers.

b) The customer as a prosumer

According to Troye (1990) the quality of a product can be analyzed by studying four elements of the production process; customer-employee interaction, "back-stage", structural/material and *customer-dependent* elements. It is emphasized that the customer is not a passive consumer of a product. Troye points out that the customer is a *prosumer* (Toffler 1980). On the one hand, the customer are engaged in activities, which may save labour costs during the delivery process. On the other hand, the customer must perform activities connected to *experiencing* the products. How the customer use the facilities provided by a hotel or a travel agency is important for the evaluation of a holiday. Satisfaction with a new car is dependent on the customer's use of the car. Such experience activities may take place during the customer's contact with the organization (e.g. hotel) or after the customer has completed the transaction and are no longer "inside" the organization (e.g. car). These customer-dependent quality elements are usually highly subjective and vary between customers (Troye 1990).

The prosumer view covers both the customer activities as a co-producer (discussed in section 4) and activities connected to the experience with and use of the product. Conceptually, these are distinct parts of the customer role. The influencing of customer satisfaction through the "experience" activities is difficult, mainly because these are in their nature ideosyncratic. The design of customer roles therefore has clearer limits than what is implied by the management of customer perspective. The management of customers may be relevant for their productive activities, but not for their "experience" activities.

6. COMPARISON AND CONCLUSION

The aim of this article has been to bring the customer into the study of organizations. While customers frequently transcend organizational boundaries, I suggest that the customer should cross the boundaries of organization theory as well. The five approaches I have identified could inform the study of the diverse ways customers bear on organizations. The *approach* label is chosen because the customer models are not fully developed perspectives or theories. Rather, they point to differences in the conceptualization of customer *in* various perspectives and theories of organizations. The first three approaches encompass specific theories, concepts and research propositions and invite systematic empirical studies. The prosumer and manager views presently can only be considered as theoretical ideas, which may be developed further to inform the study of organizational design.

In figure 3 the approaches are compared in terms of how the customer relates to organization boundaries, customer-related variables and aspects of choice and action.

In the first approach, the customer is part of the environment of the organization. Customers influence market diversity and degree of environmental stability, contingencies to which the organization must adapt. In the second approach this contingency framework is maintained. However, the customer no longer is a distant demand generator; rather the customer-employee interaction creates specific options and constraints for organizational design. The options for managerial action is limited to the "traditional" design variables (cf. Mintzberg 1979) in both approaches. Also, the notion of unpredictability is a feature of both. Unpredictability may originate in demand and tastes (customer-environment) or the "moment-of truth" ("inside" the organization), and will drive non-standardized, organic organizational designs.

From the third approach we learn that the customer-organization interface is a relation that can be organized; i.e., it is a vital aspect of organizational design. This interface can be organized in such a way that the customer becomes a "partial employee" who transcends the boundaries of the organization. Questions regarding the design of customer roles and managing the customer will then be relevant. On the other hand, the customer can have managerial functions in quality control and support of the front-line, as approach four reminds us of. Finally, the prosumer view empha-

	<u>The customer and organizational boundaries</u>	<u>Customer-related variables</u>	<u>Action and choice</u>
APPROACH A	Customers are a part of the environment	Customer characteristics influence contingency variables	Managers adapt organization structure to environmental contingencies
APPROACH B	Customers transcend organizational boundaries through interaction with employees	Customer-employee interaction is a vital contingency	Managers adapt organization structure to this contingency
APPROACH C	The interface between customer and organization is not given, but is the focus of design choices	Design-variables: Mode of contract Customer contact Productive activities Management of customers	Managers make choices on interface issues
APPROACH D	Customers are involved in interaction with employees "inside" organizational boundaries	Design-issues: How customers can be "substitutes for leadership"	Managers enable customers to fulfill such functions, customers act to perform leadership functions
APPROACH E	Customers "inside" the organization, as well as after one has "left" the organization	Focus on experience activities, can not easily be governed through organization design	Subjective and ideosyncratic aspects of customers

Figure 3: The five approaches: A comparison.

sizes the way the customer subjectively experiences the product "inside" or "outside" the organization, and the limitations this creates for the management of customers and customer-related activities.

The approaches are *complementary* and not alternatives in the study of organizational design. A customer may be a demand generator (1), who interact with a representative of the firm (2), where the interface is designed through conscious choice of delivery option (3). By being engaged in certain activities he is a prosumer (5), who at the same time may execute managerial functions (4). While the five approaches do not conflict, they have different implications for organizational design. Further research should investigate what these implications are.

The relative neglect of customers is a characteristic of organizational theory *in general*. In this paper, the aim has been to clarify the various ways customers and organizational *design* issues are connected, emphasizing the *instrumental* aspects of organizing. On the one hand, the five customer models, with their accompanying theoretical constructs, research questions and propositions, should inform empirical studies of organizational design. On the other hand, the approaches and concepts presented here may be of some use to organizational researchers who work in other fields and use alternative perspectives (e.g. interpretive, conflict and power, processual). The actions and characteristics of the diverse kinds of customers concern a range of organizational issues, not only on questions of design.

ACKNOWLEDGEMENTS

This paper is one of the outputs of my cooperation with Tom Colbjørnsen, Professor at the Norwegian School of Economics and Business Administration in Bergen. I thank Dag Lotsberg, Sigurd Troye and John Øvretveit for comments.

REFERENCES

- Astley, W.G. og Van de Ven, A.H. (1983): "Central perspectives and debates in organization theory", *Administrative Science Quarterly*, 28 (June): 245—273.
- Bowen, D.E. (1983): *Customers as substitutes for leadership in service organizations*. Doctoral dissertation, Michigan State University.
- Bowen, D.E. (1986): "Managing customers as Human Resources in Service Organizations", *Human Resource Management*, 25, 371—383.

- Bowen, D.E. and Schneider, B. (1985): "Boundary-spanning-role employees and the service encounter: Some guidelines for management and research", Czepiel, J.A. et al.: *The Service Encounter*. Lexington, MA: Lexington Press.
- Bowen, D.E. and Jones, G.R. (1986): "Transaction Cost Analysis of Service Organization-Customer Exchange", *Academy of Management Review*, Vol. 11, No. 2: 428—441.
- Bowen, D.E. and Schneider B. (1988): "Services Marketing and Management: Implications for Organizational Behaviour", *Research in Organizational Behaviour*, Vol 10: 43—80.
- Bradach, J.L. and Eccles, R.B. (1989): "Price, authority and trust", *Annual Review of Sociology*: 97—118.
- Buckley, W. (1967): *Sociology and modern systems theory*. Englewood Cliffs, N.J.: Prentice-Hall.
- Burns, T. and Stalker, G.M. (1961): *The management of innovation*. London: Tavistock.
- Carlzon, J. (1987): *Moments of truth*. Cambridge, MA: Ballinger.
- Chase, R.B. og Tansik, D.A. (1983): "The Customer Contact Model for Organization Design", *Management Science*, 49: 1037—1050.
- Chase, R.B. and Bowen, D.E. (1990): "Integrating operations and human resource management in the service sector", Snow, (ed.):
- Child, J. (1972): "Organizational structure, environment and performance: The role of strategic choice", *Sociology* 6 (January): 1—22.
- Child, J. (1984): *Organizations: A guide to practice and problems*. London: Harper & Row.
- Colbjørnsen (forthcoming): *Reisen til markedet*. Oslo: Tano.
- Danet, B. (1981): "Client-organization relationships", Nyström, P.C. and Starbuck, W.H.: *Handbook of organizational design*. New York: Oxford University Press.
- Fayol, H. (1949): *General and industrial management*. London: Pitman (first published in 1919).
- Grandori, A. (1987): *Perspectives on organization theory*. Cambridge, Mass.: Ballinger.
- Grønroos, C. (1990): *Service management and marketing*. Lexington, Mass.: Lexington Books.
- Heskett, J.L. (1986): *Managing in the Service Economy*. Boston, MA: Harvard Business School Press.
- Jones, G.R. (1987): "Organization-client transactions and organizational governance structures", *Academy of Management Journal*, Vol. 30, No. 2: 197—218.
- Kalleberg, A. and Reve, T. (1990): *Contracts and commitment: Sociological and economic perspectives on employment relations*. Bergen: Norwegian Research Centre in organization and Management.
- Kotler, P. (1988): *Marketing management*. Englewood-Cliffs, N.J.: Prentice-Hall.
- Lawrence, P.R. and Lorsch, J.W. (1967): *Organization and environment: Managing differentiation and integration*. Boston: Graduate School of Business Administration, Harvard University.
- Lovelock, C.H. (1983): "Classifying services to gain strategic marketing insights", *Journal of Marketing*, Summer: 9—20.
- Marshall, T.H. (1950): *Citizenship and social class*. Cambridge: Cambridge University Press
- Mayo, E. (1945): *The social problems of an industrial civilization*. Boston: Graduate School of Business Administration, Harvard University.

- Mills, Peter K. og Morris, James H. (1986): "Clients as "Partial" Employees of Service Organizations: Role Development in Client Participation", *Academy of Management Review*, 1986, Vol. 11, No. 4: 726—735.
- Mintzberg, H. (1979): *The structuring of organizations*. Englewood Cliffs, N.J.: Prentice-Hall.
- Morgan, G. (1986): *Images of organization*. Beverly Hills: Sage.
- Nesheim, T. (1990): "Service management and organizational design", *Scandinavian Journal of Management*, Vol. 6, No. 3: 181—195.
- Normann, Richard (1984): *Service Management: Strategy and leadership in service business*. New York, Wiley.
- Northcraft, G.B. og Chase, R.B. (1985): "Managing Service Demand at the point of Delivery", i *Academy of Management Review*, vol. 10, no. 1: 66—75.
- Parasuraman, A. (1986): "Customer-oriented organizational culture: A key to successful services marketing", Venkatesan M. et. al. (eds.): *Creativity in Services Marketing*. Chicago: American Marketing Association.
- Peters, T.J. og Waterman, R.H. (1982): *In search of excellence: Lessons from America's best run companies*. New York: Harper & Row.
- Peters, T. (1987): *Thriving on chaos: Handbook for a management revolution*. London: Macmillan.
- Pfeffer, J. (1982): *Organizations and organization theory*. Boston: Pitman.
- Porter, M. (1980): *Competitive strategy*. New York: Free Press.
- Reve, Torger (1990): "The firm as a nexus of internal and external contracts", i Aoki, M. et al.: *The firm as a nexus of treaties*. London: Sage.
- Scott, W.R. (1987): *Organizations: Rational, Natural and Open Systems*. Englewood Cliffs, N.J.: Prentice Hall.
- Suprenant, C.F. and Solomon, M.R. (1987): "Predictability and personalization in the service encounter", *Journal of Marketing*, 51 (April): 86—96.
- Taylor, F.W. (1911): *Principles of scientific management*. New York: Harper.
- Thompson, J.D. (1967): *Organizations in action*. New York: McGrawHill.
- Toffler, A. (1980): *The third wave*. New York: Morrow.
- Troye, S.V. (1990): *Markedsføring: Styling av kvalitet*. Oslo: Universitetsforlaget.
- Van de Ven, A.H. and Ferry, D.L. (1980): *Measuring and assessing organizations*. New York: John Wiley.
- Williamson, O.E. (1975): *Markets and hierarchies*. New York: Free Press.
- Williamson, O.E. (1985): *The economic institution of capitalism*. New York: Free Press.
- Zeithaml, V. et al. (1988): "Communication and control processes in the delivery of service quality", *Journal of Marketing*, April: 35—48.