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Value and Value Co-Creation

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ABSTRACT

The creation of value is the core purpose and central process of economic exchange. Traditional models of value creation focus on the firm's output and price. We present an alternative perspective, one representing the intersection of two growing streams of thought, service science and service-dominant (S-D) logic. We take the view that (1) service, the application of competences (such as knowledge and skills) by one party for the benefit of another, is the underlying basis of exchange; (2) the proper unit of analysis for service-for-service exchange is the service system, which is a configuration of resources (including people, information, and technology) connected to other systems by value propositions; and (3) service science is the study of service systems and of the cocreation of value within complex configurations of resources. We argue that value is fundamentally derived and determined in use – the integration and application of resourcesin a specific context – rather than in exchange – embedded in firm output and captured by price. Service systems interact through mutual service exchange relationships, improving the adaptability and survivability of all service systems engaged in exchange, by allowing integration of resources that are mutually beneficial. This argument has implications for advancing service science by identifying research questions regarding configurations and processes of value co-creation and measurements of value-in-use, and by developing its ties with economics and other service-oriented disciplines.

KEYWORDS :

Introduction

The transition from a goods-dominated, "inside-out", value chain paradigm towards a knowledgeintensive,collaborative, resource integrating, value network paradigm has led to a situation where firm boundaries, as well as industry and country boundaries, are becoming increasing permeable, fuzzy and fleeting (Day, 1994; Dyer and Singh 1998).

A common thread in these research schools is the notion value co-creation: the locus of value creation is no longer perceived to reside within firm boundaries but value is considered to be cocreated between various actors within the networked market. This development poses major managerial challenges: how can the focal firm manage networked value co-creation? The evolution of value creation, from value creation by the manufacturing firm to value co-creation in a network, necessitates a corresponding change in the concepts used to depict and manage value creation. Zott and Amit (2008) suggest that *business models* represent a broader conceptualization of value cocreation that captures this change. Business models are externally oriented and address questions like: how to connect with factor and product markets, which parties to link to the focal actor and what exchange mechanism to adopt, what resources and capabilities to deploy to enable exchange of goods or information, how to control the interaction, and what incentives to use (Zott and Amit,2008)

The Value to Customer Dimension

The V2C dimension is based on articles by Rust, Lemon and Zeithaml and Verhoef, Langerak and Donkers and is based on four components, all equal in weight to the total score:

1. Relationship Equity: Valuation by Customers of the relationship with the company.
2. Value Equity: Valuation by Customers of the price-to-value relationship.
3. Brand Equity: Valuation by Customers of the brand
4. Emotions: Valuation by Customers of both positive and negative emotions that can be associated with a company

The Value to Firm Dimension

The V2F dimension is based on articles by Gupta and Zeithaml, Reichheld and Gupta, Lehmann and Stuart and also has 4, equally weighted components:

1. Revenue: Customer spend on a company's service(s)
2. NPS: Net Promotor Score
3. Retention: The likelihood of Customer retention
4. Risk: The risk of future revenue. This one is based on the variation between the three previous components. In short: the higher the variation between the three individual scores, the higher the risk.

Systems of value co-creation

As suggested, the context of value creation is as important to the creation of value as the competences of the participating parties. Although social, ecological, and governmental surroundings are often considered uncontrollable and exogenous to the process of value creation, the contextual nature of co-created value suggests otherwise. It is not possible to control all aspects of the environment, but this does not mean that environmental resources are not integrated to create value (Lusch and Vargo, 2006). Resources such as time, weather, and laws, which are often considered uncontrollable by the individuals and organizations, are integrated – if not relied on – in the value creation process by all service systems (e.g., customers, firms, families, countries). Although S-D logic and service systems focus on value derived and determined through use or context, value determined by exchange remains an important component in the co-creation of value. It is possible for value-in-use to exist without value-in-exchange (Vargo and Lusch, 2006), but when the need to access resources from others arises, so does the need for value-in-exchange. In other words, value- in-exchange is required for value creation once the resources needed cannot be attained naturally, such as breathing fresh air versus needing an oxygen tank. Co-creation of value inherently requires participation of more than one service system, and it is through integration and application of resources made available through exchange that value is created. The process of co-creating value is driven by value-in-use, but mediated and monitored by value-inexchange.

Value-in-exchange, therefore, provides a way of measuring relative value within a context of surrounding systems.

But at its core, value depends on the capabilities a systemhas to survive and accomplish other goals in its environment. Taking advantage of the service another system offers means incorporating improved capabilities. That is, value-in-use can be defined as system improvement within a particular environment (cf. Beinhocker, 2006). If one has no income or lives in a place with no income taxes, there is no need to enhance one's capabilities with tax services or tax software. But if one lives in place with income taxes, having tax preparation capabilities are important to survival (so as not to go to court, not to go to jail, and so on). Conventionally, we judge the value of things, such as tax preparation capabilities, by exchanging money for actions or goods. Our experience and knowledge, and the experience and knowledge of others in the marketplace, provide hints as to what is reasonable to exchange for some new capability. But measuring exchange value in this way – through human judgment and operationalized in the market – is not necessary for a service system to provide value to another system. All ways that systems work together to improve or enhance one another's capabilities – whether measured orjudged or not – can be seen as being value creating. Some organisms may have symbiotic relationships with oth-

ers, completely dependent on one another for food, each dependenton capabilities the other provides. Neither may be measuring or judging explicitly what is exchanged, but each provides service for, and creates value with, the other nonetheless.

Conclusion

Creating a more effective and collaborative research culture is highly challenging. It is now nearly 20 years since Gibbons et al. (1994) argued for a greater emphasis on research in the context of application and yet there is still a long way to go in matching the needs of business with the outputs of research (Wilson Review of Business-University Collaboration, 2012). New thinking on how value is created in the wider economy, has the potential to stimulate new initiatives in working with research users to co-create value in the same way that commercial organisations are learning how to co-create with their customers. Developments in technology for networking provide far more opportunity for this than ever before. However, it requires new skill sets for researchers and also the motivation on all sides to contribute to the co-creation process. Further research on co-creation in the specific context of academic research projects, across a range of fields would be useful in providing evidence of successful practice

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