

FACILITATING FACTORS OF VALUE CO-CREATION IN B-TO-B RELATIONSHIPS

Abstract

Purpose – In b-to-b relationships, value co-creation requires inter-organizational collaboration and combining of resources. The purpose of this paper is to increase knowledge about value co-creation in b-to-b relationships by investigating factors facilitating collaboration and the realization of mutual value in b-to-b relationships.

Methodology/approach – The research methodology used in this study is a qualitative case study. The cases consist of the relationships of four companies representing industrial and KIBS services. One of the case companies and its customer are selected for more in-depth analysis and the case description. Qualitative research data are gathered by in-depth interviews and additional data by attending company working groups.

Findings – As a result, we found several facilitating factors of value-co-creation in b-to-b relationships, such as long-term commitment to development, a joint roadmap, and transparency of all operations. We propose that the facilitating factors appear to change over time and can be classified as three distinctive but somewhat interlinked types: 1) *drivers* that initiate companies to seek partners, 2) *enablers* that make collaboration possible, and 3) *enhancers* that assist collaboration in actualized b-to-b relationships.

Practical implications – The paper provides advice for managers regarding critical success factors for building new business relationships and maintaining present relationships. The benchmarking case presents managers with a practical example of the development of a successful and valuable collaboration between a company and its partner.

Originality/value – The paper contributes to current value co-creation discussions by bringing more empirical insight into value co-creation in b-to-b relationships and by proposing three types of facilitating factors (i.e., drivers, enablers, and enhancers) in different phases of the value co-creation process in b-to-b relationships.

Keywords – Value co-creation, b-to-b relationship, facilitating factors

Paper type – Research paper

1. Introduction

Normann and Ramirez (1993) stated that value occurs in complex constellations, and as offerings become more complex and varied so do the relationships necessary to produce them. According to them, the only source of competitive advantage is the ability to conceive the entire value-creating system and make it work, “In a volatile environment successful companies do not add value, they reinvent it.” Furthermore, according to Vargo and Lusch (2004) value is always co-created. Companies and customers share, combine, and renew each other’s resources and capabilities to create value through interaction. There is no value co-creation unless there is interaction between the company and customer. The Service-Dominant logic perceives value creation as the core purpose of economic exchange (Vargo et al., 2008). The value creation process is dynamic and the results of this collaborative process are not entirely known in advance (Halinen, 1996).

The challenge for companies is to manage several interconnected networks of service development, business renewal, and innovation concurrently. Value co-creation and strategic co-operation are seen as means to compete and innovate in dynamic business environments. The success of a company depends on its collaboration with other organizations that influence the creation, delivery, and perceived value of its outputs, services, and products. The management of value co-creation within networked, open, and distributed business systems is challenging and not very well understood. The main challenge comes from the complex dynamics of networked business and value creation: objectives, actors, and their roles may change depending on the development phases of the relationship in respect of the technology life cycle and service development process. Therefore, time is an important component of networked value co-creation models, and organizational scholars have only recently begun to understand how networks and relationships develop within multi-levels over time (Moliterno & Mahony, 2010). The salient feature of strategic development activities is multilateral co-operation among all the actors belonging to the value co-creation process. A mutual value (system) therefore defines the collaborators' roles and responsibilities (Achrol, 1997) and can serve the actors in structuring, organizing, and giving meaning to the complex operations of b-to-b relationships (Valkokari, 2009).

Value co-creation in b-to-b relationships

Value is created collaboratively in interactive configurations of mutual exchange (Vargo et al., 2008). In b-to-b relationships, value co-creation requires inter-organizational collaboration and combining of resources. The purpose of any serious business relationship, i.e., alliance, must be to create value. According to Kanter (1994), there are three fundamental aspects of business alliances: they must yield benefits for all partners; they involve collaboration, e.g., the creation of new value together; and require a dense web of interpersonal connections.

Within a b-to-b context, the supplier companies often operate as system suppliers or service integrators, and they have to be able to connect offerings from a dynamic network. Furthermore, from the supplier's point of view, the customers are often large and already hybrid organizations with many independent business units, functions, and processes. A common understanding of the service offering between employees of the service provider company and employees of the customer company help to minimize the gap between expectations and service delivery (Clark et al., 2000). Relationships occur between people and, in the end, they determine how well networks perform (Arias, 1995). As the relationships are based on an exchange in the interlinked service process, actors must obtain access to each other's resources in order to gain value from the relationship (Syson & Perks, 2004). Within b-to-b networks, the business targets and models of actors must also be aligned, e.g., the study of relationships cannot be limited to personal relationships between the employees of the service provider and customers. According to Björk and Magnusson (2009), the network connectivity and the quality of the innovation ideas have a clear interrelationship. To increase the proportion of high-quality innovation ideas, there is a need for a certain number of relations, and the possibility of interaction should be supported and facilitated (Björk & Magnusson, 2009). Spender (1996) has captured the interrelationship between communication and innovative ideas by saying that the ideas are created by the individuals, but their knowledge is a result of their interaction with other individuals.

It has been emphasized that firms benefit from using external sources of knowledge concerning both technology and market when innovating (Chesbrough, 2004). The free exchange of information generates new knowledge and thereby also new ideas and innovations. One of the main reasons for collaboration within business networks is combined resources. In today's business ecosystems, no company can do everything in-house but needs the external expertise of networks to complement its internal development capability (Biemans, 1995) and encourage companies to seriously value the importance of external information (Freeman, 1991). By creating and nurturing

network relationships, companies can gain a competitive advantage that is difficult to imitate and that reduces barriers to co-operation (Syson & Perks, 2004). Harrison and Håkansson (2006) have summarized these ideas by stating that networks facilitate access to and the use of internal and external resources, but that the most important reason to be part of the network is the possibility of combining resources in new ways. In addition to combined resources, others often mention cost savings and flexibility as drivers of collaboration.

Business relationships and networks have been studied extensively in recent years. Several different network approaches, definitions and models can be found in the literature (for a summary, see Möller et al., 2005; Valkokari, 2009). Network and alliance research tends to focus on structures, relations, and outcomes and thereby ignores the need to examine the interconnections systematically (Dhanaraj & Parkhe, 2006) and the multi-levels (Moliterno & Mahoney, 2010) within networks. Our aim is to go beyond this kind of static but typical network approach and study the longitudinal development of relationships at several levels of value co-creation. The purpose of this paper is to increase knowledge about value co-creation in b-to-b relationships by investigating factors facilitating collaboration and the realization of mutual value in b-to-b relationships. The main research question of this paper is how the facilitating factors within business relationships appear to change over time.

The remainder of this paper is structured as follows. Section 2 outlines the research methods and scope. Section 3 provides empirical evidence of collaborative value creation within b-to-b relationships, and Section 4 discusses the observations in light of the research question and earlier literature. Furthermore, this section briefly presents and evaluates our contribution to existing theory.

2. Methodology and scope

The purpose of this paper is to increase knowledge on value co-creation in b-to-b relationships by investigating factors facilitating collaboration and the realization of mutual value in b-to-b relationships. The study of the facilitating factors is part of a project that investigates and facilitates collaborative service development in business networks. The project is funded by Tekes (the Finnish Funding Agency for Technology and Innovation), VTT Technical Research Centre of Finland, Turku University's School of Economics, and the participating companies. The focus is on innovative, knowledge-based service concepts in trade, industrial services, and KIBS companies. The project identifies potential development paths for new service concepts in different kinds of B-to-B networks. The project work is scheduled for 11/1/2009-5/31/2011.

The research methodology used in this study is a qualitative case study. Practical ongoing development projects in the participating companies provided the basis for the case research. Qualitative research data were gathered by in-depth interviews and additional data by attending company working groups. Initially, over 30 key persons in 4 participating companies were interviewed, and they were all asked, among other things, to indicate both the facilitating factors and the challenges of collaborative service development. Later, interviews were conducted in the companies' networks, including with representatives of their customers. The interviews were recorded and transcribed for subsequent analysis.

The participating companies are interested in methods that can be used to organize and manage the development of service concepts and renew business practices. One of the companies and its customer were selected for profound analysis and a more detailed case description. The initiative came from the service provider company, representatives of which wanted to identify the factors that led to successful collaboration and value co-creation. Their motivation was that analyzing the case enhanced understanding and facilitated learning in the building of sustainable business

relationships. Furthermore, the case description may well be of benefit as an example and a reference.

First, we studied the enhancers and challenges of service development across organizational boundaries in a limited intra-company network context (Valjakka & Kansola, 2010). With the results from this study, we were interested in continuing and gaining greater understanding of the subject. The natural direction with these case companies was to broaden the analysis to company-customer relationships in which there was a business case and both parties had active roles. We propose that collaboration and co-creation are dynamic phenomena in which the phase and history of the business relationship greatly affect the perceived value. That is why we aim to describe the process and formation of the relationship. From the previous analysis described in Valjakka and Kansola (2010), a need also arose to differentiate and categorize the facilitators mentioned in the interviews. Besides customer emphasis, we also looked deeper into the concrete connections between and inside companies during the co-creation process.

3. Case description

The case in this paper consists of a service provider and its customer, hereafter referred to as Company A (service provider) and Company B (customer company). Company A is a service integrator that offers construction and maintenance services and actively provides an outsourcing platform for companies reorganizing their non-core operations. Company B is a large multinational machine building industry corporation. In the winter of 2010, Company A transferred a small maintenance unit to the premises of a site of Company B. The unit also serves other sites and companies besides Company B. The set-up was not an outsourcing arrangement. The unit is a pilot organization with a rather clear division of responsibilities: Company B places orders, defines the extent of maintenance work, and monitors quality; Company A is responsible for performing and reporting on the maintenance work. Seamless operation requires close collaboration, while close collaboration makes it possible to develop the whole value co-creation system. The collaboration set-up was well prepared, and the interviewees from both sides praised the smooth and efficient start of the daily collaboration.

The current set-up actually looks quite traditional, but the expectations for future development are high. The opening of Company A's service unit inside Company B is just the beginning and the first concrete realization of deeper collaboration. Company B, along with other global machine industry corporations, is going through a structural change and overall transformation. In Finland, the number of investment projects is low and excess production capacity has resulted in the shutdown production lines. The focus is on cost-efficiency. Company B considers maintenance and its development as strategically important core processes. The management and planning of maintenance services are especially strategic areas, and there are also certain core operations in which Company B intends to retain strategic knowledge and skills. Several areas are suitable and worth outsourcing however. One objective of Company B was, and still is, to find the most cost-effective way to organize the non-core maintenance services. The counterpart, Company A, aims to expand its industrial service offering through new customers and strategic partnerships. Their joint agenda in the case was to attain a win-win solution to optimize the maintenance operations of the mill, i.e., to find means that benefit both parties.

The industry is conservative and the local factories in Finland are establishments with long histories and a traditional "our way" of doing and organizing things. The cooperation negotiators knew that changes had to be carefully planned and prepared. The parties involved had previous experience of cooperation, e.g., a successful case in which Company A hired maintenance workers from a factory that had closed down. The original idea of deepening the relations came from Company A, and the companies started more focused discussions in 2009. The hard work together resulted in a concept

and road map for future collaboration, a step-by-step approach starting from jointly defined services towards service packages and an open book principle for extra tasks, and from hourly work towards unit prices. In November 2009, there was a joint workshop to define the concept and the new model of operation, and the new contracts were signed in April 2010. The fall was spent planning the practicalities and layouts, sharing the facilities, etc., and, most importantly, communicating the objectives with everyone involved.

4. Discussion

The case was analyzed to find out which factors facilitated the success of collaboration and value co-creation. Concurrently with collecting the success factors, a framework for grouping the various factors was built. To differentiate the factors with an effect over time, the following types were used and defined: *drivers* that initiate companies to seek partners and that affect the background; *enablers* that make collaboration possible; and *enhancers* that assist collaboration in actualized b-to-b relationships.

Table 1 shows the factors found in a case b-to-b relationship. The drivers are typically company-specific, strategic decisions and pressures to change the current situation, and, in this case, previous experiences of well-run collaborative efforts had also created a will to actively seek possibilities to collaborate with this specific partner. The enablers are fit-factors and jointly agreed objectives that confirm that the parties share a view of where they are headed. The process enhancers are more management- and communication-related factors.

Table 1. Factors facilitating collaboration and value co-creation in a case b-to-b relationship

Drivers	Enablers	Enhancers
<ul style="list-style-type: none"> - strategic decisions to concentrate on core areas - pressures to cut costs - the need for complementary knowledge - the need for new models of operations - successful previous cases that create trust and a “natural will to cooperate” 	<ul style="list-style-type: none"> - mutually agreed short- and long-term objectives - commitment of decision-makers - understanding the other partner’s operational environment and business objectives - contracts and rules in areas in which there are no contracts - both parties committed to the long-term development of their core operations and the common interface - common understanding of the partnership concept 	<ul style="list-style-type: none"> - joint objectives in a form that is easy to communicate - sufficient resources from both parties - steering group and other set, regular meetings - visible short-term benefits (win-win) - transparency of operations - thorough and continuous discussions with all interest groups

Regular contact and communication with the same content between and inside the companies were mentioned as great facilitators of a smooth start to the collaboration. The parties understood that this kind of arrangement also challenges the management system. Figure 1 illustrates the connections. The commitment of the decision-makers is seen as a special steering group that meets approximately four times a year. The operational management of the site has regular, monthly meetings with set agendas, and the daily operations require continuous communication.

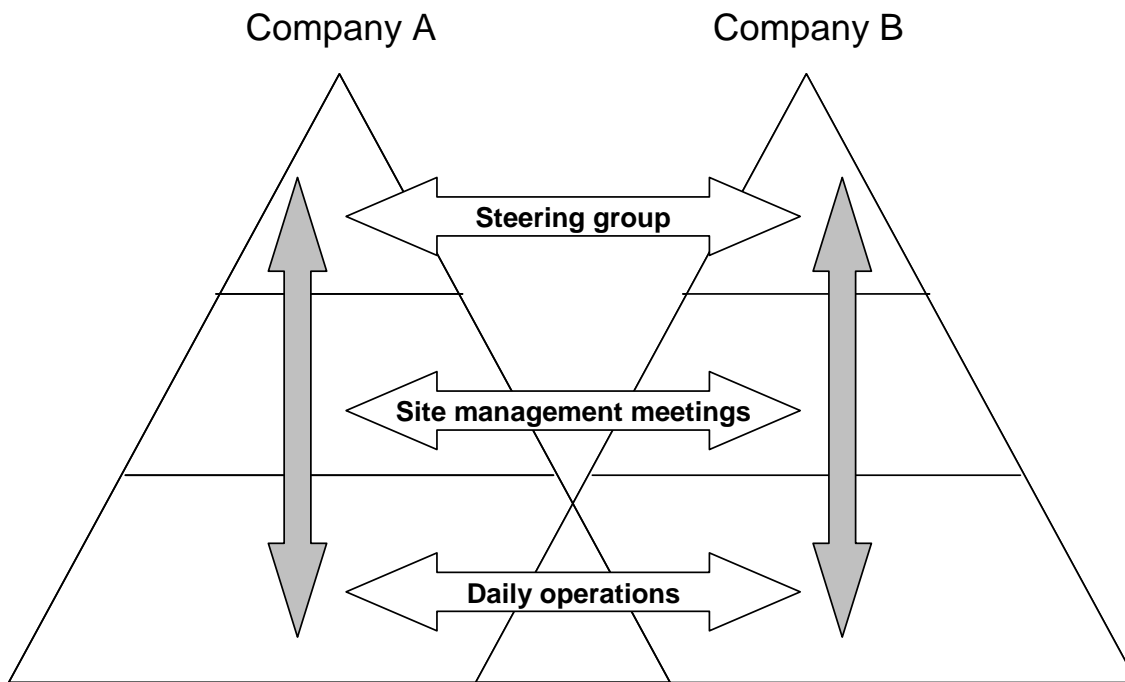


Figure 1. The main communication levels of the case b-to-b relationship

Within this collaborative setting, the roles and responsibilities of the parties were clearly defined and their business models were compatible. Thus, the interests and strategic objectives could be aligned through the negotiation process. Already in the short term, both parties gained benefits that they could not have obtained without collaboration. The collaboration supported Company A in developing its role and business models as a service provider within new industry sector, and, concurrently, Company B was able to focus on strategically important core processes. Furthermore, both of the parties improved their cost-efficiency, while they were able to specialize in certain tasks and complementary competences.

The gathered empirical evidence on the facilitation factors of value co-creation in b-to-b relationships is consistent with the literature on strategic relationships and alliances. The literature and our findings both highlight the need for a mutual value system (Kanter, 1994; Achrol, 1997; Möller & Rajala, 2007; Valkokari, 2009). Furthermore, interaction and communication between network actors (Björk & Magnusson, 2009) – in b-to-be relationships, even at a personal level – have been defined as important factors. Based on the empirical evidence, our study contributes to the existing theory by identifying the main communication levels, e.g., strategic, tactical, and operative, and the practical collaboration forms within these levels (see Figure 1).

The selected case study design brings out limitations as far as the generalization of the results of the study is concerned. Thus, more research is needed to generalize the facilitating factors of value co-creation. The study can best be used as a benchmarking example, as it originated from the managers' need to examine the case and understand what happened and why, and what can be learned. Value co-creation in b-to-b networks is a complex phenomenon in which this study provides a rather narrow viewpoint, as the case network setting was clearly dyadic, although both companies are large multi-site and multi-level organizations. In further research, our aim will be to widen the scope to also include multilateral networks.

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