Towards Understanding Value-Creation as an Interactive Process of Creating and Sharing Dyadic Productivity Gains

Propositions for discussion

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Abstract

Creating and capturing value lies at the core of commercial activity. Whereas industrial models of value-creation focus on firm´s output and price, an emerging marketing discipline called service dominant logic presents an alternative view of value-creation. In that view, value-creation is not treated as a notion based on units of firm output but as a notion based on service provision.

Despite past research, however, existing value concepts themselves still reflect a distinct industrial heritage. To advance service dominant logic further, a genuinely service-centered conceptual foundation is needed.

For that purpose, this paper proposes that a service-centered conceptualization of value be developed. Subsequently, the paper delineates a tentative framework that allows viewing value as the outcome of an interactive process of creating and sharing dyadic productivity gains. Based on the framework, the paper puts forth a set of propositions for discussion.

Introduction

Creating and capturing value is the main driver and core process of commercial activity. For many years, our models of value-creation were informed by an industrial business logic. In that view, value-creation was based on exchange between independent customers and providers with logics geared towards production output and market-clearing price. However, an emerging logic of value-creation called service-dominant logic proposes a very different view of value-creation. In that view, service-dominant logic treats service as the underlying basis for exchange. Value is not added, but offerings are co-created for the purpose of mutual benefit. Value-creation is therefore interactive and collaborative rendering customers and providers reciprocal and interdependent on each others´ resources.

Knowledge gaps

Service-dominant logic invites us to rethink organizational structures and managerial arrangements for value-creation that we have inherited from the industrial era. Most importantly, however, service dominant logic invites us to rethink value and value-creation itself.

Despite past research, existing value concepts still reflect a distinct industrial inheritance. In below, some of the shortcomings are discussed.

(i) **Unit of analysis**. The first gap concerns the unit of analysis. Past research on service marketing and service logic has been concerned with what service does either for customers or providers separately. As a consequence, current value concepts typically involve either the customer or the provider, but not both. Therefore, value for the customer is what the "customer gets for what he pays" and value for the provider is captured by the "difference between price and cost of provision". Basically, the only thing connecting customers and providers is price. In such a view, the unit of analysis lies with either the customer or the provider, but not both.

However, observing buying and selling behaviors in complex service settings suggests that value to customer and value to provider are related and highly interdependent. Value is not only "what you get for what you give away" or "what the customer is willing to pay", but also what the two parties together are able to create. Field studies in a number of industrial dyads provide ample anecdotal evidence to confirm the proposition. In service business settings that can be characterized as interactive, collaborative and interdependent, two proper unit of analysis seems to shift from *either* the customer or the provider to the customer *and* the provider.

From a service logic perspective, existing value constructs can be critiqued for their choice of unit of analysis. Therefore, a service-centered value concept must be based on the proper unit of analysis: interactive configuration of mutual exchange involving both the beneficiary(s) and the provider(s), and not one or the other.

(ii) **Locus of value-creation**. The second gap concerns locus of value-creation. One of the basic tenets of service logic is that it shifts the locus of value-creation from exchange to use. Moving the locus of value-creation from exchange to use means transforming our understanding of value from one based on units of firm output to one based on service provision (Vargo, Maglio, Akaka, 2008). Existing value constructs can be criticized for their lack of treating value as an outcome of service provision. As a consequence, we lack adequate understanding of value-creation and value capture in service settings.

(iii) **Deriving and determining value**. The third gap deals with deriving and determining value. Despite past research on service logic, there is still considerable uncertainty as to how we should measure value-creation and value capture in a service setting.

Some measurement issues notwithstanding, value-creation in an industrial view is fairly straightforward: value to provider is the difference between what the customer is willing to pay and the cost of providing the customer with a product or a service. Value to the customer is the difference between value-in-use and what the customer is willing to pay for the benefits. In an industrial view, value-creation is essentially based on zero sum game and information asymmetry.

However, service logic brings additional measurement complications. From a service logic perspective, customers and providers are more or less interdependent on each others´ resources. Interdependency may lead to reciprocal accountability and gain-sharing between the involved parties and this has the capacity to reframe the relationships among value-in-use, price and value to customer and value to provider (Vargo, Maglio, Akaka, 2008).

Therefore, extant value constructs can be critiqued in that they fail to account for interdependency, reciprocal accountability, and gain-sharing behaviors. This has potentially serious implications for how to derive and determine value in a service setting.

In conclusion, the above exploration of value-creation raises more questions than it answers. Questions such as: "What exactly are the processes involved in value-creation from a service perspective?" and "Through what mechanisms do value-creation and value-capture take place in a service setting?" and "How can we measure value-creation in service settings?" need therefore be addressed. Doing so will help develop a solid service-centered conceptualization of service logic.

Purpose

The purpose of this study is to bridge the gaps above. To that end, the study proposes that a service-centered conceptualization of value be developed.

Positioning the study

The purpose of this study is to develop a genuinely service-centered conceptualization of value. To that end, we may ask: what do we study when we study value from the point of view of service provision?

This study suggests that the following concepts are the key when we study value-creation based on service provision:

(i) **Interaction**. In very basic terms, business may be identified with consumption and provision. Within research on service marketing, consumption and consumption logic deal with how customers create value for themselves (value-creation). The logic for provision, in contrast, deals with supplier strategies aiming at capturing a portion of the value for themselves (value-capture).

From a service marketing perspective, customers and suppliers become connected through their respective consumption and provision logics, and interaction is the key to understanding that connectedness. In service marketing, therefore, interaction is a key concept in understanding not only the logic for consumption and provision, but also value-creation and value-capture.

With increasing and deeper interactions, different configurations of roles, spheres of influence and division of labor become available to customers and suppliers. This, in turn, enables customers and providers to gain opportunities to influence the flow and outcomes of consumption and provision processes, and therefore joint-productivity. Studying interaction, therefore, is the key to understanding how customers, by consuming services, create value for themselves, and how suppliers, by gearing their provision processes to support customers´ value-creation, capture a portion of that value for themselves.

(ii) **Productivity.**

> […] The productive activities of such a firm are governed by what we shall call its productivity possibilities that its entrepreneurs see and can take advantage of. A theory of firm is essentially an examination of the changing productive opportunity of firms … it is never the resources themselves that are the inputs in the production processes, but only the services that the resources can render. The services yielded by resources are a function of the way in which they are used […]
> Penrose, 1959, pp.25-31.

This study takes the dual nature of value as a starting point, and suggests that to understand value-creation from the point of view of service provision we need to examine value as both a *process* and an *outcome*. Examining value from the point of view of a *process* implies looking at the non-monetary transformation processes in which the underlying source of value is created between customers and providers. This study argues that that underlying source of value is productivity. Examining value from the point of view of outcome implies examining the monetary results of the transformation process, and how those results are shared.

This study suggests that interaction and productivity are linked to each other in two ways. First, the mode of interaction informs the *real processes* of both the customers and providers. In these processes, customers and providers transform resource inputs into resource outputs, and with increasing interactions these processes become intertwined. Second, the mode of interaction informs the *income distribution process*, thought which dyadic productivity gains are shared.

Traditionally, productivity studies treat providers and customers as separate. However, service logic posits customers and providers as increasingly interdependent in terms of success. As customers and providers become co-producers and co-creators, their productivities become partially intertwined. Customer productivity becomes partially a function of supplier productivity and supplier productivity becomes partially a function of customer productivity.

However, current productivity concepts fail to capture the interconnected productivities of customers and providers. Therefore, a productivity concept is needed that captures the interdependent and reciprocal relationship between supplier productivity and customer productivity.

(iii) **Value.** In this study, dyadic productivity gains are shared as value by customers and providers. Developing a genuinely service-centered value construct implies developing a conceptual framework that helps share dyadic productivity gains through an equitable pricing mechanism as value to customers and value to providers.

In the following, each of the three key concepts is reviewed, challenges are identified, and tentative propositions for discussion are suggested.

Interaction

The key difference between industrial logic and service logic lies in the underlying basis of exchange. Whereas industrial logic focuses on exchange of resources for money, service as a logic focuses on service as the basis of exchange. The focus therefore shifts from exchange to interaction. If we are to develop a genuinely service-centered conceptualization of value, we need to understand interaction better.

Despite past efforts, the underpinning logic of interaction concept has remained unclear. In very basic terms, business may be identified with consumption and provision. Within research on service marketing, consumption and consumption logic deal with how customers create value for themselves (value-creation). The logic for provision, in contrast, deals with supplier strategies aiming at capturing a portion of the value for themselves (value-capture). From a service logic perspective, customers and providers become connected through their respective consumption and provision logics, and interaction is the key to understanding that connectedness. From a service perspective, therefore, interaction is the key concept in understanding not only the logic for consumption and provision, but also value-creation and capture.

Current interaction concepts do not, however, help understand how customers and providers, as well as their respective logics for value creation and value capture may be linked. This study claims that the main shortcoming of existing interaction concepts is that they fail to pay attention to following characteristics:

(i) Unit of analysis in service. Past attempts within service marketing have almost exclusively focused on one aspect of service logic alone; i.e. either consumption or provision. A consequence of this has been that the unit of analysis has been limited to either the customer or the provider, but seldom both. However, as pointed out by Grönroos (2008), service as a logic is more complicated than this.

Instead of just one view (i.e. a customer or a provider view), service logic has two aspects: a logic for consumption and a logic for service provision. Although both aspects have their distinct characteristics, they are inherently intertwined, and it is this interconnectedness that we need to understand better to advance service logic.

Therefore, if we are to understand value-creation from a service perspective, we must shift the unit of analysis from *either-or* to *both-and*. This means we need to understand both consumption (and consequently customer value) and provision (and consequently value to provider) as related and highly interdependent. Only then do we have a basis for understanding how customers, by consuming services, create value for themselves, and how suppliers, by gearing their provision processes to support customers´ value-creation, capture a portion of that value for themselves.

(ii) Reciprocity and mutual accountability. Literature on service as a logic suggests that customers and providers become reciprocal and mutually accountable as they depend on each other for complementary resources (Vargo, Maglio, Akaka, 2008). Extant interaction concepts, however, do not treat customers and providers as interdependent, reciprocal, and mutually accountable. Therefore, if we are to understand value-creation from a service-centric view, we need to understand the mechanisms through which customer and providers may become interconnected, and how that interconnectedness may translate into reciprocal and mutually accountable behaviors.

(iii)Spheres of influence, roles and division of labor. Literature on service as a logic suggests that value is created "collaboratively in interactive configurations of mutual exchange" (Vargo, Maglio, and Akaka; 2008). How customers and providers conceive, execute, and manage the "complex constellations of integrated resources" becomes the key to value-creation (ibid.). The above remarks suggest we shift our attention from delivery and price-setting as the basic tenets of value-creation to reconfiguration of participants, resources, and processes.

Existing literature on interaction deals scarcely with shifting roles and division of labor as a source of value-creation. Specifically, what is missing is an account of how consumption and provision processes – as they become connected and interdependent through deeper interactions – may provide opportunities for both customers and providers to influence not only the resources that are exchanged, but also the flow and outcomes of consumption and provision processes.

Therefore, this study claims that increasing interaction intensity mediates new configurations of roles and spheres of influence that are available to customers and suppliers. Taken together, the shifting roles, division of labor, and opportunity to influence both one´s own and the other party´s processes become a learning experience, where the customer and the provider are aligning their resources and consumption and provision processes to each other.

Productivity

This study claims that interaction is connected with the productivity of customers and providers through two processes. First, with rich interactions the *real processes* of both the customers and providers become interconnected and reconfigured. In their respective real processes, customers and providers transform resource inputs into resource outputs. As customers and providers gain opportunities to influence not only the flow and outcomes of their own processes but also those of the other party, the real processes of both parties become intertwined. Second, rich interactions have an impact on the *income distribution process*, thought which dyadic productivity gains are shared. As both parties learn about opportunities to reconfigure the flow and outcomes of their respective real processes, contribute with resources, and treat the joint-opportunity in a mutually accountable manner, income distribution becomes a subject of not zero-sum game but increasingly equitable sharing of jointly created productivity gains.

This study takes the dual nature of value as a starting point, and claims that to understand value-creation from the point of view of service provision we need to examine value as both a *process* and an *outcome*. Examining value from the point of view of a *process* implies looking at the non-monetary transformation processes in which the underlying source of value is created. This study argues that that underlying source of value is productivity. Examining value from the point of view of *outcome* implies examining the monetary results of the transformation process.

The key to understanding both aspects of value – the process and the outcome – is transformation. Value from the perspective of a *process* deals basically with transforming resource inputs into outputs. In contrast, value as a *measure* focuses on how profitably input resources were transformed into valuable outputs.

The concept that captures both aspects of value – the process and outcome of transforming input resource into valuable outputs – is productivity. The productivity of operations is related to how effectively input resources in a process (manufacturing process, service process) are transformed into value for customers and economic results for the provider.

The two aspects of value – the process and outcome – are related to productivity through two processes. First, productivity gains are created in the *real process*. The real process refers to the non-monetary processes of transforming resource inputs into resource outputs. The real process is therefore the underlying source of productivity gains, and ultimately profitability and value. Second, productivity gains created in the real process are shared in the *income distribution process* among those participating in the exchange. Whereas the real process is non-monetary in nature, the income distribution process is monetary in nature. Together the real process and the income distribution process constitute the production process**.** *From a productivity perspective, therefore, studying value-creation implies studying the production process; i.e., the process of creating and sharing dyadic productivity gains.*

Productivity in a service setting

Compared with the industrial logic, service logic has one defining characteristic: the role of the customer. While in the industrial view customers destroy the value created by producers, from service logic point of view customers and providers become co-producers of the service. From a productivity point of view, the key consequence of co-production is that the customer becomes a factor of joint-production. This changes not only the flow but also the outcomes of the production process. Therefore, to understand value-creation from a service perspective, we need to factor in customer participation in the productivity equation.

The natural starting point is the service co-production process. The two aspects of service production process – the real process and the income distribution process – are dealt with below.

The real process in service co-production

Customer participation affects dyadic productivity in two ways. First, it informs roles and division of labor in the service production process. The extent and nature of customer participation informs the role configurations and resulting division of labor in the service production process. Depending on the openness of the service production process, different role configurations can take place. Gummesson provides an example (1998):

- service provider producers the service in isolation from the customer
- customer producers the service in isolation from the service provider
- the parties co-produce the service through interaction
- customers among themselves produce the service

Second, customer participation determines what kinds of resource contributions are made in the service production process. Depending on the role configurations, different configurations of resource contributions can take place in the service production process:

- Customer-induced contribution toward the internal and external efficiency of the service production process: (Gummesson, 1998)
- Service-provider-induced contribution to the internal and external efficiency of the service process: information, activities, materials, IT, technology
- Interaction-induced contribution toward the internal and external efficiency of the service production process: customers and service providers do not only submit resources needed to produce the service, they may also influence the ways in which service process itself is managed, and as a result how the customer and the service provider respectively performs.

In conclusion, the different role configurations and division of labor give raise to different combinations of resource inputs and outputs, and this has a bearing on the productivity gains created in the real process.

Income distribution process in service co-production

Customer participation also affects the income distribution process in service production. In contrast to industrial logic, where the productivities of the customer and provider are independent of each other, service logic proposes that customers and providers become interconnected in terms of their productivity. Ramírez (1998) captures this succinctly:

> "In co-productive value-creation, customer effectiveness becomes as much a corporate worry as own employee effectiveness. Customer productivity becomes as important a criterion as internal and supplier productivity. For whatever the customer does not do, or does not do well, represents a business opportunity".

The passage by Ramírez suggests that the focus in interdependent service co-production shifts towards a notion of joint or total productivity. Such a shift would imply that instead of (or in addition to) viewing value and value-creation solely from one´s own perspective, service co-production is primarily geared towards enhancing the total joint-productivity of the involved parties, and sharing that total productivity gain equitably through a pricing mechanism.

There is ample theoretical and anecdotal evidence to suggest such a conclusion. For instance, in dyads or networks characterized by rich interactions, it is not unheard of for all involved parties to commit to learning about the opportunities to reconfigure the overall value constellation, to identify new combinations of roles, activities, and risks to enable those opportunities, and to bring in the resources required to realize the opportunities.

In contrast to industrial logic, such co-creative stances to create novel offerings naturally shift the focus of attention from disjointed productivities towards the notion of total joint-productivity, and towards sharing that productivity equitably through a pricing mechanism. In a sense, the notion of joint-productivity makes customers and providers in dyads characterized by rich interactions similar to lateral co-operatives. This study therefore concludes that service co-production shifts the focus of income distribution process from disjointed productivities of involved parties in the exchange to sharing the total joint-productivity equitably through a pricing mechanism.

Value

This study suggests that value in a service setting – be it value to the customer or to the provider - is the outcome of sharing total joint-productivity gains through a pricing mechanism, and not an outcome of zero-sum pricing and information asymmetry. Therefore, this study claims that developing a genuinely service-centered value construct requires that we:

(i) understand how creating total joint-productivity gains in the real processes of customers and providers are related to the different value elements.

(ii) understand how the defining elements of value-creation relate to each other. These elements are: use value, provider cost, value-creation, price, customer value and supplier value capture.

Purpose and aims

This study proposes that a service-centric conceptualization of value be developed. To that end, the study has the following aims:

Aim 1: To understand how customers (consumption) and providers (provision) as well as their respective logics of creating and capturing value may become connected through interaction.

Aim 2: To understand the mechanisms that drive the interplay between consumption and provision as well as the respective logics of creating and capturing value.

Aim 3: To understand the mechanisms through which the interplay between consumption and provision may be translated into valuable outcomes for customers and suppliers.

Research questions

The study propsoes to fulfill the following research questions:

RQ 1: Through what interaction processes may consumption and provision as well as their respective logics be related?

RQ 2: From a service prospective, what drives the interplay between consumption and provision? Through what mechanisms may that interplay take place?

RQ 3: Through what mechanisms may the interplay between consumption and provision be translated into valuable outcomes for customers and providers?