

STRATEGIC MATTERS OF THE CUSTOMER CO-CREATION IN SERVICE INNOVATION

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The paper analyses customer co-creation in service innovations. Despite plenty researches on co-creation, the studies on customer co-creation in creating and implementing service innovations are fragmentary. Referring to integrative literature analysis, the paper searches the answer for two research questions: (1) what and how firm resources and capabilities can facilitate the customer co-creation in service innovation and (2) what strategies and methods may be used for learning from and with customers for co-creation of service innovation. The performed study allows drawing the conclusion that the customer co-creation within the context of service innovation needs more research because current level of abstraction is too remote from theoretical insights and practical application.

1. Introduction

Global economy is transitioning from goods to service or solution-oriented, thus service innovation is widely recognised as a key source of competitive advantage (Chae, 2012). Service innovation is a combination of technology innovation, business model innovation, social-organizational innovation, and demand innovation, with the objective of improving existing services (incremental innovation), creating new value propositions (offerings) for stakeholders (customers, employees, shareholders, partners, communities, government, etc.), or creating new service systems (radical or transformational innovation) (Martin et al., 2016; Yen et al., 2012; IfM and IBM, 2008). Russo-Spena; Mele (2012) describe the innovation as a co-creation process within social and technological networks in which actors integrate their resources to create mutual value. Thus the innovation is not an outcome (e.g. new service), but it is the process that involves discovering new ways of co-creating value through more effective participation in resource integration. Thus more and more firms expand their innovation activities through co-creation (Mahr et al., 2014) as the practice of developing systems, products, or services through collaboration with different stakeholders (Ramaswamy; Gouillart, 2010). Customer co-creation describes the joint creation of value by the company and the customer, which occurs during service delivery and consumption (Prahalad; Ramaswamy, 2004). Service innovation, in contrast to product innovation, heavily engages customers in the innovation process. Due to this particular role of customer in service development and delivery, the organizations should develop their collaborative competence in order to move away from treating the customer as a source of information, and towards perceiving the customer as an active contributor with knowledge and skills (Witell et al., 2011).

Co-creation has gained the attention of researchers; theoretical and empirical works have blossomed in different topics: the processes and tools (Russo-Spena; Mele, 2012; Witell et al., 2011; Payne et al., 2008; Hsieh; Hsieh, 2015); the benefits (DeFillippi; Roser, 2014) and “dark side” of co-creation (Heidenreich et al., 2015; Gebauer et al., 2013; Plé et al., 2010), co-creation’s experience (Verleye, 2015; Jaakkola et al., 2015; Carù; Cova, 2015); the contribution for brand development (Wang et al., 2016; France et al., 2015), etc. Despite growing interest in co-creation, the researches on customer co-creation in service innovation are scarce (Frow et al., 2015; Bogers et al., 2010) and many questions are unanswered. Organisations should pay more attention to strategic matters of customer co-creation, e.g. to identify the most advantageous co-creation opportunities; to uncover and measure the impact of co-creation on innovation performance (Frow et al., 2015); to cope with complexity of selection and evaluation of the customers’ ideas (Bayus, 2013); to manage firm’s innovation strategy when customers are involved in new product or service development (Chandler; Vargo, 2011; Hoyer et al., 2010); to develop co-creation strategies (Hsieh; Hsieh, 2015), to reinforce co-creative mind-set and skill set of managers (Ramaswamy, 2009), to deeper understand how employees, especially frontline employees, contribute to co-creation for new service success (Santos-Vijande et al., 2016), etc. Co-creation changes the way companies think about strategies and operations (Ramaswamy; Gouillart, 2010). Even though co-creation with customers is becoming an important competition strategy; the role of customer in service innovation remains underdeveloped (Sjödin and Kristensson, 2012; Alam, 2011; Ostrom et al., 2010).

The aim of this study is to enrich the understanding of strategic concerns of customer co-creation in service innovation and outline the future research lines. In particular, this inquiry tries to find out how the customer is enabled by organisation to take part in co-creation of service innovation. Two research questions are the following:

RQ1: what and how firm resources and capabilities can facilitate the customer co-creation in service innovation?

RQ2: what strategies and methods might be used for learning from and with customers for co-creation of service innovation?

The remainder of the paper is organized as follows. In the next section the methodology used to collect the relevant scientific articles concerning the customer co-creation in service innovation is described. Then, the main findings of research are provided and discussed. The lines of future research are presented in the last section of the paper.

2. Methodology

This study uses an integrative literature review and addresses to strategic concerns about the customer co-creation in service innovation. As the method of integrated literature review requires clear naming of databases, time of search, the conduct of the search, data set, and selecting criteria (Callahan, 2010). The literature search in our study was carried out by the article authors during the spring of 2016 utilizing the digital library resources of Kaunas University of Technology: *Academic Search Complete* and *Business Source Complete* (EBSCO Publishing), *Science Direct*, *Emerald Insight*, and *Web of Science* databases. In order to include appropriate articles in the review process, the title, abstract or keywords had to have the keywords combinations “customer co-creation”, “customer co-creation”; “customer as co-creator” and

“service innovation”, “new service development”, “service development”. The articles selected follow the following three criteria: (1) the articles which were published in peer-reviewed journals , (2) the articles with accessible full text, (2) the articles presenting the studies which were carried out exceptionally in service industries, and (3) the time period of articles’ publishing (2006 - 2016). Working papers, the viewpoints, conference proceedings, the dissertations, the books chapters, the articles in press as well as articles not published in the English language or published before 2006 were excluded. It should be noted that our study focuses on the customer co-creation (not co-creation in general) and service innovation as an output and a process (the new service development or service development). The investigation refers to innovation in general; innovation in product-service system; e-service innovation as well as customer co-creation with online communities was excluded. Figure 1 presents the pathway and number of articles remaining after each step of the selection.

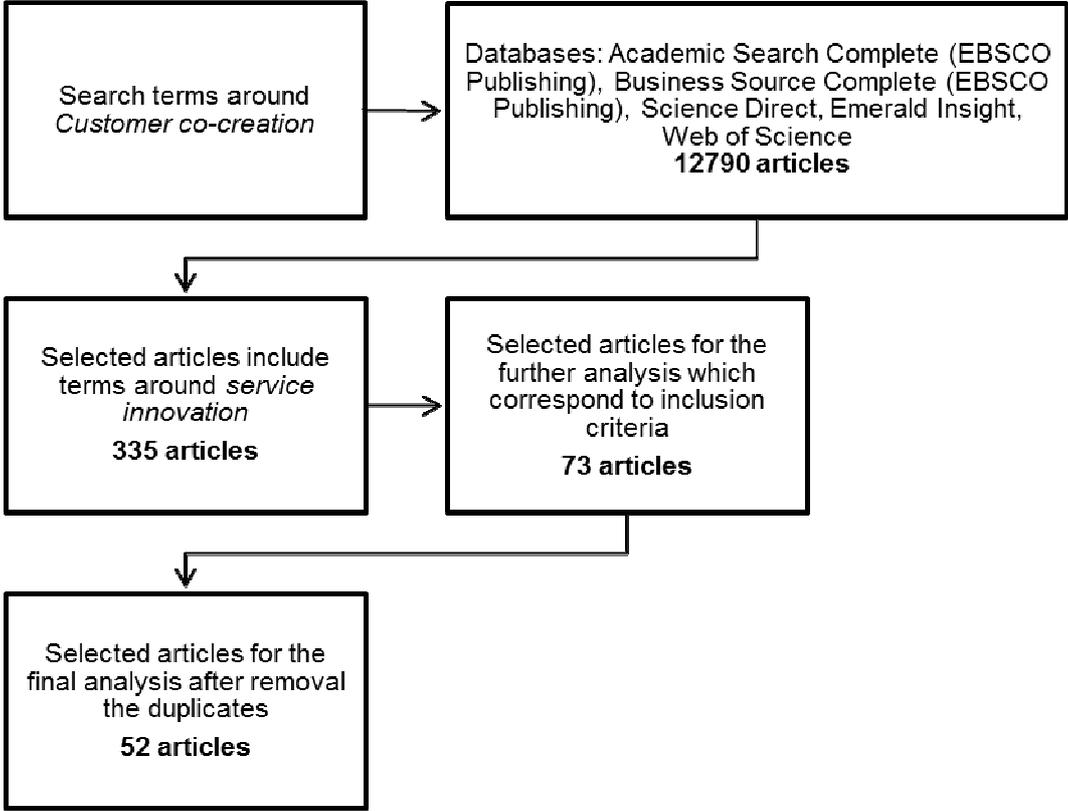


Figure 1. Review process of articles related the customer co-creation in service innovation

Out of 52 articles selected for the final analysis 13 articles were theoretical / conceptual and 39 – presented data of empirical researches. Most empirical researches were performed in B-2-C sectors (health care, tourism, accommodation, retail services, etc.). From B-2-B sector knowledge intensive business services, engineering services, telecommunication services, etc. were analysed.

3. Main findings and discussion

3.1. Organisation's resources and capabilities as facilitators of customer co-creation in service innovation

The understanding of value co-creation has been transformative in the business field. Companies are reconsidering themselves to handle the challenges in customers being more active, having open and easy access to information, and often desiring more interactive experiences with organisations (Sharma et al., 2014). Customers are widely recognised as co-creators and resource integrators, thus co-creation with customers for service innovation is essential. Hence, the organisation needs to provide resources which customers can unfold and leverage during the co-creation in service innovation. Moreover, due to complexity of services the organisation should develop the knowledge and skills required for more effective resource integration during co-creation and prepare the means by which customers will be engaged in service innovation.

Emergence of a collaborative perspective on co-creation has emphasized the importance of resources and their integration (Plé, 2016). Resources can be financial, physical, legal, human, organisational, informational, and relational (Hunt et al., 2002). Rusanen et al. (2014) name the creativity, knowledge, experience, and skills as resources. Innovation studies stress the significance of resources that reside outside of the firm. This means an organisation should find and co-opt the resources from customers, partners, suppliers, etc. Rusanen et al. (2014) that claim in service innovation studies the information, knowledge and technology are usually cited as external resources when other types of resource are seldom identified or elaborated. Based on multiple case findings studies, Rusanen et al. (2014) derive a three-dimensional theoretical model that discloses how service innovation resources – general information, ready-made resources, confidential information and tacit knowledge – are accessible through different types of relationships – social contact, arm's length relation, close exchange relation and development relation – as well as access strategies – the absorption, acquisition, sharing and co-creation. The investigation of Rusanen et al. (2014) provides a comprehensive picture of resource's access for service innovation. Plé (2016) accentuates 12 types of potential customer resources that may be used in co-creation process: informational, emotional, physical, financial, temporal, behavioural, relational, social, cultural, and role-related (role size, role awareness and role clarity), customer ability and customer willingness. The author proposes a conceptual framework which demonstrates that service employees may integrate or not integrate the customer's resources depending on employee - customer interaction context, employee's own emotions, cognitions, and action. Thus the developing of the employees' abilities to analyse and understand the context of employee - customer interactions is the imperative for service firms. Improving service employees' skills to analyse this context correctly and rapidly might ameliorate the process of customer resource integration and increase the level of value or diminish the risk of value destruction. Customers' willingness that is named by Plé (2016) as resource to co-create in technology-based services (TBS) was inquired by Heidenreich; Handrich (2015). They define the willingness of a customer to co-create (WCC) as a condition or state which a customer is prepared and likely to create value together with the company by actively engaging in the service provision and consumption of TBS. Heidenreich; Handrich (2015) prove that WCC represents a key media-

tor between antecedent predictors – innovation characteristics and individual differences – and the probability of TBS adoption. Knowing the drivers of TBS adoption is meaningful for a firm success, especially for TBS, which demand customers to co-create the service. Many researches emphasize the significance of communication with customers and within the organisation, but the investigation that employs the communication theories for deeper understanding of customer co-creation has been infrequent. This dearth was partly diminished by study of Gustafsson et al. (2012). They look at customer co-creation as a communication process that is frequent, bidirectional, and face-to-face for creative problem solving or innovation. The research findings show that communication frequency, direction, and content have a positive and significant effect on success of incremental innovation. For radical innovation, communication frequency has a positive effect, but the content, on the contrary, has a negative significant effect on service success. Gustafsson et al. (2012) pay attention to that in combining the co-creation and innovation it is important to choose relevant methods which differ depending on what innovation, incremental or radical, is developed. Thus in order to ameliorate the service innovation success an organisation should spent more time communicating with customers. Hsieh; Hsieh (2015) stress two-way communication that helps the acquisition of customer's knowledge. They propose new construct of dialogical co-creation and emphasize that dialogue is the essence of co-creation. The dialogue refers to learning and communication between companies and customers as two equal problem solvers rather than to merely listening to customers. According to Hsieh; Hsieh (2015), the dialogic co-creation influences the customer relationship strength (relational resource), valuation of knowledge (informational resource), and capability of customization (organizational resource) and facilitates the service innovation. Thus organisations that intend to develop service innovation should adopt a dialogic co-creation to interact with customers.

For successful customer co-creation an organisation should possess the multiple capabilities. Helfat (2003) defines a capabilities as organisational abilities to perform a co-ordinated task, utilising resources for the purpose of achieving a particular final result, e.g. service innovation. This means that the capabilities and performance are interlinked. Carrol; Helfert (2015) argue that capabilities are no longer an internal issue to generate the change and business value. Nowadays growing number of service firms employ increasingly more and more external resources, thus service innovation requires intra- and inter-organisational cooperation. Dynamic and complex environment in which operate service businesses requires the dynamic capabilities. According to Kindström et al. (2013), the dynamic capabilities are routines within the firm's managerial and organizational processes that seek to gain, release, integrate and reconfigure resources; as the result, the dynamic capabilities are change-oriented. Dynamic capabilities not only adapt a firm's resource to evolving customer demands and market tendencies, but also allow firms to shape their environment through innovation and collaboration with their customers (Teece, 2007). By applying dynamic capability theory in co-creation context Sharma et al. (2014) investigate the role of organisational capabilities to support customer participation in health care service innovation. They disclose four organisational capabilities and classify them into categories around the customer and provider spheres identified by Grönroos and Voima (2013). The customer activation and organisational activation are linked to organisation's capability to motivate and arrange both actors to come together and integrate the operant as well as operand resources to co-create service innovation. On the one hand, an organisation needs to identify and mobilise customers, understand their explicit and implicit needs, and enhance customers' skills in order that

they would be able to integrate resources. On the other hand, an organisation must provide a supportive leadership and relevant resources. Interactive capabilities are the base of effective dialogue between the organisation and the customers. Interactive capabilities are necessary to propel the customers in dialog, enhance the development of their skills, and provide them aid and opportunity to create value and learning through the interaction. The last category of capabilities identified by Sharma et al. (2014) is learning agility that demonstrates the organisation's capability to systematically react to the opportunities identified and implement emerging innovations' solutions. In other words, an organisation needs this type of capabilities for being flexible and constantly adapt the changing needs of customers.

As it has been mentioned above the creativity is important resource for service innovation. Giannopoulou et al. (2014) try to answer the question how an organisation can reinforce creativity in developing the innovative services. Any innovation requires creativity; therefore the creativity is an integral part of service development. It is noteworthy that creativity covers all aspects of the service innovation process starting from an idea and finishing the launch of a new service. Giannopoulou et al. (2014) synthesised creativity reinforcing practices in order to propose capabilities enabling reinforce creativity in NSD process. The involvement of creative customers was mentioned as good practices for creativity. The research shows that having direct client interaction is seen as important source of new ideas for service innovation. Moreover, it is really important to involve the customer as early as possible in the ideation stage to fuel the creation of prospective solutions. Jaakkola et al. (2015) accentuate the significance of collaborative capabilities that are obligatory for resource integration and a great impact on shaping customer experiences. Service experience can be influenced by customer and other multiple actors, during and beyond service environment, and be shaped by moments from past and future. Jaakkola et al. (2015) provide insights for firms in relation to why and how to facilitate service experience co-creation. The firms should perceive the complexity of customer experience for capturing and employing these inputs to facilitate innovation, learning, and strategic planning. Chuang; Lin (2015) stress the importance of the cooperation capabilities as firm's abilities to cooperate with customers as well as partners in accumulating and exchanging knowledge, formulating strategic decisions, or providing specific services. Tsou; Chen (2012) point out that cooperation capabilities encompass the absorptive capacity, coordination capability and relational capability. The latter is exclusively important for service innovation. Hence, to be competitive, an organisation should manage skilfully the resources and capabilities in co-creation processes and enable service innovation (Kim et al., 2015) as well as to translate customers' participation in co-creation activities and their efforts into new capabilities for organisation (Tseng; Chiang; 2016).

3.2. Strategies and methods used for learning from in with customers for co-creation of service innovation

Customer co-creation is inseparable from customer involvement and customer engagement. Solomon (2002) notes that involvement, in general, is a fuzzy concept because it encompasses many different meanings. It becomes even more complex when used as an umbrella conception for many similar but different words, e.g. customer participation, customer integration, customer engagement and more (Dadfar et al., 2013). More or less the scholars agree that customer involvement is the degree to which customers are included to participate in shaping the end service/product that

they receive (Boyer, Verma, 2010). The term engagement (customer engagement) is similar to meaning of involvement and a particular customer involvement. At present there is no consensus concerning the definition of engagement. According to Chen et al. (2016), an engagement is the creation of experiences that allow companies to build deeper, more meaningful and sustainable interactions between the company and its customers. Brodie et al. (2013) define customer engagement in value co-creation as the level of a customer's motivational, brand-related and context-dependent state of mind characterized by specific levels of cognitive, emotional and behavioural activity in brand interactions; Higgins; Scholer (2009) claim that customer engagement is a state of being involved, occupied, fully absorbed or engrossed in something, generating the consequences of a particular attraction or repulsion force; Lusch and Vargo (2006) stress that customer engagement is customer experience co-created with a company. Despite some differences between customer involvement and customer engagement both concepts are used to name the participation of customer in co-creation process in examined articles. Thus co-creation means a high level of customer participation that requires collaboration with customers for innovation (Kristensson et al., 2008). Customer integration provides visible benefits for innovation such as provision of novel ideas, cost reduction, validation of service design, increased willingness to pay and market acceptance, learning from and with customers (Homburg; Kuehnl, 2014; Edvardsson et al., 2012). At the same time, during customer integration in NSD an organisation can face many costs, e.g. identifying and incentivizing appropriate customers, capturing and converting customers' future need for innovations, higher coordination efforts and increased workload of NSD team, concerns of secrecy and ownership of intellectual property, risk of serving a niche market, etc. To avoid the situation when the costs outweigh the benefits an organisation should determine the optimum level of customer integration practice (Homburg; Kuehnl, 2014). Edvardsson et al. (2013) have mentioned that the benefits of customer co-creation are conditioned by the way in which NSD is organised. In their study the customer co-creation *for others* was treated as one of key strategic factors in NSD. The findings have showed the significant contribution on NSD performance of interaction effect between customer co-creation and integrated NSD development team. The main conclusion is that NSD project managers should look at the individual competencies of the members of development team and how they interact with customers throughout entire NSD process. Kristensson et al. (2008) propose the key strategies required for the successful involvement of customer in the co-creation of new technology based services (TBS) and delineate the function of each of them. These strategies are: (1) users identifying needs in their own setting of use; (2) users identifying needs in their various roles; (3) providing users with analytical tools; (4) motivating users via the apparent benefit to be gained from their involvement; (5) non-reliance on brainstorming when generating ideas; (6) users not having too much knowledge on technology; and (7) the involvement of a heterogeneous group of users unsure that a diversity of ideas is provided for future services. As authors mentioned, the co-creation involving the customer obliges to rethink the traditional view on strategy when a company attempts to acquire the knowledge about customer value. The companies should finish producing value in products/service and expecting that this may be exchanged to their customers. How customer integration can be managed using different methods within service development was presented by Edvardsson et al. (2012). Based on two dimensions, "situ" (insitu and exsitu) and "context" (incontext and excontext), which are linked to the SDL concepts of "co-creation" and "value-in-context", four use information modes (*the correspondent, the reflective practitioner, the tester and the dreamer*) and them relating methods

were presented by researchers. Edvardsson et al. (2012) make a distinction between static and dynamic or interactive methods but stress that customer integration should provide information that concerns the resource contexts (static information) and mechanisms (dynamic) in use situations. Furthermore, they advocate using of duplex method to assure the learning from and with customers. Two valuable methods to involve customers in new service development based on dialogic as suggested Edvardsson et al. (2012) are presented by Konu (2015a; 2015b). The first, Delphi method, was used for developing new product in nature-based tourism, the second one, ethnography approach, for testing the forest-based wellbeing tourism product. The results show that the Delphi method is suitable for involving customers in the front-end stages of the NSD process due to providing the rich information for the idea generation and evaluation phases. Konu (2015a) put attention that the Delphi technique's iterative nature makes it possible for customers to contribute to the process in several stages of NSD and also change and evolve their views and recommendations. According to Konu (2015a), the Delphi technique has allowed getting few very innovative ideas. Usefulness of ethnography approach for new service development was proved by Konu (2015b) during the study in forest-based wellbeing tourism. The findings show that an ethnographic approach brings versatile and detailed information that benefits different stages of NSD and the advancement of the service concept, improvement service process and development service system. Elg et al. (2012) used diary method when studying co-creation in health care. This study shows that knowledge available in customer diaries is not limited to ideas. Learning from a diary-based method may include summary report and learning narratives. As researchers note, these learning methods give knowledge about the value creation at patients' home or in their interactions with other health care institutions. This means that using of a diary method health care providers can understand the individual patient from a holistic perspective. Witell et al. (2011) note that proactive market research technique's enable customers more say and more effectively contribute in generating novel ideas. They give customers to develop their own needs (value-in-context) whereas R&D personnel develop ideas for others. Mahr et al. (2014) pay attention to the choice of communication channels in customer co-creation during innovation process. Their study examines the differences between co-creation via face-to-face, voice-to-voice, and bit-to-bit channels. These channels differ by "richness" or ability to transfer the message comprehensively and "reach" or ability to cross geographical and temporal boundaries. The authors state that the channels increase or decrease the effectiveness of customer co-creation depending on the nature of involved customer.

Success of service innovation depends on innovativeness and quality of ideas gained from customers. Thus the suitable customers should be selected. What customer – lead or ordinary – is more valuable for co-creation in service innovation in sense of learning? Usually, a lead user has been shown as the highest potential to provide attractive innovation ideas. The main argument of this statement is that they are ahead of market trend (Nijssen, 2014; Mahr et al., 2014) and experience problems before others or ordinary customers do. Moreover, lead customers are treated as wishing to explore ways to develop solution of particular problem in cooperation with company. The positive effect of involving lead users in NSD on service newness and service advantage was indicated by Carbonell et al. (2012). Lead users are familiar with conditions that lie in the future for most others, thus they can help firms acquire need and solution information that will be useful for new services. Schuhmacher; Kuester (2012) put attention to lead user characteristics (in detail, ahead-of-the-trend, dissatisfaction, consumer knowledge, use experience, involvement, intrinsic motiva-

tion and extrinsic reward) which turn people into suitable participants to develop innovative service. According to Schuhmacher; Kuester (2012), firms should design their idea contests or, in general, the innovation on closed - membership policy. This means that only people who meet specific characteristics should be admitted. On the contrary, Kristensson et al. (2008) suggest that heterogeneous group of users should be involved in generation of ideas of new service development. Similar position is demonstrated by Mahr et al. (2014). According to them, integrating multiple customers with different characteristics ensure the dynamics of a relationships. At the same time the authors propose a purposeful rotation of co-creating customers and innovation project members to minimize negative effects of knowledge overlaps due to close relationships.

In summary it is possible to state that organizations enable customer co-creation in creating service innovations by enabling different resources and abilities. It is possible to achieve expected results, i.e. success of service innovations, by involving suitable customers and using the methods that enable involvement of customers not only into ideas' generation but also into the entire process of creating a new service.

4. Future research lines

Customer co-creation in service innovation is rich, complex, dynamic field, in which new approaches and contributions constantly emerge. Thus, the space remaining for future research is quite vast. On the basis of the analysis, we would like to conclude with the following lines for future research.

First, future research should deeper explain the co-creation from a strategic perspective and identify the most advantageous co-creation opportunities.

Second, more attention should be paid to evaluation of the influence on customer co-creation in service innovation of different organisational variables, e.g. including resource and capabilities development, leadership, communication, learning, etc. The benefits and costs/risks of customer co-creation as well as possible constrains of customer co-creation should be presented more clearly. Moreover, future studies could refer to how cultural factors (e.g. employee and customer from different cultural backgrounds) and market dimensions (competitive intensity, market uncertainty, etc.) affect the customer co-creation and service innovation performance.

Third, more attention should be paid to customers' selection and examine how customers' attributes influence the resource integration during co-creation of service innovation; how customer should be trained for limiting the possible value destruction, etc.

Fourth, future research should involve the broader spectrum of services and find out peculiarities of customer co-creation in B-2-C and B-2-B sectors. More attention should be paid to customer co-creation in technology-based services. The customer co-creation in new TBS development should reduce uncertainty raised by technological changes and using of new technologies for service innovation.

Fifth, it is also necessary for more longitudinal, large-scale investigation on customer co-creation in service innovation. Thus so far most investigation has been based on the case studies or experiments. In order to make it possible, first of all it will be necessary to operationalize main constructs.

To sum up, the customer co-creation within the context of service innovation needs more research because current level of abstraction is too remote from theoretical insights and practical application (Perks et al., 2012; Grönroos; Ravald; 2011).

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