**Revisiting Value Co-creation from a Customer Perspective: The Psychological Consequences on Customer and Employee Outcomes**

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**Abstract**

Value co-creation has been prominent in the recent period in services marketing literature, reflecting the active roles played by customers during service delivery. It has provided plenty of insights to marketing scholars and researchers concerning the management of customer-company relationships, thus improving the overall productivity of service companies. Nevertheless, value co-creation has no clear-cut conceptualization. The objective of this study is to fill this gap through conceptualizing value-co-creation from a customer behavioural perspective. Value co-creation is suggested to consist of customer participation and citizenship behaviours. Scant empirical research has been conducted to identify the consequences of value co-creation on the customer and service employee experiences with the co-creation process. A number of research questions are outlined with regards to the consequences on customer-firm and employee-firm relationships. Based on these questions, a conceptual framework is suggested, and will be tested empirically by the researcher in the Egyptian telecom sector. The study is expected to contribute to theory and practice, by providing a clear understanding to the effect of value-creation on customer satisfaction, commitment, and repurchase intention, and service employee satisfaction, commitment, and turnover intention.

***Keywords*:** *S-D logic,* *value co-creation, consequences, customer outcomes, employee outcomes*

***Track*:** *Services and Customer Relationship Marketing*

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**1. Introduction**

 The concepts of service dominant (S-D) logic and value co-creation have been the focus of many researchers in the past decade. This is because the contribution made by Vargo and Lusch (2004, 2008) has caused a major paradigm shift in marketing theory. According to S-D logic, all goods and services used by customers as resources are viewed as service that generate value to their users. This implies that tangible goods are to be regarded as distribution mechanisms for the delivery of services rather than as ends in themselves. Thus, justification is to be made by firms to their customers on how their offerings (whether goods or services) are to create value for them. The adoption of S-D logic provides insights to businesses on how value is created and what roles are played by producers and customers in the process of value creation. Eight foundational premises (FPs) of S-D logic have been initially introduced in 2004. Since then, a number of premises was added. Others have been revisited and combined (Lusch & Vargo, 2014). Currently, five main axioms underlie the S-D logic (Vargo & Lusch, 2016).

Although prior studies attempted to conceptualize value co-creation, it is still an unclear and rather vague concept in terms of measurement and has no obvious definition. Accordingly, further investigation is required in this essence. Numerous conceptual and empirical studies have been conducted in the context of value co-creation since the emergence of the S-D logic, yet little research has been devoted to identify the components and consequences of customer behaviours within value co-creation settings. A recent study suggests the operationalization of value co-creation from a customer behavioural perspective (Yi & Gong, 2013), and argues that value co-creation comprises customer participation and citizenship behaviours.

Accordingly, the primary aim and motivation of this study is to investigate whether value co-creation can be subdivided into different archetypes and dimensions, identify how these archetypes relate to customer-firm and employee-firm relationships, and explore whether there are certain archetypal manifestations emphasized on customer-firm and employee-firm outcomes in service contexts.

1. **Literature Review**
	1. ***Service Dominant Logic and Value Co-creation***

 Service Dominant (S-D) logic emerged to refute the previously adopted Goods Dominant (G-D) logic. The G-D logic claims that: goods are the unit of exchange, they represent an end (i.e. operand resources on which actions are performed), and customers do not participate at all in the value creation process because the value created is determined by the producer. Value-in-exchange is the primary underlying assumption of the G-D logic (i.e. value is only created by the producer and exchanged for money in the marketplace) (Vargo & Lusch, 2004). Eventually, customers would only use up the value created by the producer (Vargo, et al., 2008). Plenty of marketing phenomena remain unexplained, under a number of marketing disciplines such as product development and innovation, marketing channels, and relationship marketing. One reason might be the development of these areas within the inaccurate G-D logic (Vargo & Lusch, 2011).

The S-D logic, on the other hand, argues that customers actively participate in value creation, and goods are used in the production of operant resources which act upon other resources (e.g. services). Consequently, customers usually participate in creating value along with the firm through the integration of resources, knowledge, and skills (Prahalad & Ramaswamy 2004; Vargo & Lusch, 2004), since the roles of the customers and producers are not clearly identified (Vargo, et al., 2008). It’s only when customers use service, that value is created. It can be argued that the co-creation of value takes place through the joint efforts of companies, governments, shareholders, employees, and customers (i.e. all parties involved in an exchange transaction), yet value is always identified by the beneficiary (usually the customer) through the use of service (Vargo, et al., 2008).

It’s worth noting that the creation of value is not individually based on customers, nor dyadically derived as an exchange takes place between producers and customers. The creation of value involves exchange among a number of social and economic actors, each of which integrates its own resources in the co-creation process (Vargo & Lusch, 2016). These actors that include companies, customers, etc. engage in providing service and creating value (Vargo & Lusch, 2011).

***2.2 The Co-creation of Value from a Customer Perspective***

The co-creation of value necessitates a combined effort between customers and service providers (Prahalad & Ramaswamy, 2004). This is also supported by Vargo and Lusch’s (2008) argument, which emphasizes that parties in an exchange relationship play the roles of resource integrators and also engage in the provision of services in order to co-create value. However, the original sixth foundational premise **“FP6: The customer is always a co-producer”** (Vargo & Lusch, 2004)has been misleading and caused controversies and misunderstandings (Vargo & Lusch, 2016). This, in turn, has led a number of researchers to unintentionally equate between value co-creation and customer involvement (through design and creation) in company’s offerings. The reason for this can be attributed to the use of the term “co-production”. To make up for this unexpected mistake, Vargo and Lusch (2008, 2016) clarified the differences between co-production and co-creation. They defined co-production as “*the creation of the value proposition—essentially, design, definition, production, etc.”* (2016, p. 8)*.* Co-production is mainly about playing a role during the actual process of creating a market offering. It involves the direct interaction between customers and service providers. Value co-creation, however, is different. It can be defined as *“the actions of multiple actors, often unaware of each other, that contribute to each other’s wellbeing”* (Vargo & Lusch, 2016, p. 8).

 Value co-creation, is obligatory since it is based on interdependency and specialization (Vargo & Lusch, 2008, 2016), whereas customer co-production *“though distinct form (but nested within) co-creation of valu*e” (Vargo & Lusch, 2008, p. 8) is not mandatory. Co-production is part of value co-creation and requires customers to take a role in the creation of the offering (Lusch & Vargo, 2006). It is mainly based on a number of factors that determine the degree to which customers would like to be part or not of service co-production. These factors include expertise, control, physical capital, risk taking, psychic benefits, and economic benefits (Lusch, et al., 2007). There are three types of service production based on the degree of customer involvement (Meuter & Bitner, 1998); customer production (the firm does not participate at all in the production process), firm production (the opposite extreme, customers do not participate at all in service production), and joint production (where customers along with service employees play role in production). Since the main emphasis and scope of the study is on the co-creation of value from the customer viewpoint, concern will only be given to customer joint production “co-production”.

Indeed, S-D logic argues that producers and customers interact interdependently and co-create value through resource integration (Vargo & Lusch, 2008). Since then, service has been regarded as the principal basis of exchange. (Vargo, et al., 2008). Resources including people, information, technology, and emotions are made available to customers by the service providers and other customers (Vargo & Lusch, 2004, 2008).

The customer has been playing a major role in numerous studies of “Consumer Behaviour”. The interaction between customers and companies has represented a research interest to a number of services marketing scholars. From a different viewpoint, few consumer theorists are currently interested in customer context and networks (e.g. culture, marketplace, creation of value), rather than their mere buying decisions, or interaction with companies (Arnould & Thompson, 2005).

It is worth noting that successful service organizations should consider their employees as operant resources (i.e. knowledgeable and skillful) that are difficult to replace, rather than operand resources, in order to gain a competitive advantage (Lusch, et al., 2007). Additionally, the higher the interaction between customers and employees, the higher the performance of the employees who express a clear understanding of customers’ desires and needs by sharing information. This, in turn, results in a great understanding of mutual needs (Homburg, et al., 2007).

In spite of the importance of the issue under study to services marketing scholars and practitioners, little research has been focusing on the understanding of value co-creation from a customer perspective (Payne, et al., 2008). One of the most important contributions aimed at understanding the process of value co-creation can be found in Yi and Gong’s (2013) study. They argue that value co-creation comprises two types of behaviour; customer participation behaviour and customer citizenship behaviour. Nevertheless, scant empirical research has been conducted to identify the psychological outcomes of value co-creation (e.g. Dong, et al. 2008; Yi, et al., 2011). Studying psychological customer and employee outcomes of value co-creation is still in its very first steps. Concerning customer outcomes, one stream of research in services literature argues that the customer participation aspect of value co-creation strongly affects customer satisfaction, loyalty, and perceptions of service quality (e.g. Kelley, et al., 1990; Kellogg, et al., 1997; Yi, et al., 2011). Also, value co-creation can strongly affect customer satisfaction (Vega-Vazquez, et al., 2013), and perceived value (Polo Peña, et al., 2014).

On a separate note, value co-creation can strongly affect employee psychological outcomes. For example, customer participation in the form of responsible behaviour is likely to increase productivity, employee performance, commitment, affect their emotional responses, and reduce their perceived workload (Halbesleben & Stoutner, 2013; Yi, et al., 2011), whereas customer citizenship can result in a higher value, better employee state of mind (Yi, et al., 2011), and an increased performance for service organizations (Bove, et al., 2009; Yi & Gong, 2013).

1. **Research Problem Statement and Questions**

The development of the proposed conceptual framework is derived from the few empirical studies that examined the consequences of value co-creation on both customer and employee outcomes, and also in response to Vega-Vazquez et al.’s (2013) call for expanding their theoretical framework. The proposed model suggests measuring value co-creation as a third-order construct that comprises two multidimensional second-order factors (i.e. customer participation and citizenship). Each of the second-order constructs includes four first-order dimensions. The former comprises information seeking, information sharing, responsible behaviour, and personal interaction. The latter consists of feedback, advocacy (word-of-mouth), helping, and tolerance (Yi & Gong, 2013).

The area of value-co-creation has been of major interest to a number of practitioners in the recent period (Ramaswamy & Ozcan, 2014). It is worth mentioning that customers can respond in a very different way to the phenomenon of value co-creation based on a number of characteristics in terms of their relationship with service employees. Relationship age with the company is an example of these moderating characteristics. Yi and Gong (2013) suggested studying the moderating effect of relationship age on the consequences of value co-creation.

Based on the previous illustrations, the research problem is to understand and identify the influence of value co-creation on customer-firm and employee-firm relationships. The problem statement can be translated into the following research questions:

**RQ1: What are the main consequences of value co-creation on customer-firm relationships?**

This question addresses the effect of value co-creation on the nature of the relation between customers and service firms. In other words, how far is value co-creation likely to enhance customer satisfaction, commitment, and repurchase intention?

**RQ2: What are the main consequences of value co-creation on employee-firm relationships?**

This question seeks to address the psychological consequences of value co-creation on employee outcomes in terms of satisfaction, commitment, and turnover intention.

**RQ3: Which aspect of value co-creation is the most influential on customer-firm relationships?**

This question addresses whether customer participation or citizenship has a stronger influence on customers’ relationships with their companies. It’s also quite important to identify which dimension (component) specifically exerts the strongest influence on customer-firm relationships.

**RQ4: Which aspect of value co-creation is the most influential on employee-firm relationships?**

The same question also applies to employee-firm relationships. Which archetype of customer participation or citizenship behaviours has the strongest effect on employee psychological outcomes?

**RQ5: To what extent do customer demographics and relationship age with the company play a moderating role in the association among value co-creation and customer-firm or employee-firm relationships?**

1. **Proposed Conceptual Framework and Methodology**

***4.1 Research Setting***

The application of S-D logic and value co-creation has been evident in a wide range of disciplines, such as information technology (e.g. Matthing, et al., 2006; Yan, et al., 2010), hospitality management (e.g. Shaw, et al., 2011), and telecom industry (e.g. Magnusson, et al., 2003). The study will be applied in the telecommunications sector in Egypt. The telecommunications sector is mainly based on providing customers with technology-based services. This sector is characterized by limited face-to-face interactions between customers and service providers. Thus, companies in this sector find it difficult to deal closely with their customers, and usually receive service failure complaints (Kristensson, et al., 2007). Moreover, because most users of this kind of service usually have limited technological knowledge, they are most of the time unaware of the needs that are likely to add value to them (Kristensson, et al., 2007; Matthing, et al., 2006) let alone being involved in the generation of new services. In other words, asking customers about their preferences and desires concerning telecom services would be meaningless. In addition to that, identifying innovative customers with creative ideas for new services requires an extensive study of their behaviours and attitudes; a challenge to service organizations. Service companies in other sectors take advantage of their frequent dealings with their customers to learn from them, and facilitate the value co-creation process.

It’s also worth noting that research focusing on customer involvement in the development of new services in technology-based industries has been well established in services literature. Since value co-creation necessitates the integration of resources from different actors, a number of companies in the telecom industry started involving users in the creation of new services in the recent period to gain competitive edge (e.g. Takeshi Natsuno in Japan, and Halebop in Sweden). No study so far has outlined the value co-creation process in existing services. Based on these illustrations, the focus of this study will be mainly on technology-based daily services, with no reference to new service development, in order to shed light on the co-creation activity of all customers (i.e. not only lead users who represent the main emphasis of value co-creation in new service development).

Customer participation through information sharing is likely to help technology-based service providers to understand the true and hidden needs of their customers. This form of co-creation can facilitate the improvement of the day-to-day services provided by the mobile network operators.

***4.2 Data Collection Procedures***

Three mobile network operators in Egypt persist: Vodafone, MobiNil, and Etisalat. The total number of mobile subscriptions in the three networks reached 95.99 million by April 2015, according to the most recent statistical report issued by the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS) in September 2015. Access to secondary data can be provided by CAPMAS. An exploratory phase will be carried out where a number of in-depth interviews will be conducted with customers and employees from the different companies to pre-test the measurement variables and determine their practical validity.

Later on, two versions of questionnaire will be formulated in the quantitative phase of the study. One is to be directed towards customers, and the other towards employees. The questionnaires are to measure the customer-firm outcomes (in terms of customer satisfaction, customer commitment, repurchase intention), and employee-firm outcomes (in terms of employee satisfaction, employee commitment, turnover intention).

***4.3 Data Analysis and Interpretation***

 The data obtained will be analysed through Structural Equation Modelling (SEM) on LISREL. SEM is defined as *“a family of statistical models that seek to explain the relationships among multiple variables”* (Hair, et al., 2006, p. 711). Advantages of SEM include: *“(1) estimation of multiple and interrelated dependence relationships, and (2) the ability to represent unobserved concepts in these relationships and account for measurement error in the estimation process”* (Hair, et al., 1998, p. 584). In other words, a number of independent multiple regressions are to be made at the same time by SEM implying that the direct and indirect effects are determined. A series of separate multiple regression tests will be conducted based on *“theory, prior experience, and the research objectives to distinguish which independent variables predict each dependent variable”* (Hair, et al., 1998, p. 584).

 The choice of SEM was preferred to multiple regression and ANOVA for a number of reasons (Hair, et al., 2006): Firstly, these multivariate statistical techniques evaluate only single relationships. Secondly, unlike these techniques, SEM accounts for measurement error. Thirdly, SEM can identify the overall model fit using model fit indices. The maximum likelihood estimation method will be used in SEM because it can be considered as a “moderately robust” estimation method that accounts for violations in the assumption of normality (Hair, et al., 2006).

 All relationships are hypothesized to be positively related, except the relation between employee satisfaction and turnover intention, and the relation between employee commitment and turnover intention which are hypothesized to be negatively related. Moreover, the link between the independent variables and the dependent variables is suggested to be moderated by the relationship age of the customer with the company and customer demographics comprising gender, age, and level of education. Multiple group analysis will be used to test for these moderating effects. The following procedures will be adopted when testing for moderation. First, the data will be divided into groups based on the moderating variables (e.g. males and females). Second, average values will be created for independent variables. Third, a single interaction term will be calculated. Finally, the test will be run on the revised model parameters.

1. **Theoretical Contributions and Managerial Implications**

The study is expected to contribute to theory and practice in different ways. Theoretically, the study bridges the gap in services marketing literature by examining the consequences of value co-creation on employee outcomes, firm performance, and productivity in service co-creation settings (Yi, et al., 2011). A second theoretical contribution is based on studying the consequences of value co-creation on customer outcomes. Finding a link between co-creation and customer outcomes is likely to provide a deeper understanding and a better conceptualization of this construct.

The study also makes an empirical contribution, in terms of determining which aspect of value co-creation is the most influential on psychological consequences in the Egyptian telecom industry.

A number of managerial implications is also suggested. Given the proposed conceptual framework, customer behaviour is likely to have a strong influence on employees and other customer experiences. This provides insights to service managers concerning the effective management of customers, by treating them as “partial employees” who actively participate in the process of value co-creation. The focus of managers should change from figuring out ways of serving customers and treating them as passive audience to working on getting them involved in the delivery of services (customer participation), or even pursuing them to adopt extra-role behaviours (customer citizenship).

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**Appendix: Proposed Conceptual Framework**

***Moderating Variables:***

* Relationship Age
* Demographics (gender, age, education)

***Dependent Variables:***

***Customer-Firm Relationship***

***Independent Variables:***

***Value Co-Creation***

***Employee-Firm Relationship***