The Importance of Customer Engagement and Service Innovation in Value Co-Creation

Soheila Raeisi, Meng Lingjie

Abstract—The interaction of customers with businesses is a process that is critical to the running of those businesses. Different levels of customer engagement and service innovation exist when pursuing value co-creation endeavors. The important thing in this whole process is for business managers know the benefits that can be realized when these activities are pursued effectively. The purpose of this paper is to first identify the importance of value co-creation when pursued via customer engagement and service innovation. Secondly, it will also identify the conditions under which value co-destruction can occur on the same. The background of the topic will be reviewed followed by the literature review with a special focus on the definition of these terms and the research design to be used. The research found that it is beneficial to have a strong relationship between stakeholders and the business in order to have strong customer engagement and service innovation.

Keywords—Customer engagement, service innovation, value co-creation, value co-destruction.

I. INTRODUCTION

The concept of customer service engagement and service innovation is critical to businesses in the wider strategy of enhancing their competitive advantage in their particular fields of engagement. It is a process whose aim must be beneficial and what is called value co-creation incorporated with the broad objective of the business strategy. On the other hand, the lack of such a concept in what is called value co-destruction within a business strategy can be costly in the long-term. As [1] indicates, in recent times most of the focus has always been placed on the benefits of value co-creation with the little research on the pitfalls that come about as a result of value co-destruction. The purpose of this research is first to look at the usefulness of value co-creation for key stakeholders via customer engagement and service innovation. Secondly, the paper will also look into the conditions that facilitate the occurrence of value co-destruction.

II. LITERATURE REVIEW

A. Customer Engagement

In recent years, the term customer engagement has been used in academic marketing and service marketing literature [2]. In the service literature, customer engagement uses an important factor which has the positive effect on customer loyalty and customer contribution [3]. As he identified in his research, customer engagement is “a psychological process that models that underlying mechanism by which loyalty may be maintained”. According to this definition, customer engagement is not an end state; it is a process which consists of various behaviors and attitudes that lead to customer loyalty. Customer engagement involves “the intensity of an individual’s participation and connection with organization’s offering and activities initiated by either the customer or the organization” [4]. While in the S-D logic concept, customer engagement as identified by [2] is “a multidimensional concept comprising cognitive, emotional, and/or behavioral dimension.” By reviewing the existing definition of customer engagement, the behavior is the main concept in customer engagement and high-quality interaction of behavior is the key element of customer engagement. There are different ideas and definitions of customer engagement depending on the context of the concept and its approaches in literature [4], as well as different themes to treat customer engagement such as emotional relationship between organization and its customers [5], interaction with customer [6], and exchange knowledge between customers through information technology [7]. However, an organization engaging customers in different processes, especially the product development life-cycle, service innovation, and process innovation [8], [9]. Based on the findings of [10], there are three ways to handle engaging customer, engaging customers in a process (maintain cognitive process), create value and customer satisfaction. Perceived value is the basis for a long-term relationship and customer loyalty. Engaging customers in services leads to create value and customer satisfaction, and respectively, leads to customer loyalty. On the other hand, as mentioned on [2], customer satisfaction, customer loyalty, perceived value, commitment, and trust are outcomes of customer engagement. According to the above literature, it can be said that customer engagement has a significant effect on value creation and its consequences. Customer engagement is the interaction between customer and organizational service provider in the different levels of a service organization. This interaction might be physical, emotional and cognitive [11]. Some scholars [12] highlighted four essential components of customer engagement namely, vigor (customer’s mental resilience while interacting with a service provider), dedication (create a service of belonging and continuity for the customer), absorption (make the customer happy, concentrated and deeply engrossed) and interaction (interaction between the customer and different parties). As identified by [12], customer engagement is “The
level of a customer’s physical, cognitive, and emotional presence in the relationship with a service organization”. According to [3] customer engagement is “A psychological process that models the underlying mechanisms by which customer loyalty forms for new customers of a service brand as well as the mechanisms by which loyalty may be maintained for repeat purchase customers of a service brand”. In this regard, there are five common dimensions of customer engagement which is an antecedent of customer engagement. Empowerment, commitment, emotional bonding, trust, and satisfaction are the consequences of customer engagement [2], also [3] claim customer engagement as the main predictor of customer loyalty. In today’s competitive and dynamic environment, customer engagement is a key factor for effective customer service [2]. As highlighted by [13], “Businesses today face a number of difficult challenges that make customer engagement more important than ever”. Therefore, companies try to create and maintain sustainable competitive advantages. Lately, researchers in service marketing used customer engagement as a strategy to co-create value and build competitive advantage [14]. As a result, customer engagement uses as a strategy to increase competitive advantage, high co-creation value [14], enhance sales growth, and increase profitability [15]. However, co-creation of value as a competitive advantage and positive outcome of engaging a customer in service process since the customer may engage negatively [16]. Value co-creation as a two-way communication can operate innovation through cooperation with a customer [17], and enable an organization to obtain idea from the customer and build a long-term relationship [18] and accordingly generate a loyal customer, trust, and commitment to the customer [19], and ultimately leads to achieving organizational competitive advantages [18].

B. Service Innovation

Traditional marketing focused on technological innovation in product innovation [18]; however, in a knowledge-based and dynamic environment, an organization pays more attention to using strategies and techniques to increase value to their customer and obtain competitive advantages. Services and service innovation present a key impact in an organizational profitability [20]. Fast developing and growing in service innovation is seen as a competitive advantage in industry, firms, and the economy. According to increasing competition among industries and customer expectations, it is essential for all industries to develop new ways and approaches to service in addition to delivering high service quality [21]. Concerning the rapid growth of services in an organization and the economy, more researchers and companies focused on innovation in service during the last two decades [22]. The service sector [23] and innovation [24] are both significant factors in a growing economy. Service innovation as identified by [25], involves “the multidisciplinary process of designing, realizing and marketing a combination of existing and/or new services and products with the final attempt to create valuable customer experience”. Based on this definition, service innovation is multidimensional involving different parties and stakeholders during the process of service innovation [26], to create value to the customer and organization as a main purpose of service innovation. From the viewpoint of the customer, service innovation is classified in four groups; new service innovation, core service innovation, delivery innovation, and supplementary service innovation [27]. In regard to new services, there is a need to consider the whole process of service innovation from designing new services to service delivery to make and increase value for the customer [28]. Based on the ideas of [29], [30], it can be demonstrated that customer interface with organization and technological sources are two main factors to service design and delivery. The central focus of service innovation is dynamic, and interaction between supplier and customer and customer are as a co-creator of innovation across this communication [31]. An organization can create more opportunity for service innovation by increasing relations and interactivity with its customers [32], by involving the customer in the service innovation process as a user, co-producer, and resources [6]. While involving the customer in the service innovation process not simple [33], the role of the customer in the service innovation process is important in an organization. Customer engagement in product or service innovation provides important value for the customer and the organization [9], [34]. The crucial function in service innovation is to make service requirement, which is essential to create value in customer perception [35].

C. Value Co-Creation

Customer engagement and service innovation are primarily concerned with the creation of value within customers when utilizing the available resources [36]. In that case, value co-creation according to [14] is “the process during which consumers take an active role and co-create value together with the company [14]. In essence, it is the interaction or the interrelationship that is developed between the firm and the customers. It is something that has great value when exploited to the full in helping a business achieve a competitive advantage [37]. These definitions are critical in the understanding of the interrelationships that are core to the pursuance of business strategies whose focus is on value creation to customers. Customer engagement and service innovation are two elements that work hand-in-hand to enable value co-creation. Therefore, it can only mean that the deficit of the interaction process between the two has a likelihood of causing or enabling value co-destruction on the affected elements. For example, a particular firm may be having an excellent customer engagement system, but be lacking in service innovation that directly or indirectly affects such customers. If no such change occurs, with time, the customers will no longer find much value in the present customer service engagement and will instead be seeking new frontiers that are unique and innovative. As stakeholders, it is beneficial for all interested parties to ensure the positive benefits of inclusion in the innovative process. However, as innovation wanes and customers experiences a decline in value, the concept of value
co-destruction occurs. Therefore, it is up to businesses and organizations to continuously engage in a process that perfectly aligns customer service engagement with service innovation in the broader system of things [38]. The main objective of the paper is to demonstrate that value co-creation can best be enabled via customer engagement and service innovation. When that lacks value, co-destruction is manifested even though it does not necessarily mean that the two are the cause of each other.

III. METHODOLOGY

This research focused on utilizing qualitative research methods in the collection of data for synthesis and analysis.

Importantly, the paper focuses mainly on marketing theory to determine how consumers influence decision making in an organization. In fact, the main emphasis of the paper is based on the literature review and information analysis and synthesis. Previous studies on the topic under research will be sourced in the process of identifying the expected outcomes. This method is advantageous for several reasons. For one, it does not involve or expend a lot of resources such as money and it also saves a lot of time used in traveling scheduling interviews, or even out in the field collecting data. The sample size for this study involved the analysis of 58 scholarly articles that were sourced from a university library. The articles approach the topic under research from various dimensions. The articles are mainly theoretical in nature. The initial number of articles was 112, before being narrowed down to 58. They were selected randomly from the library via the various databases available for research purposes.

In the analysis of the scholarly articles, the approach used included the identification of thematic patterns of the issues addressed. There were similarities in most of the issues tackled with regard to value co-creation and value co-destruction. These issues were lumped together in looking for common themes that facilitated the outcomes herein.

IV. FINDINGS

The social and physical environment of any business plays an important role towards value creation. According to [39], a company that wishes to succeed in its future expansion plans should adopt a model that establishes value creation for customers using its strategy to enhance appropriate returns that are derived from that value. In this regard, a viable business model underscores the firm’s value proposition, not only for customers, but also for partners and other stakeholders [40]. It also provides the resources and processes required towards realizing the value propositions.

According to [41] referring to the marketing theory, the study defines the customer’s value as the client’s perception of the quality and quantity of products and services they receive from what they sacrifice. According to [42], customer value underscores two aspects including perceived value and desired value. To formulate a customer’s value, it is imperative to assess the current market offering to identify what the customer wants and develop a solution that will facilitate the achievement of the market need for a particular service or product [14]. The process of creating value by involving customers is as indicated in Fig. 1.

To create value, an organization should focus on the main strategies such as dimensions along which clients deem valuable. Reference [44] identifies the following aspects as a way towards value creation; product quality, process cost, prices, personal interaction, time-to-market, supplier know-how, delivery performance, and service support.

Business can realize value co-creation through treating customers as co-producers. Customers are termed as co-producers because they are always involved in the value creation of products and services [41]. The client’s co-production activities assume the continued consumption and marketing, as well as value creation through delivery process, among others [1]. The integration of the customer as co-creator, as opposed to only the co-producer, has enhanced experience delivery in most businesses.

Since marketing has been evolving towards the dominant logic as opposed to good-dominant, it is, therefore, imperative to retain the customer as the service value creator [41]. Thus, it implies that value and nature are two interactional facets. This is affirmed by [45] who argues that value is phenomenologically determined, whereby the value of services and goods virtually does not exist. On the contrary, it is a function of the dimension by which the customers perceive their contextual experience attribute to these particular goods and services [46]. Furthermore, creation of value takes place through the exchange of services.

It is important to note that in value creation process, creation of functional value and its reference to the attributes of the products is essential towards value creation [47]. According to [48], practical value underscores the following performance, security, reliability, quality, and cost. These attribute goals should not focus on other products value, but should only be limited to one functional value. As [49] notes, the functional value offers a wider customer’s value hierarchy that helps to identify the perceived customer's value. They argue that the client's value is not only based on the attributes of the products, but rather, it is focused on the consequences of the product use and the attained goals [50].

Cost or sacrifice value is another approach that is employed in the creation of customers’ value. Customer’s value perception is referred to as the client's evaluation of what they receive in comparison to what they pay. Using this approach, the client evaluates whether the services and goods value
created is worth the cost that he or she pays [51]. It is also imperative to note that cost paid by the customer may be either in monetary terms, effort spent time, among other facets that are invested by the client, to obtain the goods and services offered by the business [52]. Therefore, it is vital to put in place the commoditization measures that will enable companies to provide similar products at an affordable price, thus escalating the perception of customers towards a value added product [53]. Relationship value is a pivotal aspect that refers to the overall experience of the customers, particularly during their interaction with the supplier. The value of goods and services can be increased through the vendor customer’s relationship, along with the dimension of process cost, price, personal interaction, and time-to-market [54]; additionally, factors such as supplier know-how, delivery performance, service support, and product quality, just to mention a few, also play crucial roles [55]. Therefore, integrating the essential business resources with other complimentary assets including; upgrades, integration, customization, and support help to create customer value. The value added not only contributes to maintaining, but also to developing a fruitful relationship with the supplier [56]. Consequently, this helps to enhance business processes and inculcates employee’s development. Co-creation value is the value creation approach through which one modifies the available goods and services and also defines the necessary requirements through which products and services are customized to meet the needs of the customers [51]. Essentially, the nature of the co-creation value allows the users to co-create the value of goods and services while in its development process [57]. Additionally, open source added value is an approach that is used to add to the legitimacy of the product in the market through creating a partnership with other existing companies [56]. In this regard, customers may tend to buy an individual product only because its name or brand is associated with a particular company. To create customer’s value among the goods and services required by the customer, businesses should have systems that integrate resources in an exchange service process [58]. However, if an approach towards value creation does not meet customers’ needs and no added benefit accrues to the business, then it qualifies as a co-destruction. Therefore, co-destruction is the result of intentional and accidental misuse of resources by a business through acting in an unexpected or inappropriate manner. Co-destruction also refers to the resources that are used in the detrimental way not only for an individual, but also for the parties involved [59]. For instance, if someone buys a car, but he or she does not maintain it, then he or she destroys its value. In fact, such people complain to the firm that produced the car regarding the maintenance problem, and the company suffers value co-destruction [60]. Thus, if services set aside in the production of goods and services are misused, then selling such products do not meet customer’s expectation or what they pay for, and thus, it is termed as co-destruction [61].

V. CONCLUSION

It is evident that customer engagement and service innovation are concepts that can be used effectively to co-create value with stakeholders even though there are conditions that value co-destruction may also occur. Numerous benefits can be identified where customer engagement and service innovation are executed appropriately. They include satisfaction and affective loyalty, customer participation in more engagement behaviors, and enhanced knowledge-sharing and access. On the other hand, there are incidences where value co-destruction occurs when co-creation fails to achieve its objective. Such situations arise when there is a lack of mutual understanding between customers and the firm and in the presence of limited skills and knowledge among consumers [62]. These findings have several implications for businesses and managers of firms. One of them is the fact that there is a need for managers running firms to establish more proactive channels that will facilitate collaboration, networking, and partnerships that are more interactive and productive [63]. Secondly, businesses will also have to find a way they can increase awareness and knowledge among customers to equip them in informed roles when making their contribution to co-creation activities [64]. Thirdly, and as one of the major limitations of the paper, it does not identify explicitly the concept of value co-destruction and the impact it has on businesses in the long run. There has not been much research in this area, meaning that there is more that needs to be done, especially in establishing the linkages, channels, conditions, and the implication that come about as a result of value co-destruction.

REFERENCES

