Chapter 8
Co-Creating Value Derivations in a Service System Journey

Ralph D. Badinelli
Virginia Tech, USA

ABSTRACT

Recent literature on the topic of defining and measuring value has revealed many perspectives and limitations of conventional views of value and value creation. From these perspectives, service innovators have adopted the practice of specifying value propositions as a precondition to providing service. In this chapter we posit a new model of value propositions which, among other disruptive changes, precludes the definition of the value proposition prior to a service execution. Instead, we assert that the value derivation is co-created and emerges through the service journey. Furthermore, although a precise definition of value remains elusive, there are some generic dimensions to value that can be incorporated in the design of a service system so that a value derivation can be co-created through the service journey as value itself is co-created or anticipated.

INTRODUCTION

In this chapter, we posit a disruptive model of value propositions and the processes by which they are formulated. The notion of value is endemic to the modern definition of service through the doctrine of Service Dominant Logic, and the need for value propositions apparently follows as a necessary component of a service system. Much literature in the field of service science and service marketing has been devoted to the design of value propositions, and value propositioning is now common practice in service innovation. However, we challenge the belief that there is such a thing as a value proposition that can be specified at the outset of a service. This belief is unsupportable when one considers the true nature of value. Through this different view of value propositions, we suggest new approaches to innovating service systems that accommodate the true nature of value and the role of value propositions.

Over the course of service research in the recent years many definitions or descriptions of value and value co-creation have emerged (Sampson and Froehle 2006, Chesbrough & Spohrer 2006, Spohrer et al 2007, Lessard 2015, Karmarkar and Roels 2015). As the modern definition of service is guided by

the precepts of Service Dominant Logic (Vargo and Lusch 2004, Karmarkar 2004), the definitions that have survived the scrutiny of service science researchers all incorporate some form of co-creation of value. However, a precise specification of what value is, as opposed to how it is created, remains elusive (Ng et al 2012a, Badinelli 2015a, Sampson 2015, Karmarkar & Roehls 2015).

What is apparent to all researchers of service is that value is an emergent phenomenon of human experience and is subjectively evaluated. Hence, the offering of a value proposition by one party for another party is inherently flawed. Nevertheless, common practice in service industries has service providers specifying value propositions for service recipients and instituting value propositions at the outset of a service as standards for service performance. This methodology is invalid on several counts.

In this chapter we review several frameworks for formulating value propositions and derive a new approach to value propositions that conforms more closely to the natural creation of value. The thesis of this chapter is that the conventional methods for specifying value propositions are inadequate to respond to the true nature of value, value co-creation and value assessment. We propose a new approach to value propositions that is based on the value exchange being an emergent, co-creative outcome of the service journey.

BACKGROUND

A value proposition is considered an essential foundation to the design of a service. Service level agreements (SLA), for example, are endemic to many service industries, especially the IT support services. These contracts are designed as a blueprints of sorts for the deliverables of the service. In spite of the time and effort that are devoted to drafting SLAs, the actual realization and perception of value by different participants in the service can vary significantly from the pre-defined agreements (Rajala et al 2015).

Value and Value Propositions

What do we know about value? The honest answer is, very little. In 2015 the INFORMS journal, *Service Science*, published a special issue on the subject of value. The selection of this topic for the special issue was motivated by the experience of discussions about value co-creation among service researchers for many years without having a precise and consistent definition of the word "value" (Badinelli 2015a). It is not surprising that the outcomes of the research that this issue published amplify the confusion of researchers who try to define value and of service participants who try to extract value from their service experiences. Research and common experience clearly establish several confounding features of value.

Value is subjective. All service researchers assume that value is subjective, and this subjectivity is apparent in B2C and C2C service systems. However, the degree of subjectivity can be surprising even in the B2B services systems (Rajala et al 2015). Subjectivity is the most fundamental aspect of value (Bitner et al 1994). The principle of co-creation of value implies that the value that is realized from a service is not only measured differently by different participants, but is defined differently by each participant. Therefore, a single value proposition will not serve all service participants. Furthermore, the propositions, necessarily plural, can only be established reflexively by each individual participant.

Value is multi-dimensional. Although economists and operations researchers find a unidimensional utility function a convenient device for modeling service systems, the reality of value is that it has many

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