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Creating value - value co-creation and value destruction

Greater understanding of value, together with today's big data analytics, gives companies the potential to put value creation at the core of their business. By Peter Stokes, Gautam Mahajan, Gerardus JM Lucas and Paul Hughes

Historically, value has been understood largely in economic terms centred on, for example, notions of price, cost, profits and shareholder wealth. However, contemporary understandings of value also point at value being created *through* and *around* products and, above all, services, experiences and relationships in creating good, or improving the well-being of people and situations are considered valuable by various stakeholders. This means that value is surrounded by subjectivities. Furthermore, value is created by self-identity. For example, some people may see great value in saving the world's rainforests but people who rely on logging of those forests for their livelihood may not place the same value on them. Thus, a "value" is grounded in a particular belief that is related to the *worth* of an idea, behaviour or mutual *evaluation* of a relationship. Also, 'price' is often perceived by many people as a key marker of 'value' but curiously, all too often price is quickly forgotten once a commitment to purchase is made and other emotions and factors begin to be foremost in the purchaser's mind.

Considering value against this larger backdrop extends the potential understandings of value to that of "values" and issues of behaviours or attitudes. Moreover, the advent of the internet and social media has heightened the intensity and speed of interaction and by stakeholders connected to value - allowing them to report rapidly both satisfaction and dissatisfaction.

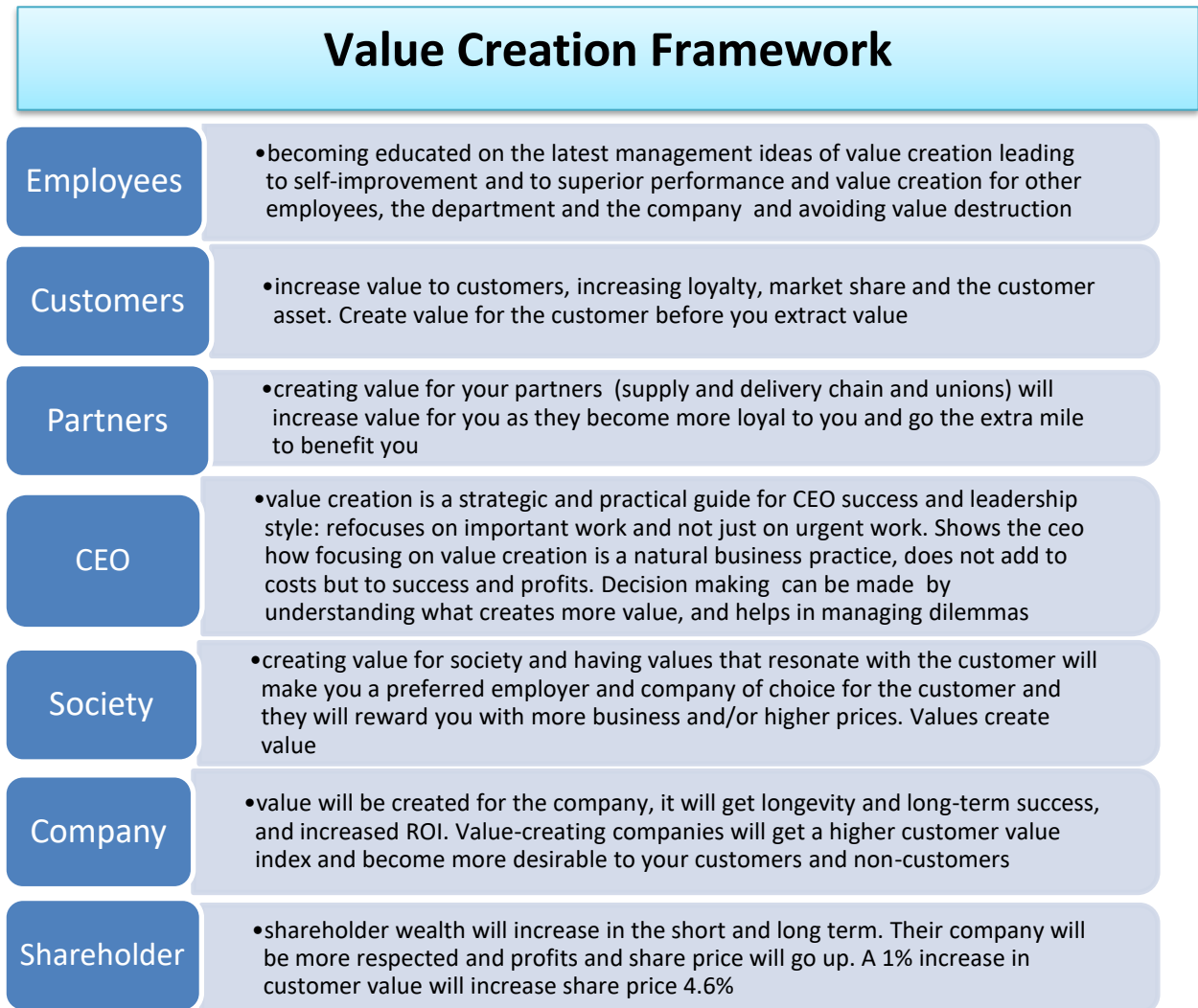
Given the emergent nature of the discussion on value, scholars and practitioners use the expressions "value" and "value creation" drawing on varying and competing definitions. For example, the processes and co-creation of value considered in the field of Service-Dominant Logic (SDL) has been an ongoing debate. A key tenet of SDL is that value co-creation is a responsibility of all stakeholders. In value co-creation, value grows beyond its *prima facie* economic meanings to encompass value-adding or value-(co)creating outcomes such as "satisfaction", "pleasure", "contentment", "sense of security" and so forth. In this regard, the

word “adding” signals incremental and innovation whereas “creating” underlines original development or *invention* of value.

Of course, such outcomes are recognised as reinforcing or feeding back into customer satisfaction and loyalty as well as creating company competitive advantage. Thus, SDL, rather than viewing products as the *basis* for exchange, views *service* as the essential object with goods and products functioning merely as a vessel of such processes rather than the key focal point. In SDL, everyone (including organisations and institutions) is involved in value co-creation and hence it is a highly relational process. Value creation thus becomes a collaborative, contextual, experiential and cyclical process in which various stakeholder interactions and dynamics are imperative. If the customer senses that he or she has derived more benefit than the combined price and non-price (i.e. service) then value is deemed to be created for the customer.

Equally, it is important to state that, within such cycles, value can also be destroyed and on occasion this may imply the *co-destruction* of value. Value is generally destroyed by allowing unfair or one-sided creation and wasteful or useless activities and behaviours to prevail. Simple examples can be found here – reading unimportant emails, behaving illegally or immorally, cheating or being unfair, misuse of resources, over-staffing, unnecessary travel and many such examples found in contemporary organisations. All such events represent value-destroying activities and it requires discipline to ensure that they do not permeate an organization. Gautam Mahajan’s 2016 model (Figure 1) summarises the dimensions and stakeholders of value creation and their likely impacts in various regards,

Figure 1



Furthermore, some commentators have argued that in spite of an espousal of SDL by many organisations, value creation essentially remains a company-centric affair rather than involving wider stakeholder. Professor Christian Grönroos, in an article in *European Business Review*, provides examples of companies all too readily talking about ‘value propositions’ linked to solution and service offerings as if it were they controlling or overseeing the value-creation process. Therefore, it is important to rather see value as something that the *customer creates* through his or her choices and experiences.

Importantly, value creation has now moved on well beyond academic debate and is increasingly being embedded in the wider business and institutional world. The *BS 76000:2015 Human Resource – Valuing People – Management System – Requirements and*

Guidance standard produced by the British Standards Institution is a prime example. The Standard states:

This British Standard provides a framework for an organization to create an individually-tailored management system, or to align existing systems, to realize the full value (actual or potential) that people provide to the organization through their capabilities, knowledge, skills, networks, experience, behaviours and attitudes (British Standards Institution, 2015).'

In addition to the above-discussed 'what' and 'why' debates and their complexities, discussions have also evolved regarding at what specific point value might be created. Mahajan proposes that value exists around us and represents potential waiting to be realised; it comes into the transaction sphere once it is perceived. A classic example is the driverless car: the value it offers existed but was not noticed or taken seriously for a long time. Thus, intermediaries and parties in parallel complex distribution channels are also likely to play a role. Thus, overall, relationships and relational dynamics within firms and networks plus inter-dynamics between firms, customers and other stakeholders emerge as paramount in notions of value co-creation. Implicit in these dynamics, and perhaps less explored, are the individually held beliefs and attitudes which must accompany any creation or perception relating to value creation. Embedded in value-creation processes, be they SDL or others, are surely important notions of empathy, compassion, authenticity, enjoyment, credibility, honesty, empowerment and accountability to mention but a few.

At a more abstract level, these developments in our thinking on value, and the creation thereof, may help us deal with the utility measurement problem economics has contended with for a long time. As observed, prices or willingness to pay is not an exhaustive measure of utility, externalities occur. On the one hand, a good example would be situations where natural resources such as water and air are used with detrimental consequences for society yet no means is available to have individual economic agents take into consideration the destruction they cause. Moreover, unintended consequences of economic activity can generate value over and above what is factored into the prices charged for realising that economic activity. A good example is that innovative industrial and architectural design creates aesthetic value enjoyed by third parties.

Greater understanding of value and its creation, allows us to address negative externalities and harness positive ones. In this age of big data analytics offering detailed insight into all aspects of corporate activity, the potential for companies to put value creation at the core of their business has been unleashed.

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