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Value co-creation practices and capabilities: Sustained purposeful engagement across B2B systems☆

Javier Marcos-Cuevas [a,*], Satu Nätti [b], Teea Palo [c], Jasmin Baumann [d]

[a] Judge Business School, University of Cambridge, Trumpington Street, Cambridge CB2 1AG, UK
[b] Department of Marketing, Oulu Business School, University of Oulu, P.O. BOX 4600, 90014 Oulu, Finland
[c] Management School, Lancaster University, Bailrigg, Lancaster LA1 4YX, UK
[d] Norwich Business School, University of East Anglia, Norwich Research Park, Norwich, Norfolk NR4 7TJ, UK

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ABSTRACT

The paradigm of value co-creation in business markets is now well established in the marketing literature. However, the practices and capabilities for collaborative value co-creation are less understood, particularly in increasingly boundary-less interorganizational, network and ecosystem relationships. This paper describes sets of practices that organizations in business markets adopt to co-create value. We provide a theoretically-grounded, empirically-informed classification of value co-creating practices, identifying the underlying capabilities needed to realize value in B2B systems. We adopt a case study approach utilizing various methods of data collection to explore co-creation practices from four organizations. The analysis reveals that 'sustained purposeful engagement' underpins the organizations' ability to co-create and capture value. Implications for organizations willing to develop co-creation capabilities and practices are discussed.

1. Introduction

In marketing theory development and in practice, value co-creation has become a key approach to facilitate achieving positive customer experience and long lasting relationships (Ballantyne & Varey, 2006; Frow & Payne, 2007; Payne & Frow, 2005; Prahalad & Ramaswamy, 2004). Within business markets, companies across industries have begun to stress the importance of involving customers in understanding their needs better and the development and production of offerings to create superior value. Yet, many organizations engaged in B2B marketing often find it difficult to truly understand what customer value means, not to mention value co-creation (Payne, Storbacka, & Frow, 2008). Indeed, value co-creation remains a rather abstract concept without much empirical development and a limited body of work illustrating its implementation in practice.

Conceptually, value co-creation potential is about understanding the "processes, resources and practices which customers use to manage their activities" (Payne et al., 2008, p. 85). Achieving value co-creation requires finding a "structural fit" between the customer activities and those of the seller (Heinonen et al., 2010, p. 533). Value creation has a collaborative and interactional nature and value is no longer solely about value-in-exchange embedded in firm offerings, but also value-in-use (Ballantyne & Varey, 2006; Grönroos, 2006; Macdonald, Wilson, Martinez, & Tossi, 2011). Thus, value is co-created in interaction between customers, sellers and other actors in complex B2B systems. Specifically, customers interact with the seller to access the resources needed for their own value creation process, with the final value realization happening in the customer organization, thereby also giving rise to the notion of 'customer-dominant logic' (Grönroos & Ravald, 2011; Heinonen et al., 2010; Payne et al., 2008).

Together with the on-going conceptual development of co-creation, more empirical examples are needed (Grönroos, 2006), particularly in contexts of boundary-less inter-organizational relationships and complex offerings. To concretize value co-creation, we suggest it is important to look at practices that actors perform together by integrating their resources to create value (Russo-Spena & Mele, 2012), and the capabilities enabling these practices to emerge (Karpen, Bove, & Lukas, 2011). To this end, the aims of the paper are to make co-creative practices and capabilities less abstract and more tangible, thereby providing guidelines that facilitate the realization of value co-creation in B2B systems, and to stimulate further scholarly work in value co-creation implementation. In this paper we tackle two research questions: *1) What are the practices and capabilities that organizations in business markets employ to co-create value*? and *2) how are these practices and capabilities used by organizations in interaction with each other*?

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* Corresponding author.
E-mail addresses: j.marcos@jbs.cam.ac.uk (J. Marcos-Cuevas), satu.natti@oulu.fi (S. Nätti), t.palo@lancaster.ac.uk (T. Palo), J.Baumann@uea.ac.uk (J. Baumann).

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As a result, firstly, we provide a theoretically-grounded, empirically-informed framework of co-creation practices and identify the underpinning capabilities that enable their realization. Secondly, we structure the conceptualization of co-creative practices in three categories - linking, materializing and institutionalizing - to provide coherence to practices such as co-ideation, co-design and co-launching. This framework brings these practices together with the strategic organizational capabilities necessary to achieve them, and thus highlights how practices and capabilities are inextricably linked. Thirdly, we present illustrations of value co-creation practices from four case studies that may help other B2B organizations to enhance their own ability to realize value co-creation in their respective contexts.

We contribute to the value co-creation literature (e.g. Ballantyne & Varey, 2006; Frow & Payne, 2007; Vargo, Maglio, & Akaka, 2008; Vargo & Lusch, 2008) by refining value co-creation practices and their implementation. In so doing, we employ an organizational capabilities approach (interaction capabilities) to understand integrative mechanisms underpinning the realization of such practices. Thereby, we respond to the call by Vargo et al. (2008) to shed light on the processes involved in the implementation of value-co-creation. We introduce and elaborate the concept of *sustained purposeful engagement* as the critical mechanism to develop co-creation capabilities. In line with Grönroos and Helle (2012), who argue that business engagements are founded on a calculation of the benefits that can mutually be created, we claim that co-creation practices and capabilities are reinforced by a widely shared end goal in mind (i.e. purpose) and continued involvement in broadening the scope and nature of collaborative efforts (i.e. engagement) to create value in a joint sphere where the actors involved operate over time (i.e. sustained).

In the following sections, we present in more detail our conceptualization of value co-creation. Subsequently, we analyze four cases to produce an empirically-informed typology of co-creative practices and capabilities prior to discussing our research and presenting the conclusions and implications for practice of this study.

2. Value co-creation

Value co-creation is an overarching construct that captures the evolution of organizational entities towards the development of a higher relational orientation and deeper interaction with their customers (Ballantyne & Varey, 2006). The shift in the locus of value creation from simple exchange ('goods-dominant logic') to use and context of usage means that value cannot be circumscribed to the consumption of units of output anymore, but seen as a process of interacting in ways to produce a holistic experience (Payne et al., 2008; Vargo et al., 2008). Value-in-use may be created prior, during and after the purchase (Heinonen et al., 2010). Hence, "value resides not in the object of consumption, but in the experience of consumption" (Frow & Payne, 2007, p. 91). Helkkula et al. (2012, p. 59) conceptualize "value in the experience" as individual service customers' lived experiences of value that extend beyond the current context of service use to also include past and future experiences and service customers' "broader life contexts" (see also Heinonen et al., 2010). Drawing on service-dominant logic, value co-creation hence extends beyond the present interaction between a producer and a customer, and includes also past and future experiences and expectations. Service providers therefore need to understand the customers' continuously emerging experience beyond individual interaction episodes, as well as their activities with other actors to facilitate value co-creation (Heinonen et al., 2010).

In service-dominant logic, the roles of producers and consumers shift, given that value is co-created in the interfaces amongst actors that connect and integrate their resources (Vargo et al., 2008). According to Grönroos (2008), customers create value for themselves when using the resources offered by a firm, whereas firms can develop opportunities to co-create value with customers by creating possibilities for interaction during the use of goods and services. Hence, value creation can occur within at least three spheres: the provider, the customer, and the joint sphere created in their interaction (see Fig. 1). In addition to the customer being an independent value creator (Grönroos & Voima, 2013; Heinonen et al., 2010), value is co-created in the joint sphere by empowering the customer to integrate and use other actors' resources into their own processes. Often wider networks of B2B actors can also be involved in the process, e.g. by 'mediating' value creation (Nätti, Pekkarinen, Hartikka, & Holappa, 2014). This way, the boundaries of the joint sphere are expanded, enabling a broader interaction platform and engendering new value co-creation opportunities.

Finally, service-dominant logic emphasizes the distinction between value co-creation and co-production; the former being a more encompassing and higher-order concept capturing different types of resource-integrating practices amongst multiple network actors (Vargo & Lusch, 2008), i.e. using the supplier's and other actors' resources in the customer's processes without necessarily involving the supplier directly. Co-production, in turn, has been defined as customers' "participation in the development of the core offering itself" (Lusch & Vargo, 2006, p. 284). However, to understand ways in which suppliers can manage and perform value co-creation practices, we focus on practices performed in interaction with customers and with other actors across the B2B system to concretize value co-creation (instead of practices beyond the direct interaction). Hence, value co-creation includes also the co-production of the offering.

3. Value co-creation practices and capabilities

In this paper, we understand a practice as a "a routinized type of behavior" consisting of bodily and mental activities, things and their use, understanding and knowledge (Reckwitz, 2002, p. 249). Schatzki (2006) considers organizations as bundles of practices and material arrangements involving not only actions but material objects as well. In fact, practices involve an integration of materials, meanings, and forms of competence, and are made by their active reproduction (Shove & Pantzar, 2005). Hence, *practices* can be claimed to be *routinized ways of doing* performed by actors, underpinned by specific *capabilities*. These provide stability and continuity to the organization (Cohen & Bacdayan, 1994; Cohen, 2007).

In this study, we see capabilities as embedded, sustained and habitual patterns that become the foundation for competitive advantage. Capability is generally defined as a set of "skills and resources which enable the company to achieve superior performance" (Harmsen & Jensen, 2004, p. 535) in a way that is almost impossible for competitors to mimic (Barney, 1991; Prahalad & Hamel, 1990). Because of its dynamic nature, it enables matching the resources of the organization and its network of actors to the changing needs in the environment (Teece, Pisano, & Shuen, 1997, p. 515).

Practices are interconnected, and through a process of translation, the effects produced in one practice are resources for others (Nicolini, 2009). We characterize capabilities as the integrative mechanisms that provide the coherence and integration of practices so they result in co-creation. In this sense, capabilities allow the 'whole' (value co-creation) to emerge, becoming more than the addition of the 'parts' (practices). In other words, capabilities provide the background for the assembly and integration of firm-specific assets into clusters, allowing the realization of value co-creation. Karpen et al. (2011) conceptualize six strategic 'interaction capabilities' that enable an organization to co-create value by facilitating the reciprocal integration of resources: (1) individuated interaction capability refers to the identification of a customer's expressed and latent needs, processes and value sought (Terho, Haas, Eggert, & Ulaga, 2012), and (2) relational interaction capability to the cultivation of social and emotional ties between the parties and empathic interaction with the customer (Wieseke, Geigenmüller, & Kraus, 2012). Further, organizations have to ensure that fair and non-opportunistic processes, as well as trust,