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Procedia Economics and Finance 33 (2015) 398 – 410

Procedia Economics and Finance

www.elsevier.com/locate/procedia

7th International Conference, The Economies of Balkan and Eastern Europe Countries in the changed world, EBEEC 2015, May 8-10, 2015

Value Co-Creation in Services: An Economic Perception on the State of the Art in Economics, I.C.T. vs. Marketing

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Abstract

The World Trade Organization (WTO) states that almost two-thirds of the global output produced and almost 20 percent of the global trade accounts for the upcoming "service sector". Since many products now are transformed into services, the old fashioned dichotomy between product and service has been replaced by the current service - product continuum business function.

In pure economics, it was quite safe, so far, that the output produced "Q", represented by famous production function(s) (i.e. Cobb-Douglas) would be a tangible good. Now the production of services displays the same level of diversity pending upon capital intensity, level of innovation and growth prospects.

A service system can be defined as a dynamic value co-creation scheme of combined resources that creates and delivers value. Two service systems are shortly analyzed here, e-health and tourism services.

We conclude upon the needed quantification of the value co-creation process, in order to produce concrete experimental outcomes, in terms of the positive scientific foundations of economics, thus affecting the economic efficiency of service production, along the lines of transaction cost economics.

Peer-review under responsibility of Department of Accountancy and Finance, Eastern Macedonia and Thrace Institute of Technology

Keywords: Service – economy, Value co-creation, Service – productivity, Transaction cost – economics, Economic – efficiency.

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Peer-review under responsibility of Department of Accountancy and Finance, Eastern Macedonia and Thrace Institute of Technology
doi:10.1016/S2212-5671(15)01724-4

1. An Introductory Approach to the Principles

Based on GDP, employment and exports data measurements, the *"service sector"* is the fastest growing in the global economy. The World Trade Organization (WTO) states that almost two-thirds of the global output produced and almost 20 percent of the global trade accounts for the upcoming *"service sector"*.

The term *"service economy"* is used to refer to the relative importance of service in a managerial perspective of *"service in a product offering – that is, products' servitization"*. Indeed, the service economy in most developing countries now includes financial services, hospitality and tourism, health and human services, marketing and retail, education and information – communication – technology (I.C.T.). Since many products now are transformed into services, the old fashioned dichotomy between product and service has been replaced by the current service – product continuum business function.

Services, today, account for some 50% of GDP in LIC (Low Income Countries) whereas it accounted for some 47% of sub-Saharan African countries over the period of 2000 and up to 2005, with industry providing the 37% and agriculture the 16% also (Cali *et al;* 2008). As a particular result, people are leaving the traditional agricultural sector to find work in the service economy that provides employment for low skilled labor in the tourism and retail sectors, thus resulting in employment increase (Cali *et al;* 2008). Accordingly, given our perspective here, we see that new opportunities are rising worldwide in the tourism, health and ICT sectors, such as:

- Scanning and e-health services for US hospitals are provided by Indian companies,
- Tourism service packages are provided by South Africa,
- ICT services (software development, call- centers, office functions, etc.) are provided by India, the Philippines, South Africa and others.

The ability for continuous innovations and productivity enhancement in the service sector is most essential for business success, national welfare, trade development, living standards for the population explosion worldwide, all economic concerns that demand at least a *managerial economics approach analysis to services.* This paper follows this analytical direction, in principle.

The development of economic principles during the last two centuries followed the manufacturing and industrial development of the relative sectors in North America and Europe as well. At the time, the crucial agricultural sector, fundamental as always in the national economic strength and growth, made up a large portion of a country's labor force, output produced, consumption accrued, and global trade. On the contrary, the agricultural sector, in the rest of the world, developing and under-developed (i.e. Third World, in economic jargon) was, and partially still remains, the biggest sector. Under these conditions, production economics, first, saw its birth, growth and foremost establishment and undisputed scientific success within the Micro and Macro economics analyses, these being agricultural (i.e. applied economics), industrial (i.e. managerial & applied economics), or other (i.e. purely theoretical) microeconomic (for firms) and macroeconomic (for the state, and international) disciplines, in science, education, research and applications, foremost in the "western world" and nowadays "globally".

In this sense, regardless of sectors, states, or other distinctions, it was quite safe, so far, that the output produced "Q", represented by famous production function(s), such as Cobb – Douglas, would be a tangible good. Nevertheless, this output definition is considered at an abstraction level indeed. Moreover, the production of services display the same level of diversity pending upon capital intensity, level of innovation and growth prospects. In our research effort here in studying *service productivity, under a managerial economics perspective,* it is quite important to investigate the way capital used, innovations performed and growth achieved across firms, regions and states vary over time.

In principle, then, what is needed in improving productivity in *economic service systems* is to increase the level of *assets per worker; that is, intellectual assets, business process assets, manufacturing process assets, industrial knowledge, software and I.C.T. full use rights assets, etc.* In this manner, the overall service work process need be standardized substantially, so that according to specialization principles, being quite fundamental reasoning in economics, the same business components are employed effectively in most deliveries of the service. The adaptation of successful standardization principles ultimately enables effective increases in assets and asset use that drive growth in business services (including goods production) in an economic system.

Accordingly, in this paper, as well as in all recent economic analyses, we expect that it becomes quite important from now on to look at the old returning challenges that economists face while measuring the output "Q" as a service value rather than a tangible good only.

Hence, this research paper incorporating the concepts of production and productivity in modern business