

Application of Co-creation as Competitive Advantage in Higher Education Marketing: Theoretical Perspective

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Abstract: The application of marketing and management theories into higher education system changed the concept of education from government responsibility to private venture where return on equity is in focus. This phenomenon opened up investment windows but grew the challenges of diverse interest operating within the industry. As a multi stakeholder establishment, the need to balance the interest of all concern is paramount. However, the main target is the students who constituted the larger interest group. The intense competition among institutions necessitated the implementation of various strategies to sustain the dominance in the market. Recent research development are focusing the integration of operant resources (skills, knowledge, information) with the operand resources (fixed and moveable assets) to jointly produce value for the benefits of both parties. Service-dominant (SD) logic is the premise of this concept and this article analyze the theoretical arguments, debates, inconclusive issues and gaps in the literature. The aim is to enrich the academics with the pros and cons of the concept. It will also help education industry to understand the advantages inherent in the value co-creation theories.

Keywords: Co-creation, operant resources, operand resources, integration, competitive advantage

Introduction

The traditional model for value creation focuses on firm output and prices. However, the transformation from manufacturing to knowledge based economy has increased the application of services (skills and knowledge) in virtually all phenomenon (Manzuma-Ndaaba, Harada, Romle & Shamsudin, 2016). Service is the application of competences by one party to the benefit of another party. According to SD logic, this is the underlying basis for exchange and the creation of value is main objective of economic exchange (Vargo, Maglio & Akaka, 2008). This definition from the perspectives of SD logic provides an insight into the nature and purpose of economic activities which is the application of one's competences to the benefits of others. The mechanism is referred to as service system.

Service science is the process of interaction and participation of resources to create value in service systems. Therefore, value and value creation are at the heart of service and are critical to understanding the dynamics of service systems (Spohrer et al., 2008). The new thinking about value creation is a clear departure from the traditional view which focuses on the monetary worth of an item or the price tag of goods and services (Vargo & Lusch, 2004). Value-in-use and value-in-exchange are two dichotomies in the study of value either in goods dominant logic or service dominant logic (Vargo et al., 2008). The similarities and differences of these two schools of thought will be outline after a brief origin of the theory of service dominant logic is explained.

EVOLUTION OF VALUE CREATION THEORY

The controversy over definition of value is traced to ancient period probably from the era of Aristotle. This great philosopher was the first known scholar to distinguish between value-in-use and value-in-exchange (Aristotle, 4th Century B.C). The contention emerged when Aristotle was trying to address the differences between things and their attributes. For example, laptop and its attributes include the qualities such as (make, color, speed, shape), quantities (one, two), and relations (ownership, lease) of the laptop (Fleetwood, 1997). Use-value was recognized as a collection of substances or things and the qualities associated with these collections. Laptop for example, is a collection of qualities (color, speed) and efficiency.

The qualities related to use-value mean different things to different people and thus, are inherently differentiated and heterogeneous. Alternatively, exchange-value was considered as the quantity of a substance that could be commensurable value of all things. Whereas Aristotle was able to explain use-value, he had difficulty specifically identifying exchange-value (Vargo et al., 2008). In his attempt to understand exchange value, Aristotle deliberated over two things he believed could be considered commensurable in exchange, money and need, and eventually rejected both. He decided that money could not be a measure of value because for money to measure a substance, the substance itself must already be commensurable.

In addition, Aristotle believed that “need” was what held the process of exchange together, but a person’s need lacked a unit of measurement. When he attempted to reconcile the two, using money as the measurement of need, Aristotle deduced that although something holds parties of exchange together, it does not hold the same value as the substance exchanged. In the end, Aristotle was never able to clearly identify a commensurable measure for exchange- value (Fleetwood, 1997). This was followed by the Medieval Scholars who recognized the foundation laid by Aristotle for emphasizing use-value in economic exchange and arguing that the basis of exchange was found in the needs of consumers (Dixon, 1990). Before the advent of economic theories, value was recognized as the basis for economic exchange as means of satisfaction and fulfillment (Galiani, 1751).

The definition of use-value was widely accepted among early scholars and philosophers, and there was little debate about it at the time. However, the controversy over a commensurable metric of exchange value remained it was embedded in the development of economic thought, largely by Smith’s (1776) early distinction of real value, labor, and nominal value, money. Adam Smith (1776) the founder of modern economics brought the discussion of value and value creation into the development of economics and the study of market exchange. According to Smith (1776), “the word VALUE, it is to be observed has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys.” Smith called them “value-in-use” and “value-in-exchange” respectively, and explained that “the things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use” (Smith, 1776).

Consequently, Smith based his views on the efficiency of division of labor. The actual application of specialized skills and knowledge is the value in use while the output is the value in exchange. He explained that “real value” was found in the effort or labor required to afford the necessities and pleasures of life, thus tying it to value-in-use like the earlier scholars, and that “nominal value” was the price paid in market exchange. But after recognizing labor as the real basis for value, Smith noted the challenges with measuring labor, directed his work toward value embedded in commodities (tangible exchange) and their monetary or nominal value. The Smith concept opens up further development in the evolution of value creation theory (Vargo & Lusch, 2004).

Given these perspectives, Smith shifted his emphasis from value in use to value-in-exchange and focused on what he deemed “productive” activities. Those that contributed to exchange value through the manufacturing and distribution of tangible goods are what he termed productive class. Although he recognized the essential nature of some labor not connected with the production of surplus goods (e.g., doctors and lawyers), he called this labor “unproductive” because it did not result in units of output that were tangible and exportable. The economics scholars that follow Smith disagreed with his division particularly when he referred to non-tangible output as unproductive labor (Say, 1821; Mill, 1929). The “product” (good) embedded with “utilities” (exchange-value) became the focus of neoclassical economics grounded in marginal utility theory (Marshall, 1927; Walras, 1954). And so, economic science became grounded on a foundation of goods-dominant logic and nominal exchange value.

The S-D logic view of exchange fundamentally challenges the foundation of economics (Vargo & Lusch, 2004), though in a real sense, it recaptures Smith’s (1776) original notions of applied, specialized knowledge and

skills (service) and value-in-use (real value) as primary. However, S-D logic view is that all exchange is based on service, and that “when goods are involved, they are tools for the delivery and application of resources” (Vargo et al., 2006). That is, goods are service-delivery vehicles. In S-D logic, knowledge and skills are key resources for competitive advantage (Johnson et al., 2005). For S-D logic, value results from the beneficial application of operant resources, which are sometimes transmitted through operand resources or goods (Vargo and Lusch, 2004). Thus, from this view, value is co-created through the combined efforts of firms, employees, customers, stockholders, government agencies, and other entities related to any given exchange, but are always determined by the beneficiary (e.g., customer).

Features	G-D LOGIC	S-D LOGIC
Value driver	Value-in-exchange	Value-in-use
Creation of value	Firm, often with input from other firms in a supply chain	Firm, network partners and customer
Process of value creation	Firms embed value in goods or services and value is added by increasing or enhancing attributes	Firms propose value through market offering, customer continue value creation process through use
Purpose of value	Increase wealth for the firm	Increase adaptability, survivability, and system wellbeing through service (applied knowledge and skills) of others
Measurement of value	The amount of nominal value, price received in exchange	The adaptability and survivability of the beneficiary system
Resources used	Primarily operand resources	Primarily operant resources, sometimes transferred by embedding them in operand resources-goods
Role of firm	Produce and distribute value	Propose and co-create value, provide service
Role of goods	Units of output, operand resources that are embedded with value	Vehicle for operant resources, enables access to benefits of firm competences
Role of customers	To ‘use up’ or ‘destroy’ value created by the firm	Co-create value through the integration of firm provided resources with other private and public resources

The crux of the contrast between service-dominant and goods dominant logic lies in the basis of exchange. S-D logic focuses on the action of operant resources (those that act upon other resources), such as knowledge and skills, whereas G-D logic focuses on the exchange of operand resources (those that an act or operation is performed on, such as goods) (Constantin & Lusch, 1994; Vargo & Lusch, 2004). Value propositions establish connections and relationships among service systems. In value co-creation, value is ultimately derived with the participation of, and determined by, the beneficiary (often, the customer) through use (often called “consumption”) in the process of acquisition, usage, and disposal (Holbrook, 1987).

PREMISE NO	FUNDAMENTAL PREMISES
FP1	Service is the fundamental basis of exchange
FP2	Indirect exchange masks the fundamental basis of exchange
FP3	Goods are a distribution mechanism for service provision
FP4	Operant resources are the fundamental source of competitive advantage
FP5	All economies are service economies
FP6	The customer is always a co-creator of value
FP7	The enterprise cannot deliver value, but only offer value propositions
FP8	A service-centered is inherently customer oriented and relational
FP9	All social and economic actors are resources integrators
FP10	Value is always uniquely and phenomenologically determined by the beneficiary

With value-in-use at center stage of a complex value creation process, the service-centered view of exchange suggests that knowledge (and skills) is ubiquitous in the market and is generated by all participants. When value creation is seen from a service systems perspective, the producer– consumer distinction disappears and all participants contribute to the creation of value for themselves and for others. S-D logic captures this equivalence of participants and their roles in FP9: all economic and social actors are resource integrators (Vargo & Lusch, 2008).

VALUE AND VALUE CREATION IN HIGHER EDUCATION

The departure from tangible unit of production to intangible process resulting from use of skills and knowledge expand the horizon of resource integration. In education service for instance, the knowledge of the facilitator (teacher, lecturer, supervisor, professor) and that of the student must integrate to generate value for the benefits of both parties (Diaz-Mendez & Gummeson, 2012). However, according to F10, value is uniquely and phenomenologically determined by the beneficiary (Vargo et al., 2008).

The basic student's resources are:

- Intelligent
- Study habit
- Sense of responsibility
- Personality
- Critical thinking
- Communication skills
- Class participation

While the lecturer basic resources are:

- Knowledge
- Teaching ability
- Social ability
- Personality

The integration of these resources otherwise known as operant resources together with the university facilities (library, ICT, lecture halls etc) known operand resources integrate to give value of learning as determine by students (Diaz-Mendez & Gummeson, 2012). Education service is one of the best representative examples of the value creation approach (Gummeson, 2006).

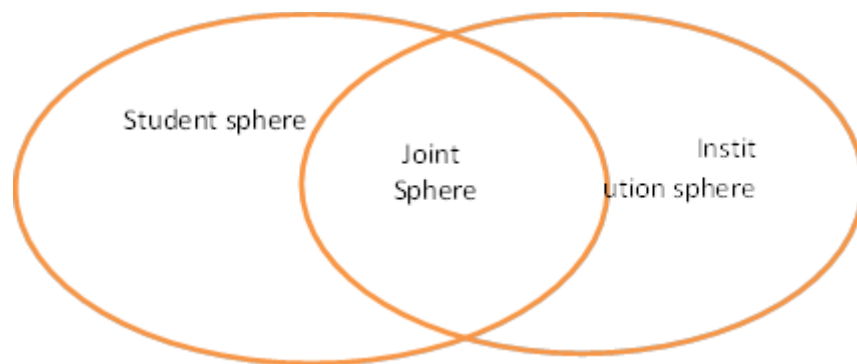
CO-CREATION PROCESS IN EDUCATION

The change from being passive audience to becoming active players and co-creators of value was first noticed by Prahalad and Ramaswamy in 2000. Vargo and Lusch (2004) examined the phenomenon further and observed the way marketing was studied and practiced during 20th century. The authors introduced concept of Service Dominant (SD) logic and customer-centricity, which emphasizes the development of relationships between consumers in this case students and organizations (Higher education institutions) through dialogue

and ongoing interaction (Ramaswamy, 2009). The S-D logic sees the students as an operant resource, a resource capable of acting on other resources, a collaborative partner who co-creates value with the institution (Vargo, 2008) rather than being just a consultant or a resource for ideas (Gummesson, 2006). The concept of the S-D logic provides basis for understanding roots of co-creation (Skarzauskaite, 2013).

Goornroos (2008) analyzed value co-creation process and provided three elements that lead to the outcome: students sphere, institutions sphere and joint sphere. A very similar approach was used by Payne et al (2008). The authors also supported process based perspective and provided a framework which features three sections: customer value creating process (the processes, resources and practices that customers use to handle their activities), supplier value-creating processes (process, resources and practices used by a supplier to manage relationships with customers and other stakeholders) and encounter processes (processes and practices of interaction and exchange). A simplified illustration of the process is provided in Figure 1 “Process of Co-Creation” below.

Fig. 1: Process of co-creation



What Figure 1 illustrates is that in the process of co-creation both student and institution are equally important. Through interaction, the institution gets an opportunity to influence the student value creating process. During this direct interaction (in the environment of social technologies), each value creating process (student process and institution process) are merging into one integrated dialogical process. Both parties are operating inside each other's processes/spheres and have the chance to be active, coordinate actions, learn and directly influence each other (Grönroos, 2011). More importantly, in the value co-creation approach, the student is the one who defines the value. This value is based on the experiences and perceptions while producing, consuming or using the service (value-in-use). Thereby, referring to Prahalad and Ramaswamy (2004), the customer co-creation experience depends highly on particular individuals. Higher education institutions in fact should create an experience environment in which student can have an active dialogue and co-construct personalized experiences” (Prahalad & Ramaswamy 2004).

CONCLUSION

The interpretation of value creation process depicts the significance of value in use to compliment value in exchange (Ramaswamy, 2009). However, there appears to be interdependence and overlapping in the two processes, but rather than substituting they complement each other in the process. Therefore, for efficiency and unique competitive advantage, higher education institutions involved in marketing should evolve a strategic process of co-creating individual student's experience for sustainable growth and impressive performances (Gummesson, 2006; Manzuma-Ndaaba et al., 2016). This study reviewed the theories and famous contributors in the field of co-creation and the application of this unique marketing strategy in the contemporary world.

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