Abstract

Research on value creation in knowledge-intensive business services (KIBS) has grown in recent years. The problem-solving nature of KIBS often results in a situation where a service is delivered under the conditions of information asymmetry between buyer and seller, which successively influences value formation in KIBS.

This paper provides an overview of the results of our empirical research in the field of service design, specifically focusing on value co-creation in KIBS. While scholarship in the field reveals a great deal of interest in the concept of value creation, the existing body of knowledge on service-dominant logic lacks empirical data on value co-creation, and therefore, does not provide adequate practical advice or insights for service designers. This study addresses this gap in the research and aims to identify the key elements of the value formation process in business services.

JEL classification codes: L84 (Personal, Professional, and Business Services), M31 Marketing

Keywords: service design, customer experience, service value, value co-creation, knowledge-intensive business services
1. Introduction

Value creation has been established as the driver, as well as the main purpose, of customer-supplier relationships (Walter et al., 2001), and yet service marketing researchers know little about the process of value creation – when it starts, what it includes, and when it ends (Grönroos and Voima, 2011). Furthermore, as an abstract concept, value has many meanings that vary from context to context (Sweeney, 1994). Since the introduction of the new, service-centred, dominant logic of marketing (service-dominant logic, S-D logic) by Vargo and Lusch (2004), researchers have disputed the interactive process of value creation and the role of stakeholders in it.

Early definitions of value state that it constitutes “the consumer’s overall assessment of the utility of a product based on a perception of what is received and what is given” (Zeithaml, 1988). Recently, service value has also been conceptualised as the mutual gain of service buyer and seller, described as gains created mutually and reciprocally by business partners (Grönroos and Helle, 2010). The concept of service value has evolved from being determined first by the seller, then by the buyer, and then within a multilateral value creation process.

In parallel with this evolution, service design has gained attention as a field of research. A number of attempts have been made to establish a link between the concepts of S-D logic and service design (Edman, 2009; 2010; Haukkamaa et al., 2010). Studies on value creation have also implied that service design tools could promote value creation (ex. Payne et al., 2007, Kukk and Leppiman, 2013). However, despite lively theoretical debates on how value is created, there is still a lack of empirical evidence regarding the value co-creation process (Grönroos, 2011b). It is also not fully known what preferences customers hold in terms of co-creation (Jaakkola and Hakanen, 2013). As a result, one of the key critiques directed at S-D logic is that it lacks concrete guidelines for service development and implementation (Edman, 2009; Haukkamaa et al., 2010).

This paper seeks to fill these gaps in the research by investigating the value creation process from a service designer’s perspective. We aim to develop a deeper understanding of how value emerges in business services in order to enable designers to create services with maximum utility. As a result, our empirical research provides insights into how business service buyers see value and their role in value creation.

We employ the conceptual framework of S-D logic (Vargo and Lusch, 2004; 2008) as well as service logic (Grönroos, 2008; 2011a, 2011b; 2012). We also rely on findings from our previous theoretical analysis, which indicated that service design methodology can be applied to knowledge-intensive business services (KIBS) (Kukk and Leppiman, 2013).1 Our paper aims to contribute to the current body of knowledge on service value and to the domain of business services as well as provide insights for service designers and managers working in the field of business services.

The article is structured as follows: we begin by introducing the theoretical considerations on which our research is based, the second section of the paper then explains our research method and the research process, and the third section describes the results of the study. This is followed by a discussion and suggestions for further research.

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1 Among business services the knowledge intensity required to provide a particular service varies considerably. Services that require the most competence and knowledge input from the service provider can be classified as knowledge-intensive business services (KIBS) (Miles et al., 1995).
2. Theoretical considerations

2.1. Value creation within a service-dominant logic framework

Taking into account the specific problem-solving nature of knowledge-intensive business services (KIBS) (Hertog, 2000; Aarikka-Stenroos and Jaakkola, 2010; 2012; Jaakkola and Hakanen, 2013), value creation within these services is an example of S-D logic in practice: the service provider can offer available input resources for value creation but the outcome depends on a collaborative process with the buyer (Vargo and Lusch, 2004). According to S-D logic, as well as existing research on KIBS (Aarikka-Stenroos and Jaakkola, 2010; 2012; Leppiman 2010, pp. 214, 234–235), the efforts and resources of both customer and provider contribute to the value creation process. Thus, in this framework, the role of a service buyer becomes that of “co-creator” and “resource” rather than “recipient”.

Moreover, keeping within the framework of S-D logic, our approach concurs more specifically with that of Grönroos (2011b), who proposes that as “there is no value until an offering is used” (value-in-use) (Vargo and Lusch, 2006, p. 44) the service buyer is rather a creator than a co-creator of value and the role of a service provider is to be either a facilitator of the value creation process, or a co-creator, depending on the process structure and content. Value-in-use is determined by the service buyer based on how the service output is utilised. As an alternative view on value creation, Grönroos (2011a) defines value creation as an all-encompassing process, meaning it is no longer shaped only during the last stage of service delivery and consumption, but during the whole process of service delivery.

2.2. Value creation in service design literature

Service design literature is currently witnessing an on-going debate on whether a service should be created with rather than for clients (Leppiman, 2010, p. 53). The emerging field of service design supports the principles of co-creation: the aim of service design is seen as producing for clients while involving them in the process of production (co-creation) (Leppiman, 2013). Service design is creating opportunities for change in customer service through the creation of facilities for personalisation (involving the customer’s perspective) and customised service (involving the service provider’s perspective) (Leppiman, 2010, p. 215). Service design creates added value for businesses by differentiating them from their competitors and also by enabling them to better utilise the resources involved in service production. For customers this marks an improvement in the quality of the service experience (Moritz, 2005, p. 57).

A client’s service experience is formed by different touch points (Mager, 2004; Leppiman, 2010). Service design aims to ensure that the services are useful, usable and desirable from the client’s point of view (Mager, 2004; Schneider and Stickdorn, 2011). Service design means developing services in an innovative way, so that the service meets the needs both of the service provider and service buyer (Leppiman, 2010, p. 213).

Another suitable definition (Mager, 2004; Saco and Goncalves, 2010; Moritz, 2005; Leppiman, 2010) states that service design:

• “...aims to create services that are useful, useable, desirable, efficient, and effective.”
• “...is a human-centred approach that focuses on customer experience and the quality of the service encounter as the key value for success.”
• “…is a holistic approach that considers in an integrated way strategic, system, process and touch point decisions.”

This holistic view contrasts with the definition offered by certain authors who distinguish between service design and service experience design. For example, Pullman and Gross (2004) define service experience design as “an approach to promote highly positive emotions for customers by designing virtual or tangible services”. This conceptualisation is highly emotion-centric and excludes the elements of service quality, efficiency, usability and value; as such, its appropriateness in the context of business services is questionable.

2.3. Value creation in knowledge-intensive business services

S-D logic and service design – as a theoretical framework and methodological approach, respectively – both posit value creation as one of the central purposes of service interaction. Both also suggest that co-creation is the key to maximising the value of a service. In addition, the client’s experience and expertise are increasingly being seen as a starting point for service design and the source of valuable input (Tooman, 2007, p. 20). As early as 1993, Anneli Pohjola stressed that in the service co-creation process the customer should be seen as an expert on the context (problem, need for service, implication of the result) while the service provider is the expert on the solution created during the service (Pohjola, 1993, p. 72).

In order to apply the general view of service value creation to a business service context, it is important to keep in mind that customisation and interaction with the client are typically intense and complex processes in KIBS (e.g., Cova and Salle, 2008; Sawhney, 2006, pp. 368–369, Aarikka-Stenroos and Jaakkola, 2010). The main challenge in value co-creation within business services is the asymmetry of the information possessed by the service seller and that of the service buyer (Gummesson, 1978; Thakor and Kumar, 2000; Ojasalo, 2001). Therefore, informational input from both sides and the exchange of information are critical components of a business service. In addition to this, complexity, specialist knowledge requirements, a high level of uncertainty regarding the exact content of the service and the expected outcome, and unrealistic customer expectations are quite common within the KIBS industry (Aarikka-Stenroos and Jaakkola, 2010).

The issue of asymmetry of information in business services complicates rational value evaluation for the KIBS buyer. In the case of a buyer possessing less specialist knowledge than the provider, he or she may lack the competence to objectively estimate the impact of a service. However, it is essential for KIBS to ensure that customers perceive the value of the provided service as high, as it will directly influence their repeat purchase behaviour (Patterson and Spreng, 2005).

Scholars dealing with the subject of value creation, particularly in KIBS, (Aarikka-Stenroos and Jaakkola, 2010; 2012; Leppiman 2010, pp. 158–159; Heinola, 2012, p. 66) generally agree that in complex services, value is created in cooperation between service actors and throughout the whole service life cycle, making value creation in KIBS an all-encompassing process. Our aim is to either confirm or refute this notion with the help of empirical research and to identify the constitutive elements of the value formation process in business services.
3. Research method

In order to reach an in-depth understanding of how perceived value is formed, a qualitative research was conducted. As our research was based on the premise that the service buyer is the expert on the context in question (Pohjola, 1993, p. 72), our main focus was on analysing the client’s point of view. The research process was executed in two stages.

In the first stage of the study, empirical data was collected via semi-structured in-depth interviews (Mason, 2002; Mason and Dale, 2002; Salmons, 2010). The qualitative method was chosen in order to gain a sufficient overview of the informants’ expectations and experiences related to KIBS and the services they provide. As each service experience is unique, we chose a semi-structured (responsive) interview approach to obtain a maximum scope of opinions (Salmons 2010, p. 65).

Purposeful strategic sampling (Mason, 2002) was conducted in order to meet the needs of the study. The informants were selected according to the following criteria:

- the informant is in a position at the company to purchase a business service,
- the informant has a recent KIBS purchase experience (within the last 6 months),
- the informant is eligible to actively participate in strategic decision making and innovation processes in the company.

The selected informants were medium or top level managers. In total seven interviews were conducted, although one interview was found to be ineligible for the study as the informant did not meet the set criteria. The profiles of the informants included in the study are summarized in Table 1.

Table 1. Informant profiles

<table>
<thead>
<tr>
<th>No. of informant</th>
<th>Position</th>
<th>Experience with KIBS within past 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Production director</td>
<td>Product design service, web-design service</td>
</tr>
<tr>
<td>2</td>
<td>Customer service director</td>
<td>Web-marketing agency service</td>
</tr>
<tr>
<td>3</td>
<td>Marketing manager</td>
<td>Advertising agency services, IT consultancy services</td>
</tr>
<tr>
<td>4</td>
<td>Head of HR</td>
<td>Various training services</td>
</tr>
<tr>
<td>5</td>
<td>Head of customer service</td>
<td>Training in customer service</td>
</tr>
<tr>
<td>6</td>
<td>Marketing manager</td>
<td>Advertising agency services; marketing consultancy service</td>
</tr>
</tbody>
</table>

Assuming that customer attitudes and expectations can be influenced by cultural aspects (Veldnik, 2010), informants from a variety of cultural backgrounds were selected in order to obtain a broader scope of data and conclusions that are easier to generalise upon.

The interviews were conducted in person and lasted approximately 40 to 60 minutes each. The interviews covered three main topics: (1) the client’s general expectations in terms of the service solutions offered by KIBS; (2) the client’s perceptions and expectations regarding value formation in KIBS; (3) the client’s perceived and desired role and contribution to the KIBS outcome.

In the second stage of the study, a qualitative content analysis (Gibbs 2007; Leppiman, 2010; Schreier, 2012; Bazeley, 2013) of the interview transcripts was performed in order to extract valuable information and to identify common attitudes and expectations.
4. Results

4.1. Value formation process in KIBS

The qualitative content analysis resulted in the following findings. First of all, our research provides insights into how clients perceive the process of value formation in KIBS. If asked directly, the informants all replied that the perception of value in KIBS is formed according to how useful and usable the outcome is (in line with the value-in-use concept). A deeper analysis of the interview transcripts, however, revealed that the process of service delivery has an equally strong impact on value perception.

This empirical research of client perspectives on value co-creation in KIBS showed that according to the perceptions of service buyers, the KIBS delivery process can be divided into four phases: identification of a need or problem, selection of the optimal service solution, execution of the service and implementation/exploitation of the results (Figure 1).

*Figure 1. Phases of KIBS according to client perceptions*

Identification of the need/problem is the initial contact stage between the buyer and the KIBS firm, identified clearly by the client. The touch points before the direct contact with KIBS, which service designers often consider to be a part of the service process (e.g. finding out about the KIBS firm on their website), are not perceived as a part of the value creation process in which the customer is actively involved. From the customer’s perspective, a typical aim of the problem identification stage would be to clarify the purpose of the service purchase and to articulate the expected results. Customers recognise that the identification of a true need is the key to value creation, and therefore, point out the importance of this stage in the KIBS delivery process.

The optimal service solution selection phase of KIBS is a relatively short stage where the service provider proposes his view of the solution. In this phase the customer mainly sees his role as approving or rejecting the proposed solution. In some cases this stage may contain a longer process of negotiation on the exact content or form of the proposed solution.

Execution of the service solution is the stage where service buyers see their role as insignificant and their preferred impact on the process as minimal. It is expected that the service buyer’s contribution during the previous stages of KIBS (mainly during the identification phase) is sufficient to provide all the necessary input.

Besides, the analysis indicates that the process of value creation continues for the KIBS client also once the production of the result is finished and the intended result of the service has been achieved. Execution of the service solution is followed by another phase of the KIBS value creation process: implementation and/or exploitation of the results. Even though this phase is rarely part of the service as such, our research shows that clients see it as an inseparable part of KIBS, as the evaluation of the service solution is only completed once the outcome of the service has been implemented.
4.2. Client perspectives on co-creation

Our analysis of the interviews revealed that the general willingness of clients to co-create is fairly high. In addition, the flow of a co-creative service process has an impact on several value constructs; for example, the expectations regarding the result and the perception of how much effort the KIBS firm had put into achieving it.

According to the informants, clients are in general eager to contribute to value creation, yet their participation in the process depends very much on the type and the purpose of a particular service as well as on the provider’s eagerness to engage with the client and their methods of doing so.

The informants stated that their desired participation in value co-creation varies depending on the nature of the KIBS activity. Nevertheless, all the informants emphasized that any contribution that is made on their end when purchasing a particular service needs to be justified as well as planned beforehand. Active co-creation is possible without a perceived decrease in the value of a service provided that the service provider and the buyer have agreed on the timeline and structure in advance. This sort of planned communication does not only ensure a higher level of perceived value but also allows the service buyer to feel in control of the situation.

During the identification of the need/problem phase buyers of KIBS are prepared to be active and to collaborate with the service provider. The general expectation of the client in this phase is that the service provider will procure the information necessary to provide the service. Face to face meetings, interviews and client visits are the expected forms of collaboration during the identification stage.

As it is largely acknowledged that service providers possess more competence on the issue at hand, they are also expected to “ask the right questions” and to choose appropriate info-gathering methods and tools. However, clients also feel a strong need to not only assist in the identification of the problem but also to explain their precise expectations in terms of the result.

The informants reported that, in their experience with KIBS, they had never felt overwhelmed by the communication with the service provider during the problem identification phase, and were considerably motivated to provide access to all the required information. The informants also noted that when there is a lack of communication at this stage, the service buyer will become cautious in terms of the quality of the KIBS and will eagerly take the initiative himself to provide more input to the service provider.

Interviewees commented that the demanding problem/needs identification process did not bother them; on the contrary, their involvement in the early stage of KIBS even increased their trust in the service provider:

*Being involved from the very beginning gives you an opportunity to get to know the people and to trust them.* (Informant 6)

Furthermore, their expectations regarding the KIBS outcome were also raised as a result of the collaborative preparatory process:

*In the beginning [...] the more your strategic partner is able to get to know your business, the more he is able to deliver results later on his own.* (Informant 3)

*When we started cooperation with our current strategic partner, they insisted on meeting everyone and having interviews in the company. Yet after five years of cooperation we somehow feel that they haven’t done the preparatory work professionally enough, that they weren’t listening.* (Informant 3)
Profound preparatory work led us to thinking that there is a very strong base to the [service delivery] process. It led to thinking that we won’t need to give a lot of input later. What happened in reality – was a surprise. (Informant 2)

When it came to the selection of the optimal service solution, clients seemed to expect a decline in their participation in the value creation process. The informants stated that, in general, they were eager to negotiate and to contribute to shaping the final service solution:

I would like to be involved [in selecting the service solution] […] it’s creative agency, it’s our face, it’s important to get to know the people you are working with at the very beginning, so that I would know that I could trust them and to make sure that I like what they are doing. (Informant 6)

However, it was clear from the interviews that the informants expect their contribution at this stage to remain minimal. It is preferred that service providers communicate their vision of an optimal service solution and their reasoning for it.

In cases where the service buyer is expected to deliver feedback or suggestions regarding the proposed result, the informants emphasize that it is preferable to keep the negotiation process as short as possible. Interviewees also stated that by the time agreement on a service solution is reached, the informational asymmetry between the buyer and the seller of KIBS should be minimal; this means that the client expects by this point to have gained a clear understanding of what is going to happen when the service is provided and the KIBS firm should have already gathered all the necessary information to solve the problem.

The third phase, execution of the service solution, is the phase where the clients expect to play only a minimal role in co-creation. In fact, they often expect their contribution to the value co-creation process to be completed after the exact content of the service solution has been agreed upon in the previous stage of KIBS delivery. Contrary to expectations, according to the informants, the service providers often initiate frequent and unexpected communication with clients during the execution phase. Mostly, this is done to receive feedback on the process or to gather additional information.

All the informants explained that frequent engagement with the service buyer during the execution phase reduces the perceived value of KIBS significantly. Typical comments regarding high customer involvement in the execution of the service solution included the following:

We didn’t expect our contribution to the process to be so big. (Informant 4)

We experienced how the service provider was constantly asking for feedback and sending us materials to review. After some time I felt that I had done 50% of the job we were paying them to do, so I would actually ask in this case if what we paid them should also be 50% less. (Informant 1)

The client’s expectation is generally that the person responsible for the project on the KIBS end should be competent enough to make decisions without consulting the client too often:

I would assume that it's the project manager who would do the preliminary “filtering” and eliminate something that he knows we wouldn't like or need. (Informant 3)

I could have just a made call to one person and everything would be taken care of [without my participation]. (Informant 6)
In the case of communication with the aim of receiving feedback on the process, the service buyer feels his contribution to value creation to be too high in relation to the KIBS firm’s contribution, and therefore, the resulting value is not created through the competence of the KIBS firm. Moreover, if during the execution phase the KIBS firm initiates a process to gather additional information, it also reduces the perceived value of the service, as it devalues the problem identification phase. Informants noted that continuous information requests during the execution phase raised doubts regarding the KIBS provider’s professionalism and competence.

The final stage of KIBS, the implementation and/or exploitation of the results, was described by almost all the informants as crucial regarding the evaluation of service value. KIBS buyers state that in this phase the perceived value of the service that has been forming during the service process until this stage may either increase or decrease. A typical situation to illustrate a decrease in perceived value would be when a client receives the result produced by the KIBS firm but lacks the competence to use it in practice. In this case even though the quality and outcome of the service process are good, the value of the service to the client is minimal. To avoid this, KIBS buyers believe that the provider needs to make an effort to deliver “instructions for implementation and exploitation” or to facilitate the creation of value-in-use directly, in other words to minimize the informational asymmetry in this phase:

After finishing the product design process we have to still figure out on our own how to put that into production. (Informant 1)

The informants stated that, in their experience, when a KIBS provider builds the whole service around the precise expectations that the client describes in the first phase of KIBS, the results are usually more “usable”; however, the client might feel that his contribution to the value co-creation was disproportionately high. In order to form the maximal value-in-use the result has to be something that the service buyer would not be able/willing to produce on his own, yet something that he can apply in practice.

5. Discussion

The empirical research conducted for this study shows that clients acknowledge the role of co-creation in the process of value shaping in KIBS. At the same time our research confirms the statement first presented by Aarikka-Stenroos and Jaakkola (2010) that KIBS buyers do not see themselves as equal partners in creating value, even if a KIBS firm is referred to as a “partner”.

Furthermore, our research shows that the proportion of the client contribution towards value co-creation is connected to the client’s perception of the value of the service. If this contribution is disproportionate in either direction – if the client’s involvement is too low or too high – the perceived value of the service declines. Therefore, it is essential for the KIBS firm to keep the client involved to the extent required to provide an optimal outcome but also for the client to feel involved to the extent that maximises his perception of the value.

Another useful finding is that when a client is engaged in the value creation process in KIBS, in order to maximise this value, the process of co-creation should not be conceived as linear or flat. Clients of KIBS firms are sensitive not only to the total extent of involvement during the service process but also to its variation. Therefore, an important challenge for service designers attempting to develop an optimal model of KIBS will be to create
opportunities for dynamic involvement. Greater involvement in the first phase of the KIBS process (identification of the need/problem) seems to generate higher expectations and also a higher perceived value of the outcome. However, if involvement remains high during the execution of the service solution it lowers the perceived value. Therefore, in order to maximise the client’s perception of the value of KIBS, service providers need to re-think their service delivery structure, taking into account both the provider’s perspective and needs regarding value co-creation and the service buyers’ view and expectations.

Furthermore, our findings indicate a lack of co-creation in the final stage of KIBS, as this phase might not always be considered still part of the service. Considering that a crucial part of the client’s value perception forms as value-in-use, the only way for a service provider to really engage in a value co-creation process is to be ready to contribute to the implementation and exploitation of the results after the results have been delivered. Otherwise the customer remains the only creator of value (Grönroos, 2011b), which in turn can cause a decrease in the perceived value of KIBS due to the complexity of the process. In order to avoid this we recommend that KIBS firms extend the service solution from a 3-stage model (problem identification – selecting the optimal solution – execution) to a 4-stage model that includes facilitating the implementation of the results. This will enable KIBS firms to ensure their role as value-co-creators in KIBS.

6. Conclusion

The question of how value emerges in services has become an increasingly important subject in service marketing literature since the emergence of S-D logic. Researchers have described various approaches to value creation and co-creation, including value-in-use and value creation as an all-encompassing process. At the same time the newly emerged service design literature has been aiming to provide tools and tips for service practitioners in order to facilitate value creation process and make services more useful, usable and desirable. Our study sought to fill the gap in empirical evidence in this area and offers practical advice on how the value creation process can be made more efficient.

In order to provide insights into how business service buyers assess value and how they see their role in value creation we interviewed the clients of KIBS. The interviews were focused on the client’s perspective of the value creation process and on his willingness to co-create value. A qualitative content analysis of the interview transcripts revealed a number of interesting findings. The first finding of the study was that the co-creation process and value perception are very much related in the KIBS process; the client’s engagement in the value creation process can influence the perceived value both positively and negatively. The second finding of the analysis was that in each of the stages of the process the client expects to contribute a different amount of time and effort in order to assist the KIBS provider in creating value. This shows that an optimal process of value co-creation will have a dynamic character, responding to the client’s willingness to co-create at each stage of a service process. Third, we conclude that clients perceive the value of KIBS neither as an all-encompassing process nor purely as value-in-use but as a combination of the two, the value-in-use playing a critical role while at the same time being very much influenced by the service process flow.

This study contributes to the body of knowledge on service value and value co-creation by providing empirical evidence on how value is created in a knowledge-intensive business
service. While the results of the study provide input and directions for further research for scholars working on the topic of service value and value co-creation, we consider our major contribution to be the practical insights we offer to service managers and service designers seeking to improve customer perceived value.

7. Implications and limitations

Our research offers significant advice to service designers and service managers on the key aspects of value co-creation in KIBS that influence the value of a service. We suggest that, in business, the service buyer’s perspective on value should be shaped through an “all-encompassing process” of value creation involving dynamic collaboration with stakeholders, with the most critical value-forming moment being the last stage of the service when the result is being implemented in practice (“value-in-use”). Therefore, when applying the principles of S-D logic to practical service design the focus cannot be solely on either one or the other of these approaches to value creation but rather both must be taken into consideration and seen as complementary.

As the conclusions of this study relate solely to KIBS, the results should be tested on other types of services before any generalisations can be made. Furthermore, in order to provide a holistic picture of the value creation process further research could extend to include service providers’ perspectives on value co-creation.

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