



Doctorado en Administración y Dirección de Empresas
Departamento de Organización de Empresas y Marketing

“Towards a co-creation framework: Understanding the effects on customer satisfaction, loyalty and word-of-mouth”

Doctoral Thesis

EMILY GROTT

Supervised by

DR. JESÚS CAMBRA-FIERRO

DRA. LOURDES PÉREZ

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For my loved ones, both near and far.

*Start by doing what's necessary;
then do what's possible;
and suddenly you are doing the impossible.*

Francis of Assisi (1181-1226)

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CHAPTER 1
INTRODUCTION

1.1. Introduction

Value is recognized as a central tenet in marketing due to the fact that it is a reliable indicator of consumer behavior (Zeithaml, 1998; Holbrook, 1994) and is correlated to key marketing constructs such as perceived price, service quality, customer satisfaction (Fournier et al., 1999; Gupta et al., 2006). Despite the absence of a single unified definition (Grönroos and Gummerus, 2014; Sánchez-Fernández and Iniesta-Bonilla, 2007) authors such as Zeithaml (1998) and Cronin et al. (2000) posit that value is ultimately a trade-off between sacrifices and benefits. In this sense, the creation of value provides companies a path through which to develop competitive advantage (Payne et al., 2008; Kazadi et al., 2016).

The transformation of the business environment in recent decades has heralded drastic changes in the way companies operate, and as such the marketing function itself (Kumar, 2018). Notably, globalization has forced firms to compete and create value in systems and networks rather than solely on their own (Ramaswamy and Ozcan, 2016). Therefore, academics have revisited the concept of value creation and tried to understand it in this new context (Vargo and Lusch, 2004; Gummesson and Mele, 2010; Grönroos and Voima, 2013; Ind and Coates, 2013; Ramaswamy and Ozcan, 2018).

Furthermore, globalization has resulted in an increasingly competitive environment in which firms specialize whilst simultaneously cooperating with others in order to provide overall solutions for customers (Pérez et al. 2013; Cambra-Fierro et al. 2018). Thus, they become more interdependent and value creation becomes a shared process. Equally, companies must work harder to capture and maintain profitable customers, whilst generating higher value (Prahalad and Ramaswamy, 2004). This is reinforced by Chen (2015), who noted that fierce competition in the retail market demands that companies invest in value generation to retain customers. Thus, globalization has signaled both positive and negative outcomes. Organizations are able to transcend national boundaries with their product offerings and services, move production abroad, attract a broader geographical customer base and expand their network of suppliers (Levitt, 1983) However, it has resulted in an increased competitive environment.

In light of the 2008-2009 financial crisis, a sense of doubt surfaced and companies questioned whether they should reverse strategies and focus more on localization and shift away from global trade (Ghemawat, 2017). Nevertheless, the latest DHL Global Connectedness Index from 2016 does not support this trend, further reasserting the importance of the fundamental concepts of exchange and value, for which both companies and customers are pivotal.

Equally as notable, services increasingly dominate the GDP of highly-developed regions (Ostrom et al., 2010) – for example, 73.9% in the European Union (WorldBank, 2018) - with the International Monetary Fund predicting that services exports could propel a new movement of globalization (Loungani et al., 2017). Authors such as Shostack (1977) have long argued that the inherent differences between products and services (beyond the qualities of tangibility/intangibility) mean that each should be employ different marketing tactics and requires firms to adopt an alternative approach in the market.

For their part, consumers have become more informed, connected and knowledgeable, whilst also demanding higher value generation (Prahalad and Ramaswamy, 2004). Authors such as Vorre-Hansen (2017), Roser et al. (2013) and Albinsson et al. (2011) concur that customers are asserting a more participative role with firms so they can bring their own meaning and value to marketing offerings. As Payne et al. (2008) note, customers should no longer be viewed as passive receivers of value but rather as active co-creators and partners. Fisher and Smith (2011) believe that value co-creation is more about the customers taking things into their own hands and creating their own value. As such, the expectations of customers are heightened as they are more involved service delivery, particularly as they invest time and energy (Heidenreich et al., 2015). Furthermore, due to innovations in information and communications technology, customers are increasingly engaging in interactive experiences (Ramaswamy and Ozcan, 2016), thus facilitating co-creation (Ind and Coates, 2013) and shaping their relationships with their service suppliers and other customers. Interactions, such as those witnessed in online communities, bring together firms, customers and other stakeholders in multiple channels and accelerate value creation (Ramaswamy and Ozcan, 2018). This is particularly important as services are increasingly being traded digitally across borders

and the vital role that services play in the growth of economies (Deloitte, 2018 <https://www2.deloitte.com/insights/us/en/economy/issues-by-the-numbers/trade-in-services-economy-growth.html>).

The aforementioned changes in the business environment are reflected in the emergence of related concepts: relationship marketing, total quality management, market orientation, supply and value chain management, resource management and networks, which dominated marketing literature from 1980s onwards. Companies were encouraged to foster long-term relationships with customers and other parties in their networks, offer and capture higher value with and from their clients and take a more holistic approach to conducting business in the market.

To understand this new context, we need to use the appropriate lens through which business should be considered: Service-dominant logic (SDL). Essentially, Vargo and Lusch (2004) offered an integrative paradigm to respond the emerging concepts in marketing, which were valuable in their own right but essentially offered a fragmented approach (Sheth and Parvatiyar, 2000). Though not without its critics (O’Shaughnessy, J. and O’Shaughnessy, N.J., 2009), SDL has many won many plaudits amongst academics. Essentially, the authors (Vargo and Lusch, 2004) emphasized the importance of services, networks and value co-creation.

Propelled by the seminal article of Vargo and Lusch (2004), Service-dominant logic has provoked much debate in the field of marketing (Grönroos, 2012; Payne et al., 2008; O’Shaughnessy, J. and O’Shaughnessy, N.J., 2009). Fundamentally questioning the traditional model of economics and the underlying premises of exchange and value, the authors posit that due to the move away from goods-based economies towards service-based economies requires companies to take a more holistic approach to marketing and adopting a services-centered view. Their original work (Vargo and Lusch, 2004) outlined ten foundational premises, which reflected the paradigms that emerged within marketing academic research of the previous twenty years.

Through their oft-cited research, Vargo and Lusch (2004, 2008, 2016) challenged the traditional economic model of exchange and value, believing that in “human systems,

which are characterized by specialization and thus interdependency, value is always cocreated.” (Vargo and Lusch, 2016, p.9).

Of the ten original foundational premises of SDL the notion of value co-creation has provoked the most discussion (Fisher and Smith, 2011; Ostrom et al., 2015). There is a general consensus that co-creation essentially means that companies can no longer view themselves as the sole providers of value; customers (and other parties in their networks) actively participate in the final value assigned to any given market offering (Fisher and Smith, 2011; Grönroos, 2012; Prahalad and Ramaswamy, 2004; Saarijärvi et al., 2013). That is to say, both companies and customers combine their resources (operand and operant resources) to determine the value of a market offering, thus coining the term co-creation. However, due to the plethora of articles and differing approaches, divergent opinions exist as to what constitutes value co-creation and the specific outcomes (Galvagno and Dalli, 2014; Alves et al., 2016; Ranjan and Read, 2016).

As companies strive to generate more value, both academics and practitioners have understood that organizations must shift their focus and look to their customers, and other parties in their networks, to achieve greater value. Thus, the notion of value co-creation, as propelled by authors such as Vargo and Lusch (2004, 2008, 2016), Prahalad and Ramaswamy (2004) and Ramaswamy (2011), posits that companies should no longer view themselves as isolated creators of value and understand that customers are also vital to co-creating with them. Thus, co-creation implies the active role of organizations and consumers, and value created is determined by the recipient (Vargo and Lusch, 2004), implying that value-in-use is an important element of the concept (Grönroos, 2012). As such, value co-creation has sparked a lively debate since Vargo and Lusch’s (2004) initial work, with a wealth of academics furthering investigation and identifying the topic as a research priority (Ostrom et al., 2010; Ostrom et al., 2015) and its increasing importance in management and marketing literature (Andreu et al., 2010).

On the other hand, whilst many business leaders predicted the flattening of the world, effectively meaning less product and service adaptations to connect with customers from all parts of the world, globalization has undermined these preconceptions and actually highlighted the differences and distances between countries (Ghemawat,

2017). The seminal and well-respected author, Hofstede (1980), highlighted precisely how cultures differed along four key dimensions, offering academics and practitioners alike a means to distinguish patterns of behavior in routine situations. Whilst Hofstede's work has been criticized for equating nationality with culture, his culture theory is the most widely accepted amongst academics (Taras et al., 2010; Taras et al., 2016). As such, in the academic field of international marketing, Hofstede's model has been the basis of research assessing consumer behavior within the context of culture, specifically examining post-sales service performance and satisfaction (Birgelen et al., 2002), behavioral intentions (Liu et al., 2001) and consumer trust (Schumann et al., 2010).

So, whilst globalization allows companies to cross national borders and obtain a more geographically diverse customer base, organizations need to adapt to cultural differences.

1.2. Objectives

Based on a review of extant literature the following gaps were identified and form the basis of this thesis project. Firstly, given the numerous articles on value co-creation there is a lack of an extensive bibliographical review that examines the current status of value co-creation, the divergent streams of research, the positive and negative outcomes of co-creation and possible effects of culture on co-creation.

Whilst existing literature highlights a number of bibliographical reviews published (Galvagno and Dalli, 2014; Alves et al., 2016; Stuart and Read, 2016) none cover all the aforementioned aspects. Given the importance of co-creation in marketing literature (Ostrom et al., 2010; Ostrom et al., 2015) it is essential that there is a move towards a unified approach and avoiding "black-boxization" (Leroy and Salle, 2013). Secondly, although a few number of researchers have provided empirical research to examine the outcome of value co-creation on customer behavior (Cossío-Silva et al., 2016; Navarro et al., 2016), there are even fewer that have assessed the impact of co-creation from a customer perspective (Fyrberg Yngfalk, 2013). Furthermore, none has conjointly assessed the effects of co-creation on satisfaction, loyalty and word-of-mouth (WOM). Each of these constructs are recognized as important concepts to determine customer behavior (both transactional and non-transactional) and ultimately as a means for

companies to seek competitive advantage and enhance their performance. Thirdly, a gap in the literature was identified to empirically examine whether co-creation affected transactional and non-transactional behaviors of customers within a cross-cultural setting (Mc-Coll Kennedy et al., 2012). Given the current focus on localization (Ghemawat, 2017) companies need to understand the potential differences that exist between countries when fostering co-creation practices. Thus, no studies were found that examined the effects of co-creation on satisfaction, loyalty and WOM within a cross-cultural context.

With this in mind, the objectives are:

- To provide an extensive bibliographical review of value co-creation, using SDL as the theoretical framework.
- Empirically assess the direct effects of co-creation on satisfaction, loyalty and WOM from a customer perspective.
- Provide empirical research that examines, from a customer perspective, the direct effects of co-creation on satisfaction, loyalty and WOM within a cross-cultural setting.

Table 1.1. outlines the aforementioned objectives of this Thesis.

1.3. Structure of the Thesis

The structure of the Thesis is as follows: Chapter 1 provides an initial discussion of the topic of interest and highlights the justification and specific objectives of the study (as outlined in the previous section). The fundamental topic of interest, value co-creation, is examined using the theoretical framework of service-dominant logic, which is the basis of subsequent chapters. Value co-creation is assessed in conjunction with the concepts of satisfaction, loyalty and WOM. Chapter 2 specifically examines extant literature, the divergent opinions and research that have emerged in relation to co-creation, highlight possible negative outcomes with co-creation practices and how these can be avoided, and the future of the topic. Next, Chapter 3 assesses, from a customer perspective, the outcomes of co-creation on transactional and non-transactional customer behavior, as measured through satisfaction, loyalty and WOM. Chapter 4 follows by adding a cross-

cultural component to examine whether the outcomes of co-creation are affected by culture. Specifically, to highlight any possible contrasts between different cultures in terms of co-creation and outcomes with satisfaction, loyalty and WOM. Finally, Chapter 5 presents the conclusions, implications and suggestions for future lines of research.

In the second chapter the topic of value co-creation is presented and discussed in depth. The increasing prominence of value co-creation in marketing literature (Andreu et al., 2010) is due to the rapidly-changing business environment: globalization (Loungani et al., 2017), intense competition (Chen et al., 2015), technological advancements (Ind and Coates, 2013; Ramaswamy and Ozcan, 2016, 2018) and the increasing dominance of service-based economies (Ostrom et al., 2010). Combined, these factors have propelled organizations to seek alternative ways to generate value, due to the importance of value as a reliable indicator of consumer behavior (Zeithaml, 1998; Holbrook, 1994), the correlation to key marketing constructs such as perceived price, service quality, customer satisfaction (Fournier et al., 1999; Gupta et al., 2006); and as a means of gaining competitive advantage (Payne et al., 2008).

The initial article by Vargo and Lusch (2004), as proponents of service-dominant logic, sparked a flurry of interest. With service-dominant logic the authors proposed a new paradigm in marketing, encompassing the emergent concepts of relationship management, quality management, market orientation, supply and value chain management, resource management and networks, based on ten fundamental premises which reflect the key concepts of exchange and value. Most notably, Vargo and Lusch (2004) argued that value is not only generated by firms but that customers are a crucial component of the value creation process. Specifically, customers are always co-creators of value through value-in-use (through actually using the market offering), which in turn implies that firms must be customer orientated and relational; value must be created and integrated through networks; and each beneficiary individually decides the value they assign based on their own experiences. In later works (Vargo and Lusch, 2016), the authors stress that value co-creation does not refer to customers actively taking part in the production process of a firm's product, i.e. co-production, and thus, customization. Vargo and Lusch (2016) assert that co-production (in the sense of designing, customizing...) is optional and dependent on a series of factors, but is a distinct concept to co-creation.

Thus, co-creation necessarily exists with all market offerings – customers have an active role and create value together with the firm – and refers to the way customers interact and interpret value propositions, and the experiences they have through value-in-use, which determines the final value of a market offering. In short, value co-creation emphasizes resource integration and service exchange.

In the decade that has passed since Vargo and Lusch's seminal article (2004), value co-creation is still a current topic (Fisher and Smith, 2011). However, as Grönroos and Voima (2012, p.133) note, "value creation and value co-creation have not been analyzed sufficiently rigorously". Whilst numerous articles have been published, there is a lack of general consensus on a precise definition. As such, authors such as Ranjan and Read (2016, p.294) state that, "most studies define the concept of VCC (value co-creation) as a function of the research question at hand". To highlight this, McColl Kennedy et al. (2012) identified twenty-seven definitions of value co-creation. However, it is possible to identify three main groupings of oft-cited authors, each of whom varies in their approach and underlying theoretical framework with regards to co-creation: Vargo and Lusch (2004, 2008, 2016) with SDL; the Nordic school of authors, for example Fyrberg Yngfalk (2013) Grönroos (2012) Gummerus (2014) Voima (2013) – based on service logic; and Prahalad and Ramaswamy (2004), taken from the field of strategy.

Prahalad and Ramaswamy (2004) and Ramaswamy (2011; 2014) understand that co-creation refers to engagement and customer orientation, emphasizing the interactive experiences that companies need to facilitate to engage with their customers. In other words, organizations need to break away from a firm-centric, product-centric approach and move towards personalization, community and social experience (Ramaswamy and Ozcan, 2016).

On the other hand, Nordic scholars such as Grönroos and Voima (2013) argue that value co-creation only occurs in certain situations. Specifically, when the service provider and customer have direct, personal interaction (Grönroos, 2012). In the absence of direct, personal interaction with a firm value creation is facilitated but it is the customer who creates value. Thus, the emphasis is on value-in-use, and the term co-creation can only be applied when the customer and firm interact together.

In accordance with the fundamental premises of SDL, we concur with the definition of Mc-Coll Kennedy et al. (2012, p.375): “customer value co-creation as the benefit realized through activities and interactions with collaborators in the customer’s service network”.

Given the importance of customers in value co-creation it is vital to understand the concept from their perspective and assess the outcomes using key marketing constructs which can be used by firms to measure customer behavior, thus allowing for practical insights. As such, the objective of Chapter 3 is to empirically examine the outcomes of value co-creation on transactional and non-transactional customer behavior. Whilst some authors have provided empirical evidence (Navarro et al., 2016; Vega-Vázquez et al., 2013) to measure specific variables, none has conjointly examined the outcomes of co-creation with satisfaction, loyalty and WOM.

As authors such as Prahalad and Ramaswamy (2004) and Ramaswamy and Ozcan (2016, 2018) stress, co-creation requires interactive experiences, which is particularly important when we consider that customers are involved in service delivery the more complex services become (Heidenreich et al. 2015). Successful value co-creation depends on the learning process by both firms and customers (Vargo and Lusch, 2004) – through the interaction of operant and operand resources - participatory design and adequate relationship management (Payne et al., 2008; Saarijärvi et al., 2013). Thus, we can infer that co-creation is a process of building trust and joint learning (Cambra et al. in press).

To test the model the study was carried out in the retail banking industry. The financial services sector is considered a driving force behind the success of developed countries. For example, in 2017 the financial services sector accounted for 6.5% of total economic output in the UK (<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193>) with Luxembourg’s financial services industry heading the list of OECD countries accounting for more than a quarter of total economic output.

Furthermore, according to the OECD, the vast majority (ninety-four percent) of adults in developed countries have a bank account. In practical terms adults need to have a bank account to work, manage finances, pay household bills and ask for credit. Bank

customers need to actively participate in the service delivery process, which is often characterized by lengthy relationships with their providers (Greer, 2015). However, they may be less highly involved than other hedonic services – such as booking a holiday – as banking is a necessity rather than an optional choice (Greer, 2015). Also, as Chan et al. (2010) noted, value co-creation is especially relevant to professional services as offerings may be tailored to each customer, involve high contact with customers and characterized by credence attributes. As such, financial services are defined by four characteristics: information-intensity, intangibility, membership-based customer relationship and the complexity of contracts (Ponsignon et al., 2015). Chen et al. (2015) also highlight that market offerings associated with financial services companies are complex, thus requiring provider and customer to collaborate.

Banks contribute to the economy by creating money through loans. Essentially, when banks provide a new loan asset they offset the loan by creating a new demand deposit. As the 2008 economic crisis evidenced, the bank equity of some financial institutions dipped to dangerous levels as customers were unable to meet mortgage repayments, which led to the closure of a number of banks and numerous mergers. Prompted by this economic crisis the issues of building trust and joint learning were particularly poignant in the retail banking industry as consumer confidence was severely eroded. Although the financial crisis has since recovered EY's 2016 Global Consumer Banking Survey highlights that only 39% of customers have complete trust in banks with branches. As Van Esterik-Plasmijer and Van Raaij (2017) note, trust is fundamental for banks as it smooths transactions with customers, can act as a buffer for negative experiences and is a strong predictor of loyalty. Thus, co-creational activities can provide a platform upon which to re-build trust and reinforce loyalty. In the same vein, McKinsey & Company's 2017 report on the Financial Services Industry highlights that banks need to undertake a thorough digital transformation and design and deliver an extraordinary customer experience. Given the emphasis placed on providing superior interactive customer experiences, this also highlights an essential component of co-creation. As such, managing company-customer relationships may be a valuable source of competitive advantage (Verhoef and Lemon, 2013), not only in terms of transactional

profits (i.e. loyalty and repurchase), but also in non-transactional returns (i.e. recommendations, WOM).

Thus, based on the aforementioned, the retail banking sector was chosen for the purpose of this study. Through a survey of 224 banking customers, a questionnaire was developed based on validated measurement scales to assess the impact of co-creation on satisfaction, loyalty and WOM. Specifically, the direct relationships between co-creation and satisfaction, loyalty and WOM were examined, as well as using satisfaction as a mediating variable between co-creation and loyalty and co-creation and WOM. The proposed model was analyzed using a structural equation modelling technique with Partial Least Squares (PLS) (SmartPLS v.2.0). The acceptance and use of PLS has grown in disciplines such as marketing (Hair et al., 2012; Roldán and Sánchez-Franco, 2012). Furthermore, when compared to CB-SEM, PLS-SEM provides greater statistical power for all sample sizes (Hair et al., 2017).

Customer satisfaction is a key foundation of the marketing discipline. As such, it has been the focal point of marketing literature for decades (Oliver, 1999). According to Yi (1990), customer satisfaction can be defined as an individual assessment of outcomes versus expectations and also as a process or outcome. A customer is deemed to be satisfied when a product/service conforms to their needs and expectations (Bodet, 2008). Thus, for the purpose of this study we will examine the levels of global satisfaction with the service provider. Given that SDL places emphasis on value-in-use, i.e. when customers actually use the service contracted, we believe it is important to reflect this distinction by assessing global satisfaction, particularly as customers are likely to maintain ongoing interactions with their retail banks. As Fournier and Mick (1999) state, customers determine their level of satisfaction based on perceptions and exchanges, not solely on transaction-specific exchanges. Furthermore, in accordance with SDL, given that customers are a vital part of the value creation process, co-creation will affect the levels of customer satisfaction (Hunt et al., 2012; Grönroos, 2008). Additionally, as co-creation implies active customer participation, customers should benefit from improved knowledge and understanding of market offerings – in terms of their needs and possible adaptations required (Nysveen and Pedersen, 2014) – in turn leading to increased satisfaction.

Due to the extensive range of marketing offerings available and the fact that customers are more informed, companies aim to achieve customer satisfaction, build loyalty and maintain long-term customer relationships as a means of increasing profitability (Pan et al., 2012). As such, loyalty can be defined as the propensity of customers to show commitment towards a firm (Dick and Basu, 1994) and reflects the two components: attitudinal and behavioral, as highlighted in extant literature (Ganesh, Arnold and Reynolds, 2000; Oliver, 1999). Attitudinal loyalty refers to the tendency of customers to recommend firms due to their favorable opinions and visit (and/or repurchase from) the retailer, whereas behavioral loyalty refers to observable customer behavior, such as customer retention, lifetime duration and usage (Bandyopadhyay and Martell, 2007).

There is a general consensus amongst academics that there is a positive relationship between customer satisfaction and loyalty (Kumar et al., 2013). Furthermore, as posited by authors such as Bodet (2008) and Pan et al. (2012), customer satisfaction is a forerunner to customer loyalty, which allows us to view customer satisfaction as an important antecedent of loyalty.

Word-of-mouth (WOM) is defined as person-to-person communication when the receiver understands that the information given on a service, product, or brand is non-commercial (Arndt, 1967). Several authors (for example Aaker, 1991 and Kumar et al. 2007) state that the true value of customers is based on both their individual purchase behavior and the influence they have on other consumers. In this sense, WOM can be understood as a way to achieve profitability. It is important to note that WOM can be positive or negative.

Customer satisfaction is viewed as an antecedent of WOM (Kumar et al., 2013). Furthermore, customers who have collaborated with their service provider in co-creation activities are likely to be more prone to participate in positive WOM activities. From the perspective of SDL, customers play active roles in value creation, which should lead to customer satisfaction, this, in turn, should result in positive feedback and recommendations to their service provider. Additionally, customers should entice other consumers to make suggestions and referrals, i.e. positive WOM.

As globalization gathered speed many company leaders believed there would be less need to adapt products and services to local markets. However, connecting with worldwide customers has actually proven this to be untrue, with globalization in effect underlining the differences between countries (Ghemawat, 2017). Also, as Soares et al. (2007) posit, culture strongly influences consumer behavior and is an important feature of international marketing. With this in mind, the objective of Chapter 4 is to examine the effects of value co-creation on satisfaction, loyalty and WOM within a cross-cultural context.

Although academics recognize that it is hard to define and measure culture, the seminal author Hofstede believes that culture refers to “the collective programming of the mind which distinguishes the members of one human group from another” (2001, p.9-10). Hofstede’s culture theory is doubtless the most used perspective amongst academics (Taras et al., 2016). Hofstede’s cultural dimensions are important means of understanding the co-creation processes of consumers from different countries. Therefore, the aim of Chapter 4 is to examine and explain potential cross-cultural differences in the area of co-creation by applying Hofstede’s (1980) original four cultural dimensions- individualism/collectivism, power distance, masculinity/femininity and uncertainty avoidance- which are orthogonal or independent and reflect universal issues that all societies face.

To test the model, customer opinions were taken as a reference in the British and Spanish banking sector. A questionnaire was developed using previously validated measurement scales, with 224 respondents. Questionnaires were developed in both Spanish and English. As the teamwork contains both Spanish and English researchers we ensured that the items had the same meaning in both languages.

Taking the Hofstede framework (2001) as reference, the British society is more individualistic and has a higher degree of masculinity than Spanish society, which is feminine. The UK is very low on power distance compared to Spain which is high. Power distance has an inverse relationship with individualism (Hofstede, 2001). It is worth noting that Spain is considered a collectivist society compared to its European counterparts, although it could be deemed individualist compared to other countries in

the world (such as South Korea). Finally, the UK is low on uncertainty avoidance compared to Spain.

To conclude, Chapter 5 presents the main conclusions and insights from the research, as well as outlining the limitations and recommendations for future lines of research.

RESEARCH OBJECTIVES

DOCTORAL THESIS

Research Objectives

To analyze, from a customer perspective, the outcomes of value co-creation on the key marketing concepts of satisfaction, loyalty and WOM. A cross-cultural analysis is also provided. Research is taken through questionnaires to Spanish and British banking customers.

STUDY 1: In co-creation we trust

Research Objective 1

Provide an in-depth bibliographical review of value co-creation with a particular emphasis on the theoretical framework of Service-dominant logic (SDL).

STUDY 2: Towards a co-creation framework: Understanding the effects on customer satisfaction, loyalty and word-of-mouth in the banking services industry

Research Objective 2

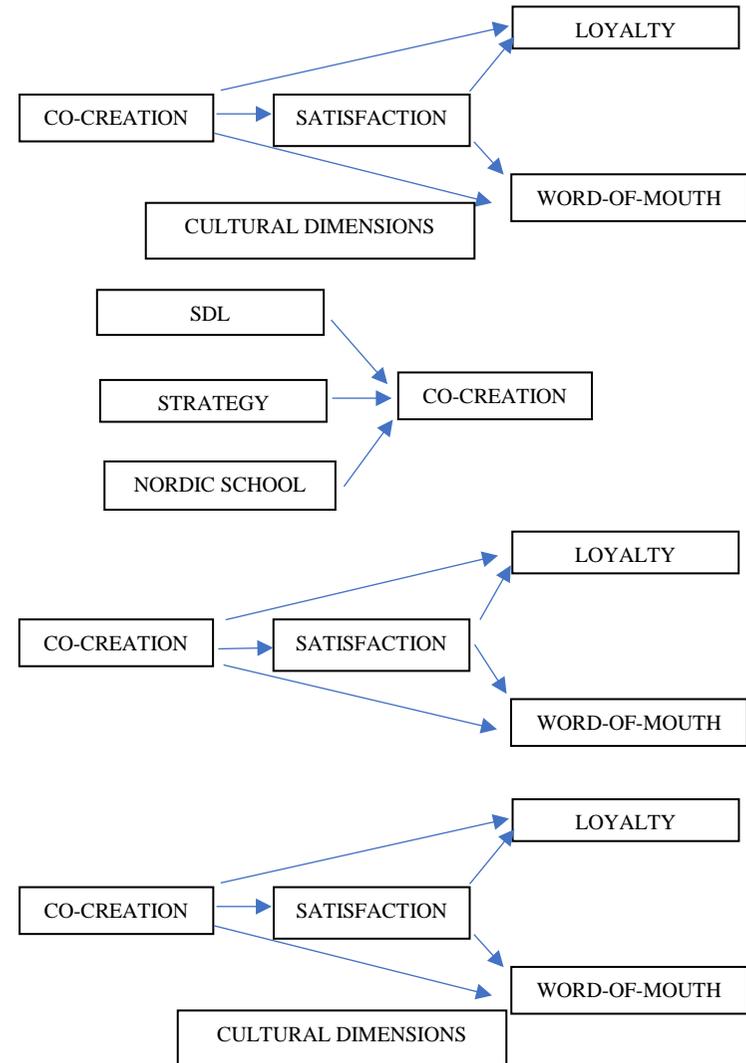
Empirically assess the outcomes of co-creation. Specifically, examine the effects of co-creation on satisfaction, loyalty and word-of-mouth from a customer perspective.

STUDY 3: Towards a co-creation framework in the retail banking services industry: A cross-cultural analysis

Research Objective 3

Measure the outcomes of co-creation on satisfaction, loyalty and word-of-mouth within a cross-cultural context.

CONCEPTUAL FRAMEWORK



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CHAPTER 2
IN CO-CREATION WE TRUST

Outline

The topic of value co-creation has sparked an intense interest amongst academics and practitioners in the field of marketing over the past decade (Vargo and Lusch, 2017). Well-known companies such as Nike and Apple (Ramaswamy and Ozcan, 2016) have used value co-creation as a means to engage and carry out relational activities with customers, thus strengthening the bond between company and stakeholders, as well emphasizing the importance of interactive experiences to reinforce brand management.

However, whilst these positive outcomes for practitioners are welcomed, the vast number of articles concerning the topic paints a rather more disjointed picture (Ranjan and Read, 2016). A search on the Scopus database reveals more than 300 articles with “value co-creation” in the title field (limited to the subject area of business, management and accounting), which reflect a variety of definitions, approaches and perspectives. Thus, the aim of this chapter is to provide a comprehensive literature review by identifying the main theoretical approaches and underlying concepts that promote value co-creation and possible barriers. Additionally, given the extent of globalization and underlying cross-cultural differences in international marketing (Merz et al., 2016), and the importance of the financial services industry in increasingly services-dependent economies in developed countries, particular emphasis has been placed on the nuances of these areas within the context of value co-creation.

2.1. Introduction

The marketing discipline is constantly evolving and adapting to changes in the immediate business environment (Homburg et al., 2017; Kumar, 2018). As such, one of the most notable developments is globalized marketing environments (Jouny-Rivier et al. 2017; Voyer et al. 2017), which have resulted in more competitive pressures for firms. Consequently, many have been left scrambling to strengthen their customer base and have turned their attention to value generating processes (Chen, 2015).

Value is recognized as a central tenant of marketing (AMA, 2013) as it is an important determinant of customer behavior (Zeithaml, 1988; Holbrook, 1994), can provide firms with a competitive advantage (Payne et al., 2008), and reflects the fact that marketing has

shifted from a focus on exchange (from a goods-dominant perspective) to a process of creating value.

Propelled by the pioneering article of Vargo and Lusch (2004) on service-dominant logic (henceforth SDL), value co-creation is now at the forefront of marketing (Fisher and Smith, 2011). In an era defined by ecosystems (Saarijärvi et al. 2013), digitalized interactive platforms (Ramaswamy and Ozcan, 2018), customer experience (Homburg et al. 2017) and resource integration (Vargo, 2011), the concept of value co-creation reflects these ideas and offers firms a way to achieve competitive advantage (Auh, 2007; Gouillart, 2014) and interact with stakeholders. Essentially, value co-creation is defined as a collaborative process in which numerous actors (firms, customers, suppliers etc.) integrate resources to provide benefits (value) to all stakeholders. Whilst there is a lack of consensus on the definition of co-creation, there is a unanimous agreement that research on the topic has abounded in the last decade (Hietanen et al. 2018).

One of the consequences of the constant state of flux is that new concepts are introduced, as is the case of value co-creation, without full closure using a zooming in and zooming out perspective (Leroy and Salle, 2013). As such, the term is applied liberally, by both practitioners and academics, resulting in divergent approaches and a lack of consensus on a unified definition (Saarijärvi et al., 2013; Galvagno and Dalli, 2014; Bharti et al. 2015; Alves et al. 2016; Ranjan and Read, 2016; Jouny-Rivier et al. 2017; Ramaswamy and Ozcan, 2018). As the proponents of SDL, and main contributors to the value co-creation revolution, Vargo and Lusch (2016) themselves admit that further interpretation is required.

Additionally, as Voyer et al. (2017) note, given the current globalized markets firms need to understand how cultural differences shape co-creation. Culture is a fundamental determinant of customer behavior and given that consumers shape marketing practices we believe it is important to consider co-creation within the context of culture, which is in line with comments from authors such as Aakaka et al. (2013). Whilst migratory trends show an increasing number immigrants are trying to make the move to high-income countries (<https://www.un.org/development/desa/publications/international-migration-report-2017.html>) many are facing the backlash policies of stricter border controls (e.g.

USA). Thus, we consider culture to be a valuable addition to discussion on value co-creation.

Similarly, given the important contribution of the service sector to global GDP (over 70% in developed countries), and particularly financial services sector (in the UK the industry accounts for 6.5% of total economic output), we consider this particular sector within the context of co-creation. Whilst co-creation can be applied to all industries consumers (from developed countries) necessarily need to deal with a retail bank, rather than it being an optional choice (Greer, 2015). Consumers can decide whether to engage in hedonic activities such as booking a holiday but having a bank account is almost mandatory for adults in developed countries. As Posignon et al. (2015) note, the nature of the financial services sector is such that it is highly characteristic (for example, information complexity, high credence, long-term customer-firm relationships), and is therefore worthy of special attention. As such, financial services are given special attention.

Based on the aforementioned, the purpose of this chapter to provide a review of extant literature and provide a consolidated approach for value co-creation to advance future investigation of the concept. Thus, the concept of value co-creation is examined, including the drivers and barriers of co-creation; value co-creation within the context of cross-culture and financial services.

Given the increasing contribution of services to global GDP (currently over 65% - <http://wdi.worldbank.org/table/4.2>), coupled with the excitement caused by Vargo and Lusch (2004) and their work on SDL, improving service quality through co-creation was highlighted as a research priority (Ostrom et al. 2010). Highlighted again five years later (Ostrom et al. 2015), was the call to investigate the roles of employees and customers in co-creation, thus emphasizing the continuing importance of co-creation.

The articles included in this chapter are the result of a bibliometric analysis carried out in January 2019 that identified the most cited articles and authors, thus highlighting the most important academic works on co-creation. The search term was limited to “value co-creation” in the title, abstract and keyword field (not date specific) and the subject areas of business, management and accounting (BUSI) and decision sciences (DECI) in the Scopus database.

Definitions

The following table outlines the key definitions of value co-creation as identified in the literature review:

<i>Authors, Publication</i>	<i>Definition</i>	<i>Academic area</i>	<i>Idea</i>
Normann and Ramirez (1993) <i>Harvard Business Review</i>	Successful companies do not just add value, they reinvent it. Their focus of strategic analysis is not the company or even the industry but the value-creating system itself, within which different economic actors – suppliers, business partners, allies, customers – work together to co-produce value.	Strategy	Companies need to re-assess the way value is created. To be successful firms should reconfigure the roles in their networks, as well as relationships and company practices so that market offerings are co-produced.
Prahalad and Ramaswamy (2004), <i>Harvard Business School Press</i>	Co-creation is about joint creation of value by the company and the customer.	Strategy	Experiences are fundamental to co-creating value. Firms should facilitate active dialogues and create personalized experiences for customers.
Vargo and Lusch (2004), <i>Journal of Marketing</i>	The customer is always a co-producer.	SDL	Customers are active participants in the creation of value (with the service provider).
Vargo and Lusch (2008), <i>Journal of the Academy of Marketing Science</i>	The customer is always a co-creator of value.	SDL	Through value-in-use customers are an integral part of co-creating the value of all market offerings. Firms only have an active role in making value propositions.
Bolton in Ostrom et al. (2010), <i>Journal of Service Research</i>	“Cocreation” is conceptualized as collaboration in the creation of value through shared inventiveness, design, and other discretionary behaviors.	Service marketing	Organizations collaborate with customers and other actors in the value network to provide value for each actor.
Mc-Coll Kennedy et al. (2012), <i>Journal of Service Research</i>	Customer value cocreation is the benefit realized from integration of resources through activities and interactions with collaborators in the customer’s service network.	Service marketing service science	The customer is key in determining the final value by integrating resources over and above those of the service provider.
Grönroos (2012), <i>Journal of Marketing Management</i>	Co-creation of value refers only to those stages of a value-creation process where the firm is present together with the customer.	Service logic	Customers create value-in-use, firms create potential value (for customers). When there are direct interactions between firms and customers value is co-created.

Ind, Iglesias and Schultz (2013), <i>California Management Review</i>	“an active, creative and social process based on collaboration between organizations and participants that generates benefits for all and creates value for stakeholders” p.9	Strategy	A means of organizations and individuals working together to find new solutions in a way that benefits all (e.g. individuals socialization and organizations new insights).
Galvagno and Dalli (2014), <i>Managing Service Quality</i>	Co-creation is the joint, collaborative, concurrent, peer-like process of producing new value, both materially and symbolically.	Service science	Value co-creation is a general concept that refers to interactions between firms and customers to generate new value.
Grönroos and Gummerus (2014), <i>Managing Service Quality</i>	Value is a joint process that takes place on a co-creation platform involving, for example, a service provider and a customer, where the service provider’s service (production) process and the customer’s consumption and value creation process merge into one process of direct interactions.	Service logic	Value co-creation occurs when there are direct interactions between firms and customers.
Vargo and Lusch (2016), <i>Journal of the Academy of Marketing Science</i>	Co-creation of value is simply a positive statement, at least in human systems, which are characterized by specialization and thus interdependency, value is always co-created	SDL	Co-creation necessarily exists in all exchanges.
Vargo and Lusch (2017), <i>International Journal of Research in Marketing</i>	Value is cocreated by multiple actors, always including the beneficiary. Value is always uniquely and phenomenologically determined by the beneficiary. Value cocreation is coordinated through actor-generated institutions and institutional arrangements.	SDL	Various actors cocreate but the end user determines the final value through value-in-use. Value co-creation is the result of multiple networks.
Ramaswamy and Ozcan (2018), <i>Journal of Marketing</i>	Co-creation is the enactment of interactional creation across interactive system-environments (afforded by interactive platforms) entailing agencing engagements and structuring organizations	Strategy	The term “value” has distracted from how actors create, whilst the onus should be interactive system environments, thus moving away from the traditional value chain.

Source: authors

2.2.Theoretical approaches

As evidenced in the table above, definitions depend on their theoretical roots (McColl-Kennedy et al. 2012). Ranjan and Read (2016) argue that the two theoretical dimensions that underpin co-creation are co-production and value-in-use and generally researchers usually adopt one or the other as the basis of their interpretation of value co-creation and few studies encompass both dimensions. Furthermore, Ranjan and Read (2016) state that when one dimension is taken at a time (co-production ----- satisfaction of value-in-use--- -satisfaction) there is a divergence in the effects of the second order dimensions on

satisfaction. Thus, the differences observed by researchers between theory and reality might not be a dilemma, simply a result of the research focus.

Bharti et al. (2015) identified five key pillars which represent the elements of the value co-creation process: management structure, process environment, resources, co-production and perceived benefits. The authors argue that “co-production” is a subset of value co-creation but do not relate this to the physical co-production of goods/services, but talk more in terms of customer involvement, participation... of relationships that consumers have with producers from the production phase to consumption.

To understand the context in which value co-creation is used, Galvagno and Dalli (2014) identify two research streams in research on creation as the theory of co-creation, which encompasses the themes of customer experience and competence (based on the works by Prahalad and Ramaswamy) and Service-dominant logic (based on the works by Vargo and Lusch) and innovation in new product development. Additionally, Alves et al. (2016) identified four clusters of topics related to co-creation: co-creation as a business logic; co-creation and the development of new products/services; co-creative experiences and loyalty; co-creation and relationships.

Saarijärvi et al. (2013) argue that there are three approaches to value co-creation: service-dominant logic (Vargo and Lusch), a service science approach (again, Vargo and Lusch, how participants, processes, and resources interact to co-create value in service systems) and service logic (Grönroos – customers are responsible for creating value as they combine the resources provided by the firm with other resources). The authors also note that other approaches include many-to-many marketing, i.e. taking into account other stakeholders. On the other hand, Galvagno and Dalli (2014) state that the theoretical frameworks used for co-creation are service science, innovation and technology management, and marketing and consumer research.

Based on the aforementioned, we concur with the definition of McColl-Kennedy et al. (2012) as value-in-use is a key aspect of value co-creation and customers naturally assume a pivotal place in the process of creating value. We understand that the role of the firm transcends that of simply providing value propositions (albeit they serve an important function) to leverage interactive platforms through which communications with

customers (and customers with other customers) and other stakeholders take place. Furthermore, whilst customers assign the final value to a market offering they also provide value to firms through knowledge sharing, which can lead to a competitive advantage and other transactional and non-transactional customer behavior. The notion that the customer's service network is given priority in the definition of value co-creation is too narrow as stakeholders (for example a firm's suppliers) also affect value created. Thus, we would extend this to the firm's and customer's service network. Whilst the terminology could imply a merely dyadic relationship, this is not our intention and understand that the current marketing environment comprises multiple networks.

As regards theoretical approaches, three main approaches have been identified: SDL, service logic and strategy (embodied through Ramaswamy's works). Whilst many authors have contributed to the rise and continuing discussion on value co-creation (Vargo and Lusch, 2004, 2008, 2016, 2017; Grönroos, 2006, 2012; Grönroos and Gummerus, 2014; Prahalad and Ramaswamy, 2004; Ramaswamy, 2011; Ramaswamy and Ozcan 2016, 2018), three streams of conceptual development have defined its journey thus far: SDL, the Nordic school and strategy (embodied by the work of Ramaswamy). The nexus of co-creation binds the three together, although the context, sub-sets and approach differ to a greater or lesser extent. Whilst each gives a nod to the other and incorporates underlying elements it is important to discuss each in its own right before offering a more consolidated view.

2.2.1. Service-dominant logic (SDL)

The initial article by Vargo and Lusch (2004) prompted a deluge of research on SDL (Hietanen et al. 2018). The marketing discipline was ripe for a change in direction (Sheth and Parvatiyar, 2000), or at least an attempt to provide a unifying perspective that encompassed the recent emergent concepts. SDL responded to this need. Whilst the authors recognize (Vargo and Lusch, 2017) their ideas incorporated previous work from Ramirez (1999) and Prahalad and Ramaswamy (2000), they expanded the concept of value co-creation and attempted to bring a new vision for marketing.

Of the ten foundational premises posited (Vargo and Lusch, 2004), value co-creation caused the most stir (Vargo and Lusch, 2016), as Vargo and Lusch (2004) stated that the

customer is always a co-producer of value (through value-in-use). As Peñaloza and Mish (2011) noted, the crux of SDL is the co-creation of value by various parties. Whilst later rectifying the original wording of “co-producers” (Vargo and Lusch, 2006) the authors alluded to the active role of customers in creating value (with their service provider), stating that firms were no longer solely responsible for embedding value in their market offerings (value-in-exchange), rather users determined the final value (through value-in-use). In effect, the active role that service providers play in creating value was relegated to the provision of value propositions (Peñaloza and Mish, 2011). The final value placed on a marketing offering was dependent on value-in-use, which resulted from operand resources (e.g. physical product) combined with the skills and knowledge (operant resources) of the final user. Overall, SDL highlighted the shift of power balance from firms to customers (and stakeholders), service-generated market offerings and value generating process. However, Vargo and Lusch (2017) also recognize the need to develop more midrange theory and empirical research.

Some of the fiercest criticism came from O’Shaughnessy and O’Shaughnessy (2009, 2011) who levelled that Vargo and Lusch lacked empirical evidence and an erroneous focus on services. Certainly, a move away from the long-established neoclassic view of the exchange of goods (goods-dominant logic) as a determinant of value required a change in terminology. However, suggesting services are exchanged for services makes the operationalization difficult as product/service categories (e.g. industry classifications) could lead to over-generalization (Grönroos, 2011). Nevertheless, the term reflects the increasing importance of the services industry. Likewise, Leroy and Salle (2013) commented that that Vargo and Lusch revived the zooming out perspective, which Vargo and Lusch (2016) themselves recognized, meaning that the finer details of the exchange process (zooming in) were in conflict with this zooming out approach. In a sense, by focusing on the larger picture, researchers have molded the definition of value co-creation to the focus of their study (Ranjan and Read, 2016). This has allowed a degree of flexibility as to how the concept has evolved but also added to divergent approaches. Hietanen et al. (2018) also take Vargo and Lusch to task arguing that SDL focuses on Western capitalism and negates the impact of power imbalances (i.e. resource equality). Certainly, Vargo and Lusch talk in terms of a collaborative process believing that

customers (and other stakeholders) will engage with their service providers to the benefit of the final end user and believe that cooperation surpasses competition in markets (Vargo and Lusch, 2016). True, SDL focuses on economic markets and does not seek to readdress the social problems of unequal resource distribution (Vargo and Lusch, 2016 suggested SDL could serve as a potential theory of society) but the fact is that customers are demanding a greater say in company's decisions. Along these lines, as Frow and Payne (2011) note that a vital challenge in creating value with stakeholders is to ensure that interactions with certain actors, for example customers, do not negatively impact other stakeholders, for example shareholders.

In terms of value, Ramirez (1999) stated that a person does not own value, rather value is the result of interactions. As such, the thoughts of Vargo and Lusch (2004) underline this idea, placing the onus on value-in-use. In a subsequent article Chandler and Vargo (2011) introduced the concept of value-in-context, highlighting the importance of the context in which resources are exchanged. They argue that markets are dynamic and constantly changing but the contexts give form to these markets by influencing resources. As such, contexts differ – in some cases contexts promote resource integration but in others acts as a negative influence. Added to this is the fact that not all actors have the same resources and some resource exchanges are direct, whilst other are indirect.

Arnould (2014) states that value is the result of resources exchanged between actors, although argues that value is often unbalanced, i.e. not all actors have the same resources. However, whilst resources may be unequal, the perceptions of the final end user are merely that, their perception of the result of combining resources. Thus, their determination of value is unique and personal. Furthermore, active participation stimulates value (Arnould, 2014) and participation itself is spurred by seeing how others give and receive resources. As such, value propositions become a crucial element to entice participation.

2.2.2. Service logic

The fundamental difference with SDL is the customer-firm perspective. As Wikström (1996) notes,

“Creating value for the customer; rather, it is about creating value with the customer and incorporating the customer's value-creation into the system” (p.8)

Thus, service logic focuses on the intervention of customers in value creation and places them at the center of value creating, specifically through their value-in-use, rather than adopting a firm-centric view (Grönroos, 2008, 2011, 2012; Grönroos and Voima, 2013; Heinonen et al. 2010). Grönroos and Gummerus (2014) state that use supersedes context, experience and interaction when determining value-in-use. Furthermore, value-in-use changes over time through cumulative experiences and refers not only to physical use but also mental use (Grönroos and Gummerus, 2014). However, Heinonen et al. (2010) argue that firms should focus on the customer experience with a view to influencing customer's value-in-use, in terms of providing structure to shape the customer experience and support mechanisms for customers' activities.

Ultimately, customers are in charge of value creation and the term co-creation is used to refer to the company's role in the customer's value creation process (Grönroos, 2008, 2012; Grönroos and Voima, 2013). Firms provide the potential value (Grönroos and Voima, 2013) – for example, through market offerings, prices, branding etc. - that customers realize through value-in-use. FitzPatrick et al. (2015) state that when customers engage in a firm's processes they generate value-in-use for the firm, in so much as revenue generation, learning and adding to the customer database. Thus, for Grönroos, co-creation does not necessarily generate value (Heinonen et al. 2010).

For value to be co-created there must be direct interactions between the service provider and customer (Grönroos and Voima, 2013; Grönroos and Gummerus, 2014), and in such circumstances a co-creation platform can be formed (Grönroos and Gummerus, 2014). The two (or more actors) that interact directly can influence the ensuing value-in-use, although all parties involved must be open to this process for it to render productive (Grönroos and Voima, 2013). Furthermore, it is important to note that interactions can take place between humans and a non-human intelligent resource. However, Grönroos and Gummerus (2014) stress that IT systems which simply respond to a customer's requests are not direct interactions, they are considered indirect interactions. In these instances, customers can independently create their own value (Grönroos, 2011).

The over-reaching argument (Grönroos, 2012; Grönroos and Voima, 2013; Grönroos and Gummerus, 2014) is that SDL is too metaphorical in its approach and thus difficult to

operationalize. Grönroos argues that the approach to value co-creation should be more specific so the concept does not encompass all and everything. In essence, the onus is on firms to become involved in a customer's life rather than trying to entice customers to engage with the firm. As such, value-in-use is the cornerstone of value creation as customers use and experience market offerings. As noted by Ind and Coates (2013), Grönroos highlights that companies generate potential value and the customers generate the real value through value-in-use. Saarijärvi et al. (2013) also argue that customers combine resources from providers with other resources in their everyday practice to generate value through value-in-use. As such, the customer is the one who generates value. When firms adopt provider service logic they interact with customers and can thus affect the value-generating process – specifically, making sure that the value propositions are fulfilled.

In effect, although SDL and service logic share common ground in terms of underscoring the importance of services, advocating that firms adopt a relational approach and the application of knowledge and skills to resources, they fundamentally differ in their perspectives: firm and customer. SDL understands that service is a dynamic process, whilst service logic believes that value is created and added to over time affecting value-in-use (Vorre Hansen, 2017). Moreover, the onus of service logic is value creation by customers - in which firms may or may not participate (depending whether they become part of the customer's sphere) – and firms generate potential value for customers and only co-create when there are direct interactions with customers. As such, using this perspective firms have to learn how to enter the customer's sphere and can only take advantage of co-creation platforms when customers are willing to participate with them. Thus, in practical terms service logic offers a limited insight on how firms can adopt co-creation and is difficult to operationalize (precisely a criticism of Grönroos vis-à-vis SDL).

2.2.3. Ramaswamy's perspective

Ramaswamy and Ozcan (2016) argue that both service-logic (Grönroos, 2008; Grönroos and Gummerus, 2014) and SDL (Vargo and Lusch, 2004, 2008, 2016) do not emphasize interactions, rather they concentrate on the actors themselves and the activities that

facilitate co-creation, and thus miss the crux of the matter. As such, the work by Prahalad and Ramaswamy (2000, 2004) and subsequent research (Ramaswamy and Ozcan 2016; 2018 (a); 2018 (b)) offers a holistic approach to co-creation, emphasizing the roles of the interactions and interactive experiences. Furthermore, Ramaswamy and Ozcan (2016) posit that whilst both SDL and service logic talk in terms of firms creating value with customers both approaches omit the vital function of people as “experiencers”.

Along these lines, the much-documented rise in internet technologies has facilitated opportunities between firms and their customers, and between customers themselves for engagement (Pralhad and Ramaswamy, 2000), leading to an evolution in value creation. As such, Prahalad and Ramaswamy (2004) essentially predicted that firms would abandon a firm-centric, product-centric approach to adopt a more customer perspective. Furthermore, customers would adopt an active role in the value creation process and customers experiences would play a vital role in this process. To this end, the authors introduced the DART model (Pralhad and Ramaswamy, 2004), arguing that firms needed to foster dialog, provide access, understand risk benefits, and transparency as the basis of interactions with customers to promote value co-creation. More recently, Ramaswamy and Ozcan (2018b) argue that technological developments (for example, social media) have propelled the development of interactive platforms between, firms, customers and other stakeholders. They introduce the concept of “value-in-interactional creation” and aim to provide a new conceptualization of co-creation Ramaswamy and Ozcan (2018a), believing that that multiple interactions take place between both human and innate objects, such as devices, which is made possible by technology – specifically “Digitalized Interactive Platform (DIP)”.

A decade after their oft-cited work (Pralhad and Ramaswamy, 2004), Ramaswamy (2014) revisited the topic of co-creation arguing that research had initially failed to include the “humanization” of value and experiences, whilst under-estimating the importance of platforms.

Ramaswamy and Ozcan (2018b) note that previous research on co-creation has focused too narrowly on debating whether co-production, value-in-exchange and value-in-use are

predominant in co-creation. As such, their latest vision (Ramaswamy and Ozcan, 2018b) encompasses all these elements whilst emphasizing the system environments.

Experiences are an integral part of co-creation (Ramaswamy and Ozcan, 2016). The authors discuss in terms of managing experiences with customers. Conversely, SDL focuses on collaborative processes within service ecosystems. Grönroos and Voima (2013) also highlight the role of the customer experience believing that it is a cumulative and dynamic process. They believe that past, present and future perceptions shape the global customer experience. Furthermore, within the customer context they differentiate between individual and collective customer experiences. Thus, Ramaswamy focuses on how the firm should manage the customer experience, believing it to be a key component of co-creation. SDL emphasizes more the collaborative experience of actors within the ecosystem, whilst service logic centers on the customers themselves and their experiences through value-in-use.

Grissmann and Stockburger-Sauer (2012) conclude that co-creation is concerned with providing unique experiences. On the other hand, Payne et al. (2008) stated that not all service encounters have the same importance for the customer experience. Some encounters are important for value co-creation and other serve as building customer experience. We would argue that necessarily customer experiences are an integral part of co-creation, irrespective of whether the customer is physically interacting with their service provider or not.

Homburg et al. (2017) look at the increasing importance of managing the customer experience. They conclude that there are four strategic directions when designing the customer management experience and firms should continually renew customer experiences.

2.3. Facilitators and barriers of co-creation

Equally as important as understanding the exact nature of co-creation is the need to identify the drivers and barriers to fostering a collaborative process with customers and other stakeholders. In this sense, organizations should understand the pillars of co-creational activities, possible negative outcomes and solutions thereof (see Table 2 below).

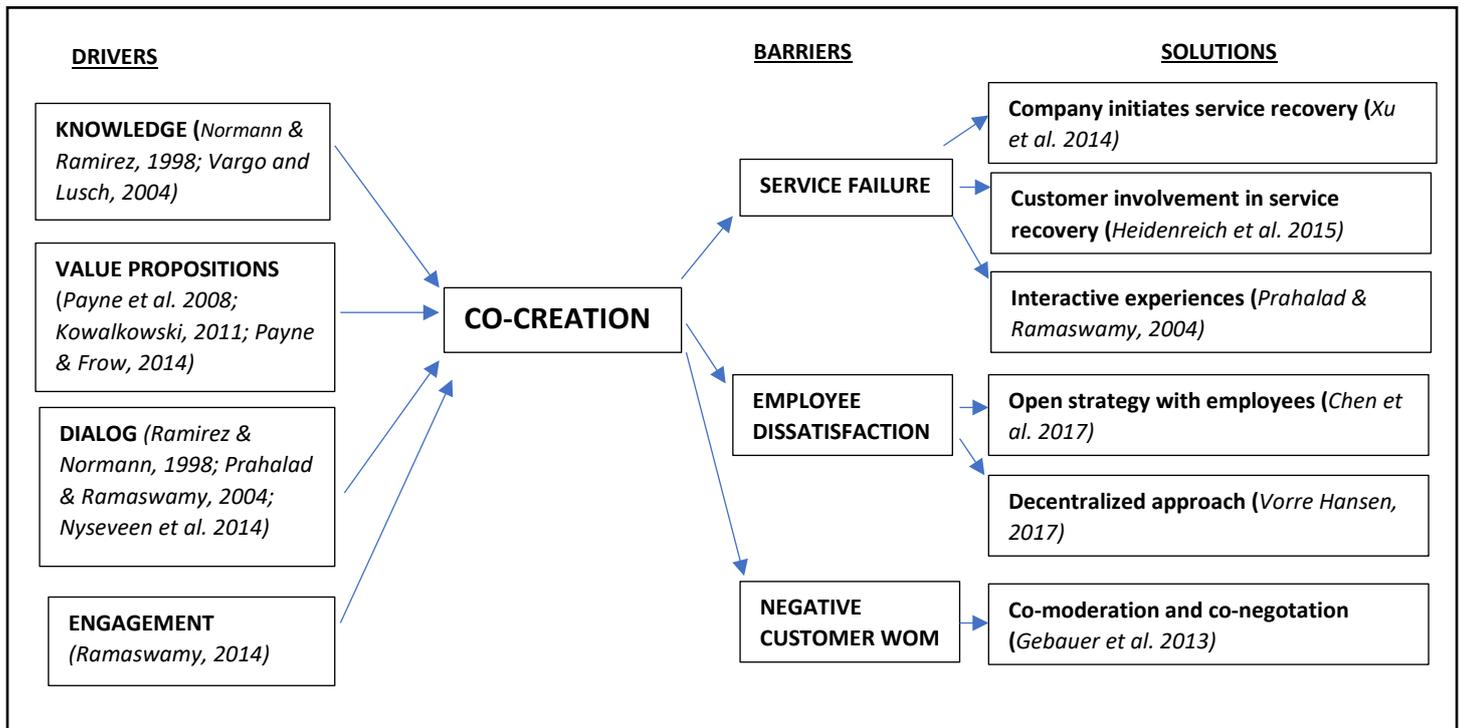


Table 2 Source: Authors

- Knowledge

Normann and Ramirez (1998) highlighted that knowledge is fundamental to creating value, in so much as customers must have the knowledge and competencies in order to participate in value creation. Vargo and Lusch (2004) also reaffirmed this idea arguing that operant resources (skills and knowledge) were fundamental to combine with operand resources (products/services) to create value.

Along these lines, Andreu et al. (2010) demonstrated that customers need to acquire a certain level of knowledge, prior to using a marketing offering, in order to be able to obtain value. It follows, if a customer lacks know-how regarding a market offering they are unable to obtain any value from the product/service. Thus, the role of knowledge provision (from firms and other stakeholders) to customers is vital. Firms need to gauge the level of knowledge that customers possess in order to give them support so they maximize their value-in-use. Furthermore, customers can share their knowledge with their service provider, in terms of insights and preferences, which could facilitate product/service innovation. As Nysveen and Pedersen (2014) note, customer participation should improve knowledge and understanding of market offerings.

Prahalad and Ramaswamy (2004) discuss knowledge through a different lens, stating that advances in technology has led to more informed, knowledgeable customers. So, on the one hand customers have access to internet sites, blogger guides, apps... which arms them with knowledge to make decisions pre-consumption, but also the ability to create their service providers and other stakeholders post-consumption through interactive platforms (such as user website, apps...).

Ranjan and Read (2016) purported that knowledge sharing is an underlying element of co-production, although we believe that rather than be limited to co-production, knowledge sharing is a key element of co-creating value (with particular emphasis on value-in-use). Gummesson and Mele (2010) also understand that the transfer of knowledge is essential for networks to operate correctly.

- Co-production

Although numerous researchers have discussed co-production within the context of value co-creation (Normann and Ramirez, 1993; Wikström, 1996; Payne et al. 2008; Auh et al. 2007; Grönroos and Voima, 2013), Vargo and Lusch (2016) that the application of the SDL premise concerning value co-creation does not refer to customers actively taking part in the production process of a firm's product (co-production). Although they recognize that the initial wording (Vargo and Lusch, 2004) may have caused confusion this was modified in a later article (Vargo and Lusch, 2006) to avoid ambiguity. Specifically, the term co-production was replaced by co-creation. The authors assert that co-production (in the sense of designing, creating...) is optional, dependent on a series of factors but is a distinct concept to value co-creation.

- Value propositions

Payne et al. (2008) highlight that a determinant of value creation is superior value propositions (provided by firms). Kowalkowski (2011) also states that value propositions are key to commencing and guiding communications with stakeholders. Furthermore, as Vorre Hansen (2017) note,

“The focus on value creation processes is not solely an abstract inquiry but is driven by an urge to refine the value propositions of companies”. (p.5)

Value propositions are understood as the promises a firm offers through its products and services in the form of benefits and value to customers (Frow and Payne, 2014). Chandler and Vargo (2015) extended this definition and viewed value propositions as invitations to other parties with a view to obtaining value (financial, financial, social), thus encompassing a broader scope of stakeholders, rather than a firm-centric activity. More recently, there is an emphasis on value propositions that are mutually generated by firms and customers who share resources (Payne et al. 2017).

Kowalkowski (2011) affirms that under goods-dominant logic value propositions represent a predetermined set of benefits for customers as decided by the firm. However, SDL implies that value-in-exchange is superseded by value-in-use, so it follows that value propositions should emphasis value-in-use, although this should not always be the case. Furthermore, customers need to embrace SDL so they can realize the value promised (Kowalkowski, 2011).

Value propositions vary depending on the length and nature of the provider-customer relationship (Kowalkowski, 2011). Long-term customers with close relationships with their providers place more onus on value-in-use in value propositions. Conversely, customers who have short-term relationships with their providers are more attracted to value propositions that reflect value-in exchange value propositions. Frow and Payne (2011) argue that value propositions can offer stability to stakeholder relationships. Later, the authors (Frow and Payne, 2014) note that sometimes value propositions evolve rather than a company having a formal mechanism, such as a value proposition statement.

McColl Kennedy et al. (2012) state that even though customers are presented with similar value propositions they may choose to perform different activities and integrate resources in different ways.

- Dialog

For value co-creation to be successful dialog must be facilitated between firms and their customers (and other stakeholders). As such, Ramirez and Normann (1998) highlight that if managed correctly, dialogue can provide firms with a competitive advantage. Furthermore, for a firm to access a customer's sphere and co-create value (Grönroos, 2012), companies need to learn how to engage in dialog with customers.

Prahalad and Ramaswamy (2004) noted that dialog is a key pillar to facilitate co-creation, arguing that firms needed to open up their processes to entice customers to collaborate with them. Nyseveen et al. (2014) also state that dialog is important to help firms understand customer needs which should ultimately lead to improved market offerings.

- Engagement

Whilst co-creation is facilitated by value propositions, dialog, and knowledge-sharing, engagement is also another important element. Although interactions with customers are vital, engagement describes a deeper, more involved experience. As Kumar et al. (2010) state, customer engagement refers to a deeper, more purposeful nexus between the company and the customer. Furthermore, co-creation is significant in demonstrating customer engagement (Merz et al. 2016)

Ramaswamy (2014) notes, co-creating requires firms to build engagement platforms through collaboration with stakeholders; it is not a case of the firms building the platforms and waiting for stakeholders to come on board, they should be involved from the start. An engagement platform comprises people, interfaces, processes and tools (physical meetings, apps, call centers...). Hollebeek et al. (2018) argue that Customer Engagement (CE) involves four elements: cognitive, emotional, behavioral and social styles.

- Barriers to co-creation

Although extant research provides a compelling case for the favorable outcomes of value co-creation, from both an organizational and customer perspective, some authors highlight the potential downside of co-creation. For example, Chan et al. (2010) examine the possible added stress for employees and ensuing job dissatisfaction; service delivery failures (Heidenreich et al., 2015); negative WOM potentially generated by customers who are dissatisfied with the co-creation experience (Gebauer et al., 2013); exploiting the goodwill of customers (Cova and Dalli, 2009); the destructive or opportunistic behavior arising from co-creation (Echeverri and Skalen, 2011; Ertimur and Venkatesh, 2010; Plé and Chumpitaz Cáceres, 2010); and lack of effectiveness when customers take part in value co-creation (Greer, 2015).

Chan et al. (2010) examine customer participation in value creation from both a customer and employee perspective. Specifically, their research assesses how customer participation affects performance outcomes (customer satisfaction, employee job satisfaction, and employee job performance). As such, Chan et al. (2010) note that increased customer participation, which is a crucial element of co-creation, can lead to added employee stress, which in turn negatively affects employee satisfaction and job performance. However, in a subsequent study Chen et al. (2015) found that customer participation can actually positively affect employee job satisfaction, provided employees gain relational value (e.g. they build a rapport with customers, particularly in long-term relationships), which is characteristic of high credence services (e.g. financial services).

Thus, authors such as Ramaswamy (2009) and Gebauer et al. (2010) note that co-creation initiatives require commitment from organizations and employee engagement, notably frontline service employees. Similarly, Chen et al. (2017) argue that firms need to adopt an open strategy with employees to stimulate their roles and advise that organizations revise their organizational rules and culture to align with employee responses. This reaffirms the previous research of Bitner et al. (1994) who highlighted that many frontline employees are customer orientated but are often limited by internal constraints – such as inadequate systems - and lack of knowledge. Furthermore, given that co-creation is characterized by constant transformation (Vorre Hansen, 2017), firms should consider offering a more decentralized approach, or “let go” (Fisher and Smith, 2011) allowing employees to evolve with the co-creation process.

Heidenreich et al. (2015) examine customer satisfaction in the face of service delivery failure, and specifically look the effectiveness of co-creation. The authors assess the levels of customer participation during the initial service delivery and the ensuing participation in the service recovery, suggesting that firms should involve customers in the service recovery in the extent to which they have been involved in co-creation prior to a service failure. Xu et al. (2014) also discuss the effectiveness of co-creation in the event of service failure and specifically highlight the steps companies should take, rather than the degree of customer involvement prior and post service failure. To ensure customer satisfaction (and future repurchase) after a service failure the service provider should initiate co-recovery process. In the case of customers themselves initiating the

service recovery process, or the provider entirely managing the process without customer involvement, customer satisfaction was lower.

Heidenreich et al. (2015) argue that as customers have greater involvement in service delivery, so services become more complex. Furthermore, customer expectations are higher as they invest time and energy, have interactive experiences with suppliers to co-create services, and thus the internally directed emotions of disappointment and guilt occur when the outcomes do not match their expectations. However, as Sugathan et al. (2017) found in their research, these internally directed emotions such as disappointment and guilt often result in customers engaging in future co-creation activities, rather than diminish long-term customer value. Furthermore, the findings of Heidenreich et al. (2015) contrast with those of Dong et al., (2008) who report that when customers participate in service recovery, in the context of self-service technology, they perceive more clarity in their role and satisfaction in the service recovery. Chan et al. (2010) also highlight that customers who participate with their providers, have a greater propensity to accept a degree of responsibility when services fail.

In their study, Gebauer et al. (2013) examine both the positive and negative consequences of co-creation, particularly with regards to word-of-mouth (WOM), within the context of an online innovation community. The authors conclude that when customers perceive a lack of fairness and dissatisfaction with the co-creation experience negative WOM may follow. Conversely, when customers sense justice and satisfaction they are more likely to speak positively about the co-creation experience. As Sugathan et al. (2017) note, the externally directed emotions that customers feel, such as anger and frustration – which could be prompted by perceiving a lack of fairness and dissatisfaction - can lead to negative WOM as customers attribute failure to the service provider.

Sugathan et al. (2017) suggest that companies identify the different emotions customers experience in the light of service failure - particularly between those felt in non-routine and routine situations - and provide mechanisms to guide customers when completing the co-creation process to measure success/failure.

In their respected article, Cova and Dalli (2009) also warned of the potential exploitation – and even coined the term double exploitation - of consumers in co-creating, which could

lead to feelings of resentment and the sense that the firm-customer relationship is unbalanced. This issue was also explored by Ind and Coates (2013), who believed that the potential imbalance of the relationship between firms and customers should be re-addressed to provide a more reciprocal approach. Ind and Coates (2013) conclude that co-creation should not just focus on the actions of individuals, co-creating is more a group effort where teams of people come together to create.

Cova and Dalli (2009) recognize that there are two important elements in customer participation: on the one hand, customers provide their knowledge, time and collaboration to firms, which can add value to the market offerings (for example, ideas on how to make improvements...). On the other hand, given that customer input can enhance the monetary value of market offerings customers may actually pay a higher price for non-standardized goods/services. Those customers that have initially collaborated with an organization with a view to sharing their ideas, collaborating with other users, will feel a sense of pride and satisfaction that companies have paid heed to their ideas, hence are then more likely to pay a premium price. Thus, the notion of double exploitation: firstly, customers give their time and ideas and secondly, they pay a higher monetary price for non-standardized products/services.

Furthermore, Cova and Dalli (2009) argue the case for customers receiving some form of economic benefit from the firms with which they collaborate. This was later proved to be the case for certain Lego customers, which Cova et al., (2015) note. Whilst the authors note the impact of service-dominant logic they essentially question whether the concept of an ideal marketplace, where firms and consumers happily coexist can be a reality. However, as Prahalad and Ramaswamy (2004, p.14) forewarned,

“Consumers have to also learn that co-creation is a two-way street. The risks cannot be one sided. They must take some responsibility for the risks they consciously accept.”

Laamanen and Skalén (2014) also share the view that co-creation has potential pitfalls but adopt a more holistic, collective approach. However, on an individual level, they note that when a company’s value proposition is not fulfilled, the ensuing value-in-use that customers experience will fall short. This, in turn, will lead to dissatisfaction and disloyalty.

Understandably customers would feel short-changed through value-in-use when value propositions are unfulfilled. This notion is not solely attributed to co-creation, rather a fundamental premise of the idea of value itself (irrespective whether you ascribe to thoughts of Zeithaml (1998) or Holbrook (1994,1999)).

Plé and Chumpitaz Cáceres (2010) also make reference to the co-destruction of value. Using the framework of Service-dominant logic, the authors argue that resources may not be used correctly during the interactions between service systems and value would therefore be destructed. In the case of resources being mis-used customers would suffer bad experiences and potentially stop dealing with the company. Thus, firms and other actors should align their level of expectations to minimize potential mis-use of resources. Therefore, firms need to gauge the knowledge and skills required to make best use of their market offering. Lastly, in the context of an online innovation community companies should tread carefully to be just and harness open dialogue, which in turn requires co-moderation and co-negotiation (Gebauer et al., 2013).

Greer (2015) highlights the imperfections of some customers, in the sense that some are untruthful, verbally abusive, complain without just cause, leading to the so-called “customers from hell” (Zemke and Anderson, 1990). With particular reference to service encounters Bitner et al. (1994) state that some of these problem customers are responsible for their own dissatisfaction and exist in all service industries.

Greer (2015) argues that this type of customer behavior doesn't necessarily result in co-created value being destroyed, rather a lack of mental, physical and emotional effort of customer participation can hinder value co-creation and cause inefficiencies. Customer behaviors such as under-participation and over-participation can be the cause of these inefficiencies, as well as property abuse, fraud, verbal abuse and physical aggression.

In the case of under-participation customers who engage with their financial services provider could fail to provide information or possibly incorrect information, which could lead to a failed services delivery. Thus, given that resource integration is a fundamental component of value co-creation (Fisher and Smith, 2011; Gummesson and Mele, 2010; Vargo and Lusch, 2004a), one could argue that customers need to be properly educated by providers to avoid under-participation. For their part, in line with the thinking of

Prahalad and Ramaswamy (2004a), providers need to be transparent and open with their customers so that they feel able to trust their suppliers with information and cooperate with them.

In short, co-creation should not be blindly accepted as a marketing nirvana, and questioning a new perspective only serves to enhance it in the future (Vargo and Lusch, 2017). By examining the potential barriers to co-creation both academics and practitioners can continue the evolution.

2.4. Co-creation and culture

Within the context of co-creation culture shapes our identity development and the way we create we other actors (Voyer et al., 2017). This view was echoed in the work of McColl Kennedy et al. (2012) who encouraged research in value co-creation within the context of cultural differences of Hofstede's (1983) cultural scale. Furthermore, Hietanen et al. (2018) highlight the lack of cultural consideration in SDL. Along these lines, Akaka et al. (2013) introduce the concept of value within the cultural context basing the notion of service-dominant logic, consumer culture theory and practice theory. However, despite a lack of empirical research exploring the mediating effect of culture on co-creation (Voyer et al., 2017), there are many theoretical implications. As such, this section examines the theoretical implications of culture on co-creation, as well as discussing empirical work in this area (Chan et al., 2010; Xu et al., 2014., Merz et al. 2016).

Despite increasing globalization, culture strongly influences consumer behavior and is an important feature of international marketing (Soares et al., 2007). Given that co-creation is at the frontier of marketing (Fisher and Smith, 2011) and service encounters are a necessary condition for co-creation, themselves representing a social exchange, cultural differences are an important consideration (Merz et al., 2016).

Although it is to difficult to define culture, Hofstede's cultural dimensions and framework (1980, 2001) research is the most widely accepted and applied in research (Taras et al., 2016). In essence Hofstede equates nationality as a substitute for culture, and defines culture as,

“the collective programming of the mind which distinguishes the members of one human group from another” (2001, p.9-10).

Whilst researchers such as Venaik et al. (2016) and Hollebeek (2018) argue that Hofstede's framework ignores the presence of various cultures in a single country, application of Hofstede's work is commonplace and extends to international marketing. However, whilst the differences between cultural groups are generally associated with culture this is too broad and should therefore be assessed using cultural dimensions (Hofstede, 1980): individualism/collectivism, power distance, masculinity/femininity and uncertainty avoidance.

Akaka et al. (2013) argue that cultural context mediates value co-creation. They believe that practices, interpretations and resources affect how value is co-created. In line with Hofstede (2001), culture affects our attitudes, beliefs and skills as a reflection of social norms and values. Furthermore, Akaka et al. (2013) posit that social norms could affect social roles. This has implications for the way in which customers approach co-creation with their service supplier and the resources they are prepared to integrate in the value process. Along these lines, Chan et al. (2010) also argue that services are implicitly social exchanges and as such are influenced by the actors' cultural background. Furthermore, as co-creation requires collaboration between customers and their providers, the ensuing success depends on the propensity to cooperate, as reflected by a person's culture.

In reference to Hofstede's individualism-collectivism dimension, the relationship between customers and their providers could also be affected in service interactions, in terms of actors' perceived roles. Chan et al. (2010) argue that more collectivist societies have a higher predisposition to cooperate with others, which will transcend the relationship between customers and their providers. As such, customers will be more willing to co-create as they may view their providers as "friends" and collaborate with them. Thus, the motivation of customers to foster a relationship with their providers is based on cooperation and personal connections, not financial rewards. As Chen et al. (2015) note, although relationships do not create a unbreakable bond to a firm, competitors will find it hard to mimic them.

Chen et al. (1998) also stress the importance of trust as an antecedent to cooperation and state that the two defining attributes: cognitive trust (i.e. knowledge of role performance) and affect-based trust (i.e. emotional bonds) vary between individualist and collectivist

cultures, which in turn affects cooperation. In essence, initially individualist cultures will cooperate based on a service supplier's track record, self-interest (i.e. believing that they will reap benefits on an individual level from cooperating), and faith in their partner to fulfil their contractual obligations and share rewards equitably. However, should customers engage in a lengthy relationship with their supplier an affective-based trust may emerge as providers have demonstrated themselves as "trustworthy" over a period of time. On the other hand, collectivist cultures, associated with affective trust, are conditioned by relationships with their service suppliers with whom customers have developed an emotional bond and are likely to engage in relational activities (such as cooperation) and extra roles.

Merz et al. (2016) argue that value co-creation is characterized by two phases: pre-purchase and post-purchase. Their empirical research highlighted that customers are more satisfied when value is conjointly created with the provider, irrespective of whether they are from individualist or collectivist cultures. However, customers from individualist cultures prefer firm-customer interactions both pre-purchase and post-purchase phases. This could be due to the fact that customers from individualist cultures need to feel they are benefitting from a reciprocal relationship and by fostering relational exchanges firms are providing evidence of their trustworthiness.

In terms of communication, collectivist cultures place importance on personal, face-to-face communication and social cues. For example, in Japan managers engage in personal, face-to-face meetings, versus UK managers who are likely to place more importance on time and efficiency and engage in direct, sender-based communications (Chen et al., 1998). Thus, to foster co-creation in collectivist cultures customers are more likely to respond positively to face-to-face, personal communication as they rely on social cues and context, emphasizing the importance of direct interactions. Conversely, individualist cultures do not have a need for an emphasis on direct interactions, i.e. face-to-face dialog, provided the interactive platform is suitable.

Chan et al. (2010) highlight that employees and customers with similar cultural traits collaborate more effectively together, as opposed to those who have different cultural traits. Therefore, firms should try to align the culture of the workforce, particularly

frontline employees, with that of specific markets. Given this may not be possible in all instances, a possible solution could be to provide training to frontline employees where cultural differences are stark (between employees and customers of a particular market). As a case point, in the early 2000s Indian call centers witnessed a huge surge in business from UK companies who offshored jobs as customer service agents and other frontline employee roles to India. Ostensibly, after fifteen years, many businesses are re-locating the customer service roles back to the UK. Whilst India offered UK businesses the chance for huge cost savings customer complaints rose dramatically, which in part was due to the cultural differences between frontline employees and customers. As such, there are notable differences between power distance and individualism between the UK and India. Power distance has an inverse relationship with individualism (Hofstede, 2001), meaning the higher the power distance the lower the score of individualism, which is the case of India. As Voyer et al. (2017) note, hierarchy is defining characteristic between cultures. Thus, whilst customers from the UK (a low power distance culture) would expect egalitarianism when dealing with their service provider frontline employees from India (a high power distance culture) would have responded in a different manner. Cultures characterized by a high score on power distance believe that superiors and subordinates are different to themselves and accept an unequal distribution of power. In line with the thoughts of McColl-Kennedy et al. (2012), customers from individualist cultures are more likely to pursue a high level of activities and interactions with their supplier or a relatively low number of interactions with different individuals, resulting in collaboration, co-learning and sharing. Frontline employees from a low power distance culture are likely to be compliant with customers when asked to collaborate but are unlikely to proactively seek it. This could lead to frustration for customers (from a low power distance culture) as they would expect their supplier to take the initiative and are then willing to participate. Akaka et al. (2013) also suggest that culture affects how a firm's value proposition is evaluated, i.e. depending on a particular culture's social norms and practices, values propositions are likely to be assessed by consumers in a certain way. So, before entering a new market a company should consider the cultural context (of the new market) and adapt/amend the value proposition to reflect the social norms and practices of that place. As Voyer et al. (2017) note, by integrating different practices from varying cross-cultural

contexts, new forms of value can be developed. Furthermore, Hollebeek (2018) argues that customers from individualist cultures are more likely to evaluate brands by focusing on the attributes of the marketing offering itself (e.g. smell, taste in the case of food), whereas collectivist cultures use a holistic approach (e.g. consider the context and other relationships and how this interacts with the product/service). For example, Nike has successfully entered diverse cultural markets with its tagline “Just Do It”, although the connotation of the brand has been adapted to appeal to different cultures. So, whilst Nike is an American brand, stemming from a country characterized by individualism and masculinity, the brand is also popular in China. Essentially, whereas the brand emphasizes individual success and competitiveness in the U.S., in China “Just Do It” aims to convey the idea of being prudent and thinking about long-term gains with tangible benefits.

Xu et al. (2014) examined co-creation within the context of service recovery and applied cross-culture as a moderator. The authors argue that culture can moderate customer satisfaction and co-recovery and examine this within the cultural groupings of Eastern (collectivist) and Western (individualist) cultures. These two categories are evidently broad and ignore the stricter application of Hofstede’s (1980) dimensions but serve to give us an insight. Xu et al. (2014) conclude that customers from individualist cultures are more sensitive to who initiates the service recovery (than collectivist cultures) and prefer the service provider to initially start the process and feel slighted if they themselves have to do it. Furthermore, customers from individualist cultures are less likely to repurchase in the future if they have initiated the service recovery, as compared to collectivist cultures. This could be interpreted as individualist cultures placing more importance on perceived justice, which in turn is related to perceived effort in the recovery process. Furthermore, Hollebeek (2018) notes that in the event of service failure customers from low power distance cultures are less likely to complain to their service provider so the firm should try and actively encourage customers to give feedback (stating that it is anonymous, offer incentives to take part).

Hollebeek (2018) also suggests that firms should emphasize self-service technologies for masculine cultures, as people tend to be confident in their own abilities. For example, Amazon’s virtual assistant Alexa allows customers to verbally order online, control lights

in their house, play their Spotify list, all of which is designed to appeal to the self-efficacy that defines customers from masculine culture. Furthermore, Oliveira and Hippel (2011) state that customers have often been the source of innovation precisely through self-service which has been facilitated by high-technology. Given that masculine cultures are driven by ambition and success it follows that self-service technology would appeal to these types of customers.

Conversely, community-based activities and relationship building are encouraged to engage customers from collectivist cultures as these emphasize empathy and reciprocity.

2.5. Co-creation and banking

The financial services sector is an important driver of mature economies and its development is heavily influenced by technological developments. Furthermore, it is characterized as a high-credence industry and as such embodies the thoughts of authors such as Vargo and Lusch (2004) and Prahalad and Ramaswamy (2004), in so much as the emphasis is on intangible outputs, the integration of resources and interactive experiences through multiple platforms. This, added to the fact that customers still mistrust their banks, provides a good opportunity to examine co-creation within the context of this particular sector.

According to the World Bank services currently account for over 65% of global GDP (<http://wdi.worldbank.org/table/4.2>), which represents a 2% increase between 2010 and 2017. This figure is even greater for high-income economies (over 75%), which demonstrates the increasing dominance of services in economic growth. As Vargo and Lusch (2004) note, services are increasingly more important, particularly in Western economies, thus reflecting the onus on intangible outputs.

In turn, the financial services industry (retail banks, building societies investment banks and hedge funds) is particularly salient in the growth of services. For example, in 2018 the financial services sector accounted for 6.5% of total economic output in the UK (<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193>) with Luxembourg's financial services industry heading the list of OECD countries accounting for more than a quarter of total economic output.

Banks contribute to the economy by creating money through loans. Essentially, when banks provide a new loan asset they offset the loan by creating a new demand deposit. As the 2008 economic crisis evidenced, the bank equity of some financial institutions dipped to dangerous levels as customers were unable to meet mortgage repayments, which led to the closure of a number of banks and numerous mergers. One consequence of the economic crisis was an ensuing decline in consumer trust and confidence in banks and the role of bank representatives as ‘customer consultants’. EY’s 2016 Global Consumer Banking Survey (<https://www.ey.com/gl/en/industries/financial-services/banking---capital-markets/ey-global-consumer-banking-survey-2016>) highlighted the low levels of trust consumers feel towards their bank, with only 36% of European customers trusting their financial service providers.

Moreover, in practical terms adults need to have a bank account to work, manage finances, pay household bills and ask for credit. Bank customers need to actively participate in the service delivery process, which is often characterized by lengthy relationships with their providers (Greer, 2015). However, they may be less highly involved than other hedonic services – such as booking a holiday – as banking is a necessity rather than an optional choice (Greer, 2015). Also, as Chan et al. (2010) noted, value co-creation is especially relevant to professional services as offerings may be tailored to each customer, involve high contact with customers and characterized by credence attributes. As such, financial services are defined by four characteristics: information-intensity, intangibility, membership-based customer relationship and the complexity of contracts (Ponsignon et al., 2015). Chen et al. (2015) also highlight that market offerings associated with financial services companies are complex, thus requiring provider and customer to collaborate. Based on the aforementioned, the banking industry is given special attention in this section.

Given that customers are likely to require highly personalized banking services over their lifespan, for example a mortgage loan or personal loan, it follows that banks should incorporate co-creation activities to engage customers so both the service provider, and customers receive mutual gain. However, banks must fully transition from a goods-dominant view to a service-dominant approach. Equally, they need to build consumer confidence and actively engage customers (by understanding what they most value),

appreciate customers can be a source of service innovations and the vital role employees play. All these issues are discussed below.

Banks that adopt a goods-dominant logic believe that value is embedded in products and focus on value-in-exchange. They are likely to follow strategies that emphasize low prices, for example loans at competitive rates, as a means to gain market share (Skálen and Edvardsson, 2016) but ignore customization and co-creation possibilities. Whilst this strategy may initially attract customers and lead to higher market share, it not only results in a transactional, rather than a relational approach with customers, it is likely to trigger a response from competitors who will in turn lower their loan rates. Lähteenmäki and Nätti (2013) also stress that many financial institutions are still producer-orientated and whilst they strive for customer satisfaction they are not fully customer-orientated. For example, rather than simply responding to an enquiry about mortgage conditions banks should aim to co-create with customers, which could involve collaborating with them to find a suitable property to meet their needs and insurance coverage.

Additionally, whilst most banks recognize the rise in internet banking - in 2017, 51% of adults in Europe used internet banking, which is double the figure ten years previously (Eurostat <http://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180115-1>) - and realize that a relationship strategy is effective so personal advisors are offered to many customers. However, customers themselves do not feel they are gaining enough value from their banks (Lähteenmäki and Nätti, 2013), which seems to infer that banks are still out of sync with their customers. As a case in point, Oliveira and von Hippel (2011) note financial service providers often do not communicate in the right way with their customers or lack adequate interactive platforms to be able to identify and satisfy unmet customer needs. Auh et al. (2007) state that financial services companies should adapt the sophisticated industry jargon to suit customer needs, for example by providing greater clarity for customers.

Ramaswamy and Ozcan (2018a) stress the importance of DIP (Digitalized Interactive Platform) to facilitate communications and serve as a springboard in which value can be co-created and added to the initial marketing offering. For example, whilst most banks provide apps to download on customer's phones, a web-based service to access marketing

offerings and some banks even offer additional devices (such as wristbands and watches for contactless payments) each should be managed so customers can converse with other users, the firm itself and other actors so each party can generate additional value derived from the initial product/service. In this sense, value does not end with the final marketing offering per se, the value-in-use can in effect lead to other relational exchanges. Medberg and Heinonen (2014) specifically refer to invisible bank service value which examines how value is created over and above the service process and final outcome. As they note, *“Value is the result of how a company’s service is and becomes embedded into the customer’s contexts, activities, practices and experiences”* (p.592)

As such, these comments echo the work of Ramaswamy and Ozcan (2018a) in so much as banks should strive to provide integrative platforms where customers can connect with other customers and the bank itself.

Lombardo and Cabbidu (2017) specifically examine value co-creation in terms of provider-customer interactions and highlight three general categories: access to capital, capital exploitation, and capital attrition. Based on the work of Bourdieu (1985, 1987) they argue that the basis of value creation is the fact that people use social interactions to look for opportunities to create value (for themselves) within a social field (for example, within a bank’s platform). However, service providers and customers have unequal resources (capital) so based on the resources a party has each is given a particular place within the social field. Capital, in this sense, refers to economic capital, knowledge, social connections/relationships and legitimacy (a sum total of the previous attributes). Banks therefore must provide platforms that accommodate these different types of customers and understand how each party can maximize their experience and co-create value. Dean and Talat Alhothali (2017) argue that these platforms should be characterized by three fundamental pillars: joint problem solving (the bank’s readiness to work collaboratively with customers in a space that fosters customers active participations; joint relationship development (banks and customers are willing and able to build strong and mutual relationships); joint knowledge and learning (the extent to which the bank and customers are able and willing to increase the other’s knowledge and improve learning). Essentially, for co-creation to be success the bank needs to gain access and foster their customer’s

value processes rather than trying to adapt customers' needs to existing firm processes (Dean and Talat Alhothali, 2017).

Ponsignon et al. (2015) note,

“Contextual conditions for customer perceptions has major implications for operations design” (p.297)

As such, the authors recommend that customer experience is managed on operation and market-based performance metrics. Based on the four characteristics of financial services (as outlined previously) Ponsignon et al. (2015) recommend that these types of firms adhere to five management practices: define the customer journey lifecycle and include all customer touchpoints; establish performance management systems (surveys, customers queries, complaints, feedback...); train frontline employees to engage customer in learning activities; use transactional data (e.g. credit card spends at holiday time) to predict future behavior and personalize the customer experience; use sensory design on tangible and visible service elements.

As well establishing the right platforms, banks need to change their behavior, both inside-out and outside-in the firm. Firstly, banks are generally characterized by conservative mentalities and hierarchical structures meaning that employees roles can be restricted. Furthermore, some firms are still reluctant to open up their processes as they believe it harms business flexibility (Jouny-Rivier et al. 2017). As Auh et al. (2007) note, given that financial services are high credence they are likely to struggle to integrate customers in the value process due to their conservative mindset. However, as Chen et al. (2015) demonstrated in their study of financial services, customer participation can improve the relationships between customers and employees, as well as improve employees' job satisfaction and commitment to the firm.

Along these lines, Ostrom et al. (2015) highlighted that research was needed to explore the coordination of the interdependent roles of employees and customers in the context of co-creation. When moving to a service-dominant logic a shift in value creation practices, such as a change in employee behavior, should occur (Skalén and Edvardsson, 2016). Co-creation means that the dynamics in the supplier-customer relationship evolve, often resulting in a new professional identity (Skalén and Edvardsson, 2016), rather than a static employee identity associated with a goods-dominant logic. Furthermore, the value

co-creation must be context specific (Lähtenmäki and Nätti, 2013). As such, customers who work with their bank often have to share intimate details about their personal lives (age, income, employment status...) to maximize their relationship with them (Auh et al. 2007). This could mean building a rapport with frontline employees (either face-to-face or remotely) so it follows that frontline employees are given adequate training and the flexibility to evolve with the customers, as well as feeling motivated to do so. Furthermore, financial services firms could adapt their approach to recruitment and training, as well as offering incentives to employees (Chen et al., 2015)

Secondly, banks should recognize the value of customers as innovators. Oliveira and von Hippel (2011) argue that financial service providers are missing opportunities to co-create with customers. As the authors note, customers can be a vital source of new innovations,

“55% of today’s computerized commercial banking services were first developed and implemented by non-bank firms for their own use, and 44% of today’s computerized retail banking services were first developed and implemented by individual service users rather than by commercial financial service providers” (p.806)

As highlighted by Ramaswamy and Ozcan (2018) and Dean and Talat Alhothali (2017), firms may lack the correct interactive platform, as well as not communicating in the right way, to be able to identify and satisfy unmet customer needs and collaborate with them. Furthermore, service providers do not view customers as potential innovators and see them merely as idea generators (not equipped to develop new market offerings with the firm. Research suggests that innovation tends to come from “lead users” (those users who are attuned to spotting market trends and who see benefits, i.e. profits, from possible innovations) (Oliveira and von Hippel, 2011). Given this firms should invest resources into identifying who these lead users are. Also, if users are better at understanding what exactly they need and the firms have the resources (i.e. money for R&D and better know-how as regards the solution approach) it should be a step towards an improved value generation process. Also, as Martovoy and Santos (2012) state, customers who are engaged with their bank tend to be more committed to them.

Along these lines, Wagner et al. (2017) specifically examined the banking sector by applying the DART model (Prahalad and Ramaswamy, 2004). In terms of customers willingness to co-create with their banks the authors recorded significant and positive relationships with access, risk, assessment and transparency. However, they noted that

dialogue did not seem to significantly affect the co-creative process between customers and their banks. Their results seem surprising as dialogue refers to interactivity and engagement, which are fundamental to co-creation. However, Wagner et al. (2017) suggest that these results could reflect the difficulty banks encounter to adapt their structures so customers may interact. This being the case, a restrictive platform is a surmountable obstacle banks need to overcome in order to fully integrate customers and other stakeholders in value creating processes.

As an important determinant of loyalty, the authors van Esterik-Plasmeijer and van Raaij (2017) note that despite the economic recovery from the 2008 crisis, customers still mistrust banks. Importantly, the authors state that trust in the banking system itself is a determinant of bank trust and loyalty. This indicates that the banking industry should provide a joint effort to restore trust among consumers. To do this, the sector needs to demonstrate integrity, transparency, customer orientation and competence (Van Esterik-Plasmeijer and Van Raaij, 2017). For example, implementing and adhering to strict ethical codes, being honest with consumers and fostering collaborative environments to enhance interactions. Auh et al. (2007) found that when customers are involved in co-production they are likely to recommend their service provider, i.e. attitudinal loyalty but the same does not apply with repurchases. However, attitudinal loyalty mediates the effect of co-production on behavioral loyalty.

Van Esterik-Plasmeijer and van Raaij (2017) also highlight that when customers experience positive personal experiences with their bank they trust their bank, even if they are warier of the banking system itself. Thus, as the work of Ponsignon et al. (2015) examines, some financial institutions have made managing the customer experience as a strategic priority. Furthermore, when customers trust their banks they tend to be more forgiving in the event of service failure (Van Esterik-Plasmeijer and Van Raaij, 2017). In their study, Auh et al. (2007) noted that when customers are involved in the value creating process with their financial provider they demonstrate attitudinal loyalty, i.e. WOM. As inferred by the theory of reasoned action, attitudinal loyalty may mediate the effect of customer participation on behavioral loyalty (repurchase), ultimately meaning that the financial rewards for firms may not be immediate.

2.6. Conclusions

The aim of this chapter was to examine the extant literature on value co-creation and highlight areas of similarity/divergence in the main streams of research. Technological developments continue at great pace, meaning that the notion of value co-creation is particularly relevant in today's business environments due to empowered customers. Given that interactive platforms continue to multiply (for example, social media networks, mobile apps) customers are increasingly connected (amongst themselves and with other stakeholders) so firms need to incorporate themselves into the customer's domain, rather than wait patiently for customers to reach out to them. The ultimate value of any market offering is decided by the final end user but firms need to take a proactive role in initiating dialog, opening up their processes, being transparent and honest with their customers. Customers do not need to co-produce market offerings for value to be co-created but they do require market offerings to reflect their needs (stated and unstated) and have a voice with their service provider. As such, the role of frontline employees is particularly salient, although for them to be effective they need to receive the correct training and for companies to "let go".

Given the extensive research and number of articles that discuss value co-creation this article is not all inclusive. We have attempted to highlight the main concepts and authors included in the discussion to date with an aim of giving a comprehensive overview of the concept. Doubtless the debate on value co-creation will continue but we hope to have added a new insight to the discussion.

Likewise, as previously noted, Hofstede's (1980) model of culture is not without its faults. Equating culture with nationality doesn't necessarily reflect the multicultural nature of certain countries (e.g. USA and Brazil) characterized by a large number of immigrants. However, Hofstede's model is still the most used in cultural research and offers useful insights when collaborating with nationals of other countries. In this sense, Hollebeek (2018) explored culture on an individual level, referencing the work of Yoo et al. (2011), who provided analysis of individual level cultural analysis based on the framework of

Hofstede. Nevertheless, applying the approach of Yoo et al. (2011) to a large sample is difficult to operationalize.

Similarly, the concept of value co-creation can be applied industry-wide to provide general guidelines and insights to further knowledge on the topic. However, in order to provide more useful observations to both academics and practitioners we would argue that studies must be context-specific. Thus, given that the theoretical framework and implications of co-creation have been discussed in this chapter, the subsequent chapters explore co-creation within the context of the banking sector and cross-culture.

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CHAPTER 3

UNDERSTANDING THE EFFECTS OF CO-CREATION ON CUSTOMER SATISFACTION, LOYALTY AND WORD-OF-MOUTH IN THE BANKING SERVICE INDUSTRY

Outline

Although many firms profess to adopt a customer-centric approach many are yet to embrace the notion that value is not solely created within the boundaries of the firm, that it is created co-jointly with outside parties. As such, value co-creation has increasing importance in modern marketing, impulsed by Service-Dominant Logic. While co-creation is a hot-topic in the marketing literature, services marketing literature recognizes the impact of demographic characteristics in consumer behaviour. However, literature analysing the effects of demographics in co-creations models is very scarce.

Therefore, the aim of this chapter is to examine a set of outcomes of co-creation (satisfaction, loyalty and WOM) from a customer perspective. More, this research also analyses the potential moderating effect of demographic characteristics such as gender and age in this co-creative framework.

The results show that co-creation directly affects customer satisfaction, customer loyalty and WOM. Co-creation also results in increased levels of customer satisfaction, which in turn mediates the effect of co-creation on customer loyalty and positive WOM. Data also reveal different patterns of behaviour depending on gender and age.

This chapter contributes to the understanding of co-creation from a customer viewpoint. Firms should strive to foster co-creation initiatives as this can lead to increased levels of customer satisfaction, more loyal customers and the possibility of attracting new customers through positive WOM by current customers. Customers databases must be segmented for higher levels of marketing campaigns efficiency.

Keywords: Co-creation; Service-Dominant Logic (SDL); customer satisfaction; loyalty; WOM; gender; age.

3.1. Introduction

For little over a decade a fundamental shift in the way value is perceived has occurred. The debate is still very much alive today concerning co-creation (Andreu et al., 2010), with debates ranging from what it is (Vargo and Lusch, 2016; Grönroos, 2012), the importance of customer interactions and experiences (Prahalad and Ramaswamy, 2004a) and the positive effects of co-creation (Hunt et al., 2012).

The search for alternative ways to create customer value is epitomized in the work by Vargo and Lusch (2004a). Understood as a significant paradigm shift in the field of marketing (Karpen and Bove, 2008; Schulz and Gnoth, 2008) the foundational premise of Service-dominant logic that has sparked the most intense interest and debate is the concept of value co-creation. The idea that firms are not the sole providers of value and customers should be viewed as active participants in the value creating process has caused much stir. Highlighted by the Marketing Science Institute as a research priority for two successive terms, in 2010-2012 and 2012-2014, co-creation represents an area of great interest in the marketing research area.

As Chen (2015) recently highlighted, the intense competition in the retail market emphasizes the need to satisfy and retain existing customers. As such, co-creation has important implications for both firms and other actors. Authors such as Payne et al. (2008) and Gouillart (2014) argue, by enhancing the way in which value co-creation is managed companies can obtain a competitive advantage. In this highly competitive world, where *“even the most ingenious invention will be a market failure if it does not meet the needs of the customers”* (Kristensson et al., 2008, pp.474), companies need to strive for a competitive advantage. Thus, value co-creation offers one possible avenue through which to achieve this.

Furthermore, given that customer behavior is intrinsically linked to value co-creation, this offers an opportunity to examine the relationship between co-creation, customer satisfaction and loyalty. Whilst some studies exist that analyze these concepts (Vega-Vazquez et al., 2013; Navarro et al, 2014), none have empirically measured the direct relationship between these variables. Given the lack of studies that assess co-creation from a customer perspective (Fyrberg Yngfalk, 2013) and the shortfall of those measuring the effects of co-creation on all of the following variables in one study – satisfaction, loyalty and WOM- the aim of this paper is to examine, from a customer

perspective, whether co-creation can yield positive outcomes for customers. Moreover, although services marketing highlights the relevance of demographic factors such as gender, age, education or income level in consumer behaviors (Verhoef, 2003; Homburg and Giering, 2001; Mittal and Kamakura, 2001) the literature considering the potential effects of demographics in co-creation frameworks is very scarce.

Therefore, to solve the gaps identified in the literature the objective of this study is twofold. First, we aim to propose a co-creation model which considers key relevant outcomes such as loyalty and WOM. Second, our research analyses, from an exploratory point of view, how demographic variables such as gender and age may influence co-creative processes.

To achieve these objectives, the paper is structured as follows. Section 2 provides a review of the literature, with specific reference to the Service-Dominant Logic, co-creation, and the variables considered in relation to these concepts (satisfaction, loyalty and WOM). The subsequent section outlines the hypotheses proposed, followed by details of the empirical study. We then evidence the findings based on the retail banking sector. This sector is vital for an efficient economy. The 2008 banking crisis threw many retail banks into turmoil with numerous closures, mergers and acquisitions. As such, consumer confidence was severely eroded and is still to be fully restored, meaning that banks need to strive harder for customer satisfaction, loyalty and positive WOM. All these variables were chosen as they can strongly influence business performance, and given the recent checkered history of the retail banking industry, co-creation may offer one possible avenue through which to restore customer confidence. The final section provides the conclusions drawn, limitations of the study and potential future lines of investigation.

3.2. Theoretical background of Service-dominant logic and co-creation

In the realm of customer management literature (Verhoef and Lemon, 2013) there is an abundance of literature which examines customer satisfaction (e.g., Fournier et al., 1999; Gupta et al., 2006; Kumar et al., 2013). Some studies even exist that examine the relationship between co-creation and satisfaction (Hunt et al., 2012; Vega-Vazquez et al., 2013). Additionally, although the relationship between satisfaction-loyalty and

satisfaction-WOM is widely accepted in the marketing literature (Kumar et al., 2013), no study has yet empirically tested these within the context of co-creation.

Our research aims to address this gap by examining the effect of customer satisfaction with co-creative processes in both transactional (loyalty by means of repurchases) and non-transactional behaviors such as recommendations and worth-of-mouth which also may affect the companies' profitability. This study is grounded in the SDL framework to conceptualize co-creation and analyzes the possible effects of co-creation on customer satisfaction, loyalty and WOM.

3.2.1. Service-Dominant Logic

In the field of marketing, Service-Dominant logic (SDL) has emerged as a new paradigm since the seminal work of Vargo and Lusch (2004a, b). Their work prompted numerous discussions (Karpen and Bove, 2008; Schulz and Gnoth, 2008), special issues (Journal of the Academy of Marketing Science, 2008; Marketing Theory, 2007, 2011), and has been the focal point of several conferences. Whilst the academic community both praises and questions the paradigm (Grönroos and Voima, 2013; Grönroos, 2008, 2006; Gummesson, 2004) it has unquestionably had a strong influence on how exchanges in markets are viewed, as well as interactions between entities in the organization's value network – with particular reference to co-creation with customers.

Notably, SDL challenges the traditional neo-classical economics view of markets (Goods-Dominant Logic), to adopt a more extensive approach, in that companies should not view themselves simply as producers of goods/services and sole creators of value; rather, that services are the foundation of any exchange and that value is co-created by all the actors' interactions (Vargo and Lusch, 2004a, 2004b). Companies can only make value propositions; it is the users who determine the value through their use in their own context.

Vargo and Lusch (2004a, 2004b) sustained that the marketing discipline was fragmented and a paradigm shift was needed. Their research offered an integrative approach to the emergence of new theoretical concepts – relationship marketing, quality management, market orientation, supply and value chain management, resource management and networks – which marked the increasing importance of intangible resources, exchange processes and relationships and a clear emphasis on co-creation

typically observed in service industries. In effect, SDL offers a unified approach to the underlying themes of the marketing concepts that have emerged since the 1980s and signals a tentative step toward a general theory of marketing (Brodie et al., 2011).

Of particular interest is the idea that the “*cocreation of value is the purpose of exchange, and, foundational to markets and marketing*” (Vargo and Lusch, 2016, p.9). Value is conjointly created by all the entities involved in any economic exchange (organization, employees, government, stockholders, customers etc.) through the combination and integration of resources -knowledge and skills; but ultimately customers are the ones who benefit from the end product/service and determine its value (Vargo et al., 2008; Vargo, 2008), ‘value-in-use’, as it is the result of actually using the product/service in their own context. This is in marked contrast with the Goods-dominant logic (G-D logic), which adopts a value-in-exchange (Zeithaml, 1988; Cronin et al., 2000) perspective, where value is measured in terms of sacrifices vs. benefits.

Thus, customers are central to value creation and their role transcends that of passive receivers to active contributors to the process of marketing, consumption, and delivery of products/services (Dong et al., 2008). We must highlight the importance of the interactions between companies and consumers to create value. Therefore, in the race to create superior value firms have begun to appreciate the potential benefits of customer involvement in value creation, i.e. value co-creation (Prahalad and Ramaswamy, 2004a; Saarijärvi et al., 2013).

3.2.2. Co-creation in the retail banking services industry

As Fisher and Smith state (2011, p.326), “*the co-creation of value is emerging as the new frontier in marketing.*” Based on the new service-centered logic, co-creation is understood as a means of generating value through a collaborative process between organizations, their customers, or other actors in the market (Ind and Coates, 2013). This collaboration involves the exchange of intangible resources, such as knowledge and skills, for mutual benefits (Fisher and Smith, 2011; Vargo and Lusch, 2004a). According to Vargo and Lusch, it is the beneficiary who ultimately determines the value through value-in-use.

The work by Prahalad and Ramaswamy (2000, 2004a, 2004b) understands co-creation as interactive experiences, ongoing dialogue between firms and customers, and

adaptation to the specific customer context (personalization). Grönroos (2012), Grönroos and Voima (2013), Saarijärvi et al. (2013) and Andreu et al. (2010), among others, also stress the importance of direct interactions between the organization and its customers to co-create value. Customers further contribute to the total value outcome through their value-in-use; that is, different actors work together to co-produce value, whereas it is in the act of usage that real value is created (Ind and Coates, 2013; Saarijärvi et al., 2013). Payne et al. (2008) concur that in order to support value co-creation organizations need to adopt a relational view with customers. The firm-customer relationship should be dynamic, provide interactive experiences and activities that are led by purposeful practices, whilst tapping into the unconscious behavior of customers. The advances in information technology have facilitated this process between firms and customers, and between customers themselves (Saarijärvi et al., 2013).

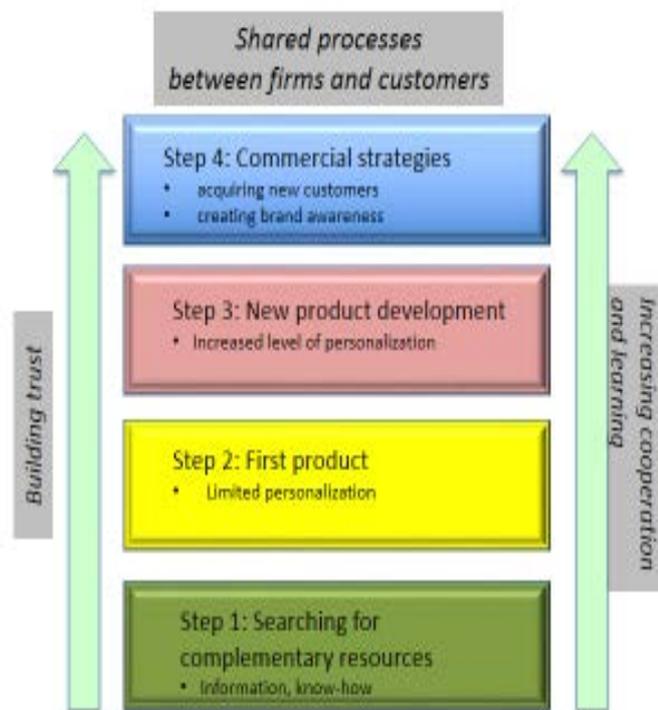
Prahalad and Ramaswamy (2004a, 2004b) also stress that co-creation is not concerned with making individualized products, but co-creating experiences. In this sense, the co-creation of value should result in mutually beneficial results for both the firm and its customers. The authors highlight that the basis of establishing interactions with customers is dialogue, access, risk and transparency. Co-creation requires customer orientation, meaning that firms need to be closer to their customers and the ability of firms to connect with them (Ind and Coates, 2013).

Payne et al. (2008) and Saarijärvi et al (2013) also proposed a framework to foster the co-creation of value within the context of SDL which is highly recognized in the marketing community. Their research was based on extant literature on value, value chains, co-creation, SDL, relationship marketing. Their framework consisted of three main components: customer-value creating processes, supplier value-creating processes and encounter processes. Key to successfully co-creating value is the process of learning (by both customers and organizations), participatory design, and correct relationship management.

Figure 3.1, designed under a collaborative process with managers of the retail banking sector, shows co-creation as a process of building trust and joint learning in the retail banking sector. Given the special characteristics of the sector, the low levels of customers` trust on financial institutions, and the high level of competition in the industry firms have an increasing pressure to innovate and to be closer to their customers. Banks

are forced to specialize and complement their resources often collaborating with customers whom they view as valuable resources that can reduce uncertainty and risk.

Figure 3.1: A co-creation process
A firm opens its processes to engage customers in collaborative relationships



Source: The authors

Step 1 “searching for complementary resources” represents the initial stage where the first interactions take place between firms and customers. At this stage they get to know each other and assess what each party can contribute to the relationship. In the banking sector customers typically approach the bank with a need in mind (e.g., searching

for investment opportunities for their savings). Banks and customers begin to exchange information. Banks own information about financial investment products and trends while customers may share their situation and preferences (life stage, wealth, risk aversion, time horizon).

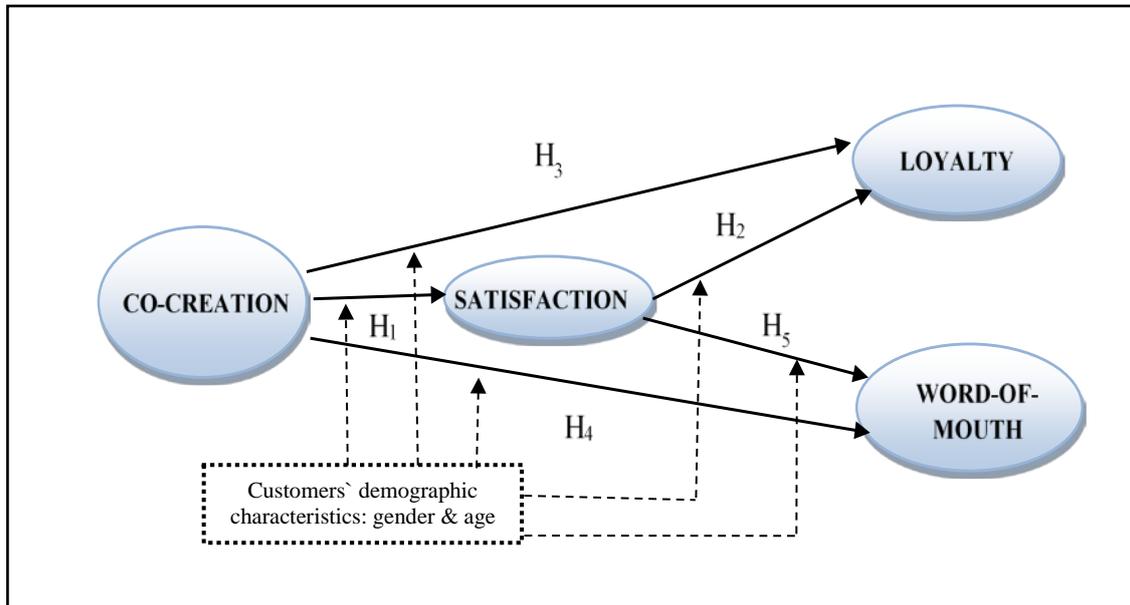
When customers believe there is a good fit with the bank's products they will most likely start thinking of trying a product, which is represented in Step 2. It will probably be a basic product with limited adaptation/personalization but this step is important so that customers can evaluate the firm's potential (other products of interest, direct benefits in the customer's own context), and experience working together. Once customers gain a better understanding about the firm, Step 3, they become more involved in the firm's processes and are willing to co-design the appropriate mix of products with the bank.

Finally, in Step 4, if customers are satisfied with the co-creative and learning experience they are more likely to demonstrate loyalty and will talk positively about the firm in their networks, which in turn will facilitate the firm's new acquisition of customers and reinforce the brand. In summary, co-creation is a process of increasing trust and learning with customers in collaborative relationships.

3.3. Development of hypotheses

The basis of co-creation has been discussed in the former section. As we highlighted in Step 4 of Figure 1, if customers are satisfied with the co-creative experience the firms will benefit from a set of positive outcomes. The advantages of the co-creation of value are well recognized in the service context and they are often related with customer satisfaction. However, these outcomes are based not only on repurchase behaviors but also through other non-transactional behaviors such as positive WOM, which may affect the profitability of firms. This is the key idea of our conceptual proposal, which is shown in Figure 3.2. More, because there is a lack of literature considering the possible influence of customers' demographic characteristics on co-creative frameworks we propose under an exploratory approach two general hypotheses related with gender and age.

Figure 3.2: causal model



3.3.1. Customer satisfaction

Customer satisfaction is one of the cornerstones of marketing. The concept has been the focal point of much marketing literature for a number of decades (Oliver, 1999). Customer satisfaction has been viewed as an individual assessment of outcomes versus expectations and also as a process or an outcome (Yi, 1990). The customer is posited to be satisfied when a product/service meets their needs and expectations (Bodet, 2008).

Customers assess their degree of satisfaction based on perceptions and experiences (Fournier and Mick, 1999), not just on transaction-specific exchanges. Therefore, given that SDL holds that consumers are an integral part of the value-creation process, it follows that co-creation affects their levels of satisfaction (Hunt et al., 2012; Grönroos, 2008).

Based on the aforementioned, we propose the first hypothesis:

H₁: *There is a direct and positive relationship between co-creation and satisfaction.*

3.3.2. Loyalty

As consumers are more informed, educated, and faced with a plethora of market offerings, so companies strive to satisfy customers, build loyalty and maintain long-term relationships with them, in an attempt to increase profitability (Pan et al., 2012). In general terms, loyalty describes the degree to which customers feel committed to their suppliers and do not actively look for alternative ones (Oliver, 1999). This definition encompasses two elements of loyalty which have been described in extant literature – attitudinal and behavioral (Chen, 2015; Bandyopadhyay and Martell, 2007).

Attitudinal loyalty can be understood as the likelihood to recommend, repurchase, or visit/repurchase from the retailer (Anderson and Mitall, 2000). Behavioral loyalty refers to observable customer behavior, such as customer retention, lifetime duration and usage, as a way of measuring loyalty (Gupta and Zeithaml, 2006).

As noted by Kumar et al. (2013) in their extensive literature review, in general there is a positive relationship between customer satisfaction and loyalty. More specifically, Chen (2015) proposes that value, as a reciprocal process of creation, determines the level of customer satisfaction. Such satisfaction antecedes customer loyalty (Bodet, 2008; Pan et al., 2012). Therefore, we can infer that customer satisfaction is one of the key precursors to loyalty. As firms and customers may co-create, mutual bonds may also form, resulting in more loyal customers for firms. For instance, Eisingerich et al. (2014) conclude that satisfied customers repurchase when they become active resources through customer participation. Given that SDL heralds customers as active participants in value creation, which leads to greater customer satisfaction, we believe this mediates the role between co-creation and loyalty.

Therefore, as shown in Figure 1, we propose the following hypothesis:

H₂: *There is a direct and positive relationship between satisfaction and loyalty.*

H₃: *There is a direct and positive relationship between co-creation and loyalty.*

3.3.3.-Word-of-mouth

Word-of-mouth (WOM) involves person-to-person communication where the recipient believes the giver to be non-commercial as regards a service, product, or brand (Arndt, 1967). Authors such as Aaker (1991) and Kumar et al., (2007) state that the real value of customers is not only their individual purchase behavior, but also the impact they

have on other consumers. Therefore, WOM can be viewed as another means of achieving profitability for firms. WOM may be positive or negative. To understand the huge impact of technology as a medium for online WOM one only needs to glance in the windows of restaurants and hotels to see the “recommended” stickers (thanks to tripadvisor.com). Thus, one appreciates why companies encourage their customers to act as sellers (Kumar et al., 2007).

As noted by Kumar et al., (2013), customer satisfaction is considered to be a precursor of WOM. Moreover, if they have cooperated with firms in co-creating activities they will be more proactive in undertaking positive WOM actions. Therefore, given that SDL views customers as active participants, which results in customer satisfaction, this should lead customers to provide not only more constructive feedback and suggestions to the firm, but also encourage new customers to make recommendations and referrals, in other words, positive WOM.

Based on the aforementioned, as shown in Figure 1, we propose:

H₄: *There is a direct and positive relationship between co-creation and WOM.*

H₅: *There is a direct and positive relationship between satisfaction and WOM.*

3.3.4. The potential influence of demographic characteristics

A recent work by Cambra-Fierro et al. (2011) recognizes the importance of considering customers’ demographic characteristics in services marketing studies. Different profiles may influence different behaviors. In this sense, the studies by authors such as Shanin and Chan (2006), Verhoef (2003), Homburg and Gierin (2001) and Mittal and Kamakura (2001) are of particular interest as they highlight that certain variables including gender, age, education level or income level can modify projected behaviors. For instance, Mittal and Kamakura (2001) and Iacobucci and Ostrom (1993) suggest that men and women tend to display divergent patterns and perceive satisfaction differently. Male customers tend to be more demanding and expect short-term results, while females tend to exhibit a heightened sense of justice and higher levels of loyalty (Homburg and Giering, 2001). In terms of the influence of age, the work of Cambra-Fierro et al. (2011) suggests that older consumers seem to be more conservative (risk averse) and long-term oriented, while younger consumers are short-term oriented.

Thus, we expect demographic characteristics to influence the co-creation processes and therefore, although under an exploratory approach, we suggest the following hypotheses:

H_A: *Gender has an influence on the outcomes of co-creation processes.*

H_B: *Age has an influence on the outcomes of co-creation processes.*

3.4. Research Methodology

To test the proposed hypotheses we carried out a study in the banking sector in Western Europe. In general, the financial sector can be considered as one of the main economic drivers, as it enables the financing of economic growth of a country and plays a decisive role in the process of channelling savings into investment. The needs of customers may be diverse and the existence of a variety of products is very common. However, as we already commented in a former section, the 2008 crisis has led to a remodelling of the sector resulting in numerous mergers and acquisitions, as well as resulting in an eroding customer trust and confidence in banks and the role of bank representatives as ‘customer consultants’. According to a study of the Emo Insights Company, 62% of customers choose to break up with their bank because of a poor emotional relationship with the entity. In this sense, actions such as co-creation, as explained in Figure 1, may help this industry to restore trust as well as customers’ satisfaction. Accenture, the global management consultancy, in their 2012 report on the banking sector, also highlighted a decrease in customer confidence and recommended engaging customers and co-creation as a way of providing a more personalized customer experience, which ultimately would improve customer satisfaction and loyalty. Thus, the management of company-customer interactions may be a valuable source of competitive advantage, not only in terms of repurchases, but also in non-transactional returns (i.e., WOM).

This study takes customer opinions as the reference. Table 3.1 shows the technical data of the study.

Table 3.1: Technical data of the fieldwork

Universe	Bank customers, adults
Geographical scope	Western Europe
Sample	224 respondents
Type of survey	E-mail
Respondents profile	(Gender) Male: 100 (44.64%); Female: 124 (55.36%). (Age) young consumer: 118 (52.6 %); older consumers: 106 (47.4%) (Loyalty) Only one bank: 90 (40.18%); More than one bank 134 (59.82%)
Date of the fieldwork	September-December, 2014
Data analysis	SmartPLS v.2.0

To measure each of the constructs we used a questionnaire, whose content and structure was adapted from previously validated and contrasted scales. Before finalising the questionnaire a focus group was held with consumers and marketing researchers, followed by a pretest given to ten individuals. This process allowed us to adjust the length of the questionnaire and clarify possible interpretations of terms. Questionnaires were developed in both Spanish and English. As the teamwork contains both Spanish and English researchers we ensured that the items had the same meaning in both languages. The scales finally used and the sources of reference are shown in Table 3.2.

Table 3.2: Measurement scales* (Sources) (Composite Reliability; AVE).

Co-creation (Ho and Ganesan, 2013; Dong, Evans and Zou, 2008) (0.850; 0.739)
CC1. I would like to give my opinion to contribute to the financial service improvement
CC2. I would like to participate in the new product/service development
CC3. I would like to suggest ideas for the company
Satisfaction (S) (Anderson and Narus, 1990) (0.972; 0.898)
S1. My relationship with the bank has been a happy one.
S2. Compared to my ideal relationship, I am very satisfied with the relationship with my current bank
S3. All in all, I am very satisfied with the bank.
S4. I am very satisfied with the bank as it has lived up to my expectations.
Loyalty (DeWitt et al., 2008) (0.910; 0.835)
Behavioral loyalty (BL)
BL1. I do not intend to switch to a competitor of the bank
BL2. I will contract the services of this bank in the future
BL3. I will visit the branches of this bank again
Attitudinal loyalty (AL)
AL1. I am dedicated to staying with this bank.
AL2. If the bank raised its charges I would continue to be a customer
AL3. If a rival bank offered me better financial conditions I would not switch banks
Word-of-Mouth (WOM) (Authors) (0.851; 0.743)
WOM1. I like sharing my experience as a customer of the bank with other customers.
WOM2. I will recommend the bank's services to friends and family.
WOM3. I always give my honest opinion about the bank's services.

* The Likert-scales run from 1 (totally disagree) to 7 (totally agree).

To analyse the proposed model a structural equation modelling technique was employed using Partial Least Squares (PLS) (SmartPLS v. 2.0). This methodology has recently been advocated and used in the marketing literature (Roldán and Sánchez-Franco, 2012; Reinartz et al., 2009).

Regarding the measurement model, and using the terminology proposed by authors such as Edwards (2001) and Polites et al. (2012), we note that the following concepts (co-creation, satisfaction and WOM) are first-order reflective constructs, and loyalty is a superordinate multidimensional construct design (reflective first-order, reflective second-order) which encompasses two reflective first-order dimensions: attitudinal and behavioural loyalty. Sources used for reference are also included in Appendix I. Gender is considered a dichotomous variable. To meet the objectives of this study age has also been considered as a dichotomous variable. Although age is a continuous variable we checked both the age and the type of products respondents had contracted with banks in order to ensure that different necessities arise and differences in behaviours could be expected.

With the objective of evaluating the quality of the data obtained, an individual reliability analysis of each item relative to its construct was carried out. The results show that all the values exceed the threshold of 0.707 required by Carmines and Zeller (1979). Reliability was also tested for each of the variables using Composite Reliability—considered superior to Cronbach’s Alpha—in order to confirm that all constructs were reliable given that they are above the 0.8 benchmark (Nunnally, 1978) (see table 3.2). A convergent validity analysis was carried out using the average variance extracted (AVE) (Fornell and Larcker, 1981). The fact that the results were above the 0.5 benchmark shows that more than 50% of the variable is expressed through its indicators (table 3.2). Afterwards, discriminant validity was confirmed via an AVE comparison of each construct (main diagonal) and the correlations between the variables (table 3.3). We observe that the square root of the AVE is higher than the correlations between constructs in each case (Fornell and Larcker, 1981). Therefore, we can conclude our data are adequate.

Table 3.3: Discriminant Validity for Structural Model Variables*

SAMPLE	VARIABLES	CO-CREATION	SATISFACTION	LOYALTY	WORD-OF-MOUTH
TOTAL	CO-CREATION	0.860			
	SATISFACTION	0.651	0.913		
	LOYALTY	0.637	0.715	0.9476	
	WORD-OF-MOUTH	0.655	0.593	0.687	0.862

* Data appearing on the main diagonal are the square roots of the AVE (Average Variance Extracted) of the variables. The rest of the data represent the correlations between constructs. All correlations are significant $p < 0.01$ (Fornell and Larcker, 1981).

3.5. Results

3.5.1. Structural model

In relation to the structural model, to assess the statistical significance of the loadings and of the path coefficients, a *Bootstrap* analysis was performed. We created 500 subsamples, employing t-Student distribution with 499 degrees of freedom (N-1, with N: number of subsamples), obtaining the values: $t_{(0.01; 499)} = 2.5857$; $t_{(0.001; 499)} = 3.3473$. From these values, we determined the acceptance or rejection of our hypotheses (see Table 3.4).

Table 3.4: Structural model results

Hypothesis	B	t-value	R ²
H1: Co-creation → Satisfaction	0.638***	9.654	R ² (Satisfaction) = 0.407
H2: Satisfaction → Loyalty	0.590***	6.798	
H3: Co-creation → Loyalty	0.275**	2.981	R ² (Loyalty) = 0.637
H4: Co-creation → Word-of-Mouth	0.365***	3.550	
H5: Satisfaction → Word-of-Mouth	0.455***	4.773	R ² (Word-of-Mouth) = 0.552

*** $p < 0.001$ ($t = 3.3473$). When the *t value* obtained using the bootstrap method is greater than Student's *t value* $t_{(0.001; 499)} = 3.3473$, the hypothesis is confirmed with a significance of 99.9%.

** $p < 0.01$ ($t = 2.5857$). When the *t value* obtained using the bootstrap method is greater than Student's *t value* $t_{(0.01; 499)} = 2.5857$, the hypothesis is confirmed with a significance of 99%

A measure of the predictive power of a model is the R^2 value for the endogenous constructs. The results indicate that our model has an adequate predictive power (see Table 3.4). These levels exceed the established level of acceptance of 0.1 (Falk and Miller, 1992).

Firstly, if we analyze the link between co-creation and satisfaction, hypothesis H_1 is supported ($\beta_1 = 0.638$, $p < 0.001$). Our model also considers both satisfaction (H_2) and co-creation (H_3) as antecedents of loyalty. Parameter values are both positive and significant for the sample ($\beta_2 = 0.590$, $p < 0.001$ $\beta_3 = 0.275$, $p < 0.01$) which supports these hypothesis.

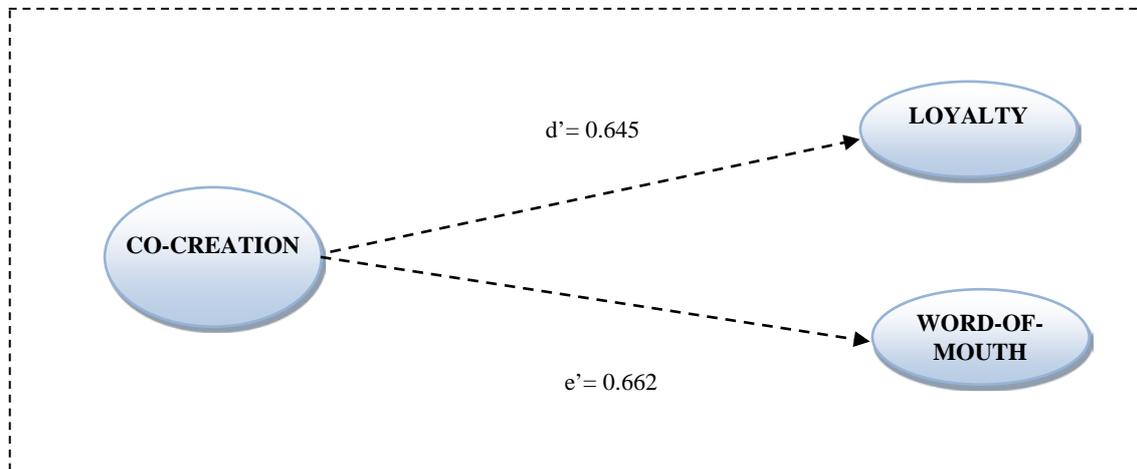
As far as the analysis of WOM, the confirmation of H_4 ($\beta = 0.365$, $p < 0.001$) and H_5 ($\beta = 0.455$, $p < 0.001$) allows us to conclude that both co-creation and satisfaction lead to a positive WOM behaviors.

In summary, these results provide us with a better understanding of the special bond that can be created between companies and customers promoting co-creative environments. Not only can satisfaction be achieved, but firms could also obtain profitability from transactional behaviors (loyalty-repurchase) and non-transactional behaviors (WOM).

3.5.2. Assessment of the mediating effect of satisfaction

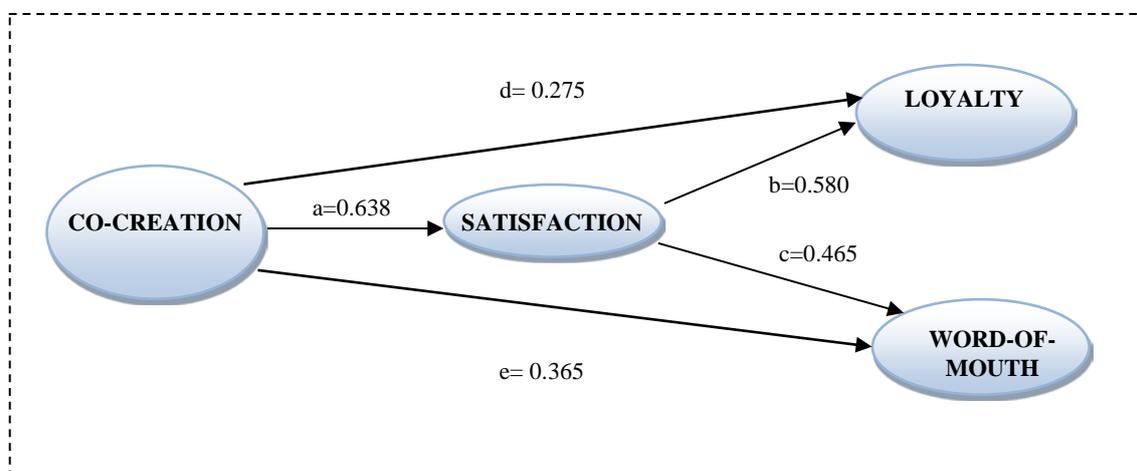
We have also examined whether customer satisfaction acts as a mediator in the model, following the recommendations of authors such as Real et al. (2014). To obtain information about the significance of the indirect effects, we applied a bootstrapping method (Preacher and Hayes, 2004; 2008). Figure 3.5.A describes the total effects of co-creation on loyalty (d) and co-creation on WOM (e). These total effects may be arrived at via a variety of direct and indirect forces (Hayes, 2009).

Figure 3.5.A: Structure of relationships for exploring the mediating effect. Model with total effects



Specifically, in Figure 3.5.B, the total effect of co-creation on loyalty can be expressed as the sum of the direct (d) and indirect ($a*b$) effects. Thus, $d' = d + (a*c)$ (Taylor et al., 2008). This approach has the advantage of being able to isolate the indirect effect ($a*b$). This process also allows us to check the presence of either full or partial mediation (Baron and Kenny, 1986). The same procedure is applicable to the total effect of co-creation on WOM, $e' = e + (b*c)$ where ($b*c$) is the indirect effect.

Figure 3.5.B: Structure of relationships for exploring the mediating effect. Model with the mediating effect



Next, we have to estimate the significance of paths using percentile bootstrap. This generates a 95% confidence interval (CI) for the indirect relationships. When an interval for a mediating effect does not contain zero, the indirect effect is significantly different from zero with a 95% confidence level. As Table 3.5 shows, in the confidence intervals obtained, the value zero is not contained in the paths COCR → SAT → LOY and COCR → SATISFACTION → WOM so we can confirm that the indirect effect is statistically significant and that satisfaction mediates the influence of co-creation on loyalty and WOM. Finally, when satisfaction is introduced as a mediator, co-creation reduces its direct effect on loyalty, although it remains significant ($d= 0.275$; $t= 2.981$) whereas its indirect effect via satisfaction achieves a point estimate of 0.370 ($a*b$). Taking as reference the terminology proposed by Baron and Kenny (1986) this means that satisfaction partially mediates the influence of co-creation on loyalty. The same process and same arguments indicate that satisfaction also partially mediates the influence of co-creation on WOM.

Table 3.5: Path coefficients and indirect effects for the mediation model

	Total effect	Direct effect to			Indirect effects		
		Satisfaction	Loyalty	WOM	Estimate	Percentile (Bootstrapping 95% confidence intervals)	
					Lower	Upper	
Co-creation → Loyalty	0.645*** (19.805)						
Co-creation → WOM	0.662*** (11.696)						
Co-creation		0.638*** (9.654)	0.275** (2.981)	0.365*** (3.550)			
Satisfaction			0.580*** (6.798)	0.465*** (4.773)			
Co-creation → Satisfaction → Loyalty					0.370	0.252	0.474
Co-creation → Satisfaction → WOM					0.297	0.162	0.391

*** $p < 0.001$ ($t = 3.3473$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,001;499)} = 3.3473$, the hypothesis is confirmed with a significance of 99.9%

** $p < 0.01$ ($t = 2.5857$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,01;499)} = 2.5857$, the hypothesis is confirmed with a significance of 99%

3.5.3. Assessment of the moderating role of demographic characteristics

As we outlined in previous sections, this investigation also aims to assess whether the customers' demographic characteristics (gender and age) could affect the links between co-creation and a set of outcomes. To this end, we firstly produced a multi-sample analysis, following the guidelines of Chin and Frye (2003), which consists of comparing the β coefficients for each of the sub-samples. This first analysis provides an overall vision which should be subsequently corroborated with the specific analysis of the moderator effect. The results of this analysis are shown in Tables 3.6.a and 3.6.b.

Table 3.6.a: Results of the structural multi-sample (gender)

	Female (n=124)	Male (n=100)
	<i>Path coefficients (β)</i> <i>T valor (bootstrap)</i>	<i>Path coefficients (β)</i> <i>T valor (bootstrap)</i>
H₁: Co-creation → Satisfaction	0.610*** (10.41)	0.665*** (10.56)
H₂: Satisfaction → Loyalty	0.518*** (6.51)	0.716*** (8.96)
H₃: Co-creation → Loyalty	0.349** (4.76)	0.153* (1.95)
H₄: Co-creation → WOM	0.384** (4.29)	0.353*** (4.38)
H₅: Satisfaction → WOM	0.356*** (4.35)	0.531*** (5.99)

*** $p < 0.001$ ($t = 3.34$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,001;4999)} = 3.34$, the hypothesis is confirmed with a significance of 99.9%

** $p < 0.01$ ($t = 2.58$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,01;4999)} = 2.58$, the hypothesis is confirmed with a significance of 99%

* $p < 0.05$ ($t = 1.85$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,05;4999)} = 1.85$, the hypothesis is confirmed with a significance of 95%

Table 3.6.b: Results of the structural multi-sample (age)

	Younger (n=118)	Older (n=106)
	<i>Path coefficients (β)</i> T valor (<i>bootstrap</i>)	<i>Path coefficients (β)</i> T valor (<i>bootstrap</i>)
H₁: Co-creation → Satisfaction	0.611*** (10.51)	0.610*** (7.51)
H₂: Satisfaction → Loyalty	0.697*** (11.57)	0.458*** (4.59)
H₃: Co-creation → Loyalty	0.149* (1.93)	0.470*** (5.27)
H₄: Co-creation → WOM	0.374** (4.11)	0.383*** (4.28)
H₅: Satisfaction → WOM	0.479*** (4.89)	0.436*** (5.25)

*** $p < 0.001$ ($t = 3.34$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,001;4999)} = 3.34$, the hypothesis is confirmed with a significance of 99.9%

** $p < 0.01$ ($t = 2.58$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,01;4999)} = 2.58$, the hypothesis is confirmed with a significance of 99%

* $p < 0.05$ ($t = 1.85$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,05;4999)} = 1.85$, the hypothesis is confirmed with a significance of 95%

The data show that the proposed relationships are significant in both sub-samples; in other words, co-creation directly affects satisfaction, loyalty and WOM in all subsamples: male and female, as well as young and old customers. Moreover, satisfaction also antecedes loyalty and WOM in all cases. However, from analyzing the path coefficients we can observe that some values are higher for some subsamples. More specifically, for the gender analysis we found $\beta_{1a} < \beta_{1b}$, $\beta_{2a} < \beta_{2b}$ and $\beta_{5a} < \beta_{5b}$ meaning that the effect of co-creation on satisfaction and satisfaction on loyalty and WOM is stronger for males than for females, while the direct effect of co-creation in loyalty and WOM ($\beta_{3a} > \beta_{3b}$, $\beta_{4a} > \beta_{4b}$) seems to be stronger for females than for males. A similar pattern appears to arise in comparing young versus old customers.

However, to assess whether these differences are significant it is necessary to perform an analysis based on the T -test proposed by authors such as Chin and Frye (2003) or Keil et al. (2000). The results of this test are included in Tables 3.7.a and 3.7.b. Data indicate that although age does not appear to moderate the intensity of all the hypotheses

proposed in our model, gender does. Therefore, as we propose under an exploratory approach we can conclude that demographic characteristics influence co-creative frameworks.

Table 3.7.a: Results of the analysis of the moderator effect

T-TEST	SE		SP	T-valor
	Female	Male		
H₁: Co-creation → Satisfaction	0.053	0.045	0.050	-8.10*
H₂: Satisfaction → Loyalty	0.072	0.057	0.067	-21.72*
H₃: Co-creation → Loyalty	0.066	0.069	0.067	21.46*
H₄: Co-creation → WOM	0.078	0.070	0.070	3.24*
H₅: Satisfaction → WOM	0.070	0.068	0.068	-18.97*

*p<0.001 (t=3.12). SE: Error estándar. SP: Separate Variance Estimate.

Table 3.7.b: Results of the analysis of the moderator effect (age)

T-TEST	SE		SP	T-valor
	Younger	Older		
H₁: Co-creation → Satisfaction	0.053	0.057	0.054	0.134 ^{n.s.}
H₂: Satisfaction → Loyalty	0.055	0.068	0.061	27.44*
H₃: Co-creation → Loyalty	0.073	0.061	0.069	-33.99*
H₄: Co-creation → WOM	0.061	0.080	0.073	-0.892 ^{n.s.}
H₅: Satisfaction → WOM	0.066	0.072	0.070	4.48*

*p<0.001 (t=3.12); n.s. (t<1.65). SE: Error estándar. SP: Separate Variance Estimate.

3.6. Discussion

Since the publication of Vargo and Lusch's influential works (2004a, 2004b, 2008) both academics and practitioners have recognized the importance of the Service-Dominant Logic (SDL) paradigm. Specifically, the authors provide a holistic approach to marketing, which encompasses the emerging trends and concepts in the marketing community; relationship marketing, quality management, market orientation, supply and value chain management, resource management and networks. On this basis, SDL signals a move toward a general theory of marketing (Brodie et al., 2011).

Not only does SDL emphasize the exchange of intangible resources; it also reflects the co-creation of value and the increasing importance of relationships. In essence, firms should adopt a service-centered view meaning they are customer centric and place an emphasis on managing relationships. Equally, companies should understand that value is created in tandem with customers and other parties, firms are not solely responsible for the value of their market offerings (Prahalad and Ramaswamy, 2004b; Andreu et al., 2010; Saarijärvi et al., 2013). Thus, embracing SDL logic signals a change in perspective for firms, markets and consumers.

The aim of this study was to further the analysis of the co-creation of value from a customer perspective. Specifically, we examined the relationship between co-creation, satisfaction, loyalty and WOM. A review of extant literature highlighted studies that examine co-creation behavior and satisfaction (Hunt et al., 2012; Navarro et al., 2014; Vega-Vazquez et al., 2013) but none has analyzed the interrelationships with loyalty and WOM in the context of co-creation in the banking services industry. Based on the model we proposed in Figure 1, which is the result of an interactive process with managers of the retail banking industry, our research recognizes the relevance of co-creation as a means of achieving not only customer satisfaction, but also a set of outcomes (i.e. loyalty and WOM) of interest for firms.

The concept of value co-creation is a key component of SDL, which posits that customers are always co-creators of value (Grönroos, 2011; Payne et al., 2008). Given the intense competitive pressure companies face, co-creation offers firms a unique opportunity to enhance the value of their market offerings. Customers demand a more active role and co-creation allows customers to assign their own meaning and value to market offerings (Albinsson et al., 2011) through interactions and experiences with the

firm. Therefore, firms are forced to open up more of their processes. From participatory designs, involving end-users leads to more relevant and usable products and services, while reducing risks (Andreu et al., 2010; Ind and Coates, 2013).

Moreover, as our model proposes, there is a set of outcomes of co-creation, both transactional and non-transactional, which are of interest for firms. As such, all the hypotheses posed were confirmed. Our findings show that co-creation directly affects customer satisfaction. Customers are more satisfied when they participate in joint learning experiences and work with firms to shape market offerings that better adapt to their needs. These results are in line with extant research (Hunt et al., 2012; Navarro et al., 2014; Vega-Vazquez et al., 2013). More importantly, as noted by authors such as Prahalad and Ramaswamy (2000, 2004a, 2004b) and Payne (2008), co-creation facilitates a meaningful and interactive dialogue between firms and customers. This dialogue allows for early problem identification and joint problem solving, which ultimately leads to superior customer value (Payne et al., 2008). The positive effects of customer satisfaction may predict future customer behaviors (Verhoef and Lemon, 2013).

We also found that co-creation directly affects customer loyalty and WOM. To date, these relationships had not yet been empirically tested in conjunction with co-creation and satisfaction in the banking services industry. Based on our data, we can confirm that co-creation not only directly affects customer satisfaction but also affects loyalty and WOM.

The results also highlight that satisfaction mediates the effect of co-creation on loyalty and WOM. In both instances, co-creation is shown to have an indirect effect on loyalty and WOM through satisfaction. These results are in line with Eisingerich et al. (2014), who state that satisfied customers tend to repurchase when they play a more active role. These authors also state that through co-creation customers develop a special bond with companies and are more likely to provide feedback and recommendations.

Given the current situation of the retail banking industry in some western economies, on the basis of our results customers must be increasingly seen as critically important operant resources for firms, and we therefore encourage firms to open their processes to customer participation. In order to do this they must be customer-orientated and adopt a relational approach. In today's networked world, customers have better access to information, are more empowered and wish to play a more active role. Consumers are

willing to share their personal experiences and opinions with others and want to interact and learn from firms and from other consumers. Firms should strive to understand in which processes and to what extent customers want to engage with them. They should also provide transparent information and reassure their customers that there are no risks in collaborating with them (i.e. mis-use of personal data). Furthermore, given that SDL advocates that it is ultimately the customer who assigns a value to any given market offering through their use of the product, companies need to recognize the appropriate level of learning and co-creation needed. In other words, firms need to gauge the knowledge held by both the customers and firm, understand what level of interaction is needed for customers to properly manage the value creation process and provide tools that facilitate an interactive dialogue between both parties.

Best practice on co-creation evidences the underlying basis of processes and resources. On the one hand, for customers to interact with the company, create their own experiences, and generate value the processes and resources must be carefully managed. Equally, these processes and resources enable companies to create superior value propositions which will result in higher levels of customer satisfaction, repurchases and positive WOM behaviors, reinforcing the competitive position of firms.

Additionally, our research also aimed to assess the possible influence of customers' demographic characteristics on co-creation outcomes. Several authors (Homburg and Giering, 2003; Verhoef, 2003; Mittal and Kamakura, 2001) recognize the key relevance of considering different consumer profiles as they can affect purchasing and relational behavior. Although under an exploratory approach, our research can be considered as pioneer in the co-creation arena. It represents one of the first attempts to empirically assess the impact of factors such as gender and age in co-creative processes. Results suggest that while the direct links between co-creation and loyalty and co-creation and WOM are stronger for female customers than for males, the relationships between co-creation-satisfaction-loyalty and co-creation-satisfaction-WOM are stronger for males. Moreover, age also bears an influence on co-creation. While males have been defined as more demanding and short-term oriented, females present higher levels of loyalty. Also, in relation to age we can understand that different life-stages generate different needs, perceptions and behaviors. In the case of the retail banking sector we find that younger consumers seek to satisfy their needs for consumption, credits or mortgages,

while older consumer may be interested in saving plans and pensions. In short, customers' characteristics affect the way they relate with their banks, and therefore best practices recommend segmenting the customer database in order to define more efficient ways of interaction to achieve the marketing objectives.

3.7. Conclusions

This study demonstrates the contribution of co-creation to customer satisfaction. However, the aim of our research was to extend the analysis to both transactional (repurchase) and non-transactional (WOM) behaviors which could increase the firms' profitability. In this sense our data reveals that that co-creation has a direct effect on loyalty and WOM. However, because satisfaction also mediates these relationships, we conclude that it reinforces the effect of co-creation. Based on these arguments, companies should strive to promote co-creation frameworks, as shown in Figure 1. These ideas are in line with the premises of S-D: customers are co-creators of value, final-end users determine the value of a market offering and firms must be customer orientated and facilitate interactive experiences.

This research is of interest because relationship marketing is still in a process of development and customer management (e.g., customer-firms interactions) is considered a subject of broad and current interest in relationship marketing and customer management literature (e.g., Verhoef and Lemon, 2013). This paper has presented, both conceptually and empirically, the interrelation between co-creation and satisfaction (which has been already studied in previous research), but also with loyalty and WOM. We have also shown that customers' demographic characteristics affect co-creative processes and outcomes. Therefore, although exploratory in nature, this research is the first attempt to analyze these interrelationships and represent an interesting starting point for future researches. Replicating our framework considering additional moderating effects would be of great interest for managers, as they could segment their customer databases and design optimum co-creative activities.

However, our study is not without its limitations. Firstly, results are based on one specific sector so we must be cautious when extrapolating our findings across industries. Secondly, we have employed questionnaires to survey consumer opinions and perceptions at a given point in time. Following recommendations made by Podsakoff et

al. (2003), potential biases have been checked. The common method bias was tested by conducting Harman's single factor test (Harman, 1967). Using a factor analysis, no single factor that explains variance across all the items is identified. The main factor explains 42.18% of the variance. Because no single factor is found to explain more than 50% of the variance, the study's data can be accepted as valid (Podsakoff et al., 2003). Following the recommendations of Armstrong and Overton (1977), we also compared early and late respondents and we did not find any significant difference.

With regard to potential lines for future research, a study which considered consumer profile variables—e.g. age, gender, income, education bracket, employment status, etc.—as moderating the structural model would be especially relevant. Authors such as Verhoef and Lemon (2013) note that demographic factors could have a lot to contribute to the study of customer management. Culture is also a determinant of consumer behavior and therefore cross-cultural studies are also of interest. Therefore, we also propose to analyze the potential moderating effect of country in the relationships we have proposed in this research. Lastly, a study replicating our research with a larger sample population and in different industries would be valuable in terms of extrapolation of results.

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CHAPTER 4
**HOW CROSS-CULTURE AFFECTS THE OUTCOMES OF CO-
CREATION**

Outline

The aim of this chapter is two-fold. Firstly, to examine the outcomes of co-creation from a customer perspective using well-recognised customer management variables (customer satisfaction, loyalty and word-of-mouth [WOM]). Secondly, to assess potential cross-cultural differences that may exist within the context of co-creation.

To achieve the objectives a questionnaire was completed in the banking services industry and the final valid sample comprised individuals from the UK and Spain. Multi-sample analysis was carried out using PLS software.

We find that co-creation has a direct influence on customer satisfaction, customer loyalty and WOM; co-creation activities lead to cumulative customer satisfaction, which also affects customer loyalty and positive WOM. Furthermore, the results show that the direct relationships between co-creation and loyalty and WOM are more powerful for British consumers than Spanish consumers, who need to feel satisfied prior to demonstrating loyalty and engaging in positive WOM.

This chapter provides insights into co-creation from a customer perspective. Although much service research has examined the drivers of customer co-creation literature that analyses the consequences of customer co-creation is still scarce. Moreover, this is the first study to provide empirical evidence of cross-cultural differences within the context of co-creation.

Firms can use co-creation as a strategic tool if they provide trustworthy collaboration spaces. Furthermore, firms need to adapt the way they interact, listen and respond to customers in different cultural contexts. Trustworthy collaboration spaces and adapting to cultural differences can result in customers who are more satisfied, loyal to the company and more likely to carry out positive WOM, which can ultimately lead to future business.

Keywords: Co-creation, customer satisfaction, loyalty, WOM, cross-cultural.

4.1. Introduction

Global markets are characterized by fierce competition which has put pressure on firms to seek external collaboration and invest in value generation as a strategy to maintain their customer base (Chen, 2015). Value generation and value sharing are important to both academics and practitioners, as reflected in the myriad of studies published (Gumesson and Mele, 2010; Saarijärvi et al., 2013). Literature highlights the importance of value as a determinant of consumer behaviour (Zeithaml, 1988; Holbrook, 1994) due to the relationship with fundamental marketing-related constructs such as perceived price, service quality, customer satisfaction (Fournier et al., 1999; Gupta et al., 2006); and as a means of gaining competitive advantage (Payne et al., 2008).

Furthermore, digitalisation, spurred by information and communications technology, has resulted in an exponential growth of interactions and human experiences (Ramaswamy and Ozcan, 2016). These interactions, exemplified by online communities, connect firms, customers and other stakeholders across multiple devices/channels accelerating value creation and innovation (Ramaswamy and Ozcan, 2018). Therefore, given the highly competitive global environment, and the fact that consumers are more connected, knowledgeable and demanding, firms need to pay greater attention to customer value generation. Equally, as reflected in Service Dominant Logic (SDL), the role of customers has transcended that of recipients of market offerings to co-creators in the value creation process (Vargo and Lusch 2004a, 2004b, 2008). This has resulted in the concept of market moving away from the traditional economic model of goods exchange towards a services approach and co-creational experiences (Prahalad and Ramaswamy, 2000, 2004a, 2004b).

A firm that strives to grow and develop new markets must interact with its customers and gain a thorough understanding of their needs as they represent one of the most important opportunities for joint value creation and innovation (Perez et al., 2013).

One of the key assertions of SDL is that the customer always co-creates value with the company. Previously, firms and customers were viewed as independent entities and playing distinct roles (value generator-value receiver). However, customers should no longer be seen as passive receivers of value but as active co-creators and partners (Payne

et al., 2008). Through co-creation customers can both help generate value and assign their own meaning, ultimately leading to an increase in the value obtained from the consumption experience (Vorre-Hansen, 2017; Roser et al., 2013; Albinsson et al., 2011; Saarijärvi et al., 2013).

Extant literature highlights a vast number of articles that have advanced our understanding of co-creation, although there is little consensus on what constitutes co-creation (Ramaswamy and Ozcan, 2018). For instance, Füller (2010) identifies the factors that motivate customers to participate in co-creation. Vargo and Lusch (2008) and Gumesson and Mele (2010) analyse the resources that customers need to bring and integrate in order to contribute effectively to co-creation. Ind et al. (2013) and Ramaswamy and Gouillar (2010) value the unique and personalised experiences that customers derive from participating in co-creation. Therefore, most of the specialised literature has paid attention to the drivers of customer co-creation (Breidbach et al., 2012; Payne et al., 2009; Cambra et al., 2018). However, less is known about the consequences of co-creation (Ind et al., 2013; Ind et al., 2017) and the combined effect of important variables such as customer satisfaction, word-of-mouth (WOM) and loyalty (Navarro et al., 2016).

In response to this gap, and taking into consideration the importance of context in value co-creation - customers' different perceptions, habits and influences in different parts of the world (Akaka et al., 2013; McColl-Kennedy et al., 2012) - we aim to assess the effects of value co-creation and also add cross-cultural elements based on Hofstede's (1980, 2001) framework. In their conceptual paper, Voyer et al. (2017) highlighted the need for empirical evidence to consider cross-cultural aspects, suggesting the potential influences of cultural differences in co-creative frameworks. We are responding to this call.

Given the impact that these factors can have on business performance we believe this study can provide practical implications for managers and add to the extant literature on co-creation. We take the banking sector as reference. As Oliveira and Von Hippel (2011) note, banks are among the leading companies to offer customers access to their services using high technology.

To achieve our objectives the paper is structured as follows. Section 2 provides a literature review, with specific reference to SDL, co-creation, and cross-cultural dimensions based on Hofstede's (1980, 2001) framework. The subsequent section outlines the hypotheses proposed, followed by details of the empirical study. We then present the findings and discussion. The final section provides the conclusions drawn, limitations of the study and potential future lines of investigation.

4.2. Service-dominant logic and co-creation: Potential influence of cross-cultural characteristics

A plethora of customer management literature examines customer satisfaction (e.g., Fournier et al., 1999; Gupta et al., 2006; Kumar et al., 2013) and some extant research considers the relationship between co-creation and satisfaction (e.g., Ramaswamy and Gouillart, 2010; Kristal et al., 2016; Navarro et al., 2016). However, whilst the relationship between satisfaction-loyalty and satisfaction-WOM is widely acknowledged, there is scarce empirical research that assesses these relationships within the context of co-creation. Additionally, Füller (2010) also highlights the importance of analysing customer characteristics within the context of co-creative frameworks. In this sense, to the best of our knowledge, no research exists that examines the influence of customers' cross-cultural characteristics. Whilst Voyer et al. (2017) present a conceptual study there is a lacuna of empirical evidence.

In light of the aforementioned gap in extant literature, the aims of this research are two-fold. Firstly, to assess whether co-creation affects customer satisfaction, loyalty and WOM, based on the SDL theoretical framework. Secondly, to assess potential cross-cultural differences that may exist within the context of co-creation using Hofstede's (1980, 2001) cross-cultural framework. Thus, this paper examines whether co-creation affects customer satisfaction, and whether this in turn mediates both transactional and non-transactional customer behaviour, as measured in terms of repurchase, recommendations and WOM, in a cross-cultural context.

4.2.1. Co-creation and the importance of interactions

Co-creation is emerging as a new important concept in management (Vorre-Hansen, 2017; Galvagno and Dalli, 2014; Saarijärvi et al., 2013; Fisher and Smith, 2011). The concept was broadly discussed, among others, in a special issue of the European Business Review (i.e., Saarijärvi et al., 2013; Roser et al., 2013; Ind and Coates, 2013).

Based on the theoretical framework of SDL, co-creation has been defined as “*an active, creative and social process based on collaboration between organizations and participants that generates benefits for all and creates value for stakeholders*” (Ind, Iglesias and Schultz, 2013 p.9). The potential benefits of co-creation for firms include cost efficiencies, speed to market, better insights, more relevant ideas, stronger bonds with customers, reduced risk and competitive advantage (Kazadi et al., 2016; Ramaswamy and Gouillart, 2010). For their part, customers believe that they become more creative as they learn to trust other participants (e.g., in online communities) and share and develop ideas together (Ind et al., 2013).

SDL emphasizes the application of resources in reciprocal service exchange. The exchange of resources is negotiated between actors (e.g., the price a customer is willing to pay for a particular product or service). However, *value in exchange* only represents nominal value, the real value or *value in use* is derived and determined through the integration and application of resources (Vargo and Lusch, 2004; 2008). In recent years increasing attention has been paid to customer perceptions of value in terms of local and global brands (Akaka and Alden, 2010). The distinction between value in exchange and value in use has important implications for research that examines customer perceptions of market offerings across national and cultural borders (Akaka and Alden, 2010). For example, customer perceptions of the global brand McDonald’s varies across countries and cultures (Watson, 2006). Asian customers do not embrace the American concept of “fast food” and spend considerably more time socializing over a meal at McDonald’s. They also often view McDonald’s food as a snack rather than a meal and attribute higher status or prestige to eating at these establishments than most Americans do.

The idea of personalised context and interactions, as highlighted in the oft-cited research of Prahalad and Ramaswamy (2000, 2004a, 2004b), generated great interest in co-creation and influenced its development. Grönroos (2012), Grönroos and Voima

(2013) and Saarijärvi et al. (2013) also argue that direct interactions between firms and their customers are a necessary requirement for value to be co-created.

SDL highlights the importance of the context in which value is created and evaluated by the beneficiary (Chandler and Vargo, 2011; Vargo, Maglio and Akaka, 2008). Nevertheless, due to advances in internet technology, engagement platforms have propelled the evolution of co-creation beyond service industries (Saarijärvi et al., 2013) and multiplied interactions and human experiences (Ramaswamy and Ozcan, 2018). For example, online communities facilitate the learning process by connecting firms, customers and other stakeholders across multiple devices/channels, as well as accelerating value creation and innovation worldwide (Ramaswamy and Ozcan, 2016). These communities act as relational engagement platforms to explore customer preferences and emotions while generating deep insights. However, it is essential that firms who use co-creation as a strategic tool adapt their co-creational activities to different cultures / countries.

4.2.2. The impact of co-creation on customer satisfaction, loyalty and word-of-mouth

4.2.2.1. The impact of co-creation on customer satisfaction

The ground-breaking articles of Prahalad and Ramaswamy (2000) and Vargo and Lusch (2004) defined a fundamental shift in marketing by highlighting the active role of customers in value creation (Ind and Coates, 2013). For their part, firms facilitate value creation by opening up their processes (Vorre-Hansen, 2017; Ramaswamy and Ozcan, 2016; Roser et al., 2013; Albinsson et al., 2011; Ramaswamy and Gouillart, 2010). Some empirical studies specifically examine customer participation and satisfaction (e.g., Vega-Vazquez et al., 2013; Navarro et al., 2016). The research by Navarro et al. (2016) explores the relationship between co-creation variables (specifically those variables relating to customer behaviour). The authors conclude that satisfied customers either help other customers and are tolerant, or have a positive relation with employees and provide them with help or feedback. In contrast, dissatisfied customers are uncooperative, do not recommend the service and, neither share information with employees nor provide feedback. Thus, customer satisfaction increases when customers participate in learning

experiences with their service provider, which can also result in personalised market offerings (Prahalad and Ramaswamy (2004a, 2004b). Payne et al. (2008) further suggest that collaboration and dialogue between firms and customers can lead to early problem identification and joint problem solving, ultimately leading to superior customer value.

4.2.2.2. The impact of co-creation on customer loyalty

Oliver (1999) defines loyalty as the prevailing customer behaviour towards the repurchase of products offered by the same company. The concept of loyalty also refers to the attitude of customers in terms of maintaining a relationship with their service provider (Cambra-Fierro et al., 2015). Thus, loyalty indicates a commitment to repurchase a preferred product from the same service supplier. Loyal customers repurchase from the same service suppliers whenever possible, recommend those suppliers and maintain a positive attitude toward them (Kandampully and Suhartanto, 2000).

Extant literature recognises the importance of customer loyalty as a means of achieving success for the organization as the costs of dealing with loyal customers are significantly lower than those of attracting new ones (Ndubisi, 2006). Loyal customers are also more willing to pay higher prices for products and services and recommend the service to other potential customers (Gee et al., 2008). Furthermore, loyal customers generate more profits due to the longevity of the relationship with their service providers.

Firm-customer interactions, coupled with a proactive customer role, help facilitate opportunities for value creation. These factors have a dual purpose; on the one hand, they help foster relationships that contribute to loyalty and on the other, decrease the probability of customers terminating their relationship with their supplier (Revilla-Camacho et al., 2015).

Loyalty comprises various consumer emotions towards a product, service, or firm and as such co-creation could further our understanding of how loyalty is generated in interactive contexts. Although Cossío-Silva et al. (2016) highlighted the relationship between value co-creation and loyalty the authors recognise that additional empirical research is required, as other variables could explain this result better.

However, loyalty does not guarantee that customers will buy a company's products or services. Even if customers do not repeat purchase but recommend the

services of their suppliers to other customers the positive outcomes for firms are clear as favourable WOM contributes to creating a positive image of the business.

4.2.2.3. The impact of co-creation in Word of Mouth (WOM)

As outlined previously, the relationship between customer satisfaction and sales (customer repurchase behaviour) is far from straightforward. In this sense, positive WOM has been highlighted as the missing link (Reicheld, 2003).

Based on a combination of survey-based data and objective sales data provided by a financial services company, Eisengerich et al. (2014) found that although WOM was important, customer participation was a stronger determinant of a service firm's sales performance. This finding indicates that actively seeking customer involvement as a means of garnering valuable insights and ideas on how to improve or develop new products or services has greater strategic importance than fostering positive customer referrals. The perception of fairness and reciprocity forms the basis of greater participation. If the organisation fails to listen, give feedback and ultimately act, customers will feel disenchanted and eventually leave. This reinforces the need for active moderation (e.g., in online communities) (Ind et al., 2013; Eisengerich et al., 2014).

4.2.3. Cross-cultural dimensions and the co-creation process

Hofstede (1980, p. 25), defines culture as “*the collective programming of the mind which distinguishes the members of one human group from another.*” According to Hofstede (2001), individuals' behaviour differs according to their cultural values. Within the services context research demonstrates that Hofstede's cultural dimensions are useful in understanding customers' cross-cultural differences. For example, in areas such as post-sales service performance and satisfaction (Birgelen et al., 2002), evaluation of behavioural intentions (Liu et al., 2001), and consumer trust (Schumann et al., 2010). In line with these previous studies, we propose that Hofstede's cultural dimensions are an important means of understanding the co-creation processes of consumers from different countries. Therefore, the aim of this research is to examine and explain potential cross-cultural differences in the area of co-creation by applying Hofstede's (1980) original four

cultural dimensions: individualism/collectivism, power distance, masculinity/femininity, and uncertainty avoidance.

In order to examine the influence of cross-cultural aspects we compare Spanish and British consumers. We anticipate that cultural differences between these countries may affect the co-creation process given the discrepancies of their values on the cultural dimension indexes.

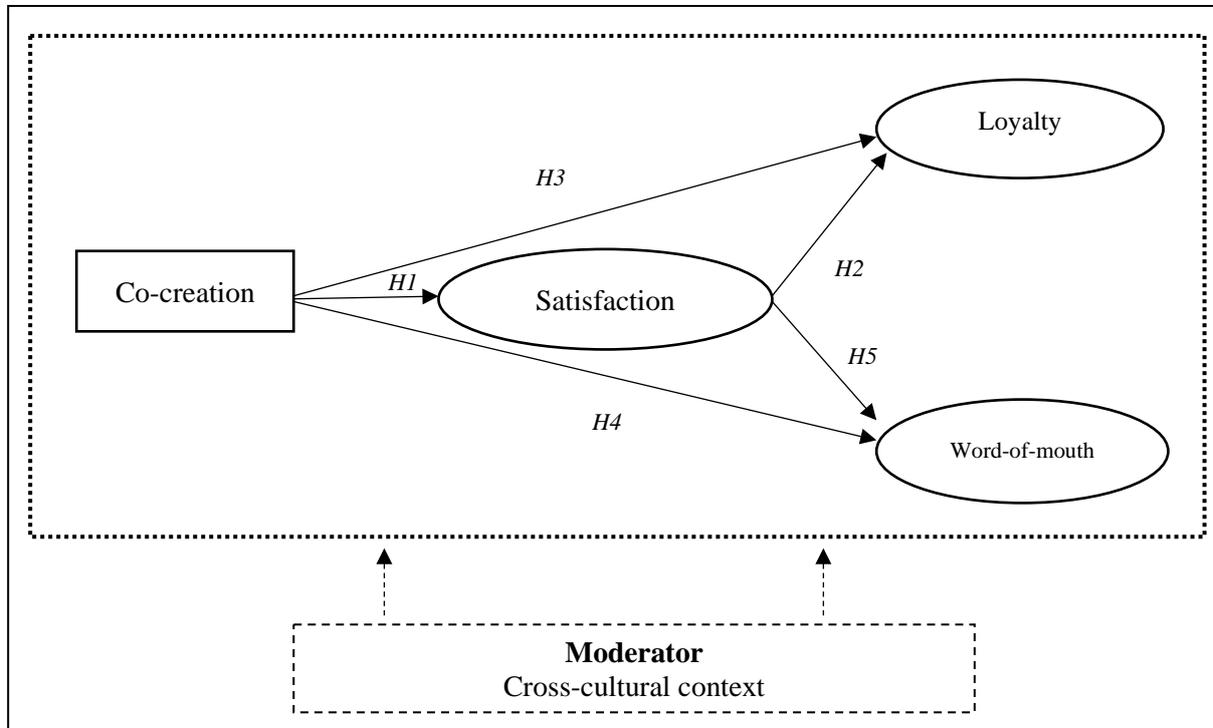
4.3. Development of a conceptual model and corresponding hypotheses

4.3.1. Conceptual model

To the best of our knowledge there is no extant research that simultaneously analyses co-creation, customer satisfaction, loyalty and WOM, and their links are still not clear in the literature. Comments made by authors such as Ind et al. (2013) and Ind et al. (2017) suggest that the effects of customer participation in co-creation and the subsequent implications for managers are not well-defined. Moreover, there is scarce empirical evidence that shows how managers use co-creation to connect with customers, achieve positives outcomes and build lasting relationships with them. We also aim to contribute to this dialogue by empirically analysing the outcomes of co-creation (e.g., customer satisfaction, loyalty and WOM) in different cultural contexts (UK and Spain), as recommended by authors such as Voyer et al. (2017) and Füller (2010). In doing so this research takes Hofstede's culture framework (1980, 2001) as reference.

As highlighted in the previous section, customer satisfaction with the co-creative experience will yield positive results for the service provider. The positive outcomes of value co-creation, as documented in service literature, include repurchase behaviour and other non-transactional behaviour such as positive WOM. This could have a positive outcome on a firm's profitability. However, consumers' cross-cultural differences may affect the proposed relationships, which is the crux of our conceptual model, as shown in Figure 4.1.

Figure 4.1: Conceptual model



4.3.2. Hypotheses

Customer satisfaction

Customer satisfaction is a key foundation of the marketing discipline. As such, it has been the focal point of marketing literature for decades (Oliver, 1999). According to Yi (1990), customer satisfaction can be defined as an individual assessment of outcomes versus expectations and also as a process or outcome. A customer is deemed to be satisfied when a product/service conforms to their needs and expectations (Bodet, 2008). Thus, for the purpose of this study we will examine the levels of global satisfaction with the service provider. As Fournier and Mick (1999) state, customers determine their level of satisfaction based on perceptions and exchanges, not solely on transaction-specific exchanges. Given that SDL places emphasis on value-in-use (i.e. when customers actually use the service they have acquired), we believe it is important to reflect this distinction

by assessing global satisfaction, particularly as customers are likely to maintain ongoing interactions with their retail banks. Furthermore, in accordance with SDL, co-creation will affect the levels of customer satisfaction as customers are a vital part of the value creation process (Hunt et al., 2012; Grönroos, 2008). In this sense, authors such as Ramaswamy and Gouillart (2010) and Kristal et al. (2016) note that participants involved in co-creative processes experience increased customer satisfaction. Therefore, we propose the following hypothesis:

H₁: *There is a direct and positive link between co-creation and satisfaction.*

Loyalty

Due to the extensive range of market offerings available, and the fact that customers are better informed, companies strive for customer satisfaction, fostering loyalty and maintaining long-term customer relationships as a means of increasing profitability (Pan et al., 2012). As such, loyalty can be defined as the propensity of customers to show commitment towards a firm (Dick and Basu, 1994) and reflects two components: attitudinal and behavioural, as highlighted in extant literature (Ganesh et al., 2000; Oliver, 1999). Attitudinal loyalty refers to the tendency of customers to recommend firms due to their favorable opinions (and/or repurchase from) and visit the retailer, whereas behavioural loyalty refers to observable customer behaviour, such as customer retention, lifetime duration and usage (Bandyopadhyay and Martell, 2007).

There is a general consensus among academics that there is a positive relationship between customer satisfaction and loyalty (Kumar et al., 2013). Furthermore, as posited by authors such as Bodet (2008) and Pan et al. (2012), customer satisfaction is a precursor to customer loyalty, which allows us to understand customer satisfaction as an important antecedent of loyalty.

Eisingerich et al. (2014) posit that customers are more likely to repurchase from firms when they are active participants due to increased customer satisfaction levels. Along these lines, Ind et al. (2017) state that co-creation can provide a nexus between firms and their customers to help build lasting relationships. Thus, as co-creation involves a participative process we infer that customers develop relationships with their service

provider which ultimately leads to more loyal customers. As such, we anticipate positive and direct relationships between satisfaction and co-creation with loyalty.

H₂: *There is a direct and positive link between satisfaction and loyalty.*

H₃: *There is a direct and positive link between co-creation and loyalty.*

Word-of-mouth

WOM is defined as person-to-person communication when the receiver understands that the information given on a service, product, or brand is non-commercial (Arndt, 1967). Several authors (e.g., Aaker, 1991; Kumar et al. 2007) state that the true value of customers is based on both their individual purchase behaviour and the influence they have on other consumers. In this sense, WOM can be understood as a way to achieve profitability. It is important to note that WOM can be positive or negative. Owing to the huge influence of technology, particularly in the case of the internet and online social media, online WOM is a force to be reckoned with and companies try to harness this to their advantage (a case in point is TripAdvisor, where hotels are keen to demonstrate in their lobbies how they have been rated online). As such, one understands why companies are keen to encourage their customers to act as sellers (Kumar et al., 2007). Several authors, such as Hoyer et al. (2010) and Kristal et al. (2016), suggest that co-creation may foster positive WOM. In their study of an online innovation community Gebauer et al. (2013) examined the positive and negative outcomes of co-creation, with particular emphasis on WOM. They found that when customers perceive satisfaction and a sense of fairness positive WOM is likely to follow. Conversely, when customers perceive unfairness and dissatisfaction negative WOM is a likely outcome.

Customer satisfaction is viewed as an antecedent of WOM (Kumar et al., 2013). Furthermore, customers who have collaborated with their service provider in co-creation activities are likely to engage in positive WOM activities. From the SDL perspective customers play active roles in value creation. This should lead to customer satisfaction, positive feedback and recommendations to their service provider. Additionally, customers should encourage other consumers to make suggestions and referrals, i.e. positive WOM.

H₄: *There is a direct and positive link between co-creation and WOM.*

H₅: *There is a direct and positive link between satisfaction and WOM.*

4.3.3. The moderating effect of cross-culture

To examine the influence of cross-culture we compare Spanish and British bank customers. We anticipate that cultural differences between these countries may affect the co-creation process. Taking the Hofstede framework (2001) as reference, British society is characterized by individualism and masculinity, as opposed to Spanish society, which is rather collectivistic and feminine. Individualism stresses the need for independence and autonomy. Conversely, collectivism identifies people more in terms of ingroups and outgroups favouring belongingness and group decisions. Masculinity stresses a drive for achievement and material reward, while femininity emphasizes harmony, caring, cooperation and interpersonal relationships. The UK is low on power distance compared to Spain, which is high. Power distance has an inverse relationship with individualism (Hofstede, 2001), so, the lower the individualism the higher the power distance, as is the case of Spain. Finally, the UK is low on uncertainty avoidance compared to Spain. This can be interpreted as the UK being more practical and having more tolerance or acceptance toward ambiguity and the unfamiliar. Thus, British customers could be more prone to loyalty and positive WOM before knowing the results of co-creation processes. On the other hand, Spanish customers need results (e.g., satisfaction) before developing co-creation behaviors.

Anderson et al. (2008) note that the assessment of customer satisfaction has produced mixed results in many studies because personal characteristics have not been taken into consideration. As mentioned above, Spanish consumers are collectivistic, as opposed to their British counterparts who are individualistic. This implies that Spanish customers who are invited to take part in co-creation activities would feel that the bank is part of their ingroup and has their best interest at heart. Being consulted and taking part in group decision-making would give them a sense of being taken care of by their banks and consequently satisfaction increases. However, British consumers are more focused on the material gains rather than the experiential aspects of the co-creation process. Similarly, Spain, characterized by a feminine culture, has a strong emphasis on cooperation and sharing, compared to the UK, which is masculine, and places more emphasis on competition and winning. These cultural differences imply that compared

to UK customers Spanish customers are more likely to enjoy the sharing and learning experience of co-creation. Therefore, we propose:

H_{1A}: *The link between co-creation and satisfaction is stronger for Spanish customers than for British customers.*

Comparing the two countries, as noted above, Spain is high on both power distance and uncertainty avoidance, while the UK is low on both these cultural dimensions. It follows then that Spanish customers are more likely to feel empowered when they engage in co-creation with their banks. Thus, the power distance gap between provider and customer is narrowed. We argue that the satisfaction generated from the co-creation experience would also dampen uncertainty avoidance. As Spanish customers feel more supported, knowledgeable and informed customers, the anxiety of the unknown is ameliorated. This heightened level of awareness would positively affect behavioural evaluations, such as loyalty and WOM, as Spanish customers value closer relationships with their bank. Therefore, they would want to both strengthen such relationships by staying loyal to their bank and telling their ingroups about their satisfaction. Therefore, we propose:

H_{2A}: *The link between satisfaction and loyalty is stronger for Spanish customers than for British customers.*

H_{5A}: *The link between satisfaction and WOM is stronger for Spanish customers than for British customers.*

British consumers are individualistic and masculine, as well as more egalitarian and less anxious about the unknown than their Spanish counterparts. This implies that overall these consumers are more practical and less emotionally involved with their bank; involvement with their service provider is primarily calculative focusing on material gains and rewards. Co-creation would allow British customers more individual initiative so that they can protect their own interests. The tangible benefits derived from the co-creation processes, rather than the experiential benefits, strengthen British customers'

commitment to the bank as they deem the business relationship to be valuable and mutually successful. This, in turn, would make them want to remain committed and tell others about it. Therefore, we argue that co-creation would have a direct positive impact on loyalty and WOM for British customers and we propose:

H_{3A}: *The link between co-creation and loyalty is stronger for British customers than for Spanish customers.*

H_{4A}: *The link between co-creation and WOM is stronger for British customers than for Spanish customers.*

4.4. Research Methodology

To test the proposed hypotheses a study was carried out in the Spanish and British retail banking sector. The service sector has often been used in co-creation studies due to the unique characteristics of services (inseparability, intangibility, heterogeneity and perishability). These characteristics epitomize the importance of customer participation in the service experience (Zeithaml et al., 1985) and as such insurance companies, airlines, hotels and restaurants have been used in co-creation studies (Ind et al., 2017). The importance of services in developed economies is unquestionable as they currently represent approximately 75% of GDP.

Within the context of the services industries banks are among the leading companies to offer customers access to services and products using the latest technology (Oliveira and Von Hippel, 2011) and multiple channels such as smartphones, desktops or tablets (McKinsey report, 2017). As such, the banking industry has been broadly used in research to analyse interactive processes between firms and customers (e.g., Oliveira and Von Hippel, 2011; Eisengerich et al., 2014; Ind et al., 2013; Mainardes et al., 2017; Prahalad and Ramaswamy, 2004).

The financial industry can be considered one of the main drivers of the economy as it facilitates the financing of a country's economic growth and plays a decisive role in channelling savings into investment. The needs of customers may be diverse and a wide variety of products is commonplace. Thus, managing company-customer interactions may be a valuable source of competitive advantage, not only in terms of repurchases, but also in non-transactional behaviour (i.e., WOM).

Our research takes customer opinions as reference. To measure each of the constructs we used a questionnaire, the content and structure of which was adapted from previously validated and contrasted scales. To measure co-creation a 3-item scale was used, based on the suggestions made by authors such as Ho and Ganesan (2013), Dong et al. (2008) and satisfaction was measured using items adapted from the work of Cambra-Fierro and Polo-Redondo (2008). Loyalty is considered a second order construct which takes the research of DeWitt et al. (2008) as reference. Finally, the 3-item scale for WOM is based on several ideas from van Doorn et al. (2010) and Cambra-Fierro et al. (2016). Before finalising the questionnaire two focus groups were held. The first involved five retail bank customers in Spain, while the second involved four retail bank customers in the UK. The initial version was shown in order to adjust the length of the questionnaire and clarify possible mis-interpretations of terms. Once completed a final focus group, comprising five marketing researchers, was held in order to ensure the content validity of the questionnaire. Finally, a pretest was designed and given to ten individuals to check consistency. Questionnaires were developed in both Spanish and English. As the research team contained both Spanish and English researchers, we ensured that the items had the same meaning in both languages. The scales finally used are shown in Table 4.1.

We launched an email survey in the UK and Spain using the snowball technique, from which a valid sample of 224 individuals was obtained: 114 from UK (50.89%), 110 from Spain (49.11%); 124 females (55.36%), 100 males (44.64%); 134 respondents worked with more than one bank (59.82%), 90 respondents only worked with one bank (40.18%).

Following recommendations made by Podsakoff et al. (2003), potential biases were checked. The common method bias was tested applying Harman's single factor test (Harman, 1967). Using a factor analysis, no single factor that explains variance across all the items is identified. The main factor explains 42.18% of the variance. Because no single factor is found to explain more than 50% of the variance, the study's data can be accepted as valid (Podsakoff et al., 2003). Following the recommendations of Armstrong and Overton (1977), early and late respondents were also compared, although no significant differences were found.

To test the proposed model a structural equation modelling technique was applied using Partial Least Squares (PLS) (SmartPLS v. 2.0). As Henseler (2016, p. 1842) recently highlighted, “*PLS path modelling has grown into a full-blown structural equation modelling technique that aims to estimate and test structural equations models*”. Its use is growing in popularity and is frequently recommended and applied across different disciplines; for example, marketing (Hair et al., 2012; Roldán and Sánchez-Franco, 2012). PLS-SEM was used rather than CB-SEM as the prior achieves greater statistical power for all sample sizes (Hair et al. 2017). Furthermore, prominent authors such as Dijkstra and Henseler (2015) and Hair et al., (2017) recommend the use of PLS-SEM when developing exploratory research. As outlined in the Introduction section, we believe that this is the first study to explain the links between co-creation and some specific relational constructs in different cross-cultural contexts. Henseler (2018) indicates that exploratory research tends to look for possible explanations and hypotheses, also suggesting the use of causal research. Analysts strive for high sensitivity and are willing to compromise specificity. In this situation, the somewhat higher sensitivity of PLS is beneficial (Reinartz et al. 2009). This is in line with Hair et al. (2017, p. 18), who explicitly state that “*greater statistical power means that when using PLS-SEM a specific relationship is more likely to be statistically significant when it is present in the population. The higher statistical power makes PLS-SEM particularly suitable, therefore, for exploratory research*”. Furthermore, PLS also helps to “*elegantly*” model moderating effects (Henseler, 2016, p. 1843), which echoes comments made by other authors such as Fassott et al. (2016). These authors suggest the use of PLS in order to detect and estimate the direct effects, as well as test potential moderating effects.

In relation to the measurement model, and using the terminology proposed by authors such as Edwards (2001) and Polites et al. (2012), we note that the following concepts (co-creation, satisfaction and WOM) are first-order reflective constructs and loyalty is a superordinate multidimensional construct design (reflective first-order, reflective second-order) which encompasses two reflective first-order dimensions: attitudinal and behavioural loyalty.

In order to evaluate the quality of the data obtained an individual reliability analysis of each item relative to its construct was carried out. The results show that all the

values exceed the threshold of 0.707 required by Carmines and Zeller (1979). Reliability was also tested for each of the variables using Composite Reliability—considered superior to Cronbach’s Alpha—in order to confirm that all constructs were reliable given that they are above the 0.8 benchmark (Nunnally, 1978) (see table 4.1). A convergent validity analysis was carried out using the average variance extracted (AVE) (Fornell and Larcker, 1981). The fact that the results were above the 0.5 benchmark shows that more than 50% of the variable is expressed through its indicators (Table 4.1).

Table 4.1: Measurement scales* (Sources) (Composite Reliability; AVE).

Co-creation (Ho and Ganesan, 2013; Dong, Evans and Zou, 2008) (0.850; 0.739)
CC1. I would like to give my opinion to contribute to the financial service improvement
CC2. I would like to participate in the new product/service development
CC3 I would like to suggest ideas for the company
Satisfaction (S) (Cambrá-Fierro and Polo-Redondo, 2008) (0.972; 0.898)
S1. My relationship with the bank has been a happy one.
S2. Compared to my ideal relationship, I am very satisfied with the relationship with my current bank
S3. All in all, I am very satisfied with the bank.
S4. I am very satisfied with the bank as it has lived up to my expectations.
Loyalty (DeWitt et al., 2008) (0.910; 0.835)
Behavioral loyalty (BL)
BL1. I do not intend to switch to a competitor of the bank
BL2. I will contract the services of this bank in the future
BL3. I will visit the branches of this bank again
Attitudinal loyalty (AL)
AL1. I am dedicated to staying with this bank.
AL2. If the bank raised its charges I would continue to be a customer
AL3. If a rival bank offered me better financial conditions I would not switch banks
Word-of-Mouth (WOM) (Authors) (0.851; 0.743)
WOM1. I like sharing my experience as a customer of the bank with other customers.
WOM2. I will recommend the bank's services to friends and family.
WOM3. I always give my honest opinion about the bank's services.

* The Likert-scales run from 1 (totally disagree) to 7 (totally agree).

Afterwards, discriminant validity was confirmed via an AVE comparison of each construct (main diagonal) and the correlations between the variables. We observe that the square root of the AVE is higher than the correlations between constructs in each case (Fornell and Larcker, 1981). Therefore, we can conclude that the data obtained is adequate.

Table 4.2: Discriminant Validity for Structural Model Variables*

SAMPLE	VARIABLES	CO-CREATION	SATISFACTION	LOYALTY	WORD-OF-MOUTH
TOTAL	CO-CREATION	0.860			
	SATISFACTION	0.651	0.913		
	LOYALTY	0.637	0.715	0.9476	
	WORD-OF-MOUTH	0.655	0.593	0.687	0.862

* Data appearing on the main diagonal are the square roots of the AVE (Average Variance Extracted) of the variables. The rest of the data represent the correlations between constructs. All correlations are significant $p < 0.01$ (Fornell and Larcker, 1981).

4.5. Findings

The first step is to analyse the general structural model, i.e. the general relationships without taking into consideration the potential moderating effect of cross-cultural references. To assess the statistical significance of the loadings and of the path coefficients a *Bootstrap* analysis was performed. We created 500 subsamples, employing t-Student distribution with 499 degrees of freedom (N-1, with N: number of subsamples), obtaining the values: $t_{(0.01; 499)} = 2.5857$; $t_{(0.001; 499)} = 3.3473$. From these values, we determined the acceptance or rejection of our hypotheses (see Table 4.3).

A measure of the predictive power of a model is the R^2 value for the endogenous constructs. The results indicate that our model has an adequate predictive power. These levels exceed the established level of acceptance of 0.1 (Falk and Miller, 1992). In addition, the model presents a good quality fit (Tenenhaus et al. (2005): GOF= 0.6539.

Table 4.3: Structural model results

	B	t-value	R²
H1 Co-creation → Satisfaction	0.638***	9.654	R ² (Satisfaction) = 0.407
H2 Satisfaction → Loyalty	0.590***	6.798	
H3 Co-creation → Loyalty	0.275**	2.981	R ² (Loyalty) = 0.637
H4 Co-creation → WOM	0.365***	3.550	
H5 Satisfaction → WOM	0.455***	4.773	R ² (WOM) = 0.552

*** $p < 0.001$ ($t = 3.34$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,001;499)} = 3.34$, the hypothesis is confirmed with a significance of 99.9%

** $p < 0.01$ ($t = 2.58$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,01;499)} = 2.58$, the hypothesis is confirmed with a significance of 99%

The structural model results allow us to confirm the general structural relationships and provide us with a better understanding of the special bond that can be created between companies and customers when firms foster co-creative environments. Not only can satisfaction be achieved but firms could also obtain profitability from repurchases and non-transactional behaviours such as WOM.

To analyse whether national culture can affect the nexus between co-creation and a set of outcomes a multi-sample was used. Following the guidelines of Chin and Frye (2003) the β coefficients for each of the sub-samples were compared. This first analysis provides an overall vision which should be subsequently corroborated with the moderator effect. The results of this analysis are shown in Table 4.4.

The data shows that the proposed relationships are significant in both sub-samples, with the exception of the relationship between co-creation and loyalty for the Spanish subsample. Specifically, co-creation directly affects satisfaction, loyalty and WOM in the UK but only directly affects satisfaction and WOM in Spain. Moreover, satisfaction also antecedes loyalty and WOM in both countries. Co-creation is decisive in determining the level of customer satisfaction and WOM, irrespective of whether customers are from the

UK or Spain. However, a significant link between co-creation and loyalty can only be upheld for customers from the UK. Therefore, we can accept the hypothesis H_{3A}.

Table 4.4: Results of the structural multi-sample

Impact of the endogenous variables	Spain (A) (n=110)	UK (B) (n=114)
	<i>Path coefficients (β)</i> <i>T valor (bootstrap)</i>	<i>Path coefficients (β)</i> <i>T valor (bootstrap)</i>
H₁: Co-creation → Satisfaction	0.638*** (11.071)	0.611*** (8.354)
H₂: Satisfaction → Loyalty	0.678*** (8.647)	0.498*** (5.416)
H₃: Co-creation → Loyalty	0.160 ^{ns} (1.597)	0.405*** (5.075)
H₄: Co-creation → WOM	0.275** (2.598)	0.499*** (6.776)
H₅: Satisfaction → WOM	0.501*** (5.058)	0.432*** (5.696)

*** $p < 0.001$ ($t = 3.34$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,001;4999)} = 3.34$, the hypothesis is confirmed with a significance of 99.9%

** $p < 0.01$ ($t = 2.58$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,01;4999)} = 2.58$, the hypothesis is confirmed with a significance of 99%

* $p < 0.05$ ($t = 1.96$). When the t value obtained using the bootstrap method is greater than Student's t value $t_{(0,05;4999)} = 1.96$, the hypothesis is confirmed with a significance of 95%

However, from the analysis of the path coefficients we can observe that some values are higher for the Spanish subsample ($\beta_{1a} > \beta_{1b}$, $\beta_{2a} > \beta_{2b}$ and $\beta_{5a} > \beta_{5b}$) meaning that the effect of co-creation on satisfaction, loyalty and WOM is stronger for Spanish consumers. Therefore, the data seems to support H_{1A}, H_{2A} and H_{5A}.

When analyzing the coefficient for the direct path between co-creation and WOM we perceive stronger links in the British subsample ($\beta_{4a} < \beta_{4b}$). Therefore, the data seems to support H_{4A}.

Finally, to assess whether these differences are significant *T*-test analysis, proposed by authors such as Chin and Frye (2003) or Keil et al. (2000), should follow. The results of this test are included in Table 4.5. We can conclude that national culture moderates all the relationships proposed in the causal model and as such our hypotheses are confirmed.

Table 4.5: Results of the analysis of the moderator effect

T-TEST	Spain (β) (n=110)	UK (β) (n=114)	SE		SP	T-valor
			Spain	UK		
H_{1A}: Co-creation → Satisfaction	0.638	0.611	0.0987	0.0798	0.090	2.247
H_{2A}: Satisfaction → Loyalty	0.678	0.498	0.0568	0.0731	0.065	20.620
H_{3A}: Co-creation → Loyalty	0.160	0.405	0.1066	0.0736	0.092	-19.949
H_{4A}: Co-creation → WOM	0.275	0.499	0.0774	0.0916	0.085	-19.794
H_{5A}: Satisfaction → WOM	0.501	0.432	0.0983	0.0758	0.088	5.868

* $p < 0.05$ ($t=1,96$). SE: Error estándar. SP: Separate Variance Estimate.

In light of the results we are able to draw some initial conclusions about the retail banking industry. The fact that a customer is British or Spanish can influence the outcomes of co-creation. Co-creation appears to have a stronger direct influence on loyalty and WOM for British customers, while the effect of co-creation mediated through satisfaction seems to be stronger for Spanish customers. This suggests that for Spanish customers, more so than their British counterparts, feeling satisfied with co-creation activities is more important in order to stimulate future transactional (repurchase) and non-transaction (WOM) behaviours. In the UK, such outcomes could be more easily achieved directly through co-creation.

4.6. Discussion

4.6.1. Theoretical implications

Our research analyses the effect of co-creation on relational outcomes such as satisfaction, loyalty and WOM. Existing service research has paid great attention to the drivers of customer co-creation (Breidbach et al., 2012; Payne et al., 2009; Cambra et al., 2018) but literature that examines the consequences of customer co-creation is still scarce. Academics have mainly focused on analysing the financial consequences of this concept: whether customer value co-creation behaviours really generate value for companies and improve company profitability (Osei-Frimpong et al., 2015; Bolton and Saxena-Iyer, 2009; Grönroos and Voima, 2013; Sweeney et al., 2015). However, this study aims to explore some of the attitudinal and behavioural consequences of customer co-creation, which has emerged as a relevant topic. Moreover, the authors are not aware of any study that considers how cross-cultural factors influence the strength with which co-creation boosts loyalty, satisfaction and word-of-mouth. Therefore, this study also contributes to the international marketing and management fields as we include the cross-cultural dimension as a potential moderating effect.

First, in line with extant literature on co-creation, our results suggest positive links between co-creation and satisfaction (e.g., Ramaswamy and Gouillart, 2010; Kristal et al., 2016; Navarro et al., 2016), as well as with loyalty (e.g., Cossío-Silva et al., 2016; Eisingerich et al., 2014) and WOM (e.g., Hoyer et al., 2010; Kristal et al., 2016). However, since we consider consumers in their own cultural context and analyse all the constructs concurrently, our study additionally contributes to help understand the impact of co-creation on customer participation, an area that is seen as less well-defined (Ind et al., 2017, 2013). Second, our data also reveals the relevance of cross-culture in explaining the difference in customer satisfaction between the two countries studied. While we observe a direct path between co-creation and loyalty and WOM for the UK consumers, Spanish consumers need to feel satisfied before demonstrating loyalty and positive WOM. These different results can be explained by using the Hofstede's (1980, 2001) framework (e.g., uncertainty avoidance, collectivism, power distance, masculinity).

As firms come under increasing pressure to innovate, they need to specialise and complement their resources. This often results in using joint collaboration spaces

supported by interactions among participants. Our framework reflects the importance of managing the co-creation process, understood as a bidirectional process where agents can achieve higher levels of satisfaction and valuable feedback. Therefore, firms would be advised to incorporate not only the most creative individuals but also a heterogeneous sample of people from all samples.

4.6.2. Managerial implications

In terms of managerial implications, co-creation may facilitate new product and service development through interactions with external actors, such as customers and other stakeholders. However, to take full advantage of co-creation firms need to implement certain practices and potentially change their mindset. On the one hand, as managers have traditionally been educated to become guardians of control some find it hard to “let go” and thus view customers as a target rather than a source of value creation (Ind and Schultz, 2010). Equally, some managers believe that customers lack the necessary operant resources to be able to transcend the role of providers of new ideas and feedback and become key contributors of market solutions (Nambisan and Nambisan, 2008). Such managers view co-creation as a tactical tool. On the other hand, some managers adopt a more strategic outlook of co-creation. These managers recognise that customers may lack the specific expertise or technical knowledge so invest in the design of appropriate interaction tools for customers (e.g., training) to enable them to make valuable contributions through a process of joint discovery and learning (Ind et al., 2017).

For firms to use co-creation as a strategic tool, rather than a tactical market research tool, they need to be open-minded and accept that customers may have better insights than those inside the organisation. This leads to a perspective in which many of the barriers between the inside and the outside become blurred and the priority is simply managing the co-creation process. This requires that firms play a dual role in joint spaces (e.g., events, workshops, online communities, projects); as instigators of dialogue and as active listeners. This is a process of increased learning with customers and about customers and their cultural contexts. For example, in the Spanish cultural context, banks should appreciate the great importance of customer satisfaction as a means to achieve loyalty and WOM. As such, it is crucial for them to select the right customers and manage

their expectations. Customers involved in innovative projects often experience higher levels of uncertainty and need to invest more time and resources, thus, assuming higher overall costs. As Prahalad and Ramaswamy (2004, p. 14) forewarned, “*customers have to also learn that co-creation is a two-way street. The risk cannot be one sided. They must take some responsibility for the risks they consciously accept*”. They are co-responsible of the process and outcomes. Our study is unique in that it contributes to understanding the impact of co-creation for customers (i.e., customer satisfaction, loyalty and WOM) and managers in different cultural contexts.

Currently, most industries are characterised by digitalisation, with customers accessing more services from their smartphones, tablets and desktops, and performing functions on a self-service mode that were traditionally performed by firms. Firms have quickly adopted emerging technologies that lower their transaction costs. It is important that these firms find the right balance between the benefits and possible knock-on effects on the quality of the customer experience; the road to profitable business passes through co-creation and customer satisfaction.

4.6.3. Recommendations for best practices in the retail banking industry

In order for firms to co-create with customers is it essential they gain a thorough understanding of them. In retail banking, customers often approach the bank for a specific purpose, such as finding a mortgage to finance a property purchase. The initial interaction involves banks and customers exchanging information – on the one hand the bank is able to provide information on different mortgage options, trends and even properties available, while customers could indicate their current situation, including current employment status, life stage, income level and risk aversion. Once a customer feels that the bank has a product that meets their requirements they are likely to think of trying the product. Initially it is likely to be a basic product that is personalised to a small degree so customers may gradually assess the potential of the bank and start considering other products of interest. Only when a customer gains a better knowledge of the bank they become more involved in the firm’s processes and collaborate with the co-design of products. As regards value-in use, we need to additionally consider customer behaviour and customer context. The 2008 financial crisis led to a remodelling of the sector, which

resulted in numerous mergers and acquisitions. This was accompanied by an erosion in customer trust and confidence in banks, with only 36% of European customers trusting their financial service providers. In the two countries studied, the customers' level of trust in their main bank is similar (17.8 in Spain vs. 17.5 in the UK), but significantly lower than in Germany, France or other regions such as North America, South East Asia and the Middle East (EY, 2016). Interestingly, although the level of trust is similar for UK and Spain, the level of trust has a different translation in terms of customer behaviour. Whereas in Spain 43% of customers prefer branches or ATMs for all their needs due to low trust in banks and the financial system, in the UK that segment only represents 31% of the customers (McKinsey, 2017). Thus, the mix human touch/ digital support desired by customers is different in these two countries.

Customers are increasingly able to compare service among banks, especially by contrasting their experience in the most important customer "journeys" (e.g., the process of opening an account, obtaining a mortgage). Some banks are prioritising these journeys and reshaping their distribution strategies according to customers' cultural contexts and evolving needs. The change in customer preferences can be country-specific so banks need to first set new roles and targets for their channels. The roles should be moulded to reflect the future of interactions in the bank's market, which for most will be more digital and remote than today. To some extent, the changing landscape will happen automatically, as more consumers go digital, but banks can also accelerate the shift (e.g., using migration programs).

In this research, we view co-creation as the process of building trust through interactions and joint learning. Consistent with recent studies (Ind et al., 2013), our research underlines the importance of trust to effectively co-create with customers. Trust is essential in banking, as in many service industries, because it is a predictor of advocacy and future business. Co-creation needs a trusting environment where participants can share knowledge, ideas and experiences in joint collaboration spaces.

Customers who are satisfied with the co-creative and collaborative experience with their service providers are more likely to become loyal customers and talk favourably about them, which in turn could positively affect customer acquisition and brand reinforcement.

Our empirical study further contributes to the understanding of customer perceptions of value through the use of different market offerings and channels across countries. This is the first study to consider the influence of cross-cultural differences in the relationship between co-creation and customer satisfaction, loyalty and WOM. Therefore, the study helps organisations understand how the co-creation process may be affected by the customers' cultural environment. In our case, banks can be more effective by tailoring strategies to suit customers from different cultural backgrounds.

4.7. Conclusions

This chapter concludes with a series of insights on co-creation from a customer perspective: co-creation can lead to greater customer satisfaction; it has a direct effect on loyalty and WOM, both of which can positively contribute to a firm's profitability. In addition, satisfaction mediates the relationship between co-creation and loyalty and WOM. As such, customer satisfaction strengthens the effect of co-creation. Furthermore, firms should be careful to detect cultural differences and adjust accordingly. With these insights in mind, the authors encourage firms to put co-creation frameworks (such as those shown in Figure 1) into practice.

The conclusions reflect the underlying framework of SDL in the sense that customers co-create value and it is the beneficiary who ultimately determines the value of a market offering. As such, firms need to be customer centric and offer interactive experiences. Given that customer-firm interactions are a topic of current relevance for relationship marketing and customer management literature (Verhoef and Lemon, 2013), this paper adds to the extant literature as it conceptually and empirically confirms the relationships between co-creation and satisfaction, loyalty and WOM, and extends the generalisability of findings across cultures.

However, our study is not without its limitations. Results are based on one specific sector so caution is urged when extrapolating the findings across industries. With regard to potential lines for future research, a study that considers consumer profile variables—e.g. age, gender, income, education bracket, employment status, etc.—as moderating the structural model would be especially relevant. Authors such as Verhoef and Lemon (2013) argue that demographic factors could provide a significant contribution to the study of

customer management. In addition, replicating this study with a larger sample population and different industries would be valuable in terms of the generalisation of our findings. We hope that our work will motivate further thinking and research on the consequences of co-creation and on the quality of the customer experience itself.

4.8. References

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CHAPTER 5
DISCUSSION AND CONCLUSIONS

5.1. Introduction

Through service-dominant logic (Vargo and Lusch 2004, 2008, 2011, 2016, 2017) we understand that value is necessarily co-created when a customer acquires a product or service; the organization is not solely responsible for creating value. Irrespective of whether one accepts the view that value is a trade-off between benefits and sacrifices (Zeithaml, 1998; Cronin et al., 2000), or that value is a more complex phenomenon comprised of several dimensions (Babin et al., 1994; Holbrook, 1994, 1999), what is clear that value is always co-created by at least two parties: customers and organizations. Other stakeholders who are involved in networks also affect the value-creating process but it is the beneficiary who ultimately determines the value of any given market offering.

There is a unified opinion that due to the rapid pace of growth of technology, globalization and an increasing dominance of service-based economies in developed markets, firms must embrace a customer-centric approach in order to remain competitive and generate value with, and for, their customers. Whilst many organizations claim to do so, some still only pay lip service and these will be left behind trying to gain competitive advantage through a mis-guided goods-dominant orientation. That is to say, it is not enough to simply to metaphorically place customers at the heart of an organization, resources and processes must be integrated whereby customers truly interact with a company to be able to co-create value.

Although divergent opinions still exist as to the precise definition of co-creation, Vargo and Lusch (2004, 2017) believe that value is always co-created through value-in-use and is finally determined by the beneficiary. However, we concur with McColl-Kennedy et al. (2012) in so much as value co-creation is the benefit received by customers based on interactions and activities with actors in their networks. So, in this sense, value co-creation is the ultimate value assigned to a product or service once it has been enjoyed by the beneficiary. A customer may (or may not) take an active role in the production process, hence discarding co-production as a necessary condition for value co-creation. Grönroos (2012), on the other hand, argues that there must be direct interactions between a firm and its customers in order for value to be co-created. Then, through value-in-use customers determine the final value (co-creation). Ramaswamy (2011, 2014), on the other hand, believes that value co-creation is the value that is created when stakeholders

collaborate through interactive environments. For this to occur firms must take a strategic decision to co-create, empowering employees of all levels of the organization so they can interact and facilitate interactions. A firm can't merely establish an engagement platform, customers must be involved in innovation from the start.

From a firm's perspective, customers (and other stakeholders) are key to creating value. Through interactions and experiences value is co-created by the firm and its customers (Prahalad and Ramaswamy, 2004). Co-creation provides organizations with a deeper understanding of their customers, facilitating important information. As such, trust and joint learning are an integral part of the co-creation process and when managed correctly, both companies and customers benefit. As argued by Payne et al. (2008) when customers are informed they can take part in co-creation and become the main builders of their experience (Cova and Dalli, 2009). Thus, firms should respond to customer unmet needs they have identified or use the information to better use existing processes and resources. Otherwise, as Kristensson et al. (2008, p.474) note, *“Even the most ingenious invention will be a market failure if it does not meet the needs of the customers”*.

Co-creation can lead to satisfied customers, who in turn are more likely to generate positive WOM or recommendations and become more loyal to the company. These are vital for firms to gain a competitive advantage.

As highlighted in Chapter 1, in order to achieve the proposed objectives, the thesis was structured into a series of independent but closely linked chapters. The main conclusions of each follow hereafter.

5.1.1. Conclusions from Chapter 2

Since the publication of the initial article by Vargo and Lusch (2004), Service-dominant logic has been widely embraced by the academic community. Whilst the underlying approaches were not new to research (Vargo and Lusch, 2017) the authors essentially encompassed the emerging concepts in marketing - relationship marketing, total quality management, market orientation, supply and value chain management, resource management and networks – to promote a holistic approach to the discipline.

Based on ten foundational premises, the authors prompted an immediate response from researchers, with particular emphasis on value co-creation and service-for-service exchange. A decade since their original work Vargo and Lusch (2016) revised the foundational premises and concluded eleven foundational premises – five of which are concerned specifically with value co-creation.

Of the research concerning value co-creation three main approaches were identified. Specifically, SDL (Vargo and Lusch, 2004, 2008, 2011, 2016, 2017), the Nordic School based on service logic (Grönroos (2012); Grönroos and Gummerus (2014); Grönroos and Voima (2013)) and Prahalad and Ramaswamy (2004), taken from the field of strategy. Each offers a distinct but related vision of co-creation, although the specifics of value-in-use and interactions vary. In general terms, the notion of service-for-service exchange and customer experience are a nexus in extant research although the dynamics and approaches vary.

Due to the extensive writings on co-creation, there is a lack of a unified definition. As Ranjan and Read (2016) note, researchers have tended to mold the definition of co-creation to the purpose of their study. As such, divergent opinions and approaches have evolved, although the majority use SDL as the basis of studies. As a case in point, McColl Kennedy et al. (2012) revealed more than twenty-five definitions of co-creation. Moreover, in some instances researchers appear to use the same words and construct but have offered varied, and sometimes opposing realities (Leroy and Salle, 2013) that the construct becomes confusing. As such, a more general consensus should be reached. To this end, we concur that co-creation is understood as a collaborative process to create value between company and customer networks, where trust and joint learning are key components. Furthermore, co-creation may or may not include co-production (Vargo and Lusch, 2008) but certainly involves an emphasis on interactive experiences (which does not necessarily equate to face-to-face interactions as stated by Grönroos, 2012) and is ultimately determined by the final end user.

One of the key issues of the development of co-creation is “black boxization”, i.e. the premature acceptance of the paradigm of co-creation without fully examining the specifics of exchange phenomena (Leroy and Salle, 2013). By their own admission, Vargo

and Lusch (2017) originally offered a zooming-in perspective, leading researchers to focus on the specifics of value co-creation rather than the zooming-out perspective. However, the movement towards a focus on ecosystems (Vargo and Lusch, 2017; Ramaswamy, 2014) is perhaps a step in the right direction.

Although extant research provides a compelling case for the favorable outcomes of value co-creation, from both an organizational and customer perspective, some authors highlight that co-creation also has down sides and specifically look at the potential negative consequences of co-creation. For example, Chan et al. (2010) examine the possible added stress for employees and ensuing job dissatisfaction; the downside of co-creation regarding service delivery issues (Heidenreich et al., 2015); negative WOM potentially generated in an online interactive community from those customers who are dissatisfied with the co-creation experience (Gebauer et al., 2013); and exploiting the goodwill of customers (Cova and Dalli, 2009). Plé and Chumpitaz Cáceres (2010) also make reference to the co-destruction of value. Using the framework of Service-dominant logic, the authors argue that resources may not be used correctly during the interactions between service systems and value would therefore be destructed. Therefore, more research is needed to highlight the framework for harnessing co-creation with customers.

5.1.2. Conclusions from Chapter 3

Given that co-creation necessarily involves customer participation (on a basic level, the beneficiaries ultimately assign the value to a marketing offering through value-in-use) the objective of this study was to explore the consequences of value co-creation from a customer perspective. Specifically, the study highlighted the outcomes of value co-creation on satisfaction, loyalty and WOM, as these reflect customer transactional and non-transactional behavior, which are key indicators to a firm's success.

The research recognizes the relevance of co-creation as a means of achieving not only customer satisfaction, but also a set of outcomes (i.e. loyalty and WOM) of interest for firms. Given the intense competitive pressure companies face, co-creation offers firms a unique opportunity to enhance the value of their market offerings. Customers demand

a more active role and co-creation allows customers to assign their own meaning and value to market offerings (Albinsson et al., 2011) through interactions and experiences with the firm. Therefore, firms are forced to open up more of their processes. From participatory designs, involving end-users leads to more relevant and usable products and services, while reducing risks (Andreu et al., 2010; Ind and Coates, 2013).

Moreover, as the model proposes, there is a set of outcomes of co-creation, both transactional and non-transactional, which are of interest for firms. The findings show that co-creation directly affects customer satisfaction; customers are more satisfied when they participate in joint learning experiences and work with firms to shape market offerings that better adapt to their needs. These results are in line with extant research (Hunt et al., 2012; Navarro et al., 2016; Vega-Vazquez et al., 2013). More importantly, as noted by authors such as Prahalad and Ramaswamy (2000, 2004) and Payne (2008), co-creation facilitates a meaningful and interactive dialogue between firms and customers. This dialogue allows for early problem identification and joint problem solving, which ultimately leads to superior customer value (Payne et al., 2008). The positive effects of customer satisfaction may predict future customer behaviors (Verhoef and Lemon, 2013).

Furthermore, co-creation directly affects customer loyalty and WOM. To date, these relationships had not yet been empirically tested in conjunction with co-creation and satisfaction in the banking services industry. Based on the data obtained, the study confirms that co-creation not only directly affects customer satisfaction but also affects loyalty and WOM.

The results also highlight that satisfaction mediates the effect of co-creation on loyalty and WOM. In both instances, co-creation is shown to have an indirect effect on loyalty and WOM through satisfaction. These results are in line with Eisingerich et al. (2014), who state that satisfied customers tend to repurchase when they play a more active role. These authors also state that through co-creation customers develop a special bond with companies and are more likely to provide feedback and recommendations.

Given the current situation of the retail banking industry in some Western economies, results demonstrate that customers must be increasingly seen as critically important operant resources for firms. Thus, firms should open their processes to customer participation. In order to do this, they must be customer-orientated and adopt a

relational approach. In today's networked world, customers have better access to information, are more empowered and wish to play a more active role. Consumers are willing to share their personal experiences and opinions with others and want to interact and learn from firms and from other consumers. Firms should strive to understand in which processes and to what extent customers want to engage with them. They should also provide transparent information and reassure their customers that there are no risks in collaborating with them (i.e. mis-use of personal data). Furthermore, given that SDL advocates that it is ultimately the customer who assigns a value to any given market offering through their use of the product, companies need to recognize the appropriate level of learning and co-creation needed. In other words, firms need to gauge the knowledge held by both the customers and firm, understand what level of interaction is needed for customers to properly manage the value creation process and provide tools that facilitate an interactive dialogue between both parties.

Best practice on co-creation evidences the underlying basis of processes and resources. On the one hand, for customers to interact with the company, create their own experiences, and generate value the processes and resources must be carefully managed. Equally, these processes and resources enable companies to create superior value propositions which will result in higher levels of customer satisfaction, repurchases and positive WOM behaviors, reinforcing the competitive position of firms.

5.1.3. Conclusions from Chapter 4

The objective of the subsequent study was to examine the outcomes of co-creation on satisfaction, loyalty and WOM within a cross-cultural context. Globalization has undermined the preconceptions that product standardizations would be prevalent and has actually highlighted the differences between cultures.

As the effects of internationalization and globalization increase, firms need to consider possible cross-cultural differences among their existing and potential customers. The results indicate that co-creation processes may be understood in different ways depending on the country of reference, as well as its transactional and non-transactional outcomes. Therefore, marketers should take account of their customers' cultural background when co-creation processes are implemented.

As Prahalad and Ramaswamy (2004) forewarned, customers who engage in co-creation activities should accept a degree of responsibility for the risk involved. However, given that Spain has a higher uncertainty avoidance than the UK, the natural tendencies of Spanish customers is to refrain from risk, meaning that they first need to feel satisfied with co-creation before committing loyalty to their service providers. Furthermore, McColl Kennedy et al. (2012) predicted that collectivist cultures, which characterizes Spain when compared the UK, were likely to demonstrate a passive compliance style when engaging in co-creation, from which we infer that satisfaction is an antecedent to loyalty. In addition, whilst the effects of the 2008 economic crisis were felt throughout global markets the Spanish retail banking sector was particularly affected, eroding consumer confidence. McKinsey & Company's 2017 report on retail banking distribution highlighted that 43% of customers in Spain prefer to visit branches and use ATMs due to low trust in banks and the financial system. However, 56% were willing to try remote advice and digital purchasing, which is encouraging for the changing panorama of the digitalization in retail banking. However, the need for greater flexibility in staffing, which is essential in co-creation, could add to employee stress (as highlighted by Chan et al., 2010) resulting in a misalignment between customers willingness to engage in interactive experiences and the ability of the service provider to respond effectively. Thus, whilst Spanish customers are willing to engage in co-creation activities, their first step to recovering trust is to feel satisfied before demonstrating loyalty.

Conversely, lower uncertainty avoidance in the UK means that customers are more likely to be loyal to their service providers (than Spanish customers) when engaging in co-creation, without requiring to first feel satisfied. Thus, they embrace the notion of accepting risk when engaging with service providers and do not need to feel satisfied before committing to their service provider. In effect, they share responsibility when interacting with their service providers, which could entail assessing which financial products meets their individual needs (provided the customer possesses all the necessary knowledge) and will therefore demonstrate loyalty. Furthermore, as UK customers are characterized by individualism, meaning they are motivated by personal gain and ambition, we could infer they believe co-creation to be beneficial to them and therefore are more loyal than Spanish customers. McColl-Kennedy et al. (2012) suggest that

individualistic cultures are likely to engage in insular controlling when co-creating, thus emphasizing loyalty.

Given that customer-firm interactions are a topic of current relevance for relationship marketing and customer management literature (Verhoef and Lemon, 2013), this study conceptually and empirically confirms the relationships between co-creation and satisfaction, loyalty and WOM, and extends the generalizability of findings across-cultures.

5.1.4. Overall conclusions

The dynamic business environment, competitive pressures and increasing dominance of service-based economies require companies to seek alternative means to create value. As such, SDL offers a holistic approach to marketing and understanding that companies must necessarily be customer-orientated and incorporate customers in their networks. Firms need to open up with their processes and resources with customers in order to facilitate co-creation, as well as gauging their level of interest and knowledge. As such, both companies and customers can benefit and adapt market offerings as necessary. Interactions are part of ever-expanding networks, and ecosystems will soon transcend the company-customer relationship so firms need to adapt to the changing environment to stay ahead.

Despite the contributions of this study, it is not without its limitations. Firstly, given the results are based on customer opinions this could lead to bias. With a view to limiting bias the recommendations of Podsakoff et al. (2003) were followed: questionnaires were answered anonymously, the scales used were validated, a pretest was conducted and questions were answered freely. Secondly, the study focused on one industry: the retail banking sector. As such, conclusions must be drawn with caution when applying to another industry.

For future lines of research, it would be interesting to replicate the study in another industry to confirm the findings of this research and further validate the findings. Also, given the increasing importance of ecosystems, it would be interesting to research the actors in the customers' network to assess their impact on value co-creation.

	CONCEPTUAL FRAMEWORK	IMPLICATIONS FOR THEORY AND PRACTICE
DOCTORAL THESIS	<pre> graph LR CO-CREATION --> SATISFACTION CO-CREATION --> LOYALTY CO-CREATION --> WOM[WORD-OF-MOUTH] SATISFACTION --> LOYALTY SATISFACTION --> WOM CD[CULTURAL DIMENSIONS] </pre>	<ul style="list-style-type: none"> - Firms must adopt a customer-centric approach in order to remain competitive and generate value with, and for, their customers. - Co-creation provides a unique opportunity for firms to enhance the value of their market offerings. - Co-creation can lead to satisfied customers, who in turn are likely to generate positive WOM or recommendations and become more loyal to the company. - Co-creation processes may be understood in different ways depending on the country of reference, as well as its transactional and non-transactional processes. Marketers should adapt to customers' cultural background.
STUDY 1: In co-creation we trust	<pre> graph LR SDL --> CO-CREATION STRATEGY --> CO-CREATION NS[NORDIC SCHOOL] --> CO-CREATION </pre>	<ul style="list-style-type: none"> - Despite divergent perspectives the notions of service-for-service exchange and customer experience provides a common nexus for co-creation. - Co-creation is a collaborative process to create value between companies and customer networks. - Trust and joint-learning are fundamental to the co-creation process.
STUDY 2: Towards a co-creation framework: Understanding the effects on customer satisfaction, loyalty and word-of-mouth in the banking services industry	<pre> graph LR CO-CREATION --> SATISFACTION CO-CREATION --> LOYALTY CO-CREATION --> WOM[WORD-OF-MOUTH] SATISFACTION --> LOYALTY SATISFACTION --> WOM </pre>	<ul style="list-style-type: none"> - Customers demand a more active role through interactions and experiences, meaning firms must open up their processes. - Customers are more satisfied when they they participate in joint learning experiences. - Co-creation directly affects customer loyalty and WOM. - Satisfaction mediates the effect of co-creation on loyalty and WOM.
STUDY 3: Towards a co-creation framework in the retail banking services industry: A cross-cultural analysis	<pre> graph LR CO-CREATION --> SATISFACTION CO-CREATION --> LOYALTY CO-CREATION --> WOM[WORD-OF-MOUTH] SATISFACTION --> LOYALTY SATISFACTION --> WOM CD[CULTURAL DIMENSIONS] </pre>	<ul style="list-style-type: none"> - Cultures characterized by higher uncertainty avoidance first need to feel satisfied with co-creation before demonstrating loyalty to their service providers. - Conversely, cultures with lower uncertainty avoidance are more likely to commit loyalty to their service providers when engaging in co-creation without needing to first feel satisfied. - For individualistic cultures, personal gain should be emphasized as a means to entice customers to engage in co-creational activities.

5. 2. References

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