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# A PROPOSED MODEL OF BUSINESS CO-CREATION FOR SERVICE INNOVATION

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## ABSTRACT

This study explores the dynamics of collaboration between travel agents and their suppliers in co-creating value for their customers. It examines the relationship among co-creation elements, service innovation, technology adoption and environmental change. Results indicate that all the above effects are significant.

*Keywords:* Business co-creation, service innovation, service dominant logic..

## INTRODUCTION

Continued growth in the global tourism industry has opened vast opportunities to many businesses in the tourism and hospitality industries. International tourist arrivals reached 1,138 million in 2014, a 4.7% increase over the previous year and a forecast growth by 3% to 4% in 2015 (World Tourism Organization, 2015). Travel & Tourism's total contribution to the global economy has risen to 9.5% of global GDP (US \$7 trillion). Travel & Tourism forecasts over the next ten years also look extremely favorable. But capitalizing on the growth opportunity will require authorities to create a favorable climate for infrastructure investment and people development (World Travel & Tourism Council, 2015). Growth can be attributed to advances in web and information technology (IT) that have changed the service landscape to favor consumers through e-marketing and social networking. As businesses in the tourism and hospitality industries jockey for position to lure potential customers, several will join forces to interact with them to better learn of and understand their needs, which in turn provides the businesses a basis for customizing offerings and co-creating value.

Value co-creation involves the customer deriving value through his/her use of a product or service offering, and his/her involvement in the co-design and co-production of the offering. Extending the idea, business co-creation not only emphasize on the collaboration with consumers but also the collaboration with partners (suppliers) to design new services and enhance customer values. The value is no longer defined by the producer or provider only, but by the level of satisfaction a customer attains as a result of using the offering. With the adoption of value co-creation, the dominant marketing logic has clearly shifted to service-dominant (S-D) logic, which emphasizes the integration of goods with services and has become a vehicle that enables customers to pursue their individual satisfaction through the accomplishment of a task or gains in efficacy.

Co-creation refers to collaboration between the supplier and the buyer (the customer) in the process of value creation that the buyer or the customer plays an active role as an innovator in the innovation process. The customers share their consumption experience and the company valued this experience as an opportunity to enhance its products or services with tailored to their preferences. The dynamic nature of market conditions and the ever-changing customer needs require ongoing interactions between the business and its customers for co-creation. Comparing to co-production or customer involvement, co-creation is more emphasis on the mission driven process to create values with customers. Moreover, co-creation dynamics is defined as a process of value creation between a business and its suppliers through collaborative elements and a continuous social and economic process that begins with an interactive definition of the customer's problems or potential needs. Prahalad and Ramaswamy identified four fundamental collaborative elements for co-creation: dialogue (e.g. interactivity, engagement, propensity to act), access (e.g. sharing of information and knowledge), risk assessment (e.g. providing information to make informed decisions), and transparency (e.g. openness) - that is the DART model. These elements are crucial to the interaction process between the business and its suppliers. By coupling them in different combinations (e.g., dialog and access, risk assessment and transparency, etc.), a business can apply them towards developing different strategies with its suppliers. For example, transparency facilitates effective dialogues and provides streamline access so that customers are easier to collaborate with the customers.

Moreover, in a B2B setting, compatibility and flexibility reflect the fits of the relationship between business partners (e.g., buyer and supplier) that are conducive to collaboration. Flexibility defines the responsiveness of a business to adapt changes in technology and market opportunities by introducing new offerings, broadening its product line, and upgrading its offerings with greater timeliness. Flexible organization can provide more capabilities of quick adjustment in new product and process design, more possibilities of employee authorization and empowerment. Furthermore, compatibility describes the extent of match between (among) partners in culture orientations, abilities, and activities of the businesses play toward their successful integration. In an inter-organizational context, the degree of compatibility can predict the success or failure of joint ventures that high compatible partners would yield better collaborating outcomes. The greater compatibility between partners segues to higher co-creation capability.

This study intends to interpret business co-creation and discuss whether and how business co-creation has effects on service innovation in tourism industry. This study explores the dynamics of collaboration between travel agents and their suppliers in co-creating value for their customers. It examines the relationship among co-creation elements, service innovation, technology

adoption and environmental change, and the moderating effects of trust. Results indicate that all the above effects are significant.