Work in progress

Values-based Service Innovations
– A Study in the Truck industry

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Introduction

In a service-driven economy, companies try to increase their competitiveness through service innovations that create value for existing customers, attract new customers and at the same time produce shareholders value. Service innovation can be divided into three categories (Edvardsson et al 2008): (1) type of innovation (service-level innovations), (2) the management of innovation (firm-level innovations) and (3) the innovation context (sector-level innovations). In this paper, we will focus on the second category of managing firm-level service innovations, i.e., creating and managing innovative firm-level services by integrating customers in the innovation process.

By service innovation we here refer to the various phases, from idea generation to market launch with at least some acceptance of the new service in the market. The concept service innovation in this paper includes new services for an organization, further development of existing services as well as services "new to the world". In accordance with the service-centred view, Vargo and Lusch (2004, 2008) argue that value is defined by and co-created with the customers, rather than being embedded in output, in defined products or in service attributes. Grönroos (2008) supports the relevance of the value-in-use notion, but disagree with Vargo and Lusch (2004, 2008) view concerning who creates and co-creates value. Grönroos (2008) argues that value is only created by the customer or the user. Therefore, providers must understand why the customer buys and how to participate in and contribute to the customer's value creation and align to the customer strategies, resources and setting (Strandvik et al 2008). Therefore, service innovations must be customer-based in the sense that value is always realized and assessed by customers on the basis of value in use in the customer's on context.

Vargo and Lusch (2004, 2008) introduced the Service Dominant Logic (SDL) as a new logic for marketing; however Holbrook (2006) contends that his 'concept of customer value' (CCV), which was introduced twenty years before SDL, is also about business as a value-creating endeavour. Who has the real truth regarding creating value, customer value and

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value-in-use? For us the contribution of Vargo and Lusch, Grönroos and Holbrock in various ways to the understanding of customer value is a basis for service innovations. However, they neglect the role of values in creating customer value. Therefore, this paper focuses on the role of values in creating value in use for customers and as a result for other stakeholders.

Edvardsson, Enquist and Hay (2006) argue that *corporate values* also bring value-in-use to customers. Excellent companies are distinguished from average companies by values, and not merely by logical, value-for-money outcomes and cognitive assessments (Johnston and Clark, 2001; Edvardsson and Enquist, 2008). Edvardsson and Enquist (2008) view values as touch-points or triggers that can either contribute to or destroy value, as perceived by customers and other stakeholders. They have introduced *Values-based Service;* where the business model depart from control-based to values-based; where Corporate Social Responsibility (CSR) and Sustainability Developing (SD) can be seen as a driving force of values; and where value creation for customers and other stakeholders go from a goods logic to a service logic. They have also suggested values resonance and values dissonance; to understand how values contribute to value-in-use and customers' assessment of value. Values resonance refers to values that linked to the service and provider that the customer like, support and want to be associated with and support. Values dissonance on the other hand refers to values the customer dislikes and does not want to be associated with and support. We argue in this article that values have been neglected not only in the service research, but also in the innovation literature while at the same time values have become a key strategic issue in most companies, not least in the automotive industry. In this article we therefore will develop a framework for values-based service innovation using the automotive industry and a well-known truck manufacturer as our empirical basis.

This paper is a first attempt to explore the role of values in innovation activities and projects. We use empirical findings from the context of a world leading Truck company and create a conceptualization and understanding of *Values-based Service Innovation*. The field of service innovation and its management is a recent research discipline (van Riel, 2005). "Innovation is the lifeblood of corporate competitiveness, value creation, and sustainable growth" states Jackson (2004). A high innovation rate decreases the negative aspects of trade-offs between social and environmental goals on the one hand, and economic growth on the other. But with a more proactive way of using social and environmental perspectives a more sustainable and more innovative solutions can be reached (Hart, 2007; Edvardsson and Enquist, 2008). This thinking has much in common with the triple bottom line approach (Elkington 1997; Edvardsson and Enquist, 2008) which values-based service is build upon.

The research question for this paper is: How can values create customer value in the knowledge area of service innovations?

The paper should be seen as a start for a more complete article.

Conceptual and theoretical analysis

Value-in-exchange vs value-in-use

The logic of value creation is changing. The traditional view was that value is defined and created in the value chain—that is, upstream suppliers provide input, the focal company adds value, and the product is then passed on downstream (Normann, 2001). According to this view, value is *embedded* in products or service offerings, and is an output of the firm's

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manufacturing or service processes. Companies position themselves in a value chain from a goods logic and the outcome is *value-in-exchange* (Vargo and Lusch, 2004, 2008; Grönroos, 2008). This is the traditional way in B2B marketing including also in the business context of The Truck Company which is the case study in this paper.

To go beyond the value-in-exchange for a B2B-business means that one have to focus more on the value creation processes in the customers sphere as a process of *value-in-use* (Grönroos, 2008, Vargo and Lusch, 2004, 2008; Normann, 2001; Edvardsson and Enquist, 2008). The emerging view differs from the traditional understanding by conceiving value as something that is *co-created with customers*, and then assessed by them on the basis of value in use and consumption experiences. According to this emerging view, the customer defines value and the assessment of value is linked to the customer's needs, wants, values, knowledge, and skills (Edvardsson and Enquist, 2008).

Holbrook (2006) conceptualises value at the individual customer level. His typology is based on three dimensions ('extrinsic/intrinsic'; 'self-oriented/other-oriented'; and 'active/reactive'). These three dimensions result in eight categories of customer value. With regard to the first dimension ('extrinsic/intrinsic') he argues:

> Value is extrinsic when some object or experience serves as the means to an end, performing a function that is instrumental in nature. By contrast, intrinsic value refers to the case in which an experience is prized for its own sake—that is, self-justified as an autotelic end in itself. (Ibid. p. 213)

Strong values drive customer value

There is a link between values and value in Hoolbrok's (ibid.) thinking, but only in the intrinsic dimension. Edvardsson and Enquist (2008) have noticed that Hoolbrok included the notion of 'values' (in the sense of 'ideals') within the intrinsic dimension of customer value (ethics), but he did not pay explicit attention to 'values' in the extrinsic dimension (p. 40). The authors use Corporate Social Responsibility (CSR) in the following way.

> CSR (that is, extrinsic social and environmental responsibility) is inescapably intertwined with the corporate values of the providers of market offerings. At the company level, three categories of such values can be discerned: ethical, social, and environmental. These values guide customers in their assessments of value-in-use, and they also guide companies in formulating their value propositions in the first place (ibid. p. 40).

Strandvik el al (2008) argue that industrial service have conceptually progressed from the output of the provider's production process to the result of a co-creation process in which the customer is actively involved. Although there are attempts to be customer-oriented, especially when the focus is on solutions, an industrial company's offering combining goods and services is inherently seller-oriented. There is a need to develop service innovation conceptualizations and models that are *first*, genuinely customer-based and not provider-driven, *second* based on the service logic (see e.g. Grönroos 2008) and an understanding of drivers of value-in use as a assessed by the customer and third, the role and impact of values resonance and values dissonance.

The insight from Edvardsson and Enquist (2008) show that strong values form the basis for a company's culture. Strong corporate values provide energy and direction to business development in tandem with customers' values and the values of the wider society. In developing a sustainable values-based company, values are pre-eminently important in the company's relationships with its staff, partners, suppliers, shareholders, and the media. A

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company with strong values knows that values are dynamic and they can become stronger in the sense that they become clearer, more relevant, and better integrated in the business model. Values are used by customers and other stakeholders when value is assessed. The values create bonds with customers and thus represent a significant loyalty driver.

Service innovations for creating value

Innovative service businesses are often created by entrepreneurs who are imbued with a clear vision and a strong sense of mission. Such vision and mission are usually based on a firm set of personal values. We can see this in IKEA, H&M, Starbucks and Body Shop (Edvardsson and Enquist, 2008). But strong multinational companies which have been developed during several decades can also be very innovative. Palmisano (2006) label these global actors "The Globally Integrated Enterprises". They use all three spheres (economic, social and environmental) for creating innovative business (Elkington, 1997; Hart, 2007; Edvardsson and Enquist, 2008). CSR helps build a satisfied customer base and that customer satisfaction partially mediates the financial returns to CSR (Xueming & Bhattacharya, 2006). This is most significant for *innovative* firms: "In particular, our finding that the positive financial returns to CSR, are amplified in firms with higher product quality indicates that internal corporate abilities likely generates and sustains financial value for the firm" (ibid. p. 15). CSR is not for charity in order to do good but more of a strategy for innovative service business (Enquist et al, 2007b). Waddock and Bodwell (2007) express this as managing responsibility and introduce Responsibility Management (RM) in analogy with the quality movement. The big challenge in RM is the innovation and improvement processes which have to be more open for and integrate their customers (Edvardsson et al 2008) and other stakeholders in their efforts to further develop value-in-use through service innovations.

Values-based service innovation

What do we mean with values-based service innovations? Values-based premised on a stakeholder perspective of leadership, responsibility, and ethics (Pruzan 1998), incorporating Elkington's (1997) concept of a 'triple bottom line' (economic, social, and environmental) for sustainable development. In a values-based service company, the business model is grounded in service logic, which, in turn, is based on the core company values, the foundation values (social and environmental responsibility), and the customers' values (Edvardsson and Enquist, 2008). The innovation and improvement parts are fundamental for success and the smart solutions will often be related to understand social and environmental issues (Hart, 2007; Edvardsson and Enquist, 2008).

Empirical study

During the spring 2007 Enquist, Roos and Orstadeus designed together with two master students a pre-study of values-based service innovations in the context of a global Truck Company. The students prepared a literature review and a first workshop was held together with Enquist (Researcher), Roos (Researcher and Vice President in the Truck Company), Orstadeus (Director for Product Features and Brand Distinction) and a forth person from the company (Environmental Manager and Feature Specialist). During the first workshop three hypotheses were developed. Approximately after four weeks a second workshop was held. A theoretical driven model, which joins values, value-in-use, and innovations, was developed by the master students in interaction with the researchers and the company managers/specialists.

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One final meeting was then set to test the model against a real life background based on narratives and job experience from the Truck Company. The three core values of the Truck Company are *safety*, *quality* and *environment*. There fore, nine narratives were found based on those values. Narrative seven is used to illustrate what can be learnt from the narratives.

Narrative 1: Blocking drunk driving (*safety*)
Narrative 2: Better breaks for safer trucks (*safety*)
Narrative 3: Keeping all road users safe (*safety*)
Narrative 4: High quality trucks are guaranteed (*quality*)
Narrative 5: Quality is not limited to products (*quality)*
Narrative 6: Lifetime quality in the trucks (*quality*)

Narrative 7: Cleaner trucks for a cleaner environment (*environment*)

> For the Truck Company it is important to reduce the emissions from its vehicles, as 90 percent of the environmental impact is caused during the working life of a diesel truck, and only 10 percent during production and scrapping. For this reason, the Truck Company is constantly working on reducing the fuel consumption, which will directly affect the emission of gases into the environment. In the last ten years the company successfully reduced the emissions by roughly 20 percent, and continues to work with the Euro 4 and Euro 5 standards, while Euro 5 will only be implemented in 2009.

This narrative demonstrates the environmental awareness of customers and other stakeholders which change the value-in-use pattern. The Truck Company knows where the biggest problems of pollution lie down, and aim at reducing them drastically. While doing so, it does not limit itself to expected quota, but has a focus on the requirements of the future, and is staying ahead of problems that may arise. Reducing the fuel consumption of a truck does not only have an impact on the environment, it just as well affects the economy of the trucks owners.

Narrative 8: A cleaner production (*environment*)
Narrative 9: Ecological thinking beyond production and the product (*environment*)

Two written reports (a field report and a master thesis) come out of the whole process (Kroll and Raab, 2007 a, b). The narratives driven by the company core values gave direction for innovation and improvement processes open for the customers and other stakeholders need for value-in-use. The pre study can be seen as a test case of the idea of Values-based Service Innovations to create customer value with the company's core values. It was also the start for writing a more explorative driven article based on an interaction between a conceptual and theoretical analyses of the topic and the empirical findings from the Truck Company.

Discussion and further research

During 2006 – 2008 Edvardsson and Enquist have developed their concept *values-based service* (Edvardsson, Enquist and Hay, 2006; Enquist, Edvardsson and Petros, 2007; Edvardsson and Enquist, 2008). The research based on Edvardsson and Enquists' articles and the book are important contributors to the conceptual and theoretical analysis developed in this paper as well as the findings of value creation from Vargo and Lusch (2004, 2008), Grönroos (2008) and Hoolbrock (2006). This can be seen as the first step for making a full paper. The framework of values-based service in a specific knowledge area *Service Innovation* will be developed further. Based on the conceptual and theoretical analysis which

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has been developed in this paper a deeper explorative study must take place as well as further developed the conceptual and theoretical framework. In dialectic way we can then let the framework meet narratives/ empirical findings from the context of the world leading Truck Company and create a further meaning of the concept of *Values-based Service Innovation*. A more general model will emerge from the deeper study and a deeper contextual learning can done to understand the model.

The paper shows upon the potential original contribution to the study of values based service innovation. It is a long way to go for a B2B-Company to really understand the value-in-use from the customers' point of view and in a proactive way use strong company values and how hose values can affect customer value.

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