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Co-Creation of "Value-in-Context" in High-Quality Service: A Case Study

Miwa Nishinaka[1] and Hisashi Masuda[2]

[1]The Graduate School of Management, Kagawa University, Takamatsu, Kagawa, Japan
[2]Faculty of Global Engagement, Kyoto University of Foreign Studies, Kyoto, Japan

ABSTRACT

Although the co-creation of value in high-quality service improves quality, it sometimes entails the risk of losing intangible knowledge, which constitutes a company's competitive advantage. Therefore, a mechanism in which value is strategically co-created without the loss of strength is needed. We conducted a case study using the framework of Service-dominant logic to clarify the mechanism of value co-creation in high-quality service. The study found four kinds of operant resources with different functions in a micro-level ecosystem, which showed the co-creation of "value-in-context" in high-quality service. The value co-creation was achieved through a highly standardized but systematically allowed moderate level of humanistic dependency under shared values. This scheme is a mechanism for co-creating intangible knowledge, a competitive advantage that is difficult to imitate. The contribution of this study is that it presented a case of how the co-creation of "value-in-context" is achieved within a service ecosystem through multiple operant resources with different functions.

Keywords: Service-dominant logic, High-quality service, Value-in-context, Operant resources, Shared values, Competitive advantage

INTRODUCTION

Service-dominant logic (SDL) is a theory of value co-creation in which interactions among actors create value (Lusch & Vargo, 2014). In SDL, "Operant resources are the fundamental source of competitive advantage" as a fundamental premise (Vargo & Lusch, 2016, p. 4). Operant resources are often intangible, such as competencies or organizational processes (Lusch & Vargo, 2014), and are at the core of a company's competitive advantage and performance (Madhavaram & Hunt, 2008).

Service is defined in SDL as the application of operant resources for the benefit of actors or the self (through actions) (Lusch & Vargo, 2014). In SDL, actors who are value co-creators become resource integrators (Lusch & Vargo, 2014), and operant resources (Vargo & Lusch, 2004). "In an A2A (Actor-to-Actor) network all actors are operant resources that influence and shape each other; hence, they create their own context or environment" (Lusch & Vargo, 2012, p. 195). In the current study, actors refer to human actors, who play according to rules or social norms, called institutions, and

perform A2A reciprocal interactions in the environment in which they continue to act. This structured system is called "service ecosystems" (Lusch & Vargo, 2014). This study analyzes a micro-level service ecosystem in which customers and companies interact.

SDL has been used to explain service situations in numerous cases. The cases amenable to depiction through SDL exhibit the characteristic of "co-creation," which further enhances the value. These cases share common features, such as enduring relationships, dynamic actors who evolve through learning, and the use of the perspectives and strengths of the actors involved.

In the background of market servitization facilitated by digitization/digital technology (Nishinaka & Masuda, 2022), numerous information technology services have been introduced as SDL cases, in which advantages of actors' growth and interactions within service ecosystems are capitalized on (Kotler et al., 2020). Moreover, various social service cases that address societal challenges illustrate how actors harness their capabilities through active participation in value co-creation. These cases highlight how enhancing actors' capabilities contributes to the formation of a service ecosystem (Ho & Shirahada, 2021).

However, only a few cases of high-quality service explain what the value co-creation characteristic of SDL is and how value is incorporated into business processes in a company (Ngo & O'Cass, 2009). One contributing factor is that the expertise integral to high-quality service is often intricately tied to human capabilities (Madhavaram & Hunt, 2008) and cases of organizational knowledge or processes are sparse. In many instances, these capabilities and know-how exist as intangible knowledge, serving as distinctive strengths for individuals or companies to which these individuals belong (Nonaka et al., 2000). The perceived risk of losing such valuable and inimitable knowledge might act as a potential deterrent to embracing co-creation (Hitt et al., 2019). Inimitability is a major factor in differentiation (Barney & Clark, 2007). "Value-in-context" is sometimes difficult to co-create (Lusch & Vargo, 2014, p. 23), even though the co-creation of value in high-quality service improves quality. This challenge poses a dilemma for both service co-creation and knowledge-strategy research (Madhavaram & Hunt, 2008).

In SDL, when customers receive empathic service, they increase their trust in the company and become operant resources, thereby improving service quality (Tijjang, 2023). Consequently, long-term relationships are established. Therefore, co-creation is important for providing high-quality service. However, for the above-mentioned reasons, this mechanism has not been sufficiently elucidated. SERVQUAL is a widely known determinant of service quality (Parasuraman et al., 1988). However, although SERVQUAL can evaluate the static perspective of the service itself, it does not focus on co-creation through interactions involving customers. Therefore, designing service requires an SDL perspective that theorizes knowledge as an operant resource that has a co-creation perspective (Andreassen et al., 2016).

The research question is, how can we strategically co-create value through operant resources while maintaining strength in quality service? To discuss this issue, the current study used Classy Co. Ltd., which is headquartered in Tokushima city, Japan, and is the premier provider of housekeeping and

early childhood education services, as a case study to explain the company's offerings through the SDL framework. This study explains the company's effective approach to strategically create high-quality operant resources and operationalize them within an ecosystem. The study concludes its arguments by presenting implications for strategic value co-creation in the realm of high-quality service.

CASE STUDY OF CLASSY

Classy is a "comprehensive lifestyle support company" established in 1986 with the mission of transforming "the world by organizing individuals' daily lives." The idea is that transformation will eventually come from reaffirming the value of our living environment (Nishinaka et al., 2023).

In 1986, housekeeping services were not common in Japan and were not established as an industrial sector, and Classy was the pioneering company in industrializing housekeeping and early childhood education services in such an environment. In Japan, housekeeping services targeted the wealthy in the 1980s; however, as the number of dual-income families increased in the late 1990s, the marketing size began to enlarge. Since the 2000s, when a reduction in the burden of housework became an issue as women began as human resources, many companies have been established or have entered the market. In about 2018, web service platforms that match and connect housekeeping companies and customers emerged (The above market background is provided by NRI, 2018). Web applications compare customers' input conditions and requirements such as budget, date, and time, and based on the hit, customers decide to contract the companies. Classy differentiates itself from these services by offering high-quality housekeeping and early childhood education services with solid value propositions.

This study encompassed a comprehensive three-year observation of Classy's operations and an interview with its president in November 2022. Classy's four main businesses are concierge desks, housekeeping services, early childhood education services, and Kurashi Labo (which means Lifestyle Laboratory) (Classy, 2024). The concierge desk functions as a general contact point for companies. Housekeeping services are customized services planned by a concierge assigned to customers and provide trained service staff. Early childhood education services provide the highest level of education for preschool kids (English, gymnastics, music, and food education). Further, Kurashi Labo provides startup support services to other companies that offer lifestyle support services. When the author interviewed the president of Classy, Ms. Ueda, in November 2022, the number of employees was approximately 270, and the number of registered service staff was approximately 5,000. The repeat rate of service use was high at 96%, and the incidence rate was very low at 0.3% (the average for the service was 6%) (the above numbers apply to Japan).

Housekeeping services are Classy's most common service. It offers housekeeping service based on a preliminary survey of customer values and needs conducted by concierges. It provides a one-stop solution to customers'

concerns and supports their lifestyles in the "style they desire." Although customized, the entire service flow and preliminary survey are provided based on manuals that describe a series of service processes called "Service Formation." This manual covers objectives and critical points that correspond to what the concierge needs to do (called actions). Concierges interview customers based on manuals and then create customized service plans. That is, the concierge conducts a preliminary survey to understand customers' value and share the company's vision with them. Customers' sense of value is shared with the staff and is recognized as shared values. The concierge matches customers with staff who understand customers' values. A very high level of capability is required to assign staff who understand customers' values from a comprehensive perspective. This is not possible with web service matching systems, because not a few customers are unaware of their intrinsic values.

The manuals outline methods of implementation and analysis to reduce dependence on the concierges' differences who use them. For example, in "Selection of Service Staff Personnel," the objective of "finding staff who match the core needs and personalities of the customers" is written first. Further, various efforts regarding the "how", "what", and "how to do" are specified. Taking the previous example, the concierge is trained to develop a service plan that matches the customer's sense of values and assigns staff who can understand and respond to these values. Concierges are trained to measure customers' sense of value by observing their lives from multiple perspectives. The "Daily Life Perspective" is a numerical value that indicates, for example, seasonal decorations at the entrance, the type of spices used in the kitchen, the arrangement of books on shelves, and the amount of food and necessities stored. From these perspectives, the concierge understands customers' sense of values, customizes the service to match those values, creates a plan, and assigns the staff to meet them. At Classy, services are structured, clearly described, and numerically calculated in a scientific manner.

A characteristic of Classy's services is that it accepts humanistic dependency (dependency on human factors by the company that offers quality services) within a certain percentage of the discretionary range. This delicate balance motivates the staff and standardizes its quality. Ms. Ueda, the president of the company, said: "At Classy, we do not standardize everything but allow a moderate level of "Humanistic dependency." The purpose of customization is to enable customers to enjoy a "quality life," and not simply to be a "handyman service." The company name "Classy" means "high quality" or "refinement" in English. This means that customers trust and rely on a company that has dignity. Therefore, the service staff is trained to improve their skills and cultivate a customer-oriented mindset, and a "Meister" system has been introduced and certification tests are conducted."

Early childhood education services constituted Classy's original business when it was founded in Tokushima City in 1986 at the Stella English Academy and Kinder Care. At that time, early childhood education business was a kind of public service in Japan, which companies did not commonly enter. In such an environment, Stella focused on mothers and appealed to them to "enjoy their own time," and gained a good reputation. Initially, even the staff at Stella did not prefer the idea of management involvement in early

childhood education services, and it took several years for the new concept of early childhood education services to permeate the staff. However, some outside managers still had doubts about viewing early childhood education services as a corporate activity. Therefore, Classy began to systematize its services to win trust.

Based on accumulated data, Classy created a system and rules that had not yet been clearly defined. Many manuals are now in place under the categories of "systems (consulting, operational management, risk management)" and "programs (quality management)." Checklists for their use in early childhood education facilities are also available.

Intellectual property businesses have also begun. Because service activities are invisible, they depend on people, and standardization is difficult (Wakke et al., 2015). However, if this variability can be standardized and reproduced in operations, it becomes a business resource for intellectual property. The company provides consultations regarding comprehensive lifestyle support services with standardization and believes that a "moderate level of humanistic dependency" leads to appropriate services.

President Ueda stated the following:

"We have been promoting the industrialization of housekeeping and early childhood education services. We believe that only through industrialization rather than through the monopolization of a single company, will there be the common knowledge that people can regularly use, and live with, housekeeping and early childhood education services. Our goal is to enhance the value of daily life through "comprehensive lifestyle support" services and to provide many people with a life filled with a sense of happiness."

ANALYSIS AND DISCUSSION

The analytical perspectives of SDL are based on the following questions: 1) Are there actors as operant resources? and 2) Are there interactions and value co-creation among actors? and 3) Has a service ecosystem been built? and 4) Are actors participating in a growing service ecosystem? The housekeeping service in Classy's case was analyzed according to these perspectives.

Regarding the first question—whether actors are operant resources—we can see that all actors in the Classy case are operant resources. In SDL, the actors who are value co-creators are resource integrators (Lusch & Vargo, 2014). The concierges in housekeeping services are operant resources and resource integrators. The concierges understand customers' sense of value in their lives, integrate them into the service plan, and assign staff who provide actual services. Staff who are operant resources perform actual tasks for customers based on their knowledge and skills. Because staff have discretion, they can provide services with ingenuity while following a manual. This must significantly motivate the staff. Customers are also operant resources because they improve the quality of services by communicating their sense of value. Furthermore, by communicating the value of everyday life to a concierge, customers become better aware of the value inherent in their lives. Company managers are operant resources who build, manage, and operate the entire

ecosystem. Thus, four operant resources with different functions exist. These actors are connected under the shared value of "creating a good life." This approach not only promotes employees' growth through motivation but also stimulates customers' engagement through shared awareness and values of the "good life." Once customers trust and cooperate with a company, it can provide consistent and reliable services (Tijjang, 2023).

Regarding the second question—whether interactions and value co-creation among actors exist—we can see that these occur during the processes in Classy.

Regarding service ecosystems underlined in questions, 3) and 4), the meaning is that actors' reciprocal interactions form the environment in which they continue to act. The name of Classy implies the desire of the company to become a firm in which its customers trust, and which offers them reassurance and dignity. This promotes the provision of high-quality service to customers by demanding dignity from employees and motivating them to do the same. Additionally, through its certification system, the company improves its employees' skills and cultivates customer-oriented mindsets in them. These mechanisms support the growth of the actors in service ecosystems. Employees grow by interacting with, and learning from customers, and customers learn about high-quality lifestyles through such services. This promotes the growth of beneficiary actors.

Furthermore, Classy's operant resources were built as intellectual property and used to consult with outside companies as a service business. Classy seeks to extend service ecosystems from the micro level to the macro level by promoting the industrialization of services through intellectual property businesses. Standardization is conducted with the written manuals, which serve as the basis for knowledge creation. This is reflected in customers' knowledge and staff feedback. These are used as intellectual property for external consulting, but Classy's strengths are maintained because they constantly improve themselves by reflecting on the experiences that occur in ecosystems. Co-creation at the micro level and the service ecosystem are the company's strengths. Knowledge in Classy has accumulated through experience is context-dependent and cannot be lost through consultation because it cannot be established without experience. These are "values-in-context" that are relatively difficult to share or co-create (Lusch & Vargo, 2014). However, the Classy case shows that the co-creation of "value-in-context" can occur.

The answer to the research question is as follows: "A strategic value co-creation system is a service ecosystem that constantly cycles and becomes a higher-level service ecosystem as value continues to be created and renewed. In the ecosystem, four actors who function differently as operant resources are found: resource integrators who create comprehensive knowledge incorporated into "value-in-context;" actors who implement their value-in-context knowledge and expand the "value-in-context:" actors who offer their "value-in-context" in lives to improve "value-in-context;" and actors who build, manage, and operate the entire ecosystem. They are connected under shared values, are highly standardized, and systematically facilitate a moderate level of humanistic dependency."

We present an implication that a mechanism for co-creation of "value in context" will achieve an inimitable competitive advantage in high-quality service.

CONCLUSION

This study adopted a case study analysis using the SDL framework to clarify the value-co-creation mechanism in high-quality service. Consequently, four operant resources with different functions were identified in the micro-level ecosystem. It showed the successful co-creation of "value-in-context" in the high-quality service to keep the competitive advantage and an inimitable knowledge of the company which was analyzed in the study.

The academic contribution of the current study is that it presented a case of how the co-creation of "value-in-context" is achieved within a service ecosystem through multiple operant resources with different functions. This is a mechanism for achieving co-creation and maintaining the strength of a company and its inimitable knowledge. This resolves the dilemma of sharing intangible knowledge, where a powerful competitive advantage can be lost. As a practical contribution, this study provides an abstract perspective on the best practices for the strategic delivery of high-quality service, making them applicable to other similar services.

The current study analyzed one successful case and, therefore, its implications are limited to the presented case. Future research should use both quantitative and empirical analyses.

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