International Journal of Business and Management; Vol. 11, No. 12; 2016
ISSN 1833-3850 E-ISSN 1833-8119
Published by Canadian Center of Science and Education

Effects of Customer Value Co-Creation on Customer Loyalty in the Nigerian Service Industry

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Received: July 18, 2016 Accepted: October 12, 2016 Online Published: November 20, 2016

doi:10.5539/ijbm.v11n12p77 URL: http://dx.doi.org/10.5539/ijbm.v11n12p77

Abstract

The purpose of this study is to ascertain the effects of customer value co-creation on customer loyalty in the service industry and IBTC pension was used to represent the service industry in Nigeria. Time has passed when firms act autonomously in designing products, developing products, creating marketing messages and so on with little or no interface from or interaction with customers. Now customers seek to exercise their influence in every part of the business system. This has led to the impending question, “can involving customers in the creation of service make them loyal”? The components of the *DART Model* (Dialogue, Access, Risk Assessment and Transparency) were applied to the Nigerian setting to determine customer loyalty in the pensions industry. The study adopted survey design method conducted among individual customers and staff of IBTC pension. Structured questionnaire was used to generate data for the study. Multiple Regression was used to test the hypotheses generated for the study.

Keywords: value co-creation, dialogue, access, risk assessment, transparency

1. Introduction

In today's economy, it has become imperative for businesses to continuously re-invent themselves in order to adapt to the increasingly complex and dynamic market realities brought about by globalization, deregulation, technology, outsourcing and the convergence of industries. In recent times, globalization which is at its peak has continued to drive the rapid growth of international trade, global corporation and advances in internet and ecommerce and the emergence of the internet has changed how businesses and customers do things (Ifeanyichukwu, 2016). Firms invest in greater product variety but are less able to differentiate themselves from competitors as products and services are facing commoditization as never before (Prahalad & Ramaswamy, 2004). Markets are more fragmented than they used to be and consumers now have unprecedented access to information and networks. At the same time, technologies have created new modes of production and innovation that enable and encourage greater degrees of participation and collaboration. While consumers are demanding a greater level of personalisation in their consumption experience and placing businesses under increasing pressure to co-create value with them, companies are searching for new and better ways to create value and differentiate their market offerings in order to profitably attract and retain customers (Bendapudi & Leone, 2003). Many consumers appear to gain satisfaction from taking an active part in the creation of value. There are several factors that have also contributed to the progress of e-commerce in recent times asides the internet and these factors include the increasing number of experienced users, individual’s exposure, ease of navigating through websites, convenience, time savings amongst others (Ifeanyichukwu, 2016).

Prahalad and Ramaswamy (2004) defined value co-creation as a term used to describe an emerging range of business practices in which customers work with firms to co-create value through collaboration with other members of the value chain and with customers in the specification, design, manufacturing, and support of product and services. It is associated with the opportunity to gain competitive advantage by developing unique competence, together with the appropriate organizational resources and technological capabilities aiming at better satisfying customers demand and it occurs whenever customers actively interact with companies to shape their experiences and value perception which is realized and assessed in the social process of simultaneous production and consumption. With the pace of technological advances, the changing role of the customer ‘from isolated to connected, from unaware to informed, from passive to active and the intensity of competition; one avenue available for service firms more especially pension service firm to deliver superior value for customer is through co-creating value with them. Thus, the principal strategic implication for any service firm is to reconfigure relationships and systems in order to enable customers to utilize all available resources to create value for themselves.

Pension service in Nigeria, can be characterized as 'passively' competitive market as a result of high switching barrier experienced by customers. Nevertheless, there has being agitations to switch provider on the one hand, while there are calls for further amendment to the Pension reform act 2010 (amended) to license some ministries, departments and agencies to operate and manage a closed pension scheme thereby allowing organizations to privately run, operate and administer pension funds for its workers. Accordingly, it has become evident that pension firms have no choice but to collaborate with the customers in order to co-create value in their service delivery in order to build trust, commitment and loyalty. This study attempts to investigate the effect of customer value co-creation by empirically investigating the dimensions of the DART model (Dialogue, Risk Assessment, Transparency and Access) proposed by Prahalad and Ramaswamy (2004).

2. Literature Review

The service industry in Nigeria and elsewhere is characterized by low capital, numerous but customized sellers and imperfect competition arising from imperfect knowledge on the part of the consumers, especially in professional services like accounting, medicine, law, etc. Kotler and Armstrong (2004) defined service as an activity or benefit that one party can offer to another that is essentially intangible and does not result in ownership of anything and whose production may or may not be tied to a physical product. Customer value co-creation is a concept that originated from relationship marketing concept which also emerged as a paradigm shift from transactional marketing thought. If organizations can build and maintain strong and long-lasting relationships with their valued and loyal customers, they can easily achieve sustainable competitive advantage because the retained customers cannot be easily converted by competitors (Gilbert & Choi, 2003).

The relationship marketing though very good but it is no longer sufficient in our increasing competitive environment. This gave birth to the current concept which the researcher tends to investigate to know its effect on competitive advantage. The customer value co-creation literally means involving your customers to become co-creators of value.

Co-creation is a form of marketing strategy that emphasizes the generation and on-going realization of mutual firm-customer value. Prahald and Ramaswamy (2000) described co-creation in their view not only as a trend of jointly creating products, but also moving away from customers buying products and services as transactions, to those who buy products and service as part of an experience. Payne, Storbacka, and Frow (2008) suggest that the key to creating value is to co-produce offerings that mobilize your customer base. And if your company does not capture the intelligence to create more fulfilling experience by co-creating activities, your competitors will.

The goods-based economic producer-centric approach of the four Ps is catchy and easy to understand. Yet with the rise of the service industry, the model lacks ability to explain the dynamics of person to person interaction that was not mass produced, out of that problem rose service marketing (Sweeney, 2007). However, developing an ongoing, authentic connection with the customer was pivotal. In practice, however the authenticity required for a successful relationship is difficult. Successful relationships tend to centre on 'life style' producers (Kawaski, 1991).

According to Prahald and Ramaswamy (2004), consumers now seek to exercise their influence in every part of the business system. Armed with new tools and dissatisfied with available choices, consumers must want to interact with firms and thereby co-create value. Companies are seeking to escape from the firm-centric view of the past to co-create value with customers through an obsessive focus on personalized interactions between the consumer and the company. We must also note that high quality interactions that enable an individual customer to co-create unique experience with the company are the key to unlocking new source of competitive advantage. Co-creation simply is about joint creation of value by the company and customer.

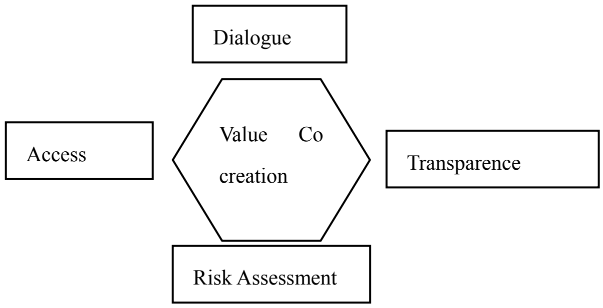

Figure 1. The dart model

Source: Prahald and Ramaswamy (2004).

- Dialogue- This is an important element in the co-creation view. Dialogue implies interacting, deep engagement, and the ability and willingness to act on both sides, which must be centered on issues of interest (Levine, Locke, Searls, & Weingerg, 2001). Dialog is more than listening to customers. It implies shared learning and communication between two equal problem solvers. For value co-creation to occur, there must be mechanisms for meaningful interactive dialog to occur at all stages along the value chain. The resulting interaction often results in formation of user communication with a high degree of loyalty to firm.

- Access-Access begins with information and tools. Co-creation demands that the firm provides deep access into company's resource and processes enable a range of experiences for the customer. The goal is to provide an experience optimized to each customers personalized needs. Access should include the option of renting service instead of purchasing a product.

- Risk Assessment- Risk here refers to the probability of harm to the customer. Traditionally, companies manage all the risk inherent in the use of their offering, but as customers take on a greater role in value co-creation they became willing to take some responsibility for managing risk. A pre-condition to customers accepting responsibility for risk is the firms willingness to enable customers to make informed risk-benefit tradeoffs through transparency about the various risk associated with the products and services on offer.

- Transparency-Transparency of information is required to develop the trust between companies and customers necessary to build the close relationships that enable value co-creation to occur. Traditionally, firms have closely guarded internal cost and process information from their customers. When companies make these data visible they relinquish control of aspects of value creation process and customers to choice where to engage in exchange at multiple points along the value chain.

Zhuang (2010) conducted an empirical study on value co-creation system by integrating customers. This study was carried out with 120 respondents. The result suggests that firms with more emphasis on the co-creation interactions may gain greater customization competence. The empirical evidence also supports the logic of co-creation system and point out a new way for firms to create the unique competence. Yi & Gong (2012) conducted a study on customer value co-creation. The investigation reports a series of four studies leading to the development and vacillation of a customer value co-creation behavior scale. The study was carried out among 385 participants, and it used a survey research method to carry out the study. The study shows that customer participation behavior and customer citizenship behavior exhibit different patterns of antecedents and consequences. Furthermore, a study also carried out by Xhang and Chen (2008) examined the mechanism of the value co-creation with customers. This work was conducted in china. The study developed and assessed the constructs in a value co-creation system and it identified and empirically examined the two primary principles of value co-creation system with customers. The finding shows that service capability has positive impact on a firm's customerisation capability. Vargo and Lusch (2004) investigated customer value co-creation on goods dominant logic. The study found out that firms can offer resources to the customers but value is only created once the customer uses the resources. Also individual receiving the benefits of the transaction will determine the value derived from it based on their current experience, previous experience and unique needs. Finally, Prahald and Ramaswamy (2004) conducted a study on the future of completion: creating unique value with customers. It introduced the DART (Dialogue, Access, Risk assessment and Transparency) model where they only tested two variables, out of four. Thus they found out that for customers to be loyal, dialogue and access to information is very important and thereafter firms will gain competitive advantage. Based on the literature reviewed above, we hypothesize as follows;

Hypothesis 1: There is a significant relationship between Dialogue and customer loyalty.

Hypothesis 2: There is a significant relationship between Risk Assessment and customer loyalty.

Hypothesis 3: There is a significant relationship between Access and customer loyalty.

Hypothesis 4: There is a significant relationship between Transparency and customer loyalty.

3. Method

This is a cross sectional study that adopts survey research design conducted amongst individual customers and staff of IBTC Pension Anambra State, Nigeria. Structured questionnaire was administered to customers and staff of IBTC pension for 8 weeks. The customers consist of all active and retired retirement saving accounts holder whose contact address is in Anambra State. The population of this study consist of 10,252 customers of IBTC pension. The sample size of 385 was determined using Taro Yamani's formula with a 5% error. Stratified random sampling method was used to elicit responses from a cross section of IBTC customers across various ministries, departments and agencies in Anambra State. Data collected were analysed using SPSS version 20. Regression Analysis was used to test the proposed hypotheses.

4. Results and Discussions

The four hypotheses formulated above were tested using multiple regression analysis with the aid of SPSS version 20. The model summary shows that the multiple correlation coefficient (R) using all the predictors simultaneously is 0.39 and adjusted R^2 is 0.14 meaning that 14% of the variance in the dependent variable (customer loyalty) can be predicted from all the independent variables combined (transparency, dialogue, risk assessment, and access). The ANOVA result shows a statistically significant relationship between customer loyalty and customer service co-creation (transparency, dialogue, risk assessment, and access) $F (4, 361) = 12.49, p < 0.00$. This means that the model is a good fit and can be used to explain variations in the dependent variable (customer Loyalty). As indicated in table 2 below, the predictors variables (transparency, dialogue, and access) had significant positive regression weights, indicating that the more PFAs attempt to co-create services with their customers the more loyal they become while the predictor risk assessment also has a positive but a non-significant relationship with customer loyalty. For the regression coefficients, transparency was found to be statistically significant $(\beta = 0.11, p < 0.05)$ thus, hypothesis 1 was accepted. Access was also found to be statistically significant $(\beta = 0.14, p< 0.05)$ thus, hypothesis 2 was accepted. Risk assessment was found to be statistically not significant $(\beta = 0.09, p > 0.05)$ thus hypothesis 3 was rejected. Dialogue had the most prominent effect on customer loyalty and was found to be statistically significant $(\beta = 0.27, T = 5.08, p < 0.005)$ thus, hypothesis 4 was accepted.

Table 1. ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	204.123	5	40.825	12.493	.000[a]
	Residual	1146.970	351	3.268		
	Total	1351.092	356			

a. Predictors: (Constant), Risk Assessment, Transparency, Access, Dialogue.

b Dependent Variable: Customer Loyalty.

Table 2. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.272	.463		2.745	.001
	Transparency	.115	.050	.113	2.279	.000
	Access	.176	.064	.140	2.749	.000
	Risk Assessment	.088	.049	.093	1.803	.072
	Dialogue	.302	.059	.265	5.081	.000

Dependent Variable: Customer Loyalty.

5. Conclusion

Based on the findings from the study, the following conclusions can be drawn. The dialogue building block has more predictive effect on customer loyalty than Access, Transparency and Risk Assessment. This implies that for firm to co-create services with customers it is important they engage in interactive dialogue with customers, communicate effectively to customers about service offerings. It is therefore imperative that service firms institute infrastructures or platforms (e.g. on-line platforms, mobile apps etc) to encourage on-going dialogue with customers. This will enable added value to service firms by harnessing customer competencies, managing personalized experiences and shape customer expectations. Service firms can facilitate the creation of online communities around their service brand or products. Such online communities require the participation of providers to mitigate and control interactive contents and risks capable of arising from such communities. For instance, GT bank manages an online consumer community called GTcrea8 that engages customers in knowledge and experience sharing.

More so, the dimension of access is statistically significant to customer loyalty and as such a predictor of customer loyalty. Customers' wants access to information exclusive to the service provider, they also want access to tools such as a virtual environment and other operant resources from the service provider to enable them engage in co-creation of service and share knowledge. It is also important that service firms provide access to support tools and information to encourage customer participation in co-creation activities. This implies the creation of security enabled access to customers on a number of platforms to encourage information symmetry and participation along the value chain.

Furthermore, transparency is also a predictor of customer loyalty. Thus, customers want information symmetry about products or services, technologies, business processes amongst others. They also expect service firms to deal transparently in all transactions, willingly offer assistant to customers and provide prompt services. Service firms should provide transparency of information to facilitate collaborative dialogue with customers. Pension service firms should be transparent with information concerning charges, profit margins, materials, technology and business systems to enable customers make informed choices and develop trust with service providers in value co-creation processes. Trust is very important in cumulative transactions such as pension services to maintain enduring relationships with customers and win their loyalty.

Finally, risk assessment has less of predictive effect on customer loyalty. In as much as customers are willingly to co-create value with service providers, they are not willing to suffer harm that might arise from co-creation activities. However, they want access to information about business risks including personal and societal risks of engaging with service providers in co-creating value. In conclusion, for Pension fund Administrators to effectively compete and outsmart competition in the more intense competitive environment, they must facilitate and encourage customers to participate in co-creation activities and by so doing strengthen customer relationship and trust, thus, co-creation is very important in today's business and marketing environment. It becomes evident from the findings above that there is a positive and significant effect of co-creating services especially in the Nigerian pensions industry as Nigerian customers desire to be a part and parcel of the services offered. Therefore, it is expected that the result of this study has provided insights to managers of service industry of the need to involve customers in the creation of value to keep them abreast of the organizational performance, thus, making them loyal customers and also served as a guide to prospective new entrants in the industry on better ways to offer services to outwit competition.

6. Limitation of the Study

The study empirically investigated the DART model as proposed by Prahalad and Ramaswamy (2004). Although it empirically tested the applicability of the DART model in services co-creation, the sample included mainly one pension service provider in Nigeria (IBTC pensions). This thus, limited the extent generalization can be drawn.

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