

The third mode of value creation in tourism

- educational, managerial, and organisational implications

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Introduction

Tourism service encounters, i.e. the encounters between tourism employees and tourists, are central to the tourist experience (Baum 2005) and thus to value creation for tourists as well as for tourist companies. Such tourism service encounters have traditionally relied on a service paradigm in which predefined standardised service functions are professionally and efficiently delivered to tourists by tourist companies' front line employees (Sørensen & Jensen 2015). However, recent service theory as well as proponents of the experience economy argue that experiences and co-creation rather than functional service delivery are today key to value creation in modern economies (e.g. Boswijk et al 2007, 2012, Grönroos & Voima 2011, Prahalad & Ramaswamy 2004, Sundbo & Sørensen 2013). Nevertheless, in destination based tourism companies, such as hotels, tourism service encounters continue to be largely guided by the traditional service paradigm (Sørensen & Jensen 2015). This is a paradox considering that tourism is a sector whose main purpose is to create experiences. In this paper we discuss the need, potential and implications of rethinking the nature of service encounters in tourism so that they focus relatively less on delivering standardised functional value and more on co-creating experiential and emotional value for tourists.

To sustain the discussions we develop a model of three modes of value creation in tourism. This includes a new experience focused generation of co-created value in which value ontologically shifts from being the company's perceived value of a service to the tourists value in use (c.f. Grönroos & Voima 2011). Based on the model we argue that there is a need to take a leap from mainstream thinking in the tourism sector, which is characterised by highly standardised, 'high quality', professional service provision, and which we characterise as a first mode of value creation in tourism, to a third mode of value creation characterised by co-creation of experiential value in use. We discuss and draw conclusions about the possibly profound implications for the tourism sector of this move towards a third mode of value creation. We discuss, especially, how this new mode of value creation induces new employee roles in encounters and how this may have important educational, managerial and organisational consequences for tourism companies. Thus, we suggest new agendas for the management of value in tourism companies. We base our arguments on different theoretical approaches including views on service management, service quality, experience economy, co-creation, value creation and employee roles in tourism.

Service encounters and value creation in tourism

Service quality theories such as Grönroos' Technical and Functional Service Quality model, (Grönroos, 1984) and Parasuraman *et.al.*'s GAP model (Parasuraman, Zeithaml, & Berry, 1985) have been very influential in increasing firms' competitive advantage through the development of high

quality standardised service packages in the attempt to “*match expected service and perceived service to each other so that consumer satisfaction is achieved*” (Seth & Deshmukh, 2005). However, Woodruff argues that it seems as though innovation and quality “*no longer provide the basis for a competitive edge*” (Woodruff, 1997). In tourism, changing tourism trends have been and are shifting tourist demands away from standardised tourism services towards tourism experiences sought by informed customers prepared to manage their own experiences (Inkson & Minnaert, 2012; Bharwani & Jauhari, 2013). In the following we argue that these and related trends require tourism companies to think beyond the traditional concept of service. We argue that the trends are generating a need to sustain the creation of value in use (Grönroos & Voima, 2011) of the tourist experience through co-creation (Prahalad & Ramaswami, 2004) between employees and tourists. This impacts first and foremost the service encounters between tourism employees and tourists because it is in these encounters that tourism companies has the biggest chance of enhancing value in use through co-creation.

Services, value and tourism

Production and consumption of services is often intertwined and based on encounters between users and employees (Gallouj & Weinstein, 1997). Shostack defines a service encounter as “a period of time during which a consumer directly interacts with a service” (Shostack, 1985). This interaction is crucial for customer satisfaction (Bitner et al., 1990; Carlzon, 1989) and it has been argued that it is within these encounters that value can be created (Lusch, Vargo, & O'Brien, 2007). Also in tourism, the service encounter is central (Baum 2005) because, like in many other service sectors, production and consumption of tourism are inseparable (Crang 1997, Smith 1994). However, tourism represents an extreme case because tourism services are mainly produced and consumed at the destination (Prebensen & Foss, 2011). The 'tourism experience', which represents the essential motivation for users to engage in the consumption of tourism services, is constructed through a number of service encounters at a destination (Weiermair 2000) in different tourism companies which together with public attractiona and utilities create the total tourism experience (Armbrecht 2014; Rigall-I-Torrent & Fluvia, 2011).

Recently dominant views on customer value has realised that such value consist of a complex, dynamic higher order construct consisting of multi-dimensional elements (Grönroos & Voima, 2011, Sánchez-Fernandez & Iniesta-Bonillo, 2007, Voima, Heinonen, & Strandvik, 2010, see also Woodruff, 1997). It has also been argued that value is experienced by customers as 'value in use' (of products or services) and that customers are therefore in charge of their value, and in this process of value creation the firm may only be 'invited' to assist in value creation (Grönroos & Voima, 2011). This value in use is both context dependent and dependent on the individual's preferences, thus it can not be defined by the company in advance. Additionally, the value in use perspective means that service companies cannot create value for customers; they can only offer value propositions which the customer can take advantage of and then create their own value. In this process the encounter between the customer and the company is crucial as it can facilitate (or ruin) the value in use (Grönroos & Voima, 2011). This perspective stands in contrast to the traditional service paradigm in which service characteristics have typically been controlled by companies and in which services' general value to users, as perceived by companies, has been the main guide for service development. This corresponds to what Prahalad and Ramaswamy (2004) identifies as an out-dated firm centric management model. In this, users are considered to be 'outside' the company, and development, production and marketing is fully controlled by the company. Typically, value creatoin in the company-centric approach is perceived as a process in which companies autonomously design and market products or services. There are distinct roles in the exchange process, and customer interactions have not been considered sources of value (Prahalad &

Ramaswamy, 2004). However, today consumers request personalised services. Consequently to create extra value, companies must escape the firm-centric thinking and move towards co-created customised services in personalised interactions with empowered customers. Thus, value creation shifts away from the internal value chain supervised by the firm to the sphere of interaction between companies and users (Prahalad & Ramaswamy, 2004). In the terms of Grönroos and Voima (2011) the firm and its employees become facilitators of value in use through co-creation. The combination of the value in use and the co-creation perspectives indicates how value, in an ontological sense, shifts from being value pre-defined by the company and produced for the consumer, to the consumer's intrinsic perception of value in use which is context dependent and individual.

In tourism a firm centric model has constituted, and to a large degree continues to constitute, the dominant service logic. Tourism service encounters have been systematised in attempts to drive down costs, maintain consistency and uniform quality by structuring and standardising them through the use of rules and regulations (Nickson et al. 2005, Baum 2006) resulting in often rigidly structured tourism service encounters (Michelli 2008). Thus the main purpose of tourism service encounters in most destination based tourism companies is to deliver predefined functions to tourists in a professional, uniform and cost efficient way (Sørensen & Jensen 2012, 2015). It seems, then, that tourism companies do generally not focus on the potential value in use for tourists that may arise from co-creation in tourism service encounters. Instead tourism service encounters primarily deliver pre-defined functionality to tourists (traditional problem solving services). As mentioned, and as we will further elaborate below, this seems a paradox because the tourist experience represents the fundamental *raison d'être* for tourism (to paraphrase Cooper et al's., 1993, statement that the destination is the *raison d'être* for tourism).

The tourism experience, co-creation and value in use

To understand the essence of what we will term the third mode of value creation in tourism a brief discussion of experiences (as perceived by theories of the experience economy) is required. Proponents of the experience economy argue that experiences are today core drivers of value creation (Pine & Gilmore 2013, Bharwani & Jauhari, 2013) and that experiences are more valuable than, or add value to, products and services (Pine & Gilmore 1999, 2013; Boswijk et al 2007; Sundbo & Sørensen 2013). According to Pine and Gilmore (1999, p. 3), “companies stage an experience whenever they *engage* customers, connecting with them in a personal, memorable way”. Experiences has for example been defined as the mental impact felt and remembered by an individual caused by the personal perception of external stimuli (Sundbo & Sørensen, 2013). While such a definition includes 'low intense' experiences other definitions often focus on experiences involving more intense emotions, for example extraordinary (Arnould & Price, 1993), flow (Csikszentmihalyi, 1991), peak (Maslow, 1964) or meaningful (Boswijk et al 2007) experiences. Common to all these definitions of experiences is the involvement of the customer in the experience, with elements of interaction and memorability. However, while Pine and Gilmore (1999, 2013) suggest that companies can and should 'stage' experiences for customers others focus more on the customers role in experience creation and argue that experiences cannot be controlled or delivered by companies. Companies can only deliver stimuli which individuals elaborate into personal experiences (Sundbo & Sørensen 2013). Because experiences result from individual perceptions and because individuals have different preferences and are contextually differentiated each person will perceive the value of an experience individually. In this sense the value of an experience arise essentially from value in use and can only do so. Linked to this, experiences are always co-created to some degree and this co-creation often require the physical participation of customers in encounters which, it follows, sustain the consumers' value in use of the experience. Experience creation requires emotional engagement between users and employees (Snel

2013). Thus companies should treat users not as passive spectators but as active participants. Boswijk et al. (2012, 2007) suggest that Pine and Gilmore's 'staged experiences', in which customers are treated more like spectators belong to a First Generation of the Experience Economy, whereas co-created experiences belong to a Second Generation of the Experience Economy. Especially in this Second Generation of the Experience Economy individual and personal, and therefore also personally meaningful and valuable experiences, can arise because the experiences are co-created (Boswijk et al., 2012). Thus, co-creation in the experience economy is about supporting each individual customer in optimising his value in use of experiences.

In tourism research, various authors have argued that tourist experiences are the result of co-'performances' or co-production of tourists and tourism employees (Edensor, 2001, Crang, 1997; Ek, Larsen, Hornskov, & Mansfeldt, 2008). While this may be true to some degree from a theoretical point of view this has, as indicated above, in general not been transferred into the practice of tourism companies and specific examples of co-creation in destination based tourism companies seem scarce (Binkhorst & Dekker, 2009). As indicated, tourism service encounters are geared to mainly facilitate pre-defined and standardised, cost-efficient one way service deliveries rather than co-created, individual and personalised experiences (Sørensen & Jensen, 2012, 2015). Thus, while a central aim of tourism should be to sustain tourists experiences, it is difficult to argue that service encounters co-creating tourism experiences are widely found in the highly efficient, cost driven, professional and standardised tourism services typically offered in destination based tourism companies such as hotels, although easy to argue that tourists often seek, value and remember just these elements. Consequently, in tourism, where customer interaction is vital to and inherent in the creation of value, the traditional tourism service paradigm may beneficially be replaced with a co-creation approach. This implies, ontologically, a change from value being pre-defined by the company and based mainly on functional service qualities, to the users perceived value, i.e. value in use, based mainly on emotional aspects.

<i>Mode of value creation in Tourism</i>	<i>Mode 1: Traditional tourism service</i>	<i>Mode 2: Staged tourism experience</i>	<i>Mode 3: Co-created tourism experience</i>
<i>Key front-line Employee Roles</i>	Deliverer	Deliverer and performer	Facilitator, developer and creative knowledge resource
<i>Nature of created value</i>	Primarily functional value (predefined by the company)	Functional + emotional value (predefined by the company)	Primarily emotional value (as experienced by the tourist as value in use)
<i>Nature of production</i>	Standardisation Efficiency Rigidity One-way	Modulisation Efficiency Rigidity One way	Individualisation Dynamism Flexibility Interactive
<i>Required employee skills</i>	Hyper-professionalism Manual skills	As in mode 1 plus aesthetic qualities and performative skills	Experiential intelligence, flexibility, personality and experience skills

Figure 1: Three Generations of Value Creation Modes in tourism

The three modes of value creation in tourism

As indicated, the dominating traditional tourism service paradigm can be considered a firm centric approach to delivering functional value. Furthermore, in relation to the experience economy, Pine and Gilmore's (2013) experience approach (also termed the First Generation of the Experience Economy), which suggests companies should predefine and 'stage' experiences for consumers, also appear to fit neatly with a firm centric model. It is the firm that stages and the customer that consumes what has been staged. Contrasting this, in the Second Generation of the Experience economy focus is on co-creating personal, unique and valuable experiences (Bosjwijk et al., 2012) and value creation shifts from the internal value chain to value in use which is facilitated by the interaction between users and companies (especially their employees). Based on the above discussions we adapt these constructs into a model of three possible modes of value creation in tourism (figure 1).

The first mode of value creation follows a traditional tourism service paradigm where value is seen as a “better off” construct from a service quality perspective. In this mode the tourism front-line employees are seen as deliverers of pre-defined, standardised service functions and a uniform service quality. Many tourism companies may also penetrate the second mode of value creation in which experiences are “staged” for tourists. This may be through 'true' performances, such as scene shows, or in daily service practices when employees need to live up to certain brand defined service encounter scripts. In this mode of value creation employees are like in the first mode of value creation expected to deliver a pre-defined value but one that to some degree combines functions and emotional elements. Employees may therefore to some degree be considered to be performers. However, it is in the third mode of value creation that new potentials are waiting to be unleashed. In this co-creation of tourist experiences is the driver of value creation and value is perceived as value in use. As we will further elaborate below, in this mode of value creation the employee is not any more expected to deliver a standardised service and pre-defined value but must instead take on the responsibility of being a facilitator and developer of tourists' individual experiential value in use. In this process the front-line employee becomes a key knowledge resource in the tourism company.

As indicated above tourism companies do not seem to have embraced the concept of co-creation strategically (Binkhorst & Den Dekker, 2009) but remain locked in an old service paradigm in which one-way standardised and cost-efficient service deliveries dominate. While there are examples of user (co-)created services such as information sharing on the internet (Binkhorst & Den Dekker, 2009) and in travel agencies (Grissmann & Stokburger-Sauer, 2012) there are few examples of strategic co-creation of experiences in destination based tourism companies and even less so in employee-tourist encounters. It is our contention that changing the mode of value creation from the first mode which is attached to the traditional firm centric tourism service delivery paradigm, and the second mode, being an experience focused but still firm centric approach, to the third mode, in which co-creation of tourist experiences and value in use is central, could transmogrify current practices of tourism companies today. As we will discuss in the following section (and as is indicated in the model in figure 1), changing production practices from the first and second to the third mode of production has a number of implications for tourism companies and tourism employees.

Employee, managerial and organisational implications

As indicated in figure 1, in the third mode of value creation tourism employees transform from being *deliverers* of standardised services to *developers* of experiences. We argue in the following that this means that new qualifications are required, new managerial styles, and changed organisational structures are needed. All these being prerequisite of changed attitudes at all levels of the organisation.

One result of production in the first and second mode of value creation in tourism, is a lack of

empowerment of front-line employees (Sørensen and Jensen 2012; Sørensen et al. 2013). Indeed, according to Pender and Sharply, “*a main difficulty is that of providing an identical service experience from one encounter to the next ...*” (Pender & Sharpley, 2005, p. 11), suggesting that in order to achieve this “high quality” service encounter, services must be standardised and staff trained in how to produce this service. This results in a 'lack of voice' of font line employees frequently characterising tourism companies. Often hotel managers -

... don't allow their people to live up to their potential or give them elbow room to create their work processes. They don't allow them to be creative human beings; they put their people in a box and say 'here you go' ... That's Taylorism. (Michelli 2008).

Furthermore, it is a known structural challenge of the tourism sector that there is a high turnover of front-line employees, many lack professional education and often have seasonal or other part-time positions (Baum 2006, Hjalager 2002). Seasonal and part-time employees have been found to focus on performing their core duties but not to contribute beyond their immediate obligations (Stamper and Dyne 2001). Other studies have shown that tourism employees are often too focused on maintaining professional attitudes and delivering professional services. They are *hyper-professional* (Sundbo 2011) and take pride in delivering what they perceive to be high quality service, but tend to ignore customer inputs, personal needs and special desires of users that do not fit within the predefined service schema (Sundbo 2011). Thus the service dominant approach and employee trends in tourism have coincided to mutually reinforce each other.

While tourism services in the first mode of value creation focuses on delivering pre-defined functional value to tourists, experiences provoke personal reactions and require customers' emotional, physical and spiritual involvement (Gentile et al. 2007). If tourism companies are to accept the invitation of consumers (Grönroos & Voima, 2011) to drive experiential value via tourist-employee encounters, it is critical that front-line employees are involved beyond the standardised pitch of the service encounter. Involvement of tourist front-line employees means – amongst other things – giving them a voice (Stamper and Dyne 2001) to make suggestions (Hall and Williams 2008) and the flexibility to adjust services and assist users in developing value in use by co-creating experiences that fit particular users' emotional desires. This level of empowerment of front-line employees can sustain their creativity as well as knowledge development through more personalised and intensive interactions with tourists. These interactions can lead to new types of communication, knowledge transfers, observations, reflections, and understandings of segment- and situation-specific behaviour. In such encounters communication is less concerned with (mainly one-way) communication of facts and is more concerned with (fundamentally two-way) creative communication of feelings, wishes, needs, possibilities, potentials, and emotions. Thus, such communication and interaction can facilitate not only the co-creation of personal experiences, but can also result in the development of new knowledge about companies' tourists and their particular experiential purposes and (latent) desires. Therefore front-line employees become, and should be considered by the management to be, facilitators and developers of experiences as well as key knowledge resources in tourism companies.

The new role of the employee means that the emotional (and not simply functional) engagement of the employees (and tourists) is central, and employees taking part in experience production must themselves see this as an experience (Bærenholdt et al. 2008). This requires a type of professionalism that is different from the one dominating service encounters in the first mode of value creation in tourism. Rather than the task management or hyper-professionalism (Sundbo 2011) style permeating tourism service deliveries in the first mode of value creation, an 'experiential intelligence' is required in the third. Experiential intelligence is a social capability that allows tourism employees to empathise and

interact with their customers and identify with their expectations and requirements, experientially and emotionally (Baum 2006). This results in new requirements of not only employees, but also management and educational establishments of tourism, and indeed places demands on current thinking within the tourism sector today. On a macro level, this raises challenges towards the education of tourism employees. New generations of managers and front-line employees will need skills not currently widely present on tourism educational curriculums. It seems as though limited research has been done on key front-line employee skills in the tourism sector, although rather more has been done in terms of managerial skills (Sisson & Adams, 2013, Kay & Moncarz, 2007, Ladkin, 2011). However, it is obvious, that traditional skills models of tourism front-line employees need changing, and educational traditions of skills transference need revitalising in order to facilitate the leap from first to the third generation mode of co-created tourism experiences.

Moreover, implementing an 'experiential intelligence' and realising that front line employees are developers and key knowledge employees in tourism companies also has profound implications for the management and organisation of tourism companies. At the managerial level the management must ultimately, go beyond the traditional training of employees in service encounters towards trusting front-line employees, believing in their innovative potential, and be open to setting their creativity free instead of locking them in traditional and standardised tourism service routines and procedures. Furthermore, management must view employees and encounters as an integral part of a larger tourism experience, and not as a delivered service detached from the experience. Rather, employees should be empowered, trained and encouraged to use their experiential intelligence to co-create experiences and thus drive value creation together with the consumer. These changes in thinking presume different managerial attitudes towards employee skills and different recruiting procedures in order to ensure the placement of front-line employees, who can manage the responsibility of co-creating experiences and who also have the requisite experiential intelligence.

From an organisational perspective, new thinking will be required regarding organisational structuring and traditions of tourism firms. Such structures can affect, not only front line employees possibilities in the organisation, but also their motivation to contribute (Øgaard, Marnburg & Larsen, 2008

; Ottenbacher, Shaw & Lockwood, 2005

) and thus the organisation's possibility to benefit from the front line employees new roles. Larger tourism companies, particularly international hotel chains, may experience operational barriers to implementing empowerment strategies. In such large companies, the distance between front-line employees and decision makers may be long, and organisational structuring is typically of a hierarchical nature and often based on formal control (Ottenbacher et al. 2006). This habitually results in barriers to the distribution of knowledge from front-line employees to managers, and encourages managers to impose stricter service routines on front-line employees and guests in efforts to sustain standardised service quality. Furthermore, rules and routines associated with brands, including the implementation of standard concepts that are recognisable internationally, can limit front-line employees' flexibility in guest encounters because they have to live up to certain brand expectations. Thus, transforming the tourism organisation to support the third mode of value creation with empowered and experientially intelligent employees will require different thinking about levels of hierarchy, control and communication within organisations, whilst still maintaining high quality service and value for money expected of so-called 'new tourists' (Pender & Sharpley, 2005, p. 21).

How organisations manage knowledge is a key capability in terms of customer value creation (Teece, Pisano, & Shuen, 1997; Landroque, Castro, & Cepeda-Carrión, 2011) and if tourism companies are to create value-driving experiences of the third mode of tourism value creation, they will have to learn how to manage employee capabilities differently. These aspects place new demands on

tourism companies, from front-line employee skills to management styles and organisational structures.

Conclusion

This paper has presented a challenge to the tourism sector consisting of a leap from the traditional, rigid, one-way service delivery concept towards a third mode of value creation relying on co-creation of tourists' experiential value in use. This leap poses challenges to employee skills, managerial styles, organisational structures and educational traditions. The paper proposes that employees must be empowered to use experiential intelligence to co-create personalised experiences with consumers. This in turn encourages changes in managerial style from the traditional service package, quality manager to a facilitator of employee empowerment and knowledge management. Empowerment and innovation suggest movement away from traditional hierarchical structures towards flatter, knowledge and innovation facilitating structures involving changes in attitudes throughout organisations. On a macro-level, these propositions challenge current educational practices within the tourism sector, encouraging the transfer of soft-skill experiential intelligence capabilities, rather than the typical professionalism sustaining 'high quality' and standardised service delivery.

This paper proposes new thinking on the current paradigm within the tourism industry, and has discussed the implications of leaping from first to third generation modes of service delivery using co-created encounter experiences to drive value. If this proposition is accepted, a number of areas of new research become relevant, such as; which experiential intelligence skills are critical in creating unique experiences and how do these drive what value? How can tourism organisations manage radical change programs such as employee empowerment and changing managerial roles and structures? Which new educational programs can facilitate the proposed changes, and which political influence need to be tapped into in order to change tourism educational programs? And so on.

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