

P R E F A C E

For a long time, people believed that the sun revolved around the earth because it was the sun that rose and set every day. A paradigm shift occurred with the realization that the earth revolved around the sun. Something similar is underway in our social, business, and civic systems. Individuals were seen as revolving around firms and institutions. We were pockets of demand, rising and setting around supply. This is no longer true. Individuals, not institutions, are now at the center of value creation.

Traditional business thinking starts with the premise that the firm autonomously determines value through its choice of products and services. Consumers are assumed to represent demand for the firm's offerings. The implications for business follow from these premises. The firm needs an exchange process to move its goods and services to consumers. This exchange process has long been the locus of the producer's role in extracting economic value from the consumer. Firms have developed multiple approaches to extracting this value: increasing the variety of offerings, efficiently delivering and servicing those offerings, staging goods and services like themed restaurants do, and customizing offerings for individual customers.

These premises and implications manifest themselves in the perspectives and practices of firms in the industrial system. Managers focus on

the “chain of activities” that captures the flow of products and services through operations that the firm controls or influences. This “value” chain system essentially represents the “cost build” of products and services. Decisions on what to make, what to buy from suppliers, where to assemble and service products, and a host of other supply and logistics decisions all emanate from this perspective. Employees focus on the quality of the firm’s products and processes, potentially enhanced through internal disciplines such as Six Sigma and Total Quality Management. The value creation process of the firm is separate from the market where various parties simply “exchange” this value. Matching supply and demand for goods and services has long been the bedrock of the value creation process. Consumers are often only passively involved in the process of value creation. They are researched, observed, segmented, targeted, marketed at, and sold to by people from the firm, but they are not engaged in any deep, meaningful interaction with the firm, especially on their terms. To use common business terminology, the firm has established “touch points” for them, but these are scarce and brief and are staged from the perspective of the firm. The firm decides what the touch points are and how the relationship with the individual is defined. Individuals do not get to decide what they can share with the firm but instead must answer the questions asked of them at the focus group. They do not participate in the design of the product or service or program, but they are only presented with an offering designed for them by the firm. They do not participate in the marketing of the offering, but they only get to see the campaign aimed at them. They do not actively influence how the firm sells offerings to them or to each other as individuals. They are left with a yes-or-no decision, a modern capitalistic equivalent of Shakespeare’s Hamlet: “to buy or not to buy.” This firm-centric paradigm of the conventional enterprise has served us well for many years, but it is rapidly becoming outmoded.

Going beyond consumers, networked individuals around the globe are no longer passive and docile recipients of supply, thanks to digitization, globalization, the World Wide Web, advances in interactive communications and information technologies, social media, and ubiquitous connectivity. Rather, all stakeholding individuals expect to be active participants and collaborators in the value creation process as co-creators

of value. Individuals today are highly connected and networked, sharing their experiences with products and services. They want to help design the value of the products and services they use, want an ongoing conversation with the companies they do business with and with one another, and want their voices heard. The varieties of interactions that people can engage in have also exploded on an unprecedented scale, with everything from blogs to videos, wikis, podcasts, and a plethora of rapidly evolving engagement technologies.

We are witnessing a paradigmatic shift in value creation, away from a firm-centric, utilitarian view of unilateral value creation to a co-creation paradigm of value creation, as the title of this book suggests. The co-creation paradigm is about:

- interactions as the locus of value creation;
- jointly creating and evolving value with stakeholding individuals;
- harnessing open and social resources of individuals and their skills on the one hand, and enterprise and network resources of multiple private, public, and social sector enterprises on the other, as a joint resource base;
- innovating engagement platforms as the means of connecting joint value creation opportunities with joint resources through agential actions;
- leveraging ecosystems of capabilities based on meshworks of social, business, civic, and natural communities to engender new value creation capacities;
- individuated experiences as the basis of outcomes of value; and
- wealth-welfare-wellbeing as the basis of joint aspirations.

Both this shift and this book have been a long time coming. In 2004, following a series of articles from 1998 to 2003, C. K. Prahalad and Venkat Ramaswamy published *The Future of Competition: Co-Creating Unique Value with Customers* (HBS Press, 2004).¹ That book detailed the shifting of competencies toward an enhanced network of customer communities and global talent outside the firm. It suggested that customer experience was becoming central to enterprise value creation, innovation, strategy, and executive leadership. It offered a series of compelling examples,

showing that value was being created jointly by the firm and the customer, rather than entirely inside the firm. The book held that customers seek the freedom of choice to interact with firms through a range of experiences. Customers want to define choices in a manner that reflects their view of value, and they want to interact and transact in their preferred language and style. *The Future of Competition* provided a new frame of reference for jointly creating value through experiences and called for a process of co-creation—the practice of developing offerings through ongoing collaboration with customers, employees, managers, and other stakeholders. Just three years after publication, businesses had begun to capitalize on opportunities anticipated by the book, embracing concepts such as “customer competence,” “experience innovation,” “experience personalization,” and the larger perspective of “value co-creation.”

The Future of Competition commenced an ongoing journey for us as authors. From 2005 until 2010, Venkat engaged with thousands of managers globally who had begun experimenting with co-creation, especially following the explosion of digital and social media, convergence of technologies and industries, proliferation of sensors and embedded intelligence, and IT-enabled services. Through a series of articles, Venkat discussed and explored how enterprises were building platforms that enabled “large-scale ongoing interactions” among the firm, its customers, and its extended network.² This shift also allowed for the continuous development of new experiences and new opportunities for the firm by way of customer engagement. In some cases, enterprises had gone further in extending their resource base through practices such as crowdsourcing, open innovation, and mass collaboration. In other cases, they were tapping into user communities and social networking among customers. Some enterprises had also begun allowing their customers to personalize products. The fundamental shift managers had to make with the dawn of these changes required them to go beyond a conventional goods-services mindset and develop an experience mindset. Success lay in using people’s actual experiences to generate insights and change the nature and quality of interactions in building a co-creative enterprise.³ In 2010, Venkat and Francis Gouillart published *The Power of Co-Creation* (Free Press, 2010), which showed how enterprises (in the private, public, and social

sectors) were leveraging platforms to create new interactions with people everywhere in the system and new forms of value together with individuals through a focus on human experiences. As a result, people and their interactions were becoming central to effective design, innovation, marketing, operations, IT, human resources, leadership, and strategy at large. This called for co-creation among managers inside the organization to support external co-creation with customers and stakeholders.⁴

In 2010, Kerimcan Ozcan joined Venkat on the co-creation journey. A decade after *The Future of Competition*, we feel that the time has come for a deep dive into the fundamental nature of value creation as a co-creation. It has become clear that the world is on the cusp of a fundamental structural transformation of the very nature of value and the process of creating it. It has also become evident that co-creation thinking challenges the nature of enterprises; their organization; governance; the relative roles of private, social, and public sector enterprises; and how economics and societies are shaped.⁵

This book is the result of our joint efforts in attempting to provide a comprehensive paradigmatic framework of co-creation to ground the future of value creation as it is developing. We use a lot of examples as “thinking props” to convey our perspective and key ideas, not to illustrate best practices or prescribe “one best way” or to glorify any one enterprise as the model of the future. Instead, we strive to discover next practices, so no single example could possibly exemplify the concepts underlying the paradigm shift and a synthesized frame of reference we provide. While some of the examples may be broadly familiar to some readers, we have strived to use the examples purposefully to elucidate concepts, components, and particular aspects of our framework. We recognize a wide array of options that individuals can explore and exercise to cope with and capture the opportunities available to everyone reading this book.

We recognize that a paradigm shift occurs over a fairly long period of ferment and that it is not attributable to only a few people. We share the spirit of humility in recognizing the work of many whose shoulders we stand upon. A curated website (cocreationparadigm.com) accompanies this book and expands on the content of co-creation by providing a glossary and links to the works of different authors and related topics—

across multiple disciplines—that cumulatively connect with the co-creation paradigm at large. We synthesize various strands of economics and social sciences, information, design, complexity sciences, natural sciences, psychology and cognitive neurosciences, phenomenology, metaphysics and philosophy, morality and ethics, policy, and organizational and business scholarship that contribute to a progressive, pluralistic, and constructive foundation of a co-creation paradigm of value creation in contemporary enterprises, markets, economics, and societies.

In writing this book, we tried to maximize accessibility for an intellectually curious and academically minded audience by citing only the most salient journal articles, since most of the books we mention contain a plethora of references and our open access website provides an extensive bibliography with aids to further exploration. Moreover, we tried to minimize quotations and inline references as much as possible to make the reading experience smoother, while at the same time remaining cognizant of the dangers of simplification. Achieving this balance was not easy, and we did our best to rearticulate the ideas of original contributors in a way that is accessible without losing its fidelity.

This book is more than an invitation to think differently; it is a clarion call to action—to help create a new world of possibilities together. While we focus primarily on the strategic implications for enterprises, and particularly with a conceptual inclination, we believe that, ultimately, all of us will have to see, think, and act differently—not just as practitioners or academics but as individuals in economy and society—thereby rebalancing the relative influence of the individual and the institutions of private, public, and social sector enterprises. We expect a long but exciting journey through the unfamiliar that will force us out of our comfort zones into a more complex world of co-creation but a journey that is more fulfilling in realizing the potential of humanity and our worldly experiences.