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Venkat Ramaswamy – how value co-creation with stakeholders is transformative for producers, consumers and society

Brian Leavy

In *The Future of Competition* by C.K. Prahalad and Venkat Ramaswamy (2004), the authors proclaimed a paradigm shift they predicted would transform the value creation process and the role of producers and consumers within it. Their big idea was that in the new competitive landscape, value increasingly will be co-created interactively by firms and customers, rather than merely exchanged between them. What Prof. Prahalad and Prof. Ramaswamy anticipated was that the traditional firm-centric, product-centric view of value creation would be rivaled by an approach, focused on human experiences and delivered through the development of engagement platforms, promoting interaction among individual stakeholders and stakeholder communities, thus enabling them to be more active participants in their own value creation.

Since the onset of the 2007/2008 financial crisis and the serious questions it raised about our traditional obsession with shareholder value, many experts, including strategy guru Michael Porter, have been calling for a new, and more sustainable, approach to wealth creation based around the goal of “shared value” or the simultaneous and symbiotic creation of economic

and social capital. The co-creation principles of Prahalad and Ramaswamy fully reflect this worthy goal and help provide a timely transformational blueprint for the pursuit of what management expert Michael Beer calls this “higher ambition leadership” vision and agenda. This is because the co-creation paradigm is more than just another promising management program; it is also, as Prahalad and Ramaswamy see it, an ethical framework with the potential to unleash the power of democratic and humanizing principles to improve wealth, welfare and well-being in a fairer and more transparent way throughout society, and to help redress the employee engagement deficit that as recent surveys by Towers Perrin, Watson Wyatt, Hewitt Associates and others have demonstrated, continues to plague the world of modern institutions, private and public alike.

In this second part of *Strategy & Leadership*’s interview with Prof. Ramaswamy, we review with him the progress of the



Venkat Ramaswamy (l) and the late C.K. Prahalad

“co-creation transformation” on its tenth anniversary and its wider implications for firm strategists and public policy makers. The interview concludes with a remembrance of the late C.K. Prahalad and his many contributions to the advancement of strategic management.

Prof. Ramaswamy is Hallman Fellow of Electronic Business and a professor of marketing at the Ross School of Business, University of Michigan. His prior book on co-creation was *The Power of Co-Creation* (Free Press, 2010), co-authored with Francis Gouillart, and his forthcoming book, *The Co-Creation Paradigm* is co-authored with Kerimcan Ozcan (Stanford University Press, 2014).

His interviewer, Brian Leavy, is the AIB Professor of Strategic Management at Dublin City University Business School (brian.leavy@dcu.ie) and a *Strategy & Leadership* Contributing Editor.

Strategy & Leadership: You see the journey towards co-creation of value with customers and other stakeholders as evolutionary, though ultimately transformative, at both the level of the firm and in the wider economic landscape. What advice do you have for company leaders about how best to get this process underway and then maintain momentum?

Venkat Ramaswamy: Leaders in most established organizations should identify “wellsprings” of co-creation opportunities that make strategic sense to them, and build the requisite capabilities to evolve their organizations towards more co-creative enterprises. The key is the capacity to experiment, learn and execute with supportive co-creative management processes.

As leaders begin exploring value creation as a co-creation with their peers, employees, customers, suppliers, partners, financiers and other stakeholders, their thinking and actions will begin to change and they can elevate their enterprises to a higher orbit of value creation.

Leaders can get started by asking themselves:

- How does the enterprise currently connect with customers and external stakeholders? Can it be engaged more co-creatively in these interactions?
- What assets and resources – the product or service itself, mobile devices, social media, call centers, retail channels, websites and communities – can be leveraged as engagement platforms? How can the firm generate better and more experience-based insights with customers and stakeholders through these platforms?
- Where are the operational, product-service and business innovation opportunities for expanding value through the co-creation paradigm? Are there activities inside the enterprise that can be opened up to co-creation? With whom? How can the organization experience the innovation process with stakeholders?
- Who are the different types of stakeholders in the enterprise ecosystem? What are the current experiences of individuals in the ecosystem, as they engage with enterprise platforms and offerings? Can the enterprise build more meaningful experiences together with them?
- What social, environmental and economic development activities is the enterprise engaged in? Can stakeholders be involved in different and new ways to expand mutual value?
- Where and how can the enterprise contribute to, and benefit from, partnerships with other private, public and social sector enterprises in the social-business-civic-natural

communities based ecosystem in which it operates? How can the enterprise use these opportunities to enhance its social legitimacy and build trust?

- Where and how can managers and employees inside the organization be engaged co-creatively? Where and how can new stakeholders be included in management processes? Where and how does the enterprise begin the process of change in the organization?
- Where and how can the processes of strategy, decision-making and performance management be made more co-creative? How can these processes be open up, and to whom, inside the enterprise and its ecosystem?
- How can new human resource engagements be designed to enable more meaningful employee experiences? How can leaders enhance and nurture a culture of co-creation inside the enterprise?
- What organizational capabilities are needed to become a co-creative enterprise? Where and how can new and better platform linkages be enabled? How can the enterprise design platforms that foster co-creation of value consistently and across all functions in the organization and in the extended enterprise ecosystem?

S&L: Can you illustrate how this evolutionary journey tends to play out in particular cases?

Ramaswamy: A good example is Mahindra & Mahindra (M&M), one of India's largest vehicle manufacturers. In August 2010, Naveen Chopra, then Senior General Manager and Head of Plant Quality for the Automotive Division, first came across the co-creation paradigm while on the company's Global Program for Management Development (GPMD). He saw immediately where M&M might be able to use the concept in the quality function to advantage.

His first step was to build awareness, which he did by preparing a short presentation on what he had learned about the co-creation paradigm and spreading the word across the M&M quality community, and he won high-level support for his experiment from the Executive Vice President of Group HR and Leadership Development, which helped lay the ground for further progress. In his role as head of quality, Chopra was already promoting collaboration with multiple stakeholders across the various business functions in his ongoing drive to strengthen the company's quality culture, so the co-creation "win more – win more" collaborative philosophy just seemed like a natural extension of these efforts.

The primary stakeholders that he focused on to start with were the employees. The initial co-creation engagement platform was a series of monthly workshops that enabled M&M's most experienced engineers, as voluntary trainers, to pass on their knowledge to their newer colleagues, and the results of these early efforts were impressive and helped win more support for the co-creation approach. The President of M&M's auto and farm sector helped to grow the initiative, and within 18 months, this early co-creation experiment had expanded to deliver a level of engineering capacity building that would have taken ten years to build using more conventional approaches, according to senior executives.

The co-creation movement at M&M has since expanded rapidly and extensively, first into areas like manufacturing and supply, and later into the company's wider ecosystem,

“The co-creation view starts with interactions as the locus of value and platforms of engagements with individuals as the locus of value creation, and co-creative enterprises follow a simple principle: they focus their entire organization on the engagements with individuals.”



Prof. Ramaswamy discussing the research of the late C.K. Prahalad

including banks and educational institutes, and this kind of viral spiral of expansive value creation right across the enterprise ecosystem is characteristic of co-creation, as more and more people become drawn to its inherent potential. As Anand Mahindra, M&M's Chairman and Managing Director, recently put it: "The co-creation mantra is now embodied in the three basic tenets of the Mahindra Group – accepting no limits, thinking alternatively and driving positive change in everything that we do."

S&L: What is the next frontier for the wider co-creation movement in terms of how it will impact company strategies? As more and more firms embrace the co-creation principle and learn to master the basic ideas, what are likely to be the most exciting "next practices" in this area, and what kind of companies are already developing them?

Ramaswamy: The next frontier in the wider co-creation movement is seeing the enterprise as "a nexus of engagement platforms" and seeing economies and societies as a nexus of private-public-social sector enterprise ecosystems of capabilities.

In the new book *The Co-Creation Paradigm*, we describe several early examples that illustrate this wider movement, in particular the building of "co-creation ecosystems of capabilities" and the leveraging of them to enable "individuated co-creation experiences" everywhere in the system. What this entails is unprecedented collaborative engagement of multiple types of stakeholders and innovation co-creation among private, public and social sector enterprises with a focus on "wealth, welfare and well-being." Two examples are the city of Dublin's involvement in the global Sustainable Connected Cities initiative and India's Unique Identification Authority of India (UIDAI).

Smart interactive infrastructures will play a central role in the future competitiveness of our cities and their capacity to grow sustainably. In the Irish example, Intel Labs Europe, Dublin City Council and Trinity College Dublin have collaborated on a variety of programs including "City Watch" and "City Sensing." These programs combine the use of fixed and mobile sensors to create a real-time picture of events within the modern urban city, which allows citizens of the city, through real-time interconnectivity, to become co-creating participants in developing the technological innovations that will improve their environment, systems and local services.

In India, the UIDAI initiative is a public-private partnership that issues 12-digit unique identification numbers linked to citizens' demographic and biometric information. It was instituted to reduce the estimated €24 billion lost to the government annually from welfare fraud, stem the growth of untaxed money in India – estimated at \$1 trillion, equivalent to 60 percent of India's GDP in 2010 – and provide even the poorest citizens with the ability to verify their identities. The UIDAI system's open architecture is helping to create an ecosystem of developers and entrepreneurs, including some that now offer payment systems, based on the new identity authentication capability, that are affordable even for those too poor to use traditional banking.

S&L: Technology has been a key enabler behind much of the co-creation movement to-date, particularly the new web-enabled, mobile social technologies and advances in sensors. What role will technology play in foreseeable future, and how will the emerging era of "big data" and advanced analytics fit into this overall picture?

Ramaswamy: Technology not only helps to make social-business-civic-natural communities ecosystems more generative and linkable, but can also help to make them more and more inclusive. Ultimately, interactive and experience-based technology holds the key to the ability to scale participation across the ecosystem. Further, as the Internet of Things extends the web into more and more everyday objects, giving them the ability to connect to data networks, interoperate with other objects and intercommunicate with other entities, the opportunities for value co-creation expand accordingly, and as interactions generate ever more data, engagement platforms will need to be designed with the most appropriate

interfaces, dashboards and visualizations to allow the insights generated from data to be meaningful to all stakeholders.

S&L: How might we have to rethink our traditional perspectives on the structure of markets, the nature of competition, the behavior of firms and the process of economic growth, and what are some of the most significant implications for policy makers?

Ramaswamy: There is little doubt that the co-creation movement will have major implications for all of these areas, challenging our very understanding of the nature of “value” and how it is generated. As we have discussed, the co-creation view starts with interactions as the locus of value and platforms of engagements with individuals as the locus of value creation, and co-creative enterprises follow a simple principle: they focus their entire organization on the engagements with individuals. What co-creation entails is a fundamental expansion in the nature and means of value creation. As stakeholders collaborate in the co-creation of value they individually and collectively become both the means and end of their own value creation process.

In an economic system long dominated by manufacturing, utilitarian notions of value and market exchange have traditionally held sway. Work, consumption and exchange tended to be conceptualized as distinctly different spheres, with rival product offerings seen as largely interchangeable, consumers as passive recipients, labor substitutable by automation, and competition as a zero-sum game, and our traditional theories of market structure, firm behavior and economic growth, are still strongly rooted in this world view. It is a neo-classical conception of wealth creation that largely separates the “human” from the “economic,” and with the growth of the service and experience economy it is one that is becoming less and less credible as a representation of the new realities.

The world of co-creation could not be more different. At its very core, it challenges the view of value as a relational property and recognizes that, for most people, value has emotional as well as utilitarian connotations, and involves developmental-spiritual-relational as well as material benefits. This “humanization of value” is accentuated through co-creation engagement. The co-creation paradigm is also a dynamic perspective that sees the interaction of customers, employees, and other stakeholders as forums for reflexive learning and ever-expanding capability building. It is essentially a positive sum “disequilibrium” perspective in which jointly growing the value pie takes precedence over concerns about its division.

The main implications for traditional economic theory are still to be fully thought out and expounded, and this is the subject of a second book I’m writing with Kerimcan Ozcan, with the working title of “A theory of co-creation: reframing agency and markets to expand wealth, welfare and well-being.” Its thesis is that all agency must be seen as creative – virtually, intensively, and actually – and consequently, markets must be seen as a “nexus of differences,” with value potentials arising from embracing variation in experiences. This goes beyond viewing markets through the lens of goods and services to seeing markets through the lens of human experiences, which is a fundamental shift. Enterprises, as “organizing agency” must subsequently be seen as a “nexus of engagement platforms.” Strategy then shifts to making choices of where and how to co-create, and then designing and managing ecosystems of capabilities together with partnering stakeholders. Strategy as “stretch and leverage” in the world of co-creation becomes about joint aspirations > joint

“The co-creation paradigm is also a dynamic perspective that sees the interaction of customers, employees, and other stakeholders as forums for reflexive learning and ever-expanding capability building.”

resources. Co-innovating value together with stakeholding individuals becomes the central focus of strategy and competition, and the traditional distinction between value creation and value appropriation becomes less necessary or important, since stakeholders, by contributing jointly to value creation are already included in the extraction of economic, as well as non-economic, value.

Remembering C.K. Prahalad

S&L: Finally, as we approach the tenth anniversary of *The Future of Competition*, as a strategy expert who worked very closely with C.K. Prahalad, what's your assessment of his legacy to strategic management? What big idea do you think he'd be working on today?

Ramaswamy: C.K. Prahalad was a contrarian, always curious and questioning conventional practices and thoughts in the search for next practices and new big ideas. As a strategy researcher, he was always amplifying weak signals. His work with Gary Hamel, from "strategic intent to core competence" to "strategy as stretch and leverage" all had a common entrepreneurial theme of aspirations > resources. It was about seeing new value creation opportunities and connecting resources with them, rather than the conventional view of taking industry as a given and trimming ambitions to fit resources. Their book *Competing for the Future* (1994) became a classic in the strategy field.

C.K. Prahalad also had a strong interest in multinationals and globalization, following his earlier work with Yves Doz on "the multinational mission." He saw how multinationals could be a force in eradicating poverty through profits, the thrust of his bestselling work, *The Fortune at the Bottom of the Pyramid*.

He started working on this book soon after we completed *The Future of Competition*, so we had many conversations about how businesses seeking success with markets at the bottom of the pyramid would require co-creation-of-value solutions that reflected the unique circumstances of the poor and their individual circumstances and experiences. This was the connection between these two books. C.K. Prahalad also recognized that acting on new innovation opportunities required new technical and social architectures and a focus on resilient business processes that made ideas operational. This was the focus of his last book *The New Age of Innovation*, with M.S. Krishnan. At the time of his

Ten opportunities to adopt co-creation platforms

The enterprise:

1. Faces increasing demands for more inclusive engagement from customers and other external stakeholders.
2. Needs to connect more effectively with its customers/stakeholders across various channels of interactions.
3. Needs to leverage a variety of assets and resources – websites, mobile devices, social media, call centers, retail outlets, communities, and the product-service itself – in enhancing relationships with customers/stakeholders.
4. Wants to redesign customer/stakeholder-facing activities to learn from the interaction and deliver better experiences.
5. Needs to tap into real-time insights from customers/stakeholders.
6. Increasingly faces demands for more inclusive engagement of employees from inside the enterprise.
7. Is seeking to rapidly share knowledge and best practices within the enterprise.
8. Needs new perspectives to boost productivity and how it innovates.
9. Seeks to promote creative thinking inside the enterprise about new ways to grow value.
10. Wants an interactive platform for managing external partnerships.

Designing a value co-creation system

Designing a value co-creation system entails a fundamental change in mindset that begins at a personal level. A good starting point is to have all individuals participating in the design of such a system to think about an enterprise they have interacted with recently, and ask them two conventional business questions:

- Could better value have been created in that experience?
- Could additional offerings and services have generated extra value?

Then ask the participants to reflect on how they experienced the value created by the enterprise:

- Would the enterprise have been better off if it “connected” with the participant’s desired experiences, and made adjustments to enterprise activities to generate outcomes that they valued more?
- Can the participants imagine an “engagement platform” that could facilitate such connections through better dialogue – before, during, and after their engagement – and that allowed them to actively take more control of their experiences creating additional outcomes of value to the enterprise as well?
- What if the enterprise offering itself was the engagement platform that allowed individuals to do this?
- What if the engagement platform enabled individuals to offer their own ideas for change and perhaps allowed them to participate in the re-design of the enterprise’s activities, processes and offerings?

A key premise of co-creation is that by sharing experiences, all the individuals involved will acquire a greater understanding of what is happening on the other side of every interaction, enabling them to devise a new, better experience for both sides. While most organizations focus on creating economic value, successful co-creators let stakeholding individuals play a central role in designing how they work with one another[1].

Engaging individuals by tapping their personal experiences is one of the best ways for an organization to start a conversation about the design of experience-based engagement platforms, which are central to co-creation thinking. Ideas about how to connect value creation opportunities with resources must be harnessed in organizations through involvement of the many.

In engaging the organization to reap these potential payoffs, leaders need to ask the following questions:

- Who are the key stakeholding individuals that need to be engaged? How can their willingness to do so be enhanced?
- What engagement platforms are needed for individuals to connect value creation opportunities with resources? What new interaction environments will stakeholders want to participate in? Think about how individuals can be engaged through the platform in more creative ways. What do they want to accomplish through the platform? What are their intentions, personally and collectively? How can engagements be made more integrative, especially with decision-making processes? How will the engagements transform risk-reward relationships?
- How can existing interaction environments be re-designed to enhance the novelty, quality, variety and personalization of experiences? How could it improve dialogue with individuals, provide more transparency (as appropriate), enhance access to tools, knowledge, expertise, and skills, and enable reflexive feedback of individuals based on their actual experiences?
- What potential outcomes of value would be generated? How can these make the platform more inclusive of stakeholders, more generative in creating value, and more linkable with other platforms and environments?

passing, he was passionate about India’s potential and how to shape its destiny. At the same time, he was thinking more about sustainability, development, inequality and the big, complex problems that society faces today. One of the last topics he was working on was the idea of ecosystem services.

I remember C.K. Prahalad fondly and am deeply grateful for his mentorship and spirit that continues to guide me.

Note

1. See also Venkat Ramaswamy and Francis Gouillart, *The Power of Co-Creation* (Simon and Schuster, 2010), and Venkat Ramaswamy and Kerimcan Ozcan, *The Co-Creation Paradigm* (Stanford Business Books, 2014).

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