

# International Journal of Research in Marketing Management and Sales



E-ISSN: 2663-3337

P-ISSN: 2663-3329

[www.marketingjournal.net](http://www.marketingjournal.net)

IJRMMS 2023; 5(1): 74-77

Received: 15-03-2023

Accepted: 23-04-2023

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## Exploring the role of value co-creation in banking: A customer-centric approach

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DOI: <https://www.doi.org/10.33545/26633329.2023.v5.i1a.238>

### Abstract

In today's competitive banking environment, customer expectations are evolving rapidly. Traditional banking models are being challenged by digital transformation and the demand for personalized services. This paper explores the concept of value co-creation in the banking sector, particularly in Punjab, and how it serves as a competitive advantage by fostering stronger customer relationships. Using both qualitative and quantitative analysis, this study investigates the role of customer engagement, technological integration, and employee involvement in co-creating value. The findings emphasize the necessity for banks to shift from service providers to collaborative partners in delivering financial solutions.

**Keywords:** Value co-creation, banking, customer engagement, digital transformation, Punjab

### Introduction

The Indian banking industry stands at the forefront of a dynamic and rapidly evolving financial ecosystem. Over the past two decades, the sector has undergone a profound transformation fueled by globalization, liberalization, digitization, and a noticeable shift in customer expectations. Traditional banking models, which were once centered on product-centric offerings and transactional efficiency, are now being redefined by an emphasis on relationship building, personalized services, and customer engagement.

Amidst this transition, value co-creation has emerged as a transformative concept that repositions the role of the customer from that of a passive consumer to an active partner in the service delivery and innovation process. Rooted in the service-dominant (S-D) logic, value co-creation emphasizes collaboration between service providers and customers to generate mutual value. In the context of the banking sector, this means involving customers in service design, feedback systems, technological innovations, and strategic decision-making processes.

Banks today face mounting challenges such as increased competition from fintech companies, regulatory pressures, and the need to adapt to changing consumer behaviors driven by digital literacy. As a result, customer satisfaction and loyalty are no longer viewed as outcomes of effective service delivery alone, but rather as by-products of meaningful customer engagement and participation.

This shift is particularly significant in regional economies like Punjab, where banking institutions—both public and private—play a pivotal role in promoting financial inclusion, entrepreneurship, and regional development. Punjab's economy, characterized by its strong agricultural base, growing industrial sectors, and a large population of digitally-aware youth, presents a unique opportunity to explore how banks can create more customer-centric service models through co-creation initiatives.

This study aims to investigate the role of value co-creation in enhancing customer satisfaction, loyalty, and long-term profitability for banks operating in Punjab. It seeks to examine the strategies employed by these banks to foster collaborative relationships with customers and the impact of such strategies on service innovation, trust-building, and competitive advantage. Moreover, the research explores the perception of customers regarding their involvement in banking services and how their active participation influences their overall banking experience.

By focusing on this customer-centric paradigm, the study intends to contribute to the existing body of knowledge on service innovation in banking and provide practical insights for

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banking institutions looking to sustain relevance and growth in an increasingly interactive and digital financial landscape.

## Literature Review

### Value Co-Creation

The concept of value co-creation has emerged as a central theme in modern service management and marketing literature. Vargo and Lusch (2004)<sup>[1]</sup>, in their foundational work on service-dominant logic, argued that value is not embedded in the product or service itself but is co-created through interactions between the service provider and the consumer. This marks a paradigm shift from the traditional goods-dominant logic, where value was considered to be produced by the firm and delivered to the customer.

In the banking context, value co-creation refers to actively involving customers in shaping and personalizing their banking experiences. This can occur through multiple touchpoints such as feedback mechanisms, digital interfaces (e.g., mobile apps and internet banking), and participatory service design (e.g., customizable savings plans, credit solutions, or advisory services) (Manohar *et al.*, 2020)<sup>[9]</sup>. When banks engage customers as collaborators-rather than mere users-they are more likely to develop services that align with customer preferences, enhance satisfaction, and generate long-term value.

Empirical studies have shown that co-creation in banking can lead to increased trust, improved customer experience, innovation in product offerings, and ultimately, higher customer retention and profitability (Pralhad & Ramaswamy, 2004; Payne *et al.*, 2008)<sup>[2, 3]</sup>.

### Service-Dominant Logic

The theoretical underpinning of value co-creation lies in Service-Dominant Logic (S-D Logic), which challenges the conventional view of businesses as producers of value. Instead, it suggests that all economies are service-based, and that value is always co-created through the integration of resources by multiple actors, especially customers (Vargo & Lusch, 2008)<sup>[11]</sup>.

S-D Logic focuses on relational exchange, resource integration, and collaborative processes, emphasizing that the customer is always a co-creator of value. For banks, adopting S-D logic means prioritizing long-term relationships over short-term transactions, understanding customer needs deeply, and leveraging customer knowledge to shape innovative service offerings.

Furthermore, S-D Logic supports adaptability and resilience in dynamic environments-critical traits for financial institutions in a time of fast-paced digital transformation and economic uncertainty. Banks that embrace this logic are better positioned to build agile, customer-driven ecosystems that encourage innovation and trust.

### Customer Participation

Customer participation is a key operational dimension of value co-creation. It refers to the degree to which customers are involved in the production and delivery of services. In the banking industry, participation may range from routine interactions (such as completing application forms or providing feedback) to more collaborative roles (such as co-developing financial solutions or participating in pilot programs for new services).

Numerous studies have highlighted the positive correlation between customer participation and perceived service quality, satisfaction, and loyalty. According to Ennew and

Binks (1999), when customers are involved in service processes, they tend to develop a sense of ownership and commitment, which translates into stronger emotional connections with the service provider. Similarly, research by Bendapudi and Leone (2003)<sup>[12]</sup> found that higher levels of customer involvement improve the perceived control and relevance of services, which in turn enhances overall satisfaction.

In digital banking especially, platforms now allow for real-time feedback, user-driven customization, and interactive service experiences, all of which foster greater customer engagement and promote co-creation (Nur Asnawi, 2021)<sup>[10]</sup>. These participative processes not only improve the efficiency and accuracy of service delivery but also build trust and long-term loyalty (Maria *et al.*, 2014)<sup>[5]</sup>.

### Gaps in Literature

While extensive research exists on value co-creation and customer participation in general service industries, limited studies have explored these dynamics within the regional banking sectors of India, especially in states like Punjab. Given the socio-economic diversity and digital literacy levels in the region, it is important to assess how co-creation strategies can be customized to local needs. Moreover, most existing literature focuses on urban, technologically advanced populations, leaving a gap in understanding how rural and semi-urban customers perceive and engage with value co-creation in banking.

This study aims to bridge this gap by analyzing how banks in Punjab are incorporating value co-creation strategies and what impact this has on customer satisfaction, loyalty, and profitability. It further explores how customers perceive their role in service delivery and how their participation influences their relationship with their financial institutions.

### This study is guided by the following key objectives

- To analyze the role of value co-creation in enhancing customer engagement within the banking sector.
- To examine the relationship between customer satisfaction and participation in co-creation activities.
- To identify and evaluate best practices of value co-creation implemented by banks operating in Punjab.

These objectives aim to provide a comprehensive understanding of how co-creation strategies contribute to better service experiences, customer loyalty, and competitive advantage in the regional banking landscape.

### Research Methodology

#### Research Design

The study employs a mixed-method research design, integrating both quantitative and qualitative approaches to gain a holistic understanding of value co-creation in the banking sector. The quantitative component involves structured surveys to collect measurable data, while the qualitative component includes in-depth case studies and interviews to explore contextual insights and experiences. This combination ensures a robust and well-rounded analysis.

#### Sampling Strategy

The sampling framework includes respondents from both public and private sector banks in Punjab, ensuring sectoral representation.

**Target Population:** Bank customers and banking professionals

#### Sample Size

- 200 bank customers selected using stratified random sampling, ensuring diversity in age, occupation, and banking habits.
- 50 banking professionals chosen through purposive sampling to gain expert insights into internal processes and customer engagement strategies.

#### Data Collection Tools

To ensure the reliability and validity of the data, a combination of primary data collection tools was utilized:

- **Structured Questionnaires:** Designed for bank customers to assess their experiences and perception of value co-creation activities. These included Likert scale items, ranking scales, and multiple-choice questions.
- **Semi-Structured Interviews:** Conducted with banking professionals to gain qualitative insights into operational strategies, customer interaction policies, and innovation practices.
- **Case Studies:** Select case studies of banks actively involved in co-creation practices were developed to provide a deeper understanding of successful models.

#### Data Analysis Techniques

- The quantitative data collected through questionnaires were coded and analyzed using SPSS (Statistical Package for the Social Sciences). Key statistical tools used include:
- Descriptive statistics (mean, frequency, standard deviation)
- Inferential statistics (correlation analysis, regression models)
- The qualitative data from interviews and case studies were transcribed and analyzed using thematic analysis to identify recurring patterns, themes, and insights.

#### Ethical Considerations

- Informed consent was obtained from all participants.
- Respondents were assured of confidentiality and the voluntary nature of participation.
- Ethical approval was sought from the relevant academic/research committee prior to data collection.

#### Key Findings

##### Customer Involvement

A significant 73% of the surveyed bank customers reported increased loyalty towards banks that actively involve them in service improvement feedback loops. This highlights the importance of participatory decision-making in enhancing customer satisfaction and long-term engagement.

##### Digital Tools & Customer Retention

Banks that offer personalized mobile applications, AI-powered chatbots, and interactive online platforms for customer suggestions observed a higher customer retention rate. These digital tools enhance the user experience and facilitate seamless value co-creation.

##### Employee Empowerment

Banking professionals trained in managing co-creation touchpoints—such as feedback handling, service customization, and customer interaction—received

significantly higher service quality ratings. Employee empowerment through targeted training is a key enabler of successful value co-creation.

#### Discussion: The Triad of Co-Creation Success

The success of value co-creation in banking hinges on a strategic triad: customers, employees, and technology. These three elements must interact synergistically to generate meaningful outcomes. Customers are no longer passive recipients but active participants in the value creation process. Their feedback, expectations, and digital engagement are fundamental to service innovation.

Employees, on the other hand, play a critical role in operationalizing co-creation strategies. Banks that empower their workforce through training in customer interaction, digital tools, and service customization witness improved service delivery and customer satisfaction. Empowered employees act as facilitators of co-created experiences.

Technology forms the backbone of modern co-creation initiatives. From AI-powered chatbots to mobile banking apps, technological interventions bridge the gap between service providers and consumers. These platforms not only personalize experiences but also allow real-time feedback and service modifications.

In Punjab, a regional analysis shows that private banks have been more agile and experimental in implementing co-creation strategies. They have adopted features like personalized digital interfaces, open innovation forums, and gamified loyalty programs to enhance engagement. Public sector banks, traditionally slower in innovation adoption, are now responding with customer-centric strategies such as local language support, community engagement initiatives, and improved feedback mechanisms. The competitive environment is compelling both sectors to align with co-creation principles, although at different paces and scales.

#### Challenges in Implementing Value Co-Creation in Banking

1. **Lack of Awareness among Frontline Staff:** Many frontline employees, who are the first point of contact with customers, are unaware of the long-term benefits and strategic importance of value co-creation. Without proper sensitization and training, they may not actively support initiatives aimed at customer collaboration.
2. **Resistance to Change in Traditional Banking Cultures:** Especially in public sector and legacy banks, rigid hierarchies and conventional service delivery models hinder the adoption of innovative, participatory practices. Employees and management may perceive co-creation as a threat to established protocols or authority.
3. **Technology Adoption Barriers in Rural Areas:** Limited digital infrastructure, low internet penetration, and inadequate tech literacy among customers in rural and semi-urban regions pose serious challenges to implementing digital co-creation tools like mobile apps or feedback platforms.
4. **Data Privacy and Security Concerns:** As banks increasingly rely on customer-generated data to personalize services, concerns regarding data misuse, privacy breaches, and compliance with cybersecurity norms create hurdles in building customer trust.
5. **Inconsistent Customer Participation:** Not all customers are equally motivated or equipped to contribute meaningfully to co-creation processes. Banks

often struggle to generate sustained engagement across diverse demographic groups.

6. **Inadequate Performance Metrics for Co-Creation Initiatives:** There is a lack of standardized KPIs and measurement frameworks to assess the effectiveness of co-creation. This makes it difficult for banks to evaluate ROI or scale successful pilot programs.
7. **High Initial Investment Requirements:** Deploying co-creation platforms, training employees, and integrating feedback mechanisms into service processes require significant financial and human resources, which may deter smaller banks or branches from taking initiative.

### Recommendations

- **Training Programs:** Banks must train employees to recognize customer insights as value assets.
- **Feedback Integration:** Establish formal mechanisms to integrate customer feedback into service design.
- **Localized Co-Creation Models:** Develop region-specific initiatives in Punjab based on customer preferences and cultural nuances.

### Conclusion

Value co-creation is not just a buzzword but a strategic imperative in modern banking. There is a need for proactive involvement of customers with their banks to create mutual value for customers and banks. By embracing a customer-centric approach, banks can differentiate themselves in a competitive landscape. The future of banking lies in partnerships-where value is co-created, trust is built, and success is shared.

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