



## Exploring innovation driven value creation in B2B service firms: The roles of the manager, employees, and customers in value creation



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### ABSTRACT

This study adopts the premise that innovation capability underpins a service firm's value creation ability and that management style, employee behaviors and marketing underpin its innovation capability. This study examines the role of managers and employees in the creation and delivery of superior value to customers via the firm's innovation capability. To test this premise the current study examines the role of transformational leadership (TFL) as an aspect of the service firm's management style in creating and delivering value to customers through its services. This study adopts a multi-level study, collecting data from managers, employees and customers of service firms in a Southeast-Asian country, Cambodia. The results show that a service firm's innovation capability has a positive effect on the firm's value offering (VO), the VO has a positive relationship with customer perceived value-in use (PVI), and PVI has a positive relationship with firm performance. This study also finds moderating effects of TFL on the relationship between service innovation capability and VO, and of service marketing capability on the relationship between VO and PVI respectively.

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### 1. Introduction

While scholars have increasingly put effort into trying to understand the value creation process, at present little consensus exists on what value creation is and whether the customers actually receive the value the firm seeks to create in the requisite form and level (Bowman & Ambrosini, 2000; Lepak, Smith, & Taylor, 2007). Two streams of research exist within this research domain. One stream focuses on value from the managerial perspective (e.g., Ngo & O'Cass, 2009; O'Cass & Ngo, 2010; Sirmon, Hitt, & Ireland, 2007), while the second stream focuses on value from the customers' perspective (e.g., DeSarbo, Jedidi, & Sinha, 2001; Priem, 2007; Ulaga & Eggert, 2006). However, Bowman and Ambrosini (2000) proffer that value creation is a multi-stage process involving different users of value at different points in the process. Therefore, integrating both streams and using the perspectives of both the firm and the customer simultaneously may help advance the value creation literature.

In synthesizing Bowman and Ambrosini's (2000) view of the value creation process, O'Cass and Ngo (2010) argue that value creation is a three-stage process by which the firm creates use value [referring here to the firm's value offering (VO)] (within the manager's perspective) at the point of proposition, while the customers subjectively assess perceived use value [referring here to customer perceived value-in use (PVI)] (within the customer's perspective), and the

customers realize exchange value [referring here to customer-based performance (CBP)] at the point of exchange via the firm–customer interaction. Importantly, these VO, PVI, and CBP have the capacity to underpin the firm competitiveness as the competitiveness of any firm depends largely on its ability to understand what value customers are looking for (e.g., DeSarbo et al., 2001; O'Cass & Ngo, 2010) and also the ability to create that value for its customers (e.g., Sirmon et al., 2007). The ability to create value is important as increasing global competition puts tremendous pressures on firms to be more innovative and to create superior value for customers (Ngo & O'Cass, 2009).

When competition intensifies and the pace of technological change accelerates, one avenue available to service firms is to renew their marketplace offerings in the effort to create superior value for customers through innovation in their services (Paswan, D'Souza, & Zolfagharian, 2009). Yet, surprisingly while many studies investigate the relationship between service innovation and financial performance (e.g., Avlonitis, Papastathopoulou, & Gounaris, 2001; Grawe, Chen, & Daugherty, 2009), scholars pay little attention to innovation capability and its contributions to the firm's VO (Ngo & O'Cass, 2009). This study aims to extend the current literature on value creation by examining the impact of service innovation capability on VO. Adopting the premise that a connection between a firm's service innovation capability and its VO exists, this study focuses on the role of managers and employees in the creation of superior value for customers. Liao and Chuang (2004) argue that front-line service employees play a pivotal role in creating and delivering high quality service. Extending this argument, the study posits that front-line

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service employees also play a critical role in creating and delivering superior value to customers.

Building on the work of Liao and Chuang (2004), this study examines transformational leadership (TFL) as an aspect of firm internal functioning (Bass, 1985) and explores the impact of TFL on the relationship between a service firm's innovation capability and its VO, which refers here to the employee service performance in creating certain types of value for customers in the services they deliver. By integrating leadership style, service innovation and value creation, this study extends the boundaries of value creation research and offers a unique perspective of the impact of TFL on service firm's innovation capability and VO.

In addition to the roles of managers and employees in the creation and delivery of the firm's VO, this study raises issues in relations to the role of service marketing capability in the value creation and delivery process. As Bowman and Ambrosini (2000) argue, once a firm creates and delivers its VO, it is the customer who then subjectively determines whether he/she receives the VO (referring to perceived value-in use or PVI) as he/she is the final arbiter of value. This paper raises the contention that while the service itself adds value, it also relies on how the firm actively communicates their VO to the customers through creative marketing efforts to enhance PVI (e.g., Bowman & Ambrosini, 2000). Further, service marketing capability plays a key role in creating awareness and the meaning of the firm's services (Berry, 2000). Building on these contentions, this study investigates the impact of service marketing capability on the relationship between VO and PVI which is the employee service performance in delivering the firm's VO to the customer.

## 2. Theory and hypotheses development

### 2.1. Theoretical background

The conceptual model in Fig. 1 below depicts service innovation capability as a source of positional advantage (VO: H1 and PVI: H3) through creating customer value in the service firms' efforts to achieve superior customer-based performance (H4). These relationships theoretically stem from the resource-based view (RBV) of the firm (Barney, 1991) and the theoretical perspective of Day and Wensley (1988) and others to assess positional advantage. RBV theory posits that resources that are valuable, rare, inimitable, and non-substitutable are sources of superior performance (Barney, 1991). However, because of the static nature of resources (Priem & Butler, 2001) scholars subsequently argue that it is the firm's distinctive

capabilities to deploy resources that are the real sources of superior performance (Teece, Pisano, & Shuen, 1997). While scholars accept the link between distinctive capabilities and superior performance, Carbonell and Rodriguez (2006) argue that researchers seldom direct their effort toward understanding fundamental relationships between the sources of advantage and the resulting positional advantage, and performance. Carbonell and Rodriguez (2006), Day and Wensley (1988), Hult and Ketchen (2001), O'Case and Ngo (2010) among others note that a complete diagnosis of competitive superiority should make a distinction between the sources of positional advantage and their consequences for the firm's relative competitive position, and performance superiority. Drawing on the two preceding theoretical perspectives (RBV and positional advantage) this study argues that to obtain superior performance requires the achievement of a positional advantage through the continuous creation of superior value for customers. Therefore, it is critical for firms to make decisions on not only what positional advantages (components of service value offerings) differentiate their businesses in the marketplace (Hult & Ketchen, 2001; O'Case & Ngo, 2010), but also on how to achieve the advantage. Within this context this study takes the view that developing and offering value that matches the expectations of customers provides firms the means to achieve positional advantages.

Understanding customer expectations and transforming such expectations into bundles of value deliverables is the underpinning of generating a positional advantage (O'Case & Ngo, 2010). In this context, this study sees service innovation as a source of performance superiority. Service innovation is a distinctive capability that enables the firm to create superior value for customers (Moller, Rajala, & Westerlund, 2008; Paswan et al., 2009). Service innovation capability is critical in developing new solutions and responding to the new needs of the customers (Gatignon & Xuereb, 1997). This study defines service innovation capability as the routines and processes service firms have in place for implementing the development, evolution, and execution of new services and service improvement.

Fig. 1 posits the following effects: (i) the influence of service innovation capability on the firm's VO (H1), (ii) the influence of VO on PVI (H3), and (iii) the influence of PVI on customer-based performance (H4). Fig. 1 also depicts: (iv) the moderating role of TFL on the relationship between service innovation capability and VO (H2) and (v) the moderating role of service marketing capability on the relationship between VO and PVI (H5).

This study advances the contention that service innovation capability drives the firm's VO, and TFL helps achieve a stronger connection between innovation capability and the firms' VO. The ability of

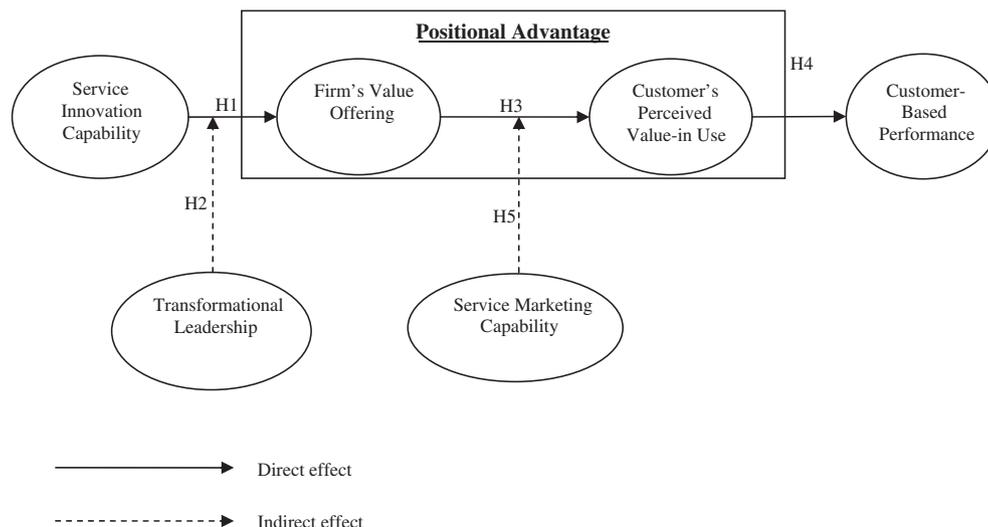


Fig. 1. Theoretical model.

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