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Creating novel consumer value vs. capturing value: Strategic emphases and financial performance implications

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A B S T R A C T

Business researchers have a growing interest in value creation perspectives to firm strategy. The present article provides a novel examination of the financial performance implications of strategic emphases on creating novel consumer value vs. capturing value, by taking a configuration approach to strategy. The empirical study examines the strategic orientations and financial performances of a sample of firms, from a survey of over 500 companies. The results indicate that a strategic emphasis on neither novel consumer value creation nor value capture has independent linear influence on profitable firm growth. Yet, the results also reveal that certain strategic configurations are more feasible than others, in terms of profitable growth. Among both large and small firms, firms with high emphasis on novel consumer value creation and low on value capture exhibited above-average profitable growth. A high emphasis on both novel consumer value creation and value capture, in turn, appears to be a feasible configuration for large firms but less feasible for small firms. The authors also examine the moderating effects of environmental turbulence.

1. Introduction

Much of strategic management literature traditionally stresses the importance of value creation for a firm's profitability — whether urging managers to extract value from the firm's resources (e.g., Barney, 1986; Collis & Montgomery, 1995; Makadok & Coff, 2002) or to engage in optimal value-adding activities in the value chain (Porter, 1985). Nevertheless, in contemporary terminology, what this traditional strategy literature addresses primarily is actually "value capture" — strategies that make sure that a maximal portion of value is captured or appropriated by the firm itself, in the form of profits, rather than by other chain members or competitors (e.g., Bowman & Ambrosini, 2000; Makadok & Coff, 2002; Priem, 2007).

In contrast, "value creation" is a term that contemporary literature increasingly utilizes to refer to the use value (or benefits) that the firm's products and other offerings create to customers or consumers (e.g., Adner & Zemsky, 2006; Bowman & Ambrosini, 2000; Mol, Wijnberg, & Carroll, 2005; Priem, 2007). According to this newer consumer or demand perspective of strategic management, a primary strategic challenge for a firm is whether and how to create use value to consumers in the first place.

The creation of use value that is *novel* to target markets is, from a consumer perspective, one particularly interesting form of use-value creation. The creation of novel consumer value is a special case of value creation, distinct from the basic use value that a firm's products always need to provide (whether old or new) so as to be demanded by customers (cf. Adner & Zemsky, 2006; Anderson & Narus, 1999; Gans, MacDonald, & Ryall, 2008; Kotler, 2000). The creation of novel consumer value refers to the introduction of such offerings to the market that provide (or participate in the provision of) new or superior value to consumers, relative to existing market offerings. In Priem's (2007, p. 220) terms, the question is about "innovation that establishes or increases the consumer's valuation of the benefits of consumption (i.e., use value)". In the looser terms of recent popular strategy books, such as Blue Ocean Strategy (Kim & Mauborgne, 1997, 1999, 2005b; see also Hamel, 1998), the question is about "value innovation", destined to create novel and superior buyer value. In any case, this recent literature has centrally advocated novel consumer value creation as a viable strategy, especially from the firm's profitability perspective. In effect, novel value creation is supposed to lead to favorable profit outcomes, by extending the boundaries of end demand and tapping into high consumer demand in areas where the firm faces relatively little competition (Kim and Mauborgne, 2005a,b).

Thus, contemporary strategic management literature contains, on the one hand, a wide traditional sub-literature that rather unilaterally emphasizes the profitability of value capture (VCapt) strategies and, on the other hand, a newer demand-based sub-literature that advocates the profitability of strategies destined to novel consumer value creation (NVCrea). However, quite surprisingly, little such research exists so far, which would study firms' relative strategic emphases on VCapt vs. NVCrea jointly. In other words, what implications will different configurations or combinations of strategic

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emphases on NVCrea and VCapt have on a firm's financial performance?

Indeed, while the extant research has mostly dealt with only one of the two factors – VCapt or NVCrea – at a time or dealt with the independent effects of the two factors, the purpose of this article is to examine the joint, configurational effects of VCapt and NVCrea on firms' financial performance. In practical terms, such an examination is highly relevant, since in the reality of any firm, managers need to choose the configuration of strategic emphases on both dimensions (e.g., would high emphasis on NVCrea but low emphasis on VCapt be better than high emphasis on both NVCrea and VCapt?) — not just consider the dimensions independently of each other.

In theoretical terms, the present study adopts a configurational approach (e.g., De Clercq, Bulent, & Seigyoung, 2008; Dess, Newport, & Rasheed, 1993; Fiss, 2007; Meyer, Tsui, & Hinings, 1993; Miller, 1986, 1988, 1996; Miller & Friesen, 1984; Reeves, Duncan, & Ginter, 2003), meaning that the focus is on examining constellations of multiple strategy dimensions (VCapt, NVCrea), firm size, and environment, and the performance outcomes of such constellations. According to the configurational approach, the specific objectives of the article are as follows. First, the basic objective is to hypothesize on and examine the relationships between different configurations of strategic emphases on NVCrea and VCapt, and financial performance. Second, besides the configuration of strategic emphases on NVCrea and VCapt, the aim is to explore whether the link between different NVCrea–VCapt combinations and financial performance is contingent on structural attributes such as firm size and on environmental attributes such as environmental turbulence.

2. Theory and hypotheses: the financial performance implications of novel consumer value creation vs. value capture

Concerning the financial performance implications of strategic emphases on NVCrea vs. VCapt, the objective of the present article is to consider both of these factors — and moreover, not only as independent factors but also as being combined to one another in varying configurations. This logic is consistent with the configurational approach to strategy (e.g., Miller, 1986, 1988, 1996; see Fiss, 2007, for a review), which emphasizes that various dimensions or components of firm strategy, or their effects on performance, cannot be fully understood by examining the dimensions merely as isolated components. In Miller's (1996) terms, the configuration of strategy dimensions (rather than the dimensions in isolation) is actually the very essence of strategy.

2.1. Strategic emphases as independent factors

Due to the prominence of claims advocating value capture mechanisms in strategic management literature, let us start by hypothesizing the potential direct effect of strategic emphasis on VCapt on firm performance. A very basic assumption of both main schools of strategic management – the strategic positioning school (e.g., Porter, 1979, 1980) and the resource-based school (e.g., Barney, 1991; Mahoney, 1995; Wernerfelt, 1984) – is that a firm can only enjoy a stable flow of profits by erecting "barriers" to the essentially corrosive force of competition (see e.g., Gans et al., 2008; Barnett & Hansen, 1996). That is, by investing in the setting up of "isolating" mechanisms (e.g., patents, customer switching costs, entry barriers, channel power, and brand inertia), which enhance value capture (Lepak, Smith, & Taylor, 2007; Mizik & Jacobson, 2003; Rumelt, 1984, 1987; see also Hooley, Greenley, Cadogan, & Fahy, 2005). In simple terms, hence, such a strategic emphasis on VCapt should have a positive influence on firm performance. Thus,

H1a: Strategic emphasis on value capture has a positive effect on financial performance.

However, while some value appropriation or capture is probably needed for profitability, whether a special strategic emphasis on VCapt – or isolating mechanisms – results in superior performance is not certain. At the extreme, an excessive emphasis on VCapt may distract managerial attention and firm resources away from the effective and efficient production of current value and/or the creation of novel value. The effects of such an excessive emphasis on VCapt on firm performance might be negative. A negative performance effect has also been proposed by evolutionary scholars (e.g., Barnett & Hansen, 1996; Derfus, Maggitti, Grimm, & Smith, 2008). These scholars suggest that excessive isolation from competition leads to undermined ability to learn from the market. Thus, the alternative hypothesis about strategic emphasis on VCapt is:

H1b: Strategic emphasis on value capture has a negative effect on financial performance.

Moving to NVCrea, this article refers with *novel consumer value creation* (NVCrea) to a firm's intentional participation in the creation of new kind of value to certain consumers, relative to what the existing offerings in the market provide. This definition is consistent with Priem's (2007) recent perspective, and involves the idea that the firm aims to increase the value that the end users in the firm's value system will experience and, hence, the payments that those consumers are willing to make to the system. Note that even a business-to-business firm can pursue the creation of novel consumer value, in collaboration with its value system partners. For instance, a paper manufacturer that sells its paper products primarily to publishing companies can come up with a revolutionary new magazine paper product that enhances end-consumers' magazine reading experience and, hence, value.

In effect, recent popular strategy literature, such as that on Blue Ocean Strategy (Kim and Mauborgne, 2005b), has come to imply that even NVCrea might have rather a uniform positive influence on the firm's financial performance. Here, the positive effect of emphasis on NVCrea is expected to be due to the capacity of new value innovations to create new end demand and "make competition irrelevant" (Kim and Mauborgne, 2005a,b), at least for a while. In the theoretical terms of more general innovation literature, such performance implications might stem from "first-mover advantages" (see e.g., Lieberman & Montgomery, 1988, 1998) that firms emphasizing NVCrea can enjoy in bringing new value offerings to the market. Should such advantages prevail for firms emphasizing NVCrea, strategic emphasis on NVCrea should have a positive effect on firm financial performance.

H2a: Strategic emphasis on novel consumer value creation has a positive effect on financial performance.

Yet again, while the strategy of innovating and being the "first-mover" may be fruitful in principle, contradicting theoretical predictions (e.g., Hoppe, 2000; Simpson, Siguaw, & Enz, 2006) as well as empirical evidence (see e.g., Golder & Tellis, 1993; Markides & Geroski, 2005) exist as well, suggesting that innovative projects often fail and pioneers or first-movers often do not succeed. Common failures are due to, for instance, the fact that first-movers engage in costly investments in technologies and resources in conditions of technological/market uncertainty, which often prove to be "wrong" ones as the market evolves (Hoppe, 2000; Lieberman & Montgomery, 1998). Thus, consider an alternative hypothesis:

H2b: Strategic emphasis on novel consumer value creation has a negative effect on financial performance.

2.2. Configurations of the strategic emphases

In order to recognize the importance of addressing emphases on NVCrea and VCapt not only as independent factors but also as potential parts of different strategic configurations, consider the following aspects noted in Fiss (2007) on configurational approaches to strategy research. Essentially, Fiss notes that configurational approaches "are based on the fundamental premise that patterns of attributes will exhibit different features and lead to different outcomes depending on how they are arranged" (p. 1181).