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**UNDERSTANDING CUSTOMER VALUE:
AN ACTION RESEARCH-BASED STUDY OF
CONTEMPORARY MARKETING PRACTICE**

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A thesis submitted in fulfilment of the requirements
for the degree of Doctor of Philosophy,
The University of Auckland, 2004

The University of Auckland

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ABSTRACT

This thesis provides a rich and thick (Geertz, 1973) understanding of customer value, and the process of customer value creation and delivery. It achieves this through a three-stage multi-method action research based study including survey work, multiple cases, and a single site industrial SME case. The study is grounded in the resource-based view (RBV) of the firm, providing a linkage between the strategic management and marketing disciplines.

The purpose of this research is to support theory development in the area of customer value. A new definition of customer value was developed, recognising the complex, dynamic and multi-dimensional nature of the construct. The definition is supported by a series of empirically based conceptual frameworks, describing the customer value construct and the customer value development process of the firm.

A number of perspectives on customer value-related marketing practice were found. Successive stages of the research identified six approaches to creating and delivering customer value: Traditional Transactional, Transitional or hybrid, Traditional Relational, Network, Systemic and Pluralistic. These approaches are not mutually exclusive. Rather, they characterise various approaches to customer value creation and delivery practiced in various contexts (e.g. for-profit and not-for-profit, consumer and industrial) and at various levels within firms (e.g. senior management, functional and front-line), strongly suggesting a contingency of practice.

The customer value creation and delivery process was conceptualised as a triad, viewed through the lens of making, keeping, and enabling promises (Gronroos, 1996). A fourth dimension, realising promises, was added, encompassing the outputs of the process (i.e. financial and non-financial value for both customer and firm).

Future research should be directed at testing and refining elements of the conceptual frameworks and value postures, offering significant benefits to practicing managers, to management education, and to theoretical understanding.

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CHAPTER ONE: INTRODUCTION

“In today’s enterprises it’s hard for functions or even individuals to survive – and impossible for them to prosper – unless they clearly add value to the customer.” Rackham, 1999, p. 7

Survival in the 21st century requires firms to win customers and capital in competitive markets. The central task of managers, therefore, is to create and deliver value to both customers and shareholders (Doyle 2000b; Srivastava et al. 2001; Srivastava et al. 1998; Srivastava et al. 1999). Market-oriented managers traditionally focused on the creation of value for consumers, from the perspective of a functional specialist. However, in past decades that view has broadened. There is increasing acceptance that value must be created not only for consumers but also for multiple stakeholders - including shareholders, employees, society and the environment. Furthermore, there is growing support for the view that marketing is rightfully resident across the firm and generalist in nature, rather than resident only in the marketing function and specialist in nature (Doyle 2000c; George et al. 1994; Gummesson 1998). Considerable pressure is placed on marketing and marketers, as this broader perspective of value creation has received limited attention in the literature and in marketing education. This study addresses customer value from a number of perspectives. The outcome is a set of conceptual frameworks that will assist both academics and managers to enhance their understanding of the nature and scope of customer value creation and delivery.

1.1 Chapter outline

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1.2 Background to the research

Creating and delivering customer value is the central task of marketing oriented firms (Day 1998; Jaworski and Kohli 1993; Shapiro 1988; Slater and Narver 1995; Tuominen and Moller 1996). Devising and delivering *superior* customer value is the motivation for business strategy (Cravens et al. 1998; Day 1988; Srivastava et al. 2001). When choosing between competitive offerings, rational customers will choose the offering perceived to deliver superior value, thus potentially creating competitive

advantage for that firm (Doyle 2000b). Therefore, achieving superior customer value is crucial to achieving and maintaining competitive advantage (Davidson 1997). Reflecting this centrality to the competitive performance of the firm, the value concept is one of the most commonly used constructs among both managers and academics (Gronroos 1996a).

In the marketing literature, a growing interest in 'value' and the value construct can be attributed to recognition of marketing's key role in creating and delivering customer value (Cravens et al. 1997; Parasuraman 1997; Woodruff 1997). Most researchers concur that understanding customer value is crucial to the firms' competitive offer, the firm's consequent strategic position and by implication, the firm's competitive performance. That logic is reflected in a focus on the contribution of marketing to firm performance, and in particular to shareholder value (Day and Fahey 1990; Hogan et al. 2002; Rappaport 1992). It is also implicit in the market orientation literature, whereby firms exhibiting characteristics of customer or market orientation deliver demonstrably superior performance (e.g. Cravens et al. 1998; Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Olavarrieta and Friedmann 1999; Slater and Olson 2001).

While there is reasonable consensus in the literature regarding the goals and outcomes of customer value creation and delivery, there is diversity of opinion regarding the nature of the customer value construct and the process of customer value creation and delivery (Holbrook 1994; Storbacka et al. 1994; Woodruff et al. 1993). This diversity suggests the complexity of the customer value construct. The result is a large but fragmented body of literature encompassing many streams of research. Few studies focus upon the nature and scope of 'value' (and particularly customer value) per se, and upon the process of value creation, delivery and consumption (Tzokas and Saren 1998).

Some traction on understanding value-creating processes been achieved through the resource-based view (RBV) of the firm, and consideration of linkages between marketing and financial performance (e.g. Srivastava et al. 2001; Srivastava et al. 1998; Srivastava et al. 1999). Under the RBV, competitive success is predicated on the ability of the firm's managers to obtain and productively exploit resources and assets (Barney 1986; Peteraf 1993; Wernerfelt 1984). Competitive success is based on the ability to create and deliver superior customer value through a set of value-based

processes (Srivastava et al. 2001). The achievement of superior customer value is expected to translate into a position of differential advantage¹. This position may or may not deliver superior financial returns depending on how value is appropriated and distributed among stakeholder groups, in turn a function of the relative power position of each group (Fahy and Smithee 1999) and managerial capability (Hawawini et al. 2000; Hawawini et al. 2002). Calls have been made for developing greater understanding of value-creating processes, particularly in terms of how these processes are affected by the firm's capabilities and market-based assets, and for further empirical testing and refinement of these concepts (Tzokas and Saren 1998).

Overall, gaps in the literature reflect inadequate understanding in three areas:

1. The customer value *construct* per se:

"... despite its importance for the marketing discipline, little research effort has been devoted to examining what [value] is, how it is produced, delivered and consumed, and how it is perceived by the customer." (Tzokas & Saren, 1998, p. 104)

2. The nature of customer value creating and delivering *processes* (or linkages between the firm's resources, strategy and implementation):

"... [to date] efforts by marketing theorists have not fully articulated processes by which internal and market-based resources are converted into competitive advantages and therefore have not provided broad-based integration of marketing and RBV". (Srivastava, Fahy and Christensen, 2001, p. 778)

3. The *contribution* of customer value related activities to both customer and firm utility:

"... the concept of value is multifaceted and complicated, and there is an evident risk that the concept is used without any efforts and commitments to understand really what it means to provide value to customers, how added value should be related to customer needs and the achievement of profitability for the parties involved." (Ravald & Gronroos 1996, p. 19)

Clearly, these three major areas – the nature of customer value, the nature of customer value creating and delivering processes, and the contribution of these processes to both customer and firm utility – require further investigation.

¹ This is an expectation and it is recognised. A number of complicating factors (not well understood) may impede this outcome.

This research is directed at developing understanding of how marketing-oriented firms undertake customer value creation and delivery. The nature of customers is therefore germane. In the initial two stages of the study, customers were seen in aggregate and as heterogeneous i.e. as buyers of both industrial and consumer goods and services. In the third and final stage of the study, however, the customer was considered in more particular terms. Here the customer was considered as the recipient or multiple recipients of value co-created and delivered by a single industrial firm, in the context of that firm's value network.

This is an important area of study for two reasons. Firstly, it contributes to understanding in the under-researched area of marketing practice (Brookes et al. 2001; Brownlie and Saren 1997; Gummesson 2001; Hunt 1994). Secondly, understanding the linkages between customer value and firm performance are crucial to the future of marketing theory and to the future of marketers (Doyle 2000c; Hogan et al. 2002; Slater and Narver 1994).

This study makes a valuable and practical contribution to theory development at the nexus of two disciplines, marketing and strategic management.

1.3 Research purpose, questions & propositions

This thesis takes the position that customer value creation and delivery is a central and developing dimension of contemporary marketing practice; and further that the state of current knowledge is insufficient to progress current practice or current theory. The study is therefore directed at supporting the development of in-depth understanding of this important area.

The goals of the study were threefold:

1. To provide an understanding of the nature and scope of 'customer value';
2. To provide an in-depth understanding of the process of customer value creation and delivery;
3. To provide linkages between the marketing and strategic management disciplines via the resource-based view of the firm (RBV).

Accordingly, the research questions driving the study were:

Table 1.1: Research questions

1. What is customer value?
2. How do managers create and deliver customer value?
3. How does customer value creation and delivery relate to assets, capabilities and financial outcomes for the firm?

A review of the literature (refer Chapter Two) resulted in six research propositions. These were derived from a synthesis of existing perspectives of customer value, and customer value-related marketing practice. The propositions are presented in Table 1.2:

Table 1.2: Six guiding research propositions

Proposition	
P1	That customer value creation and delivery (CV) involves four factors: <i>intentions</i> (of general business and marketing activities), <i>managerial focus</i> (investment focus and activities focus), <i>management and leadership</i> (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and <i>monitoring</i> (approach to performance measurement).
P2	That the nature of the customer value creation and delivery process will differ between firms.
P3	That the differences in approach to the customer value creation and delivery process can be explained by the elements identified in Proposition 1.
P4	That managerial views of customer value creation and delivery have common characteristics across firm types and industries.
P5	That the customer value creation and delivery process can be conceptualised through the lens of the RBV i.e. as a set of resources, orchestrated by strategy, and delivered via the three core value-generating processes ²
P6	That the customer value creation and delivery process is linked to shareholder value through the mechanism of the artefacts and activities identified in Proposition 5 (above).

Source: Developed for this research

These propositions guided data collection and analysis in all stages of the research.

1.4 Research methodology

"... scholarly research boils down to four basic strategies: curiosity, courage, reflection and dialogue; the rest is technical support ... Be pragmatic, use all roads available to gain knowledge." (Gummesson 2001, p. 27&29)

The purpose of this research is to answer 'what', 'how' and 'why' questions related to process based phenomena: customer value creation and delivery in marketing. Processes are complex in nature, being multi-dimensional, having multiple

² Offer development, supply chain management and customer relationship management.

participants, occurring longitudinally, having both formal and informal elements, and occurring in the multi-dimensional context of complex organisations in a dynamic operating environment.

Customer value creation and delivery is a process-based problem. Therefore, it is likely to be inter-disciplinary in nature, implying a cross-functional approach and acknowledgement of complex linkages, for example brand value-shareholder value (Kerin and Sethuraman 1998). Enhancing understanding therefore requires integration of the marketing and strategic management literature, and a firm-wide rather than marketing-function specific perspective.

The research strategy was influenced by calls for process-driven and case-rich methodologies (Srivastava et al. 1999), and took a multiple method, iterative approach. A staged strategy built successive levels of understanding. Firstly, the general area of customer value was surveyed across a range of firms and a range of contexts. This understanding was then enriched by deeper more contextually oriented data, again in a range of contexts. Thirdly, highly contextual data provided even richer and deeper understanding. The approach entailed the use of both survey and case based approaches, in an adapted action research-based framework. The design was appropriate to the nature of the research questions, the nature of the researcher, and in the case of the qualitative work, in consideration of calls for in-depth exploratory studies directed at theory development (e.g. Gummesson 2001; Kiel 1998). The design facilitated the development or discovery of theory, rather than justification of existing theory (Hunt 1983). Testing and justification can be effected in subsequent studies.

Specifically, the study design featured three stages within an over-arching action research framework:

1. Scoping –survey of 163 managers;
2. Supporting – 14 individual cases;
3. Substantiating – one in-depth case.

The first stage was directed at creating a preliminary and general indication from managers in a wide variety of contexts of what factors influenced the creation and of customer value in their firms. Data collection entailed a single-respondent self-completion questionnaire, with data analysis undertaken using SPSS software. Stage

Two of the research was designed to support and enhance the findings of Stage One, providing deeper understanding and refinement. This stage entailed working with the author's executive students in the context of their marketing studies, developing mutual understanding. Stage Three studied a single firm, with the aim of developing a 'rich and thick' (Geertz 1973) description of customer value creation and delivery processes. A series of activities was undertaken over a nine-month period in close collaboration with the management team of an industrial SME (Small to Medium sized Enterprise). Data for stages two and three were analysed both manually and electronically, using NVivo textual analysis software. Findings are presented with the aid of tables and diagrams. Illustrative quotes have been used to add veracity and support.

The action research ethos of collaborative, critical enquiry and the intention of positive change to both theory and practice (Avison et al. 2001; Greenwood et al. 1993; Perry and Gummesson 2004) underpins all stages of the research. Each stage of the research and the research project as a whole can be viewed through the lens of action research. Each stage and the complete project follow the action research cycle: *Plan, Act, Observe, and Reflect*. The writing and defending of this thesis is the final cycle.

1.5 Thesis outline

This section briefly outlines the chapters in this thesis. Complete references relating to the discussion are included in each chapter.

Chapter One introduces the thesis and provides a background to the study.

Chapter Two offers a critical review of the literature. Firstly, the resource-based view of the firm (RBV) is discussed. The RBV provides the overall theoretical foundation for the study. Secondly, the marketing literature relating to the nature and scope of customer value is reviewed, revealing a complex and dynamic construct. The evolution of various strands of thinking are traced, ranging from early efforts linking products and value (e.g. the augmented product concept) to more sophisticated views (e.g. relationship value). A new conceptual framework featuring three value postures or archetypes is presented, integrating the literature relating to customer value

creation and delivery. The chapter concludes by highlighting opportunities for research.

Chapter Three presents the research methodology employed in the study, including discussion of the underlying research paradigm (realism), and general research approach (pluralistic and multiple-method). Data collection, analysis and presentation techniques are discussed. Particular attention is directed to action research based methods, currently uncommon in the marketing discipline.

Chapters Four, Five and Six present results relating to the three Stages of the research: Stage One (survey), Stage Two (multiple cases) and Stage Three (single firm case) of the study respectively. Each chapter concludes with commentary on the research propositions and presents new conceptual frameworks where appropriate according to the research findings.

Chapter Seven presents a discussion, conclusions and the implications of all three stages of the study. Findings relating to the research questions and propositions are discussed. Conclusions are drawn relating to the nature of customer value, and to the customer value creation and delivery process. The contribution to knowledge relating to both methodology and theory is discussed, and implications offered for theory, management education and practice. Finally, the thesis is summarised, concluding the study.

1.6 Thesis scope

The study is concerned with the way in which customer value is conceptualised, created and delivered by *managers*, i.e. is concerned with the production rather than the consumption of value, from the perspective of the firm and its managers. It does not incorporate customers' responses to created and delivered value, and is not specifically concerned with value consumption. While there is an element of circular logic here (value consumption is a response to perception of the value delivered, which in turn is a response to perception of the value sought by customers), this thesis takes the position that value consumption is a second order effect, and best addressed by consumer behaviour researchers. While customer perspectives of value are clearly important, the focus of this thesis is therefore on developing understanding of

marketing-related resources, processes and outcomes germane to value creation in the context of the firm.

Thus, the research focuses on customer value creation and delivery in the context of contemporary marketing practice in New Zealand. Findings from Stages One and Two are relatively broad in focus, as they are based on a range of firm types and industries. However, findings in Stage Three are derived from one particular firm, an industrial SME. Therefore, while the overall findings may have application to other firms and other markets, this would be subject to testing and confirmation by further research.

1.7 Chapter summary

This thesis is the culmination of study in the general area of marketing management and strategy. The research is concerned with customer value creation and delivery – i.e. process-based phenomena. Reflecting the complex and dynamic nature of processes, an iterative multi-staged approach was taken, using both qualitative and quantitative methods.

This research is located at the nexus of the marketing and strategic management disciplines and is grounded in the RBV. It contributes to understanding of the customer value construct, and the nature of the customer value creation and delivery process. It supports further research into this construct, into the linkages between marketing strategy and customer value, and the linkages between customer value and firm performance. The benefit to both practitioners and academics is further insight into a complex process that is central to the marketing task.

The thesis proceeds with a critical review of the relevant literature.

CHAPTER TWO: LITERATURE REVIEW

“Value creation must directly benefit the customer. Increasingly, companies are coming to realise that their survival, first and foremost, depends on their capacity to create direct and tangible customer value in every part of their enterprise.” (Rackham, 1999, p. 9)

The purpose of this chapter is to provide a conceptual foundation that will support a study of how firms orient toward and proceed with the customer value creation task. The review summarises the relevant literature, and demonstrates a need for research in the topic area.

2.1 Chapter outline

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2.2 The resource based view (RBV) of the firm

"The resource-based view of the firm is becoming the most influential theoretical paradigm in management strategy, with the definition of critical resources stretching across core competence, invisible assets, capabilities, organisational processes, firm attributes, information and knowledge, which enable companies effectively to implement strategies to improve performance." (Clarke and Clegg, 2000, p. 5)

This thesis is grounded in the resource-based view (RBV) of the firm. Although having limitations, which are discussed in this section of the thesis, the RBV on balance is helpful in capturing components and dynamics pertaining to the customer value-related activities of the firm.

This section of the thesis therefore reviews the literature pertaining to the RBV, drawn from strategic management, and more recently from marketing. These ideas provide the theoretical framework for developing understanding of customer value and its creation and delivery, which is discussed in section 2.3 of this chapter.

2.2.1 Evolution of the RBV

Understanding firm performance through the lens of its resources was first proposed in the 1930's by industrial economists Chamberlain and Robinson (Barney 1986; Peteraf 1993; Wernerfelt 1984). The idea attracted only limited attention until the late

1950's, when Penrose (1959) articulated a theory of the growth of the firm based on the notion of firm-specific resources. The ideas of Chamberlin, Robinson and Penrose were taken up in the strategic management literature in the early 1980's, with a seminal paper by Wernerfelt (1984) introducing the terminology 'resource-based view' and exploring the implications of resource heterogeneity for corporate level strategy. Barriers to entry, strategic options and competitive position were explained in terms of resources (i.e. inputs to and processes of business activity) rather than through the prevailing lens of market offerings (i.e. outputs of business activity).

In the early 1980's, Porter's value chain framework complemented the RBV (Porter 1985; Porter 1980a). The value chain articulated resource-based differences among firms, providing insight into the advantage-conferring attributes of both primary value related processes (e.g. logistics, operations, sales) and secondary or supporting value related processes (e.g. procurement, IT and HR). Each set of activities or processes can be viewed as a potential source of advantage (Barney 1991). The value chain framework was an important foundation for later work that developed the notion of competencies and capabilities, based on assets, skills and combinations of activities in internal processes (Collis and Montgomery 1995; Day 1994; Hamel and Prahalad 1991b; Prahalad and Hamel 1990). Porter's work also addressed industry structure. The five forces model of market profitability mapped five driving forces of competition (buyers, suppliers, potential entrants, substitutes and industry competitors) offering an explanation of performance based on industry structure (Porter 1980b). Contrary to the RBV, the industry structure model implied profitability determinism, i.e. irrespective of the strength and configuration of the firm's value chain, industry level forces would determine profitability.

However, in the 1990s a growing weight of evidence indicated that industry structure was not a comprehensive explanation of firm performance, and that firm differences played a significant role (Fahy 1998; Fahy and Smithee 1999; Hawawini et al. 2000; Hawawini et al. 2002). Growing acceptance of the RBV was reflected in the selection of Wernerfelt's 1984 paper as the best paper in the 1994 *Strategic Management Journal* (Hoskisson et al. 1999); and by publication of three articles in the influential Harvard Business Review on the subject of core competencies and capabilities (Collis and Montgomery 1995; Prahalad 1993; Prahalad and Hamel 1990).

Over the past decade the RBV has become increasingly well articulated in the strategic management and marketing literatures. There is general agreement that the RBV offers a contribution as a theory of competitive advantage (Barney 2001a; Falkenberg 1996; Peteraf 1993; Srivastava et al. 2001), and as a framework for understanding strategic marketing issues (Day 2002; Fahy and Smithee 1999; Falkenberg 1996; Hunt 1997; Srivastava et al. 2001). However, it is also noted that a coherent body of theory has yet to emerge to summarise the RBV (Collis 1991; Fahy and Smithee 1999) and that a number of conceptual and empirical issues are yet to be resolved (Barney 2001a; Bowman 2001; Fahy and Smithee 1999; Makadok 2001; Priem 2001; Priem and Butler 2001b). These issues are discussed later in the thesis.

2.2.2 Key ideas, conceptual frameworks, & contribution

The RBV perspective recognises that industry demand is heterogeneous and dynamic, consumers have imperfect information, obtaining information is costly, and that the environment is only one of many influences of strategy and performance. It thereby relaxes the constraints of the neo-classical theory of the firm, which assumes industry resources are homogeneous and freely mobile (Hunt and Morgan 1995), and acknowledges that resources are distinctive, scarce and appropriable, and thus intrinsically provide sources of advantage (Wernerfelt 1984). Resources translate into competencies and capabilities, held to be central to the firm's competitive position. Rather than "adapting meekly to industry circumstances" (O'Driscoll et al., 2000, p. 83), the firm exercises its ability to exploit its resource base, and in so doing, creates differential advantage over its competitors. The firm can therefore move beyond industry determinism, and proactively shape the environment rather than reactively adapt (Courtney et al. 1997; Hamel and Prahalad 1995; Hamel and Prahalad 1991a; Krinsky and Jenkins 1997).

The concept of value and value creation is fundamental to the RBV (Bowman 2001). It is held to be determined by exogenous factors, and derived from perceived use value, total monetary value and exchange value (Barney 2001a; Barney 2001b; Bowman 2001; Priem and Butler 2001a; Priem and Butler 2001b). *Perceived use value* is product or service value defined by customers, based on their perceptions of the utility of the offer. *Total monetary value* is the amount the customer is prepared to pay for the offer plus consumer surplus (Collis, 1994). *Exchange value* is realised when the product is sold, and represents the amount paid by the buyer to the producer

for the perceived use value. Firms create perceived use value, and, through the sale of products and services, capture exchange value. Total monetary value is shared with the consumer, the firm taking the price paid, and the consumer taking the consumer surplus (Bowman and Ambrosini 2000). ‘Value’ in the RBV is therefore held to be created by the firm, in the context of the competitive environment, and with respect to customer requirements. The value thus created is tradable, and is shared between stakeholders in the exchange, with a focus on the firm-customer dyad. The RBV does not explicitly acknowledge the firm’s embeddedness in a network environment (Gnyawali and Madhavan 2001), and therefore the contribution to the value created by actors external to the firm.

2.2.2.1 Resources as value-supporting assets

Resources can be understood from a number of perspectives. Traditionally resources were viewed as tangible assets that could be valued and recognised on the firm’s balance sheet, and set off against equity and debt (e.g. plant and equipment). This view is now seen to be more appropriate in the context of the industrial economy, where manufacturing and its consequent focus on tangible assets dominated (Doyle 2000a; Vargo and Lusch 2004). In the knowledge based economy the crucial role of intangible assets (e.g. brands, intellectual capital, and relationships) is increasingly recognised, (Doyle 2000a; Olavarrieta and Friedmann 1999; Teece 1998) together with the critical nature of managerial skills and competencies (Christensen 1997; Dove 1997; Hamel 1999; Hawawini et al. 2000). These resources can be viewed as ‘behavioural’ assets, relating to the value people bring to the leveraging of resources. Behavioural assets are complex, relating to operations and the internal environment as well as external networks and relationships. The intangible nature of these assets means that they are costly, difficult to control and hard to value (Falkenberg 1996).

In competitive mature markets, and particularly in the service and knowledge economy, intangible or behavioural assets (e.g. brands, customer relationships and knowledge) are more likely to be advantage-conferring (Cleef 2001; Day and Montgomery 1999; Kim and Mauborgne 1999), as they are difficult to imitate. However, accounting practice retains an industrial economy-based perspective to strategy, focusing on traditional approaches to valuing strategic alternatives (Doyle 2000a; Gleadle 1999; Piercy 1998b; Sawhney 2003b). The result is large differences between the book value of the firm (i.e. the amount shown on the balance sheet) and

the market valuation or market capitalisation of the firm (share price x number of shares). In practical terms, it can also result in marginalisation of functions that focus on leveraging intangible assets - notably marketing (Barwise 1995; Brownlie and Saren 1997; Doyle 1995; McDonald and Wilson 1999).

2.2.2.2 Advantage-conferring characteristics of resources

Under the RBV, resources are viewed as heterogeneous, potentially immobile, and therefore able to confer advantage. While a number of characteristics of advantage-conferring resources have been proposed, the five aspects proposed by Collis & Montgomery (1995) are generally agreed to be both comprehensive and parsimonious: appropriability, inimitability, durability, non-substitutability and competitive superiority (Fahy and Smithee 1999).

The notion of *appropriability* of value created by resources and thus the ability to confer advantage to the firm is both important and problematic. The number of stakeholders involved in a business system is both a political and practical issue, ranging from the firm's closer constituency (e.g. customers, on-sellers and shareholders) to the inclusion of society in general. Thus, there are multiple stakeholders and thus multiple claimants (and contributors) to the value produced; and property rights may not be clearly delineated (Collis and Montgomery 1995; Fahy 1998; Fahy and Smithee 1999). This issue is discussed in more detail in section 2.2.2.5.

Inimitability captures the idea that in order to confer advantage, the value-producing activities arising from effective deployment of an advantage-conferring resource should be difficult (ideally impossible) for competitors to imitate. The difficulty in copying resources is captured in the notion of 'unpacking stickiness' (Szulanski 1995). This idea acknowledges the embeddedness of resource-based capabilities and competencies in the context of the particular firm within which they are resident. Furthermore, the emergence of the knowledge or service-based economy has placed emphasis on the importance of individuals and information. Three of the four sources of inimitability (path dependency, economic deterrence, physical or legal uniqueness and causal ambiguity (Collis and Montgomery 1995) are knowledge related. Path dependency implies the learning process entailed in building capabilities and competencies. Innovation and patents are both knowledge-related and a source of physical and legal uniqueness respectively. Causal ambiguity or difficulty in

identification of the components of advantage would logically arise from deploying an intangible resource such as knowledge. Clearly, while managing tangible resources was challenging, managing knowledge-based resources is even more complex e.g. intellectual property, patents and brand equity (Cleef 2001; Day 1999; Kim and Mauborgne 1999).

Durability captures the notion that in order to confer advantage, a resource should have enduring qualities that transcend a rapidly changing environment. Brand equity and customer relationships are more likely to confer advantage in this respect than process or product reengineering (Chakravarthy 1997; Hope and Hope 1999; Teece 2000).

Substitutability captures the possibility that a crucial resource might be replicated by a direct or indirect substitute, for example, when the CD-ROM replaced the printing presses and consequently the 32 volumes of the Encyclopaedia Britannica (Evans and Wurster 1997). Therefore, in order to confer advantage, a resource must be non-substitutable at the generic need level.

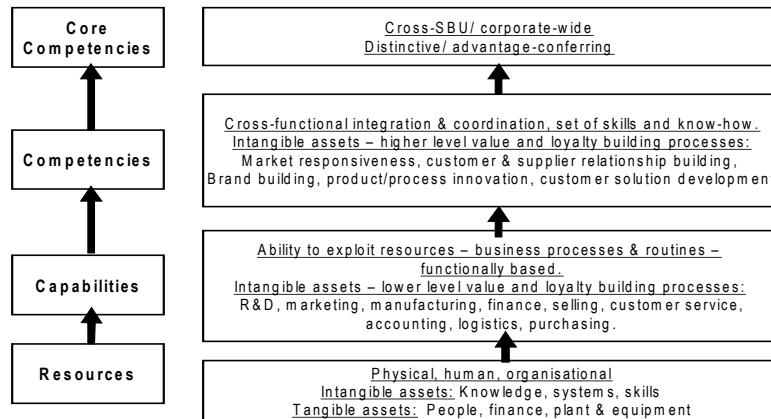
Competitive superiority is captured in the idea of a 'core' or 'distinctive' competency, which provides relative (rather than absolute) advantage. This is generally seen as a unique property, predicated on an orchestrated set of activities tailored to the chosen strategy – a systemic rather than functional view of sustainable competitive advantage (Porter, 1996). The ability of the firm to orchestrate resource in a relatively superior manner can therefore confer advantage. Managerial skill and knowledge in this respect is therefore crucial.

2.2.2.3 Capabilities and competencies as value-creating processes

A discussion about resources is inseparable from the notion of the value-creating processes that transform resources, i.e. the firm's competencies and capabilities. Competencies and capabilities are predicated on the firm's ability to identify, procure and exploit critical resources. A firm's core competency (or competencies) is linked to its resource base, should deliver a significant source of competitive differentiation, and should be applied across the activities of the firm rather than single markets, resulting in 'layers of advantage' (Prahalad and Hamel 1990). Thus, in the RBV, resources contribute to the firm's position of competitive advantage.

Figure 2.1 illustrates the linkages between resources, capabilities and competencies, and core or distinctive competencies:

Figure 2.1: Relationship of core competencies and capabilities to value creating assets and processes (adapted from Javidan, 1998)



At the most basic level, physical, human and organisational resources (e.g. people, finance and equipment) are identified, procured and retained. These resources are transformed into ‘capabilities’, defined as a “*series of (functionally based) business processes and routines that manage the interaction among its resources.*” (Javidan 1998, p. 62). Capabilities are created from the tangible and intangible asset base to create base level value and loyalty building processes – for example a cost-effective logistics function enabling lower pricing, or an effective selling organisation enabling shorter time-to-market. Notionally, these functionally based processes are then transformed into ‘competencies’, the complex cross-functionally based processes that incorporate resources, skills and knowledge and that create value (Srivastava et al. 1999). Competencies are derived from the firm’s ability to integrate its capabilities i.e. to create cross-functional value-building processes. A competency is clearly a complex amalgam of resources, behaviours and processes.

Consideration of the issue of competitive position highlights core or distinctive competencies: i.e. the firm’s ability to transform resources into a multi-layered and multi-faceted position of advantage based on unique business systems and processes (Collis and Montgomery 1995; Hamel and Prahalad 1991b; Javidan 1998; Prahalad 1993). Anecdotal evidence indicates that evaluating such a highly aggregated and complex construct is problematic. While attributes of appropriability, inimitability, durability, non-substitutability and competitive superiority discussed previously can be construed, the analyst can more readily understand the derivation of a firm’s

competencies when working at the disaggregated level of component capabilities and resources. A further point is that while competencies are path dependent, the nature of the path may not be logical or sequential, owing to accident, serendipity and discontinuous innovation (Hamel 1998; Kaplan 1999; Turner 1997; Tushman and O'Reilly 1996). Ambiguity is a central attribute of a core competency, creating barriers to imitation. Once managers identify and articulate the source of advantage it may become more readily imitable, and therefore the advantage is lost (Barney, 1986).

The emerging dynamic capabilities view expands the RBV to acknowledge issues with on-going inimitability of resources or processes (Eisenhart and Martin, 2000) and the notion of capabilities lifecycle (Helfat and Peteraf, 2003). Dynamic capabilities are held to be a set of specific processes such as marketing communications, strategic decision making, and creating alliances. Despite some idiosyncratic content, the notion of 'best practice' suggests commonalities between firms. As Eisenhart and Martin (ibid) note: *"This suggests that [resources] are more homogeneous, fungible, equifinal, and substitutable than is usually assumed."* (p.1105), in turn suggesting limitations in the RBV with respect to critical resource attributes (e.g. heterogeneity, inimitability, appropriability, superiority, substitutability and competitive superiority). The idea of a 'capability lifecycle' suggests that capabilities evolve predictably over time, that this evolution being path dependent, therefore providing a rationale for heterogeneity, and in turn influencing the firm's competitive position. While resource heterogeneity is fundamental to the RBV, there is limited explanation regarding sources of and processes giving rise to heterogeneity, meaning that the link between resources, capabilities and competitive advantage is unclear (Helfat and Peteraf, 2003).

2.2.2.4 Explanation for firm performance

"The distinction between the sources and positions of competitive advantage that account for sustained differences in firm performance is derived from the resource-based view (RBV) of the firm. The essence of this theory is that when a firm's sources of advantage are valuable, superior to rivals and durable they are the basis for a sustainable competitive advantage." (Day 2002, p. 4).

The RBV is held to explain performance differences between firms in both the strategic management and marketing literatures (Fahy and Smithee 1999). The underlying assumption is that the firm seeks a position of differential or competitive

advantage. Competitive advantage can be usefully conceptualised as the ability to offer superior customer value at least cost (Davidson 1997). Thus, a position of advantage is held to deliver above average returns, and (assuming that these returns can be suitably appropriated), will deliver increased cash flows and hence improved shareholder or stakeholder value. (Cleef 2001; Copeland et al. 1994; Day 2002; Doyle 2000a; Srivastava et al. 1999)

Under the RBV, differential access to resources that are fixed or quasi-fixed in supply enables enjoyment of economic rent (Peteraf 1993). These resources are both relative and absolute in nature. That is, these resources are both rival-related (e.g. a strongly differentiated brand), and non rival-related (e.g. knowledge) (Fahy and Smithee 1999). Clearly, while industry structure is relevant to *industry* profitability, it is not sufficient to explain performance differentials between *firms* within those industries (Grant 1991).

The notion of Ricardian rents is useful in explaining performance differences between firms. This theory holds that rental earnings arise because a profit-earning resource or factor (e.g. labour, land, capital) is in fixed supply (i.e. scarce), and differential in quality (i.e. heterogeneous). Rent is earned when, in order to secure profit-earning resources, competitors 'bid up' the value of these resources. Ricardian rent is the difference in profits earned from the higher or lower value resources, in turn a function of both the quality of those resources, and the ability of the owner or user to extract value from those resources (Barreto, 1990). In the 1800's such rent accrued to the owners of land (scarce and of differential fertility), however, in the 2000's, it has been argued that the scarce resource accrued to the owners of labour in exchange for knowledge and talent (Chacar and Coff, 2000). In addition to being a resource-centric concept, Ricardian rent is also a distributive concept i.e. the rent earned is differentially distributed among resource owners and resource users according to the quality, scarceness and uniqueness of the resource. Ricardian rent theory therefore provides an explanation of the source of value, and of value appropriation in the RBV (Barreto, 1990).

RBV logic therefore holds that if the firm achieves both a position of competitive advantage (i.e. superior customer value at least cost) and can appropriate a satisfactory portion of value from this position from monopoly and/or Ricardian rents, positive cash flows will result, in turn translating to shareholder value. The issue of

appropriation of value is important, and is discussed in more depth in the following section.

A further point relating to firm performance is the influence of competitive forces. Notionally, rational consumers choose the offer delivering greatest 'value' or consumer surplus. The firm presenting that offer would therefore enjoy competitive advantage. Increased volume or margin achieved from this position would enable reinvestment in resources, and continuation of that position, *ceteris paribus* (Olavarrieta and Friedmann, 1999). However, in dynamic markets a position of competitive advantage is subject to continuous attack, indicating that continuous improvement is required in order to maintain that position. Reinvestment in customer value is therefore a precondition of long-term survival. Notionally, investment in long term customer value would result in increased shareholder value, while disinvestment (e.g. decreasing investment in marketing communications or research and development expenditure) would result in decreased customer value and therefore decreased long term shareholder value (Cleland and Bruno, 1997). Furthermore, financial strategies (e.g. share buy-backs, or increasing debt) may have a deleterious effect on shareholder value (Brealey and Myers, 2000), which may limit the firm's ability to attract investment, which in turn may compromise the firm's ability to provide levels of quality and service (i.e. customer value). Thus, there are strong linkages between customer value and shareholder value - both must be addressed in order to sustain the business (Bowman 2001; Teece 1998).

2.2.2.5 Appropriation of value

“Essentially business is about appropriating value for oneself; it is not about passing value to customers unless circumstances decree that this is the only (and it is normally the least desirable) option available to a company in order for it to sustain itself in business.” (Cox, 1999, p. 171)

The stakeholder view and consideration of which parties are in a position to appropriate the rent or value created provides an additional dimension to the resource-based view of firm performance (Coff 1999). The Cox (1999) position articulated in the quotation suggests there is potential conflict in value appropriation and distribution. This conflict primarily arises from inability of the firm to realise rent from competitive position. Under the RBV a position of competitive advantage (superior customer value at least cost) translates to above-average profits. However, a

position of competitive advantage does not necessarily translate to higher firm performance levels, unless the firm can realise the rent-generating potential of its resources and capabilities i.e. maximise the price paid for goods and services (Grant 1991). In both the monopoly profit and Ricardian rent models, if monopoly power or a superior resource position is not capitalised upon by the firm's managers, then the value created may be appropriated by stakeholders other than the firm's shareholders – e.g. suppliers, employees, channel partners, or by consumers in the form of a consumer surplus (Bowman 2001). Thus, value created is competed for by multiple stakeholders.

The stakeholder literature offers insight into the issues associated with competition for share of value created. Distribution of value created is contingent on how much of the rents created are appropriated by various stakeholders. A stakeholder is “... *any group or individual who can affect or is affected by the achievement of the organisation's objectives.*” (Freeman 1984), p. 46). While customers and shareholders are clearly major stakeholders, other groups compete for a share of the value, ranging from employees to wider society. According to resource dependency theory, each stakeholder group is more or less successful in their quest for share of value in any exchange depending on their relative influence in the value-creating process (Varey 2002b). This in turn depends on the group's relative disposition with respect to power, legitimacy and urgency (Mitchell et al. 1997). Power is defined as coercive (i.e. physical), utilitarian (i.e. resource-derived or material) and normative (i.e. behavioural or symbolic). Legitimacy is defined as “socially accepted and expected structures or behaviours” (ibid, p. 866). Urgency captures the notion of a dynamic and time-sensitive relationship. Mitchell, Agle & Wood (1997) identify three types and eight groups of stakeholders based on these dimensions, described in Table 2.1:

Table 2.1: Stakeholder typology by power, legitimacy & urgency (Source: adapted from Mitchell, Agle & Wood 1987).

Stakeholder type	Power	Legitimacy	Urgency	Example
Definitive	High	High	High	Managers, key customers, major suppliers
Expectant:				
Dominant	High	High	Low	Board of directors, shareholders, government, unions
Dangerous	High	Low	High	Saboteurs, terrorists, corporate gadflies
Dependent	Low	High	High	Local communities
Latent:				
Dormant	High	Low	Low	Former employees/ insiders
Demanding	Low	Low	High	Fringe political activists
Discretionary	Low	High	Low	Recipients of corporate philanthropy
Non-stakeholders	Low	Low	Low	People in unserved markets e.g., other countries

These examples are context dependent – unions may or may not be powerful, depending on the nature of the industry and the contribution of organised labour to the value created. In a unionised site, (e.g. a major port), a stevedore’s union would be a ‘definitive’ stakeholder, whereas in a software firm a clerical worker’s union is likely to be ‘discretionary’. The typology thus offers a framework for assessing various groups’ claims on value created – e.g. definitive stakeholders are more likely to claim value more effectively than dormant or discretionary stakeholders are. Movement between groups is clearly dynamic – for example, employees could be viewed as either definitive or dependent, based on their level of utilitarian power. From a Marxian perspective employees would be regarded as dependent stakeholders (i.e. the proletariat), however in the knowledge economy it is argued that employees are becoming definitive stakeholders, based on the utilitarian power of talent. Under the RBV, factors leading to a resource-based advantage predict which parties are best positioned to appropriate the rent created i.e. which stakeholders will be definitive. Therefore, in a knowledge-rich environment, those with more knowledge are likely to appropriate more rent from value created than those with less, *ceteris paribus*.

The marketing literature offers a second dimension on the RBV, that of the inseparability of customers from the value creation process. While Cox (1999) advocates minimising the value passed on to customers, the marketing literature acknowledges linkages between customer value and shareholder value:

“Even the most focused financial manager understands that the source of a company’s long-term cash flow is satisfied customers.” (Doyle, 2000b, p. 34)

In order to compete effectively, the firm must pass on an appropriate proportion of value to its customers, with the objective of creating long-term satisfaction and loyalty. The result is that stakeholders (including customers, shareholders and other internal and external stakeholders) share the value created, suggesting a point of ‘value equilibrium’ at which requirements are in balance, and at which the firm can profitably survive.

2.2.2.6 Role of managers

The RBV holds that the firm’s competitive position is contingent on managerial abilities in resource acquisition and leveraging. The resource *acquisition* aspect reflects earlier thinking, and focuses on the identification and procurement of key resources (Collis and Montgomery 1995; Fahy and Smithee 1999; Javidan 1998; Peteraf 1993; Wernerfelt 1984). Superior ability in *leveraging* resources acknowledges recent thinking focussing on processes, reflected in a large literature exploring the firm’s competencies and capabilities (e.g. Collis and Montgomery 1995; Javidan 1998; Olavarrieta and Friedmann 1999; Stalk et al. 1992; Vorhies and Harker 2000). Acquiring and leveraging appropriate resources is predicated on appropriate strategic choices, and effective implementation (Bharadwaj et al. 1993; Fahy and Smithee 1999; Grant 1991; Peteraf 1993; Srivastava et al. 2001; Teece 1998). The role of managers is therefore crucial in devising strategy, correctly understanding the resource implications of that strategy, then procuring and retaining the resources that enable the strategy.

Recent strategic management literature highlights the crucial role of managerial talent, which may also be viewed as a resource that firms are differentially able to attract and retain (Chacar and Coff 2000; Kim and Mauborgne 1999; Olavarrieta and Friedmann 1999; Prahalad and Ramaswamy 2004). Supporting this position, the marketing literature reflects increasing attention to the issue of competencies and capabilities (e.g. Doyle 2000b; O’Driscoll et al. 2000; Piercy et al. 1998; Vorhies and Harker 2000). Some finesse is emerging on this point: studies have found that superior (or poor) management leads to superior (or poor) performance irrespective of industry structure (Fahy and Smithee 1999; Kim and Mauborgne 1999; Stalk et al. 1992). A recent study found that the few dominant firms at the extremes in each industry (i.e.

leading and lagging) enjoy or suffer the effect of managers' abilities in deploying firm-specific assets, while in the case of average firms industry structure offers a better indicator of performance (Hawawini et al. 2000).

The strategic management literature highlights the role and skills of the strategist (e.g. Fulmer and Vicere 1996; Mintzberg 1996; Robert 1993; Whittington 2002). Skilled strategists require a portfolio of developed personal skills, usually based on formal learning, the ability to internalise and apply appropriate tools, powers of persuasion based on personal credibility, and the ability to influence strategy teams (Whittington 2002). However firms struggle to link strategy and implementation (Campbell 2002; Campbell and Alexander 1997), and strategy and performance (e.g. Cravens et al. 1998; Day and Fahey 1990; Eisenhardt 1997; Lysonski and Pecotich 1992). These concerns may explain the popularity of devices linking performance to strategy such as the balanced scorecard (Kaplan and Norton 1992; Kaplan and Norton 1996; Rigby 2001) and EVA³ (Hamel 1997; Javidan 1998; Prahalad and Hamel 1994; Tully 1993). Clearly, firms' ability to attract managerial talent, and managerial skills in identifying and leveraging resources (including managerial talent) is crucial to the performance of the firm.

2.2.2.7 Conceptual & empirical issues

In the late 1990's and early 2000's, the RBV has been extensively reviewed and revisited (e.g. Barney 2001a; Fahy and Smithee 1999; Hunt 1997; Olavarrieta and Friedmann 1999; Priem and Butler 2001a; Srivastava et al. 2001). While there is a growing consensus that the RBV offers a framework that "*has in large part liberated managerial ambitions from the determinist, 'environment-is-all' school of thinking*" (O'Driscoll et al., 2001 p. 74), several conceptual, managerial and methodological issues have attracted attention (Fahy 1998).

Firstly, inconsistent use of terminology relating to assets, skills, resources, capabilities and competencies has created confusion (Javidan 1998). To an extent, this situation still holds, although recent work tends to offer a similar consensus to that offered in the previous discussion (i.e. *capabilities* are functionally based processes based on specialist skills and knowledge, while *competencies* are complex cross-functional

³ Economic Value Added

processes based on the full gamut of the firm's resources, skills, knowledge and specialist abilities). The author's experience supports the view of Barney (1986) and Javidan (1998) that ambiguity and complexity may have hampered understanding and hence application of these ideas by managers. Diagnosis and nurturing of competencies and capabilities (as with any intangible asset or knowledge-based skill) can be problematic (Javidan 1998).

A second criticism is that the RBV is internally oriented and firm centric (as opposed to customer-centric or industry-centric), reflecting the roots of the RBV in the strategic management rather than marketing literature (Day 2002). However, the author questions this view as under the RBV resources create value, and as discussed in depth in section 2.2 of this chapter, value is a relative notion and must therefore be assessed in terms of a particular context. While the RBV may appear firm centric on face value, an industry-wide view is implicit. A firm's resources are evaluated in the context of a competitive environment rather than in absolute terms (Barney 1991; Kay 1993); and subject to market forces of demand, scarcity, and appropriability of returns (Collis and Montgomery 1995; Fahy and Smithee 1999; Hooley 2001). The latter point, appropriation of returns, is important, and is discussed in further depth later in this chapter.

Thirdly, the criticism of tautological reasoning has been levelled, in that the primary major assertions made are not empirically testable i.e. are true by definition. Under the RBV, superior resources lead to competitive advantage, which in turn defines industry structure, which in turn defines what is a valuable resource (Day 2002; Priem and Butler 2001a; Priem and Butler 2001b). This thesis takes the Barney (2001) position that while there is an element of tautology within the theory, the explanatory power is not diminished.

A fourth issue relates to the debate regarding firm versus industry effects. The debate offers two schools of thought: Porterian/ determinist, whereby industry characteristics determine firm profitability, and the non-Porterian/ voluntarist view whereby firms determine firm profitability. The Porterian view holds that industry profitability is a function of structural composition rather than firm efforts and that industries are characterised by independent players, structural advantage and lack of uncertainty (Coyne and Subramanian 1996). Alternative views have recently emerged. Industries can be seen as co-dependent systems, characterised by cross-industry structures such

as networks and alliances or value ‘webs’ (Cartwright and Oliver 2000; Dyer and Nobeoka 2000). Industries can also be viewed as a network of privileged relationships based on friendship, trust, filial or ethnic bonds and financial interests such as chaebol, keiretsu, and by non-legal bodies such as mafia and gangs (Coyne and Subramanian 1996). Non-Porterian views hold that managerial performance rather than industry structure determines firm profitability, and that industry effects can be overcome by superior strategy (Fahy 1998). A third more integrative perspective is emerging i.e. that managerial skill or industry structure alone is insufficient to explain profitability and performance differences – both play an important role (Hawawini et al. 2000).

Overall, the RBV has strengths and limitations. Strengths are that it links performance outcomes (i.e. cash flows arising from positional advantage) to skills in integrating and leveraging resources, it focuses attention on the organisational processes where competencies are exercised and value is created, and it recognises the important role of intangible (i.e. marketing related) assets and in particular brands, learning and knowledge, as barriers to imitation. The firm’s value creating and delivering processes form the link between internal resources and the external environment. Limitations are that it can encourage an internal or myopic orientation, there is the risk of a tautological and therefore unhelpful resource identification process, and capabilities and competencies can be difficult to identify and therefore leverage (Day 2002). Limitations in the traditional conceptualisation of the RBV is a narrow view of the firm i.e. the firm alone is the major actor in identifying, acquiring, and leveraging appropriate resources, and is be a closed system. This does not take into consideration the contribution made by the firm’s wider network of relationships, and the resources available to, if not controlled by, the firm through the agency of these external parties, for example on-sellers and alliance partners (Gnyawali and Madhavan, 2001). It also assumes rational and purposive behaviour on the part of the firm’s managers, which in political, cognitive and behavioural understandings of managerial behaviour and strategising is also viewed as limited (Mintzberg and Lampel, 1999).

On balance, however, and recognising these limitations, this thesis takes the position that the RBV is an appropriate theoretical framework for a study of customer value creation and delivery, as it directs attention to key entities in strategy and implementation – managers, resources and processes. It also encompasses the wider

operating environment, as these entities are viewed in a relative rather than absolute context. The addition of a stakeholder lens offers insight into performance outcomes not only for the firm and its shareholders, but also for customers and other involved parties. The RBV thus provides a “*cogent mix of economic rigour and management reality*” (Fahey, 1998, p. 5), offering a more realistic representation of the contemporary marketing environment than neo-classical economic theory.

2.2.3 Linkages with marketing

“... (In the marketing and SM domains) a common emphasis upon leveraging resources to create and sustain value for the organisation’s stakeholders (and, in particular, customers) should not be surprising, given the considerable goodness of fit between marketing realities and the assumptions of the RBV.” (Srivastava, Fahey & Christensen, 2001, p. 777-778).

The RBV is increasingly acknowledged in the marketing literature, in that the role of marketing-oriented managers is now understood to be concerned with the creation and management of intangible assets, in other words, identifying, securing and leveraging valuable resources (e.g. Ambler et al. 2002; Doyle 2001; Hooley 2001; Srivastava et al. 1999). Unique and inimitable resources provide the basis for a position of sustainable competitive advantage, the conceptual heartland of marketing strategy (Day and Wensley 1983). However, despite these logical linkages between the RBV and marketing theory, marketing theorists “*have not fully articulated processes by which internal and market-based resources are converted into competitive advantages and therefore have not provided broad-based integration of marketing and RBV.*” (Srivastava, Fahey & Christensen, 2001, p. 778).

This section of the thesis examines the linkages between the RBV and marketing theory.

2.2.3.1 Common assumptions

The underlying assumption of the RBV is that the firm exists to create value for shareholders and other stakeholders (Barney 1986; Peteraf 1993; Wernerfelt 1984). This view is mirrored by calls from marketing theorists for marketers to attend to creating shareholder value by managing intangible assets in the light of the cash flows generated by these assets (e.g. Doyle 2000b; Piercy 1997; Srivastava et. al. 1998, 1999, and 2001). These cash flows are produced as customers choose the firm’s offerings in preference to competitive offerings and substitutes over time.

A second common assumption is the notion of competitive advantage, which plays a crucial role in both the RBV and marketing literatures. Both literatures focus on leveraging resources into distinctive capabilities and competencies, which in turn generate cash flows and shareholder value e.g. (Collis and Montgomery 1995; Cravens et al. 1998; Juttner and Wehrli 1994; Porter 1996; Thompson 1998).

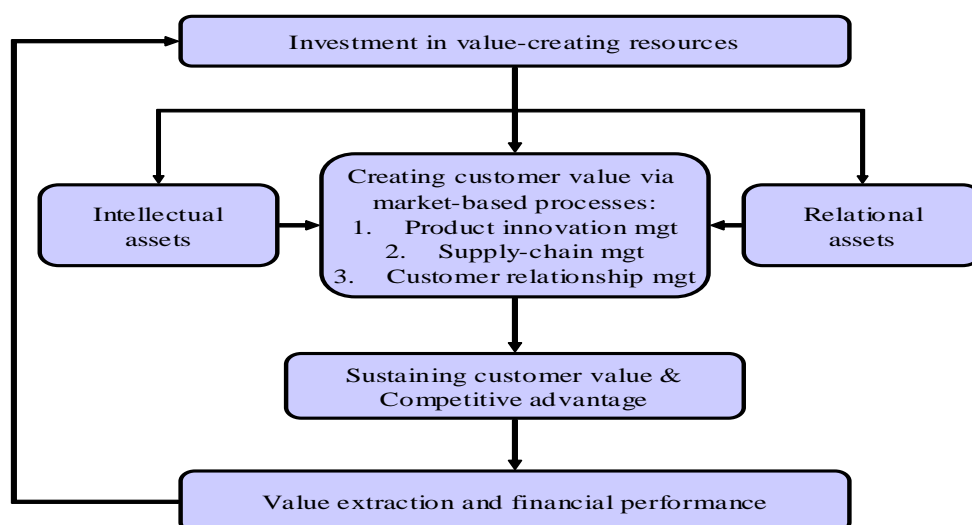
A further commonality is agreement on the need to incorporate both internal and external factors into the strategic thinking process i.e. current and future economics of the served market or industry, and the firm's resource base. Successful leveraging of resources (the nexus of strategy and operations) is derived from management's understanding of the nature and potential of the firm's resources. This is implicit in the RBV, and increasingly explicit in the marketing literature e.g. (Day 2002; Fahy and Smithee 1999; Hooley 2001; Hunt 1997; Srivastava et al. 2001).

Ironically, in both literatures, the notion of resources is not well defined. The RBV literature has not offered a generally accepted understanding or classification of resources (Priem and Butler 2001b), and there is no generally accepted understanding of resources, assets and capabilities in the marketing literature (Day and Nedungadi 1994; Srivastava et al. 2001).

2.2.3.2 Role of assets, resources & capabilities

Figure 2.2 illustrates a framework for analysis of marketing-related resources:

Figure 2.2: Framework for analysis of market-based resources (adapted from Srivastava, Fahy & Christensen, 2001)



The framework highlights the connection between investment in valuable resources, and the return on investment on these resources. According to this view, marketing activities comprise this connection. Marketing activities can therefore be conceived of as a meta-process that transforms financial inputs into enhanced financial outputs – i.e. that creates value. Resources (including financial resources) are leveraged strategically to create customer value and to position the firm for success in the context of market place uncertainty. As shown, ‘leveraging’ involves employing marketing-specific resources to undertake three ‘market-facing’ processes (product innovation management, supply chain management and customer relationship management). If the process is successful (and the environment allows), then this will result in superior customer value, which in turn results in a position of differential or competitive advantage and thus superior corporate performance or financial returns. These returns can then be reinvested in developing future assets and capabilities.

While this framework is useful, it is incomplete. The original framework resources were described as ‘market-based’, implying the existence of other (presumably non-market based) resources. The author questions this distinction and would argue that *all* resources are market-based, playing either a direct or indirect role in creating value for the customer, and therefore a distinction between ‘marketing’ or ‘non-marketing’ related resources is specious. A further issue with this framework is that environmental context is implicit rather than explicit, as are the multiple entities inherent in the firm’s networks and relationships. A more complete conceptual framework has accordingly been developed, and is presented in section 2.2.4.

A number of theoretical and empirical issues relating to assets and capabilities arise from a marketing perspective⁴. With respect to assets:

*“Assets refer to organisational attributes that an organisation can acquire, develop, nurture and leverage for both internal (organisational) and external (marketplace) purposes.”
(Srivastava, Fahey & Christensen, 2001, p. 779).*

Firstly, the view of assets in marketing encompasses those both internal and external to the firm. This view enhances that of the accounting literature, and that of the RBV.

⁴ This thesis subscribes to the logic of the Javidan (1998) competencies hierarchy : ‘processes’ are interchangeable with ‘capabilities’ (or competencies). In the interests of simplicity, the term ‘capabilities’ will be employed.

Traditionally, an asset is a property owned or controlled by the firm, having an assumed value that should be constantly maximised (Davis 1995). The difficulty with this understanding of assets is that it takes no account of the network or relational view of marketing (e.g. Brodie et al. 1997; Christopher et al. 1991; Gronroos 1994a; Gummesson 1993; Hunt and Morgan 1997; Sheth 1994). Customer and contributor relationships are external to the firm, and while notionally managed, cannot be sensibly conceived of as 'owned' or 'controlled'. A further broadening acknowledges that value creation is carried out by parties both internal and external to the firm (Falkenberg 1996). For this reason a study of creation and delivery must direct attention not only at the firm, but also to the firm's wider constituencies, i.e. the value-creating network surrounding the firm (Axelsson and Easton 1992; Hakansson and Snehota 1989; Juttner and Schlange 1996; Wilkinson 2001).

Secondly, the issue of tangibility and intangibility is crucial in marketing, and the tangibility (or lack thereof) of assets presents issues for marketers (Doyle 2001; Olavarrieta and Friedmann 1999). Examples of intangible assets would include market knowledge, company and brand reputation, relationships with key customers, supply chain relationships, and strategic alliances. Examples of tangible assets would include products, customer databases, and in-store material. The degree of tangibility of assets is material to the role of marketing within the firm. The intangible nature of marketing assets such as brands and relationships, and the difficulty in measuring the efficacy of marketing processes is resulting in the marginalisation of marketers within the firm (Doyle 2000c).

While capabilities are located in functional departments (Javidan 1998), *marketing* capabilities or activities may or may not be resident within the marketing department or marketing function (Achrol 1991; Day 1999; McKenna 1991a). Marketing capabilities accruing from both tangible and intangible assets would include market research (or customer understanding) capability, customer acquisition and retention, new product development, networking and supply chain management (Cravens et al. 1997; Day 1994). The broadening view of marketing, and the acknowledgement of the role of 'full-time' and 'part-time' marketers underpins the notion of marketing-related activities being carried out across the organisation rather than being resident in a functional department (Gronroos 1997; Gummesson 1994; Storbacka et al. 1994; Webster 1992).

2.3.3.3 Marketing competencies: Three value-creating processes

A process can be understood as “*the patterns of interaction, coordination, communication, and decision making employees use to transform resources into products and services of greater worth.*” (Christensen and Overdorf 2000, p. 68). Ideally, value-creating processes should also offer benefits in excess of the costs of undertaking those activities (Cartwright and Oliver 2000).

In the marketing literature, the notion of three generic value-creating processes is well established. These processes are variously expressed as product innovation, supply chain management (or operational excellence), and customer relationship building (or customer intimacy) (Day and Nedungadi 1994; George et al. 1994; Srivastava et al. 1999). The three core processes are the basic building blocks from which the firm creates and delivers value, underpinning the firm’s competencies.

(i) Product innovation management

Product innovation relates to the ability of the firm to create products and services that are meaningfully different from those offered by competitors, through the application of unique knowledge, skills and other tangible resources (Christensen and Overdorf 2000; Kim and Mauborgne 1999; Stalk 1998; Tushman 1997).

Past views of product innovation were centred in the new product development (NPD) literature, and featured concerns with process-related issues such as undertaking rigorous background work, inclusion of the customer’s voice, and attention to achieving product superiority (Cooper 1996). Another stream of literature has attended to strategic issues related to discontinuous innovation. This stream has highlighted issues such as why firms lose positions of competitive advantage in the face of technological change, and the risks inherent in a customer-led approach to NPD (Bower and Christensen 1995; Christensen and Bower 1996; D’Aveni 1999; Day and Montgomery 1999; Kaplan 1999).

In much of the product-related literature, products or solutions are held to be the final expression of customer value – i.e. the product *is* the value. However, more recent literature changes emphasis from a concern with strategic and operational issues with the NPD process itself to the value outputs of the process, and to the contribution of the stakeholders in that process. The focus changed from the technology or artefact (i.e. the product) to the solution or bundle of benefits provided (e.g. Cooper 1999;

Gronroos 1996c; Stalk et al. 1996). Secondly, a stakeholder view has emerged, whereby value is co-created by empowered consumers rather than presented to the market as a fait accompli by innovative suppliers (Ghoshal et al. 1999; Prahalad and Ramaswamy 2000; Ramirez 1998; Senge et al. 2001). The idea of passive consumers is replaced with the notion of active value-creating collaborators; consumers who participate in generating the value they derive. While this idea is relatively new to consumer marketing (although the term ‘prosumers’, was first mooted in the popular literature by Toffler in 1981) the notion of co-development of value or ‘joint discovery’ is well developed in the industrial and relationship literature (e.g. Flint and Woodruff 2001; Flint et al. 1997; Gouillart and Sturdivant 1994)). These ideas are captured in the following quotation from Hamel (1998):

“As the information age takes over from the industrial age and change accelerates, the key challenge for each company is to become the architect of revolution in its industry, leaving other companies to play catch-up. It is argued that the key competitive advantage for companies intent on winning in the new economy is non-linear innovation. Companies need to shift from a product-centric view of innovation to a systemic view of innovation, that is, innovation of the business model itself.” (Hamel 1998, p. 20)

The emphasis has therefore evolved over time from a firm-centric orientation on product technology-based innovation to a customer-centric orientation with a managed NPD process, to a systemic orientation requiring innovation of both products and the supporting infrastructure of resources and processes, and incorporating the customer’s active contribution to this process (Vargo and Lusch 2004).

(ii) Supply chain management (SCM)

Supply chain management is both a philosophy and a practice. The philosophy takes an integrated or systems view of all the activities in the life of a product or service, from the earliest source of raw materials to ultimate consumption (Cooper et al. 1997). More recent thinking takes supply chain thinking to the final step, the ultimate disposal of the product (Senge et al. 2001). The practice of effective SCM relies on a high level of skill in integrating various disparate functional areas e.g. inventory management, logistics, sourcing, freighting, financing and relationship building, with the objective of providing maximum customer accessibility at least cost (Christopher 1997; Franks 2000; Gilmour 1999). There is evidence that firms have differential skill

levels in this regard (Fawcett and Magnan 2002) and that overall supply chain competency is elusive (Beth et al. 2003).

Interest in SCM has risen for three reasons, increased global competition, increased recognition of the systemic nature of business processes, and increasing firm specialisation (Lummus et al. 1998; Lummus and Vokurka 1999; Vokurka and Lummus 1998). Increased competition means that buyers can choose from multiple sources of supply, resulting in less customer loyalty and less predictable buying patterns. Growing recognition of the systemic nature of business processes and the trade-offs implicit in every business decision (i.e. lower component purchase costs may result in higher manufacturing costs) means increased focus on the entire supply chain in business decisions (Bovel and Martha 2000; Walters and Lancaster 2000). As firms narrow their focus to specific areas of business, non-core supplies are increasingly out-sourced. Out-sourcing has supported the growth of alliances, partnerships and complex interdependent networks, and therefore the requirement to manage multiple relationships within these networks (Fawcett and Magnan 2002). Firms can gain competitive advantage by maximising the effectiveness of their global supply chains, which reduces uncertainty and enhances customer service (Chandra and Kumar 2000; McAdam and McCormack 2001).

Implications for marketing best practice are for greater integration between operations and marketing. The relationship between representations made by the customer-facing side of the organisation (i.e. sales and marketing) and the ability of the organisation to deliver (i.e. inbound and outbound logistics, operations and customer support – or SCM) is clearly an important one, affecting service quality or value delivered.

Matching supply chain configuration to customer requirements is important, as strategic or tactical imbalance results in loss of sales and organisational disruption (Lummus et al. 1998; Vokurka and Lummus 1998). Strategic imbalance occurs when the supply chain is configured incorrectly for the firm's strategy e.g. when speed to market capability does not match the firm's new product introduction aspirations (Cavinato 1999). Tactical imbalance occurs when marketing activities (or demand management) strain a correctly configured supply chain, for example poorly planned sales promotions (Lummus et al. 1998; Vokurka and Lummus 1998). Supply-demand imbalance can clearly have a significant impact on organisational performance. However, while issues related to product and service innovation and to

customer relationship building have been attended to in the marketing literature, apart from consideration of specific issues (e.g. product availability and the effects on service quality) marketers have overlooked the impact of SCM on marketing activities and vice versa (Vokurka and Lummus 1998).

(iii) Customer relationship management

The marketing literature is replete with references to the third of the three processes: customer intimacy or customer relationship management or relationship marketing. Relationship marketing⁵ is concerned with the ability of the firm with respect to:

“the process of identifying and establishing, maintaining, enhancing and when necessary terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met, where this is done by a mutual giving and fulfilment of promises” (Gronroos 1996c).

Relationship marketing is becoming a strategic priority for firms in response to intensification of competitive pressures, rising customer expectations and as a corollary, declining customer satisfaction. Furthermore, new technologies enable personalised customer contact at lower cost (McKenna 1995). Theoretical development in retention economics has highlighted that retaining customers enhances profitability (Reichheld 1993). Finally, superior customer relating competencies are difficult to copy, providing a source of advantage in maturing markets (Day 2002).

Customer relationship marketing or management is, however, only one aspect of relationship management. The Gronroos definition captures the idea that relationships are built not only with customers, but also with a number of stakeholder groups, including employees, suppliers and shareholders, giving rise to the notion of marketing networks (Juttner and Wehrli 1994; Wilkinson 2001). The Six Markets model (Christopher et al. 1991) provides an overview of the scope and nature of stakeholder relationships, summarised in Table 2.2:

⁵ This thesis uses the terms customer relationship management or customer relationship marketing interchangeably.

Table 2.2: The landscape of firm relationships: Six markets model describing customer and other stakeholder groups (Source: Adapted from Christopher et. al 1991)

Market/Group	Description/ comment
1. Customers	The major market group, including direct and indirect buyers of the firm's products and services; i.e. intermediaries, distributors, re-distributors and consumers.
2. Influencers	Finance, regulatory and government bodies, including shareholders or owners, investment groups, unions, industry bodies, regulatory bodies, business press and media, user and evaluator groups, environmental groups, political and government agencies and competitors. Shareholders are the major stakeholder in the influencer market. (Doyle 2000b)
3. Recruitment	The potential talent or labour pool.
4. Referral markets	Terminology for these markets varies by industry (e.g. multipliers, third-party markets, agencies, networks, referral sources). In banking, these would be insurance companies, property brokers, accountants, solicitors, surveyors, valuers, the bank's employees and other banks. Can also include the firm's existing customers.
5. Internal	Existing staff or internal customers.
6. Supplier/alliance	Recognises the partnership role of suppliers to firms' activities.

The key markets are customers and shareholders, however all six markets require explicit management in order to maximise the firm's value or effectiveness (Payne and Holt 2001).

The RBV provides explanation of why some firms are better than others at acquiring and retaining their most valuable customers or markets. Superior customer relating capability is valuable as it has a strong influence on positional advantage, and a significant influence on customer retention and sales growth (Day 2002). Relating ability is predicated on a number of skills including creating a relationally oriented knowledge-based culture, aligning key processes with customers (Day 2000) and addressing service delivery capability (Storbacka et al. 1994).

While superior customer relating capabilities are valuable, building these relationships in the context of a network is a complex task in industrial markets. Supplier-customer relationships encompass an inter-dependent system or a network of relationships across multiple supply and value chains (Lings 2001). In addition to managing internal relationships and interactions, a complex web of interactions occurs at multiple levels and between multiple firms:

“The whole organisation becomes responsible for the creation and maintenance of marketing relationships in which individuals in different departments (and in different firms) can physically relate to their customers.” (Lings 2000, p. 34).

Multiple parties in supplier firms relate to multiple parties in direct and indirect customer firms. Relationships are therefore built between organisations and within networks rather than between individuals.

2.2.3.4 Role of marketing in value creation

The desired outcome of marketing activities is the creation of positive cash flows (Doyle 2000a; Srivastava et al. 1998). These cash flows are a result of a position of competitive advantage. Positive cash flows translate to the creation of shareholder value in four ways: higher cash flows, accelerated cash flows, less volatile and risky cash flows and extended cash flows (Doyle 2001; Hooley 2001; Srivastava et al. 2001). Marketing can contribute to higher cash flow levels by achieving a price premium, creating preference with competitive pricing, cross-selling and up-selling of complementary products and services, achieving lower sales and service costs, and extending resources through co-branding and co-marketing alliances. The increased volume and greater power in the supply chain, implies less per unit investment and therefore scale economies of production and marketing, resulting in above average profits. Strong branding contributes to accelerated cash flows through encouraging quicker market uptake in the form of trials, referrals and repeat purchase. Marketing can lower risk and volatility of cash flows (and hence improve the firm’s cost of capital) in a number of ways. Loyalty-enhancing strategies can increase switching costs and increase customer retention, enhancing the lifetime value (LTV) of the customer (Reichheld and Sasser, 1990a). Sales volume can be increased by offering service-based products and consumables in addition to the core product offering (i.e. cross-selling or brand extensions and up-selling). Costs can be lowered by coordinating supply chain activities to ensure greater information sharing, more effective ordering and replenishment, and less inventory (Berger et al. 2002; Hogan et al. 2002). Marketing thus offers a significant contribution to the generation of the firm’s cash flows.

Specifically, three marketing-related processes create the value that underpins the exchange that delivers cash flows: (Doyle 2000a; Srivastava et al. 1999)

1. Development of new or improved customer solutions (product innovation);

2. Transformation of inputs into desired customer outputs (operational effectiveness or supply chain management); and
3. Creation and leveraging of linkages and relationships through the supply chain (customer/ partner intimacy).

These value-creating processes may be further understood in the context of a series of four marketing tasks. These are value analysis (understanding value issues for the served market(s) in the context of wider society, including customer needs and competitor activity); value provision (offer development); value communication and value delivery or implementation (Bradley 1998). Table 2.3 illustrates linkages between marketing tasks and organisational processes:

Table 2.3: Linkages between marketing tasks and organisational processes

Value-related task	Marketing activities	Associated organisational process	Asset outcome
Value analysis	Industry, market & customer analysis <i>Decisions:</i> Served markets/ customers, resource allocation, strategic position, point of differentiation	Strategic planning	Knowledge
Value development	Design product/ service offer, develop value propositions <i>Decisions:</i> Make-buy, branding, pricing, depth/breadth of offer, level of outsourcing, go-to-market model	Strategic planning Product/service innovation Supply chain management Customer intimacy	Knowledge
Value communication	Marketing communications to direct & indirect customers Positioning /branding	Customer intimacy	Knowledge Brand equity Customer loyalty Strategic relationships
Value delivery	Channel management, logistics, customer service, service quality.	Product/service innovation Supply chain management Customer intimacy	Knowledge Brand equity Customer loyalty Strategic relationships

Source: Developed for this research

The outcome of marketing tasks is the creation of (notably intangible) marketing assets: superior marketing knowledge i.e. the skills, systems and information enabling identification and exploitation of market opportunities; successful brands; customer loyalty; and strategic relationships with channel partners (Doyle 2000b).

These marketing assets create customer value, which in turn creates shareholder value (Cleland and Bruno 1997; Naumann 2002; Srivastava et. al. 1998; Laitamaki, 1997). The over-arching purpose of marketing activities is therefore to orchestrate core value creating business processes with the objective of creating marketing assets, which in turn create shareholder value (Whitwell et al. 2003).

2.2.3.5 Summary of linkages

Table 2.4 summarises key linkages and distinctions between the RBV and marketing theory, using internally and externally based criteria relating to customer value creation and market economics.

Table 2.4: Key linkages and distinctions between the RBV and marketing theory (adapted from Srivastava, Fahey & Christensen, 2001)

Business Issue	RBV	Marketing
Internally-oriented criteria relating to value creation		
Managerial approach to value management task?	NA - exogenous to firm, imposed by market. Stakeholder orientation.	Marketing-oriented managers create value for customers and thereby for shareholders.
What is the source of value?	Resource configuration & attributes determine value	Marketing processes produce value
How is value created?	Through leveraging resources.	Through marketing activities based on assets and processes.
When is value identified?	Post hoc - it is created, then associated with appropriate resources.	Prior to delivery i.e. at the point of assessing customer needs and post hoc.
What is the source of resources?	NA – source and evolution of resources is not a focal point.	Generates multiple forms of resources that can be exploited in the process of customer value creation.
What is the degree of resource specification?	NA – general rather than specific.	Marketing assets and capabilities have been articulated in detail.
To what extent are resource interaction effects pursued?	Noted but not articulated.	Focus on commingling of assets and capabilities, particularly cross-functionally.
Organisational learning	Intangible resources such as culture, knowledge and competencies lead to SCA	Process of competing encourages learning and knowledge discovery.
Externally-oriented criteria		
Is RBV analysis static or dynamic?	Tendency to focus on competitive equilibrium rather than competitive dynamics	Focus on competitive dis-equilibrium and search for SCA in dynamic competitive environment.
Marketplace heterogeneity	Recognised but not area of focus.	Core assumption: Segmentation, differentiation and positioning of markets and of customers.
Market information & uncertainty	Focus on internal assets and capabilities	Focus on market analysis & buyer behaviour, and on change

The RBV definition of strategy can be inferred to be the identification, procurement and deployment of appropriate resources with the goal of achieving a position of competitive advantage. This definition provides insight into several important linkages, including the linkages between resources and value-producing processes, for example, capital and SCM, knowledge and CRM. The RBV therefore conceptually links the inputs and outputs of functionally and inter-functionally based processes within the firm, and recognises the impact of these activities on stakeholders in the operating environment. Marketing articulates the nature and purpose of these activities, relative to the customer:

“What we’re looking for goes beyond the product. We’re looking for business understanding,

we're looking for whether they can adapt to our special needs or whether they can advise and help us.” (Dennis Courtney, chief information officer of Dunlop Tire Corporation, in Rackham 1999, p. 11)

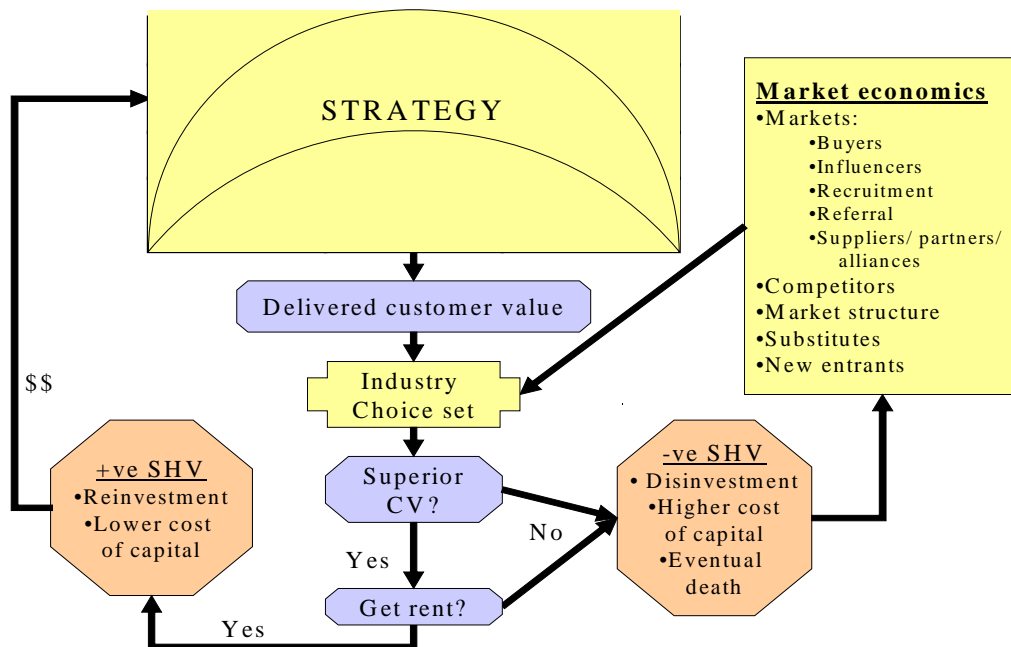
As the above quotation suggests, value creation for the customer requires a complex linking process of various assets and process outputs, including understanding of the customer and the operating environment and configuration of the firm’s value creating and delivering processes, elements of which are captured in both the RBV and marketing literatures.

2.2.4 Summary & conceptual framework

The RBV is a useful and sound (if limited) theoretical foundation for examining value creation, as it encompasses the notions of resources, capabilities and competencies, contributing to an understanding of value-creating processes and the inputs to and outputs of these processes (Fahy and Smithee 1999). The limitations of the

Figure 2.3 presents a new conceptual framework. The framework summarises the linkages between the RBV and marketing literature and integrates the key ideas relating to customer value creation in both:

Figure 2.3: The RBV and marketing practice



Source: Developed for this research

The framework enlarges upon the Srivastava et al (2001) framework. It incorporates explicit reference to external influences, specifically markets, and members of the

firm's value creating network. It also captures the dynamic nature of competition, with the firm's value proposition considered by the market in the context of an industry choice set, rather than in isolation. Furthermore it captures the contribution of that value proposition to the firm's cash flow position, in providing superior value and in so doing creating customer preference (or not), and in appropriating a share of value (or economic rent) that enables reinvestment in productive resources (or not).

Specifically, the firm's resource base of tangible and intangible assets (provided by debt and equity investment) gives rise to capabilities and competencies, manifested in the three generic core processes of the business. Strategy is represented in the framework as a spinnaker-like shape, as it provides guidance for the identification and securing of suitable assets and the translation of these assets into value-creating processes by managers. These processes give rise to the firm's delivered value in *absolute* terms, which may or may not place the firm in a position of advantage. The disposition of the operating environment and the firm's orientation to that environment links with delivered value to give rise to the firm's competitive position. This is a position of *relative* delivered value, with respect to customers' industry choice set, which includes offerings from industry players and substitutes. Given perfect information, the customer will purchase the offer that is perceived as offering greater value (*ceteris paribus*). If the firm's offer is perceived to offer superior value, then this represents a position of differential advantage. A position of differential advantage attracts customers (either higher volume at lower prices or lower volume at higher prices or ideally higher volume at higher prices), and delivers positive cash flows. A differentially disadvantaged firm, on the other hand, will not attract customers and will have sub-optimal cash flows.

Cash flows translate to shareholder value, given that the firm can extract economic rent. Inability to extract rent or poor cash flows from a non-competitive position will erode shareholder value, eventually resulting in the demise of the firm as the cost of capital rises, sources of investment decline, and it becomes vulnerable to takeover. On the other hand, strong cash flows translate to positive shareholder value and enable the firm to maintain a satisfactory cost of capital and to reinvest in productive capacity, supporting its competitive position and thus being self-sustaining. In freely competitive capital markets, managers are competing for scarce investment capital

that will migrate to investment opportunities offering the best ROI⁶ (Copeland et al. 1994; Tully 1993). Firms who do not succeed in attracting capital will be unable to continue funding productive activities.

The conceptual framework reflects both a marketing and RBV perspective, integrating both literatures. From the RBV it reflects the firm's competitive position, subject to the interplay of three fundamental market forces: demand, scarcity, and appropriability of returns (Collis and Montgomery 1995; Fahy 1998; Hooley 2001). Based on the marketing literature, it reflects the role of market-oriented managers in identifying, securing and protecting crucial resources underpinning value creating processes and positional advantage (Rayport and Jaworski 2001).

The framework describes micro and macro-environmental influences on the creation of customer value. However, the notion of value, customer value and the process of creating and delivering customer value has not been specifically addressed. The thesis proceeds with a more detailed discussion of the nature of customer value, and customer value creation and delivery processes.

2.3 Nature & scope of customer value

The purpose of this section of the thesis is to provide grounding in the nature and scope of customer value, and the customer value creation and delivery process. It firstly provides an overview of the evolution of marketing-related perspectives of value. Secondly, issues in conceptualising value and customer value are discussed. The third section provides linkages between customer value and marketing practice are discussed. Finally, the literature is synthesised to provide three perspectives of customer value-related marketing practice.

2.3.1 Evolution of marketing-related perspectives of value

Value-related thinking has been implicit or explicit from the outset of the marketing discipline (Payne and Holt 1998; Payne and Holt 2000). The foundations for value-related thinking were laid in the 1970's and 1980's with attention to the core and augmented product concept, the influence of consumer values, the notion of the value

⁶ Return On Investment. This comment applies to rational managers in both publicly listed and privately owned firms. In the latter case business owners would seek the best return on investment of scarce time, energy and capital resources.

chain, and the genesis of the customer satisfaction and service quality literatures. More recently, a shareholder value related view has emerged. Table 2.5 offers an evolutionary view of marketing-related perspectives of value, illustrating the development of thinking over the past three decades:

Table 2.5: A history of perspectives of customer value (adapted from Payne & Holt 1998)

Key concepts	Illustrative Contributors
KEY INFLUENCES (1970's-early 1990's)	
Consumer Values & Consumer Value	(Gutman 1982; Holbrook 1994; Kahle 1983; Rokeach 1973; Zeithaml 1988)
Augmented Product Concept	(Christopher 1997; Levitt 1981; Levitt 1980; Lovelock 1995)
Customer Satisfaction & Service Quality	(Parasuraman et al. 1991; Parasuraman et al. 1985; Parasuraman et al. 1988; Zeithaml et al. 1988)
The Value Chain	(Bower and Garda 1985; Gluck 1980; Juttner and Wehrli 1994; Normann and Ramirez 1994; Piercy 1998a; Porter 1985; Vandermerwe 1993)
RECENT PERSPECTIVES (1990's)	
Creating & Delivering Superior Customer Value	(Band 1991; Bowman and Ambrosini 2000; Brown 1995; Christopher 1997; Cravens 1998; Day 1990; Gale 1994; Gronroos 1990; Knox and Maklan 1998; Narver and Slater 1990; Naumann 1995; Nicholls 1994; Scott 1998; Slater and Narver 1994; Vandermerwe 1996)
Customers' Value to the Firm	(Blattberg and Deighton 1996; Fredericks and Salter II 1995; Reichheld 1996; Reichheld and Sasser 1990b; Slywotsky 1996)
Customer-Perceived Value	(Butz and Goodstein 1996; Christopher 1996; Gordon 1993; Parasuraman 1997; Patterson and Spreng 1997; Slater 1997; Woodruff 1997; Woodruff and Gardial 1996; Zeithaml 1988)
Relationship Value	(Gronroos 1997; Gummesson 1999; Ravald and Gronroos 1996; Tzokas and Saren 1998; Wilson and Jantrania 1994)
NEWER DEVELOPMENTS (1990's and late 1990's)	
Customer Value & Shareholder Value	(Cleland and Bruno 1997; Cleland and Bruno 1996; Doyle 2000a; Laitamaki and Kordupleski 1997; Srivastava et al. 1999)
Stakeholder & societal value	(Emerson 2003; Gassenheimer et al. 1998; Ghoshal et al. 1999; Handy 1998; Maio 2003; Sawhney and Zabin 2002; Senge et al. 2001)
Value co-creation	(Ghoshal et al. 1999; Prahalad and Ramaswamy 2004; Ramirez 1998; Sharma et al. 1999; Vargo and Lusch 2004)
Value networks	(Bovel and Martha 2000; Christensen 1998; Dyer and Nobeoka 2000; Fjeldstad 2001; Kothandaraman and Wilson 2001)

Thinking has progressed significantly over the past three decades. Early work tended to be firm and product-centric (e.g. the value chain, augmented product), or focused on individual consumer-oriented constructs such as values and satisfaction. The value chain (Porter 1985) provided an early process-based view, providing the foundation for more recent work on service quality. The value chain conceptualises the interaction of the firm's people, systems and processes, and interactions. In so doing it describes the two major internal activities that contribute to the value (or service quality) offered to customers by the firm: primary value adding or service delivery activities, and support activities. The quality of the primary service supply activities is

dependent on the quality of the support activities. In the 1990's this work has been expanded by research capturing the contribution of value chain, supply chain and network thinking to service quality (e.g. Lings, 2000); and further enhanced by work focusing on the strategic role of customer value, and of the relative value of particular customers to the organisation e.g. customer lifetime value.

The contribution of the relationship literature to understanding customer value has been significant. This will be discussed in depth in the context of definitional development for customer value in section 2.3.2.

In addition to influential antecedents and recent views of value, four emerging perspectives further enrich the value-related literature: shareholder value, stakeholder or societal value, value co-creation and value networks. Discussion on these perspectives follows.

2.3.1.1 The shareholder value perspective

Recent work has emphasised linking customer value with returns for the firm (e.g. Doyle 2000b; Gale 2002; Srivastava, Shervani & Fahey, 1998), and considering customer value with respect to relationships rather than transactions (e.g. Wilson & Jantrania 1994). Reflecting this, a growing weight of literature proposes that the purpose of *marketing* value building activities should be the maximisation of shareholder value (e.g. Day and Fahey 1990; Doyle 2001; Laitamaki and Kordupleski 1997; Payne and Holt 2000; Rappaport 1992; Srivastava et al. 1999).

Increasing effort is being directed at linking customer value and firm performance, and particularly the customer value-shareholder value linkage (e.g. Anderson and Narus 1998; Bear et al. 2000; Cleland and Bruno 1997; Cravens 1998; Falkenberg 1996; Srivastava et al. 1998). Shareholder value is created from two sources: increase in the share price and from dividends issued. Share price and level of dividends are related to revenue growth and profit margin (Cleland and Bruno 1997; Doyle 2001). Revenue growth and profit margin accrue from financial and marketing activities. While this study focuses on marketing rather than financial strategies, the impact of financial strategies on shareholder value is acknowledged (Rappaport 1992).

Shareholder value is created when costs fall and/or revenues rise. The contribution of marketing to these activities encompasses traditional marketing strategy and marketing management activities – including market and customer selection, offer

development, pricing strategy, and sales and loyalty generating activities (Doyle 2000b). The connection between shareholder value and customer value resides in marketing-related activities, i.e. marketing practice.

2.3.1.2 The stakeholder value perspective

The shareholder value perspective explicitly focuses on only two stakeholders – customers and investors. While the SHV view is attracting growing recognition, it is controversial; and the issue of trade-offs among wider stakeholder groups is increasingly recognised (Clarkson 1995; Harrison and Freeman 1999; Hillman and Keim 2001). The balanced stakeholder view contends that the SHV view of the firm's activities is limited, and that managers should acknowledge the impact of business and profit maximisation on social systems, and the environment (e.g. Day and Montgomery 1999; Day and Aaker 1997; Handy 1998; Handy 2002; Harrison and Freeman 1999; Liedtka 1998a; Senge et al. 2001; Sirgy 1996). Proponents of this view hold that employees, society and the environment should be considered in addition to shareholders and customers. The proffered outcome of such a process is socially responsible firms entering into:

"... a new 'moral contract' with employees and society, replacing paternalistic exploitation and value appropriation with employability and value creation in a relationship of shared destiny."
(Ghoshal et al. 1999).

Measurement systems have been adapted to suit – for example, 'triple-bottom line' accounting practices that encompass firm, social and environmental measures (Ghoshal et al. 1999; Senge et al. 2001).

2.3.1.3 The value-co-creation perspective

The emergence of the knowledge-based economy (Clieaf 2001; Day and Montgomery 1999; Fjeldstad 2001; Kim and Mauborgne 1999; Teece 1998) has driven new views of value. The notion of value co-creation was first mooted by Toffler (1981), who used the term 'prosumers' rather than 'consumers'. Value co-creation holds that the customer is an empowered participant in a process rather than a faceless participant in a transaction (Prahalad and Ramaswamy 2004), and that the co-created value is shared by both producers and consumers (Ghoshal et al. 1999; Prahalad and Ramaswamy 2000; Ramirez 1998; Senge et al. 2001):

"(Practitioners and scholars) talk about alliances, networks and collaboration among

companies but have largely ignored the consumer, the agent that is most dramatically transforming the industrial system as we know it." (Prahalad and Ramaswamy 2000)

"The marketer has to identify the core value that will be delivered to a customer, and ensure that each customer can take charge of assembling the value they want." (Varey, 2002, p. 38)

A comparative view of the traditional and co-creation view of value is offered in Table 2.6:

Table 2.6: Comparison of traditional and emerging views of value creation and delivery (Adapted from Prahalad & Ramaswamy 2004)

	Traditional view	Co-creation view
Locus of value creation	The firm, products & services	Firm and consumer, co-creation experiences, interaction
Central actor(s)	The firm	The individual
Role of consumer	Provide demand, find supply	Co-create the experience
Role of firm	Manage demand, provide supply	Co-create the experience
Value focus	Firm-consumer interface	Consumer-firm interaction
Lens	Extraction	Co-creation
Firm's activity focus	Creating, delivering & customizing a variety of offerings, staging experiences	Co-creating experiences through heterogeneous interactions, personalisation of the co-creation experience.
Managerial focus	Value chains, internal processes, innovation of technology, products and processes, SCM, demand management	Quality of consumer-firm interactions, innovating experience environments and experience networks.

Value from the co-creation perspective thus embraces notions of relativity, multi-dimensionality, multi-contextuality, and temporality. Furthermore, it is strongly process-based. The perspective expands to embrace both experiential and physical aspects of value.

2.3.1.4 The value network perspective

Contemporaneously with growing interest in the network view (e.g. Axelsson and Easton 1992; Jarillo 1988; Wilkinson 2001) the notion of a 'value constellation', 'value network' or 'value web' emerged. In this view strategy is viewed as *"systematic social innovation: the continuous design and redesign of complex (value-creating) systems"* (Normann & Ramirez, 1993, p. 66). Herein, successful firms reinvent rather than add value (Christensen 1998; Normann and Ramirez 1993). Unlike the value chain framework, which emphasised structural and activity based

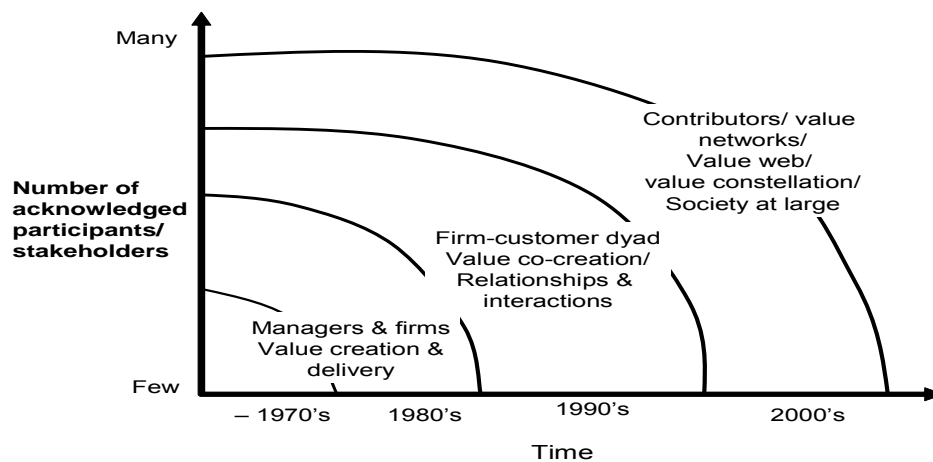
activities, value webs or networks emphasise solutions and technologies, created in a system within which a number of stakeholders work together to co-produce value.

The value web or network incorporates the horizontal and vertical relationships in a competitive system, incorporating customers, suppliers, competitors, complementors, and allies. There are often multiple links between players, and these links are often two-way. The system is an open dynamic system, each entity influencing other entities, with information and value flowing between the entities within the system. Unlike the value chain conceptualisation, the value web provides a rich and dynamic representation of the market space, and of the non-linear nature of tangible and intangible value flows. This conceptualisation offers an expanded holistic and systemic understanding, encompassing the role and contribution of multiple players in the value creation, delivery and receipt network, including suppliers, influencers and society as a whole (Juttner and Wehrli 1994; Normann and Ramirez 1993; Senge et al. 2001).

2.3.1.5 Summary

The view of value in the literature is summarised in Figure 2.4:

Figure 2.4: Progression of research focus in value orientation



Source: Developed for this research

The view of marketing and value has progressively widened from a relatively firm-centric (production-oriented) view to a customer-centric (sales and marketing oriented) view. Customer oriented studies focus primarily on the customer e.g. those examining customers' perceptions of value e.g. (Desarbo 2001; Ulaga and Chacour 2001). Relational-oriented studies, or those incorporating the customer-supplier dyad,

tend to be concerned with relationship issues rather than value creating and delivery issues (e.g. Gronroos 1996c; Holmlund 1997).

Attention then progressed from a customer-firm dyad view to a network related view, focusing on the value network or value constellation (firm, customer and other partners) and on network issues rather than value creation and delivery e.g. (Brookes et al. 2000; Juttner and Wehrli 1994; O'Driscoll et al. 2000). Societal related literature tends to be theoretical and conceptual rather than empirical (e.g. Senge, 2001).

Notably, the marketing literature approximates the temporal divisions shown above; however, the management literature embraced more utilitarian or socially motivated views of value prior to the 1990's (e.g. Simon 1972, Toffler, 1981).

Thus, relatively introspective antecedent studies gave rise to concepts such as the augmented product, however, did not address the implications for value building as such. However, subsequent work recognised these implications, giving rise to customer and firm-centric perspectives of value. These studies formed the foundations for a view of value creation that now encompasses the firm, the firm's customers, other stakeholders, and society as a whole.

The thesis continues by reviewing the literature relating to the customer value construct, with the aim of developing new conceptualisations of customer value.

2.3.2 Conceptualising customer value

The notion of 'value' is approached from a number of perspectives in the management sciences and economics. These perspectives include property (e.g. real estate valuation (Johnson 2001)); finance (e.g. factors contributing to the firm's market value or market capitalisation (Clieaf 2001)) and economics (e.g. the worth or value of economic assets (Finn et al. 2001)). While these perspectives have clear linkages with the marketing discipline, they are peripheral rather than central to the issues of concern. This thesis focuses on *marketing related* views of value from the perspective of the firm and its managers.

2.3.2.1 Current conceptualisations

In its simplest sense, customer value is defined as the difference between benefits received and sacrifice made or (tautologously) the difference between total customer value and total customer cost (Kotler et al. 1998):

$$\text{CUSTOMER VALUE} = \Sigma(\text{Total Benefits Received}) - \Sigma(\text{Total Sacrifice Made})$$

In this conceptualisation, ‘costs’ include both price paid by the customer and other psychological and physical costs such as image, reputation and decision-time. In the business-to-business literature, customer value is similarly defined:

"Put very simply, customer value is created when the perceptions of benefits received from a transaction exceed the total costs of ownership. The same idea can be expressed as a ratio: Customer value = Perceptions of benefits/ Total cost of ownership." (Christopher et. al 1997, p. 49)

Cost of ownership rather than price is presented in this definition, taking into consideration costs other than the acquisition price e.g. technical support costs, inventory holding costs, training costs, maintenance costs, operating costs, management costs and disposal costs (Christopher 1997).

Expanding the scope of the definition from transactions to relationships, relationship value is conceptualised as a composite of two elements: perceived relationship value, or a comparative view of costs and benefits on the part of both firms, and buyer perceived relationship quality or the buying firm’s assessment of technical, social and economic costs and benefits (Holmlund 1997). The notion of sacrifice in both perspectives implies an explicit or implicit calculation of perceived utility on the customer’s part, acknowledging a trade-off between benefits received and costs incurred (Woodruff 1997). This is an important idea, and is captured in terms of “quality-for-the-price” an enterprise offers, and can be operationalised by means of customer value mapping, entailing mapping both relative price and relative quality (Cleland and Bruno 1997). The underlying assumption is a trade-off between quality and price, and a positive linear correlation between the two constructs. However, this may be a naïve view, in the light of aggressive competition based on both price and quality. There have been numerous calls for value innovation, urging firms to deliver increased levels of quality or utility for the same price (e.g. Christensen and Rosenbloom 1995; Doyle 1995; Hamel 1998; Kaplan 1999; Kim and Mauborgne 1999; Markides 1997). Slater and Narver (2000) explicate the economic linkages between customer value and shareholder value accruing to customers from this ‘net value’ perspective:

"Economic value for the customer is created when the present value of the cash inflows from

increased revenues exceeds the present value of the cash outflows from the investment in the equipment and the associated operating costs. A seller creates superior value when the customer's NPV from purchasing the seller's offering is greater than the NPV from purchasing any competitor's offering." (p. 120)

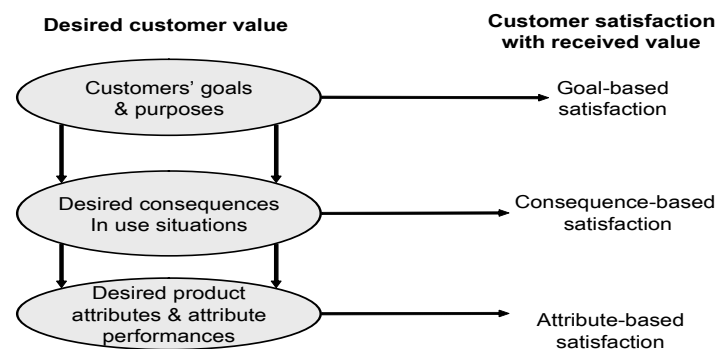
This perspective highlights trade-offs, or the exchange of value and the relativity inherent in that exchange (i.e. that given and received, vs. potential value able to be given and received via competitive offerings).

While the 'benefits less sacrifices' appears a reasonable approach to conceptualising customer value, the literature reflects a great deal more complexity. The value construct is complex, being customer-defined, contextual, relative, opaque, and multi-dimensional (Sawhney 2003a). The attendant issues are subjectivity, fluidity, contextuality, multi-dimensionality, multiple stakeholders, relativity, and the role of trade-offs, regardless of whether customer value is conceptualised in the business-to-business or consumer contexts (ibid). The issue of subjectivity is addressed in the above definition, in that it recognises perceived rather than an objective notion of value. Clearly, individual perceptions create difficulties in objectively determining benefits or costs in an exchange. Customer value is defined by customers; therefore, each individual may have a different perception of expected and received value based on experience and the context in which the value is considered. Subjective evaluations therefore occur, relating to both expectations and perceptions of benefits and costs (Naumann and Donald 1999).

Supporting this position, a recent review of the literature highlighted both consensus and diversity relating to the customer value construct (Woodruff 1997). There was agreement in that customer value is inherent in or linked through use to the firm's offer, is perceived by customers rather than objectively determined by a seller, and is both received and surrendered. Divergence related to issues of semantics and context. With respect to semantics, terms such as 'utility', 'worth', 'benefits', 'quality' are not well defined – and are arguably definable as this would imply general agreement on a specific interpretation of a subjective construct. The issue of context relates to the circumstances within which customers consider value. Value is perceived differently in a context of scarcity vs. plenty (e.g. a loaf of bread in a supermarket vs. a desert island), or in an urgent vs. non-urgent situation (e.g. a doctor at a regular check up vs. called to address a life threatening situation).

The issue of context also applies to stage of the purchase decision process. Perceived value at the pre-purchase stage is different in nature to received value at the post-purchase stage. The former would be imaginary and to an extent ephemeral, while the latter is more concrete, and based on usage experience and reflection (Woodruff 1997). At the pre-experience stage, customer value in both the business-to-business and consumer contexts is an informational or derived construct, based on real or perceived attributes communicated to the customer either purposively or incidentally by the firm. At post-experience stages, the customer undertakes an evaluative process, which may enhance or diminish their perception of the value received (Woodruff et al. 1993). The suggestion is a dynamic view of value, subject to influence from both exogenous and endogenous influences. This process-based conceptualisation of customer value was expressed in the Woodruff (1997) customer value hierarchy model:

Figure 2.5: Customer value hierarchy model (Woodruff, 1997)



The model was a significant contribution to value-related thinking (Parasuraman 1997). It describes the value creation and delivery process from the perspective of the customer. It shows an iterative, rational process starting with customer goals or purposes, working through desired consequences of in-use situations, and operationalising the attributes and attribute performances of suitable products. The model takes into account the customers' subjective perceptions and evaluations of their own needs, and various product attributes and performance outcomes, in the context of a specific usage situation. The model captures a dynamic usage context, temporality, and subjectivity. Trade-offs are implicit, as are underlying personal and organisational values. The model highlights the dynamic nature of customer value, i.e. that it changes over time in response to personal, organisational and environmental information inputs. However, the model does not explicitly recognise contextual

factors (e.g. explicit environmental and individual influences), nor does it capture the notion of reciprocal benefits and sacrifices. There are clear linkages here with the service quality literature, in particular linkages between customer perceptions, service expectations and service experience {Zeithaml, 1990 #2880}.

The discussion has shown that the literature regarding customer value is diverse and wide ranging, however does not offer a cohesive view of value from a marketing perspective. The chapter will now discuss issues relating to developing a cohesive view of customer value, to provide the backdrop to development of a new more comprehensive definition and conceptual framework for customer value.

2.3.2.2 Issues in conceptualising customer value

A conceptualisation of customer value should encompass a number of issues relating to the context in which customer value is created and consumed (or co-created).

(i) Endogenous context

Four factors relate to endogenous (or participant) context: individual or organisational values, perception or subjectivity, level of buyer within the firm, influences of other internal stakeholders, and the nature of the buyer-seller relationship.

Conceptualisations of value should acknowledge the influence of *individual and organisational values* (e.g. Ravald & Gronroos, 1996; Flint, Woodruff & Gardial, 1997). Clearly, the linkage between ‘customer value’ and ‘values’ is important. In the consumer behaviour literature, values are defined as the deeply held and implicit views that drive behaviours (Engel et al. 1990). In the marketing literature, values have been defined as:

“the centrally held, enduring core beliefs, desired end-states, or higher order goals of the individual customer or customer organisation that guide behaviour.” (Flint, Woodruff & Gardial 1997, p. 170).

The notion of organisational values was operationalised by Christensen & Overdorf (2000) as:

“... the standards by which employees set priorities that enable them to judge whether an order is attractive or unattractive, whether a customer is more important or less important, whether an idea for a new product is attractive or marginal, and so on.” (p. 69).

Both personal and organisational values and beliefs influence value-offering and consuming behaviours (Christensen and Overdorf 2000; Ravald and Gronroos 1996).

Values are the underlying drivers of the firm's abilities in strategic thinking and operational activities (Liedtka 1998b; Starbuck 1995). Values are therefore relevant to any conceptualisation of customer value.

Subjectivity and perception is important. In the RBV literature value is considered in the form of perceived use or customer use value, a subjective valuation by the buyer that reflects what that buyer is prepared to pay (Bowman 2001; Priem 2001). A number of influences relate to buyers' perception of value offered, ranging from personal physical, cognitive and behavioural attributes, to the situation in which the value is considered. Srivastava, Christensen & Fahy (2001) consider the four core dimensions identified by Keller (1993) and Kotler (2000) to be a useful framework for understanding buyer perception of value attributes and subsequent performance outcomes. Attributes are product features and functional attributes (e.g. size, power, colour, time taken and service variety). Benefits are related to experiential attributes (e.g. reliability, ease-of-use, level of enjoyment) and symbolic benefits (e.g. brand image, prestige or exclusiveness). The customer develops attitudes toward or holistic perceptions of the firm's offer, based on assessment of attributes, benefits and network effects. Network effects are the value derived from the knowledge and relationships perceived to be part of the organisation's formal and informal networks of suppliers and contributors.

Level of buyer within the firm influences buyer motivations and perceptions of value at the decision-making or purchasing level within both buyer and seller firms – whether at corporate, functional, or front-line level (Gardner et al. 1998; Rackham and De Vincentis 1999). For example, senior managers would be concerned with longer-term issues such as growing shareholder value, while front line personnel would be concerned with day-to-day issues such as carrying sufficient inventory to meet current demand (ibid). Context is therefore a critical aspect of conceptualising customer value at various levels of a firm (whether at front-line level, functional level or corporate level). Therefore, in an industrial buying context, the number and nature of participants should be considered (Flint and Woodruff 2001; Flint et al. 1997).

Influences of internal (and external) stakeholders: In addition to the subjective perceptions of individuals, group effects on value perception should be considered. Customer value is created and consumed by multiple parties in the business system (i.e. the firm, the dyad of firm and customer, and other stakeholders such as

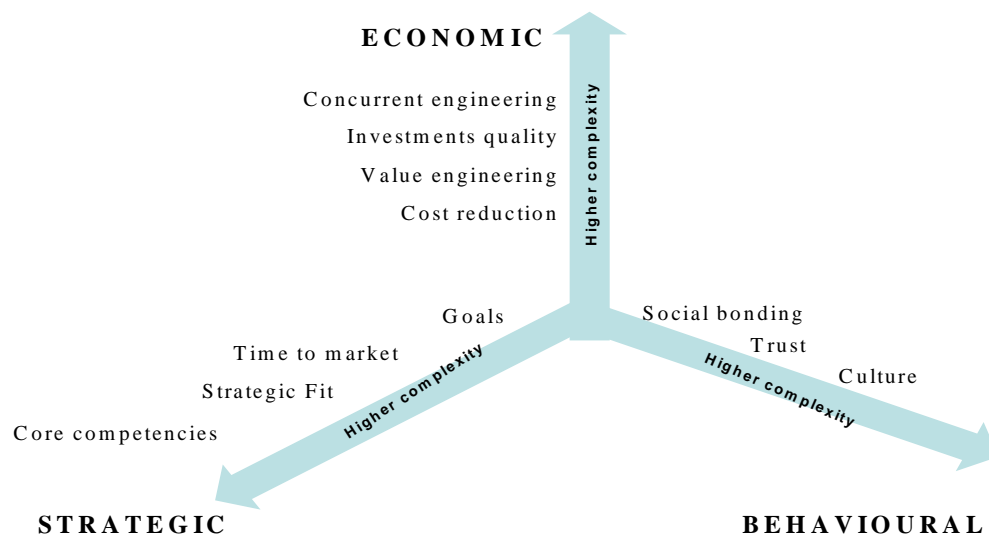
shareholders, the community, competitors, on-sellers and so on). In the endogenous context (i.e. the buyer-seller dyad), the central stakeholders in the value 'equation' are the buyer and seller. In this context customer value is therefore negotiated i.e. co-created by multiple buyers and sellers in complex value networks.

Nature of the buyer-seller relationship: Customer value is multidimensional nature, featuring a complex interplay between multiple players. Managerial notions of customer value have expanded from a product or brand perspective to customer relationships (Gronroos 1994b) to value-creating networks (Juttner and Wehrli 1994; Kothandaraman and Wilson 2001). Therefore, in addition to form and use value, the customer can receive further value from relationships built in the value network:

"It is important that the company recognises that value emanates from a network of relationships in the business system and that the company may leverage others in the system, customers, suppliers and particularly complementors to provide that value." (Bradley, 1998, p. 82)

The relationship literature conceptualises customer value in three dimensions - strategic, behavioural and economic, illustrated in Figure 2.6:

Figure 2.6: Dimensions of relationship value (adapted from Wilson & Jantrania, 1994)



The economic, behavioural and strategic value of a relationship may be disaggregated into characteristics that jointly and severally contribute to customers' perceived value of the relationship. Strategic value is achieved as the relationship supports both parties' business goals; economic value is achieved from lowering costs and increasing revenues, while behavioural value arises from the interaction itself.

Further insight into relationship value is offered in a conceptualisation based on a composite of two elements: perceived relationship value (or a comparative view of costs and benefits on the part of both firms), and buyer perceived relationship quality (or the buying firm's assessment of technical, social and economic costs and benefits) (Holmlund 1997). Here, value is conceptualised in terms of a number of factors, including perceived relationship quality, perceived value, perceived satisfaction, relationship strength and relationship length. It is suggested that these factors contribute to competitive and financial strength (i.e. customer and shareholder value). This conceptualisation further supports the idea of value co-creation, acknowledging that in a dyadic relationship value is contributed by both parties, with the relationship offering more value to each party than achievable by maintaining separate operations. The notion of value embedded in a relationship support the following definition of customer value in the context of a relationship:

“The perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices.” (Wilson & Jantrania, 1994 p. 56)

This definition is useful in that it acknowledges subjectivity, the exchange dimension of value, benefits and sacrifice. A further contribution is the explicit mention of relativity to other value offerings in the form of the comparison level of alternatives. Relativity is an important issue in customer value – value created must be considered in the context of competitive value providers, including substitutes as well as direct competitors. There is general acceptance of dynamic price-value trade-offs in the literature – dynamic owing to the nature and magnitude of change in the operating environment (Achrol 1991; Chakravarthy 1997; Cravens et al. 1996). The RBV also supports the idea of relativity, that is, the value of a competitive offer is considered in relative rather than absolute terms i.e. is assessed against a competitive set and substitutes for the product or service class (Bowman 2001; Payne and Holt 1998).

While this conceptualisation of customer value offers a number of advantages over the benefits less sacrifices approach (i.e. multiple contexts, subjectivity, temporality, and reciprocity), it does not encompass other aspects of customer value highlighted in the previous discussion, for example the role of values, and multi-contextuality. Furthermore, it employs ambiguous terminology ('worth' and 'benefits').

(ii) Exogenous context

The RBV suggests that at the macro-level, issues relating to the wider operating environment or the social system must be considered:

“... it is not sufficient to use the individual firm as a unit of analysis when looking for the sources of the wealth of the firm; one must look at the complete value-creating network surrounding the firm.” (Falkenberg 1996, p. 12).

Customer perceptions and expectations of value are subject to change in response to dynamic external influences (e.g. advertising and changes in technology). However, there is little theoretical understanding of how this fluidity impacts on perceived value (Woodruff et al. 1993). Clearly, macro-level forces influence both individual and organisational values, and the perception of value by customers, leading to the observation that value is a dynamic construct.

Table 2.7 synthesises the literature related to customer value in firm and social system (i.e. endogenous and exogenous) contexts, and presents the logical implications for marketing practice:

Table 2.7: A synthesis of the literature: Summary of social system and firm context with respect to customer value and marketing practice

		Social system context		
		Customer	Firm	Society
Involved parties within the firm	Corporate – top management	Superior customer value at least cost.	Competitive advantage/ ROI	Social responsibility, sustainability.
	Functional/ operational managers	Customer satisfaction/ loyalty/ retention, demand management	Value innovation, market share, aggregate sales	Eco-efficiency, ethical standards.
	Customer interaction – front-line sales & service	Service cost and quality	Short-term sales volume and value, transaction costs	Ethical practice, waste minimisation.

Source: Developed for this research

Thus, from a senior management perspective, value thinking related to customers would be directed at achieving competitive advantage and return on investment (ROI), through achieving superior customer value at least cost. Operational and functional managers would be concerned with achieving these goals through customer value management, with the goal of increasing share of customer, customer loyalty and customer retention, again at least cost. At the front line, concerns would be service cost and quality – the immediate driver of customer retention and in turn

aggregate customer value. Value thinking related to the firm would be directed at achieving competitive advantage, with functional management attending to achieving this through innovation, measuring it through market share and aggregate sales gains. At the front line, concerns would be sales volume and value targets, and minimising transaction costs. Attention to societal level issues would depend on the firm’s philosophy towards sustainability and social responsibility. Top management would be concerned with embedding this philosophy, while at functional level practices would be guided by this precept, including measurement and control activities. Front-line level concerns would be directed at appropriate ethical practices and waste minimisation.

(iii) Summary of issues

Based on the previous discussion, Table 2.8 summarises the issues in conceptualising customer value:

Table 2.8: Summary of considerations and attributes in the conceptualisation of customer value

Issues relating to and aspects of customer value	Implications for conceptualising customer value
Multi-contextuality	Include consideration of: <ul style="list-style-type: none"> • environmental influences (e.g. PESTE⁷ factors plus competitors, collaborators/ contributors); • personal and organisational values; • buyer and seller roles (e.g. strategic, functional, front-line); • stage of decision making process (e.g. need recognition, information search, evaluation, decision, post-purchase evaluation); • usage context (e.g. environment of scarcity vs. plenty, urgent vs. non-urgent requirement).
Multi-dimensionality	Encompass multiple parties and multiple attributes e.g. buyers, sellers, contributors; behavioural, economic and strategic.
Process-based	Incorporate a process-based perspective, acknowledging inputs and outputs over time.
Reciprocity/ exchange	Include reference to what is received and what is given by both buyers and sellers (benefits – sacrifice).
Relativity	Acknowledge relativity to direct and indirect substitutes, value is not absolute.
Subjectivity	Focus on customers’ subjective perceptions rather than sellers’ objective determinations
Temporality	Acknowledge that customer value is dynamic and time-bound.
Use of terminology	Avoid ambiguous terms such as utility, worth, benefits, quality.

Source: Developed for this research

Clearly, customer value is a complex construct, encompassing many entities and many contexts.

⁷ Political, economic, social, technological, environmental factors.

2.3.2.3 Towards a new conceptualisation of customer value

Based on the previous discussion, a new definition of customer value is presented in Table 2.9:

Table 2.9: A new definition of customer value

<p><i>Customer value is</i></p> <ul style="list-style-type: none"> ▪ a complex bundle of strategic, behavioural and economic resources; ▪ received in exchange for the perceived strategic, behavioural and economic resources foregone; ▪ co-created by both buyers and sellers; ▪ the output of processes based on the resources, capabilities and competencies of both buyer and seller; ▪ perceived by buyers and sellers relative to competitors and substitutes; ▪ moderated by individual, organisational and environmental influences; and ▪ dynamic, created and delivered over time, within the bounds of a complex buying and selling process.

Source: Developed for this research

The definition is comprehensive rather than parsimonious, reflecting the complexity of the customer value construct. Supporting direction from the literature, the new definition acknowledges multi-contextuality, multi-dimensionality, temporality, subjectivity and relativity; incorporates notions of exchange and sacrifice, and offers a process-based view. It avoids ambiguous terminology such as ‘benefits’ and ‘quality’.

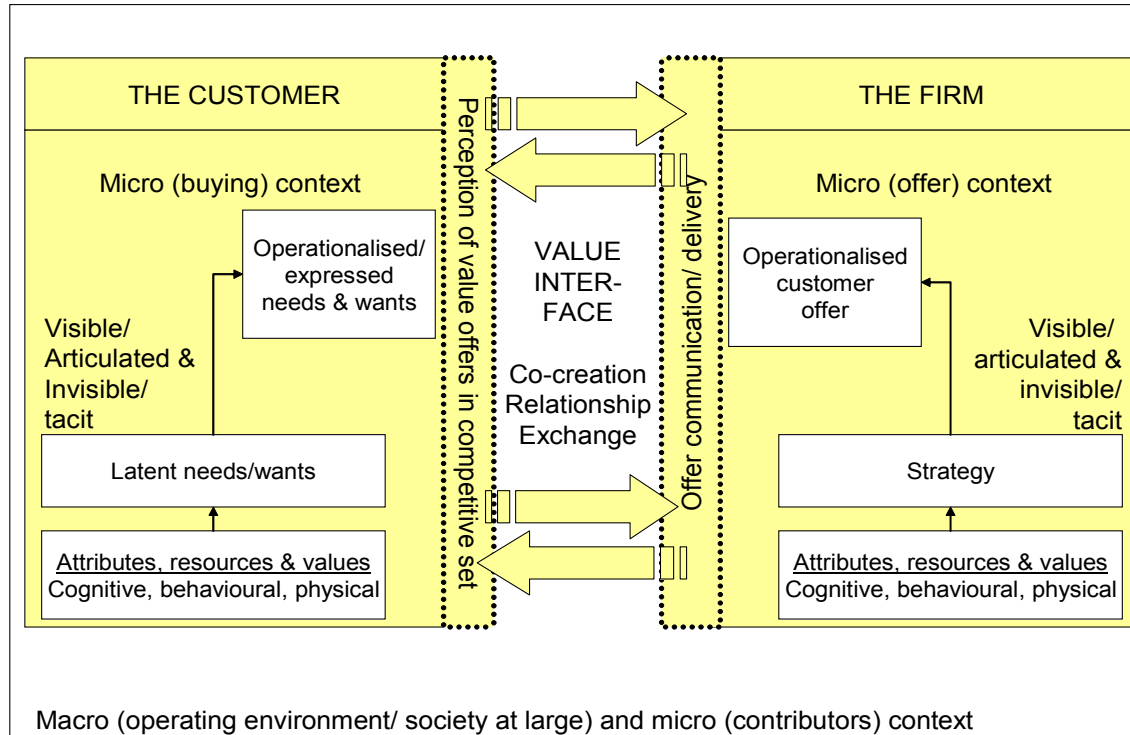
It is grounded in the RBV, in that it focuses on the role of resources and the processes that draw on these resources, in providing relative advantage over competitors and substitutes. These resources represent both inputs and outputs for value creating and delivering processes. Resources are inputs for the *generic* value creating and delivering processes of the firm (i.e. product innovation, supply chain management and customer relationship building). Resources are also outputs of *specific* value creating and delivering processes of individual firms (i.e. the firm’s core competencies).

The definition is also grounded in marketing theory, in that it acknowledges the role of buyers in co-creating the value, the role of exchange, and the multiple social contexts of complex buying processes.

While the definition describes the customer value construct or entity (i.e. that which a customer might value), it is unsatisfying, as it does not capture the precursor to this value – i.e. the development or co-creation of the value. It is argued that the value

creation process is inseparable from the value so created, and therefore that both must be addressed contemporaneously, as one without the other offers an incomplete conceptualisation. Figure 2.7 addresses this gap:

Figure 2.7: Conceptualisation of the customer value co-creation process



Source: Developed for this research

The framework shows two major players – the customer-firm dyad – within the context of the macro and micro operating environments. The framework therefore incorporates the key stakeholders in the value creation and delivery process: the firm, the direct customer (primarily), and by implication the extended network of indirect customers and influencers (e.g. suppliers, on-sellers, competitors), and society.

Within the customer entity resources, attributes and values both visible and invisible influence both latent and expressed needs. Within the firm entity, similar visible and invisible attributes influence the firm's ability to develop appropriate strategy, and hence create and deliver its offer or value proposition. This offer is operationalised based on strategy and understanding of both articulated and tacit resources. The nexus between the firms is the value interface, where value is co-created, relationships are built and exchanges are undertaken.

A number of issues for marketing practice arise from this conceptualisation:

1. Owing to resource, attributes and values ambiguity, the customer's operationalised and expressed needs may not be actual needs, as these may not be correctly operationalised owing to misinterpretation of the antecedents to these needs;
2. Again owing to attribute, resource and values ambiguity, the seller's strategy may not be correctly be devised, and the value offer incorrectly configured.
3. Alternatively, the offer may be correctly configured but incorrectly communicated.
4. Alternatively, if correctly configured and communicated, it may be incorrectly interpreted by the customer.

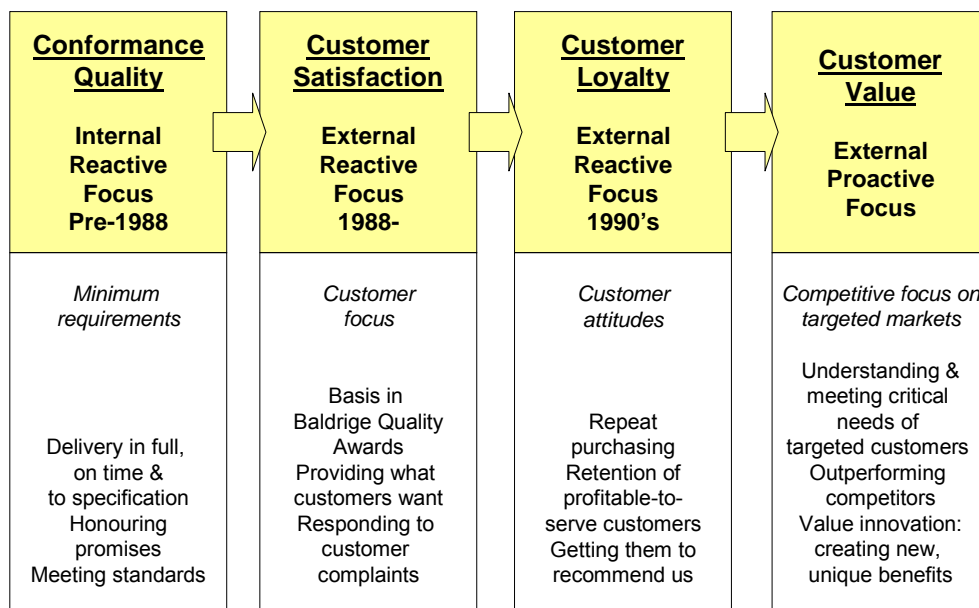
Given all of the above, the value nexus or dialogue surrounding the co-creation of value assumes considerable importance to successful relationship building.

The thesis proceeds by discussing linkages between customer value and marketing practice.

2.3.3 Linking customer value & marketing practice

Figure 2.8 provides insight into the evolution of value-related thinking derived from studies of marketing practice:

Figure 2.8: Value emphasis: From quality conformance to customer value (adapted from Gale 2000)



Managerial attention has progressed from a reactive and internal focus on value creation and delivery to a proactive externally oriented position (Gale 2002). Gale identifies two ‘paradigms’ of value thinking - customer satisfaction and customer value, compared and contrasted in Table 2.10:

Table 2.10: Contrasting emphases in the customer satisfaction & customer value paradigms (Gale 2002)

	Customer satisfaction	Customer value
Who we ask	Our own customers, end users	Our customers and competitor’s customers, end users and decision makers
What we ask	Rate our performance	Rate us and our key competitors
Respondent perspective	Experiential, am I satisfied, backward looking	Perception of differences, which suppliers will I choose, current and forward looking
Who takes action	Customer service	Competitive marketing strategy
Type of action	Tactical, continuously improve customer service, correct defects and errors	Strategic Clarify and evolve our customer value proposition, create a differentiated, superior offering
Data changes	Static, reflects mainly our initiatives	Dynamic, reflects all competitive initiatives

The customer satisfaction approach is tactical, retrospective, reactive and located functionally in marketing and customer service departments. On the other hand, the customer value approach is strategic, present and future-oriented, proactive and located throughout the firm rather than functionally based. Approaches to strategy and measurement are commensurate with each of these approaches. According to Gale (ibid):

“The customer value approach ... leads companies to search for the answers to three questions: What are the key buying factors that customers value when they choose among our business and our toughest competitors? How do customers rate our performance versus competitors on each key buying factor? What is the percentage importance of each of these components of customer value?” (p. 4)

A customer value oriented approach to marketing practice differs significantly from the satisfaction approach in that it embraces on relativity, perception, multi-dimensionality and multi-contextuality, as discussed previously. According to Gale (ibid):

“Customer value analysis focuses on how to improve your competitive position, attract and retain targeted customers and create shareholder value.” (p. 5).

These insights relating to a strategy-behaviour-performance linkage are reflected in a recent body of literature relating to customer value management (CVM)⁸, which directs systematic attention to managing delivered customer value (Brodie et al. 1998; Desarbo 2001; Gale 2002; Laitamaki and Kordupleski 1997; Thompson 1998). CVM entails detailed analysis, requiring verification of key attributes sought by customers, ranking and rating each attribute and linking attribute lists to customer groups (Desarbo 2001; Woodruff 1997). Firm and competitor performance is assessed against each of the important variables. Higher performance denotes competitive advantage, lower performance denotes strategic opportunities. Thus, the construct's nature, scope and relative magnitude (i.e. a specific firm's competitive performance) may be diagnosed by firstly identifying and operationalising each characteristic of 'value', then secondly assessing these against the firm's served markets/ customers. This is the current focus of much marketing research and a considerable weight of commercial market and customer research (e.g. satisfaction research), and reflects the context specific nature of the construct i.e. 'customer value' is dependent on the context within which it is conceptualised.

The literature offers two levels of value-based thinking relating to marketing practice: specialist and integrative (Doyle 1995; George et al. 1994; Gummesson 1998; Workman et al. 1998). A 'specialist' marketing perspective is concerned with issues related to the '4P's' or functional view of marketing, including concern with functional utility for the price, use value, esteem value, product offer value (Wilson and Jantrania 1994) and customer satisfaction (Gale 2002). An integrative perspective locates the idea of customer value in a wider strategic context, and acknowledges a wider stakeholder interest group, encompassing customers, shareholders, supply chain partners and other contributors to customer value (e.g. Juttner and Wehrli 1994; Kim 1995; Kothandaraman and Wilson 2001). The latter approach is consistent with recent thinking about the nature and scope of marketing. An emerging 'dominant logic' (Vargo and Lusch, 2004) views marketing as a set of integrative process-based activities, carried out at all levels of the firm, and at both strategic and tactical level; rather than a set of managerial activities aimed at manipulating the '4 P's' and

⁸ NB: Clarity of terminology is an issue in the literature – CVM can also be referred to as customer relationship management (CRM), and/or customer value added (CVA).

resident only in the marketing department (Barwise 1995; Doyle 1995; Gronroos 1995a; McKenna 1991a).

The change in focus from short-term exchange to a longer-term emphasis on customer relationships and differential advantage is well documented (e.g. Christopher et al. 1991; Gronroos 1995b; Gummesson 1998; Sheth and Parvatiyar 1995). As a corollary to this change in focus, recognised marketing-related managerial activities have expanded from more generic analysis, planning and control tasks to more specific focus on both relationship building and explicit contribution to building differential, or competitive, advantage. Finally, the role of marketers has expanded, from a department consisting of functionally based specialists manipulating marketing mix variables, to encompass the entire organisation. This shift in emphasis recognises the contribution of both ‘full-time’ and ‘part-time’ marketers (Gronroos 1995b; McKenna 1991b). The former are seen as functionally based specialists, while the latter work partially on the marketing task at two levels, at senior management level, orienting the organisation towards the market and taking business strategy decisions, and in the front line of value delivery (Doyle 1995; Gronroos 1994a; McKenna 1991b)

Recent advances have linked marketing practices to the firm’s value creating processes (Doyle 2001; Payne et al. 2000; Srivastava et al. 1998). Logically, further work (including this study) will explore, test and clarify these ideas, and the marketing-value creation linkage will become central to understanding of the role and contribution of marketing within the discipline. The dominant logic of marketing is evolving to a focus on longer term shareholder returns (moving beyond the profit motive), recognising that marketing activities are directed at value creation; and encompass long-term investments in intangible assets such as strong brands, marketing knowledge, customer loyalty, appropriate market selection and the creation of differential advantage (Vargo and Lusch 2004). These investments have a direct influence on shareholder value, as they in turn drive the financial value drivers that determine cash flow: sales growth, operating margin, and investment requirements (Doyle 2000b).

2.3.3.1 Three perspectives of customer value

To better locate the notion of ‘value’ and value creation in the context of contemporary marketing practice, the literature was analysed using an adaptation of the five dimensions of marketing practice identified by Coviello, Brodie and Munroe

(1997). The original dimensions (managerial intent, decision-making focus, types of marketing investment, organisational level at which marketing decisions are implemented and managerial planning time frame) were adapted and augmented to capture themes relating to creating and delivering customer value.

‘Managerial intent’ ‘decision-making focus’, and ‘managerial planning time frame’ remain:

- *Managerial intent*: Is the goal to attract customers? Retain customers? Interact with customers and/or other parties? Co-ordinate and co-operate with customers (and other parties) to achieve mutual goals?
- *Decision focus*: Is decision-making focused on the product/ brand? Customers in a market? An individual relationship? A firm? Firms in a network of connected relationships?
- *Managerial planning time frame*: Is the planning horizon short term? Long term?
- *Organisational level*: Are decisions made and implemented by functional managers? Specialist marketers? Managers from across functions? A general manager?

‘Types of marketing investment’ was refined to ‘*Types of managerial investment*’ to capture non-marketing dimensions of investment, congruent with the cross-functional and pan-organisational location of the phenomena under study. Questions were: Are resources invested in internal marketing assets or capabilities? Developing committed relationships with individuals? Developing a position relative to other firms?

‘Organisational level at which marketing decisions are implemented’ was likewise refined to ‘*Organisational level at which value-related decisions are taken*’, with relevant issues being: Are decisions made and implemented by functional managers? Managers across functions? General managers? Boards?

Two further dimensions were added based on analysis of the value-related literature: ‘market context’ and ‘research focus’. *Market context* acknowledges the influence of temporal context on managerial behaviour. For example, in the 1970’s and 1980’s, concerns were with meeting the demands of growth (an industrial orientation), while in the 1990’s, the limitations of this orientation were acknowledged. Recently, concerns have been directed at the wider implications of an industrial orientation for society and environment. *Managerial scope* reflects the focus of managerial attention with respect to value-related factors i.e. whether the primary focus of value creation is upon customers, managers, firms, industries, buyer-seller dyads, networks, or wider society.

Table 2.11 presents the application of this re-conceptualisation, based on a review of the literature. A summary of authors complying with each of the value postures is included.

Table 2.11: Marketing-related dimensions of value: Three value postures (adapted from Coviello et. al 1997)

	Transactional	Relational	Systemic/ Network
Managerial intent	To attract customers	To attract & retain customers	To coordinate and cooperate with customers (& other parties) to achieve mutual goals
Decision focus	Exchange Product/ brand	Relationships Supply/ demand chain	Networks Society/ network
Types of managerial investment	Internal assets (brands, operational assets, capabilities)	Internal & external assets – products/ brands, plus developing committed relationships with individuals and other firms.	Internal & external assets (products/brands, plus relationships, plus developing positions in wider networks, alliances and society)
Managerial level	Functional managers, specialist marketers	Functional managers and managers across functions	Senior/general management, boards of directors
Managerial planning time frame	Shorter term/ sub-generational	Longer term/ generational	Long term/ multi-generational
Market context	Industrial	Pre-post industrial	Post-industrial
Managerial scope	FMCG/ firm-centric/ functional Typifying model: Value chain	Customer/ supply chain/ B2B/ services/ dyads/ cross-functional Typifying model: Supply chain	Networks/ societal/ alliance- centric/ extra-functional Typifying model: Value system
Key authors	Porter, Woodruff, Srivastava	Doyle, Wilson, Gronroos, Gummesson, Prahalad	Simon, Senge, Ghoshal

Thus, according to the descriptions of managerial approaches to creating and delivering customer value developed from the literature, three value postures and three distinct views of value were distinguished by the analysis:

1. Transactional customer value is concerned with value perception and receipt, and is a consumer orientation, concerned with the perception of value from the receiver's point of view. This is essentially a one-way view of value, whereby value is developed by the firm and imposed on customers (e.g. Flint and Woodruff 2001; Harrison and Kennedy 1997; Stahl et al. 1999; Varki and Colgate 2001; Woodruff 1997);
2. Relational customer value is conceptualised at firm or industry level, is concerned with value creation and delivery and has an orientation toward firms and managers. This is a two-way view of value, whereby value is developed by the firm in consultation with customers (e.g. Butz and Goodstein

1996; Juttner and Wehrli 1994; Kim and Mauborgne 1997; Normann and Ramirez 1993);

3. Systemic or networked customer value is concerned with value creation and delivery at societal level, representing an expanded holistic and systemic understanding, encompassing the role and contribution of all players in the value creation, delivery and receipt network, for example suppliers, influencers and society as a whole. This is a multifarious view of value, whereby value is developed within and by a system of entities, and each entity benefits from the value creation process (e.g. Juttner and Wehrli 1994; Normann and Ramirez 1993; Senge et al. 2001).

The nature and implications for marketing practice of each of these views is now discussed.

(i) One way / transactional

This view is characteristic of an ‘industrial’ view of commerce, whereby an extractive posture is adopted towards converting resources into goods and services for consumption (Senge et al. 2001)..

A definition of value typifying this view is that of Woodruff (1997):

“Customer value is a customer’s perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations.” (p. 142).

In research identifiably taking this posture, value is primarily approached from a consumer or customer level, and is concerned with value perception and receipt from the receiver’s point of view (e.g. Flint et al. 1997; Harrison and Kennedy 1997; Stahl et al. 1999; Varki and Colgate 2001; Woodruff 1997; Woodruff et al. 1993), as understood by the firm’s managers.

From the firm’s perspective, concern is primarily in the ‘value of value’ i.e. the degree of value return received in exchange for value delivered, or the level of value appropriation achieved. By employing techniques such as value-based strategies, value analysis of products or solutions, value-in-use, and value-based pricing firms seek to increase customer value in relation to other firms and in so doing, create competitive advantage (Doyle 2000b). Satisfactory levels of value appropriation are

assumed, and translated into shareholder value. Key resources or assets are brands, and the means of production (i.e. operational assets).

The value chain (Porter 1985) presents a characteristic view of the one-way or transactional value posture, as it represents a structural and functional approach to value-adding activities. This model was designed to enable strategists to focus on internal differences among firms, and in so doing provide insight into factors underlying competitive advantage. The value chain disaggregates the firm's value creating activities into primary value activities (i.e. logistics, operations, sales). These were termed 'business units'. Secondary value activities (i.e. procurement, IT and HR) were termed 'service units', and worked to support and enable the business units. Porter considered each of these activities presented a potential source of advantage. This framework was an important foundation for exponents of the resource-based view of the firm (RBV), specifically in developing the notion of competencies and capabilities, based on assets and skills and combinations of activities in internal processes (Collis and Montgomery 1995; Hamel and Prahalad 1991b; Hunt 1995; Prahalad 1993; Prahalad and Hamel 1990).

Thus, from the perspective of managers or the firm, customer value is considered primarily in the context of relative delivered customer value, that is, the firm's value outputs to customers relative to other firms, and with regard to the net financial returns achieved. While shareholders returns are important (and viewed as a corollary or result of delivered customer value) external stakeholder groups such as suppliers, society and the environment are not of central concern.

(ii) Two way / relational

The two-way/ relational value posture is a 'pre-post industrial' view, i.e. is transitioning between the old industrial based extractive view of value and the newer post-industrial or co-creation view. A definition of customer value appropriate to this view is offered by Wilson & Jantrania 1994:

"The perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices." (Wilson & Jantrania 1994, p. 56).

The definition captures a multiplicity of benefits, and implies a two-way exchange of information and value.

In the relational view, firms are concerned primarily with the ‘*value of value*’, both to the firm and to the firm’s customers. Again, managers consider value in comparison with other firms, and with regard to the net financial returns achieved for the firm, rather than for external stakeholders and wider society.

Value is primarily concerned with value creation and delivery, with an orientation toward firms and managers and with a strong business to business (rather than business to consumer) approach (e.g. Juttner and Wehrli 1994; Normann and Ramirez 1993; Piercy and Cravens 1995). Value is presented from a relational perspective. That is, it is examined from the point of view of both members of a dyad, and is concerned with issues such as relationship strength and duration, and the buying firm’s assessment of technical, social and economic costs and benefits in creating customer and shareholder value (Wilson and Jantrania, 1994; Holmlund 1997). Value is created through a process of synergy, whereby the relationship offers more value to partners than individual operations through joint efforts. This view of value is strongly contextual, contingent on the nature and type of relationship in question. A key differential from the network or systemic view of value is that the focus is on economic value created within a relationship, rather than ethical or philosophical considerations of value. Notably, the controversy arising from either a shareholder or a stakeholder approach to value is not considered.

The supply chain represents a characteristic view of the two-way or relational value posture, as it represents a cross-functional approach to value creation and delivery, recognising interaction between multiple players. The terminology ‘chain’ is unfortunate, as it implies sequential rather than iterative processes, however, the notion of the supply chain describes the complex interaction of multiple players embedded in the relational view of value creation.

(iii) Systemic / networked

A societal view of value locates businesses and industries in the wider social and environmental context, and views implications for value in terms of sustainability and returns for the wider community or stakeholders (Ramirez 1998; Senge et al. 2001).

Advocates are critical of the school of strategy grounded in industrial organisation economics (e.g. Porter 1980, 1985), positing that the interests of firms in this model are incompatible with the interests of society (Ghoshal et al. 1999). Furthermore, under the ‘industrial’ or non-systemic models, firms’ goals are to appropriate value and

create imperfect competition; the cost is therefore social and environmental welfare. This model is seen as unsustainable (Senge et al. 2001). Based on this premise, a shift in perspective on value creation is occurring. Rather than associate value creation with traditional members of the supply or value chain functioning individually in Smithian ‘enlightened self interest’, it is associated with collective and cooperative behaviours (Normann and Ramirez 1993).

In the post-industrial era, value is now richer in terms of information, knowledge and other resources: “*more and more opportunities for value creation are packed into any particular offering*” (Normann & Ramirez 1993, p. 69). A firm is thus seen as a value creating system, within which relationships and competencies must be constantly refreshed.

An expansion on the stakeholder view is offered by more recent literature highlighting the co-creation aspects of value (Ghoshal et al. 1999; Ramirez 1998). In this view value creation is customer-centric rather than firm centric. Furthermore, two traditional assumptions are relaxed: that firms create value unilaterally, and that value resides exclusively in the firm’s products and services (Prahalad and Ramaswamy 2004). In this view, “*value lies in the co-creation experience of a specific [customer], at a specific point in time in a specific location, in the context of a specific event.*” (ibid, p. 10). Value is thus created by interaction and in context, and is both experiential (i.e. service-related) and tangible (i.e. artefact/goods related). From this perspective a change in emphasis is occurring, from the value inherent in ‘things’ to the value provided by things. The result is emphasis on providing better solutions rather than selling more equipment, from a focus on producers and consumers to a focus on co-creation and process-based aspects of value (Prahalad and Ramaswamy 2004), and from consumers to ‘prosumers’ i.e. people who actively participate in generating the value they derive from any product (Senge et al. 2001; Toffler 1981).

This view of value reflects a widening of perspective – from a firm-centric (production oriented) view, to a customer- centric view, then to a relational view encompassing both firm and internal/ external customers, and as discussed above, to a network view (firm, customer and other partners). Currently, there is evidence that the network or industry level view is expanding to a societal view of value e.g. (Ramirez 1998; Senge et al. 2001), whereby business is located in its wider environmental context, and implications for value viewed in terms of sustainability and returns for

the wider community. Thus, the view of value has developed in concert with the changing perspective of the scope of marketing – from a transactional/ functional perspective to a cross-functional process driven perspective, to the network view, and now to a societal/ global view.

In this vein, the literature increasingly acknowledges that the so-called ‘knowledge economy’ presents different challenges to strategists than that of the industrial economy, and that this has implications for the way value creation and delivery is viewed (Cartwright and Oliver 2000; Clieaf 2001; Day and Montgomery 1999; Kim and Mauborgne 1999). Advocates are critical of the school of strategy grounded in industrial organisation economics, positing that the interests of firms in this model are incompatible with the interests of society (Ghoshal et al. 1999; Handy 2002).

Furthermore, under this model, as firms’ goals are to appropriate value and create imperfect competition, the cost is social and environmental welfare. This model is seen as unsustainable (Senge et al. 2001). Further criticism is levelled at the strategic tools used in understanding firm behaviour, most notably value chain and value system analysis. The linearity implicit in the notion of a ‘chain’ is seen as inappropriate to service-based industries. Furthermore, the idea of a value system is also seen as linear, as the firm is notionally required to move along the value system to try to capture more value (Cartwright and Oliver 2000). Unlike industrial/ manufacturing based businesses, information based businesses produce value primarily from intangible assets, which means that the value-creating processes are not readily apparent and therefore difficult to conceptualise in the context of a value chain or system; and value is created from entities outside the organisation, in its complex web of relationships, alliances (Cartwright and Oliver 2000). According to this post-industrial view, value is co-created by both producers and consumers (Ghoshal et al. 1999; Prahalad and Ramaswamy 2004; Ramirez 1998; Sharma et al. 1999). The proffered outcome is socially responsible firms entering into a “*new ‘moral contract’ with employees and society, replacing paternalistic exploitation and value appropriation with employability and value creation in a relationship of shared destiny.*” (Ghoshal, 1999, p. 10). This view offers a normative vision of a sustainable future for society. Rather than engaging in zero-sum value appropriation a la the industrial era model (ultimately resulting in the destruction of value), firms co-create value in all markets simultaneously and in so doing ensure long term survival for both themselves, society and the environment. Measurement systems adapt to suit –

notably to 'triple-bottom line' accounting practices that encompass firm, social and environmental measures (Ghoshal et al. 1999; Senge et al. 2001).

The value web or value constellation (Cartwright and Oliver 2000; Dyer and Nobeoka 2000; Juttner and Wehrli 1994; Normann and Ramirez 1993) is a characteristic model for this value posture, as it encompasses the notion of a system, and multiple flows of value in multiple directions among multiple participants. However, it does not capture the motivation for social good.

(iv) Summary

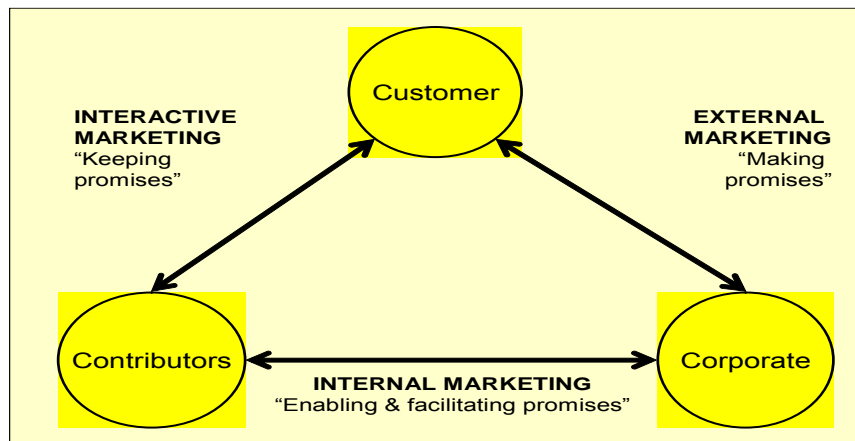
The value postures are each grounded in a conceptualisation of the type of economy in which they are based. Both the transactional and relational postures are grounded in an industrial or market economy view, characterised by a more limited purview of value sharing. On the other hand, the systemic posture is grounded in the post-industrial or organisational economy view whereby a wider stakeholder or utilitarian view of value sharing is held. These 'values' lead to the characteristics of each of the value postures. A transactional posture is characterised by the aim of prosperity, and a focus on traditional marketing assets such as products and brands. A relational posture is characterised by the aim of survival, and acknowledges mutuality of goals through a focus on customer relationships. A systemic posture is characterised by the aim of sustainability, and acknowledges the inter-related nature of all activities and its impact on wider society.

2.3.3.2 Value creating & delivering processes

The firm's customer value creation and delivery processes are critical to the customer's perception of value offered and received. These processes are related to the operations of the firm. Three constructs offer insight into the customer value related marketing practices – the notion of service promises (Bitner 1995; Gronroos 1990; Gronroos 1996c), the service: profit chain (Heskett et al. 1994) and the order management cycle (Shapiro et al. 1992).

The foundation for maintaining service relationships is the making and keeping of realistic promises to customers (Gronroos 1990). Figure 2.9 conceptualises the firm's promise making and promise keeping activities:

Figure 2.9: New service vision (adapted from Gronroos, 1996)



Three major entities interact in promise-related activities: the customer, the firm, and the firm's contributors (e.g. on-sellers). External marketing (making promises) encompasses marketing communications processes, i.e. expressing the firm's offer to buyers. Interactive marketing (keeping promises) relates to service processes and relationships, whereby the firm delivers the offer to customers, creating multiple 'moments of truth' (Bitner 1995). Internal marketing (enabling promises) relates to the resources underpinning the firm's offer making and delivery processes, or its competencies and capabilities. These resources enable employee recruitment, training and reward, and the provision of leadership, systems and structures within which to work. These factors contribute to the working environment (or internal service quality) created for employees through organisation culture, leadership, communication, systems, processes, structure, physical environment, motivation, reward structures and so on (Christopher et al. 1991; Goodstein and Butz 1998). Traditionally the concerns of 'internal marketing' have been those of the management rather than marketing discipline, however, increasing attention is being directed to this area e.g. (Ahmed and Rafiq 1995; Lings 2001; Varey and Lewis. 2000).

The service profit chain (SPC), offers insight into customer value creation and delivery processes through service relationships. The SPC traces linkages between the firm's resources, internal service quality and external service quality, or delivered customer value (Heskett et al. 1994). Internal service quality is based on the firm's enabling resources, and underpins employee satisfaction. Employee satisfaction levels impact on the ability of the firm to retain personnel, and on productivity levels. Higher employee retention results in greater familiarity with the firm's offer and its

customers, meaning less time to service and therefore less cost. The willingness and ability of staff to deliver a high standard of service or customer value is a function of their knowledge, skills and motivation levels, plus the firm's systems and processes, relating back to the notion of 'enabling promises' discussed previously (Bitner 1995; Gronroos 1996c). The ability of employees to deliver effective service translates to external service quality. The quality of external service influences customer satisfaction, in turn influencing loyalty and repeat business. The model suggests a causal relationship between satisfaction and loyalty, however, the relationship between customer satisfaction and loyalty is problematic – satisfied customers are not necessarily loyal customers (Brookes et al. 2000; Gale 2002; Reichheld et al. 2000). Repeat business generates higher revenue streams at lower cost, in turn contributing to competitiveness and long-term survival for the firm (Reichheld 1993), which enables reinvestment in the resources supporting internal and external service quality.

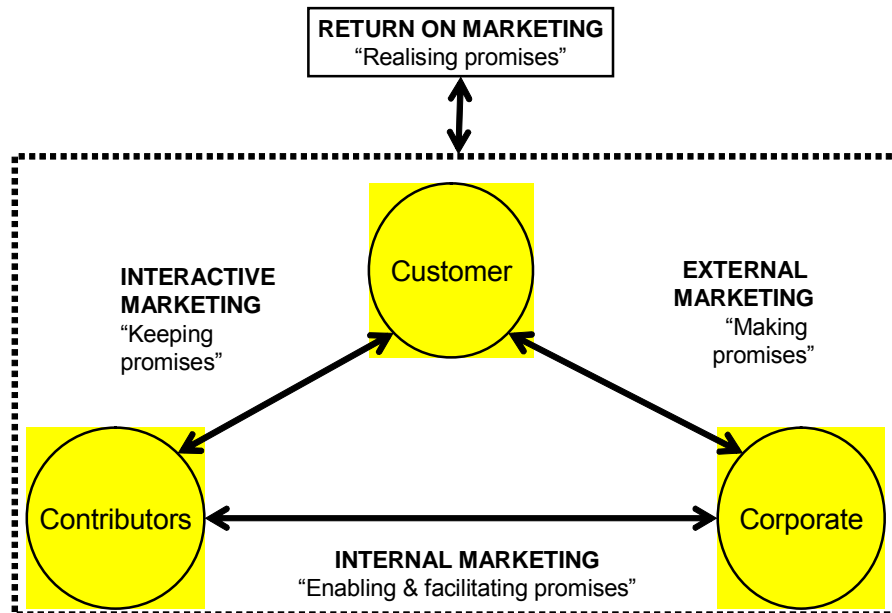
The order management cycle (OMC) articulates the customer value creation and delivery process holistically (Shapiro et al. 1992). The ten steps in the OMC⁹ can be simplified to four marketing activities: offer development, sales or order taking, service delivery and after-sales service. The order management cycle expresses these activities systemically, articulating elements of each activity and the participants involved at each stage of the cycle. In effect, the order management cycle encompasses the customer value creation and delivery process from conceptualisation of the value offered to evaluating customers' response to that value after the sale.

While complete in aggregate, in isolation each of these frameworks offers an incomplete description of the firm's customer value creation and delivery processes. The 'promises' framework has a paucity of detail, requiring the service-profit chain and order management cycle to make explicit the people and systems implications of promise making, keeping and enabling. Reference to the outcome of promissory activity (i.e. return on promises or promise realisation) is also missing. The service-profit chain is also incomplete. It incorporates enabling promises, promise keeping, and promise realisation, however does not include promise making (i.e. the firm's strategy and customer communications). The order management cycle incorporates promise making and keeping, however does not include reference to the firm's

⁹ Order planning, order generation, cost estimation and pricing, order receipt and entry, order selection and prioritisation, scheduling, fulfilment, billing, returns and claims, post-sales service.

enabling resources or return on promises. In all of the frameworks, the operating environment is implicit rather than explicit. Accordingly, a revised framework for conceptualising the firm's customer value creation and delivery processes is offered in Figure 2.10:

Figure 2.10: Revised conceptualisation of factors relating to the firm's customer value creation and delivery processes



Source: Developed for this research

The revised framework explicates the four promise-related aspects of marketing practice – internal, external, and interactive marketing, and the returns achieved on marketing. The service-profit chain provides insight into issues related to interactive and internal marketing and returns on marketing, while the order management cycle provides insight into external and interactive marketing. As a whole, the revised framework encapsulates customer value-related marketing practice, and therefore potentially offers insight into issues related to the customer value creation and delivery process, subject to further research.

2.4 Chapter summary

The literature review showed that various literatures contribute to the understanding of value and customer value e.g.:

- the RBV literature provides insight into the nature of the firm's resources and processes with respect to value creation and delivery (Bowman 2001; Collis and Montgomery 1995; Peteraf 1993; Wernerfelt 1984);

- the strategic management literature provides insight into the nature of complex decisions (Ansoff and Sullivan 1993; Campbell-Hunt 2000; Mintzberg and Lampel 1999; Teece et al. 1997);
- the marketing literature provides insight into:
 - the nature of customer value and what customers value (Anderson et al. 1993; Flint et al. 1997; Parasuraman 1997; Payne and Holt 2001; Slater 1997; Woodruff 1997);
 - linkages between the RBV and value-creating processes (Day 2002; Doyle 2000a; Srivastava et al. 1999); and
 - marketing-related practices contributing to the creation and delivery of customer value (Heskett et. al 1994, Shapiro et. al 1992).

However, the integration of these strands of the literature warrants further attention. Studies have tended to focus on particular areas of attention, on particular stakeholder groups and particular views of value, rather than integrating each of these strands into a cohesive whole.

A new definition of customer value was developed, incorporating contributions from the literature. The new definition is grounded in the RBV, and addresses the shortcomings of previous definitions.

Several new conceptual frameworks were developed:

1. A meta-framework was developed to locate the study in the RBV literature (refer Figure 2.3) illustrating the relationships between key entities – specifically resources, value creating and delivering processes, strategy, competitive position, the operating environment, and returns to shareholders;
2. A synthesis of the literature resulted in the identification of three distinct value postures: transactional, relational and systemic (refer Table 2.11), reflecting key elements of marketing practice:
 - a. A *transactionally* oriented firm focuses on customer value creation through technologies, brands and through commerce (i.e. the means by which these assets are delivered to the market). Such a firm will view value creation and delivery as one-way/ extractive, in the context of its own market or industry;
 - b. A *relationally* oriented firm will take a broader view of value, encompassing technologies and brands, but also the value created through partnering and

relationship building activities throughout its supply chain. Such a firm will view value as two-way/ relational, in the context of its own market or industry;

- c. A *systemically* oriented firm will take the broadest view of value, taking into account the impact of its activities on its customers and stakeholders in wider society, including the environment. Such a firm will look beyond core technologies and direct relationships, will locate itself within the broader locus of society, and will view value creation as multi-directional i.e. a holistic set of activities encompassing itself, its partners, and society.

Finally, marketing practice was synthesised into a new conceptual framework, incorporating the firm’s customer value creation and delivery processes.

2.4.1 Research opportunities & propositions

This section outlines and discusses the specific research opportunities and propositions arising from the literature review, in the light of the theoretical and empirical contributions of previous studies, and of the review itself.

It was shown throughout this chapter that there are numerous areas in need of research relating to the customer value creation and development process within the framework of the RBV. Overall, three research opportunities were identified from the literature review, having both academic and managerial importance, presented in Table 2.12:

Table 2.12: Summary of academically and managerial important research opportunities

<p>The nature of customer value</p> <ol style="list-style-type: none"> 1. What is customer value? <p>The nature of the customer value creation and delivery process</p> <ol style="list-style-type: none"> 2. How do managers create and deliver customer value? <p>Linkages between marketing and the RBV</p> <ol style="list-style-type: none"> 3. How does customer value creation and delivery relate to the assets and capabilities of the firm (i.e. the RBV)?

Each of these opportunities has been identified based on issues arising from either the theoretical base of the existing research (e.g. the relevance of alternative views of customer value) or the empirical base (e.g. the lack of research on the nature of customer value and the customer value development and delivery process).

These questions were translated into six research propositions, used to focus data collection and analysis, and provide the framework for developing and answering more detailed research questions. Table 2.13 summarises these propositions:

Table 2.13: Summary of research propositions

<p>Proposition 1: That customer value creation and delivery involves six key factors: intended outcomes, managerial focus, organisational members who champion customer value, stakeholder groups considered, planning processes undertaken and approach to performance measurement.</p> <p>Proposition 2: That the nature of the customer value creation and delivery process will differ between firms.</p> <p>Proposition 3: That differences in approach to the customer value creation and delivery process can be explained by the elements identified in P1.</p> <p>Proposition 4: That managerial views of customer value creation and delivery have common characteristics across firm types and industries.</p> <p>Proposition 5: That customer value creation and delivery process can be conceptualised through the lens of the RBV i.e. as a set of resources, orchestrated by strategy, and delivered via three core value-generating processes¹⁰.</p> <p>Proposition 6: That the customer value creation and delivery process is linked to shareholder value through the mechanism of the artefacts and activities identified in Proposition 5 (above).</p>

P1 relates to characteristics of marketing practice pertaining to customer value, and reflected in the three value postures. The second proposition relates to differences in marketing practice identified in the work of the CMP group (e.g. Coviello et al. 2002), whereby firms serving different customer types or in different industries might adopt compatible (and different) approaches to value creation and delivery. The third proposition suggests that differences in customer value can be explained by the particular aspects of marketing practice detailed in P1, again expanding on the work of the CMP group. Proposition 4 captures the idea that there are likely to be similarities and differences between firms in the way that managers view customer value. The fifth proposition offers the RBV lens as a means to conceptualise customer value. Proposition 6 theorises a resource-performance linkage. These propositions and conceptual frameworks guided data gathering and analysis.

A theory of customer value and customer value creation and delivery has yet to be fully developed. Thus, an appropriate method is required to allow for the development

¹⁰ Product development management, supply chain management and customer relationship management

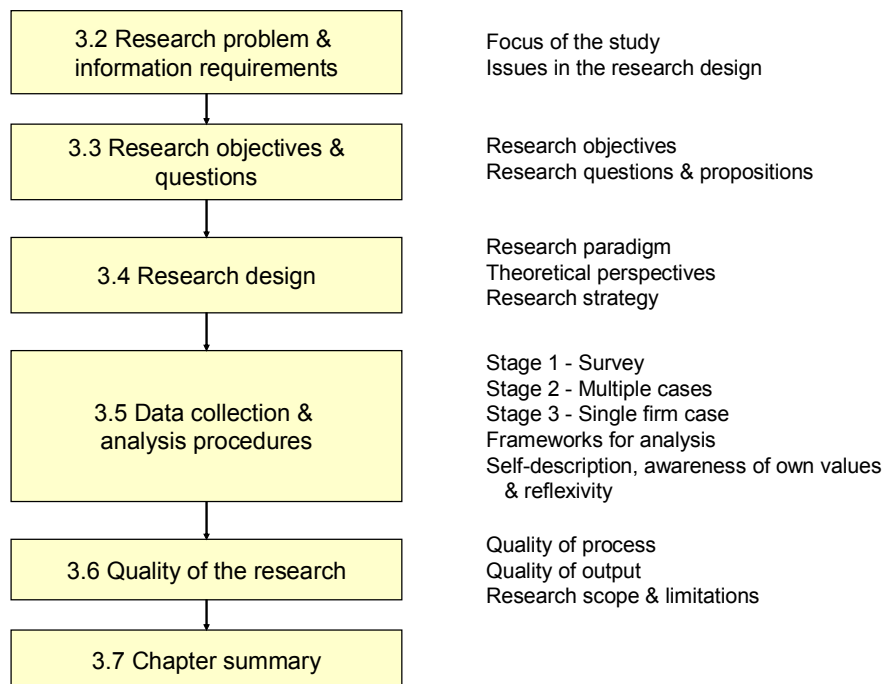
of theoretical models in the areas of customer value, customer value creation and delivery, and the linkages with the RBV. Such a method is discussed in detail in the next chapter.

CHAPTER THREE: METHODOLOGY

“... both RBV and marketing researchers must commit to carefully and systematically identifying and documenting how particular market-based assets and capabilities contribute to generating and sustaining specific forms of customer value. Doing so requires process-driven and case-rich methodologies.” (Srivastava, Fahy & Christensen, 2001, p. 796).

The previous chapter provided an overview and analysis of the relevant literature regarding the development and delivery of customer value, identifying gaps and research opportunities, and defining the research problem. Following on from this, Chapter Three discusses the research approach, and the research strategy employed to address the research problem.

3.1 Chapter outline



3.2 Research problem and information requirements

“Knowing what you want to find out leads inexorably to the question of how you will get that information.” (Miles and Huberman 1994) p. 42).

The research problem focuses on two major issues: 1) Understanding the nature and attributes of customer value and 2) Understanding the customer value creation and delivery process. While there is a growing weight of literature regarding customer value and value creating processes, there is little synthesis or consensus.

This study therefore seeks to deepen understanding of the nature of customer value, and of how firms go about creating and delivering customer value. Related to this, information is required on how managers consider customer value and its creation and delivery, how firms orient towards the value-creating and delivering process, elements and stages of the customer value creation and delivery process, characteristics of each of these elements and stages; and in general, whether the RBV provides a helpful conceptual foundation for understanding customer value.

3.2.1 Focus of the study

“...decision making must be studied in toto and in vivo, at the individual level to include insight and inspiration, emotion and memory, and at the collective level to include history, culture and context in the vast network of decision making that makes up every organisation.” (Langley, Mintzberg, Pitcher, Posada & Saint-Macary, 1995, p. 261).

The focus of this study is customer value, and the customer value creation and delivery process. The study therefore has a decision orientation. A decision orientation implies an approach to research inclusive of the range of individual and contextual factors that comprise a process (or decision), and that acknowledges both temporal and substantive ambiguity. Temporal ambiguity describes continuous processes without defined starting and finishing points, and substantive ambiguity recognises that complex processes incorporate elements that cannot be clearly delineated from other organisational processes and activities (Langley et al. 1995).

This thesis supports the position of prominent marketing scholars, holding that defining and delivery of superior customer value is the central task of marketing-oriented managers in market-oriented firms and is an important and developing dimension of contemporary marketing practice (Doyle 1995; Jaworski and Kohli 1993; Narver and Slater 1990; Shapiro 1988; Slater and Narver 1995; Tuominen and

Moller 1996). Despite this consensus, the current state of knowledge does not provide a sound basis to progress current theory, as value-creating processes (or the linkages between the firms' strategising efforts and delivered or implemented strategy) are not well defined (Srivastava et al. 2001). Thus, despite increasing attention directed at this crucial aspect of marketing activity, the customer value construct remains poorly defined and poorly understood, likewise the processes involved in creating and delivering customer value. While some traction on the issue has been achieved through the RBV and through consideration of linkages between marketing processes and the firm's financial performance (Doyle 1995; Doyle 2000a; Doyle 2000b; Doyle 2000c; Hunt 1997; Srivastava et al. 2001; Srivastava et al. 1998; Srivastava et al. 1999) further research is needed.

This study therefore focuses on providing more detailed understanding about value-creating processes, particularly in terms of how these processes are affected by the firm's capabilities and assets. In view of the lack of attention the research problem has received in the literature, and theoretical gaps relating to customer value and the value creation process, this research is oriented towards discovery (theory-generating) rather than justification (theory-testing) (Hunt 1983).

3.2.2 Issues in the research design

The unit of analysis is the customer value creating and delivery *programme* (or process). This is a complex entity, incorporating the environment, constructed and 'real' structures, people, and events. Three issues required addressing in the research design in this context: reification, dehumanisation and isolation (Langley et al. 1995). The notion of reification implies that a 'decision' or process is a discrete entity that can be clearly identified and boundaries applied. However, the literature suggests that decisions and processes can also be viewed as a construct in the mind of researchers or participants – a constructed reality that is created *post hoc* (Langley et al. 1995). Dehumanisation relates to inadequate acknowledgement of the role of the decision participants – their cognition, emotion, imagination and memory needs to be captured in order to understand the processes in which they are involved (Kim and Mauborgne 1998; Liedtka 1998c; Stubbart 1989). Finally, isolation implies that strategic decision processes can be seen as distinct from one another and from much of the collective reality that is the organisation. The alternative view is that they cannot i.e.

that strategic processes are separated neither from what has gone before nor from other aspects of organisational life (Starbuck 1995).

The research design therefore attends to six entities and constructs:

1. Environmental and industry context;
2. Firm context (culture, history and networks);
3. Participants in the value creation and delivery process¹¹;
4. Inputs to the process (e.g. the firm's immediate and extended portfolio of tangible and intangible resources);
5. Outputs of the process (e.g. the firm's value offer); and
6. The process itself.

The research design also acknowledges four aspects concerned with the general nature of contemporary marketing practice and strategic decision-making:

1. Involvement of multiple players, and a high complexity of interactions and interrelationships between contributors;
2. Nature of the decision process is longitudinal, and continuous rather than cross-sectional and discrete;
3. Significant interactions and inter-relationships within and between the customer value development process and customer value delivery processes (Campbell and Alexander 1997);
4. Inherent nature of processes (i.e. incorporating inputs, activities and outputs over time).

The research design was therefore required to acknowledge the multi-dimensional, ambiguous, contextual, longitudinal and subjective nature of complex business processes (Bonoma 1985; Crotty 1998; Eisenhardt 1989; Gummesson 2000; Mintzberg and Lampel 1999). In the spirit of Mintzberg et. al's (1998) analogy of the

¹¹ E.g. the firm's stakeholders, including employees, contributors and influencers

blind men and the elephant, this study was directed at developing understanding of the nature of the beast and allowing that in turn to inform understanding of the nature of its constituent parts rather than directing effort at the parts without an understanding of the whole.

Thus, the unit of analysis (the customer value development and delivery process or set of decisions) is a multi-dimensional process, with multiple players, occurring longitudinally, and both formally and informally in the context of complex organisations. This process has ambiguous boundaries, temporally and substantively, includes complex elements of human behaviour (both cognitive and emotional), and is contextual in nature. Additionally, as discussed in Chapter Two, the current state of knowledge offers relatively little support. This implies directing the research design at capturing the rich, contextual and multi-dimensional nature of processes supporting customer value creation and delivery.

The research design also addresses four criticisms of current research approaches in marketing (Kiel 1998). These criticisms are that firstly, a non-critical normative approach predominates in the literature. That is, applied and action oriented research predominates, rather than research aimed at the generation of understanding-oriented theory. Secondly, the dominant approach is single faceted, focusing on a 4Ps or transactional approach rather than encompassing a diversity of 'schools' and approaches. Thirdly, researchers tend to adopt an unquestioning logical or modern empiricist approach. Finally, the dominance of the North American approach can result in ethnocentrism. This thesis acknowledges these problems, and addresses these criticisms as follows:

1. Focuses on theory generation and 'discovery' oriented outcomes (Hunt 1983);
2. Is understanding oriented, seeking 'rich & thick' descriptions and explanations (Donnellan 1995; Geertz 1973);
3. Incorporates multiple perspectives and a diversity of approach (Gioia 1990; Gummesson 2001; Hassard 1991; Hunt 1991; Lee 1991; Lewis 1999; Lutz 1989; Mingers and Brocklesby 1997).
4. Takes a problem-driven approach to theory development (Srivastava et al. 2001)

5. Is not North American in origin, and synthesises the European and North American perspectives.

Support for a predominantly case-based research approach is derived from the marketing planning literature. The planning literature, both in marketing and in strategic management, calls for case-based understanding-oriented rather than cross-sectional theory-testing oriented research (e.g. Day 1992; Greenley 1986; Gummesson 1994; McDonald 1992b; Mintzberg and Lampel 1999).

In addition to the general nature of the research problem (i.e. process based), three research design and implementation issues required consideration: bounded rationality, espoused theory vs. theory-in-use, and context effects. Firstly, bounded rationality relates to the behavioural characteristics of agents (or managers), and refers to behaviour that is intentionally rational but subject to the knowledge and computational capacity limitations of the decision-maker (Simon 1972). Ideal cognitive resources and processes do not inform behaviour; meaning rationality is limited (or bounded). Mintzberg (1973) captured this idea in his seminal study of managerial work:

“to ask the manager what he does is to make him the researcher; he is expected to translate complex reality into meaningful abstraction. There is no evidence to suggest that managers can do this effectively; in fact there is ample evidence ... that managers are poor estimators of their own activities. Despite their convenience, the interview and questionnaire methods should be recognised as useful only in the study of managers’ perceptions of their own jobs.” (Mintzberg, 1973, p. 222).

The implication for researching managerially based processes is that bounded rationality will hamper the researcher seeking to gain insight through first-person reportage by managers. Managers are unlikely to offer insight other than into their own perceptions of their role in complex processes. Secondly, when using managers as key informants, the researcher must also be aware of the existence of two levels of meaning: espoused theory and theory-in-action (Argyris et al. 1985). Espoused theory relates to ‘acceptable’ managerial responses (“talking the talk”). In Western cultures, the prevailing theories or current paradigm of accepted managerial behaviour center on valid information, informed choice, internal commitment, personal responsibility, competence and natural justice or ‘do unto others’ (Putnam 1999). However, behaviours (or theory-in-action or “walking the walk”) may differ substantially from

espoused theory. In other words, there may be a gap between managerial discourse and practice. The implication is that the researcher must find ways to uncover the theory-in-action of informants, thereby incorporating both rational and socio-emotional response factors into the data gathering and analysis process. Triangulation procedures involving a diagonal cross-section or census of participants at all levels is implied, with crosschecking carried out to find 'truth'. Finally, the issue of context relates to the need to understand managers' realities in order to place their comments and insight into context. Therefore, the researcher must understand environmental, industry and firm contexts (Argyris et al. 1985; Davis 1999; Juttner and Schlange 1996; Tsoukas 1994; White and Johnson 1998). Clearly, interviewing managers in isolation and taking responses at face value will not provide reliable insights into complex organisational processes. The researcher is required to develop understanding of context, to consider cognitive issues affecting responses such as bounded rationality and theory-in-use, and to include triangulation of data sources.

3.3 Research objectives and questions

The purpose of this study is to aid theory development in the area of customer value creation and delivery, through development of empirically based conceptual frameworks in the areas of customer value, and customer value creation and development. Discussion of specific research objectives and questions follows.

3.3.1 Research objectives

To address the research opportunities and knowledge gaps identified in the literature review, two specific objectives were developed:

1. To identify and examine the scope and nature of the 'customer value' construct from the perspective of managers;
2. To examine customer value creation and delivery processes in the context of an industrial firm.

The research examines customer value creation and delivery in a business-to-business rather than business-to-consumer context. It is concerned with how managers view customer value, and how this understanding translates into the customer value creation and delivery processes of the firm.

3.3.2 Research questions & propositions

As the research was principally of an exploratory nature, specific hypotheses were not developed. The research opportunities identified in the literature review gave rise to two over-riding research objectives. These in turn directed development of three sets of propositions. The propositions were used to guide research design, data collection and data analysis.

The over-riding research questions were:

1. What is customer value?
2. How do managers create and deliver customer value?
3. How does customer value creation and delivery relate to assets, capabilities and financial outcomes for the firm?

The propositions providing guidance for study design were:

- P1:** That customer value creation and delivery (CV) involves four factors: *intentions* (of general business and marketing activities), *managerial focus* (investment focus and activities focus), *management and leadership* (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and *monitoring* (approach to performance measurement).
- P2:** That the nature of the customer value creation and delivery process will differ between firms.
- P3:** That the differences in approach to the customer value creation and delivery process can be explained by the elements identified in Proposition 1.
- P4:** That managerial views of customer value creation and delivery have common characteristics across firm types and industries.
- P5:** That the customer value creation and delivery process can be conceptualised through the lens of the RBV i.e. as a set of resources, orchestrated by strategy, and delivered via the three core value-generating processes¹².
- P6:** That the customer value creation and delivery process is linked to shareholder value through the mechanism of the artefacts and activities identified in P5 (above).

Specific research questions relating to each of these propositions and directing each successive stage of the research are provided in Chapters 4, 5 and 6.

¹² Product development management, supply chain management and customer relationship management

The thesis proceeds with a detailed discussion of the research design developed to address the research objectives, questions and propositions.

3.4 Research Design

“... scholarly research boils down to four basic strategies: curiosity, courage, reflection and dialogue; the rest is technical support.... Be pragmatic; use all roads available to gain knowledge.” (Gummesson 2001, p. 27-29)

Figure 3.1 illustrates the epistemological and ontological assumptions underlying the theoretical perspective, the theoretical perspective underlying the research strategy chosen, the research strategy (or broad methodological choices) implied by the epistemological and ontological assumptions and the theoretical perspective, and finally the choice of particular research methods or techniques.

Figure 3.1: Four elements of research choice (adapted from Crotty, 1998)



The research paradigm was realism, based on a realist ontology and constructionist epistemology (Crotty 1998). The theoretical perspective taken was pluralism and action research. The action research philosophy was one of democratisation of the research process, empowered co-participants and joint discovery or co-creation of meaning. The research strategy was action research-based and multi-method, that is, repeating cycles of planning, action, observation and reflection carried out using various quantitative and qualitative research techniques. Detailed discussion of the approach used follows.

3.4.1 Research paradigm

The underlying research paradigm is realism (rather than positivism, critical theory or pure constructivism (Guba and Lincoln 1994)). This approach has the following characteristics:

- *Ontology (nature of reality)*: Reality is ‘real’ but only imperfectly and probabilistically apprehensible, i.e. there is a researchable external reality, however, it is difficult to apprehend it. Furthermore, this ‘reality’ is subjective, constructed by those who apprehend it (including the observer);
- *Epistemology (relationship between reality and the researcher)*: modified objectivist i.e. findings are probably ‘true’, rather than wholly true (or, at the other end of the dichotomy, wholly created);
- *Typical methodologies used to investigate reality*: case studies/ convergent interviewing: triangulation, interpretation of research issues by qualitative and some quantitative methods (Healy and Perry 2000).

Thus, the thesis is grounded in the realism paradigm. It has a focus on subjective reality, which is context specific, recognising that science is a social process, and embedded in that context (Hunt 1991). The researcher holds that there is an objective or external reality that can be researched (however imperfectly apprehensible) and expects that her knowledge claims can and will be evaluated through common criteria such as reliability and validity (Perry 1998). These choices are supported by the researcher’s own self-awareness. Prior immersion in the ‘real world’ of marketing practice and the challenges of teaching executives provides for a world view that is contextual, inclusive of differing perspectives (i.e. subjective views) of reality, and acknowledges the rich and complex nature of contemporary marketing practice. Furthermore, an ontological position accepting a socially constructed view of reality is more appropriate for research related to complex, contextual processes involving multiple participants than a wholly individualised view (i.e. constructivism) or a wholly objective view (i.e. positivism).

3.4.2 Theoretical perspectives

The theoretical perspectives taken are pluralism and action research. This thesis takes the position that the term ‘action research’ (like ‘marketing’), describes both a philosophy and a set of actions. Detailed discussion of the theoretical perspective provided by pluralism and action research follows.

3.4.2.1 Pluralism

The notion of pluralism can be understood at two levels, paradigmatic and practical. Paradigmatic pluralism operates at the over-arching (or underlying) level, and encompasses the researcher’s view of the world, and that of the researcher’s audience with respect to ontology and epistemology (Burrell and Morgan 1979; Kuhn 1970). Practical pluralism operates at the choice of method level, i.e. the manifestation of the researcher’s view of the world (Gummesson 2001; Mingers 2001; Mingers and Brocklesby 1997).

This thesis is grounded in the realism paradigm; therefore, it is not pluralistic in the paradigmatic respect. Paradigmatic pluralism is controversial, owing to the issue of paradigm incommensurability, i.e. that it is not possible to hold both an objective and subjective view of reality simultaneously (Bowen and Wiersema 1999; Hoskisson et al. 1999; Mingers 2001; Perry et al. 1999). This thesis will not attempt to resolve that issue. This thesis has a pluralist perspective at the practical level, taking a multi-method approach. Stage One (the scoping component) of the study uses quantitative methods, featuring a survey instrument that enables measurement of magnitude, incidence and range of characteristics related to value development and delivery, using conventional analytic techniques. Stage Two (the supporting component), uses qualitative methods to probe, explore and describe manager’s understanding of customer value. Stage Three (the deepening or understanding component) uses qualitative methods to provide ‘rich and thick’ (Geertz 1973) descriptions and explanations of the customer value creating and delivering process.

In the marketing literature, evidence that the practice of marketing is multi-dimensional rather than one-dimensional in nature is emerging, supporting the notion of a pluralism of practice (Brodie et al. 2001). Complex practice indicates a need for research methods capable of capturing richness i.e. approaches that can improve

understanding of complex real world phenomena (Hunt 1991; Thompson 1997). Miles & Huberman offer further support for a multi-method approach:

“Quantitative and qualitative inquiry can support and inform each other. Narratives and variable-driven analyses need to interpenetrate and inform each other. Realists, idealists and critical theorists can do better by incorporating other ideas than by remaining pure. Think of it as hybrid vigour.” (Huberman & Miles, 2002, p. 396).

Clearly, a pluralistic approach offers potential for creativity in research design, and for richer and more inclusive outputs, irrespective of theoretical perspective or paradigmatic purity.

An excerpt from the work of organisation theorists provides a final note of support for the pluralist approach:

“ ... we argue for more varied approaches to research so that justice can be done to the histories of organisations, the people involved in them, and the intricate webs of issues they experience ... today’s conceptual world of organisational decision making looks awfully black and white. Is it not time to open it up to the rich world of colour?” (Langley et al. 1995) p. 277)

3.4.2.2 Action research

“One of the best ways to understand the world is to try to change it.” Kurt Lewin, in Argyris et al. 1985. (Argyris et al. 1985)

Action research is a response to studying complex process-based issues such as:

- Marketing strategy (Acampora and Boissoneau 1995);
- Information systems implementation (Briggs 1998/1999; Clarke 2000; De Vreede 1999; Iversen 1999; Salmela 2000);
- Workplace design (van Beinum 1999);
- Business process improvement (McAdam and McCormack 2001); and
- Studies of higher education (Zuber-Skerritt 1992).

It is particularly apposite in the context of turbulent and rapidly changing operating environments (Ellis and Kiely 2000), as the methodology is longitudinal and responsive, and allows for the influence of complex and dynamic external phenomena.

Action research associates research and practice. Theory informs practice and practice informs theory synergistically (Avison et al. 1999). Action research is located in an agreed problem situation, and applies an iterative process to that situation. It requires researchers and practitioners to work together on a cycle of activities; including problem diagnosis, action intervention, and reflective learning, jointly creating both knowledge and improving practice (Avison et al. 1999; Greenwood et al. 1993; McTaggart 1993; Perry and Gummesson 2004).

The term ‘action research’ is used broadly – and some argue loosely (Chisholm and Elden 1993) to describe a variety of research approaches (Clarke 2000; Ellis and Kiely 2000; Greenwood and Levin 1998; Lau 1997). A review of these approaches is summarised in Table 3.1:

Table 3.1: The landscape of action inquiry activities (adapted from Ellis & Kiely, 2000)

	Action research	Participatory action research	Action learning	Action science
Key authors	(Checkland 1991; Clarke 2000; Rapoport 1970)	(Greenwood 1999; Lewin 1948; Reason 1993; Wadsworth 1998)	(Kemmis and McTaggart 1988; McNiff and Whitehead 2000; McTaggart 1993; Perry and Gummesson 2004; Zuber-Skerrit 1996)	(Argyris 1995; Argyris et al. 1985; Brannick and Roche 1997; Coghlan 1994; Riordan 1995; Roche 1997)
Disciplines	Management/ Information systems	Management/ Education	Education/ sociology	Organisational behaviour, psychology
Origins & ethos	Disparate strands rooted in pro & anti-positivism, socio-technical systems	Egalitarian participation by community of individuals	Observational, constructing meaning from experience	Cognitive: “Why don’t we do what we say we want to do?”
Inquiry process	Diagnostic team inquiry to resolve here-and-then issues	Empower group to develop self development capacity	Group from diverse contexts come together to give help	Mapping here & now reasoning from managers
Validity criteria – practice	Intended actions realised	Attain preferred future state	Project effectiveness	Managerial change/ outlook
Validity criteria – research	Ontological appropriateness, contingent validity, incorporation of multiple perspectives, methodological trustworthiness, analytic generalisation, construct validity, confirmability ¹³			

These four divisions are not mutually exclusive or impermeable – although some ‘schools’ are more identifiable than others. The dashed line between Action Research (which tends to be a catchall in this area of loose terminology) and Participatory

¹³ Adapted from Guba & Lincoln, 1994; Healy & Perry, 2000 – criteria for assessing quality of research conducted within the realism paradigm, and within the auspices of naturalistic inquiry. Further discussion on this issue is presented in the Quality of Research section of this thesis.

Action Research indicates a blurring: many of the key authors are cross-referenced in these two approaches. In the case of Action Learning and Action Science, distinctions are more defined, perhaps owing to the lack of cross-pollination between more disparate disciplines, and clear ‘ownership’ of the Action Science area by one dominant researcher.

This study features a ‘traditional’ action research approach, rather than participatory action research, action learning or action science. In common with all action research, it features collaborative, critical enquiry by the research subjects themselves into their own practice, into real life problems in real time, and the dual purpose of changing practice for the better and developing theory

For the purposes of this study, the definition of traditional action research used by Perry & Gummesson (2004) is offered. Action research is:

“a group of people who use spiralling cycles of activities that involve planning, acting, observing and reflecting upon what had happened to try to improve workgroup processes of action; that help to solve complex, practical problems about which little is known and produces at least one report to the workgroup’s organisation about what was found.” (Perry and Gummesson 2004).

The key aspects of action research highlighted in this definition are both philosophical and practical. These are a focus on collaboration (Greenwood and Levin 1998; Zuber-Skerrit 1991), a dual purpose of improving practice and developing theory (Baskerville 1997; Kock 2001; McKay and Marshall 2001), and a change orientation:

"The objective of action research is not just to describe or understand or explain social reality ... (it) goes much further; it wants to improve a situation." (van Beinum 1999) p. 10

The result is two key differences in research process: democracy of participation and the need to attend to a dual agenda. Democracy of participation acknowledges that the researched are collaborators who participate actively and equally in the research process rather than passive respondents, who are surveyed, interviewed, experimented upon or observed by the researcher. Secondly, as the motivation is to improve theory and practice simultaneously, improvements to practice are an expected part of the research process, to be enjoyed directly and immediately rather than indirectly and in the longer periods associated with ‘traditional’ research (e.g. MSI, 1999). The implication is that the issue of research relevance to practitioners is central to the action research ethos (e.g. Avison et al. 1999), and that both theoretical and practical

outcomes have equal importance. Communication to each party must therefore be appropriate and ‘actionable’ according to different needs and expectations. In the case of this research both a theoretical form (e.g. conceptual frameworks, theories, hypotheses, propositions); and an ‘industry-friendly’ format (e.g. reports, formal presentations, seminars, and workshops) were articulated. It has been argued that the former is compatible with the realism paradigm, and the latter compatible with the critical theory ‘paradigm’ (Thompson and Perry 2004). In this research only one report was issued – this thesis – compatible with the realism paradigm. Critical theory is categorised as a theoretical perspective rather than a paradigm after the framework of Crotty (1994) presented previously.

While ‘action research’ is presented here as a distinct approach to methodology, it can also be viewed as a description of social research per se (Wadsworth 1998). That is, the action research approach is characteristic of ‘new’ (post-positivist) paradigm science. The distinguishing characteristics of action research rest both on the process (discussed in detail in the following section of the thesis) and the articulated philosophy (inclusive, collectivist, and action-oriented, as discussed previously). It is therefore firmly located in an interpretivist epistemology, and appropriate for the discovery and development of theoretical models rather than the testing thereof (Aguinas 1993; Kock 2001).

3.2.4.3 Issues and challenges in implementing action research

“... action researchers are masochists, who like to work harder, deal with more “real world” problems, and face more difficulties getting their work published than their colleagues who do experimental, survey and case research.” (Kock, 2001, p. 3)

As discussed, action research offers a number of practical and theoretical advantages, including appeal to research participants and the potential for developing in-depth understanding through an iterative process, (Avison et al. 1999; Checkland 1991; Eden and Huxham 1996; Gummesson 2001; Zuber-Skerrit 1991). However, there are a number of practical and theoretical challenges related to both participants and process. These are discussed in the following section of the thesis.

Action research (AR) is an unusual methodological choice in marketing. While the information systems literature has made frequent calls for the use of action research (e.g. Avison et al. 1999; Clarke 2000; McKay and Marshall 2001) reflected in the publication of various AR-based studies (e.g. Clarke 2000; De Vreede 1999; Salmela

2000) visibility in other management disciplines is negligible. In the case of the marketing discipline, *no* published studies were found in top-tier journals.

The literature criticises action research as non-rigorous and unscientific, with a perceived emphasis on ‘action’ or consulting oriented activities rather than ‘research’ or theory building activities (e.g. Cherns 1973; Eden and Huxham 1996). Business schools have been criticised for framing consultancy projects as action research projects, and the “... ‘*action research*’ label is often used as a way of excusing sloppy research.” (Eden & Huxham 1996, p. 76). However, action research based projects, like any research project, require a systematic and purposive approach (Argyris et al. 1985; Avison et al. 2001; Kock 2001). Furthermore, quality should be evaluated in an appropriate manner (McTaggart 1997). The issue of quality for this study is discussed later in this chapter.

In addition to critical commentary in the literature, further reasons for lack of adoption are:

1. High ambiguity:

“(AR is) a situationally determined, many sided, multi-dimensional, multi-triadic enterprise which cannot be understood or characterised by means of a simple definition.” (van Beinum, 1999, p. 11)

The process of action research is not easily captured in a concise and clear-cut definition. This ambiguity posed a challenge in this project in terms of framing it acceptably for participants. This was addressed by providing artefacts such as flow charts, text-based explanation and using ‘professional’ terminology such as ‘marketing audit’, and ‘workshop’ rather than more obtuse AR-based terminology (e.g. ‘intervention’, ‘reflection’);

- 2. Intensity and duration of field effort required:** Like ethnography, considerable researcher investment is required for proper project initiation, implementation and reportage (Bate 1997; Boyle 1994). During this project, the researcher spent over 50 hours in formal face-to-face contact with members of the project organisation, and an estimated 100 hours in informal contact. This was additional to pre-project contact through teaching activities, vital to forming trusting relationships and an intellectual foundation for the project. Contact time was intense, involving not only passive activities (e.g.

listening and recording) but also active participation (e.g. contribution of appropriate ideas and suggestions). This was physically, emotionally and intellectually demanding, particularly with respect to the workshops;

3. Issues in control and leadership in study design and implementation:

‘Designing’ an action research study is problematic, as conflict arises between the purposive and systematic approach implied by the action research models and what is essentially a creative task that unfolds as the researcher and the researched jointly discover ‘truths’ (McKay and Marshall 2001). The study design emerges as part of the study – with the initial parameters set as a ‘minimum critical specification’ (van Beinum, 1999). This ambiguity of both process and outcome in action research projects is difficult to manage both practically and emotionally. The researcher and the researched are required to contribute scarce time and commitment resources to a longitudinal process with uncertain payback. In a commercial environment, difficulties are created in gaining initial buy-in, and in maintaining engagement as the project proceeds. Trust in the researcher assumes great importance, as does the intellectual calibre of the researched. In this study the researcher was fortunate in having positive prior contact with many of the key participants through teaching executive courses. A positive, mutual and trusting learning relationship was therefore already in place, and the calibre of participants established (successful completion of post-graduate executive courses requires intellectual and professional capability);

4. Conflicting expectations:

“... the goals of business and academia are not coincident. While they share an interest in customers, competitors, and markets, business is more concerned with actionable results, specific knowledge, proprietary advantage, and "how-to" knowledge (e.g., how to increase sales). By contrast academics tend to focus on general knowledge, theory development, dissemination of results, and "why" knowledge (e.g., the process by which advertising affects sales).” (Marketing Science Institute 1999)

Recognition of cultural differences between researcher and researched acknowledges differing expectations of timing, deliverables, priorities and by implication personality types. This is a particular issue for collaborative research (as opposed to non-collaborative research approaches). The

researcher managed participant expectations by on-going communication, clear milestones, and by minimizing complexity. The researcher's prior business experience was crucial – without this, the development mutual understanding would have been difficult, if not impossible.

5. **Challenging research ethos:** Unlike conventional research, where the researcher has a formal authority relationship with the researched, in action research the researcher is notionally an equal participant in a democratic and collaborative process (Greenwood 1999; Greenwood et al. 1993; Mangham 1993; van Beinum 1999). Democracy requires a degree of comfort with loss of full control and the leadership role, and strong personal and professional engagement with the research site. The researcher is required to interact deeply with the researched, and cope with both emotional and rational interactions. Therefore, the researcher must give as well as take – the role is a blend of consultant and researcher without the support of the traditional role conventions associated with either. Additionally, with organisational members who are in situations of personal stress, it is entirely feasible that the researcher would (knowingly or inadvertently) take on the role of 'counsellor'. It is clearly a difficult path to negotiate, requiring industry, research and life experience (Grønhaug and Olson 1999). These insights comply with the action science perspective and the work of Argyris on espoused theories and theories in action. Action science theory provides insight into managerial thinking and the behaviours arising from that thinking, and, at the implementation level, a clue to barriers to achieving agreed changes (Argyris 1995; Argyris et al. 1985; Greenwood 1997; Putnam 1999). In completing this study, the writer was required to draw on all of her self-awareness, business insight and professional skills gained through 20 years in industry, 10 years of executive teaching experience, and through personal development (e.g. counselling courses). She compensated for relatively less research experience through study of the literature and through drawing on the support of colleagues with greater expertise;

6. **Difficulties in description and writing of studies:**

“... it is impossible to write about action research in such a way that one can do it justice and

really make clear what it is all about to the reader unacquainted with the field.” (van Beinum, 1999, p. 8).

It is difficult to articulate the process and outcomes of action research based studies appropriately (Mangham 1993; van Beinum 1999). Therefore, there is potential for misunderstanding arising among the researched (i.e. the project organisation and other non-academic parties) and among the research community. Without a critical mass of action research oriented researchers, or those who are acquainted with the field, there is also a barrier to publishing. This in turn creates a negative environment for current and would-be action research researchers and therefore a ‘Catch-22’ situation – the lack of AR-based literature contributes to the lack of AR-based research, which in turn contributes to the lack of AR-based literature. This thesis addresses these issues by providing reportage on both process *and* content: a ‘living and breathing’ account of the unfolding of understanding, and a systematic approach to data collection, analysis and articulation of research outcomes;

7. **Complex ethical challenges:** Two issues arise here, one practical, and one philosophical. In a *practical* sense, action research is concerned with intervention; therefore, the researcher may be party to a programme that gives rise to change. Change usually benefits a power elite e.g. the CEO or approving manager of the project. This may disadvantage those who are not part of the power elite, through the agency of the researcher. This may place the researcher in an invidious position (Holian 1999). For the action research purist, *philosophical* issues arise. Conflict is inherent in the ‘otherness of the other’ – or the researcher’s essential difference from the researched (van Beinum 1999). Researcher and researched are therefore desirably and irreconcilably different. These differences require acknowledgement and respect - assimilation is not a desirable outcome. However, knowledge of the other inescapably reduces its ‘otherness’, and risks transforming it into a reflection or projection of the ‘same’ (ibid), a significant concern in ‘pure’ action research. Awareness is the best response to this concern, i.e. the researcher being aware of the issue of polluting the other’s ‘otherness’. However, the action research process denotes mutual learning between researcher and the researched, which reduces both parties’ ‘otherness’ – i.e. a

new joint understanding is created (Checkland 1991; Harrison and Leitch 2000; Sheffield 2002);

8. **Lack of precedent:** As noted, the climate in the management disciplines (and in particular in marketing) has not been hospitable to action research-based studies and/or the approach not attractive to researchers. The author would also add a high degree of ambiguity relating to discipline-specific interpretation to this list. The ‘flavour’ of action research varies from discipline to discipline. This is logical, as action research is a process, and therefore influenced by the nature of the people, the problem and the context. For example, education-specific action research tends to be cognitive/ learning oriented (e.g. McNiff et al. 1996; Zuber-Skerritt 1992). In information systems, action research tends to be strongly project and outcome oriented with more easily identified boundaries (e.g. Avison et al. 2001; De Vreede 1999; Kock 2001; Lau 1997). In the management sciences, however, action research tends to take on a more behavioural ‘flavour’ (e.g. Eden and Huxham 1996; Eppler and Sukowski 2000; Harrison and Leitch 2000; Seal et al. 1999).

To summarise, implementing action research based studies in the marketing discipline is problematic both practically and notionally, and is hampered by lack of precedent. Despite these difficulties, there are signs of increasing interest in the approach. In tandem with greater acceptance of interpretive scholarship, advocacy is beginning to emerge among scholars in various disciplines – e.g. in information systems (Avison et al. 1999; Clarke 2000), organisational behaviour (van Beinum 1999) and marketing (Gummeson 2001). This enthusiasm builds on an established tradition of using action research based approaches in other social sciences, particularly education (e.g. Clarke 2000; McNiff et al. 1996; McTaggart 1993; Zuber-Skerritt 1992). The following excerpt from the IS literature underlines the promise of this approach to both understanding the world and providing stronger linkages between academe and managers:

"No other research approach has the power to add to the body of knowledge and deal with the practical concerns of people in such a positive manner." (Avison, Baskerville & Myers 2001, p. 43).

The thesis proceeds by discussing the application of an action research-based and pluralistic theoretical perspective in the study's research strategy.

3.4.3 Research Strategy

The use of action research and multiple methods was fundamental to the research process.

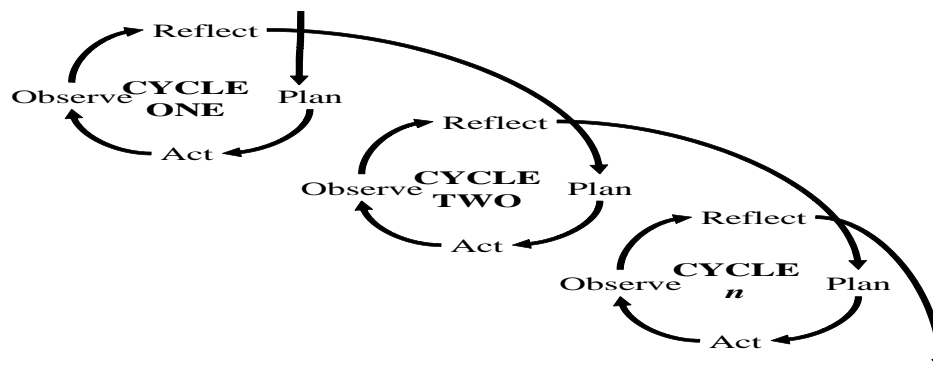
3.4.3.1 Action research

“Business management and process improvement is not a “one-off” activity, but should be treated as a “plan, do, check, act” cycle. The path to business improvement must be an on-going series of radical adjustments; each followed by an assessment and a refinement to supporting processes” (McAdam and McCormack 2001)

The motivation for using action research in this study was twofold: support for the development of rich descriptions of managerial perceptions of the nature of customer value creation and delivery processes within their organisations; and the provision of insight to both managers and researcher supporting positive interventions (i.e. change for the better).

Figure 3.2 illustrates the action research spiral:

Figure 3.2: The spiral of action research (adapted from Zuber-Skerritt, 1992)



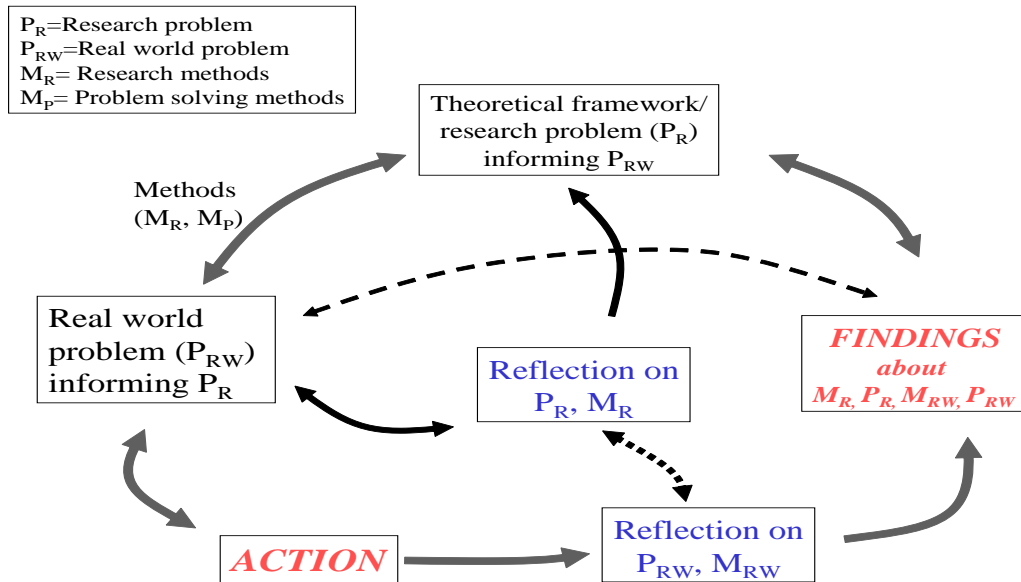
Each cycle within the ‘spiral’ has four major stages (McNiff et al. 1996). Firstly, the planning stage reviews current practice, identifies aspects requiring improvement, and posits a way forward. Secondly, the ‘Act’ stage, implements the new actions. Thirdly, the observation stage evaluates the results of the new actions. Finally, the reflection stage entails modification of the plan and the actions in light of emerging evidence, monitoring and evaluation. The third and fourth stages repeat until all participants are satisfied. This framework, while describing the process, does not recognise the duality

of focus on research/problem and theory/practice and the realities of real life contexts (McKay and Marshall 2001).

The framework used in this study draws on and integrates aspects of a number of strands of theory and methodology from the action inquiry portfolio. The customised framework addresses two requirements: remaining true to the precepts of action inquiry, and allowing for the practical realities of conducting research with time-poor managers.

The following diagram is more representative of the research processes used in this study:

Figure 3.3: Action research framework (adapted from Checkland 1991)



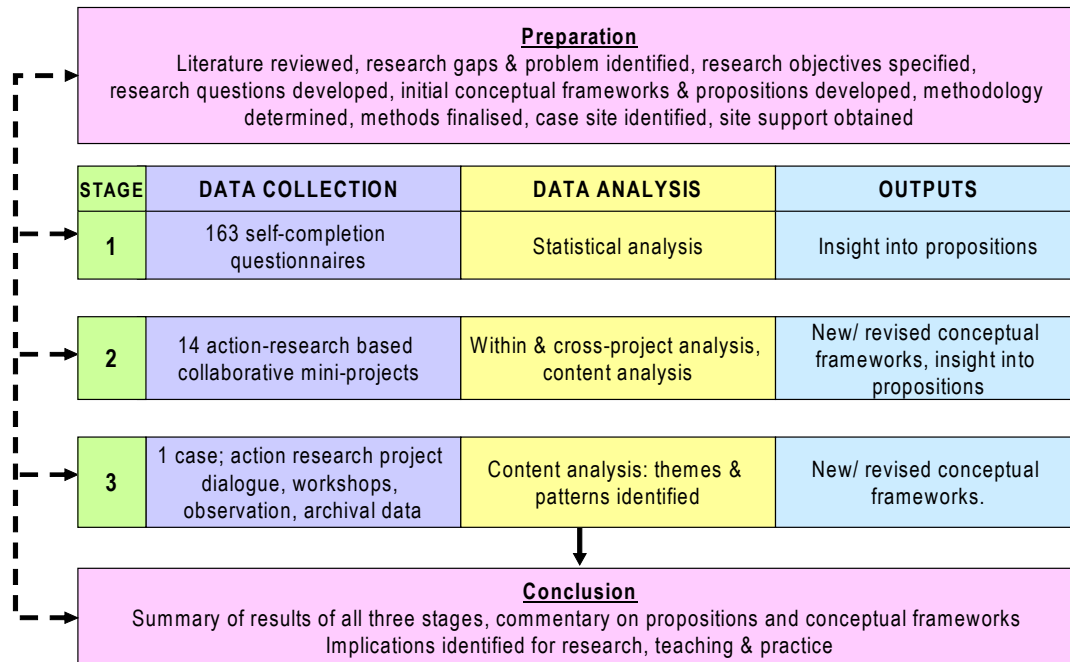
The diagram illustrates the 'duality' of action research, that is, two separate and interacting cycles, one with a problem solving objective, and the other with a theory-building objective. Unlike McKay and Marshall, the arrows are double ended, recognising the 'messiness' and internal reiteration accompanying real life studies. Simplified notation highlights the two contemporaneous processes. Additional arrows recognise the interplay between the two processes, including on-going sharing of insights with research participants, in turn informing theoretical findings.

The process began with the development of a theoretical framework and mutual agreement of the research problem, and concluded when both participants were satisfied that the research problem had been addressed.

3.4.3.2 Multiple methods

The purpose of this study was to build rather than test theory. To achieve this purpose the study employed multiple methods over three stages, summarised in Figure 3.4:

Figure 3.4: Summary of research strategy



Source: Developed for this research

The research design incorporated both quantitative and qualitative techniques. Quantitative techniques provided preliminary aggregate data and an indication of the incidence and magnitude of phenomena. Qualitative techniques, in the form of two action-research (AR) based research stages, mirrored the richness and complexity of the research issue. While the process was ostensibly sequential, the data gathering, analysis processes and outputs were internally iterative. Findings from each stage stimulated questions and lines of enquiry for other stages, and further review of the literature. Literature work and teaching continued throughout the project. The researcher presented preliminary conceptual frameworks to executive students, and incorporated resulting refinements into the results of the study. Each of these activities informed the other, providing a rich base of evidence.

The thesis proceeds with a detailed discussion of methods used in each stage of the research.

3.5 Data collection & analysis procedures

“...all researchers need to be concerned with describing their procedures. When they spend more pages explaining why they will not deploy particular methods than on describing their own conceptual and analytic moves, they leave behind too few footprints to allow others to judge the utility of the work, and to profit from it.”(Huberman & Miles, 2002, p. xi).

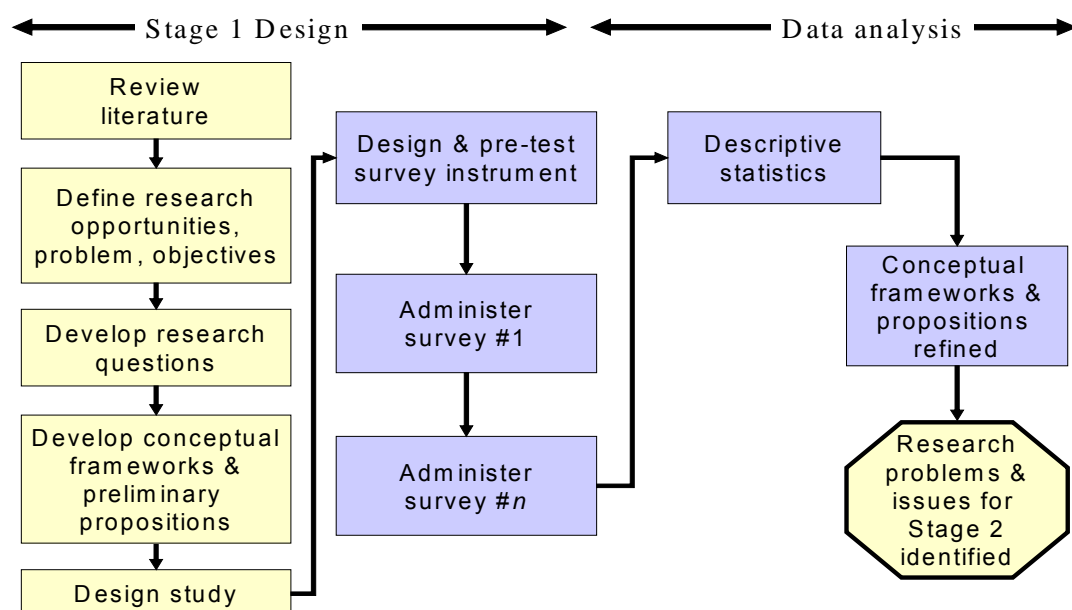
This section of the chapter will discuss procedures for Stage One (survey-based) data collection and analysis, for Stage two (multiple action-research based cases), and for Stage Three (single firm action research-based case).

3.5.1 Stage 1 - Survey

The purpose of this stage of the research was to provide an initial scoping of approaches to customer value creation and delivery across a range of firms and industries.

The locus of this stage of the study was at the individual manager level. Figure 3.5 presents detail of the research process for Stage One:

Figure 3.5: Stage 1 research design and analysis process



Source: Developed for this research

After the initial literature review and development of overall research questions and study design was undertaken, detailed design of Stage One was undertaken. In recognition of the complexity of the area and lack of a sound empirical foundation, Stage One was designed to scope and explore. It entailed a survey of 163 managers,

with the purpose of providing an overview of their views of the value creation process. The three views of customer value identified in the literature were operationalised and a questionnaire designed and administered to assess managers' perceptions of value creation and delivery in their organisations. Detailed explanation of data collection and analysis procedures follows.

3.5.1.1 Research questions

Stage One of the study extends previous research by the Contemporary Marketing Practice (CMP) group (e.g. Brodie et. al. 1997; Coviello et. al., 2002). Following the approach used in previous CMP studies, a structured questionnaire was developed to collect data pertaining to the various aspects of marketing practice, creation and delivery of customer value, performance, and respondent and organizational demographics.

Following previous research {Brodie, 2004 #2064} specific questions relating to customer value were based on the different intentions of the firm (i.e. business and competitive strategy), what value creating efforts and business processes are focused on (i.e. business processes), how these processes and business activities are managed (i.e. implementation) and finally how the impact of created value is monitored (i.e. performance monitoring and control). Accordingly, the research questions guiding questionnaire design were:

1. Intentions

- a. What is the intention of the firm's marketing activities?
- b. What is the intention of the firm's business activities?

2. Focus

- a. Where are the firm's time and financial resources invested?
- b. What is the focus of firm's business activities?

3. Management

- a. Who champions value creation in the firm?
- b. Which stakeholder groups are considered when value is created?
- c. How are planning processes characterised?

4. Monitoring

- a. How is the impact of value creation monitored?

3.5.1.2 Data collection

This section discusses sources of evidence, questionnaire design, and instrument pre-testing.

(i) Sources of evidence

A cross-sectional study based on a series of nine questions was undertaken to gain further insight into the customer value creation and delivery process. The questions were designed to elicit aspects of the three value postures identified in the literature review, and written according to accepted guidelines relating to clarity, length, directionality, lack of ambiguity, and avoidance of jargon (DeVellis 1991; Spector 1992).

These questions were integrated into the Contemporary Marketing Practice (CMP) instrument (Brodie et al. 1997; Brodie et al. 2001; Coviello et al. 2002). The CMP project was initiated at the University of Auckland in 1996. The project examines marketing practice in New Zealand and a number of other countries including the UK, the USA and Argentina. The CMP project is pluralistic in nature. It integrates academic research and business discourse, and utilises both qualitative and quantitative techniques.

A non-probability sample of a 'captive group' (Ticehurst and Veal 1999) was taken. The captive group were executives attending part-time courses in marketing. These respondents were a judgement or purposive sample (Churchill 1995) considered representative of the population of interest: managers engaged in managing New Zealand firms. The sample included a wide range of respondents and organisations, with varying experience, qualifications, and organisation types, across most industry sectors.

Table 3.2 provides details of the sampling frame, responses and response rates.

Table 3.2: Sampling frame, responses & response rate 2001-2002

Executive cohort	N	Responses	Response rate
2001 Market.601 ¹⁴ – Trimester 2	29	19	66%
2001 Market.601 – Trimester 3	32	13	41%
2001 Market.713 ¹⁵ – Trimester 3	85	55	65%
2002 Market 601 – Trimester 2	29	13	45%
2002 Market.713 – Trimester 2	91	63	69%
TOTAL:	266	163	61%

The sampling frame was executive students participating in the University of Auckland’s Postgraduate Diploma in Business, over the period May 2001 to September 2002. Five cohorts and 266 managers were sampled over a period of 17 months. The useable sample consisted of 163 respondents – a 61% response rate overall.

The author partially or wholly taught the courses, and thoroughly explained motivation for the research and questionnaire structure. This underpinned the high response levels.

In addition to appeals to *esprit de corps*, the students were given an incentive to respond by means of the promise of a personal ‘score card’ describing the marketing practice profile of their organisation, relative to other organisations in the total CMP international data pool. The students were also presented with aggregated results of their cohort’s data at the conclusion of their course, enabling comparison of personal and organisational attributes and marketing practice characteristics. Refer to Appendix A(ii) for a sample of the scorecard, and the aggregated results presentation. Although a more in-depth approach (e.g. personal interviews) may have provided greater richness of information and minimised the potential for misinterpretation, the data obtained was satisfactory in terms of meeting the requirements of this exploratory stage of the study.

(ii) Questionnaire design

¹⁴ Market.601 ‘Marketing Strategy’ is a focused marketing strategy paper taken by more advanced marketing specialists, focusing on the firm’s value-creating processes. Market.713 is a pre-requisite for this paper.

¹⁵ Market.713 ‘Marketing for Managers’ is an introductory marketing management and strategy paper taken by both marketing specialists and general business administration students.

Questions were developed through a series of drafts and piloted with both academic and managerial respondents to ensure simplicity, clarity, and objectivity (Churchill 1995; Churchill and Iacobucci 2000; Ticehurst and Veal 1999). The questionnaire included seven main sections:

- A. Your organisation
- B. Defining your customers
- C. Marketing practices with your primary customers
- D. Measuring performance
- E. Using technology in your organisation
- F. Value creation & delivery in your organisation
- G. You

In sections C, D and F a 5-point Likert scale was used, where 1=Always and 5 = Never, with a further option of 'not applicable' (DeVellis 1991). Questions consisted of a short descriptive sentence to facilitate comprehension and response. An explanatory introduction to each section provided an overview and directions to respondents.

Section F (relating to customer value) included nine questions. Eight questions sought respondents perceptions of their firm's value creating processes, based on the three value archetypes developed from the literature. The ninth question was a yes or no question asking whether formal systems (i.e. customer relationship management (CRM) programmes) had been implemented in their organisations.

(iii) Instrument pre-test

The general CMP questionnaire (i.e. that part of the questionnaire *excluding* questions relating to value) has been extensively tested over a five-year period, and the question approach and wording comprehensively refined during that time.

The questions in Section F (those relating to value creation) were theory-based, relating to eight aspects of value creation identified in the literature and articulated in the final conceptual framework relating to value posture. The complete questionnaire was pilot-tested by two academics with over 10 years of industry experience in marketing and middle management, and also by two practicing managers. Based on these responses, minor wording modifications were made to improve clarity and ease of response. The pilot indicated that the questionnaire required approximately 30

minutes to complete. After pilot testing, the final instrument was administered to successive cohorts of executive students. Refer to Appendix A(i) for a copy of the instrument.

3.5.1.3 Data analysis

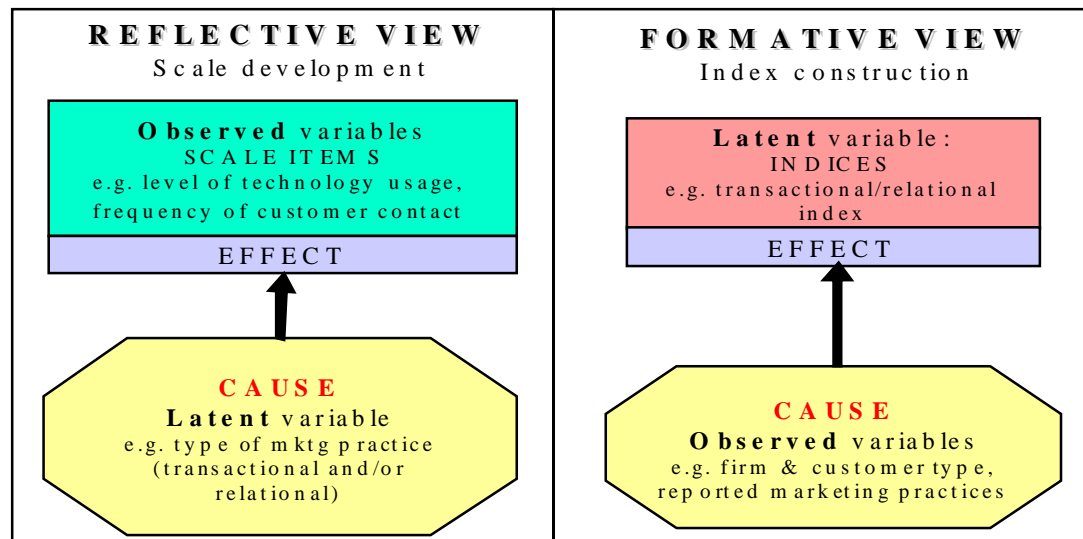
The data was analysed using SPSS statistical analysis software. Four steps were undertaken, data cleaning, creation of an index of marketing practice, creation of classification variables and cluster creation and comparison.

Cleaning the dataset entailed two steps – screening for outliers and replacing missing values. Outliers resulting from incorrect data entry were identified and corrected.

Missing values were replaced using series means procedure.

Indices of marketing practice type were created to establish trends and magnitudes of phenomena in the data. Index creation is a ‘formative’ rather than ‘reflective’ approach to data analysis (Diamantopoulos and Winklhofer 2001). Figure 3.6 compares the characteristics of each of these approaches:

Figure 3.6: Comparison of measurement approaches – reflective and formative (adapted from Diamantopolous & Winklhofer 2001)



The reflective approach entails the identification and description of a latent variable. The formative approach takes an alternative approach to measurement, whereby the construct or latent variable, rather than having a causal relationship to, or being a reflection of the observed variables, forms the observed variables. In developing complex theory-based constructs, the formative approach is more likely to offer insight, as it delivers an aggregate expression or ‘gestalt’ of a type of marketing

practice or value creation posture rather than a disaggregation or number of elements in a scale (Diamantopoulos and Winklhofer 2001). This study has taken a formative approach to measurement, as the data in this study complies with these characteristics. As demonstrated in the literature review, ‘value’ is a complex construct, as is ‘type of marketing practice’. Causal variables for both were identified in a comprehensive review of the literature, and fine-tuned in a series of studies e.g. (Brodie et al. 1997; Brodie et al. 2001; Coviello and Brodie 1997; Coviello et al. 2002). The survey data was then used to create an index (effect variables, or the construct of interest) measuring the *magnitude* of various types of marketing practice.

Classification variables were created to provide insight into two groups of descriptors, organisational and respondent, as illustrated in Table 3.3:

Table 3.3: Summary of classification variables

Organisation	Respondent
<ol style="list-style-type: none"> 1. Age 2. Size 3. Growth rate 4. Use of technology 	<ol style="list-style-type: none"> 5. Role/ position e.g. <ul style="list-style-type: none"> • functional/ specialist • generalist/ integrator

These variables were then used to develop a description of marketing practices across the sample.

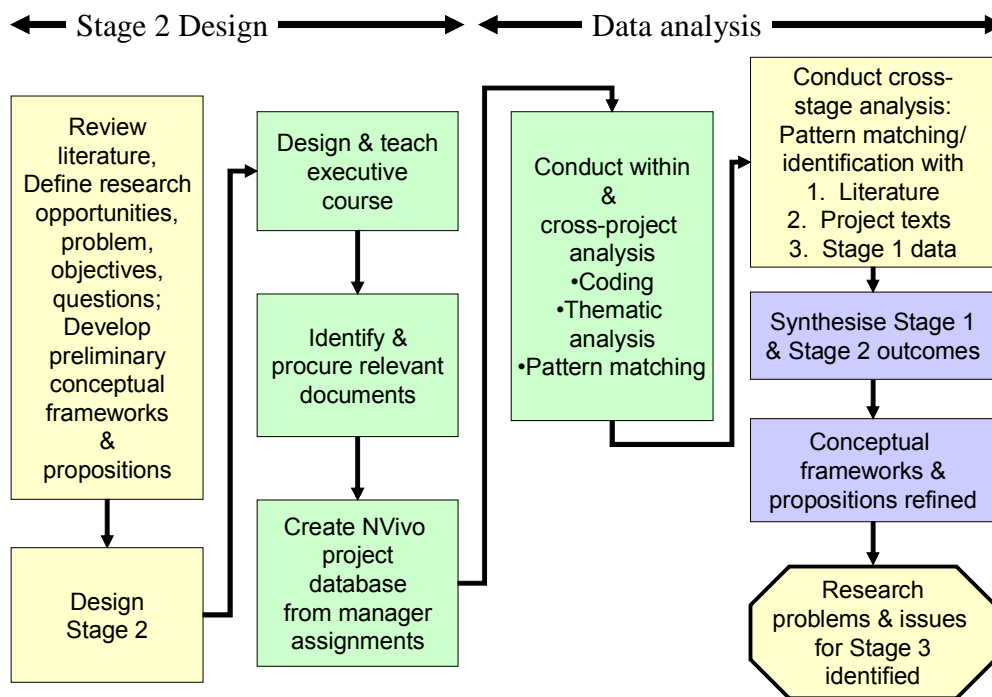
The fourth step was *creating clusters* of firms according to approach to marketing practice. This was achieved by using a K-Means clustering technique, until a satisfactory cluster solution was achieved. Finally, differences were compared across clusters. Further detail and results based on these procedures are reported in Chapter Four of the thesis.

3.5.2 Stage 2 - Multiple cases

This section discusses the approach to data collection in the 14 action research based cases. The locus of this stage of the study was again at the individual manager level, and featured action research-based case studies conducted with 14 managers in various organisations.

Figure 3.7 presents detail of the research process for Stage Two:

Figure 3.7: Stage 2 research design and analysis process



Source: Developed for this research

The purpose of Stage Two was to provide a deeper understanding of how managers view value, to provide an initial indication of the veracity of value archetypes identified in the literature review, and to provide experience in action-based techniques to support Stage Three of the study. It was designed to deliver corroborating evidence (or otherwise) of the three value archetypes developed from the literature review, and to gain understanding of archetype scope and characteristics. This provided greater depth of contextual understanding across a number of industry sectors and firm types. The method used was action research. A detailed discussion of this method follows in the data collection section of the thesis.

Together, Stage One and 2 can be viewed as the means of mapping the various parts of the 'elephant' (Mintzberg et al. 1998), preparatory to gaining an overview of the whole.

3.5.2.1 Research objectives

The research objectives guiding Stage Two of the study were:

1. To provide a contextually based, deeper and richer understanding of how managers view value (rather than the wider understanding offered by the survey work);

2. To provide confirmation or disconfirmation of the three value archetypes identified in the literature review.

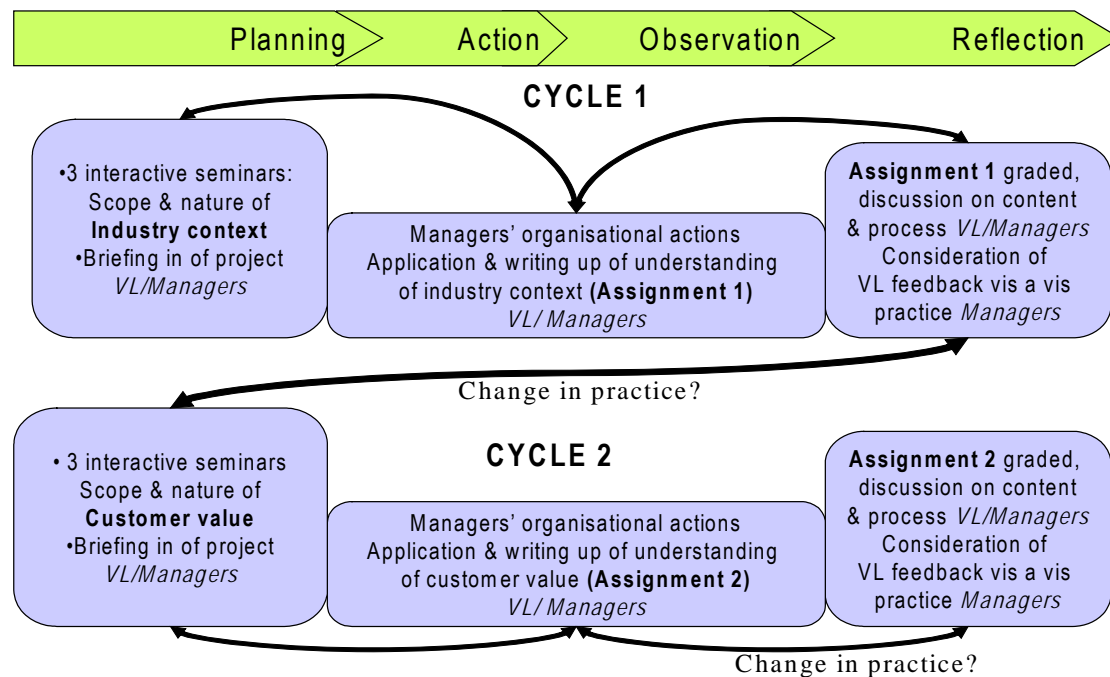
3.5.2.2 Data collection

In Stage Two of the study, customer value creation and delivery processes in a number of organisations were explored using an action research framework. The study was undertaken with individual managers in a number of organisations, who were also advanced marketing students, completing the second paper in a specialist post-graduate level diploma in marketing. All were involved in the value creation and delivery processes of their organisations, at either middle or senior management levels.

The workgroup thus consisted of executive students who were enrolled in paper *Market.601 Marketing Strategy*, over a 12 week period during June-August 2001. The first six weeks of the course covered the motivation and processes involved in organisational and product/service innovation, taught by a colleague. The second six-week component undertook to stretch students' understanding of marketing strategy, including industry effects, firm effects and interaction effects. To support this understanding, a formative assignment was set, requiring students to apply their understanding of the theory to their organisations. The first requirement of the assignment was diagnosis of important industry characteristics (specifically supply and demand drivers, the prevailing level of uncertainty, and appropriate planning horizons), thus providing strategic context (Christensen 1997). The second requirement was an audit of the value creating processes of students' firms. The third requirement was for appropriate recommendations based on perceived gaps between industry context and current customer value creation and delivery processes (i.e. marketing practices).

The action research cycle of plan, act, observe and reflect was used to guide the study.

Figure 3.8: Detail of first action-research based collaborative study



Source: Developed for this research

The seminars are shown in groups according to overarching topic (e.g. external - industry context/ internal - customer value). Each seminar was an action research cycle, key concepts were presented, discussed, and a new mutual reality arrived at by both lecturer and student both during each seminar and over the six-week period:

- **PLAN:** During each seminar, managers were exposed to the relevant theory, and briefed on the action research project – i.e. the two assignments that explored the external operating environment and the internal value creating and delivery mechanisms. Extensive discussion and debate was engaged in. Application of the theory was demonstrated by general cases (i.e. from the literature via the researcher) and from specific examples of practice/ action offered by students based on their own and their firm's activities. Each was extensively discussed;
- **ACT:** Students¹⁶ then engaged in their normal workplace activities, predisposed to notice the influence of external environmental context and internal thinking/ value-related actions;
- **OBSERVE:** The managers observed their organisations' realities, the researcher observed and learned from managers' reactions and progress in applying theoretical frameworks to their organisation's activities via on-going discussion of the set tasks;

¹⁶ The debate was also instructional for the researcher, inspiring subsequent exploration of a new strand of theory and/or refinement of her thinking.

- REFLECT: The completed assignments were graded and commented on extensively, both individually and in the seminar group. Students commented on their observations and assignment approaches, providing input into seminar discussion.

The spiral of plan, act, observe and reflect was thus imposed by the learning and assessment process. Specifically, the students were required to work through four steps:

1. Preparation: developing understanding of the scope and nature of customer value and customer value creation and delivery processes by participating in a series of interactive seminars, reading and discussion;
2. Consideration, diagnosis and justification of their organisation's current value posture according to the three value archetypes framework;
3. Development of a set of appropriate customer value assessment criteria. This required identification of discrete customer or stakeholder groups, and operationalising what each group of customers valued; and
4. Integrating strategic context with marketing practice – writing a Board Paper recommending appropriate actions to address any knowledge and performance gaps relating to the firm's value creation and delivery approaches and processes, incorporating the understanding of industry context built in Part 1 of the assignment.

This written brief was extensively supplemented by verbal briefing over the period of the course, with any issues requiring clarification or expansion worked through in detail either face-to-face or via email. While the steps appear sequential, in practice (and according to the precepts of action inquiry) they were messier and iterative, the completed assignment requiring refinement of understanding and application to produce a result. Most students submitted a series of interim drafts for comment and subsequent refinement, a process that was welcomed by the lecturer, and made possible by a relatively small class (32 individuals). Refer to Appendix B(i) for a copy of the assignment brief.

Only those assignments achieving a grade of B+ (polished, very good) or above were selected for inclusion in the study. This delineation was made to exclude the contributions of managers with only average or inadequate understandings of the theory and principles of interest (i.e. those who were unable to direct the time and

energy resources required to the exercise). The qualifying managers were then contacted, and permission requested to analyse the audit texts. These were then received electronically, and maintained in both an electronic and physical database.

Of 32 students in total, 20 assignments achieved a standard of B+ or above¹⁷. Of these, 15 gave permission for inclusion in the study (of the five non-participating students, one was unable to retrieve their work owing to technical problems and four were non-contactable owing to job related relocation¹⁸) – a response rate of 75%. One later proved to be unusable as the (Mac-based) electronic file was corrupt, leaving 14 usable responses.

Although an assessment of changes in practice resulting from this exercise would have been very interesting¹⁹, it was beyond the scope of this part of the study.

3.5.2.3 Data analysis

The project files were cleaned and imported into NVivo text-based analysis software. Coding was conducted, nodes created, and thematic analysis completed to identify themes and patterns.

After the coding process was complete, the researcher wrote a descriptive summary of each project, including comments on both process and outcome. Notably, despite a reasonably tight brief for these projects, the managers felt empowered to take a critical and flexible approach. Discrepancies, additions and changes were noted. Each project was then viewed as part of the larger whole, and a ‘meta-analysis’ undertaken with the aid of the nodes and trees developed using NVivo.

3.5.3 Stage 3 - Single firm case

The locus of this stage of the study was at the aggregate or firm level. Supported by the knowledge gained from Stage One and 2, an action research-based project was undertaken in collaboration with one carefully selected industrial firm.

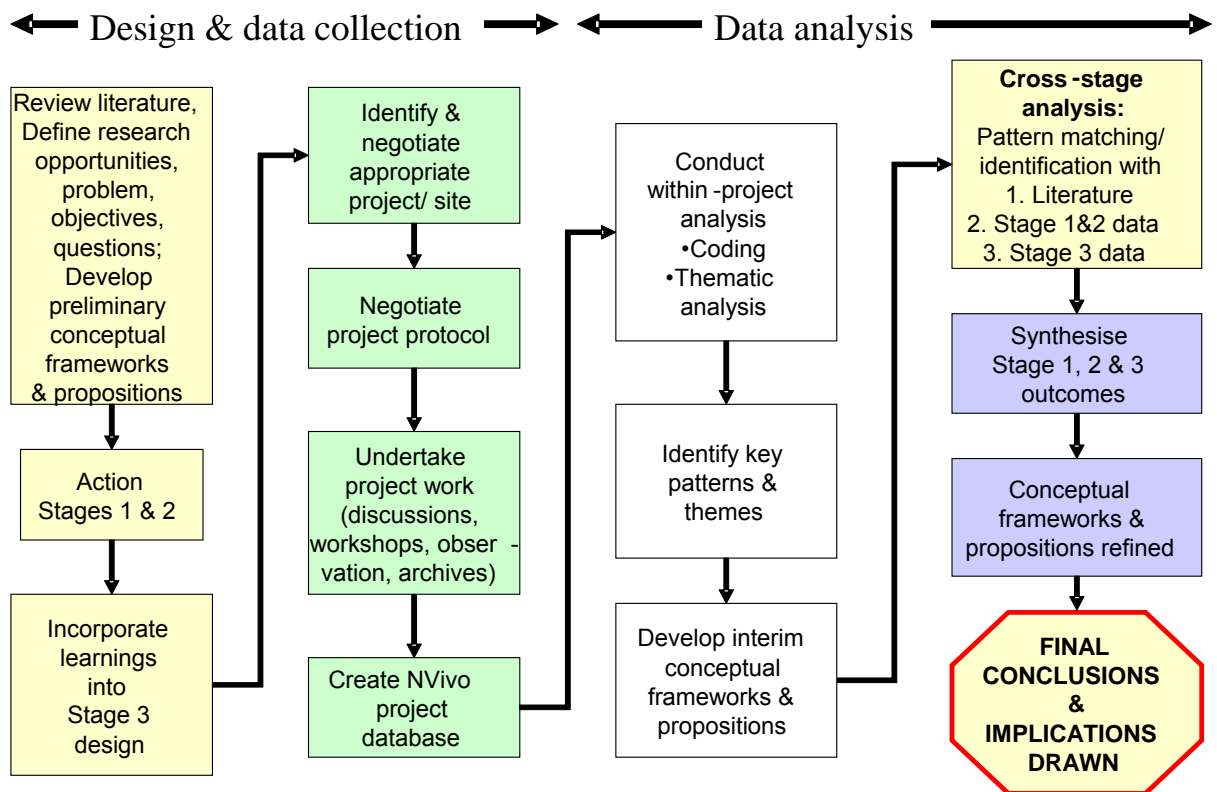
¹⁷ From a pedagogical perspective this was a pleasing result – the topic is challenging and the managers short of time meaning an element of satisficing is inevitable with this group.

¹⁸ Assignment requests could not be made until final course grade was officially advised. This meant timely contact with these very busy students was lost – e.g. the student who emailed from an internet café in the Amazon that he was very happy to oblige, but was unable to access his PC.

¹⁹ NB: changes in practice would logically require higher organisational impact i.e. participation of more than one organisational member, and the active involvement of senior management.

Figure 3.9 presents detail of the research process for Stage Three:

Figure 3.9: Stage 3 research design and analysis process



Source: Developed for this research

Discussion of this process is now presented with respect to data collection and analysis.

3.5.3.1 Research questions

The research questions guiding Stage Three of the study were:

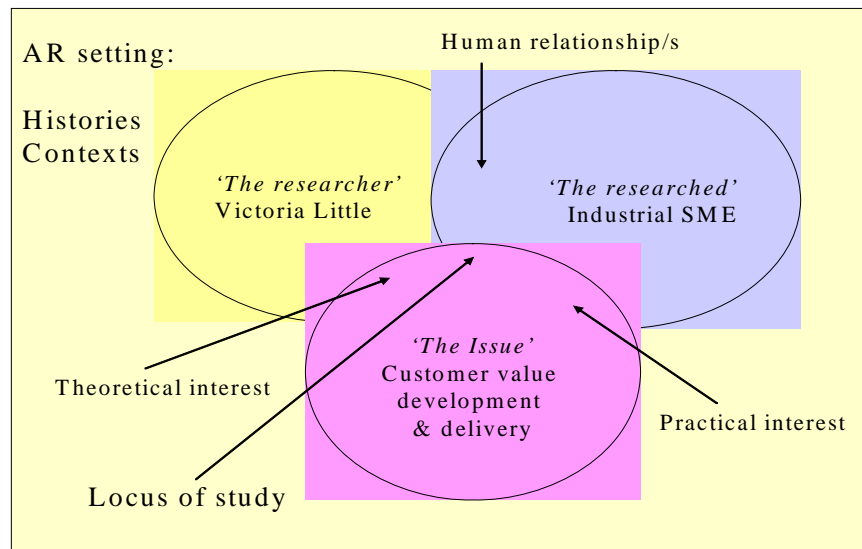
1. How do managers operationalise customer value?
2. How do managers go about developing or changing the way their firm creates and delivers customer value?

3.5.3.2 Data collection

Stage Three of the study was a confirmatory (rather than exploratory) part of the study, therefore a detailed discussion of data collection and analysis procedures is provided.

Figure 3.10 illustrates the entities and relationships involved.

Figure 3.10: Scope and nature of entities engaged in the study (adapted from van Beinum, 1999)



Key elements in this part of the study were fourfold: context or environment, the researched, the issue and the researcher. Each of these elements contributed to the process, and hence the outcomes of the study. In action research (and in this study) outcomes are threefold – changes in human relationships, changes in theory, and changes in practice (or behaviours). This study is located at the nexus of all three, as shown.

This diagram highlights the differences between the action research approaches in Stages 2 and 3 of the study. Stage Two featured a simplified version of action research appropriate for an exploratory approach. This stage was designed to provide base understanding of the research issues and provide a pilot for the research process in Stage Three. Focus was firmly on the *issue*, with the environment and human elements playing a supporting role. The relational, theoretical and practical outcomes were therefore less rich; however, the aims of the study were satisfied. In Stage Three, focus was evenly spread over issues, context and participants in order to ensure a strong foundation for theory building (i.e. rich description and explanation), and for identifying and understanding change in practice.

The rationale for negotiation of this particular site is now provided. This is a crucial step in action research and cannot be over-emphasised.

(i) Site negotiation

There are strong similarities between case research and action research projects. In-depth casework is indicated when unknown and complex processes are to be discovered (Bonoma 1985; Donnellan 1995; Eisenhardt 1989; Gilmore and Carson 1996; Gummesson 2001; Mintzberg 1973; Morse 1998; Perry 1998). Action research adds a further dimension to case research. Cases notionally are a bounding mechanism, describing the locus of attention (Stake 1995). In action research, the project is jointly negotiated between the researcher and the researched²⁰. The project thus becomes the 'case'. Initiation is particularly challenging, as both researcher and researched must share a joint passion/ interest in the project – from a theoretical and practical orientation respectively. Ideally, each party would be interested in both the theory and the practice. In reality, this is unlikely given the disparity in motivation, background and individual characteristics of researchers and managers as previously discussed (Kock 2001; Marketing Science Institute 1999; McKay and Marshall 2001). More usually, the project will be aimed at meeting divergent needs of disparate parties. Achieving 'success' for all parties is therefore difficult (Avison et al. 2001), thus careful initiation and negotiation of the study (i.e. open and comprehensive communication between parties) is crucial. Furthermore, common sense indicates that regardless of method, a single site choice is risky.

With this in mind, organisation selection was carefully undertaken. Criteria were (in order of priority):

1. Mutual concern with research issue at senior management level (necessary pre-condition i.e. hygiene factor) AND full organisational support from self-aware and intelligent managers, preferably with some exposure to relevant theory;
2. A firm that was in a relatively stable business position (i.e. not a start up and not subject to excessive strategic turbulence);
3. An industrial context;

²⁰ In Stage 2 of the study this aspect of action research was liberally interpreted. Each student project evolved individually as the managers developed their own understanding of 'customer value' and 'value-creating processes', resulting in 14 individually structured and designed projects tailored to each student's understanding and industry context. Thus, while the topic of the project was not jointly negotiated, form and specific content of the project was.

4. *A priori* knowledge of the researcher by organisational personnel and vice versa;
5. Sufficient size and operational sophistication.

Action research requires that *all* participants – the researcher and all contributors within the research site – are active co-researchers and thus equally concerned with both process and outcomes of the research process (Greenwood and Levin 1998). Therefore, the CEO and other key players within the organisation must have an active interest in the research topic, and in achieving quality outcomes from the project. It would be difficult to take this approach in an organisation with morale issues, or with a low calibre of managers. However, finding organisations with intellectually oriented managers with an interest in business research is easier said than done – serendipity played a significant role in finding the participating organisation in this study.

Secondly, environmental context is important (van Beinum 1999). Firms in situations of strategic stress affecting immediate survival are unlikely to commit scarce managerial time, cognitive and energy resource to non-critical activities. For example, during the period of this study, one firm on the short-list suffered catastrophic product failure. This would have resulted in withdrawal from any research project not aligned to solving that problem. In this study, senior management of the case firm took both the study and business challenges in their stride, as the subject matter was viewed as both important and relevant. Thirdly, an industrial or business-to-business (rather than consumer) context was desirable to the researcher, as this is her area of practical and research interest, based on experience. Experience is an important consideration in action research, as the researcher participates actively in the processes of the firm. A naïve researcher is unlikely to have the skill or knowledge base to contribute to practical discussions regarding strategy or operations. Without this contribution, support for the project from participants is compromised, and consequently the ability to derive insight. The fourth criterion was having positive *a priori* business or teaching relationships with the firm's personnel. This was a significant advantage, as this would abbreviate the process of building trust and commitment, and increase the likelihood of wholehearted participation and open communication. In addition, a mutual frame of reference is established. Finally, an organisation of reasonable size and operational sophistication was sought, characterised by: formal approaches to processes/ systems, longevity and hence stability in the market with established

product and service portfolios, preferably a stock exchange listing, and employment of professional managers with tertiary exposure. The participating firm, while in private ownership, satisfies the remainder of these criteria.

Finalisation of the participating firm was undertaken in three stages – identification of possible participants, selection of desirable participants, then seeking access to the desired site. A list of seven possible sites was generated, based on the researcher's industry knowledge and contacts, rapport with the senior manager concerned, and general involvement of the firm's managers in executive teaching. Five were successively discounted owing to contextual factors, including known short-term strategic crises and extraordinary projects. This is a critical factor - even though two of these organisations were enthusiastic about the project, in hindsight both would probably have withdrawn part way through owing to external circumstances. Two organisations remained on the 'short list'. One of these was subsequently discounted as the CEO moved to another organisation, which left only the final site.

An action research project requires both the researcher and the researched to be interested in an issue of mutual concern (Greenwood and Levin 1998). In this study, contact had been maintained with a prior student, who underwent a personal transition from business owner of his own firm to CEO of his family's firm over the course of his studies. A bond developed over time based on mutuality of interest in business phenomena. The student maintained contact with University personnel, including the researcher, based on this mutuality of interest. As it happened, the student/ CEO had evolving concerns with the effectiveness of his family organisation's value-creating processes, and the researcher was concerned with understanding how he and his team addressed the task of enhancing these processes and the value outcome for customers. Commonality of interest was therefore established.

Thus, the chosen organisation was one with which the researcher had recent and extensive personal contact with the CEO and a number of divisional managers, through executive teaching activities. These activities had created an existing trusting relationship, which could be built upon during the course of the research project. The business was of sufficient size to offer complexities of process, and had sufficient history for the managers to provide perspective over time. It operated in mature markets, and was relatively stable compared to late growth industries such as telecommunications (although these industries are significant customers of the chosen

firm). The management team had been relatively stable over time, and hence were able to offer high quality institutional, industry and customer knowledge.

Once mutuality of interest was established, a preliminary meeting was held with the CEO to discuss the scope and potential of the project. This was supported by documentation on research motivation, process and outcomes, sent to the CEO prior to the initial meeting in October 2002. The CEO then presented the project to his management team. After consulting with his key people, formal acceptance was given.

(ii) Overview of project process

After project initiation, the researcher consulted with the CEO to ensure the process was clear. This was achieved through a series of emails, telephone conversations and meetings, ratifying broad agendas, objectives and mutually desired outcomes.

The second step entailed familiarisation with the organisation and its strategy, through discussions with the CEO and perusal of archival material. The management team was briefed through provision of an information package, including a project information sheet, and a handout on the principles of core competencies and capabilities (Refer Appendix C(i)). The CEO formally addressed the management team, outlining his goals and objectives for the project, and requesting their support. Informal support was garnered through ad hoc contact, including on-premise chance meetings (some of the management team were known to the researcher) through emails and telephone conversations. The project could then formally proceed.

Once approval was gained, the project was formally initiated. A meeting was held with the CEO to finalise process, content and timing issues, and to identify any previously unknown issues. Prior to this meeting, documentation was emailed giving full detail of the research objectives and methodology. The preliminary stage was crucial, as considerable organisational involvement (i.e. time and energy resource) is required.

(iii) Sources of evidence

Data was collected from a series of discussions with multiple informants, observations of the firms' value creating and delivery activities, and archival evidence such as reports, memos and plans.

A series of meetings was arranged with each of the members of the management team identified by the CEO via telephone and email. The first wave of discussions was held over the period 15 October to 20 November 2002, at the firm's premises. During these discussions, an interview guide was used to cover perceptions relating to customer value and to core competencies and capabilities of the firm (Refer to Appendix C(ii) for the interview protocol).

At the conclusion of the first wave of interviews and visits, a preliminary analysis of the content of those visits was prepared. These reflections, together with appropriate theory derived from the literature, were the inputs into the first workshop (refer Appendix C(iii)).

Interviews were conducted with the members of the management team and an external consultant, identified by the CEO as instrumental to the delivery of value by the organisation. Eighteen interviews were conducted with 14 managers and one consultant. Three managers were interviewed twice, either to complete the interview process, or to explore further dimensions of the customer value delivery process. Interviews explored participant's personal, lived experiences with the organisation's value enhancing resources and processes. It was assumed that participants' descriptions of actual experiences and explanations of perceived organisational attributes would yield sufficiently rich data from which to construct a view of the value creation and delivery processes practiced by the organisation. In addition to these interviews, a series of less formal interactions were undertaken, including discussions with visiting colleagues researching in the area, and attendance at seminars. A complete schedule of contacts is available in Appendix C(iv).

The interviews began variously, depending on the interviewers' prior relationship with the participant. In six cases, the participant was well known to the researcher, as the participant had been a student in at least one of the researcher's marketing fundamentals, marketing strategy and advanced marketing strategy classes in the past five years. This was the situation with the CEO, the Senior Product Manager, one of the Business Development Managers, the Product Manager, and the new General Manager. With unknown participants, the interview commenced with a description of their roles and responsibilities. In each case, a relaxed climate was created so that the personal as well as the professional aspects of their roles was open for exploration (Bochner 1997). Discussions invariably extended beyond the scope of the immediate

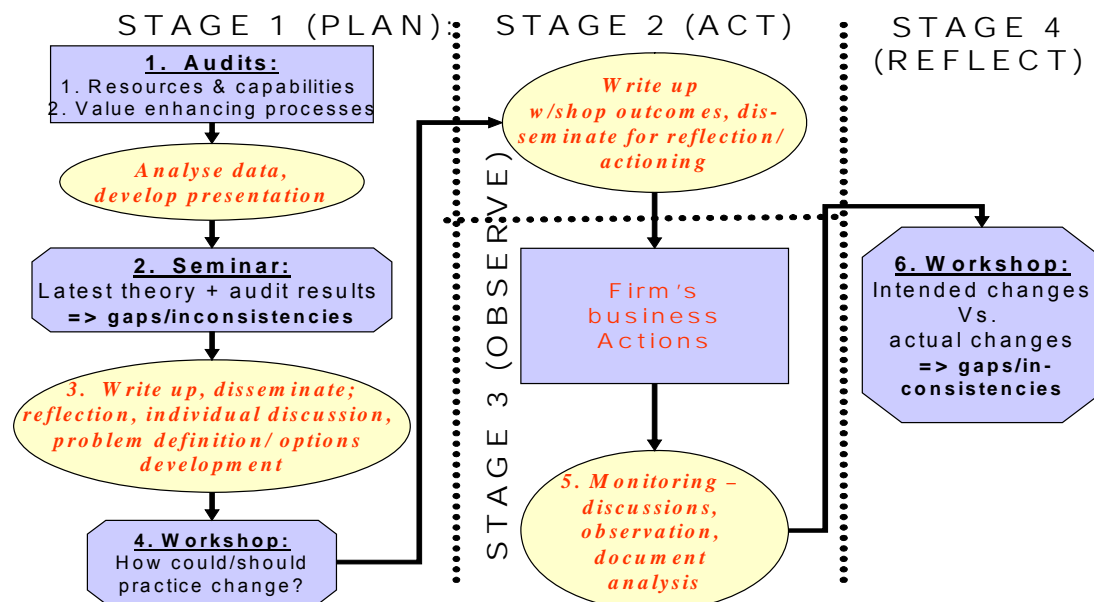
organisation, indicating that this approach was effective. Probing was undertaken for the purposes of clarification, and expansion on critical points. Individual interviews were between one and three hours in duration. With the exception of one interview, all were audio-taped, transcribed verbatim, checked for errors and sensitive matters by the participant prior to analysis by the researcher.

Two workshops were conducted. The first workshop (19 December 2002) presented relevant theory in a structured presentation (refer Appendix C(iii)), augmented by ‘audit’ findings derived from observation, archival material and manager interviews. The managers were then divided into three teams, and asked to present back their interpretation of this material, and their suggestions for changed practice arising from this material. The second workshop (21 February 2003, refer Appendix C(iii)) ratified the outcomes of the initial workshop, and presented further relevant theory for consideration. Both workshops were audio taped and transcribed.

(iv) Detail of project process

Figure 3.11 provides a detailed summary of the research process employed in Stage Three of the study.

Figure 3.11: Stage 3 - Action research process overview



Source: Developed for this research

As shown, the intention was to structure the process around the four stages in the action research cycle – plan, act, observe and reflect.

The **planning stage** requires a review of current practice, identification of aspects requiring improvement, and positing of a way forward (McNiff et al. 1996; McNiff and Whitehead 2000). In the planning stage of this project the notion of the marketing audit (Brownlie 1999) framed the action research process and communication with managers. A marketing audit is “*a comprehensive, systematic, independent and periodic examination of a company’s environment, objectives, strategies and activities to determine problem areas and opportunities and to recommend a plan of action to improve the company’s marketing performance.*” (Kotler et al. 1998). The frame of an ‘audit’ was chosen to represent the project to the case firm, as it is familiar to managers, rather than the less familiar notion of ‘action research’. In fact, a marketing audit has strong similarities in motivation and outcome to action research, as can be inferred from the following quotation:

“By its very nature the marketing audit seeks to intervene in the processes and on-going relationships of an organisation and, importantly, to transform them in a positive climate for learning and improvement.” (Brownlie, 1999, p. 88).

The audit steps proposed by Brownlie (1999) were adapted for the study:

Table 3.4: Steps in the auditing process (adapted from Brownlie 1999)

<ol style="list-style-type: none"> 1. Gain organisational buy-in: <ul style="list-style-type: none"> ▪ Establish top management support; ▪ Agree broad process and outcome objectives with CEO; 2. Familiarise with organisation – personnel, strategy, structure, current value offer, operating environment; 3. Revisit broad objectives and clarify and agree specific objectives in light of (2); 4. Finalise audit process and questions: <ul style="list-style-type: none"> ▪ Identify relevant internal and external individuals; ▪ Assess which questions will be asked of which person/s; ▪ Decide how questions will be asked (i.e. self-completion questionnaire; personal interview, group discussion); 	<ol style="list-style-type: none"> 5. Undertake the audit – gather data in close collaboration with management; 6. Set up meetings/ discussions/ seminars/ workshops: <ul style="list-style-type: none"> ▪ Ratify/ discuss/ debate issues ▪ Brainstorm alternative courses of action; ▪ Evaluate alternative courses of action; ▪ Choose best course/s of action. 7. Develop action programme: <ul style="list-style-type: none"> ▪ Extract all action points ▪ Categorise according to urgency, likely cost, ease of implementation etc; ▪ Confer on task allocation, timing, and monitoring procedures; 8. Monitor actions; 9. Feed back results.
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During the initial project negotiation process, broad outcomes were discussed rather than formal or specific objectives regarding process and outcomes. A less formal approach is consistent with the action research philosophy, whereby improvement in practice is the general aim, with specific outputs becoming known as the action progresses. The fourth step was finalisation of the audit process. This incorporated specific respondents and data gathering mechanisms and instruments, including

setting up of interview times and dates. The fifth step was the actual data gathering process. This was demanding, and required collection of two types of data in parallel:

1. *Action-based*: organisational data relating to organisational actions and outcomes and the organisational knowledge and performance-building objectives of the audit; and
2. *Theory-based*: data relating to the organisational processes of interest, directed at answering the research and theory-building objectives of the study.

Detail of data gathering procedure directed at meeting these two requirements is provided in the following section of the thesis. The sixth step was to present the 'hard' audit data back to the management team, with comparisons to relevant theory. The intention of the comparison was to challenge managers to rethink and reframe current practice, and to provide a rich point of departure for developing alternative approaches to future practice. These were then evaluated, and the most appropriate action(s) chosen. Appropriate action was identified, incorporating responsibilities, timing and monitoring mechanisms.

The **act/observe stage** entailed implementing new actions, and evaluating results of any changes. The intention was to engage in participant observation over a full quarter of operations (i.e. three months, December 2002 - February 2003), entailing analysis of documents, meeting attendance and discussions with managers on a regular basis. However, this proved impractical for two reasons. Firstly, pressure of business. Business activities were impacted by the Christmas/ New Year holiday season, key managers were engaged in an extensive programme of international business travel, and a number of business challenges resulted in general lack of availability of those who were not abroad. This is to be expected in a dynamic real world context, and as previously noted, this firm is operating in a demanding business environment. Secondly, this was a time of organisational change, and most meetings were sensitive, both strategically and organisationally. The presence of an outsider was therefore inappropriate. 'Observation' in this case needed to be non-invasive and economical of both manager and researcher's time, therefore the researcher needed to be flexible and responsive to accommodate change.

The result was a merging of the plan/act/observe stages of the action research process. Discussions were held with the CEO and a major consultant to the firm during the

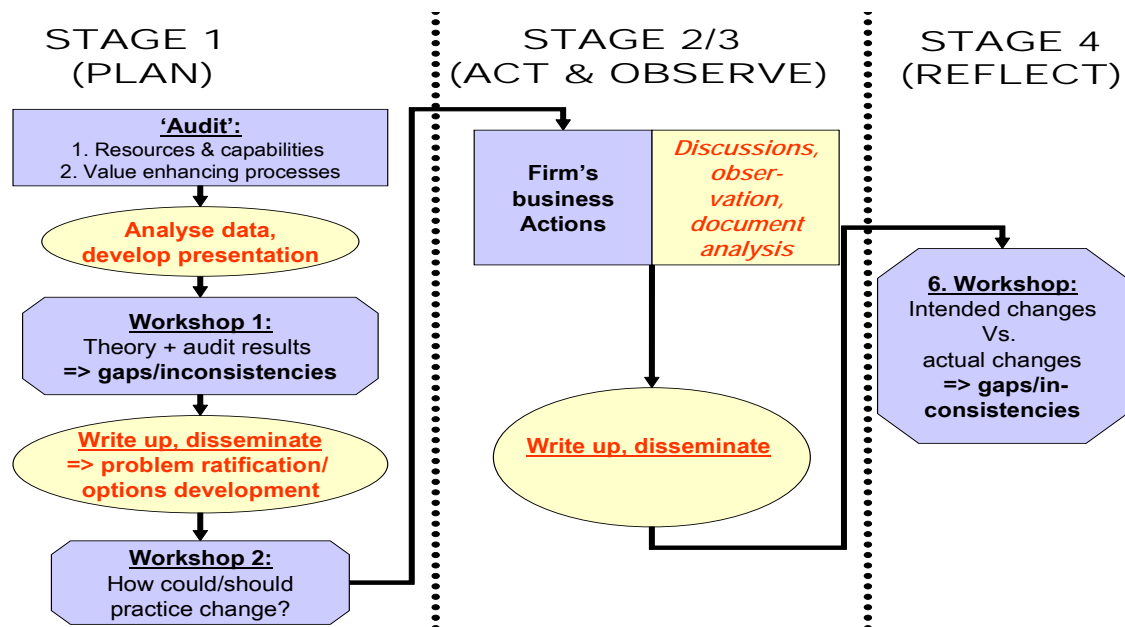
December-February period, commenting on progress and issues. A further interactive workshop was held (February 21, 2003). This revisited the initial workshop outcomes and intended changes and invited discussion of gaps and inconsistencies. Evidence of change in perception of practice and actual practices was sought during these exchanges. During the workshop, in a departure from the classic view of AR, managers were invited to identify areas for improvement in their practice, *and* to identify areas for improvement/ refinement in the theory. This was achieved by discussion of the conceptual frameworks in the light of their own practice-based knowledge. The output was a revised conceptual framework related to customer value-based processes, presented in Chapter Six of the thesis.

The reflection or ‘reflect’ stage entailed modification of the plan and actions in light of emerging evidence. A final interview was held with the CEO for this purpose. This was transcribed and analysed.

(v) Summary

Overall, the spirit of action research was honoured; however, business imperatives resulted in the modified process illustrated in Figure 3.12. This issue is discussed further in the Results section of the thesis.

Figure 3.12: Modified action research process



Source: Developed for this research

The thesis proceeds with a discussion of analytic procedures employed.

3.5.3.3 Data analysis

The discussion in this section applies to data analysis in both Stage Two and Stage Three of the study. An overview of the analysis approach taken is provided, followed by particulars of analytic strategies.

(i) General approach to analysis

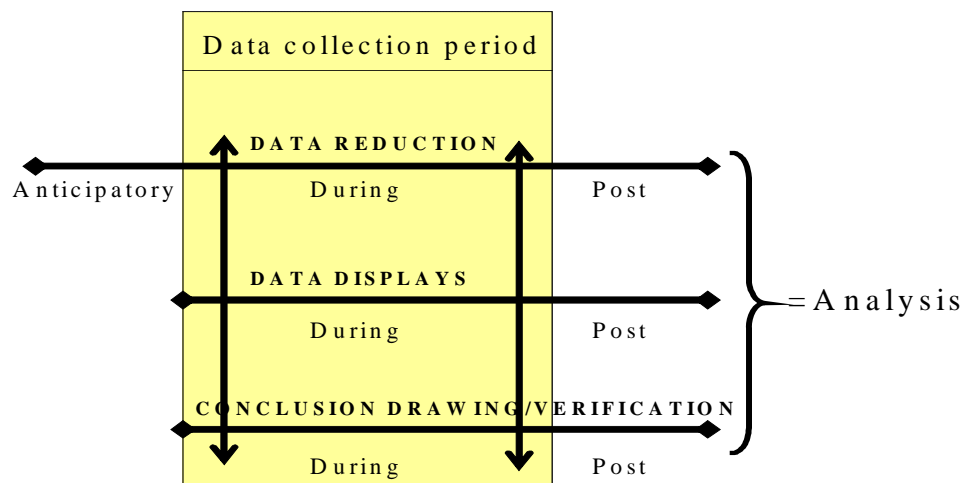
“... you will need a variety of safeguards against tunnel-vision, bias and self-delusion.... The challenge is to be explicitly mindful of the purposes of your study and of the conceptual lenses you are training on it – while allowing yourself to be open to and re-educated by things you didn't know about or expect to find.” (Miles & Huberman, 1994, p. 56)

Three possible approaches to qualitative data analysis are literal, interpretive, and reflexive (Mason 1996). The first approach focuses on language or grammatical usage. The second is concerned with sense making and interpretation of meaning. The reflexive approach focuses on the researcher's contribution to the data creation and analysis process. This study uses a combination of the interpretive and reflexive approaches, which is appropriate to a pluralistic study incorporating both an interpretive approach and an action research based methodology.

Process-oriented data is related to events, activities and choices ordered over time (Langley 1999). These phenomena typically result in voluminous and 'messy' raw data, representing a well-documented analytic challenge to the researcher e.g. (Bourdon 2002; Huberman and Miles 2002; Lincoln and Guba 1990; Miles and Huberman 1994; Morse 1994). Qualitative data also features multiple levels and units of analysis with ambiguous boundaries; variation in precision, duration and relevance; and a wide range of both 'hard' (e.g. written or visual) and 'soft' (e.g. internalised) phenomena such as changing relationships, thoughts, feelings and interpretations (Langley 1999). Furthermore, pains must be taken to ensure results are not inadvertently contaminated through bias in cognitive processing (Huberman and Miles 2002; Lincoln and Guba 1990; Miles and Huberman 1994; Morse 1998; Morse 1994; Sadler 1981). For these reasons, a comprehensive audit trail or chain of evidence is provided to demonstrate linkages between data and conclusions, and to provide a pathway for future learning.

The researcher used the three elements in the analytic process identified by Miles & Huberman (1994) to structure the audit trail. These are summarised in the following diagram.

Figure 3.13: Components of data analysis: Flow model (adapted from Miles & Huberman, 1994)



Each of these elements of analysis is now discussed²¹.

(ii) Data reduction

Data reduction (“the (continuous) process of selecting, focusing, simplifying, abstracting and transforming the data” (ibid, p. 10)) occurred at all points of this project - prior to, during and after data collection. In addition to the pre-study exclusion of a number of alternative research questions and conceptual frameworks, anticipatory data reduction in Stages 2 and 3 of the study included:

- Exclusion of lower quality student projects;
- Exclusion of other potential case sites;
- Selecting participating personnel in the single case site (in consultation with the CEO) rather than using a census of all personnel;
- Excluding a longer time period.

Despite this early reduction, there was a considerable weight of data: 14 projects of 1600-3300 words, and 19 transcripts with a median size of 16,600 words. This resulted in around 350,000 words in all, not including supplementary materials in the form of company reports and literature and the researcher’s field notes (which were also incorporated in the analysis).

²¹ NB: The diagram seems to indicate the processes of collection, reduction, displaying and drawing conclusions from data are discrete and sequential processes. However, as indicated by the vertical arrows they are iterative, interactive, continuous and cyclical, with each aspect informing and changing the others (Miles & Huberman 1994, p. 12)

Stage Two data: The 14 projects were cleaned of graphic content²² and imported into NVivo textual analysis software. The projects were then coded into tree nodes incorporating themes derived from the conceptual frameworks arising from the literature and from the previous stage of the study. In addition to this imposed coding structure, emergent themes were anticipated, and coded in ‘free nodes’ in an endeavour to avoid overlooking important themes or issues. Analysis was then undertaken, linkages were formed between documents and nodes and further themes and issues emerged. An expert panel independently reviewed the coding and themes to ensure these were a ‘true’ representation of the data.

Stage Three data: The data was coded manually and electronically. Firstly, the data was coded manually. Transcripts were read and re-read, and key themes identified. These themes were then mind-mapped to record incidence, and to identify patterns and relationships. Key elements from the mind maps were then separately listed. An expert panel independently coded the transcripts, looking for themes relating to the research questions. Coding was compared and debated until both the researcher and the panel were satisfied that the outcome was a true reflection of participants’ meaning. The transcripts were then coded electronically using NVivo textual analysis software.

In both stages, memoing was undertaken, whereby the researcher attached reflections and remarks to relevant parts of the data, and theorised about codes and their relationships. Patterns, themes, relationships between variables, differences and similarities between groups and subgroups were identified and coded into nodes. Finally, propositions and conceptual frameworks were developed and refined as a result of the outcomes of the data analysis.

(iii) Data displays

Data displays (“an organised, compressed assembly of information that permits conclusion drawing and action” (Miles & Huberman, 19904, p. 11)) were created with the aim of minimising cognitive bias and maximising the uncovering of latent meaning. These include matrices, tables, diagrams, charts and other forms of visual data display. This researcher considers visual representation of data to be the most

²² This is a short-coming of the version of NVivo used – the software does not accept diagrams or tabular data. These were held in separate files and manually included in the analysis.

powerful form of communicating research results, and has taken pains to develop sensible, powerful, attractive and publishable data displays. These displays are ‘living models’. On-going fine-tuning and development of these displays will continue through further action research based projects – i.e. joint development with managers through her executive teaching activities in 2004.

Illustrative quotes are another form of ‘data display’, and have been used extensively to bring the findings to life in order to avoid what Mangham (1993) termed “*a curious aridity ... a sense of the writers being detached from their "subjects" ...*”. (p. 1247) *The Stage Two and 3 Results* chapters thus endeavour to find a means of capturing “*... the essence of the activity - explorations around and construction of a new social reality.*” (*ibid*)

(iv) Conclusion drawing and verification

“Usually, the theory is there before the story is heard and, thus, the tale works to service the theory that explains it.” (Bochner, 1997, p. 424).

From the commencement of data collection, the analyst is developing meaning (Miles and Huberman 1994). This researcher made a conscious effort to maintain openness and a critical stance to confirmation or disconfirmation of the evidence of her own preconceptions. This was aided by the pluralistic nature of the study. Different types of data from differing perspectives, required different analytic approaches, and comparison through alternative lenses helped to avoid bias. The researcher considered diligence here was important, as extensive *a priori* industry involvement was likely to result in strongly preconceived views. The important issue of validity is further discussed in Section 3.6 of this chapter.

The output of this stage was a ‘thick description’ (Geertz 1973) of the customer value development process, incorporating conceptual frameworks and propositions. These are presented in Chapters 5, 6 and 7 of this thesis.

(v) Use of analytic tools

“It is important that researchers recognise the value of both manual and electronic tools in qualitative data analysis and management and do not reify one over the other but instead remain open to, and make use of, the advantages of each.” (Welsh, 2002)

The use of both manual and computer based analysis is commensurate with a pluralistic approach, and provides a balanced approach (Welsh 2002). Manual analysis enabled physical interaction with the data. The initial reviewing and re-reviewing,

highlighting key phrases and comments, drawing of mind-maps and writing of lists helped the researcher gain an holistic ‘feel’ for the data based on physical engagement. Computer aided analysis using QSR NVivo was helpful in managing the data, providing a transparent means of data analysis and an audit trail. It also provided a means of accurately recording frequent mention (frequency) of a particular word or phrase or theme (although manual searches remain the only reliable means of identifying synonyms), finding particular ideas or phrases, and providing extracts of the data for the audit trail. The author agrees with Welsh (2002), finding both manual and computer-aided techniques helpful in analysing the data.

(iii) Analysis of single firm action research project

In the spirit of democratisation of the research process embodied in action research, managers involved in this process received full disclosure of findings throughout the collaboration, full access to final research results (respecting issues of confidentiality), and on-going feedback on issues of organisational importance.

A final descriptive summary of each interview and workshop was written, comparing the manual and electronic versions of the coding. Discrepancies, additions and changes were noted. Each interview was then viewed as part of the larger whole, and a ‘meta-analysis’ undertaken with the aid of the nodes and trees developed using NVivo.

The output of these stages of the study was a ‘thick description’ (Geertz 1973) of the value creating and delivering processes of this firm, incorporating explicit conceptual frameworks and propositions, presented in Chapters Six (a) and (b) of the thesis.

3.5.4 Frameworks for analysis

“... we think conceptual frameworks and research questions are the best defence against (data) overload.” (Miles & Huberman, 1994, p. 55)

Key frameworks for analysis in the study are summarised in Table 3.5:

Table 3.5: Key frameworks for analysis Stages 1-3 – summary of versions & usage

	Stage 1	Stage 2	Stage 3
	Chapter 4	Chapter 5	Chapter 6b
Research propositions	✓	✓	✓
Meta-framework: RBV-marketing*	n/a	n/a	✓
3 value postures V1*	V2*	V3*	✓
New service vision (Gronroos)	n/a	n/a	✓
Core competencies & capabilities (Javidan)	n/a	n/a	✓
Order management cycle (Shapiro et al)	n/a	n/a	✓
Service profit chain (Heskitt et al)	n/a	n/a	✓

* original frameworks

Frameworks used include both literature based and original, relevant chapters introducing each framework and offering subsequent revisions are also noted.

3.5.5 Self-description, awareness of own values, reflexivity

Why is the researcher interested in the research question? This question is crucial in action research. The research purpose requires clarification for all participants, so that the researched situation can be viewed more consciously and sceptically (Wadsworth 1998). This question is now addressed to the best of my ability²³.

Why am I interested in how managers understand customer value? I have been involved in industry over many years, either directly (e.g. in managerial roles) or indirectly (e.g. teaching managers and studying what managers do). The ‘doing’ of business has fascinated me from an early age – why do some enterprises do well, whereas others do not? This may have started with respect to the family farm or in my first job at 14 or 15 as a tea lady at a steel fabricator during the school holidays, or when I was an office junior for an electrical tool and equipment importer. Or perhaps it started later in my first career in advertising, whereby to my surprise, clients were asking a young media specialist searching questions about their businesses. “Good grief - why don’t they know?” I asked myself. And “Why are they asking me?” And “How does it all work?” The first question is not germane here, although I believe

²³ NB: the use of the first person is appropriate in this context.

managerial skills and knowledge have improved markedly since the early 1980's. The second question has relevance - managers seem to feel comfortable asking me the so-called 'stupid' questions (Peters 1994). My Myers-Briggs profile ('analytic-amiable') supports this. This is essential for effective teaching, consulting and action based research – one must be approachable, non-judgemental, supportive and good-humoured/relaxed (plus of course competent and reasonably entertaining!) In the field and in the classroom I share my humanity and find this is either appreciated or not depending on the world-view of the other parties. Parenting also knocks off a few sharp edges and creates bonds with other parents. Various efforts at personal development have taught me about the behavioural and cognitive idiosyncrasies of both myself and others. While challenging, this has been very helpful in undertaking this study. I consider myself a reasonably self-aware person. Perhaps there are also gender issues – perhaps men are comfortable sharing their personal and workplace realities with a woman (even in the C21st senior women are in the minority, particularly in industrial firms).

The “How does it all work?” question has motivated this piece of research and a number of my life decisions. It reflects fascination with the general area of strategy and performance, and as a corollary, the impact of business on our world (Handy 1998; Senge et al. 2001). On reflection, this question spurred me into tertiary study as a mature student, then on to an MBA, a blue suit and the corporate environment. Here in the early 1990s I found that understanding was one thing, and doing something about it was another. Basic marketing theory seemed to be out of step with practice, particularly in an industrial context - a point that did not escape all marketing scholars (e.g. Brownlie and Saren 1997; Doyle 1995; McDonald 1990; Webster 1992), and particularly those embracing the relationship 'school' (e.g. Brodie et al. 1997; Brookes and Little 1997; Gronroos 1994a; Gummesson 1999).

Reflecting on my corporate and consulting experiences, I grew to realise that customers were often last in line for managerial attention, despite a great deal of lip service. Managers talked about customers, but their actions did not reflect the rhetoric. When first teaching marketing to managers, I was astonished to find that despite strong emphasis on this issue (including mention of potential impact on grades) reference to customers was hard to find in their assignments. Elaborate situation analyses were prepared without reference to the customer! This led me to

ask, “How on earth can managers create and deliver customer value without thinking about what their customers value?” And, with respect to this study: “*Where is the connection between the customer and the value managers create*”?

I personally value truth, equity, honesty, integrity and social responsibility. I am strongly motivated to help others. This is the motivation for the process (rather than the content) of this research²⁴. Relevance is important – and scholarship that delivers work offering practicing managers helpful insights is my preference (e.g. Brodie et al. 1997; Brownlie and Saren 1997; Webster 1992). I don’t want to mumble at cocktail parties when someone asks me what I’m working on. I also take social responsibility issues seriously, and value work that asks managers to take a critical view of their role in society (e.g. Harrison and Freeman 1999; Liedtka 1998a; Senge et al. 2001). While I am aware of the issue of imperfect knowledge and unforeseen outcomes, it is important to me that my work makes a contribution, that it empowers and enables, and that it does no harm – ‘doing things right’, and ‘doing the right thing’ (Drucker 1994).

3.6 Quality of the research

*"Validity is not a commodity that can be purchased with techniques ... Rather; validity is like integrity, character and quality, to be assessed relative to purposes and circumstances."
(Brinberg & McGrath, 1985, in Huberman & Miles, 2002),*

Quality of research addresses the question "why should we believe it?" There is no 'one best way' (or accepted way or accepted terminology) of determining quality - it depends on the relationship of the data to the researcher’s stated purpose and articulated 'reality'. In order that we are not left with “interesting stories about what happened, of unknown truth and validity” (Miles & Huberman 1994, p. 11), issues of quality are now addressed, firstly in terms of process, and secondly in terms of output.

Miles & Huberman (1994) use the term ‘validity’ traditionally associated with quantitative approaches to assessing quality of research (i.e. construct validity,

²⁴ I can claim this is my theory-in-use rather than merely espoused theory Argyris, Chris, Robert Putnam, and Diana Smith (1985), *Action Science: Concepts, methods and skills for research and intervention*. San Francisco: Jossey-Bass., as for 10 years I have placed my energies at the disposal of the people of New Zealand – as an award-winning teacher and student mentor at the University of Auckland, and in pro bono work (Women’s Refuge and various small businesses).

external and internal validity and so on) – which can be controversial to qualitative researchers. From the pluralist perspective, this thesis takes the position that ‘**quality**’ in research is the issue, regardless of the terminology used. ‘Quality’ is synonymous with validity, credibility (Eisner 1991), verification (Creswell 1998), trustworthiness and authenticity (Lincoln and Guba 1990) and so on.

3.6.1 Quality of process

Criteria for evaluating quality in research conducted within the realism research paradigm and issue management relating to those criteria in this study is presented in Table 3.6:

Table 3.6: Criteria for assessing quality of research in this study (adapted from Guba and Lincoln 1994; Healy and Perry 2000)

Criteria	Issue	Explanation of issue in realism paradigm	Issue management in this study
Ontological appropriateness	Does research approach ‘fit’ with assumptions about investigated reality?	There is a ‘real’ world. It is imperfectly apprehensible & incorporates complex social phenomena & reflective people.	No assumption made of perfect apprehension, or ‘one best way’ of data analysis & interpretation. Appropriate problem selection i.e. ‘how/why?’ rather than ‘what?’
Contingent validity	Is allowance made for contextual effects?	‘Reality’ is contingent on context. Multiple contexts require multiple explanations of reality. Causal impacts are not fixed, but contingent on their environment.	Acknowledgement of impact of different contexts. Development of ‘family of answers’ that covers several contingent contexts & different reflective participants (albeit imperfectly). Theoretical & literal replication, in-depth questions, emphasis on causality c.f. simple description, provision of case context.
Incorporation of multiple perspectives	Is allowance made for multiple perceptions of reality?	One participant’s perception is not necessarily ‘the’ reality; rather, it is one window on reality.	Use of multiple data source types, multiple respondents, multiple methods. Interpretation of approach i.e. internal & external review by participants & supervisors. Self-description & awareness of own values.
Methodological trustworthiness	To what extent can the research be audited?	An audit trail is required beyond positivism’s ‘reliability’ (i.e. freedom from random or unstable error), similarly to ‘consistency’ or ‘dependability’.	Attention to trustworthiness & authenticity. Development of case study database (appended) including summary of contents. Use of verbatim quotations, matrices to summarise data. Detailed descriptions of key procedures - interview protocols, case selection, data collection & data analysis.
Analytic generalisation	Is the research oriented towards ‘theory building’ rather than ‘theory testing’?	Realism assumes a complex world. Therefore, rather than testing a theory against a population, theory should be ‘confirmed’ or ‘disconfirmed’.	A priori identification of research issues. Transformation of issues into propositions & conceptual frameworks. Data collection & reporting undertaken to confirm or disconfirm propositions & frameworks. Final theory & conceptual framework/model presented in form suitable for testing in future research.
Construct validity	How well are theoretical constructs measured?	No particular application to realism, however, important in general research quality.	Use of prior theory (RBV) to define constructs, maintenance of case study database, attention to quality. Systematic approach to data gathering & analysis.

A systematic and purposive approach has been taken, particularly in view of the choice of a less orthodox (pluralist and action research-based) method.

3.6.2 Quality of output

Quality of output is concerned with quality of the narrative presented, which in action research reportage has been strongly criticised (Mangham 1993). Lincoln (1990) offers four helpful criteria for assessing the quality of reportage – resonance, rhetoric, empowerment and applicability, which will be used here. *Resonance* is the degree of fit between the report and the belief systems inherent in the asserted research paradigm – in this case in the context of the realism paradigm. I have attempted to articulate the multiple realities constructed by respondents, and to bring to life the mutual shaping of reality implicit in action research. Additionally, I have addressed the issue of value influences impinging on the inquiry, from conception of the research problem to selection of the research site, and have included reflections about my own personal experience of the fieldwork in order to make clear that objectivity is not possible and is not an aim. I have endeavoured to be “self-examining, self-questioning, self-challenging, self-critical and self-correcting” (ibid, p. 207). *Rhetoric* (or ‘good’ writing) is important to me, although I make no claims to literary excellence. I have constructed this thesis with the aim of a cohesive structure, clarity and parsimony; and have taken pains to encourage the reader to reconstruct or reinterpret my findings. I am also cognizant of the issue of *empowerment* – i.e. have made efforts to evoke and facilitate action by readers – to encourage readers to act upon the findings, in the spirit of action research – improving practice, or enhancing theory. Finally, I have been particularly concerned with *applicability*, whereby the reader can apply the results of the study to improve practice, and/or to improve theory. This aspect is further addressed in the ‘Implications for future research and practice’ section of the thesis (Lincoln and Guba 1990).

The process of action research tends to impose order on the data prior to any coding or analysis activity. Interviews and workshops are not a process of eliciting information from uninformed/ passive respondents. Rather, a dialogue takes place in which information is sifted and assessed, and meaning is co-developed by informed and active participants. The danger in this process is enculturation, or the loss of the ‘otherness’ of the other, as discussed previously. In AR-based research I would argue that ‘reality’ lies somewhere along a continuum created jointly by the researcher and the researched – i.e. it is a socially constructed reality to a greater or lesser degree. This is congruent with work undertaken within the realism paradigm.

3.6.3 Research scope & limitations

The research was exploratory, descriptive, and explanatory. It was directed at theory development, and did so by identifying relevant constructs and variables specific to the nature of customer value, and to the customer value creation and delivery process. Conceptual frameworks and propositions were developed, specific to a number of firms. The purpose of the research was not to test these frameworks and propositions, nor to generalise the results to other populations and firms.

The perspective taken in this research is broad in nature, focusing on aspects related to the general nature and development of customer value rather than on specific attributes.

Implications of the research design for Stage One, Two and Three results are now discussed.

3.6.3.1 Stage 1 – Survey

Stage One of the study was intended to provide a scoping of the research issues (i.e. provide insight into how managers in various contexts viewed value creation and delivery), and in so doing, provide support for subsequent stages of the study.

The sample (a judgment sample of Graduate Diploma in Business students) is not representative of all New Zealand managers. It is skewed towards those wishing to progress their careers, and who comply with the entry criteria for the course i.e. have prior tertiary qualifications and/or five years of relevant managerial experience. Thus, the sample is characterised by:

- Younger, junior-middle managers (i.e. older, senior and top managers are under-represented);
- Those who value tertiary qualifications and perceive a personal need or gap (i.e. those who already have higher level tertiary qualifications in business or conversely do not value tertiary study are under-represented);
- Those who are able to afford the time and money commitment either personally or through their organisations (i.e. those with the limited personal or organisational resources typical of micro-businesses and start-ups are under-represented);

- Upwardly mobile individuals (i.e. those with energy, ambition and a high motivation for success rather than those who lack confidence or who do not desire progression in the careers for lifestyle, health or other personal reasons);
- Those based in Greater Auckland (i.e. not from secondary or provincial cities).

The results therefore represent the views of younger, more advantaged and more ambitious managers. The respondents tend to be aspiring senior managers (rather than senior managers). Their firms are likely to be larger and have a larger resource base. They are therefore unlikely to be entrepreneurs. This is neither typical of all New Zealand firms, nor of all New Zealand managers. The data offers a snapshot of the views and perceptions of these managers, based on their experience and current understanding. Therefore, the findings can be considered generalisable²⁵ to this group of managers, however, caution should be adopted in generalising to *all* managers, and particular caution should be applied when viewing the results in contexts other than that of the younger manager in the larger firm.

With respect to survey process, the questions were answered in a short time, with concurrent commentary on the nature and direction of the questions. While this resulted in a high level of cooperation and hence a high response rate, it may have resulted in limited reflection on the issues raised by the survey questions.

Furthermore, as most of the managers concerned are at middle management level, their insights may be less reliable than those of more senior managers (Ticehurst and Veal 1999). This concern was reflected in a relatively high rate of non-response to the questions on performance measurement, typically of more moment to more senior managers. This non-response could explain the statistically insignificant differences between countries and cohorts at various levels of management over the entire CMP project.

Three contradictory views of bias can be presented, two positive and one negative. Firstly, over-reporting of organisational attributes could be derived from a ‘halo’

²⁵ While results from this stage of the study are generalisable as noted, generalisability *per se* is not germane to this study – this would contradict the underlying ontological assumptions and methodological approach.

effect, whereby students view their organisations uncritically and are motivated to offer favourable reportage in order to please the lecturer, or secondly because they have been organisationally acculturated to be optimistic and positive (Argyris 1994). The third view is that an under-reporting bias could arise through exposure to marketing theory. Students could view their organisations hypercritically, in comparison with the normative view offered in course materials.

3.6.3.2 Stage 2 – Multiple cases

These were again completed by Graduate Diploma in Business students taught by the researcher in Trimester 2, 2001. Therefore, results are subject to the same biases identified for Stage One – although again, as this stage is also exploratory rather than confirmatory, it is stressed that generalisability is not relevant here. Of more relevance is that content and process of these projects are likely to reflect the biases of the researcher. Students are motivated to maximise grades, the ‘market’ is the lecturer, and therefore the wise (i.e. high performing) student meets the market, particularly when the frameworks suggested are the lecturer’s own. As the projects chosen attracted a grade of B+ or above, selection bias is likely, meaning that alternative interpretations of the assignment requirements are not represented. This is understood. However, it must be noted that some of the selected projects take a critical approach to both the material presented in the classroom and their own firm’s practice, which is very pleasing and serves in some part to militate this aspect of bias. These projects, therefore, are representative of the views of these 14 managers, and may be idiosyncratic, i.e. not representative of the views of managers in general, other industry sectors, or other types or sizes of firm. Furthermore, these views were developed in consultation with the researcher, and the framing for the projects was imposed as discussed previously. The outcomes were co-developed, in the spirit of action research. Therefore, these projects were not a ‘grounded’ view of how managers in general perceive customer value.

3.6.3.3 Stage 3 - Single firm case

Stage Three of the study is a single site case study, which can be characterised as ‘instrumental’ or selected on the basis that it provides insight into a particular issue or refinement of theory (Stake 1995). The issue is therefore crucial, the context tangential (although of great importance to the issue in this particular case). The findings may be

insightful to other industrial SME's, but should be viewed with caution in relation to micro-firms and large corporates, consumer goods and services, and in the context of large economies such as the USA or the UK (this comment applies to all three stages). Thus, results of Stage Three are relevant to understanding the research issues, however, should be viewed with caution outside the context of the case firm.

3.6.3.4 General bias

A further limitation arises from bias in the processes of data analysis and evaluation. Three forms of bias can arise: ethical compromise, value inertia and cognitive limitations (Sadler 1981). Ethical compromise can arise for a number of reasons – including conflict of interest, laziness or arrogance. The researcher has taken strenuous efforts to avoid such bias through a wide survey of the literature and exposure to differing perspectives of both academic colleagues and of managers in various firms at various levels. Value inertia can arise from personal factors relating to either the researcher or the consumer of the research, and can result in selective perception and selective retention. This is a particular issue with interpretive research – the reader is reliant to a large degree on the interpretation of the researcher. It is difficult to check back to the source data (i.e. the site or the researched). This can be overcome by self-awareness and articulation of the researchers' value set (discussed previously) and by intelligent and self-aware readership. A sound audit trail can also reassure readers on this point, and has been provided. The third issue of cognitive limitation is more difficult to address, as it relates to the researcher's own thinking processes. Issues include data overload (a well documented issue with qualitative research e.g. (Huberman and Miles 2002)); over-stressing of first impressions, more easily available information, and novel information; and under-emphasis on less extreme data, repetitious data, and missing information. The researcher may over or under-adjust their views in line with new information, be reluctant to change views even in the face of incontrovertible evidence, and have non-systematic judgment - i.e. coincidence taken as corroboration (Sadler 1981). These are all characteristics of human cognition. To a certain extent, using tools such as NVivo assist the researcher to overcome some of these limitations, as electronic data processing forces differing arrangement and rearrangement of the data (Bourdon 2002; Welsh 2002). However, technology is merely a tool – in addition to use of an expert panel, the researcher's

greatest defence is awareness and self-awareness (Dey 1993; Miles and Huberman 1994; Morse 1994).

3.7 Chapter summary

The research builds on conceptual models derived from the literature and:

1. Identifies the entities, inter-relationships, interactions and sequentiality of the process of customer value creation and delivery;
2. Develops understanding of these entities, inter-relationships, interactions and sequentialities;
3. Aids in the explanation, interpretation and evaluation of the phenomena;
4. Provides the basis for the analysis criteria used to interpret the research findings of the longitudinal study.

The study is a complex and ambitious work, and subject to path dependency. Therefore, it would be nearly impossible to replicate, unless the replicator had identical personal attributes to the researcher, and used identical data sources. This is not a limitation – efforts have been made to present the findings in a manner that encourages further exploration and confirmation/ disconfirmation of various components of the study, by appropriate means.

A final point: the complete study is conducted in the context of a small, geographically isolated economy. Therefore, caution should be adopted in considering the results in the context of larger economies such as the UK and USA.

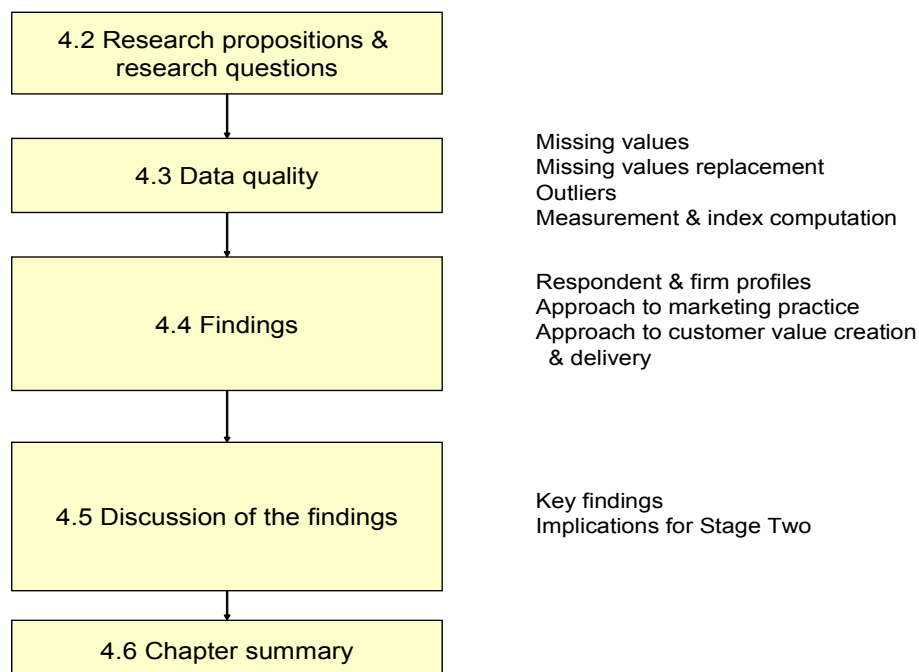
The thesis proceeds with the presentation of results from the three stages of the study, in Chapters 4, 5, 6 and 7 respectively.

CHAPTER FOUR: RESULTS – STAGE ONE

As discussed in the previous chapter, a multi-method and multi-staged research strategy was employed to provide multiple perspectives on a complex and dynamic phenomenon: customer value, and the creation and delivery of customer value.

This chapter presents the results of Stage One of this research. Stage One was designed to provide an initial scoping of general approach to customer value creation and delivery, across a range of firm sizes and industry types.

4.1 Chapter outline



4.2 Research propositions & research questions

Table 4.1 presents the research propositions guiding data collection and analysis for Stage One of the study:

Table 4.1: Research propositions guiding data collection & analysis for Stage 1 of the study

<p>P1: That customer value creation and delivery (CV) involves four factors: <i>intentions</i> (of general business and marketing activities), <i>managerial focus</i> (investment focus and activities focus), <i>management and leadership</i> (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and <i>monitoring</i> (approach to performance measurement).</p>
<p>P2: That the nature of the CV process will differ between firms.</p>
<p>P3: That the differences in approach to the CV process can be explained by the elements identified in Proposition 1.</p>

Proposition 1 presents a series of firm and manager characteristics involved in customer value creation and delivery. Proposition 2 captures the idea that firms might differ in their approach to the CV process. Proposition 3 links these two ideas, suggesting that the factors listed in P1 explain differences in how firms approach the CV creation and delivery task.

As discussed in Chapter Three, the survey work in this study was based on work of the CMP (Contemporary Marketing Practice) group. This work is directed at gaining understanding of marketing practices in aggregate. It distinguishes between two general approaches and four types of marketing practice: Transactional and Relational. Relational marketing practices are further categorised into three types of relational practices: database, interaction and network (Brodie et al. 1997; Coviello and Brodie 1997; Coviello et al. 2002). The literature review established that customer value is an output of marketing practice. Therefore, the CMP typology can be usefully conceptualised as the basis for customer value creation and delivery – after all, the purpose of marketing practice is creating value for customers and the firm (Barwise, 1995; Doyle, 2000; Slater, 1997; Tzokas, 1998; Veliyath, 2000). Building on the CMP work, Stage One of the study was directed at providing a description of what specific factors influence a firm’s customer value creation and management processes, in order to understand differences and commonalities between firms.

Following previous research {Brodie, 2004 #2064} four aspects of firm behaviour translated into four sets of research questions that guided data collection and analysis, as discussed in Chapter Three:

1. Intentions
 - a. What is the intention of the firm's business activities?
 - b. What is the intention of the firm's marketing activities?
2. Focus
 - c. Where are the firm's time and financial resources invested?
 - d. What is the focus of the firm's business activities?
3. Management
 - e. Who champions value creation in the firm?
 - f. Which stakeholder groups are considered when value is created?
 - g. How are planning processes characterised?
4. Monitoring
 - h. How is the impact of value creation monitored?

4.3 Data quality

There will always be defects in the collection of data regardless of its nature (Shugan 2002). Accordingly, data screening was undertaken prior to analysis (Hair, Anderson, Tatham and Black 2000). Issues related to missing values and outliers are now addressed.

4.3.1 Missing Values

Missing data is not unusual in multivariate analysis (Hair et al. 2000). However, it can affect data quality and therefore results, regardless of the analysis undertaken (Allison 2002; Little and Rubin 2002). Key causes of missing data are study design, item non-response, or incorrect data input (Kamakura and Wedel 2000). These issues were addressed in this study by evaluating missing values with respect to both cases and variables.

Firstly, missing values were addressed with respect to *cases*. Imputation of multiple values results in data based on algorithms rather than real respondents (Jaccard and Wan 1996). Therefore, ten cases exhibiting over 30% of missing values (Hair et al. 2000) were deleted. Standard series means procedure was used to replace missing

values in the remaining 153 cases (Barnes 2001). Both list-wise and pair-wise deletions (Kamakura and Wedel 2000) were considered and rejected, as these would have reduced the sample size to an unacceptable level.

Secondly, with respect to *variables*, only one measure exceeded the recommended threshold of 15% of missing values (Hair et al. 2000). This variable related to the nature of customer contact. The language used in this question could have caused respondent confusion: e.g. “*from impersonal to interpersonal across firms in the broader network*”. This was not detected in the pre-testing process, which could be attributable to higher fluency with language and intent of this question among the pilot testers than in the sample. This measure only slightly exceeded the 15% threshold (16.6% of missing values), indicating a relatively minor question-specific problem (Oksenberg et al. 1991). Refer to Appendix A(iii) for detailed missing values reports.

4.3.2 Outliers

Extreme data points can have an excessive influence on results, causing improper solutions and estimates, even when the variables included in the data set are well distributed overall (West et al. 1995). Management of outliers was important in this research, as the reliability of results provided by the cluster analysis technique employed would have been seriously affected (Beckman and Cook 1983; Mullen, Milne and Doney 1995).

Although univariate and bivariate outlier detection are recommended by some authors (e.g. Hair et al. 2000; Tabachnick and Fidell 2001), they are not useful for multivariate methods (Mullen et al. 1995). Therefore, multivariate detection was employed, and outliers detected as they entered the analysis by using Mahalobis distance (Hair et al. 2000). The multivariate outliers were detected by considering the transactional, database, interactive and network marketing practice indices as independent variables. No cases exceeded a Mahalobis distance greater than the critical values²⁶, indicating that the data set does not include multivariate outliers.

²⁶ Critical chi-square to detect multivariate outliers to four degrees of freedom (equal to the number of independent variables) and $p < 0.001$ is equal to 18.467.

4.3.3 Measurement & index computation

As discussed in Chapter Three, the formative approach is more likely to offer insight when developing complex theory-based constructs. It delivers an aggregate expression or ‘gestalt’ of a type of marketing practice or value creation posture rather than a disaggregation or number of elements in a scale (Diamantopoulos and Winklhofer 2001).

Preparation for creation of a formative marketing practice type index was undertaken by summing the items using equal weights, and then converting to indices ranging from 0.0 to 1.0. The index was computed by giving equal weights to each of the items, as indices based on equally weighted summated scores perform well (Dillon 2001). Thus, for each firm, there were four independent measures indicating the extent to which the company practiced each type of marketing practice e.g. Transactional marketing (TM), Database marketing (DM), Interactive marketing (IM) and Network marketing (NM).

Sound index construction was ensured by addressing content specification, indicator specification, indicator collinearity and external validity (Diamantopoulos and Winklhofer 2001). Content specification (scope and domain) and indicator specification were addressed in instrument design, as discussed in the previous chapter. Indicator collinearity was assessed by undertaking multiple regression analysis against each of the indicators (i.e. eight aspects of marketing practice being the independent variables and the summary variable being the dependent variable). Table 4.2 summarises the results of this analysis.

Table 4.2: Summary of assessment of multicollinearity

	TM	DM	IM	NM
Variance inflation factor (VIF) Range	1.06-1.44	1.11-1.87	1.20-2.03	1.24-2.12

As illustrated, indicator multicollinearity was not a problem, since variance inflation factors were under three (Hair et al. 2000).

Finally, external validity was assessed by correlating the results of the index to the contributing variables. The results of this analysis are reported in Table 4.3:

Table 4.3: Summary of correlation of measurement items to indices

	Marketing practice index			
Significance level	TM	DM	IM	NM
Positive	9/9	9/9	9/9	9/9
Significant @ 0.05	8/9	9/9	9/9	9/9
Significant @ 0.10	9/9	9/9	9/9	9/9

All measurement items reflecting the nine dimensions of marketing (i.e. intention of marketing activities, focus of marketing planning etc) were positively correlated to the approaches to marketing practice. All were significant at the 0.1 level, and three were significant at the 0.05 level. If these measures are accepted, then the formative indicators have reasonable external validity. Refer to Appendix A(iv) for detail of index correlation to the associated summary measure of marketing practice.

4.4 Findings

Results are presented in three major sections. Firstly, respondent and firm profiles are presented, to provide context for the results. Secondly, the firms' marketing practice profiles are presented. Thirdly, results of the four specific research questions relating to intentions, focus, and management and monitoring of customer value creation and delivery are presented.

4.4.1 Respondent & firm profiles

This section presents a general profile of respondents and firms in the study.

4.4.1.1 Respondent profiles

Key relevant characteristics of respondents are summarised in Table 4.4:

Table 4.4: Profile of respondents

Characteristic	Sample %	Characteristic	Sample %
Age		Highest level of education	
Under 25 years	8.7%	High school only	22.8%
25-35	51.3%	Technical qualification	18.1%
36-45	30.0%	Undergraduate degree	38.3%
Over 45 years	10.0%	Post-graduate degree or diploma	20.8%
Time in current organisation		Time in current position	
Less than 1 year	25.8%	Less than 1 year	36.4%
1-3 years	40.4%	1-3 years	41.7%
4-5 years	11.9%	Over 3 years	21.9%
Over 5 years	21.9%		
% in marketing related positions	78.4%	% holding prior marketing qualifications	22.5%

The sample had a relatively youthful profile – half were aged 25-35. The majority (78.4%) were engaged in marketing related positions, ranging from general managers of business units, to area sales representatives and technical support people. Of note was the relatively short period of tenure in both current positions and current organisations. More than one third (36.4%) of respondents reported being new (i.e. under 12 months) to both their current positions *and* their current organisations, reflecting a high rate of employment mobility. The majority (77.2%) had progressed to higher education, and 20.8% were holders of post-graduate qualifications. Typically, respondents were tertiary qualified, in disciplines other than marketing.

4.4.1.2 Firm profiles

Table 4.5 presents a general profile of firms represented in this stage of the study.

Table 4.5: Key characteristics of sample firms

Characteristic	Sample %	Characteristic	Sample %
Industry and offer type		Age of firm	
Consumer goods	21.6%	<5 years	14.3%
Consumer services	28.8%	6-10 years	13.1%
Industrial goods	16.3%	11-30 years	34.0%
Industrial services	19.6%	>30 years	38.6%
Other*	13.8%		
Annual turnover (\$NZ millions)		Number of employees	
Less than \$1 million	6.3%	<20	17.9%
\$1-9million	21.5%	21-100	31.8%
\$10-49million	34.2%	101-500	29.8%
Greater than \$50million	38.0%	500+	20.5%
Turnover growth last 12 months		Export activity as % turnover	
-ve/ no change	25.3%	None	31.7%
+ve 1-10%	39.8%	1-10%	19.9%
>10%	34.9%	>10%	48.4%
Use of technology			
Low	24.8%		
Medium	45.6%		
High	29.7%		

* The 'other' category comprised not-for-profit firms, also classifiable as consumer services

Half (50.4%) of the sample firms served consumers as their primary target, and two thirds (35.9%) served other businesses. Just under half (48.4%) of the sample considered their firms to be predominantly service organisations and (37.9%) emphasised goods. The addition of the 'other' category, comprised of not-for-profit businesses (charities and governmental bodies) can be categorised as consumer services, bringing the proportion of consumer-oriented and service-oriented firms up to 64.2% and 62.2% of the sample respectively.

Firms were generally well established, with most having 10+ years' operation, and most having over 21 employees. Nearly half (47.7%) of firms were either jointly or wholly foreign owned, resulting in respondent confusion in reporting revenues and headcount between the international organisation and the local subsidiary²⁷.

²⁷ E.g. 18% of 250+ employee firms reported earnings of under \$NZ1million – clearly these results

Of those who commented on sales performance, the majority (74.7%) reported increased revenues compared with the previous year. Of concern was that nearly half (48.3%) of respondents were unable to report on their sales performance. Internal barriers to communication are the most likely explanation for this finding, arising from partial or total foreign ownership and structural complexity inherent in larger firms. A further explanation is lack of fluency with accounting and finance on the part of respondents. A combination of both factors is supported by anecdotal evidence, presenting an opportunity for future research.

There was evidence of sophistication in the use of technology. Most (75.3%) reported having medium-high capabilities, and supporting this, 93.9% reported having current e-commerce capabilities, entailing at least a web presence.

4.4.2 Approach to marketing practice

In order to provide a foundation for describing how firms create and manage customer value the general approach to marketing practice was diagnosed, by creating an index of marketing practice type.

As discussed previously, past research by the CMP group identified two approaches and four styles of marketing practice (Brodie et al. 1997; Coviello et al. 2002). The two approaches are transactional and relational. Transactional marketers tend to hold customers at arm's length, while relational marketers build customer intimacy. This gives rise to four distinct styles of marketing practice, summarised in Table 4.6:

were for the international organisation and local subsidiary respectively indicating that question clarification is required. This was not detected at the pre-testing stage.

Table 4.6: 2 approaches and five styles of marketing (after Brodie, Coviello, Brookes & Little, 1997)

<i>APPROACH 1: Transactional marketing</i>	<i>APPROACH 2: Relational marketing:</i>
<p>Style 1: Transaction Marketing (TM): Traditional '4P's' style of marketing, customers held at arm's length / seen in aggregate, more short-term orientation (typical of large consumer goods companies; focus of communication: <i>firm to market</i>);</p>	<p>Style 2: Database Marketing (DM): Use technology based tools to target and retain customers, acknowledging customer life-time value, use IT to understand and communicate with customers (typical of firms with more sophisticated use of technology; focus of communication: <i>firm to individual customer</i>);</p> <p>Style 3: Interaction Marketing (IM): Develop interpersonal relationships between individual buyers and sellers - focus on quality, delivery, technical support, negotiations, collaboration, partnering, and personal interactions (typical of industrial firms; focus of communication: <i>individual to individual</i>);</p> <p>Style 4: Network Marketing (NM): Operate in connected set of inter-firm relationships - close, long-term mutually supportive relationships with customers, suppliers, and sometimes competitors, building partnerships and strategic alliances; focal point is 'systems' view of market or industry (typical of high technology firms; focus of communication: <i>firm to firm</i>).</p>

In this study, the CMP instrument was used to diagnose firms' approaches to marketing practice. An index rating of low, medium or high was created for each of the four types of marketing practice (Transaction, Database, Interaction and Network) based on response to the operationalised measures. Frequencies relating to each of the four types of marketing by rating are reported in Table 4.7.

Table 4.7: Index rating by type of marketing practiced

Index value	Transaction	Database	Interaction	Network	Total
Low	13.7%	32.0%	7.2%	20.9%	18.5%
Medium	48.4%	52.3%	24.2%	39.2%	41.0%
High	37.9%	15.7%	68.6%	39.9%	40.5%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

All firms were rated on each index, where Low=index less than 0.6 (i.e. an average of <3 on the 5 point scale), Medium = index between 0.6 and 0.75 (i.e. an average of 3-3.8) and High – index greater than 0.75 (i.e. an average >3.8 on the 5-point scale).

The majority of managers reported practicing more than one type of marketing – reflecting a 'pluralism' of marketing practice, and supporting previous findings of the CMP Group (Brodie et al. 1997; Coviello et al. 2002). In this study, 86.3% of respondents rated their organisations medium-high on transaction marketing (TM), and 68.0% rated medium to high on the Database marketing (DM) index. 92.8% of respondents reported a medium to high score on interaction (IM) style of marketing, and 79.1% rated medium-high on the Network Marketing (NM) index.

4.4.2.1 Cluster analysis

To assess the extent of pluralism of practice and provide a more helpful view of the data, cluster analysis was undertaken. As previously discussed, the conditions of multi-collinearity and the absence of outliers were met: there was a low degree of collinearity present, and no outliers were detected.

Following previous research (Coviello et al. 2002), K-means cluster analysis was applied. A K-means clustering procedure was undertaken with a 3-cluster solution. The three-cluster solution showed superior fit than alternative solutions. The three groups of firms were:

1. Those with greater emphasis on traditional transactional practices (labelled Traditional Transactional);
2. Those with greater emphasis on relational practices (labelled Traditional Relational); and
3. Those having an emphasis on both transactional *and* relational practices – i.e. firms using multiple approaches to the marketing task (labelled Pluralistic).

The three-cluster solution is given in Table 4.8.

Table 4.8: Approaches to marketing practice - cluster analysis results

	Traditional Transactional (46)	Traditional Relational (51)	Pluralistic (56)	Mean Score (all firms)
Transactional	.75	.62	.73	.69
Database	.64	.56	.72	.64
Interaction	.65	.82	.88	..79
Network	.57	.68	.82	.68
Total firms (#)	(30%)	(33%)	(37%)	153 (100%)

The findings are similar to Coviello et. al (2002). Following CMP Group convention, the first cluster is referred to as ‘Traditional Transactional’ (TT), as it has an above average score for TM and below-well below average on the DM, IM and NM constructs. The second cluster is referred to as ‘Traditional Relational’ (TR), as it has an above average score on IM and equal score on NM, and below average scores on

TM and DM. Finally, the third cluster is well above average on all four indices, and is thus termed ‘Pluralistic’.

Cross-tabulations against key characteristics were undertaken to provide a description of each of the clusters. Table 4.9 provides a summary of key characteristics for each of the clusters where the mean was above average for the category:

Table 4.9 Firm characteristics by marketing approach

Characteristic	Traditional transactional	Traditional relational	Pluralistic
Firm type	Consumer goods or services	Business to business	Tend to be business to business
Firm age	Established, over 5 years	No clear pattern	Tend to be under 5 years
Size of organisation	Large - headcount over 100	Small-medium - headcount under 100 & under 20	Medium-large - headcount over 20
Turnover	Over \$10 million	Low – under \$10 million	No clear pattern
Level of export activity	Higher – well above average in 10%+ of turnover in export revenues	Lower – none or <10%	Tend to be exporters
Use of technology	Low-medium	Medium	High
Qualifications of managers	Higher – degree qualified, below average in none.	Higher – technical or degree qualified.	Higher incidence of very high and very low managerial qualifications.

Thus, a ‘typical’ traditional transactional (TT) firm would be a large, established consumer goods and services firm contesting both domestic and export markets, with relatively well qualified managers, but low use of technology. A typical traditional relational (TR) firm would be a small-medium sized non-exporting business-to-business firm, with well-qualified managers and medium use of technology. A typical Pluralistic firm was more difficult to describe, as there were fewer clear patterns. However – it would be more likely to be a medium-large sized exporter, contesting business-to-business markets, and be a relatively newer venture. In general, technology usage is high, and managers were either very well qualified (i.e. post-graduate qualifications) or not qualified at all. The data relating to turnover change was disappointing – only 96 of the 153 managers (63%) responded to this question, resulting in an unsatisfactorily high proportion of missing values. Of interest was that managers in the pluralistic cluster showed the lowest incidence of missing values. Given that the sample size means findings are suspect with respect to this aspect of

the data, there were no clear patterns in turnover change by cluster type. Refer to the tables in Appendix A(v) for supporting data.

These findings are consistent with previous CMP Group findings in both New Zealand and other international markets (e.g. Brodie et al. 1997; Brodie et al. 2001; Coviello et al. 2002). These findings indicated that marketing practice does not have one dominant mode, rather, that both transactional and relational approaches co-exist both jointly (in the one firm in the form of Pluralistic marketing behaviours) and severally.

Developing an appreciation of the nature of marketing practice – or the various ways in which firms approach value creation - was the first step in understanding the nature of customer value creation and delivery. The next step is gaining a more detailed understanding of how firms approach customer value creation and delivery.

The chapter now proceeds with results relating to the four research questions relating to customer value creation and delivery.

4.4.3 Approach to customer value creation & delivery

Findings relating to customer value creation and delivery are presented in four sections. These sections to intentions (i.e. strategy), focus (i.e. investment and business processes), management and leadership (value championing and stakeholders) and monitoring of value (i.e. performance measurement) according to the research questions stated previously. Each of these aspects of value creation is assessed with respect to the firm's marketing practice approach – i.e. traditional transactional, traditional relational and pluralistic.

In each section, the guiding research questions are provided prior to presentation of the results. Refer to Appendix A(vi) for complete tables.

4.4.3.1 Intentions

Research questions

1. What is the intention of the firm's business activities?
2. What is the intention of the firm's marketing activities?

Results are given in rank order of magnitude across all measures in the question (highest first). Responses were categorised as low (1 or 2), medium (3 and 4) and 5 (high) on the 5 point scale. Results are given for those respondents reporting extreme measures (i.e. rating each variable 5=always). Many of the issues surveyed relate to industry orthodoxies (i.e. the need to make a profit/ achieve competitive advantage), therefore reporting of extreme measures was considered appropriate in order to increase sensitivity. Results for the three clusters are presented in Table 4.10:

Table 4.10: Intentions of business & marketing activities by approach to marketing practice

a. Intention of Business Activities	All Firms	Transactional (TT) Firms	Relational (TR) Firms	Pluralistic Firms	χ² tests for differences (p-values)
Profitability/ prosperity	56.8%	51.0%	51.0%	67.3%	Not sig.
Sustainability	52.3%	45.7%	50.0%	60.0%	Not sig.
Competitive advantage	44.9%	31.8%	32.7%	66.7%	0.05
Innovation & learning	32.9%	17.4%	32.0%	46.4%	0.05
b. Intention of Marketing Activity					
Create value for customers, and win in the product marketplace	47.4%	42.2%	37.3%	60.7%	0.05
Maximise shareholder value	34.8%	31.0%	23.4%	48.1%	Not sig.
Maximise short-term sales and profitability	25.2%	18.2%	20.8%	35.3%	Not sig.
Create value for all stakeholders, including society	22.8%	13.0%	19.1%	33.9%	0.05
Minimise negative impact on the environment	13.5%	6.7%	11.4%	21.2%	Not sig.

NB: Scale = 1 to 5 where 1=never & 5=always, results quoted for 5=always

Profitability/ prosperity was of most concern, followed by sustainability and achieving competitive advantage, however, the differences between clusters for the first two measures were not significant. There was less focus on improving innovation and learning (32.9% of all firms). Only 17.4% of managers in TT firms reported that innovation and learning was always part of their business intentions, suggesting that concerns with existing processes and practices (i.e. efficiency) may be of greater moment. Managers in Pluralistic firms reported higher concern with all measures of success.

Marketing activity was primarily directed at creating value for customers and winning in the product marketplace (47.4%), with differences between the clusters being significant. Concern waned as the locus of activity moved beyond the confines of the firm and its customers, with the lowest area of attention being minimisation of environmental impact (13.5%). Managers in TT firms reported particularly low measures for social and environmental intentions. Again, Pluralistic firms reported higher concern with all aspects of marketing activities overall.

4.4.3.2 Focus

Research questions

1. Where are the firm's time and financial resources invested?
2. What is the focus of the firm's business activities?

Results for the three clusters against these aspects of value creation are presented in Table 4.11:

Table 4.11: Focus of investment & focus of business activities by approach to marketing practice

a. Areas of Focus	All Firms	TT Firms	TR Firms	Pluralistic Firms	χ^2 tests for differences (p-values)
Value chain (adding value through internal activities)	29.5%	17.4%	22.9%	46.2%	0.05
Value constellation/ value system (adding value through broader networks & alliance partners)	24.1%	11.4%	19.6%	39.2%	0.01
Supply/ demand chain (adding value through coordinating supplier & reseller activities)	16.4%	11.6%	6.8%	29.8%	0.01
b. Nature of Focus					
Understanding our market & creating advantage	43.6%	24.4%	30.6%	70.9%	0.01
Creating customer value	31.3%	15.2%	33.3%	42.9%	0.01
Creating shareholder value	29.7%	26.2%	20.5%	40.4%	0.05
Identifying, focusing on & retaining the most profitable customers	29.6%	18.2%	32.6%	36.5%	Not sig.
Value innovation	17.6%	10.9%	14.9%	25.5%	0.05
Creating value for stakeholders, society & the environment	16.2%	6.7%	12.8%	26.8%	0.05

NB: Scale = 1 to 5 where 1=never & 5=always, results quoted for 5=always

Greatest focus was on value chain oriented activities (29.5%), with alliance and network partners receiving the next highest mention (24.1%). Contrary to expectations, TR firms focused on closer partners (i.e. those in the supply chain) relatively less than more remote partners (in the wider value network).

Highest ranking concerns for all firms were understanding their markets and creating advantage (43.6%). Those in Pluralistic firms reported a particularly high score for this measure, with 70.9% of managers reporting always focusing on these issues. Differentials for creating customer and shareholder value between clusters were interesting – TT firms favouring shareholders, and TR firms favouring customers. Pluralistic firms directed essentially equal attention to both. In contrast to these more orthodox areas, value innovation and wider society and the environment received less attention, with only 16.2% of all managers and 6.7% of TT managers reporting that these issues were always focused upon. Again, in all instances, proportions were higher for Pluralistic firms.

4.4.3.3 Management and leadership

Research questions

1. Who champions value creation in the firm?
2. What resources are focused upon?
3. How are planning processes characterised?

Results are presented in Table 4.12:

Table 4.12: Management and leadership of customer value by approach to marketing practice

a. Championed by	All Firms	TT Firms	TR Firms	Pluralistic Firms	χ^2 tests for differences (p-values)
CEO/ Managing Director/ General Manager	39.6%	35.6%	28.0%	53.7%	0.05
Functional and specialist managers	35.9%	17.1%	27.3%	45.1%	0.05
Senior management team	33.6%	24.4%	26.1%	47.3%	0.05
Sales and customer service personnel	26.7%	12.2%	14.6%	47.2%	0.01
Board of directors	21.4%	22.5%	18.6%	22.9%	Not sig.
b. Resources focused on					
Internal marketing assets (e.g. brands, customer database, product quality, competitive pricing structure, promotional & IT capabilities)	28.5%	34.8%	12.0%	38.2%	0.01
External marketing assets (e.g. channel, supplier & alliance partner relationships)	21.8%	15.2%	18.8%	30.2%	Not sig.
c. Nature of planning processes					
Both (i.e. ad hoc & systematic)	16.5%	6.9%	16.1%	24.3%	0.01
Ad hoc, ideas and actions are captured as they eventuate	13.4%	19.6%	12.2%	9.3%	Not sig.
Systematically, ideas implemented top down	11.4%	13.0%	4.1%	16.7%	0.01

NB: Scale = 1 to 5 where 1=never & 5=always, results quoted for 5=always

Over all firms, senior and functional managers were key champions of customer value creation and delivery, with over one third of the sample. This pattern repeated for each cluster. However, in TR and TT firms functional and specialist managers took a significantly higher role and lower role respectively. This could reflect more technical aspects of customer interaction and hence customer engagement in TR firms compared with TT firms. In Pluralistic firms more levels of the firm's personnel overall championed customer value. There were no significant differences between clusters in levels of value championing by Boards of Directors.

The nature of value planning processes attracted lower mention overall, with under 20% reporting 'always' against any of these measures. There were significant differences between clusters. TT firms reported the lowest usage of systematic planning approaches, while Pluralistic firms reported the lowest usage of ad hoc

approaches, suggesting that TT firms were more opportunistic or incremental in their planning. Both Pluralistic and TR firms reported using both approaches more extensively.

Overall, the data indicates that the more senior the manager, the more likely they are to be value champions, and that more immediate concerns (e.g. brands, products) attract more managerial attention than external parties (e.g. suppliers and channels). There were significant differences between clusters in the level of involvement of sales and customer service personnel in value championing, and in systematic approaches to planning. In both cases, Pluralistic firms reported higher measures.

4.4.3.4 Monitoring

<u>Research question</u>
1. What measures are used to monitor value performance?
2. Which stakeholder groups are considered?

Results for the three clusters related to these research questions are presented in Table 4.13:

Table 4.13: Measurement of value oriented activities by approach to marketing practice

a. Measures used	All Firms	TT Firms	TR Firms	Pluralistic Firms	χ^2 tests for differences (p-values)
Financial	61.5%	62.2%	51.1%	70.6%	Not sig.
Competitive	27.0%	43.2%	6.4%	32.0%	0.01
Customer	26.6%	10.3%	21.4%	43.2%	0.05
Effectiveness	3.7%	0.0%	0.0%	7.1%	Not sig.
b. Stakeholders considered					
Direct customers/ resellers	41.7%	20.0%	39.2%	61.8%	0.01
Shareholders/ business owners	26.6%	12.2%	26.1%	38.5%	Not sig.
Indirect customers/customers' customers/ end users	20.4%	15.6%	22.9%	22.2%	Not sig.
Consumer or user groups	19.3%	15.2%	22.0%	20.4%	Not sig.
Government & industry bodies	16.1%	15.2%	16.3%	16.7%	Not sig.
Suppliers and alliance partners	12.4%	4.4%	8.5%	22.6%	Not sig.
Internal customers/ current employees	11.5%	6.5%	10.2%	17.0%	Not sig.
Financial analysts and the media	8.8%	9.1%	10.0%	7.4%	0.05
Potential employees of the firm	5.4%	4.4%	6.3%	5.6%	Not sig.

NB: Scale = 1 to 5 where 1=never & 5=always, results quoted for 5=always

Financial measures were universally reported as being always applied, with no significant differences between the clusters. While levels of attention to competitive and customer measures were similar over all firms, there were significant differences

between the clusters. TT firms were well above average for financial and competitive measures (e.g. market share), while TR firms favoured customer and financial measures. Neither TT nor TR firms reported always using effectiveness (e.g. operationally related) measures. There were a high number of missing values, indicating that respondents may have been less fluent with these types of measures. Pluralistic firms reported greater attention to measuring and monitoring customer value overall.

Attention to stakeholders declined according to proximity to the firm. Attention to direct customers and resellers was highest, with 41.7% of the sample reporting that these groups were always considered. Secondary priority was afforded to shareholders and owners, indirect customers, and consumer/user groups. Internal customers and current employees received a lower general level of attention than government or industry bodies, and suppliers and alliance partners. More remote bodies (financial analysts, the media and potential employees) received least attention, with fewer than 10% of managers reporting these groups were always considered. The only significantly different measures were for direct customers/ resellers and financial analysts/ the media. Contrary to previous measures, Pluralistic firms were below average in attention to the latter, while TT and TR firms were above.

4.5 Discussion of Stage 1 findings

Key findings and the implications for subsequent stages of the study are now discussed.

4.5.1 Key findings

Key findings relate to the research propositions guiding this stage of the study. With respect to P1:

P1: That customer value creation and delivery (CV) involves four factors: *intentions* (of general business and marketing activities), *managerial focus* (investment focus and activities focus), *management and leadership* (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and *monitoring* (approach to performance measurement).

The analysis indicated that all four factors were in evidence. Top factors were:

- Intentions: achieving profitability/prosperity and creating value for customers/ winning in the product marketplace
- Managerial focus: on value chain activities and understanding the market/ creating competitive advantage;
- Management and leadership: value championing by top managers, the senior management team and functional managers, with resources focused on internal marketing assets, and planning processes being both ad hoc and systematic;
- Monitoring: financial measures predominated, and key stakeholders considered were primarily direct customers.

With respect to P2 and P3:

P2: That the nature of the CV process will differ between firms.

P3: That the differences in approach to the CV process can be explained by the elements identified in Proposition 1.

P2 was confirmed. The results indicated that the nature of customer value creation and delivery differed by type of marketing practice. Three distinctly different approaches to customer value creation and delivery were identified, in the form of three clusters of firms – TT, TR and Pluralistic.

P3 was confirmed. The customer value based criteria resulted in significant differences between clusters. *TT Firms*²⁸ were characterised by a relatively narrow approach to customer value creation and delivery, with a focus on immediate stakeholders (i.e. customers and shareholders rather than partners or wider society), on product-market activity and traditional financial measures. *TR Firms*²⁹ were also characterised by a relatively narrow approach to customer value creation and delivery, focusing on the buyer-seller dyad and longer-term performance. *Pluralistic firms*³⁰

²⁸ Larger, well-established consumer goods and services firms, with well-qualified managers but low use of technology.

²⁹ Small-medium size non-exporting business-to-business firms, with well-qualified managers and medium use of technology.

³⁰ No clear pattern, however tend to be newer ventures, with high use of technology.

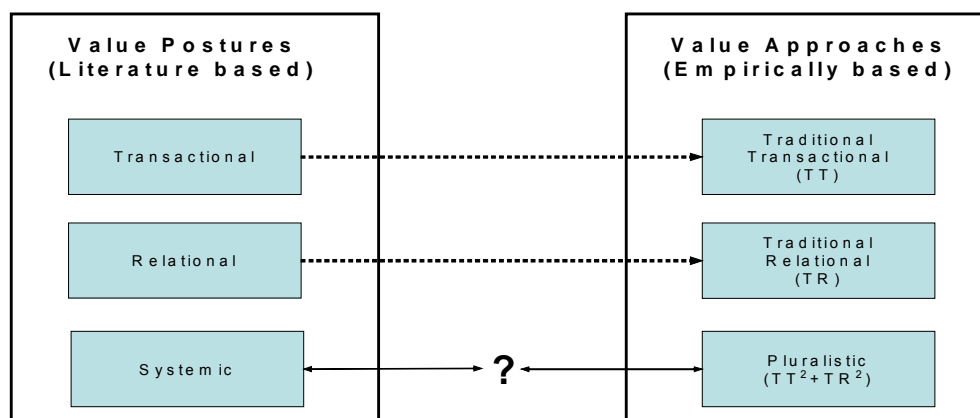
engaged in a wide range of value related activities and undertook most of these to a greater degree. All firms reported extensive use of financial reporting measures. The survey instrument was not designed to assess performance differentials in terms of customer value between the three firm types, however this would be a logical next step – ascertaining whether the more inclusive pluralistic approach returned on the wider and higher investment with commensurately superior performance.

4.5.2 Implications for Stage 2

Three identifiably different approaches to the customer value creation and delivery task were identified: Traditional Transactional (TT), Traditional Relational (TR) and Pluralistic. These approaches were consistent with previous CMP studies, however not entirely consistent with the three approaches to customer value creation and delivery (or value postures) identified in the literature review: Transactional, Relational and Systemic.

Figure 4.1 illustrates the linkages between the literature based value postures and the empirically based value approaches reported in this chapter:

Figure 4.1: Linkages between value postures and value approaches



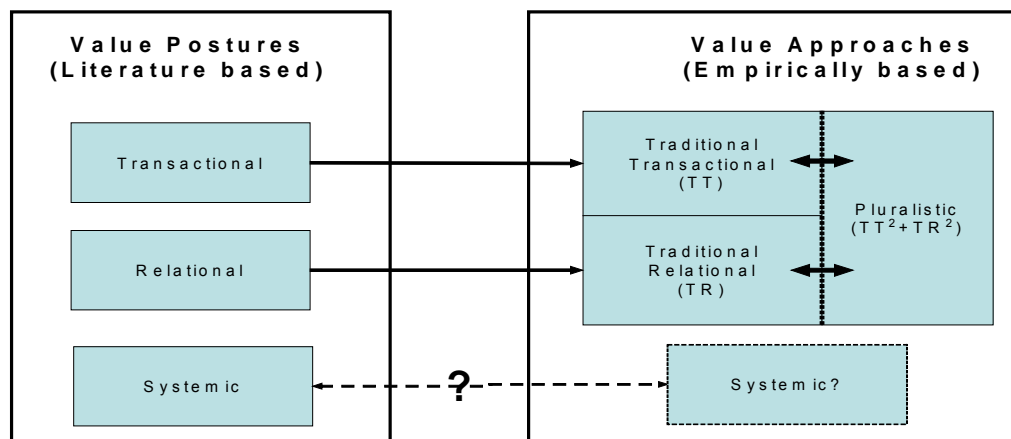
Source: Developed for this research

Logically, the Transactional posture-TT approach, and Relational posture-TR approach are comparable. They are drawn from the same set of empirically generated criteria and are internally consistent. Comparability between these postures and approaches is also intuitively appropriate.

However, the existence and nature of a linkage between the Systemic posture and Pluralistic approach is not clear. Managers in Pluralistic firms reported higher scores

on both transactionally and relationally oriented value behaviours, therefore these firms exhibit *both* TT and TR characteristics *and* to a greater degree i.e. Pluralistic firms exhibit an enhanced form of both TT and TR value behaviours, rather than distinctly different value behaviours. Therefore, the following representation of these relationships may be more appropriate:

Figure 4.2: Enhanced view of linkages between value postures and value approaches



Source: Developed for this research

The diagram shows a clear relationship between the transactional posture / TT approach, and the relational posture / TR approach. It depicts the Pluralistic approach as associated with rather than separate from the TT/ TR approaches. The existence of a systemic approach and the relationship to the three value approaches is unclear. While it is unlikely that Pluralistic firms can be associated with a Systemic value posture, a connection cannot be ruled out. There may be further identifiable approaches to customer value creation and delivery. Further evidence is required in order to understand the differences and distinctions between the value approaches. Such evidence is based on 'why' and 'how' questions, therefore a qualitative approach is indicated (Miles and Huberman 1994).

4.6 Chapter summary

This chapter reported on the approach of 153 firms to customer value creation, expanding on previous studies by adding an explicit value-related dimension to marketing practice. In general, findings corresponded with previous findings among similar groups of managers. The three research propositions were confirmed, in that

four factors (intended outcomes, managerial focus, management and leadership and monitoring) were found to be involved in customer value creation and delivery. Differences were found between firms' customer value based activities, and these differences were related to the four factors were found to be significant.

Extending previous findings, the study found that that creating and delivering customer value could be characterised in three ways, and that these characterisations provided insight into the nature and scope of value creating and delivering activities. These distinct approaches to creating and delivering customer value were found (TT, TR and Pluralistic). These approaches provided a point of differentiation between firms. In contrast to the more single-minded approach of TT and TR firms, Pluralistic firms used a broader integrative and multi-faceted approach to marketing encompassing cross-functional processes as well as traditional product-market activity. A general conclusion is that "one size does not fits all", implying that there is no general organisational template for value creation and delivery.

There was some support for the three value postures identified in the literature. TT and TR firms shared characteristics of the Transactional and Relational value postures respectively. However, there was no evidence supporting a Systemic value posture. Managers in Pluralistic firms reported doing more of the same types of activities as the TT and TR firms rather than different activities. Therefore, the Pluralistic approach is not compatible with the Systemic value posture. In fact, the findings indicated that despite calls for greater attention to a wider societal constituency, and to innovation and learning, these practices were not prevalent, even among Pluralistic firms. The more traditional and immediate business concerns of profitability and customer satisfaction dominated, regardless of firm type.

Stage One therefore concludes with an unanswered question: does the Systemic approach to value exist? Further insight is required, and will be sought in Stage Two of the study.

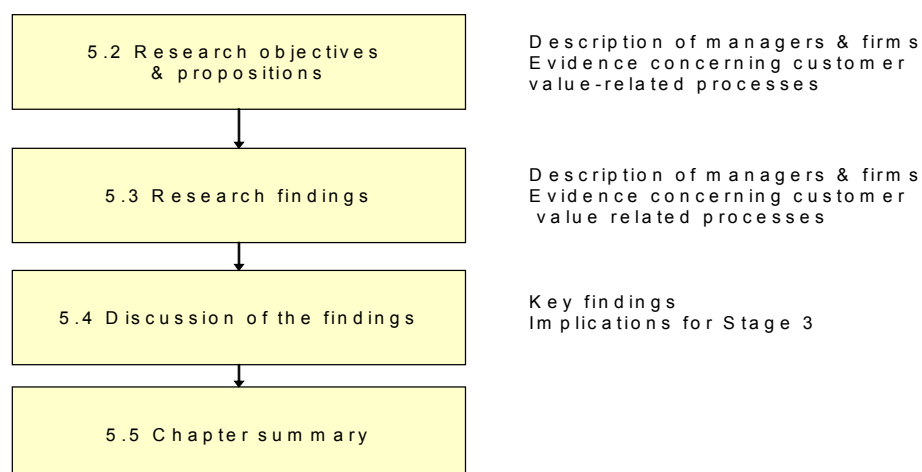
CHAPTER FIVE: RESULTS – STAGE TWO

The previous chapter presented findings from Stage One of the study. These findings provided a general overview and scoping of customer value, giving insight into differences in marketing practice and the potential influence of these differences on firms' value creating processes. The key finding was that while there was support for the Transactional and Relational value archetypes identified in the literature review, there was little evidence supporting the Systemic approach to customer value creation and delivery.

In addition to the Traditional Transactional (TT) and Traditional Relational (TR) approaches, a further approach to marketing practice – Pluralistic – was identified. However, the linkages between Pluralistic approach to marketing practice and the Systemic value posture was unclear.

This chapter presents the results of Stage Two of the study. Stage Two used 14 action research based cases to support and enhance the findings of Stage One. In particular, further insight was sought into the various value approaches identified, and lack of support for the Systemic value posture derived from the literature.

5.1 Chapter outline



5.2 Research objectives & propositions

The objectives of this stage of the study are:

1. To provide a contextually based, deeper and richer understanding of how managers view value (rather than the wider understanding offered by the survey work);
2. To provide confirmation or disconfirmation of the three value archetypes identified in the literature review.

The research propositions guiding data collection and analysis are the same as those directing Stage One, and are repeated in Table 5.1 for completeness:

Table 5.1: Research propositions guiding data collection & analysis for Stage 2 of the study

<p>P1: That customer value creation and delivery (CV) involves four factors: <i>intentions</i> (of general business and marketing activities), <i>managerial focus</i> (investment focus and activities focus), <i>management and leadership</i> (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and <i>monitoring</i> (approach to performance measurement).</p>
<p>P2: That the nature of the customer value process will differ between firms.</p>
<p>P3: That the differences in approach to the CV process can be explained by the elements identified in Proposition 1.</p>
<p>P4: That managerial views of customer value creation and delivery have common characteristics across firm types and industries.</p>

Again, P1 and P2 articulate customer value-influencing firm and manager characteristics, and suggest there are differences in how firms approach customer value. P3 links P1 and P2, by suggesting that the P1 factors explain these differences. Proposition 4 suggests that there may be commonalities as well as differences in how managers approach the CV creation and delivery task. The thesis proceeds by presenting findings relating to these propositions.

5.3 Findings

Findings are presented in two sections, a description of the case firms and managers, and the evidence relating to the propositions detailed above.

5.3.1 Description of managers and firms

Managers from 14 firms participated in this stage of the study. Of these firms, two were subsidiaries of large multi-nationals, two were New Zealand-based international firms, and the remainder were New Zealand based, including two government service providers. Table 5.2 summarises key attributes of the case firms:

Table 5.2: Summary of case firms (n=14) by manager and firm characteristics

Case No.	Manager characteristics		Firm characteristics	
	Level	Role	Business scope	Industry
1	Senior	General – firm	BtB: Manufacturing	Building products
2	Middle	Functional – marketing	BtC: Health services	Health
3	Senior	General - SBU	BtC: Leisure services	Local government
4	Middle	Functional – sales	BtB: Manufacturing	Packaging products
5	Middle	Functional – sales	BtB&C: Education services	Education
6	Middle	Functional – technical	BtB: Telecommunications services	Telecommunications
7	Senior	Functional – marketing	BtB: Business services	Office supplies
8	Middle	Functional – sales	BtB: Manufacturing	Packaging products
9	Middle	Functional – technical	BtB&C: Business information services	Central government
10	Middle	Functional – sales	BtC: Manufacturing	Food & beverage products
11	Senior	Functional	BtB: IT services	Information technology/ computing
12	Senior	Functional – sales & marketing	BtB: Pharmaceuticals	Health products
13	Senior	Functional – sales & technical	BtB: Market research	Information services
14	Senior	Functional – sales	BtC: Travel agency	Leisure services

Source: Developed for this research

The managers were from firms drawn from a wide spread of industries. Five (over one third) were engaged in the Infocom³¹ industry category, indicative of the growing dominance of information and knowledge businesses worldwide. Health and packaging were the second largest industry categories, each with two firms. Four of the firms were manufacturers, the remainder being primarily service providers.

³¹ Industry category including information providers, information processors, communication providers and communication support Chakravarthy, Bala (1997), "A New Strategy Framework for Coping with Turbulence," Sloan Management Review, 38 (2), 69-82..

All but one of the managers opted to conduct the exercise in their own organisation. This manager opted to work with a retail travel service provider (his customer) rather than his own organisation, as he considered it a more interesting example.

All firms were ‘large’ in the context of the New Zealand market, i.e. in excess of 100 employees. These firms were also ‘successful’ i.e. well established in the market.

Table 5.3 summarises respondent attributes:

Table 5.3: Summary of manager attributes (n=14)³²

Attribute		#	%
Gender	Male	6	43%
	Female	8	57%
Seniority	Middle management	7	50%
	Senior management	7	50%
Position focus	Sales	6	43%
	Marketing	2	14%
	Sales & Marketing	2	14%
	Technical	2	14%
	General	2	14%
Position scope	Firm-wide	1	7%
	SBU	1	7%
	Functional	12	86%

Gender and seniority were evenly represented. The biggest single group were functional marketing specialists in sales positions - nearly half of the managers. All projects (with the exception of one from an internal technical specialist) were drawn from managers engaged fully or partially in customer-facing activities. Only two managers were generalists, therefore the results may reflect a functional or departmental (rather than firm-wide and overall) perspective.

5.3.2 Evidence concerning customer value related processes

The following descriptive conceptual framework (the initial framework drawn from the literature) formed the basis for identifying major customer value approach typologies and the relationships between them. This conceptual framework provided structure for the student action research based projects and for analysis (Miles and Huberman 1994):

³² NB: Values may not add to 100% owing to rounding.

Table 5.4: A value typology: Three marketing-related views of value

	1-way/ Transactional	2-way/ Relational	Systemic/ Networked
Market context	Industrial	Pre-post industrial	Post-industrial
Research focus/ scope	FMCG/ firm-centric/ functional	Customer/ supply chain/ B2B/ services/ dyads/ cross-functional	Networks/ societal/ alliance-centric/ extra-functional
Key models	Value chain	Supply chain	Value system
Managerial intent	Prosperity	Advantage	Sustainability
Strategic focus	Value appropriation/ competitive advantage	Value creation/ competitive advantage	Value innovation/ utilitarianism
Time frame	Shorter term	Longer term	Long term
Decision focus	Product/ brand	Supply/ demand chain	Society/ network
Key investments	Internal marketing assets (product/service, price, distribution, promotion capabilities; emphasising communication, information, & technology capabilities)	Internal & external marketing assets (as per transactional view, plus buyer relationships)	Focus on external marketing assets (developing buyer, supplier & other relationships & developing the firm's position in the industry network)
Approach to performance measurement	Financial	Balanced scorecard	Triple bottom line

Source: Developed for this research

The framework summarised and synthesised concepts introduced to students in this paper and in a preceding paper. The concepts were revisited in the initial weeks of the course, then synthesised with the aid of this framework – i.e. the elements of the framework were addressed both in isolation and in respect of the whole. It was discussed in detail in class, and a detailed supporting handout provided (refer Appendix B(i)). The framework formed the foundation for the project work in this part of the study. The students were familiar with the underlying concepts (e.g. supply chain, triple bottom line). They were also familiar with strategic archetypes (e.g. Miles & Snow, Porter's generic strategies), and therefore accustomed to the idea that firms differ in their approaches to the market. A rich body of theory was provided for the managers to draw on (refer to Appendix B(iii) for examples of class material). The theory was discussed in class, and examples of theory application debated both in class and individually.

The data for this stage of the research was based on a student project that required the managers to apply the framework described above to their firm's value creating and delivering behaviours. They were required to diagnose their firm's customer value

posture, to justify that choice, and to assess its appropriateness. They were also asked to describe their key customer group/s, define what each group valued, and develop criteria to evaluate their firm's performance against these criteria. Finally, they were asked for recommendations that would address knowledge and performance gaps identified. It was a challenging assignment. A good effort required a critical approach to their firms' business strategy and processes, and application of a wide body of theory. The managers were encouraged to consult with colleagues and customers. Many did so, evidenced by referencing of interviews and discussions. The results of this exercise follow.

5.3.2.1 Support for conceptual framework

The centrality of customer value creation and delivery to managers is captured in the following quotation:

“As companies strive to gain or strengthen their competitive advantage they draw on the need to compete against superior customer value delivery. The issue does not seem to be whether an organisation should compete on customer value delivery, but rather how it should do it.”
Market Development Manager, food & beverage manufacturer [10,16]³³

Here, the manager articulates the linkage between customer value delivery and competitive advantage, and further notes that firms should address this area. The importance of customer value-related issues to the firm's performance is implied.

The first key finding was that the conceptual framework had both face validity and confirmability – i.e. managers reported that the customer value archetypes could be identified empirically:

“ ... these dimensions are observable and do not rely on what the firm may espouse as their position on value creation”. General Manager, building products manufacturer [01,30]

The quotation implies that the underlying characteristics of the archetypes are helpful in identifying relevant types of firm behaviour, and assist managers to diagnose firms' theory-in-use rather than espoused values (Argyris 1995). This finding had general

³³ Quotations are referenced by case number and NVivo paragraph numbers respectively e.g. [10,16] respectively.

support – managers in all cases (not only the top cases) were able to identify aspects of the customer value posture archetypes in their firms to a greater or lesser extent³⁴.

Table 5.5 summarises the managers' views of their firm's customer value posture:

Table 5.5: Summary of firms and customer value posture ascriptions

Posture	# Firms	% Firms	Firm description
Transactional	2	14%	Consumer travel services (1) Pharmaceuticals (1)
Transactional-Relational	2	14%	Building equipment manufacturer (1) Packaging manufacturer (1)
Relational	8	57%	Information-based BtoB providers (3) Packaging manufacturer (1) Consumer health & education services (2) Food & beverage manufacturer (1) Telecommunications (1)
Systemic	2	14%	City council (1) Government agency (1)
Total	14	100%	

Source: Developed for this research

As shown, the managers applied the framework critically to their businesses. 12 managers were able to apply the framework to their businesses in its original form. Two managers classified their firms as purely 'transactional', e.g.:

“Based on ‘The three marketing related views of value’ ... it is my opinion that [firm] sits in the one-way/ transactional side of value creation.” Market Development Manager, travel services provider [14,39]

Eight considered their firms to be 'relational' in their approach to customer value e.g.:

“[Firm] fits the second view, two way relational. [Firm] exhibits all the facets of this type. For example business to business transactions, partnering with suppliers, building long term relationships with suppliers, supply chain oriented, collaborative project ventures leveraging each other's strengths.” Sales & Marketing Manager, software services provider, [11,140-145]

Finally, two considered their businesses took a systemic approach to value creation and delivery, e.g.:

³⁴ Only projects receiving a grade of B+ or higher were included in this study. These projects showed superior ability in information synthesis, application and reportage of the theory, and evidence of original critical thinking.

“To create value in the marketplace as a community leisure provider [council] adopts a holistic approach, strongly partnering with community groups and stakeholders ... [Council] clearly fits with a systemic/networked related view of value.” Manager - Leisure Services, city council, [03,22-24]

Clearly, the managers could identify and apply aspects of marketing practice from the conceptual framework relevant to their ascription of a transactional, relational or systemic customer value posture to their businesses. While agreement or disagreement with these ascriptions is not relevant here, neither are the results counter-intuitive, reinforcing the face validity implied in informal in-class debate.

While some (notably at the transactional and systemic extremes) found ascribing and justifying a customer value posture to be relatively straight-forward as described above, others found that their firms exhibited characteristics of multiple archetypes e.g.:

“While [firm] does show aspects of the Systemic archetype ... [it] does not display the remaining features of this archetype such as utilising the triple bottom line or long term strategic planning or the external assets focus. Therefore it predominantly fits into the Two-Way Relational Value archetype which emphasises the importance of the business to business relationship ... [and supports a] focus on economic value as opposed to ethical or philosophical concepts of value....” Marketing & Communications Assistant, health services provider [02,78]

The evidence indicates that the value distinctions and the framework criteria (e.g. decision focus, approach to performance measurement) were appropriate and useful in helping managers differentiate their firm’s approach to value creation; however, it also indicated that the framework is incomplete.

Following on from this insight, the second key finding was a fourth archetype. While 12 managers were able to apply the framework, two managers reported that while it generally described their firm’s customer value posture, further finesse was required. These managers took a critical stance and adapted the typology into a continuum rather than discrete categories – creating a transitional or hybrid ‘transactional-relational’ category³⁵. These managers considered their firms exhibited characteristics of both the transactional and relational archetype e.g.:

“The value posture in terms of the three value archetypes of 1- way transactional, 2-way

³⁵ This typifies the action research process – mutual learning by researcher and researched. Here, empowered and critical manager-participants enhance theory.

relational and systemic networked would see [firm] on the cusp of being 1-way transactional to 2-way relational.” General Manager, building products manufacturer [01,28]

“Diagnosis of [firm] shows the current value posture is partway between transactional and relational. While [firm] is striving to create a relational approach, the firm’s concept of value must evolve further to achieve this.” Business Manager, packaging manufacturer [08,60]

These quotations capture two insights. Firstly, customer value is a dynamic construct: the managers perceived that firms can and do transit from one ‘value state’ or posture to another. Secondly, the transition is perceived to be progressive or evolutionary – from transactional to relational to systematic, as illustrated in Table 5.6:

Table 5.6: Evolution of value posture – summary of evidence

Current posture type	Recommended posture type	Supporting evidence
Transactional	Relational	“[Travel firm] need to move towards a more ‘relational’ value archetype for long-term viability ...” Market Development Manager, for travel services provider [14,163]
Transactional	Relational	“The current transactional value posture ... does not encourage long term planning. It is recommended that the business unit moves towards a relational model ...” Sales & Marketing Associate, pharmaceutical firm, [12,258]
Aspiring Relational	Relational	“While [firm] is striving to create a relational approach, the firm’s concept of value must evolve further to achieve this”. Account Manager, packaging manufacturer [04,67]
Transactional-relational	Systemic	“Value types 1 & 2 [reflect firm’s] current business activities ... a more Systemic/networked marketing value posture will occur over the course of the next 12 months as [firm] becomes more focused on buyer, supplier and other stakeholder relationships.” General Manager, building products manufacturer [01,181-2]
Relational	Systemic	“ ... [firm] needs to move towards becoming more network based in its value posture ... by creating alliances with organisations that are appropriate ... ” Marketing & Communications Assistant, health services provider [02,172]

As implied above, ‘transactional’ was interpreted by the managers as an absolute condition (i.e. a short-term orientation) rather than as being relative to other longer-term approaches as was intended in the framework. Furthermore, the managers viewed a financial-only perspective of performance measurement critically, perhaps in response to previous course content proposing a longer term and balanced approach (Kaplan and Norton 1992):

“However, even [when firms intend to change to a longer term emphasis], what you measure is what you get. As the quarterly and yearly financial targets are the key measurement, they are still the focus of the business unit, and overall this results in a one way transactional archetype focusing on immediate profit.” Sales & Marketing Associate, pharmaceutical firm [12,87]

“Measurement of value created is purely financial. No attempt to monitor other parameters such as learning, customer or internal perspectives (like those of the balanced scorecard) is used to measure objectives.” Business Manager, packaging manufacturer [8,88]

“I believe that [firm] need to move towards a more ‘relational’ value archetype for long-term viability ... They will need to build strong relationships based on mutual value across the board rather than simply the on-dimensional ‘financial’ bottom line. A relational approach will also ensure they are planning on a longer-term basis which will be critical for the future ...” Market Development Manager, for travel services provider [14,156-158]

A generally critical approach was taken to business behaviours characterised by a transactional value posture (i.e. shorter term and profit driven). This was perhaps inadvertently established through in-class discussion, and inclusion of a reading critical of the effects on society and environment of current business practice (Senge et al. 2001). Clearly, the influence of managers’ own values (or espoused values, or reflection of their perceptions of the researchers’ values), and the influence of academic and business discourses on their perceptions of ‘rightness’ of organisational practice (Brookes et al. 2001) is relevant here. Detailed discussion of this issue is beyond the scope of this study; however, it presents an opportunity for future research.

The third finding was that the systemic archetype applied most unambiguously to governmental agencies, a type of organisation not strongly represented in the Stage One dataset:

“[Organisation] falls into the societal level archetype ... although it is still concerned with the efficient use of New Zealanders’ funds [its] ‘purpose’ is the provision of a ‘public good’. This purpose allows [organisation] to have a broader perspective on value.” Technical Specialist, government information provider [9,34]

However, leading to the fourth major finding and supporting the findings of Stage One, managers in profit oriented businesses directed very limited (if any) attention to social and environmental aspects of value. The practical realities of business survival predominated, for example, aspects of the systemic posture relating to value creation beyond the buyer-seller dyad:

“[Firm]’s current value posture is focused to provide value for the customers and economic value for the partners involved. However as business applications and supporting technology becomes more complex [firm] will need to consider a more systemic/networked approach ... because it will not be possible to undertake all activities ourselves, and in order to be a single source supplier providing maximum customer value, it will be necessary to partner more closely with other service providers.” Sales & Marketing Manager, software services provider [11,191]

Here the manager highlights the business potential of strategic networks and alliances, supporting previous CMP study findings whereby firms can be characterised by an interaction and network approach to marketing practice (Coviello et al. 2002). A fifth value archetype is therefore indicted – a *network* value posture - that differentiates commercial organisations with a wider view of value from the non-commercial. This finding is logical in hindsight: clearly, enterprises with a social agenda take a more inclusive and utilitarian view of value, as social good is fundamental to their business purpose. Not-for-profit organisations would therefore also have a systemic value posture. In the for-profit context, the literature indicated that organisations are taking a view of value beyond the traditional buyer-seller dyad e.g. (Cravens et al. 1996; Dyer and Nobeoka 2000; Hunt and Morgan 1997; O'Driscoll et al. 2000; Prahalad and Ramaswamy 2000). There are also examples of for-profit organisations that adopt a more socially oriented purpose – for example the Body Shop, Ben and Jerry’s, and Hubbard’s foods (Cross 1997; Kitchen and Schultz 2001; Roddick 2000).

The fifth major finding related to indications of value contingency. These occurred in two key areas:

1. Strategic contingency - i.e. customer value posture is contingent on generic business strategy; and
2. Perspectival contingency – i.e. perceptions of value are contingent on the manager’s own organisational perspective, in turn dependent on role and function.

Illustrating the notion of strategic contingency, the travel provider appeared to have a cost leadership strategy predicated on organisational efficiency:

“ ... to create value in this market they must deliver the best possible pricing when compared to competitors. Everything they do from shop layout, to marketing, to incentive based wages ensures that they stand for lowest price. This is their competitive advantage ...” Market

Development Manager, with respect to travel services provider [14,55]

The manager considered this firm to have a transactional approach to value creation and delivery, justified by reference to each of the attributes in the original conceptual framework. This is intuitively appropriate – a low-cost operator typically invests in systems and processes (operational efficiency) rather than in individual customers (customer intimacy) (Fjeldstad 2001). The unambiguously relational firms appeared to be following a strategy of differentiation, or one that complied with current environmental factors e.g.:

“[Organisation] currently is functioning under a two way/relational model that supports industrial competitive advantage and a supply/demand driven approach ... this model could see current competitors working in a systemic/networked way, take over and become future market leaders in teacher education.” Team solutions manager, education services [5,251]

Thus, there were elements of strategic contingency based on environmental factors, and on the chosen generic strategy.

Perspectival contingency relates to managers’ organisational perspectives – whether functional/specialist, or organisation-wide/generalist. The technical functional specialist captures this idea:

“ ...the approach taken to value creation at the operations level is extractive and best described as 1-way transactional. However at the business level a more appropriate posture is 2-way relational.” Technical Specialist, telecommunications provider [06,41]

Here, two value postures are evident in one firm. It is argued that a functional specialist of necessity takes a transactional perspective, limiting attention to issues of price, availability and fitness for function. This insight did not and could not have arisen from the Stage One research, as data was not analysed by nature and location of organisational position. This insight will be explored in more depth in Stage Three of the study.

The sixth major finding was evidence of pluralism in practice, supporting Stage One findings, and indicating that firms tend to practice various forms of marketing and customer value creation simultaneously:

“Fundamentally there are various aspects of all three archetypes ...incorporated within [firm’s activities].” Market Development Manager, food & beverage manufacturer [10,27]

‘Although [firm’s] raison d’etre forces it to have a societal level archetype, [firm] does have some characteristics that fit better into the transactional and relational archetypes ...’

Technical Specialist, government department [09,26]

“Fundamentally there are various aspects of all three archetypes or appreciation to value incorporated within [firm] ... all three archetypes can be seen within [firm’s] value approach ...” Market Development Manager, food & beverage manufacturer [10,27-33]

Clearly, value creation and delivery is a multi-faceted and complex construct. While managers could recognise and apply aspects of the value archetype framework, their worlds were more complex.

The Pluralistic approach to marketing practice was not explicitly researched in this stage of the study. The Pluralistic approach describes the level or magnitude of marketing activity rather than the type or nature of marketing activity. Both transactionally *and* relationally oriented firms can take a pluralistic approach to marketing practice. Therefore, firms could potentially be described as Pluralistic or Non-Pluralistic *in addition* to ascription of a particular value posture (e.g. transactional, hybrid, relational, network or systemic).

These findings have been incorporated into a revised conceptual framework, presented in the following section.

5.3.2.2 Revised conceptual framework

As coding and analysis progressed, it became apparent that while the initial iteration of the customer value posture typology was useful, there were areas of duplication and confusion.

The following table summarises revisions to the original customer value posture typology, based on the evidence that emerged from the data.

Table 5.7: Revised value typology: Five marketing-related views of value

Firm characteristic	Customer value posture*				
	1-way/ Transactional	Transitional/ hybrid	2-way/ Relational	Wider/ network	Systemic/ societal
Firm-customer type	B to C	B to B Combined B to B/ B to C	B to B	B to B	B to C Not for Profit National/local govt
Strategic aspiration	Prosperity Value appropriation Competitive advantage	Value creation & appropriation Competitive advantage	Advantage Value creation / Competitive advantage	Advantage Value creation / Competitive advantage	Contribution/ sustainability Value innovation/ utilitarianism
Value model	Value chain	Transition to supply chain	Supply chain	Value system	Value system/ value constellation
Internal-external orientation	Firm/ function-centric	Transition to customer/ process centricism	Customer/ partner-centric Cross-functional/ process centric	Network / alliance centric Extra-functional	Society-centric Extra-functional
Decision focus	Product/ brand	Transition to wider focus (supply chain)	Supply/ demand chain	Business network	Society
Time horizon	Sprint / Shorter term/ sub-generational	Transition to short-medium term	Middle-distance Longer term/ single generation	Middle-distance Longer term/ single generation	Marathon long term/ multi-generational
Knowledge mgt focus	Data/ information management	Transition to knowledge mgt	Knowledge management Information system management	Knowledge management Information system management	Wisdom Intelligence management
Key investments	Internal assets e.g. brands, plant & equipment, people, products, capabilities	Transition to external assets	Internal & external assets e.g. relationships, knowledge, capabilities & competencies	Internal & external assets e.g. networks, knowledge, capabilities & competencies	Internal and wider external assets e.g. knowledge, relationships, networks
Key metrics	Financial Market/ brand share Sales growth Profitability	Transition to drivers of financial measures	Balanced scorecard Financial Innovation (inc. knowledge) Customer Operational	Balanced scorecard Financial Innovation (inc. knowledge) Customer Operational	Triple bottom line Balanced scorecard plus societal & environmental measures Knowledge

* Firms described by each value posture may also take a Pluralistic approach to marketing practice.

Source: Developed for this research

The revisions enrich the original framework, and remove areas of duplication. The pure forms are more readily described than the transitional/hybrid form. The network form has been added, and is differentiated from the relational and systemic form on appropriate criteria. The clearest form was the systemic form. In hindsight, this is logical, as these enterprises (e.g. government and not-for-profit) are focused on a clear social agenda. Table 5.8 summarises the rationale behind each of these changes:

Table 5.8: Rationale for refinements to customer value posture typology

Action	Category/type	Rationale
Added	Hybrid/transitional/posture	Emerged from data, which suggested Hybrid firms relinquish transactional practices in favour of relational attributes. In contrast, Pluralistic firms practice <i>both</i> transactional <i>and</i> relational approaches to marketing to a greater degree than each pure form.
Added	Network posture	Emerged from data. Supported by previous studies (e.g. Brodie 1997, Brodie 2001, Coviello 2002). Differentiated from Systemic posture by profit c.f. social motives.
Replaced	Research focus/ scope	With Firm-customer type – clearer descriptor. Customer type served (e.g. business or consumer) was relevant to customer value posture and vice versa. The nature of the offer (i.e. product vs. service based) has declining relevance, as the distinction between goods and services blurs (Brookes and Little 1997). Reference has therefore been deleted. The addition of the ‘not-for-profit’ descriptor is particularly germane to the systemic customer value posture, as it recognises the resource (and cost) implications of a wider societal/ environmental purview. AND Internal/external orientation – a clearer and more comprehensive descriptor, describing the focus of managerial attention or organisational consciousness.
Added	Knowledge management focus	Emerged from data. Although not explicitly recognised when initially developing the typology, knowledge emerged as a key asset. The nexus of customer value posture, marketing practice and knowledge management presents opportunities for future research.
Merged	Managerial intent & Strategic Focus	Renamed strategic aspirations: a briefer and more accurate descriptor.
Deleted	Market context	(i.e. level of industrialisation). When considering firms in a particular economy this is irrelevant – clearly in that economy the level of industrialisation impacts on all businesses, regardless of customer value posture. In an international context and over multiple markets, value typology in the context of market development could offer opportunities for future research.
Renamed	Key model	With Value Model – a clearer descriptor
Enhanced	Key investments	Simplified, with more specific examples of key investments.
Renamed	Approach to performance measurement	Renamed Key Metrics, clarified and simplified with specific examples to remove confusion. Importance of knowledge afforded specific mention.
Added	Pluralistic overlay	Emerged from data and data analysis process. Pluralism describes the magnitude or level of marketing activities rather than the type or nature. Therefore all firms can be described as either more or less Pluralistic, in addition to ascription of a particular value approach.

These enhancements have resulted in a more comprehensive framework and greater clarity.

5.4 Discussion of Stage 2 findings

Key findings of Stage Two of the study and the implications for Stage Three are now discussed.

5.4.1 Key findings

The Stage Two findings offered general confirmation of the research propositions as follows:

Table 5.9: Support for research propositions 1-4 derived from Stage 2 of the study

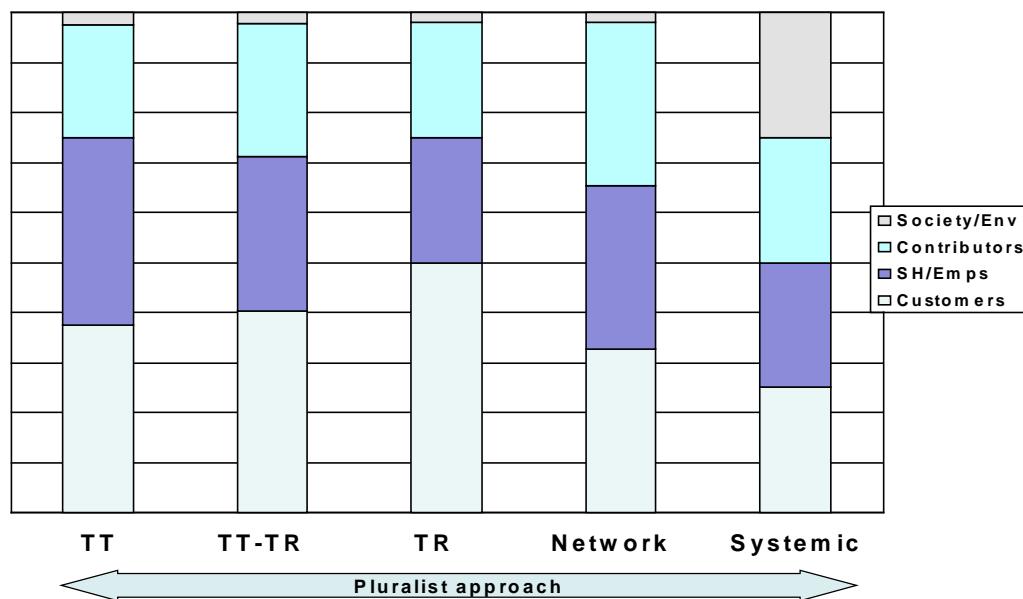
P1: That customer value creation and delivery (CV) involves four factors: <i>intentions</i> (of general business and marketing activities), <i>managerial focus</i> (investment focus and activities focus), <i>management and leadership</i> (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and <i>monitoring</i> (approach to performance measurement).	Confirmed.
P2: That the nature of the CV process will differ between firms.	Confirmed.
P3: That the differences in approach to the CV process can be explained by the elements identified in Proposition 1.	Confirmed.
P4: That managerial views of customer value creation and delivery have common characteristics across firm types and industries.	Confirmed.

P1 was confirmed, in that managers found the descriptors relevant to describing the value producing activities of their firms. P2 was supported, in that there were clear differences in customer value practice between firms. Four distinct value ‘postures’ were found. P3 was supported, in that these value postures were explained by the elements in P1 e.g. that a relational value posture was reflected in longer-term approaches to planning and financial measurement. P4 was supported in that all 14 managers shared commonalities of view e.g. that value was dynamic, evolving over time, and was contingent on the context in which it was created.

The findings from this stage of the research suggest that there are five (rather than three) value postures or approaches: Transactional, Hybrid-transitional, Relational, Network and Systemic. A Pluralistic approach to marketing practice can be taken by firms corresponding to any of these postures, as it describes a level and magnitude of activity rather than any one particular type of activity.

The distribution of value among the firm’s stakeholders may therefore be explained by the value posture adopted by the individual firm as depicted in Figure 5.1:

Figure 5.1: Type of value created by firm type and stakeholder group



Source: Developed for this research

This conceptualisation assumes a zero sum game – i.e. that the amount of value is finite. In the knowledge economy, it has been argued that this assumption can be relaxed - value is infinite as it is continuously created, therefore the notion of zero-sum based appropriation is incorrect (Ghoshal et al. 1999; Prahalad and Ramaswamy 2004). However, for convenience value is depicted here as finite. Relative distribution among stakeholders is proposed according to the value posture of the firm. As shown, TT, TT-TR (hybrid) and TR firms tend to focus ‘closer to home’: customers and more immediate (internal and quasi-internal) stakeholders garner a greater share of value than contributors (e.g. network and alliance partners). Society derives only a minor share of the value created, and this could be depicted as a negative share (Ghoshal et al. 1999; Handy 2002; Senge et al. 2001). Network firms continue this pattern, however all value partners with the exception of society enjoy an equal share of value. Systemic firms, however, operate from a different value paradigm, relating to a social purpose. This is reflected in a balanced spread of attention across all stakeholders – customer value to managers in these firms is value equivalency across the full stakeholder spectrum. It could also be argued that society and the environment receive greater value than immediate customers and internal stakeholders, for example in organisations charged with environmental protection and social welfare. These ideas raise a number of issues that require exploration and research.

A further issue was that of contextual dynamics. There was evidence of strategic change, as managers reflected on the organisational and operational issues in achieving transition from one strategic ‘state’ to another. For those with a relational or network posture, less evidence of conflict was evident. This would suggest greater relative strategic stability, compared with those with an identifiable transactional posture, who reported dissatisfaction with their value position³⁶.

With respect to strategic congruency, the literature offers limited evidence supporting congruence of a transactional approach and a cost-leadership strategy, e.g. Wachtell, a successful firm of US-based lawyers that works on a project-by-project rather than client-by-client basis (Starbuck 1993). It can be postulated that a transactional posture is notionally congruent with a cost leadership strategy. Adoption of a relational value posture by a low cost operator could result in strategic incongruence, requiring investment that does not necessarily lower transaction costs. Higher margins are required to cover this investment, precluding a cost leadership position. It is therefore argued that a cost-leadership strategy is inimical with the relational approach. Considering marketing practice or customer value posture in the context of generic strategy presents opportunities for future research (Brodie et al. 2004).

5.4.2 Implications for Stage 3

In Stage 3 of the research managerial views should be tempered with the idea of a perspectival view of value, i.e. that the nature of customer value varies by level of organisational member, whether at senior/ generalist level or middle/ functional or technical level.

The value posture of the case firm should be diagnosed according to the criteria identified in Stage Two of the research, and evidence of pluralism of practice incorporated into that diagnosis.

³⁶ NB: The researcher neither agrees nor disagrees with student findings. Project content reflects *managers’ own* views, according to their own subjective perceptions. Confirmability (and further refinement) presents an opportunity for future research.

5.5 Chapter summary

This chapter reports on results from Stage Two of a three-stage research project. 14 case studies were analysed, and six major findings identified that reinforced and deepened understanding initiated in Stage One of the research:

1. That the three value postures have both face credibility and confirmability, i.e. could be observed empirically; and have internal validity i.e. have different, relevant and internally consistent attributes;
2. That an additional hybrid or transitional archetype described firms transiting between a transactional and relational posture. Related to this finding was a further finding that managers perceive a progressive relationship between the value postures i.e. that firms migrate from a transactional to a relational and then finally systemic approach over time, reflecting a perception of increasing sophistication over the transactional-relational-systemic postures.
3. That an additional network archetype described firms with a wider value perspective than relational firms, and without an acknowledged social purpose;
4. That the systemic archetype derives from firm purpose and philosophy rather than marketing practice, and is more likely to be found in organisations fostering public rather than private utility;
5. Firms can be described as either Pluralistic or non-Pluralistic in their approach to marketing practice *in addition* to ascription of a value archetype or posture;
6. That value posture diagnosis is contingent on both strategic and perspectival context – i.e. the firm's overall business strategy and manager's position within the firm's hierarchy;

In Stage Three of the research evidence supporting these findings will be sought. Additionally, evidence relating to the nature of customer value creation and delivery processes will be sought.

The thesis proceeds by presenting the results from Stage Three of the study: an in-depth, single site action research based project.

CHAPTER SIX (A):

RESULTS – STAGE THREE: THE CASE FIRM

This is the first of two chapters presenting results of the third and final stage of the study. Chapter Six (a) presents data relating to the nature and environment of the case study firm. This data provides context for results relating to customer value creation and delivery presented in Chapter Six (b).

To recap on the results so far: Stage One and Two were concerned with confirming or disconfirming six propositions derived from the literature. Accordingly, Stage One identified three clusters of firms with regard to the creation and delivery of customer value: Traditional Transactional (TM), Traditional Relational (TR) and Pluralistic. TM and TR firms were characterised by a relatively narrow approach to customer value creation and delivery, and use of more traditional performance measures (e.g. sales growth and profitability). Managers in PL firms took a broader and more inclusive perspective of marketing, encompassing cross-functional processes as well as traditional product-market activity. Managers in PL firms also had greater interest in ‘softer’ issues such as innovation, learning, and a wider societal and environmental constituency. Internal focus was also broader – with all staff (rather than only senior staff) championing customer value, a greater focus on a variety of marketing assets, and a more systematic approach to planning. PL firms were also more likely to use externally calibrated performance measures (i.e. competitive and customer) as well as more traditional financial measures. Overall, Stage One indicated that the Pluralistic group of firms took a more proactive and comprehensive approach to both internal processes and their external partners than the ‘pure’ TM or TR firms.

Stage Two resulted in three major findings. Firstly, the three value postures identified in the literature review - transactional, relational and systemic – were found to have face validity among managers. Secondly, there was congruence between these value postures and the three clusters of firms identified in Stage One: managers in firms adopting a transactional posture reflected elements of the TM cluster in Stage One, while those taking a more relational posture were comparable to the TR firms in Stage One. It was not established whether these firms were Pluralistic in nature (i.e. practiced both types of marketing simultaneously and to a greater level) as assessing incidence and magnitude of marketing practice was beyond the scope of this stage of

the research. Secondly, while evidence supporting the transactional and relational postures was found in Stage One, evidence supporting the Systemic posture (reflecting a wider social and environmental agenda) was not found. The reason became apparent in Stage Two: while a Systemic value posture had notional appeal for managers in for-profit organisations, they found this approach unworkable. However, not-for-profits and specifically government bodies reported adoption of this approach. Thirdly, two contingency dimensions were suggested – strategic and perspectival. Strategy (and firm type) explained the approach to value creation – e.g. a not-for-profit or government body would take a systemic approach, a firm with a low cost strategy would take a transactional approach, and a firm adopting a differentiation strategy would take a relational approach. These findings are strongly normative – strategy and purpose should be harmonious with implementation (or marketing practice). The second aspect of contingency - participant position – suggested that those occupying functional specialist roles would take a transactional view of value, while those in more senior or generalist positions would have a more relational view.

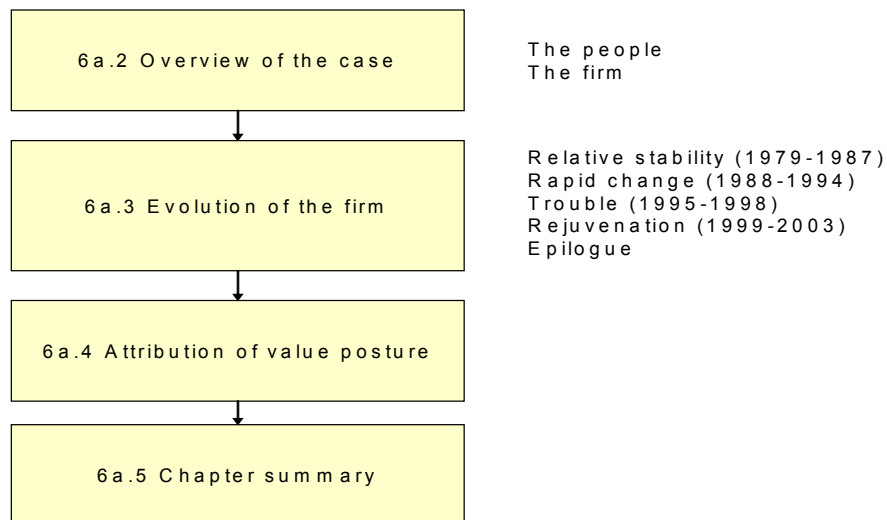
Following on from the support found for the propositions, Chapters Six (a) and (b) are concerned with Stage Three of the study: an in-depth action research-based case study conducted in collaboration with the managers of one firm over the period October 2002 to June 2003. Chapter Six (a) provides context for the case results presented in Chapter Six (b), including the people, the business, stages in the evolution of the business, and conclusions regarding the value posture of the firm.

The purpose of Stage Three of the study is to provide a rich and deep understanding of customer value and the customer value creation and delivery process, in order to answer the over-riding research questions:

1. What is customer value?
2. How do managers create and deliver customer value?
3. How does customer value creation and delivery relate to assets, capabilities and financial outcomes for the firm?

The thesis proceeds by presenting the background relevant to understanding findings relating to these research questions.

6a.1 Chapter outline



6a.2 Overview of the case

The project firm is a well-established player in the industrial electronics industry. It is a small-medium sized enterprise (SME) with a turnover of approximately \$20 million and a headcount of 43. The senior management team and warehouse is located in Auckland, with minor representation in five other centres around New Zealand. The firm has been trading for 25 years. It is a private family-owned limited liability company, originally started by the parents in 1979, and now headed by the son.

Examination of the firm's management team, its business, and the evolution of the business over the past 25 years of trading follows; providing context within which to frame the results of the study presented in Chapter Six (b).

Refer to the Glossary for further explanation of technical terms.

6a.2.1 The people

After graduating from the University of Auckland's School of Architecture, the son founded and ran his own design business for a number of years. He entered the family firm in 1999 in the capacity of sales and marketing manager. Over the period 2000-2001, he completed an executive business qualification, and thus became known to the writer. He also encouraged a number of his colleagues to complete that qualification, providing a common frame of reference for the project. During this time, and during the course of this study, he made the transition from a functional role

to the role of CEO, with the support of his father (Managing Director and Chief Operations Officer) and mother (Manager - Finance & Administration). After 25 years, both parents wish to take a less active role in the business and are cognizant of the need for succession planning.

Key informants in the study are listed in Table 6.1:

Table 6.1: Organisational members: Position, Role/ Background, Qualifications

Position title	Role/ background	Qualifications	Ref. ³⁷
Senior Management Team			
CEO*	Son – major agent for change. Previously owned design services business.	B.Arch. PGDipBus	1, 16, 19
Managing Director	Father – owner, founder, COO with special interest in IT.	B.Com (A&F) B.Eng.	10
Manager – Finance & Administration	Mother – owner, controller, accountant, administrator.	CIS certificate. Part B.Com.	9
Logistics & Purchasing manager	Long serving senior staff member.		2, 12
Divisional General Manager	Senior staff member, recent appointment. Large corporate background.	DipMgt.	13
Management Team			
Account Manager	'Star' salesperson – highly technically adept. Software & electronics engineer.	Engineering & MBA (India)	14
Account Manager*	Technical & business expertise. Large corporate background.	B.A. PGDipBus	5
Business Development Manager	Technical & business expertise. Ex-RNZAF avionics expert. Ex-GM of competitor.	RNZAF-based qualifications	4
Business Development Manager*	Key staff member – technical, customer training & sales. Ex-electrician. Large corporate background.	PGDipBus	8, 12
National Support Manager	Ex-electrician. 5 years with firm. Internal progression from customer service.		3
Product Manager	Technical & industry expertise. Ex-electrician.	NZCE	20
Product Manager*	Technical & business expertise. Shared over two divisions.	NZCE PGDipBus	11
Senior Product Manager	Key staff member, multiple roles – technical, training and sales. Ex-electrician. Ex-F&P.	NZCE PGDipBus	2
Others			
Consultant*	Consultant (long-standing). Guest/contract teacher for PGDipBus. Ex-IBM.		15
Vicki*	Co-researcher/ outsider		All

* Recent University of Auckland involvement – study or teaching

The University of Auckland Business School is a unifying link between members of the management team and the writer. Six of the 11 person management team have fully or partially completed a University of Auckland Business School qualification. All were taught at least once by the writer for at least one intensive trimester of 12 weeks. This situation was initiated by CEO, who was the first to complete his Graduate Diploma in Business, and who continues to encourage members of his

³⁷ Reference number denotes tape number. Direct quotations are referenced by tape number and NVivo number, e.g. [2,104-105] denotes tape 2, sections 104 and 105. All but one manager agreed to taping.

management team to do likewise. The consultant was an invited speaker in the writer's courses, and has subsequently taught a segment of another paper. The remaining five managers have supporting tertiary and technical qualifications, including a Bachelor's degree, MBA, and NZCE. Four have practical experience in electrical contracting and software engineering.

Overall, the business is a knowledge-oriented concern, reflected in the general business and technical expertise of its managers and the desire to enhance knowledge through further education.

6a.2.2 The firm

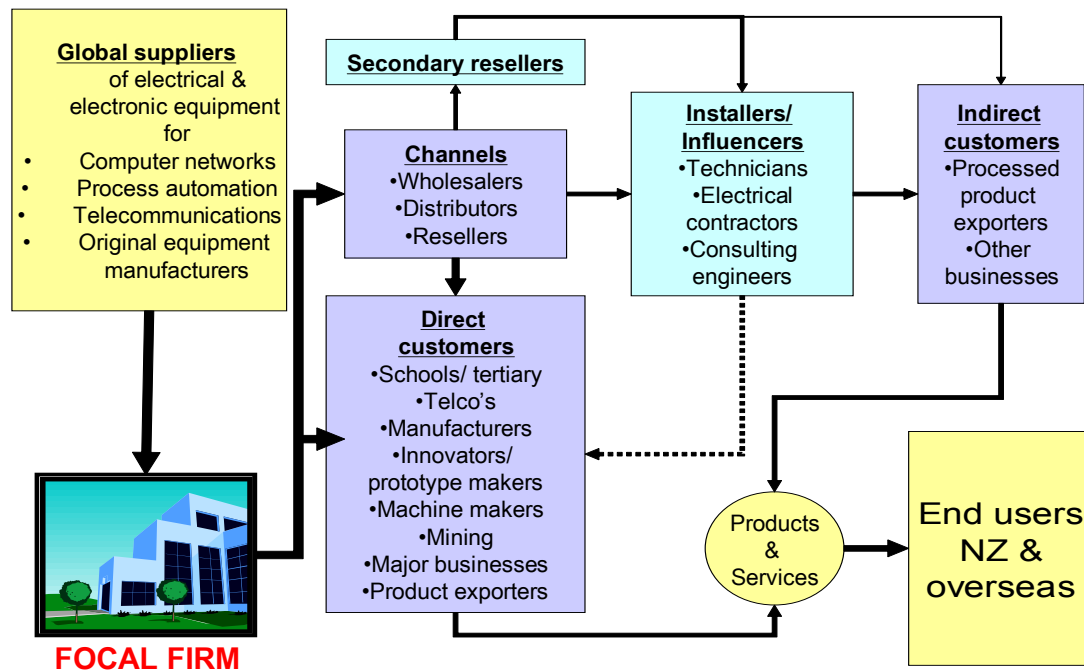
The firm competes in the information technology and industrial electronics industries. It sources electrical components and electronic equipment from local and international suppliers, and sells these through electrical wholesalers and direct to major New Zealand industrial firms. The firm sees itself as:

CEO: "... a professional value-added distributor, providing quality technology solutions equipment and components for communications networks and electronic systems". CEO [16,136]

This view of the business has evolved recently, and reflects a desire to de-emphasise specific components (e.g. electrical connectors and cabling), and to emphasise more general technology solutions for the ultimate customer or user.

Figure 6.1 describes the firm's position in the electronics industry supply chain:

Figure 6.1: Position of the focal firm in the New Zealand electronics supply chain



Source: Developed for this research

The firm imports products from a number of global suppliers, then on-sells these to direct customers (including schools and businesses), and through wholesalers. As shown, it is both a distributor (i.e. sells direct to end users) and re-distributor (i.e. sells indirectly to users via another distributor or reseller) in a complex supply chain. The business operates in four markets, outlined in Table 6.2:

Table 6.2: Explanation of firm's major markets

Market	Explanation
1. Computer networking	Voice and data networking equipment installed in business premises (NB: this market is also referred to as 'premise' by managers). Includes visible and non-visible components e.g. wall sockets, in-wall cabling, computer plugs and cables.
2. Process automation	Equipment enabling machines to communicate with other machines i.e. a conveyor system exchanging data with the processing machine supplying it. Customers include manufacturers, extractors and exporters e.g. food processors, coal mines and kiwifruit packers.
3. Telecommunications	Equipment installed in telecommunications networks e.g. telephone exchanges.
4. Original equipment manufacturing (OEM)	Components are supplied for resale or incorporation into another product using the reseller's brand name e.g. a switch used in a motor in whiteware.

These products are then used by businesses to do business, or incorporated into products and services consumed by both businesses and consumers, in New Zealand

and overseas. The table highlights the ubiquity of the firm's products – they are potentially used by every business and every household in New Zealand:

MD: ... our technology and where we choose to work takes us to companies of many different kinds ...

V:... Yes - mining companies, dairy companies, electrical contractors ...

MD: Banks and offices and the contractors that make things happen, the big system integrators that build big systems for big companies ... Telco's ... You can put a lot of ticks in a lot of boxes ... This is one of the things of course ... there's almost nothing and nobody that electronics can't be useful for. Managing Director [10, 98-107]

The firm is a small-medium player in the industry overall. The firm evaluates its position in terms of the major divisions it operates in and the major technologies it offers. It has differential market dominance in each of its four markets – computer networking (medium-low), automation (low) telecommunications (low-medium), and original equipment manufacture (low)³⁸.

Products offered range from simple electrical cabling valued at a few cents per metre (offered through channel partners, purchased by installers for installation in various buildings), to complex pieces of electronic equipment and complete electronic networks valued at tens of thousands of dollars (sold through channels to end-users e.g. schools). These products are assessed, understood and bundled by the firm's technical experts, who develop business solutions for businesses with voice and data networks (e.g. most commercial enterprises and institutions) and businesses with process automation requirements (e.g. coal mines, fruit pack houses, food processors). Customers are thus major New Zealand enterprises: manufacturers, exporters, telecommunications companies, information technology providers and providers of education, health and defence. The solutions provided enable these businesses to do business, and therefore represent a key source of business advantage – and risk.

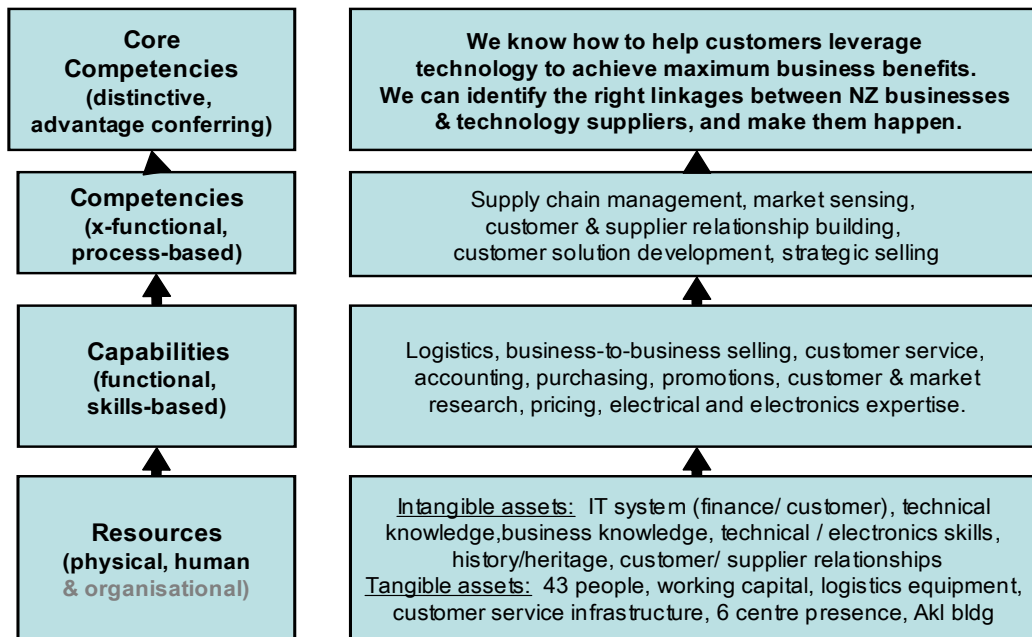
In simple terms, the firm sources and on-sells electronic components and equipment that facilitate communication between people and machines, people and people, and machines and machines.

³⁸ NB: No formal market measures are available - based on managers' estimation.

6.1.2.1 Core competencies and capabilities

The following analysis of competencies and capabilities was arrived at in the early stages of the project. It was presented to (and ratified by) the firm’s management team in an initial workshop.

Figure 6.2: Analysis of core competencies & capabilities of the focal firm (based on Javidan, 1998)



Source: Developed for this research

As illustrated, the firm has an asset base geared to the needs of its customers. Key assets are the IT system, the technical and general knowledge base and established customer and supplier relationships. The asset base supports key capabilities – technology expertise, logistics skills and business-to-business selling. These functionally based skills and abilities build to more complex cross-functional competencies – market sensing, supply chain management, relationship building, customer solution development and strategic selling. In turn, this underpins the firm’s core competency, which can be expressed in brief as “The ability to help customers exploit technology to achieve maximum business benefits.” In other words, the firm is able to streamline its customers’ communications and production processes to support these customers’ business growth – thereby adding significant value to customers’ businesses.

6a.3 Evolution of the firm

The firm was founded in 1979 by the father (the Managing Director), after his resignation from a management position in a large manufacturing concern. The mother (Manager of Finance and Administration), has also been involved since inception.

During nearly 25 years of history, four episodes can be identified:

1. Relative stability (1979-1987)
2. Rapid change (1988-1994)
3. Trouble (1994-1999)
4. Turbulence & rejuvenation (1999-2003)

6a.3.1 Relative stability - 'Clear air' (1979-1987)

The business commenced trading in 1979. At that time, the market and the rate of technological innovation was relatively stable. In New Zealand, businesses were constrained by restrictive legislation, which posed challenges to firms, suppliers and their customers:

MD: ... life was about finding a customer and finding [import] license. It was almost too good to be true to find both together. The big industries ... could provide licenses for their own products ... Otherwise in those days ...for every sale you got you had to apply for import license for it ... when we first started, two to three months was regarded as good service! Managing Director [10,7]

Even in this environment, the business grew rapidly. At that time, the family was young:

MFA: ... in 1979 when the company started, I worked part-time coming in and then I had to look after the children for the rest of the day. It worked very well because you could be involved with what was going on in our family and it just grew and grew ... Manager - Finance & Administration [9,4]

New Zealand was relatively isolated, meaning that supplier relationships were difficult to establish and maintain. At that time, this was an area of competence and advantage on the part of the firm:

CEO: ... the whole beginning of the business ... was in a regulated market when people just didn't know where to find things, they couldn't get access to them. Finding suppliers was very difficult, communicating with the other side of the world was a very difficult thing to do in 1979. CEO [1,138]

MD: ... one of the areas of the past where [CEO] was very happy with our record is that we've done very well with [supplier relationships]. Managing Director [10,63]

Technology was relatively undeveloped, and very few firms used computers. The Managing Director was ahead of his time in his thinking about the applications of technology:

MD: ... 20 years ago ... I'd come to the conclusion that everything that moved would have ... electronics in it - right down to the toaster. Which at that time seemed to be absolutely absurd, that a toaster would have a computer! Managing Director [10,107]

His skill in understanding emerging technologies and the applications of these technologies will be a recurring theme in this chapter³⁹. Building on his competencies in business process engineering and information technology, the Managing Director developed a groundbreaking IT system:

MD: ... because I understood the technology products and I understood the transactional part of doing business ... So we ... wrapped up together all the transactional aspects of the business with all the accounting ... so that we had smooth integrated systems ... we sold an awful lot of bits and pieces to an awful lot of people and the idea was to be able to ... record the things they wanted and wanted to know about ... [10,271] ... what we did in the very early days was ... way out of reach for most people to even dream about.... When I went overseas and I was showing some people things that we were doing ... they said that they couldn't do it themselves, nor had they ever seen anyone else who had done it. And these were big multi-national companies. Managing Director [10,948-950]

The IT system created and developed by the Managing Director proved to be a consistent source of advantage to the business:

C: ... Now one of the strengths at [firm ...] is that [Managing Director]... has an excellent approach to IT ... one of my recommendations was that he needed to [create a sales revenue report in the form of] a simple matrix ... And I went back for a meeting about a week later, and he said "Would you like to see our new reports?" And I said "Oh you've designed them ..." thinking "shit - that's impressive!" And [he] says "What do you mean design them? No, we

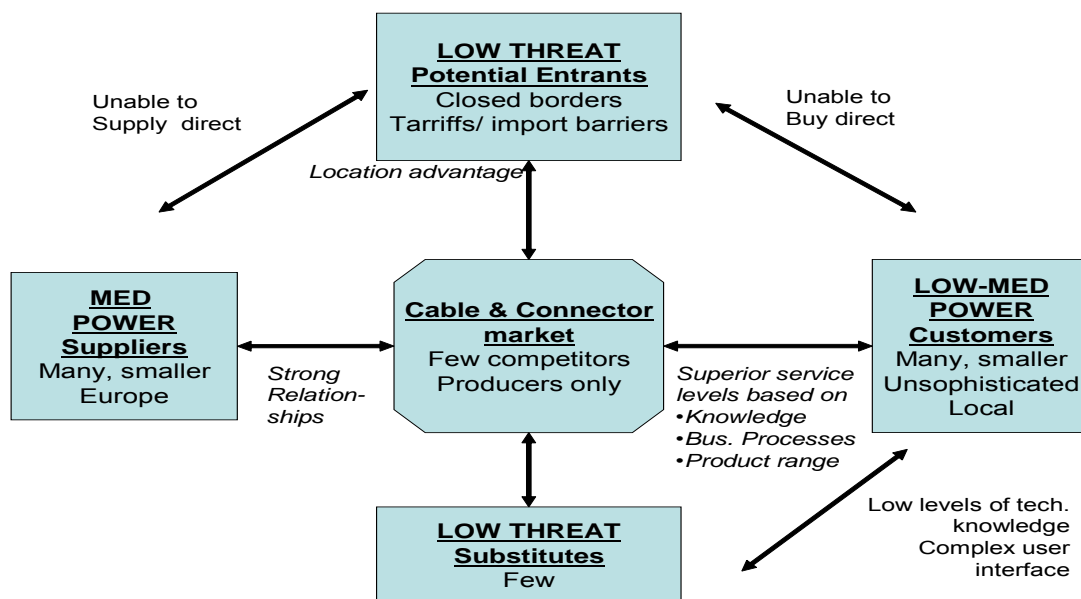
³⁹ In 2003, electronic processors are not unusual in mid-high range toasters.

designed them when you were sitting with me - no I'd like to show you them running, with the historical data in there too." And in my mind for a moment ... I go "I must have a communication problem, he can't understand what I asked or what I thought, and he definitely can't have done what I thought he said", and then he ... brings up ... these matrices including previous year comparisons, and everything. And I'm sitting there looking [and there are] the values ... in the cells – shipments and sales in margin and revenue terms ... and I'm now looking at the data and going "It's there but it can't be real, this must be a display screen or something - it cannot be real!" ...He can do things, I mean it's amazing! Consultant [15,255]⁴⁰

Thus, the IT system was an important asset, providing advantage in the form of strategic customer information as well as administrative benefits such as speed and accuracy of information processing.

The decade from 1979 to the late 1980's can be viewed as 'golden years' for this firm, as the business was protected from the exigencies of global events. The driving forces of the industry during this period are summarised in Figure 6.3:

Figure 6.3: Cable & connector industry structure 1979 to mid-1980's (based on Porter (1985) 5 Force model)



Source: Developed for this research

The diagram highlights the structural stability of the industry and the strong profit earning potential of competitors. Many smaller suppliers were quantity makers and price takers. Strong relationships established over time provided a source of advantage and favourable prices. Many smaller unsophisticated customers were

⁴⁰ The consultant was an IT specialist, with many years of experience in that industry at senior level.

appreciative of the technical expertise and relatively high service levels offered by the firm, providing a further layer of advantage. The protectionist economic policies in place at the time and resultant lack of local and global competition meant that the firm was a relatively sophisticated player in an unsophisticated environment, evoked in the following quotation:

BDM: I got a hiding the first day of work, when I was an apprentice. I was only a 15 year old, I walked in there and said something or did something - smack! You could do that then. I went home and told the old man, he said oh you stupid bugger.

V: Toughen up! [sigh]

BDM: Toughen up - exactly. Fortunately those days have gone. Business Development Manager [12,295-300]

6a.3.2 Rapid change (1988-1994)

The major economic and social changes initiated by the 1984 Labour government led to rapid environmental change. A competitive service-oriented business culture began to emerge. Internationally, deregulation, technology change and globalisation led to significant external change, affecting competitors, suppliers and customers.

The dismantling of border controls resulted in more competition:

MD: ... in the 80's [it] was so much different - we could impact customers just by selling things to them over the counter, because those things were not common and they were non-existent in our industry. But little by little, people have caught up with a lot of the things that we can do. Managing Director [10,289]

The competitive advantage established by the firm based on groundbreaking systems, supplier relationships and technological leadership began to erode. International suppliers became bigger and the balance of power started to change:

MD: ... some quite big suppliers [grew] basically out of range ... When they were small and we started working with them, New Zealand was important to them. The extreme of that is a company we started dealing with at \$US35 million, and they've [now] got past three billion [10,61] ... once upon a time you might have had a totally two-way committee and ... mutually exclusive arrangements ... they're not so easy to obtain now. Managing Director [10,83]

Infrastructure was created to support a combined direct sales (over the counter) and field sales force go-to-market model. At one point, the business had six regional offices complete with counter sales and support staff, in addition to a field sales force.

During the 80's and 90's the Managing Director continued to develop the firm's IT capabilities and innovate business processes:

MD: At times ... it blew people away. For a while we took our system portable so that the reps could take it out to the customers ... One guy he was down country somewhere, and he saw a customer at the end of the day, and he entered the order in on the customer's desk, put it into the machine. And he wanted it in a hurry, so he asked for it to be delivered quickly by courier ... they both got to work the next morning and the parcel was waiting for them when they arrived ... The customer could not believe that this was possible. That was in the 90's, we were some of the first to use laptops or luggables [haha] Managing Director [10, 279-285]

V: So in the early 1990's what I'm picking up is that you had a wired sales force even before that terminology was coined.

MD: Absolutely - oh we had it long before then ...Managing Director [10,279-289]

The firm viewed itself as an industry leader in the innovative application of IT to its business processes. This resulted in advances in the productivity frontier, and therefore of customer expectations (Porter 1996). As we will see, the value of these innovations was primarily appropriated by the customer, rather than the firm. Thus, despite leadership in business process engineering – or perhaps because of it – the business started to lose its way.

6a.3.3 Trouble: 'The five year spiral of death' (1994-1999)

The notion that seeds of destruction are embedded in that which makes something successful is a helpful framework here. Reflecting after the event, the new CEO places his interpretation on the underlying reasons for the failure to adapt to changing circumstances:

CEO: ... the business strangled itself in terms of a lot of its views about everything ... You know they put flaps on horses so that they can't get distracted by anything outside and I think probably most businesses go through periods where they forget to define what business they're in and they get narrow-sighted in terms of the world they operate in ... my view is ... that [the administrative/support] piece of the business exists for its own benefit a lot of the time ... a lot of cultural inertia and doing what the computer tells you to do every day ... as opposed to thinking 'why?' ... CEO [1,20]

As the CEO points out, the organisation's ability to deliver value to customers was compromised by organisational culture and procedures, highlighted in the following story:

CEO: ... we had a very high turnover of account managers when I joined, and a lot of that was

due to frustration with the company... The company spends most of its time beating up customers, these guys were really just the meat in the sandwich ... we did some customer research, we did some internal audits and a lot of discussion internally, and one of the account managers drew this beautiful picture of himself, and he was standing on this tomato holding a huge rock above his head. His view was that the rock was the company and the customer was the tomato. Now he could do everything he could to stop the rock directly from squashing the tomato but it was just a matter of time before the sheer weight squashed both of them. CEO [1,112]

The customer-facing members perceived a lack of support, feeling threatened and oppressed by a firm-centric and customer-hostile culture. This period coincided with high environmental turbulence. Substantial technological change resulted in shorter product lifecycles;

B Lifecycles for products now are much, much shorter than they were ... [10,29] ... You've got around five years, because five years in this technology business at the moment is actually a long way out. You look back and there's very few intervals of five years or ten years where you could say "well I could have predicted that"... Managing Director [10,241]

The rate of change in the industry increased, resulting in increased cost and risk for intermediaries in the industry supply chain. Being in a relatively remote location requires inventory holding – risky with rapidly obsolescing technology products and unpredictable demand. Commoditisation placed further pressure on the firm.

Reflecting an increasingly mature market, product offerings were becoming more homogeneous, prices were under pressure, and industry margins were eroding.

Industry rationalisation created yet more pressure from new, larger competitors, suppliers and customers. A series of competitor mergers and acquisitions resulted in economies of scale and scope:

BDM: ... most of our competitors now offer a broad range of components. Even [competitor], who were ... only basically involved in connectors, now they're under the [parent company] umbrella they've acquired all sorts of other companies so they're able to offer a broad spectrum of components as well, so that makes them even more difficult to pick off. Business Development Manager [4,262]

The advent of new, different and larger competitors resulted in major structural change in the industry - catalogue companies competed for the firm's traditional components (or OEM) customers, and wholesalers competed for the firm's computer network and telecommunications customers. Larger competitors tend to work with

major customers. Smaller players such as the case firm were therefore placed at a disadvantage:

MD: ... Sometimes the merger's in your favour, and sometimes it goes against you, but nearly always the companies end up by being bigger possibly to the point of being too big, big corporate things that with our sort of business and our size of business is too small to be significant for them. Managing Director [10,67]

The mergers also placed pressure on the traditional supplier relationships that were once a source of advantage. Long-term relationships eroded as suppliers merged and the industry became globally more concentrated. New and different suppliers were created as major mergers created very large global businesses with little interest in maintaining marginal customers in remote locations. The firm's traditional European-based suppliers were facing challenges of their own from Asian manufacturers who did not follow traditional industry orthodoxies – they did not enter into exclusive supply agreements, and were willing and able to undercut prices:

BDM: ... the way of doing business varies from country to country ... the Germans are pretty good [at] making a judgement call and saying "Yes, we will give you exclusivity", whereas the Asians ... deal with anyone and everyone ... you just have to understand that that's the way they do business, and work around that ... our major supplier [firm] are German based, but they're recently opened a factory in China, and we're competing with Chinese-made competitive products, at Chinese prices ... Whereas the Germans of course like to keep their finger on the pulse, and try and sell it at European prices, but it doesn't work. Business Development Manager [4,158-166]

Therefore, the firm (which had exclusive contracts with major European suppliers) was placed at a disadvantage. Customers were also impacted by mergers, and became larger and more sophisticated. Many perceived less need for the firm's specialist knowledge, and were strongly motivated to cut costs through procurement strategies such as disintermediation and supplier rationalisation.

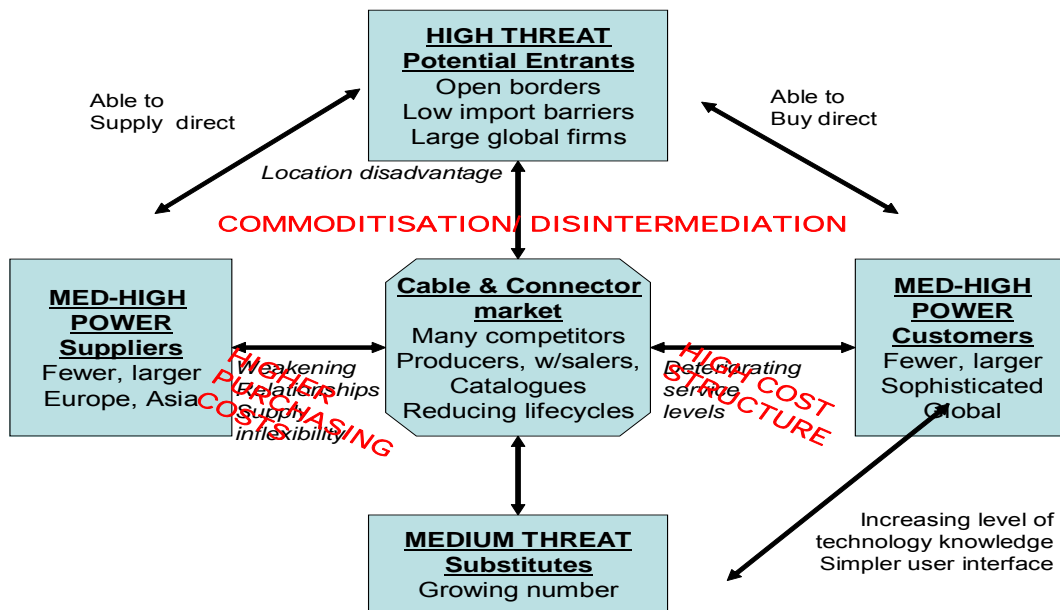
In combination with the increasing rate of technological change and the level of cost entailed in competing under the old high-growth model, these trends were disastrous:

CEO: ... when [Managing Director] started this business ... we just dealt with dumb products ... cables and connectors they don't think or do anything ... And for a long time it was a specialist job, but as in most maturing products as the knowledge disseminates in the field the need for a specialist to make a decision between one product and another gets narrowed into niche areas, niche products, niche markets etc. And because of the scale of New Zealand the cost structure of the company was really hurting ... [The products we sold were] becoming more and more a

commodity. We had a very high cost structure because we're a value added reseller, so we're trying to add value to commodity based products, and diminishing markets where the barriers to entry have got very, very slight ... and in some areas we had customers who started importing their own goods, you know, disintermediation ... [and] wholesalers entered into the market so you had unlimited time and place with a lot of people competing for very low prices and that drove the market down even further and you had a lot of manufacturers dumping, all contributing to a five year spiral of death. [1,28-32] ... [we] went from 25% market share with about 4-5 players, down to about half that over about three years, a very rapid decline, and the numbers of competitors grew probably four fold ... In terms of channels, they would have grown from a dozen primary paths to market to about 300 ... plus the market flattened and started to decline, [there was] disintermediation ... and most of the cost structure of the business was built up because we had such high volume coming through [so] compounding the drop in market share and fragmentation the margins halved over that three year period as well. CEO [1, 36-41]

The decline in revenue and increase in costs was the result of rapid and significant external change, unmatched by an equivalent rate of internal change. Figure 6.4 summarises the key environmental changes and the resultant impacts on the business:

Figure 6.4: Summary of changes in operating environment 1987-1999



Source: Developed for this research

Radical change occurred in all industry driving forces. Firstly, the market borders opened, and global competitors entered, presenting a wide range of alternatives. Import licensing was abolished, giving rise to the free offering of a great number of alternative products from a wide variety of businesses competing across the range of the firm's markets – ranging from full service direct distributors, to catalogue

companies. In this environment competitors flourished. Product lifecycles were becoming shorter, and although technological obsolescence was ostensibly an advantage (meaning customers would require upgraded technologies), the increasing risk (and costs) of carrying inventory increased. This also resulted in commoditisation i.e. differences between products decreased to the point whereby customers were able to bid down competitors. Customers were able to do this as they enjoyed higher bargaining power – industry concentration had resulted in fewer, larger and more sophisticated customers with the will and ability to rationalise suppliers and dictate terms. Suppliers to the firm also increased in power, as mergers resulted in larger businesses that were less commercially concerned with small customers in remote markets – regardless of the strength of historic relationships. The emergence of Asia as a manufacturing base also created issues as the European suppliers struggled to understand the implications for their businesses of closer, price-competitive rivals. Rationalisation of suppliers, product landscapes and customer bases underpinned the strategic reorientation of a number of businesses throughout the 1990's. While the focal firm did not reorient in this way at that time, it did survive:

MD: ... we've grown the business over a long period of time, some of it was successful and some of it wasn't, business was reasonably tough, I don't think we've done a lot of things wrong, and we're still here. Managing Director [10,412]

6a.3.4 Turbulence & rejuvenation (1999-2003)

CEO: Well - I think we're headed back towards clear air ... Takes a lot of stress off people when you are in that situation - when you're profitable, when you're in clear air. You can have an upward spiral, success builds success - all of that. CEO [16, 184]

The son entered the family business in 1999 in an interim role of Sales & Marketing Manager, transitioning into the role of CEO. He had a firm sense of purpose:

CEO: My job is to look after the shareholder value, that's my number one priority. And that's for the family. But that's because I know how hard it has been for them for the last ten years. CEO [16,182]

In addition to this very significant change, three key events occurred over the period 1999-2002: the use of external advice and information, a change of core business and a strategic surprise.

6a.3.4.1 Event 1: Commissioning of external advice

Prior to the CEO joining the firm, there was little external input into the firm's activities, with the exception of the consultant. One of the CEO's first steps was to rectify this situation. He initiated three sources of outside input into the firm's thinking processes: market and customer research, a strategic review by a consulting company, and this project (i.e. the action research project articulated in this chapter of the thesis). The CEO also maintained regular ad hoc dialogue with his University contacts, specifically the writer and a director of the Business School.

The initial source of external input was a market, customer and internal research exercise. It involved “dozens of marketing structural meetings, interviews with 38 customers, quantitative and qualitative, 19 staff sessions ... (the outputs identified factors that) are really the root of a lot of current issues that still reside within the company” CEO [1,275]. The research provided a focus and a voice for organisational members, and provided a formal process for acknowledging strategic and performance issues.

The second source of external input was a strategic review by a consulting firm. This review was particularly critical in developing a commonality of view for father and son in the early stages of a difficult transition:

CEO: ... we went through this strategic review with some outside help in the middle of the year, part of that was because my father and I could not see eye to eye and with our deteriorating relationship we had to get some very solid view for the future of the business so that we could work together towards a common goal so it could drive things forward. CEO [1,24]

MD: ... it could be that we stayed a bit too long, and maybe we ... it's not fair to say we were lost, but we were probably not doing enough things, and the work we've done with [consulting firm] has helped us point the way to where the future is for us and helped us to focus on it. Managing Director [10,37]

As well as providing clarity of direction, the consulting firm project also provided organisational members with a voice:

AM: [Consulting organisation] came in and performed a task and put together a number of recommendations, and what they did is they had to quote their research with each individual much the same as you're doing now ... where the market is, where the money is, and what we were going to do to keep ourselves going dollars ... And [focal firm] owned all that, because it owned all the information from the people. What they managed to do is present it in a logical

format. And a lot of the things were almost word for word for what each individual said and what each individual believed, and that's what we were employed to do. But it wasn't until they paid the sum of money and it was on a piece of paper with a brand on it that it was listened to. Account Manager [5,114]

The frustration reported on earlier is apparent here. Issues of culture and leadership are also apparent, supporting the comment made by CEO with respect to the firm's inability to see the implications of external change for the business, despite evident rumblings from its managers.

The third of the three external influences was this action research project. With a series of discussions and two workshops, it was arguably a dominant activity in the course of this dynamic firm's business. However, the CEO confirmed that it was helpful and would have liked to engage more deeply with the process:

CEO: Absolutely. I wish we had more time to have some more [workshop] sessions. Like the last one was fantastic ... a lot of the theory has probably been more applicable [at the operational level]... Some of the analysis was outside our competencies, so that's been useful as well ... CEO [19,277-279]

The project was clearly useful in increasing the clarity of managerial understanding, and in supporting operational activities. It can be inferred that the project process assisted in achieving the significant and rapid change sought by the CEO by focusing managers' attention on relevant issues, and enabling articulation of ideas and feelings.

6a.3.4.2 Event 2: Signing of major supplier agreement

The second of the three key events was the negotiation of a supply agreement with a new supplier. This proved to be a turning point, as it changed the firm's view of its business:

CEO: We signed ... what turned out to be a very, very important relationship with an active equipment supplier last year ... And the stupid thing was that as we started into it, a lot of our customers bought an enormous amount of active equipment. We had no idea, I mean our whole vision was that we were a passive product supplier, this is the market we play in. CEO [1,116]

The firm's ability to embark on the proposed new strategic direction was secured – moving away from traditional reliance on 'passive' products into the new more complex and demanding 'active' products; and accordingly from a 'share of market' to 'share of customer' or 'share of wallet' perspective. Clearly, there was an element of serendipity or experimentation involved, as the quotation above highlights. In terms of customer value, it enabled the firm to expand its portfolio of offerings, so

that expanded value was offered, both from a new range of technologies and a new more holistic approach to the customers' business (i.e. a concern with the customer's business rather than merely solutions to the customers' current business requirements). This idea will be expanded on further in the "Making Promises" section of Chapter Six (b).

6a.3.4.3 Event 3: Strategic surprise: Market shakeout

The two previous events were favourable to the firm, and enabled significant progress in strategic direction and performance terms. However, despite these gains, there were also challenges. The key strategic surprise was the shakeout in the Telco sector. At first, this market provided attractive revenue streams:

CEO: The Telco market ... was our knight in shining armour. I guess growth in demand around the world was driving it, fuelled by deregulation, incredible investment locally and competitive services, and at the time [two major local companies] were our very large customers. [Company A] was a multi-million dollar customer, and [Company B] turned up with a very large bucket of money and we secured some very key parts of their network. CEO [1,44]

However, the firm was exposed:

CEO: ... at that point it was nearly 40% of our turnover ... we knew that we were very exposed across the Telco market, because one we had a reasonably small number of customers - that's the nature of the beast, which makes us nervous, plus all of our sales were in a very small number of lines. In fact there were two primary product lines that represented over 90% of our business in Telco across three customers ... 40% of the entire company ... CEO [1,46]

An unexpected and rapid global correction occurred, impacting heavily on local demand:

CEO: ... within a 6-month period we had boom and bust. And we were planning out for two or three years. We were catering for a vast growth, and we weren't thinking. CEO [1,412]

After strong sales in year 1, in year two the sector downsized rapidly as a result of over-capacity and rapidly saturating global markets, with severe repercussions for cash flow:

LPM: ... we were embarrassed with [x] million dollars worth of stock ... Telco customers were a major purchaser, [so] we decided that we would do sea freight shipments and I sat down with [Managing Director] and said "Do you realise what this will mean? Your lead times will expand, your stocking will be higher, your stock will grow, and if Telco's stop buying ...you'll be left with a million dollars of stock that you can't move." Yup, the bottom dropped out of our market, the bubble burst, and the whole thing fell over. Logistics & Purchasing Manager [2,78-

81]

This demand-side shock left the firm with a large stock of inventory that could not be on-sold, that was perishable in technology terms, and on which it took a loss. The Telco market remains a very significant source of revenue for the firm. However, the firm has learned from past events, and the view of its value-providing capabilities and strategic position has changed accordingly:

CEO: We're still a medium to small size organisation in the scale of the Telco environment ... [so] instead of trying to compete with the Nortels and Nokias etc ... we've chosen technologies that they're not very good at and augment what they do rather than trying to compete with them. We've found a very good fit in that area ... essentially its high volume and things that most of these big guys don't do very well ... We were playing too big, we hadn't found a view of an area of technology that we had a fit with, and our customers were happy that we fitted with, and it's taken us over two years to understand that fit. CEO [1,68-70]

A favourable niche had been found in the nexus of technology, competencies and customer perceptions in this sector of the market, enabling the firm to create value for customers that was difficult for competitors to copy.

The major strategic challenges and the firm's responses during this period are summarised in Table 6.3:

Table 6.3: Summary of strategic challenges by served market 1994-2002

MARKET ATTRIBUTES	Computer networks (premise)	Telecommunications	Industrial automation	Original Equipment Manufacturers (OEM)
Customers	Businesses/ institutions installing or changing voice and data networks.	Telecommunications firms.	Manufacturers, exporters.	Manufacturers, design engineers/ inventors
Offer	Many cables & connectors (simple/ passive)	Narrow approach: Small number of big technology lines (simple/ passive)	Many cables & connectors (simple/ passive)	Components & connectors (simple/passive)
Starting position 1979-1998	Late growth-maturity. 4-5 competitors, 25% market share, 10-12 paths to market, many customers, direct & installers.	High growth. 4-5 major customers, 40% of turnover	Market maturity. Many customers.	Market maturity. Many customers.
Strategic issues	<p>External: Industry fragmentation (NZ), industry rationalisation (global), decreasing product & technology lifecycles, commoditisation, product proliferation, supplier & customer mergers changing balance of power, disintermediation, increasing availability of information/ increasing customer knowledge/sophistication</p> <p>Internal: functional stovepipes, poor customer service, high cost structure (full branch and supporting infrastructure plus on-road sales team, inventory holding), lack of more specialised knowledge</p>			
Ending position 1999	Late growth-maturity. 8-10 competitors, 12% market share, 300+ paths to market, high cost to serve (counter sales/ branches). Margins halved.	Late growth 2-3 major customers, high risk, cost to serve (large knowledge investment) Large loss through high inventory holding costs.	Maturity. Many customers. Margin squeeze.	Maturity. Many customers. Margin squeeze.
Ending position 2002	Many technologies (simple/ passive and complex/ active); few customers; multiple channel layers. Lower cost to serve.	Broad approach: many technology lines (simple/ passive & complex/ active); Very few customers; Multiple channel layers.	Many technologies; fewer customers; multiple channel layers (personal selling/ call centre)	(Simple/ passive and complex/ active); many customers; multiple channel layers (e-commerce intent)

Source: Developed for this research

The table illustrates the radical strategic change required to respond to the rapidly accelerating environmental changes occurring in every sphere of the firm's operations, and the relatively short time frame in which these changes were achieved. While the served markets remained the same, a market penetration and product development strategy was adopted, entailing enhanced product and service offerings. Customer numbers were reduced, and a sophisticated customer relationship or customer management programme was introduced with the objective of increasing share of customer rather than share of market. This aspect of the case will be explored in more depth in Chapter Six (b), as it is a crucial aspect of the firm's customer value creation and delivery process. The 'go-to-market' or channel strategy changed to a

selective multi-layered approach, featuring distributors (or wholesalers) personal selling, and a call centre. In the future, e-marketing or web-based channels will also be employed, when the firm’s competencies have developed in this area.

Commensurate with the external changes, internal systems and processes were addressed to improve customer service and support the new business model.

Key changes in the firm’s strategic orientation are summarised in the following table:

Table 6.4: Changes in the firm’s strategic orientation: 1999-2003

Strategic variable	FROM	TO
Environment	Protected, growing markets, slow rate of technological change, low-medium level competition.	Unprotected, mature markets, high rate of technological change, highly competitive.
Focus	Technology-centric	Customer-centric
Customers & suppliers	Many	Few
Size of customers & suppliers	Small	Large
Customer/supplier relationships	General	Value-based
Competitors	Many/small	Many/ small & large
Financial returns	Negative	Positive
Channel strategy	Distributor	Re-distributor
Resource base	Higher (branches, support staff)	Lower

Source: Developed for this research

Overall, during the period of turbulence and rejuvenation between 1999 and 2003, the son entered the business and came to grips with the nature and position of the firm and the key strategic issues facing it, with the support of external input from advisers. He then negotiated a path forward with the Managing Director, communicated that path to the senior management team, and developed ways ahead. In December 2002, he took on the role of CEO, and in this capacity continued to initiate significant change in the organisation, a testing process, as the Managing Director notes:

MD: It's elegant at times and it's difficult at times ... [haha] And it's not without it's cut and thrust ... but out of that will come great progress and it's already happening in the business. Managing Director [10,412]

Change was not always comfortable, as both the CEO and Managing Director have intimated, however both were certain that change was required.

The performance outcomes of the strategic recalibration were not clear in June 2003. The preliminary evidence indicated high growth, however, at a high cost:

CEO: ... [The narrow focus/ broad technology] model works, and we have financial proof that it is beneficial ... We've got growth rates in thousands of percents across customers as a result of some of the relationship strategies that we've put in place ... However! The investment it took for the senior management and the whole team to develop these relationships ... was major ... and across those we don't seem to be getting as much return, even though the growth was significant, from the investment that we're putting in ... So we're still spending too much time and we can't repeat that across enough [customers & channels] to achieve the kind of mass we're trying to achieve. And really ... the numbers just don't stack up. CEO [19,37-39]

Although the financial outcomes were deficient, other indicators were more promising, and the CEO had confidence in the soundness of his strategy:

V: ... it's June [2003] now, and we first spoke last October [2002] - my impression talking with you now and [then] - that [CEO] was highly frustrated ...

CEO: Yeah - he was, that's true ...

V: ... and he was wondering how it was all going to end ... whether he was doing the right thing, and now ... you seem a lot more set, confident, happier - if I can use the word happy ...

CEO: Possibly. I don't like to think of myself as happy! I think saying happiness in business management implies complacency.

V: [haha] No - it's not a complacent happiness ... So you can actually see there's a benefit to the finances of the relational model that you're adapting and using - you strongly believe that the pay back will be there?

CEO: Absolutely. CEO [19,294-311]

Many of the issues relating to the firm's ability to create value had been addressed – strategic positioning, the offer, customer management processes and internal business processes. The CEO was also seeing some evidence that these actions could meet his objectives – increased shareholder value. There was also evidence that he considered the worst was over:

CEO: [New general manager] is of the attitude "work hard, play hard." ... You should have

fun. And he's brought that back in. But too much fun means that people are really happy, but the results drop. So it's getting a balance in between ... There's no such thing as ever making it ... [New GM's] right, you have to enjoy the ride. We probably don't do that enough. CEO [19,311-315]

6a.3.5 Epilogue

The author attended a seminar some months after this discussion, during which the CEO outlined some of the outcomes of the strategic changes. These had become evident post-project as the revenue streams were achieved and as the firm's systems were adapted to produce new performance reports. These are summarised in Figure 6.5:

Figure 6.5: Performance outcomes as at 9 Oct 2003 (source: CEO in University of Auckland Business school seminar)

<ul style="list-style-type: none"> • ↑ 38% top tier customers • ↑ 41% top tier customer contribution to turnover • ↑ 44-62% top 30 contribution to turnover • ↓ 43% 2nd tier customers • ↓ 36% active customers • ↓ 50% transactions 	<ul style="list-style-type: none"> • ↑ key suppliers by 30% • ↑ 40% change in product mix • ↓ 45% staff • ↓ rent and rates 55% • ↑ 25% gross margin in 2 years • ↑ \$1 million profit in 2 years
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The outcomes are good: the key indicator is the turnaround from loss to profit. The substantial increase in gross margin reflects two achievements. Firstly, higher revenues from the new focused approach on key customers with active technology products, and secondly, lower costs as infrastructure supporting the old strategy has been stripped out and attention to marginal customers de-emphasised. In addition to presenting the above general evidence of success, the CEO also cited three figure percentage improvements in individual customer gross revenue. Additionally, the margin on revenue, and hence profitability, has improved:

“Over the last two years we’ve increased our gross margin by 25% in a declining industry. I didn’t think it could be done – if you’d asked me I would’ve said a lot of words – most of them four-lettered!” (CEO, seminar, Auckland Business School, Oct 8, 2003).

The CEO highlights two issues in this quotation: the hostile nature of the industry and consequent difficulty in realising adequate returns, and the magnitude of the strategic achievement over the period.

6a.4 Attribution of value posture

Evidence presented in the Chapter supports attribution of a Relational rather than Transactional, Wider Network or Systemic value posture. The firm is a for-profit rather than non-profit or governmental organisation, therefore attribution of a Systemic approach to value is not appropriate. A Relational rather than Transactional or Wider Network approach is appropriate for a number of reasons. Firstly, the firm clearly operates in business-to-business rather than business-to-consumer markets, excluding the Transactional or Hybrid posture. Secondly, while strategic aspirations are towards value appropriation and competitive advantage, value creation for the customer is a focus of the firm’s activities:

CEO: ... the value shift is to helping [customers] market themselves and add value to their customer with these products. CEO [01,122]

PM: ... we’ve actually created value by producing the document in their path, and all of the standard drawings in there as well. Product manager, 02,172

BDM: ... what [customers are] looking for is someone to get on with the job and solve their production problems [and that means] we’re going to be more significant player in their business than if we’re just a bare-bones component supplier. Business development manager [4,216]

BDM: [Customers] appreciate people that understand their business. Business development manager [8,371]

Thirdly, it has a customer and partner-centric orientation, with acknowledgement of cross-functional interactions and processes;

B: ... the value that we’re offering has moved in recent times For a long time we’ve built our effort on if you like transactional value and project value. They’re still relevant, but we’ve added to that now ... Now what we’re doing is focusing on larger customers, and the value that we offer of course is still within the transactions and the projects, but now it’s a lot more based on relationship value and managing and developing value in relationships. Managing director

[10, 37-39]

CEO: ... This is what we want customers to think ... that we're focused on developing key relationships ... We're specialist in the provision of customer solutions. CEO [16,386]

Time horizon can be inferred to be medium rather than short term, as relationship and solutions development are intrinsically longer rather than shorter term in nature.

Knowledge is an important theme:

CEO: We're trying to get the specialist knowledge it's incredibly important, trying to get the right knowledge teams so that they can fit into the virtual customer teams ... 1,293

CEO: ... we've put a university style course together ... We gave everybody the opportunity to do it ... the wonderful thing is the work that was done for our own training only has to be modified slightly to be of value for our customers ... so that they can transform their businesses like we've done ... CEO 1,352-354

NSM: ... you have to be up-skilling your staff and keeping them up with the play at all times. National service manager [3,71]

MFA: ... I would think that the people here would be in training ... a minimum of two weeks [to] a month a year ... we have one person pretty well full time, training people ... And every time a person goes you think of the investment that's walking out the door ... Manager, Finance & Administration [9, 28-42]

MD: ... we're speeding up the learning and the migration of the knowledge that we have in the business, and the new knowledge that we're bringing in ... we're upgrading our involvement in technology at the moment, as fast as we can. 10, 155

PM: ... we know how to transfer our knowledge to people ... it's knowledge which is the thing to me ... To my mind that's our core competency ... it's knowledge, if you had to pin it down to one single word, one single theme to me it's that. Product Manager [11,40-47]

CEO: ... As you get into complex products, you can't add value to the market or your channels without an incredible amount of knowledge. CEO, [16,348]

The quotations illustrate that key investments for the firm are relationships, and knowledge-based capabilities and competencies. The intersection of specific knowledge with customer relationships is a strong theme in the case.

With respect to performance measurement, when fieldwork began the firm was concerned primarily with survival, therefore emphasis was primarily on financial returns e.g.

CEO: ... the vision of the organisation starts with the word profitable ... The company has ... been unprofitable for too long ... we have to get the financial system in a position where we can

actually present that information to people. [16,156-164] ... we can jump outside the industry profitability index ... the problem is to create a profit-oriented culture, which because of our position in the supply chain means that we have to have a low cost attitude, which means highest performance for least amount of money invested. And it's not just the money, profitability comes from being efficient in managing funds, capital, stock and time.16,348

Towards the end of the information gathering phase there was evidence of attention to other measures of performance, e.g. customer and innovation measures:

CEO: We've got growth rates in thousands of percents across customers as a result of some of the relationship strategies that we've put in place ... [number] had signed relationship agreements ... [number] were involved in a heavy training programme ... The average growth across those companies was over [x] percent. The average growth in the new technologies that we took into those ... channels was just over [x] percent. CEO, [19,37-39]

While non-financial measures were not articulated specifically by the CEO, the Consultant implied use of measurement approaches that were not exclusively financial:

C: We need to articulate our value, we need to measure the value, and we need to review and agree the value ... we've put in place a value management process as part of their strategic channel agreement ... which includes the success measures of the relationship for both parties ... that is a way of defining the value of the relationship, they have to agree who and how that's going to be measured, and they have to meet quarterly to review the performance of the relationship. Consultant [15,169]

These relationship-based measures would differ from customer to customer, and would logically include attention to operational issues such as delivery standards (among other things) as well as financial measures.

Therefore, the predominant value posture for the case firm is strongly Relational. The Network posture is not considered an appropriate descriptor, as there is no evidence pointing towards a wider purview of an industry network or value system beyond immediate customer and partner relationships in the data.

6a.5 Chapter summary

The case firm is a business-to-business profit making concern, with a focus on customer relationships, knowledge, and cross-functional value delivery. It can therefore be characterised by a Relational (rather than Transactional, Transitional-Hybrid, Network or Systemic) value posture.

The journey from a the ‘clear air’ of the early 1980’s through the ‘5 year spiral of death’ in the late 1990’s and back again to a stable position again has been difficult. Decisions were taken with respect to taking a new strategic direction – new channel strategies, new customer approaches, new customers, new products, new personnel, new systems, new culture and new processes. At no time was a favourable outcome assured. At all times the focus was on a ‘value-based’ approach – i.e. the underlying motivation was creating increased shareholder value (for the family). The vehicle for creating this value was providing increased value for customers through the intersection of knowledge and relationships.

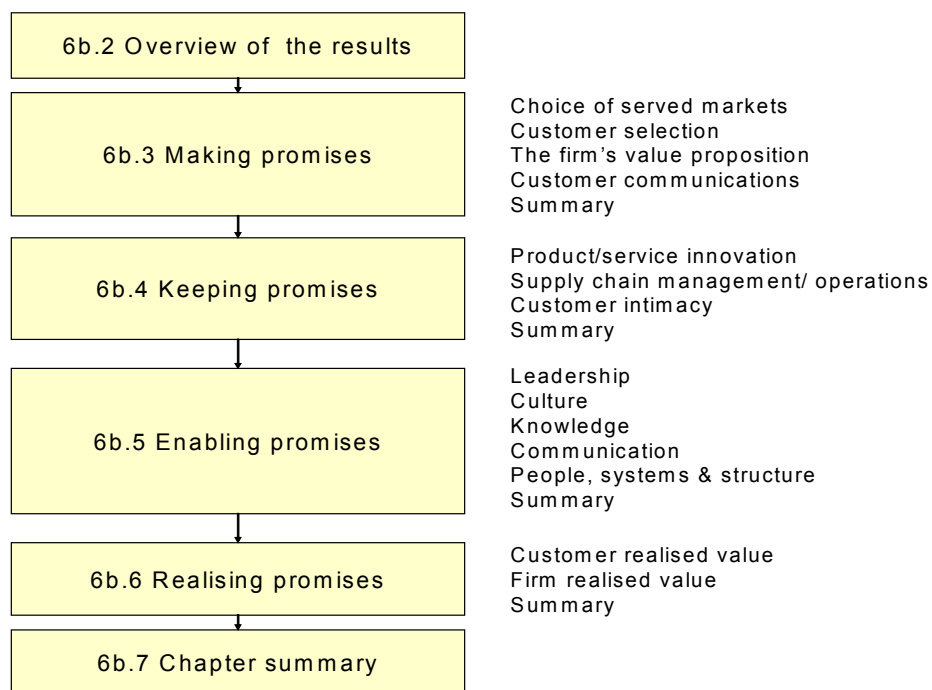
The thesis proceeds with an examination of the nature of the customer value development and delivery process, and the nature of changes in the firm’s thinking and implementation processes.

CHAPTER SIX (B):

RESULTS – STAGE THREE: CASE RESULTS

The previous chapter presented the nature and attributes of the case study firm, and its operating environment, establishing context for understanding the research results. Following on from this, Chapter Six (b) presents the results of the study relating to customer value development and delivery.

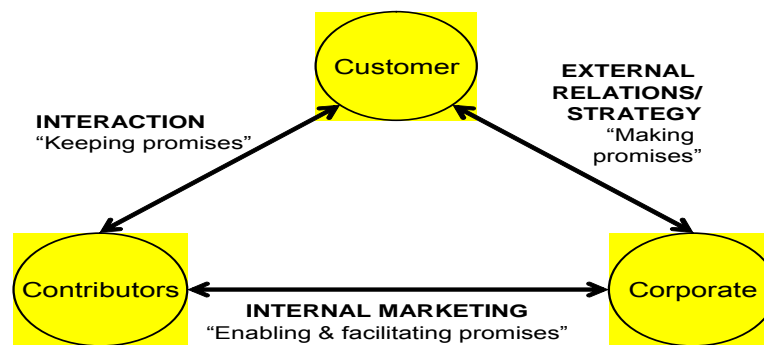
6b.1 Chapter outline



6b.2 Overview of the results

Results of the initial thematic analysis of the data (coded mechanically) are presented in Appendix C(v). Re-coding was then undertaken electronically, using NVivo software. Electronic coding built on the initial analysis, and identified further themes relating to customer value development and delivery. The coding framework used was an enhancement of the Gronroos (1996) new service vision model first presented in Chapter Two:

Figure 6.6: The New Service Vision (Source: Adapted from Gronroos, 1996)



This model was selected for two reasons. Firstly, it is derived from the relationship marketing literature, and thus has application to a firm exhibiting characteristics of the Relational value posture. Secondly, there was considerable resonance with the model with respect to the key themes emerging from the initial thematic coding and analysis process. The model highlights the inter-connectedness of a firm's activities, and can also be viewed as a triad - i.e. each of the three factors must be present and correct in order for the whole to be serviceable.

The three major entities or stakeholders identified by Gronroos are the customer, contributors (originally only employees, but widened in this adaptation of the model to include strategic partners such as channels and suppliers) and the corporation or firm (including factors such as leadership, communication, structures, systems and culture). As shown, each of these entities interacts to produce three over-arching value creation and delivery related actions or entities:

1. Making promises – strategy and strategising – or creating and enhancing intended value to customers;
2. Keeping promises – operations and implementation – or delivering actual value to customers;
3. Enabling promises – internal or organisational resources and attributes underlying the capabilities and competencies which facilitate the creation and delivery of value.

A fourth and final theme has been added in recognition of the desired outcomes of the customer value development and delivery process i.e. the contemporaneous creation (or destruction) of shareholder value:

4. Realising promises – results relating to the performance benefits to the firm and its customers of promises made, enabled and kept (leading on to the firm's share of the value created).

6b.3 Making promises

The 'making of promises' is defined here as the understanding of the strategic environment, the development of a customer value offer, directed at a specific customer or market by the firm; and communication of that offer to customers.

Four major strategic themes emerged from the data: choice of served market, customer selection, resources employed and the value offer. These attributes are generally accepted as the substance of a firm's offer, or representation of value to the market (Aaker 2001). A fifth category, customer communication, also emerged from the thematic analysis. This encompassed data relating to the physical making of the promise i.e. communication of the offer.

6b.3.1 Choice of served markets

Two key themes emerged from the data in relation to choice of market for the focal firm: maintaining flexibility of market focus, and ensuring a fit between served market and firm's competencies.

6b.3.1.1 Flexibility of focus

Flexibility of focus is essential, as market scope is potentially very wide. End users for the firm's products and services are potentially every business and every household in New Zealand, either directly or indirectly. The market can be defined more narrowly in terms of the firm's product (or technology solution) focus:

MD: ...[we focus on electronic] networks. It's a little bit like a plumber, it doesn't matter whether you're dealing with a household or a grocery shop or a techno shop or what have you - the plumbing still works the same. And the electronic networks to some extent are like that as well. The commonality is in the technology of the media if you like, and I often make comments about plumbing and power, because people can envisage them so much more easily ... there's a lot of parallel between ... electronic networks [and] physical networks. Managing Director [10,

178]

The market can therefore be understood as the electronic networks market. The firm's products potentially touch every business in the New Zealand market using voice and/or data networks – an end user community that includes all businesses: from manufacturers to mining companies, from schools to supermarkets, and from architects to agribusinesses.

The firm's view of its markets has changed substantially. The firm traditionally viewed its markets as four market groups based on technology type: computer networks (or electronic equipment that is installed in buildings) telecommunications, process automation and OEM, reflecting a product-market approach to market definition. Customers of any size within each of these served markets were potentially targeted. The new perspective entails a focus on *customers* rather than markets, and *solutions* rather than products, acknowledging that one customer (i.e. a specific firm) can use many different types and varieties of electronic equipment, particularly if that customer is a sizeable business. A large manufacturer could conceivably have a need for process automation, telecommunications, computer networking and OEM equipment, providing opportunities and economies of scope. Therefore the change is from 'any customer' to 'large customers', and preferably to those requiring multiple solution types.

6b.3.1.2 Competency complementarity

The second issue in market selection was an appropriate fit with the firm's competencies. The following quotation captures the importance of a competency 'fit' in the telecommunications market:

CEO: We were playing too big. We hadn't found a view of an area of technology that we had a fit with, and our customers were happy that we fitted with ... it's taken us over two years to understand [and find] a natural fit just at the edge of the network, where we can play quite happily ... it took us a couple of years to find that natural place, in fact the market didn't exist a couple of years ago. CEO [1, 68 & 76]

As the CEO points out, the market evolved significantly over a relatively short period of time, creating a new niche. The firm identified this niche and created a position within that niche that was relevant and believable to customers. Customer credibility is clearly an issue in technology markets. Not only must the firm be competent in its

chosen market ‘space’, but must be *perceived* to be a competent and credible player by informed customers also fluent in those technologies.

Within these major markets, there are also opportunities in vertical markets where the firm’s competencies can be brought to bear:

SPM: ... because of the physical nature of what we do ... we see the implementation of the product we’re selling rather than being a box shifter which never gets to see the product installed ... You have to see how it’s being used, or misused! ... “Oh cripes I didn’t know it could be used for that!” Next minute you’ve got a whole marketing strategy and you’re pushing into that market ‘cos you can see there’s a niche and there’s a whole lot of dollars in there that you’ve never even thought of before ... they may have made up themselves and you borrow it and it becomes yours because no one’s doing it and they’ve jury rigged something to do something, and you just create a product out of it. Senior Product Manager [2,315-317]

This quotation demonstrates the power of the observational approach to understanding markets – spending a day in the life of your customer e.g. (Gouillart and Sturdivant 1994). By leveraging knowledge of in-situ usage, the firm is able to create further opportunities which can then be applied into other vertical markets.

Overall, the firm operates across all industry sectors, in specific market niches. These industries and markets can change rapidly and unpredictably over time. The important issues are matching the served market with the firm’s actual and perceived competencies, maintaining flexibility of served market focus – and within that, identifying and acquiring the right customers. This issue is now explored.

6b.3.2 Customer selection

CEO: It’s all about leverage. And the trick is to find the right partners. And there’s a sweet spot with anybody’s offering with a customer set. And if you can match up the sweet spots you often get more than the combination of those two together. One and one can equal four. And we’ve just got to find those right ones so that we can have multiple fours. CEO [19,57]

The quotation captures the CEO’s philosophy on customer selection. The firm was a relatively broad-based competitor for many years, endeavouring to serve all customers with a relatively narrow product assortment (cables and connectors). The new strategy featured two key customer-related aspects: customer-centrism or a customer intimate philosophy, and a focus strategy.

The adoption of a customer-centric philosophy was the starting point for the firm's change in orientation. The firm's view of the key aspects of customer centricism was articulated by the CEO in an internal presentation articulating four key points:

Figure 6.7: Customer intimacy – philosophy (source: CEO, internal document, 16 Dec 2003)

- **Organisation geared towards results for nurtured clients**
- **Culture that embraces specific tailored rather than general solutions**
- **Culture that fosters and thrives on lasting relationships**
- **Superb understanding of the customer's business**

These points are interpreted and expanded upon in Table 6.5 (overleaf):

Table 6.5: Characteristics of customer-centrism in the case firm

Characteristics	Explanation	Implications
Organisation geared towards results for nurtured clients		
Defined customer set	Understand, articulate and communicate attributes of appropriate customers, ensure only those customers are acquired and retained.	On-going customer research, evaluation and assessment in formal review process. Involvement of customer-facing employees in process, ensuring clear and frequent communication of results.
Closely managed/ 'nurtured' customers	Once acquired, establish close relationships with customers, with attention to monitoring, measuring and controlling inputs and outputs of interaction.	Frequent and meaningful customer interaction, formal monitoring, measuring and controlling systems and processes.
Organisation oriented towards the needs of those customers	Ensuring organisational attributes are compatible with customised approach to meeting customer needs, including culture, structure, resources, assets, skills, competencies and capabilities.	Effective leadership, identification and procurement of sufficient and appropriate physical, financial and human resources.
Results orientation for those customers	Attention to both process and outcomes: negotiating and agreeing outcomes and how these might be achieved and measured.	Creating culture of results, with implications for motivation and reward systems and internal communication.
Culture that embraces specific tailored c.f. general solutions		
Applications orientation i.e. applied technologies c.f. technologies alone	Attention to understanding current and emerging technologies, the general business environment, and how technologies impact on business processes.	On-going upgrading of general business and technical knowledge.
Culture that thrives on lasting relationships		
Long-term perspective / customer LTV view	Adapting organisational sensibilities and measurement systems to longitudinal c.f. 'snapshot' view of customers.	Shareholder/ management education, adaptation and/or reinvention of information systems people and processes.
Purposive pursuit of reciprocal customer relationships	Identifying compatible and appropriate customers, investigating and confirming 'fit', establishing processes for securing relationship.	Need for in-depth and detailed customer research, self-understanding, development of formal relationship acquisition, retention (and dissolution) protocol.
Superb understanding of the customer's business		
Substantial investment in developing strategic and operational view of selected customers' businesses	Resources (time, energy, dollars) budgeted for general and specific customer research, on both general business issues and business processes.	On-going involvement of both customer facing and support personnel in customer businesses. Once identified and selected, commitment to making the customer relationship work.

Source: Developed for this research

A customer-centric philosophy therefore has implications for performance measurement, product and knowledge landscape, recruitment and staff development, and customer service practice. Performance measurement would need to be geared

towards individual customers, based on a range of mutually agreed service delivery and strategic key performance indicators (KPI's). Product knowledge would need to be broadened, taking an applications rather than solely a technical perspective. General business knowledge would be required in addition to technical knowledge in order to achieve a helpful applications perspective. The requirement to interact with customers above a solely technical level has implications for the skill and knowledge set of staff – meaning human resource requirements change from an electronics engineer to an electronics engineer with general business skills and knowledge. When firms adopt a focus strategy, customer service policies and practice assume even greater importance, as service failures are highly exposed. The change in philosophy therefore had significant implications for the resource base of the firm, and for the level of investment required in people, knowledge and systems.

In tandem with the conscious change to a customer-centric rather than market-centric approach, the firm underwent a profound reorientation from a broad strategy to a focus strategy, as the CEO explains:

CEO: ... we set down this whole customer intimate approach ... [We] refined our scope from 200-300 key customers down to 20 or 30 really important ones and 70 account managed ... And that worked really well. [1,120-122] ... we did a second review last month ... and we're now down to 13 ... we've gone from 20 or 30 customers that are \$[x] thousand dollar customers plus to 13 that should be [x] million dollar customers plus. CEO [1,130-132]

A focus strategy requires firms to make significant trade-offs (Aaker 2001; Porter 1996) as the following quotation illustrates:

CEO: ... [we] knew we were going to lose the little people ... you know we had \$x million coming out of tiny little [customers], and we knew that no matter what we did we had no right to hold onto them ... CEO [1,109]

At the time, \$x million represented around 15% of the firm's total revenue. In the context of the '5 year spiral of death' discussed in the previous section, consciously rejecting a substantial revenue stream was a significant decision, impacting on the firm's cash flow and operations. These customers also represented part of the heritage of the business, representing a substantial change.

Thus, the firm's complementary strategic choices were a customer-centric approach, and focus on a selected group of nurtured customers. Selectivity was critical to the process of developing understanding of what constituted the 'right' customers:

CEO: ... our go-to-market model [is] very selective [and that's a very important word] channel partnerships, and directly to select customers in specific market segments. CEO [16,136]

The firm carefully selects two types of customers: channel partners, and direct customers. In a complex supply chain this is an important issue, as 'customers' can be multi-faceted. The consultant describes how the firm initially defined their customers:

C: ... as we got into the customer subject more, it turned out they were using the 'customer' label to mean customers or channels, under the fairly simplistic definition that anyone who buys something from us is a customer ... the problem with that definition is that it hides, from a value perspective, two totally different worlds ... The way you bring value to a channel is entirely different to the way you bring value to a customer. Consultant [15,66]

The consultant identified issues with the customer definition i.e. that a channel or wholesaler has different characteristics, needs and therefore value perspectives than a direct customer. The consultant offered alternative definitions:

C: ... I've worked hard at trying to get them to stop using the word customer generically, and use the expression 'customer' for when the person who is going to utilise and consume the products or services is buying directly from them, and the word 'channel' when someone's buying from [firm] to do something with it, to on-sell to someone else. Consultant [15,66]

The two different groups - 'sell to' and 'sell through' customers – were identified, and clarity developed. The CEO's comments underline the importance of correctly defining customer groups, and understanding the differences between these groups:

CEO: We're very much now a channel organisation. And a year ago that wasn't the same - that's a huge change for us ... If you want to sell directly, it's a different proposition. All of our competitors have confused the market, themselves and their channels by doing both. And New Zealand is too small ... You can't develop a strategic relationship with a customer - with a channel - when if it suits you you'll sell directly to their customers. You can't do it ... It is such an important definition. CEO [16,136-140]

The change in strategic orientation arising from the change in customer definition was profound. In the case of channels, the reorientation resolved channel conflict issues and provided economies of scale:

CEO: ... we address the channel conflict through the selective piece as well ... New Zealand's too small a market to be dealing with everybody ... to get the best leverage, to gain the biggest market share, it's better to have bigger channels ... A small number of large channels is a lot more sustainable [particularly as you're adding a lot of value], than a large number of small channels ... CEO [16,142-144]

Customer selectivity is a recurring theme in this case, in combination with leveraging returns from a small resource base. Intelligent implementation of this strategy was the next step:

BDM: [CEO] gave me instructions a year ago to find a way of selling more without costing us more. The only way to get more people is to do a partnership agreement with somebody who already has the people. Business Development Manager [08,22-24]

The BDM developed a partnership with a large electrical wholesaler, who has provided the firm with geographic coverage at less cost. Direct selling to many small customers has been exchanged for direct selling to one on-seller. The on-seller is better able to meet the needs of small customers, as it is nation-wide and has breadth and depth of inventory. This strategy created value for the customers, the wholesaler/channel partner, and for the firm. The customers benefit from a wide range at many convenient locations offering credit facilities, the wholesalers potentially gain a larger customer base and also greater 'share of customer' as existing customers (electrical contractors) purchase a wider range of products, and the firm exchanges many small customers for one large channel. The result is savings in administration, greater purchasing power as larger orders are placed, and potentially higher pull-through as end-users find using the firm's products more convenient.

In the case of direct customers, the selection process started with a simple sales value by customer analysis drawn from extant revenue data:

C: ... I said "do a distribution by value graph for the customers." And most people who have never done it get the shock of their lives, because what they find is that the curve looks like this [draws skewed distribution with small number of high value customers and long tail of low value customers] ... when you say "who are the strategic current customers?" ... you go "Holy hell!" The Pareto principle of it all sort of leaps at you ... Consultant [15,116]

The expected result of this analysis is that a very small number of customers (20% or less) account for a large amount (80% or more) of revenue, as the consultant intimates. This relates to the Pareto principle, which is pervasive in most organisations (Whitwell et al. 2003). This principle was captured and internalised by the firm, and existing key customers identified and tested against the desired definition of a key customer. The CEO outlines his definition of his ideal customer:

CEO: ... our ideal customer model is large spend, inability to source direct, or the desire not to, highly complex requirements, and sees the knowledge we have as being useful ... [1,138-140] ... you've got to look at their market exposure, you've got to look at their sales capabilities, look at

the management, their skills, got to look at their history of being aggressive in terms of going to market. We also look for a consultative selling technique ... we look for things that bring competence as well when you join two organisations together ... [19,205-208]

A number of important attributes are highlighted in the quotation - scale (or large spend), clarity in business definition and strategy, ability to evaluate and work with partners. As the CEO points out, these attributes are unlikely to be resident in smaller organisations:

CEO: ... Loyalty with small organisations is very expensive to build and maintain. They come, they go, they die, they change direction ... they don't pay you, they don't have a lot of business acumen, the value has as much longevity as the next large project ... we've spent so long building a valuable organisation that we're wasted on the organisations that don't understand [what we have to offer].CEO [16,146-150]

Clearly, in order to develop a view of what customers value, and to create and deliver this value, both customer and supplier are required to value that value – that is, to understand and appreciate the nature and implications of what is being offered. The CEO considers that the ability to do this is not equally distributed, that is, larger organisations are more usefully aware of the relative value of various offers. This has a resource-related implication: larger organisations have more insight into relative value offerings.

As we have seen, an effective customer evaluation process is crucial in the context of a focus strategy. However, undertaking such an evaluation is demanding, requiring a sophisticated skill set – from the general (i.e. business and strategic soundness of the customer) to the specific (i.e. matching needs with the firm's ability to meet these needs). As the CEO points out, the rewards of getting this right (or achieving partnership synergies) are notionally significant, but notoriously difficult to achieve:

CEO: we've chosen a path to leverage some of our knowledge, choosing ... organisations that work in some of those areas and help them to develop them, which is really valuable for them, but not as valuable for us ... we need to find intelligent partners that are capable of doing something with [our ability to provide the business opportunities] that go with emerging technologies or be a lot more restricted who we do and don't do business with. When somebody takes it and doesn't do anything with it, it's an incredible waste of time ... We're not a Red Cross for the business community [haha]! CEO [19,202-208]

investment is embedded in identifying appropriate firms, and in jointly developing the value offer. With a limited resource base and in a time-sensitive context, the

opportunity cost of working with the wrong customers is significant. Complicating this factor, customer selection is dynamic rather than static:

MD: ... you actually grow through customers ... A customer can be too big or grow out for you in such a way that you can't add value to them ... sometimes our customers get big enough they work in ways that we can't add growth value for them, at which point we become just a commodity provider, and at that point we're not providing value to them or to us. And it's best for us to go our separate ways. And we realise that there's ... a size of customer where our value delivery is not optimised. Managing Director [10,69]

The strategic and operational implications of a selective customer base are complex, as we have seen. Customer selection and retention requires a flexible approach, implying on-going (and non-partisan) review of the customer set. An account manager – who is closest to the customer and therefore unlikely to detect subtle shifts in the value equation – is unlikely to be able to undertake such a review. The on-going review process is important, however, as the value offered, delivered and received changes over time. As the Managing Director indicates, the size of the customer's business is a crucial factor to the firm's ability to create and deliver value.

A further point here is that the significant financial, physical and emotional investment in customers required of a customer intimate strategy militates against relationship dissolution. Unless the investment is viewed as a sunk cost⁴¹ relationship dissolution is unlikely to occur unless initiated by the customer. Customer investment can therefore be viewed as a switching barrier, and may be an explanation for difficulties in rationalising or changing the customer mix over time.

Once the attributes of the 'right' customers and channels were understood, defined, and identified, the next steps were to translate the steps taken in acquisition into a formal process:

CEO: ... at some point you've got to turn [acquisition activities] into a process, otherwise it gets forgotten, it gets lost, and you've got to measure it and see that you've financial results ... All of the key relationships we developed were the result of ... a three-four step process ... It was like a mating ritual you know where you've got to go through the different stages, to get to the point where you're going to enter into a relationship. And you could almost predict what was going to happen next, and how much you talk about at one particular time because of the

⁴¹ Past or sunk costs are not relevant to decisions about the future, as these costs have already been incurred Sizer, John (1985), *An insight into management accounting*. Auckland, New Zealand: Penguin.

kind of reaction you're going to get from people ... In business relationship management the actual value proposition varies from organisation to organisation. But how you go about it and how you go about communicating, the style of that, the language, all of those things are common. CEO [19,105-111]

Here the CEO highlights the effect of the experience curve: proficiency in cementing relationships increases as more relationships are negotiated and entered into. Clearly, while the content will differ between customers, there is a common process of relationship value negotiation. The idea of developing documentation around this process and formalising the steps so that measurement and evaluation can take place is important to achieving value from relationship development activity.

Intrinsic in relationship building activity is the developing understanding about what customers value - an electrical wholesaler will clearly value a different set of benefits to a manufacturing firm. However, there are some commonalities, hinted at in the preceding quotation, and articulated by the consultant in the following quotation:

C: A lot of CEO's would say that if they could have their 'druthers', what they'd really like to have is a strategic partner who's a financial advisor [e.g. a bank], a strategic partner who's a business consulting organisation, a strategic IT partner and a strategic xyz. They'd really like to have a small collection that between them were like an extended member of their executive team. Consultant [15,155]

A trusted strategic partner is clearly of value to a CEO – regardless of organisation. This is the 'joint discovery' model, whereby the firm's potential offer is developed and communicated, and re-engineered with the customer's input. Both firm and customer work together to develop an appropriate value package – neither supplier nor customer on their own being able to do this as successfully (Gouillart and Sturdivant 1994). In the process, an intimate relationship is established, creating significant switching costs i.e. competitive advantage for the supplier.

Overall, the change in strategy had significant implications for the way the firm viewed customers, and as a corollary, what those customers valued.

The resource implications were a requirement for a high degree of knowledge and skill on the part of managers – including general business know-how and knowledge specific to the technologies offered by the firm, and to the firm's on-seller and direct customers. The resource requirements implied by customer-centrism with respect to each customer implies a contingency element: such an approach may be unaffordable

for firms with a broad strategic orientation to the market (i.e. with many rather than few customers).

The thesis now proceeds with results related to the firm's offer, or value proposition.

6b.3.3 The firm's value proposition

V: Is a cable, a cable, a cable?

BDM: Yeah. Business Development Manager [12,496-7]

Three key themes emerged from the data with respect to the firm's offer. These were value orientation, the nature of the value proposition and a stratified approach to value.

6b.3.3.1 Value orientation

The first theme of value orientation reflected the change from a product orientation to a customer solutions orientation - important element of the firm's strategy. The resulting expansion of the product offering from relatively simple 'passive' products to more complex 'active' products⁴² created significant opportunities:

CEO: ... a lot of our customers bought an enormous amount of active equipment - we had no idea. I mean our whole vision was that we were a passive product supplier, this is the market we play in. But in the premise for example that passive market is about \$x million ... [while the] active market was between [two to four times that]. And a lot of the customers were the same ... CEO [1,122]

As the CEO points out, the solutions orientation supported the customer-centric or 'share of customer' perspective, and provided incremental revenue opportunities i.e. the opportunity to cross-sell and enhance existing relationships:

CEO: ... we've got an incredibly loyal customer ... they were delighted when we got into this business. We had potential with a lot of these customers to double and triple them, and jump outside what was a commodity market to add some value ... CEO [1,122]

The solutions approach also resulted in an expansion of the firm's perceived 'value landscape', from emphasis on products and technologies to a wider scope including knowledge, the customer, and the customer's customer:

CEO: ... the value adding for customers now has gone completely outside the product ... we

⁴² 'Passive' products are relatively simple and electro-mechanical in nature i.e. cables and connectors, while 'active' products are electronic and more complex, incorporating active semi-conductors and integrated circuits.

have customers where we do active and no passive, some we do passive and no active - it doesn't matter. The value shift is to help them market themselves and add value to their customers with these products ... if you package it up right, put the right proposals together you can always compete against the different product range, different price, different companies - just with the right solution. CEO [1,122]

Both firm and customer benefited from this approach – the customer gained value both directly and indirectly through their customers, and the firm through increased competitive advantage. The notion of the product being a component (rather than linchpin) of value adding activities is important, and complies with the notion of ‘service-isation’, or the input of knowledge and relationally-based value (Bradley 1998; Clarke III 2001; Flint et al. 1997; Knox et al. 2000).

While individual products assumed less importance under the solutions view, careful and constant management of the technology portfolio was essential, as the CEO points out:

CEO: ... [we] review our key market strategies monthly, ... we have a target set of customers and a target set of technologies to take to market, and we prioritise them ... if something [changes] ... then we move emphasis. ... any high priority technology will have its lifetime in the sun and another one will take its place. It's choosing which ones you're going to take a lead in the market with versus you can wait until it matures ... we decide on ones that we want to create a market presence with ... we do it in vertical markets with a select group of customers, we won't do it on a mass scale ... [because] we want those customers to get maximum value out of it ... we don't want everybody jumping on the bandwagon. So it's a constant refinement ... a constant transition with it, where's it's every month we say "is this still right?" CEO [1,402-3]

Responsiveness and flexibility are important in technology markets. The firm actively manages technology supply, and in so doing manages the market, and in so doing provides increased value through exclusivity to the customers chosen to lead with key technologies. The firm is able to do this through knowledge of the technologies (and particularly emerging technologies), and customer knowledge. Filtering and prioritisation is critical:

CEO: You need the prioritisation because there are not enough hours in the day, we're still a small company, we don't have the resources, we're under-funded ... so to get any benefits we've got to ... put things aside and say "this is very valuable, but we're not doing that until next year". [But] that ability to say "No, wait" is something we've only recently got good at. CEO [1,404-406]

With a small resource base and an immense landscape of rapidly changing technologies, having disciplines in place to select appropriate technologies and offer these to the right customers is critical to creating and delivering value.

A differentiated solution is desirable. However, differentiating products within that solution is also desirable, as the BDM points out with respect to a cable manufacturer:

BDM: “Why are you different to everybody else? What is it in your cable that makes you special?” That’s what we want to find out .. Yes it’s competitive, yes it’s technically correct, yes it’s the same as everybody else’s. Business Development Manager [12,496-7]

In the OEM market, which is commodity rather than solutions focused in a competitive marketplace, ‘me too’ products are an issue:

BDM: [Manager] produced this beautiful catalogue yesterday, “Look at this, look at all these lovely push buttons and all those micro switches and things”. “Yeah they’re nice, what am I supposed to do with them?” “You should be selling them.” “No ... there are seven other companies doing that now. Be clever - give me something that nobody else is doing and I’ll run with it, I’ll make you a fortune, but don’t ... line me up as a same as or me too. I’m not interested in me too products ... “ Business Development Manager [12,497]

Exclusive or differentiated products are assumed to provide higher returns than undifferentiated products. The implication is that exclusive supplier arrangements should be actively sought, with the objective of securing products that deliver significant points of difference – i.e. provide extra value that the firm can then pass on to its customers. As we have seen, this may be possible with respect to more complex items, however with others (such as cable) meaningful differentiation may not be possible.

Overall, two perspectives with respect to products and technologies emerged: ‘products do not matter’ (held by the CEO) and ‘products matter’ (held by lower level managers). In the former view, physical products are but one input into a customer solution: “*you can always compete against the different product range, different price, different companies - just with the right solution.*” CEO [1,122]. These findings highlight the importance of assets other than brands and physical products, providing a further dimension to the ‘key resources’ aspect of the Relational value posture. While exclusive access to key brands are seen by lower level managers to be important, in a small-market/ small-customer context this would result in vulnerability to the vicissitudes of international supply. The resource-based advantage therefore moves away from physical product and brands associated with physical product, to

intangible assets, specifically knowledge and customer relationships, which enables superior solution development.

6b.3.3.2 Value propositions

The second theme was the notion of value propositions:

CEO: Value propositions - what do we do? What value do we provide for customers that is unique, different, sustainable - all those wonderful things? CEO [16,118]

The top performing Account Manager gave an example of how different players in the supply chain are able to provide different levels and types of value – i.e. differing value propositions:

TAM: ...[customer needs are] dependent on ... the nature of the business that they are in. For example ... [telecommunications firm]. The structured cabling products [I'm supplying] are dependent upon their [telephone system] sales. ... because it's a large organisation and there's no internal planning ... their project manager gets notice at the last moment ... Circumstances like this, [he wants structured cabling products] immediately because it's a commodity item, there's no reason why they should come all the way over here to buy their parts. So ... that's how the electrical wholesalers, who are our biggest competition in this segment of the market, add value to [their customers - the] product will be always there, at the right price, whenever you want it, and my shop will always be around your company office. So that's their value proposition to the customer ..." you'll always find a product in our shop. Nine out of ten times we will never say no to you". Top Account Manager [14,23-24]

In this example, the telecommunications customer installs telephone systems at a number of sites around the city. The flow of work is (arguably) difficult to predict, meaning that location and timing of jobs is often unknown to the customer until the last minute. That means sourcing the right parts for the job quickly and conveniently is an important component of value. The product is seen as a commodity, and a means to an end. What *is* valued is availability of the right parts at the right time, at the right price and in the right place – a logistics requirement. As the Account Manager points out what is important is that “you’ll always find a product in our shop.” This is the value proposition of electrical wholesalers, predicated on the wholesalers’ resources – a large number of retail outlets offering wide distribution coverage. The firm has recognised this issue and has migrated these customers to channels, as outlined in the previous section. In other words it has changed its customer set and value proposition, and in so doing, has provided increased value for all parties.

Focus on a particular customer set is a precondition for implementing a strategy oriented to ‘value propositions’:

*CEO: ... we narrowed down the number of organisations we wanted to develop and focus our relationships with, refined the value proposition we gave to them, delivered on that ... we went narrow on the number of customers, we went broad on the amount of value. CEO [19,191]
[bold added]*

Based on this principle, the CEO prepared a presentation articulating the firm’s value proposition. An important aspect of this idea is that it is complementary to the idea of brand:

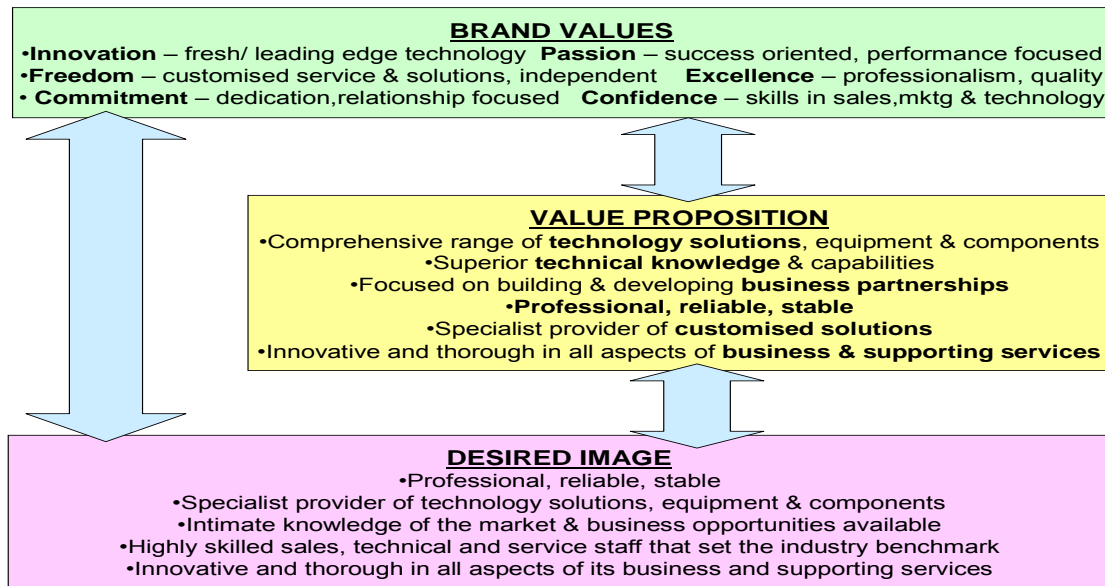
CEO: What does [focal firm] stand for in terms of brand, and value proposition? Brand for me is what you want people to think [we’re] about, what kind of organisation is it? Value propositions - what do we do? What value do we provide for customers that is unique, different, sustainable - all those wonderful things. CEO [16,118]

Brand or brand equity is thus associated with the traditional elements of awareness, image, perceived quality and loyalty (Aaker 2001); while the idea of a value proposition relates to the firm’s offer. The CEO enlarges on the elements of the firm’s value proposition:

CEO: So - value proposition ... these are the six main points - comprehensive range of solutions, equipment, components, that’s the breadth or wallet share piece, superior technical knowledge and capabilities. This is what we want customers to think - you know we’ve got a wide range, that we’re very good and competent from the technical point of view. That we’re focused on developing key relationships; professional, reliable, stable ... We’re specialists in the provision of customer solutions ... CEO [16,386]

The relationship of brand values, value proposition and desired image with the example of the focal firm is summarised in Figure 6.8 (overleaf):

Figure 6.8: Relationship between brand values and value proposition in focal firm (source: Adapted from internal presentation, CEO, December 2003)



As shown, there are strong linkages between brand values, the value proposition and the firm’s desired image. Promises to customers (i.e. the value proposition) are made in the context of brand values – the customer considers the promise in the light of their knowledge of the promisor. This knowledge is in turn a function of the firm’s brand building activities (i.e. marketing communications and received service experience). Desired image impacts on the nature of the value proposition made, and the process and content of brand building activities.

The new positioning statement builds on these foundations and summarises the firm’s aspirations to both itself and the market:

Figure 6.9: New positioning of focal firm (source: internal document, CEO, 16 December 2003)

Refreshing – Technology – Partnership

“A knowledgeable business partner that delivers a comprehensive range of technology solutions, equipment and components for communications networks and electronic systems.”

Customer relationships, technology solutions and knowledge are explicit in this promissory statement, while service delivery (or promise keeping) is again relatively implicit - encompassed in the wording “that delivers”.

Overall, the purpose of developing value propositions is to articulate unique, different and sustainable customer value to customers. It is contextual, and must be customised to specific customers in specific circumstances. The value proposition is inseparable

from the brand and the firm's brand values. Desired image expressed a desired future state, which may (or may not) be reinforced by current brand image and value proposition. Clearly, the objective should be to orchestrate brand values, value propositions and desired image so that each reinforces the other. The elements in the table would therefore represent a jumping off point for a tool for auditing promise or offer quality. In terms of the RBV, the firm's assets, skills, capabilities and competencies would be directed at creating and maintaining an orchestrated 'promise', or the delivered customer value articulated in the RBV meta-model developed at the conclusion of Chapter Two. This approach to developing and articulating value is appropriate to a firm with a relational value posture.

6b.3.3.3 Value stratification

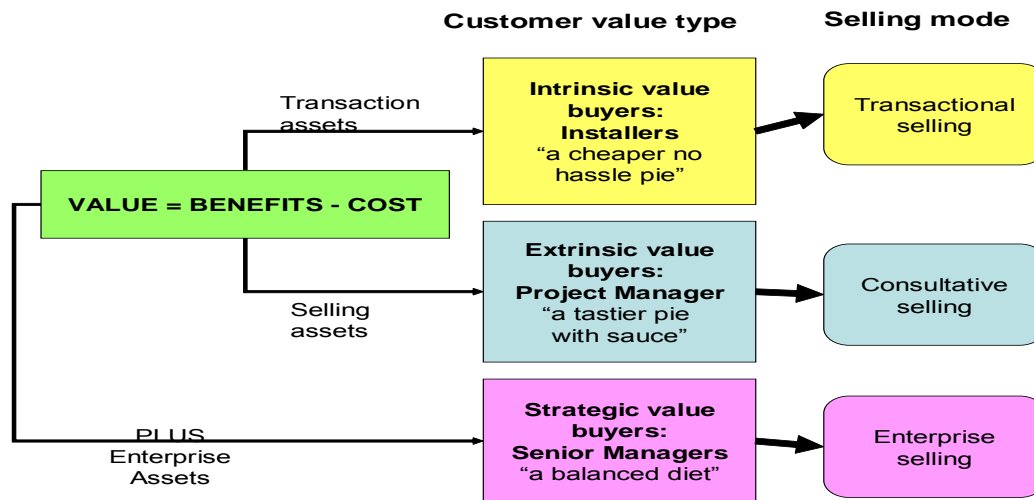
The third aspect of customer value creation and delivery with respect to the firm's offer is the notion of differential levels of value, related to differential levels of need on the part of the customer.

In business-to-business marketing, each customer (or firm) can be viewed as a discrete market. Various buying roles and 'layering' of marketing communications to various individuals within customer contact are established ideas in marketing theory (Stone 1992). The notion of differential levels of value is complementary to these ideas:

C: ... [There's a] useless expression that a lot of sales theorists use: "It's important to understand the customer's need". And it sounds quite intelligent, but it's so superficial it's not funny. Because it doesn't answer the question "which level of need are you looking at?" ... of course you need to know what the customer needs, I mean goodness gracious. To me that's like 101. Now the issue is, 'what expression of need am I going to hear?' Consultant [15, 70]

Expressions of need will differ depending on what motivates the expresser of that need, which in turn will depend on their buying role and level in the organisation. Individuals in non-customer facing functions (e.g. IT, HR and finance) will express different needs to customer-facing functions (e.g. sales and marketing, senior management). Customer value can be conceptualised at three levels: intrinsic, extrinsic and strategic (Rackham and De Vincentis 1999), depicted in Figure 6.10:

Figure 6.10: Three levels of customer value (adapted from Rackham & de Vincente, 1999)



At the intrinsic level, front line personnel (e.g. the installers in the top Account Manager's telephone exchange example cited previously) are interested in product attributes and in price. Their organisational role is to procure the right inputs at the lowest price. An appropriate response to these needs is the transactional model – i.e. limiting the resources expended by either organisation on the buying process – for example internet based ordering, or in the telecommunications example, calling in to a conveniently located wholesaler. Personal selling at this level wastes both customer and supplier resources. At the functional level the customer personnel change – they may be sales or technical people rather than purchasing people (e.g. the Project Manager in the example). At this point the knowledge and service offered by the supplier is valued, and therefore a consultative approach to selling is appropriate:

C: ... Level 1, which is basically the intrinsic level value. That's your price, functionality, reliability, all that stuff. And it is what 99% of selling is done on. [With] the other two levels ... the best way to uncover these sometimes as a sales person is to ask "Why? Why are you buying this, what is it that you're doing?" [For example] a level one expression of an opportunity could be: "We want to buy some hardware, we want to buy some software, we want to buy some training services, we want to buy some implementation advice, here's a list of things we're going to buy." And a good sales person might say "That's fine, I understand all those things, you've given me excellent RFP⁴³ that tells me all about the attributes of those things you're after, but why are you buying them?" ... "Oh I'm buying them because we're establishing a call centre", let's say. "Ah! Now ... if I know they're going to establish a call centre, then maybe I can offer value - outside of the products or services requested - to help them establish a

⁴³ RFP – Request for Product

successful call centre.” ... Secondly ... what I now need to do is interpret the value my organisation brings in terms of the success of the call centre. Because such things as risk, such things as certainty, now should be reflected in terms of impact on the call centre, not as attributes of the product or service. And suddenly what happens is the value perception has changed. If I asked someone who successfully bid against that request for products and services, “why did you pick them?” The answer will be because they had good products and services, based on functionality, price, reliability - whatever reasons. If I asked someone who’s establishing a call centre, “why did you pick these key strategic suppliers?” their answer’s going to be “because they will help me implement a more successful call centre”. You see how the value just shifted ... Consultant [15,78-82]

Thus, value is considered in at least two senses by the customer that may or may not be articulated – an expressed need and the underlying motivation for that need. Therefore, the supplier should look beyond product functionality towards the purpose to which the product is being used. In the above example, a call centre is a response to a business need (i.e. lowering transaction costs or providing faster customer information). Understanding business level or strategic needs is the next step – i.e. strategic level selling at senior management level.

C: ... the smart guy ... is going to say “Why are you doing that? Why are you establishing a call centre, what is it about the business that is driving you?” So what he’s after is what are the key business drivers for the business? And which of those drivers is this initiative addressing? ... Now how I can articulate the value I bring in terms of helping address the business driver and secondly, there may be things that I can bring of value outside what was in their minds. Consultant [15,98]

At the strategic level, buyers will be senior managers, who value organisational level inputs from suppliers i.e. inputs that will help their business grow. Product attributes are of little interest. Therefore a strategic level value offer presented via an enterprise selling model is appropriate, focusing on the customer’s business drivers rather than core or augmented product attributes. For example, the business goal in the case of a bank might be decreasing the cost per transaction, therefore a call centre might be an appropriate solution. This value-layering approach is summarised in Table 6.6:

Table 6.6: Three levels of customer value (adapted from Rackham, 1999)

	Front-line	Functional	Strategic
Typical key influencer roles	Front-line. Clerical/ administrative/ technicians (e.g. purchasing officers, installers)	Functional. Middle management (e.g. Design engineers, Project managers)	Leadership. Senior management (e.g. General managers, CEO's, Board members)
Perspective	Products, commodities, features.	Solutions, benefits, buyer-seller dyad.	Growth, whole firm or enterprise level, networks.
Focus	Products. Price. Convenience.	Solutions. New value. Additional benefits.	Competencies. Joint discovery. Relationships.
Customer needs	Efficiency: Lessen cost and effort of acquisition.	Effectiveness: Solutions, applications. Advice, customisation. Lower cost of ownership.	Business growth. Strategic success.
Assets employed	Transaction assets (e.g. website, call centre)	Sales assets (e.g. account managers, technical support)	Enterprise assets (e.g. systems, knowledge, processes, relationships)
Selling approach	Transactional. Strip costs.	Consultative. Mutual investment of time & effort. Create new value.	Enterprise. High level. Leverage supplier assets. Create extraordinary value.
Supplier benefits	Lower selling costs.	Higher margins.	Business growth.

Using the telecommunications company referred to previously as an example, we can apply these three notions of value. At the *front-line level*, telephone system installers view the product (structured cabling) as a commodity. Value to them is ready availability, at a low price – they want to drive to a handy electrical wholesaler and load the cabling into their vans immediately. Service failure in this instance is lack of stock, excessive distance between the job and the wholesaler or uncompetitive pricing. Parties involved are the installer buying over the counter from a counter person. While the installer is the buyer, she may not be the decider – this decision may have been directed by the Project Manager (or at a more senior level). The installer may therefore be purchasing as directed by other parties in the buying decision.

At the *functional level*, the Project Manager also values these product attributes. However, she also values the technical advice supplied by the focal firm – particularly when the Account Manager is able to lessen the cost of ownership by providing product tailored to the business needs of the customer or customer's customers i.e. that offers a longer service life or less maintenance costs. Even though the cost per metre may be higher the cost of ownership may be lower. For such products and advice the Project Manager is prepared to pay a premium (*ceteris paribus*). Thus,

while the Project Manager is alert to the needs of the installers, other considerations may influence the product choice decision the installers are directed to make.

At the *strategic level*, all parties remain aware of efficiency and effectiveness issues relating to front-line and functional level value, as these have a direct impact on the cost structure of their business. However, at strategic level top management are concerned with the need to grow their business, and are more likely to be interested in resources required per installation or the long-term cash flows arising from each installation i.e. the costs and benefits provided to their customers and their share of the value generated from *their* customer relationships. The key issue here is the ability to partner with customers and to form a strategic relationship that enables each to achieve business growth.

An example of strategic level selling is offered by the CEO, who explains how another business established such a value relationship with a customer:

CEO: ... I had a meeting with [CEO of telecommunications supplier] just a couple of months back. And the relationship that [supplier] created with [telecommunications customer] was a first for [supplier] around the world. They flew [customer] and other XL people to France to Paris to sign the agreement, in front of the senior management from [supplier ... CEO]'s had pretty much every analyst company - McKinsey come to interview him about relationships that he's created with [customer] and the building of it etc. And there are some pretty strong fundamentals to what he did! He concentrated on when they were going through the development phase of what his proposal was to [customer] vs. all the other players that were in competition for this contract. He concentrated on what outcomes [customer] were looking for out of the relationship. Very simple! He built a value proposition around outcomes [customer] were looking for. CEO, 2003 [19,111-113]

The focal firm has adopted this approach, in the expectation that greater mutual value will be created with customers and channels. Significant return is expected from the investment in high level or strategic relationships:

CEO: ... [CEO of telecommunications supplier] said that "People underestimate the power of [business] relationships." ... the amount of business coming in uncontested because of the relationship was phenomenal. And I've seen it myself with the growth that we've had. You agree at senior level to do business together, because the two organisations are going to get some benefit out of it, and a whole lot of things happen naturally because of that. Most relationships aren't created without difficulty, they aren't created without negotiation, and that's a really complex dance. And you need to have experienced it, and there is some process in all of that chaos, but it is really difficult. Very few people are capable of doing it. CEO [19,131-135]

Senior level selling is a powerful approach, and benefits to both parties can be substantial. However, both parties need to select partners carefully, and be prepared to invest time and energy in establishing the relationship. The process is difficult and protracted, and requires significant personal and business competencies on the part of individuals involved. However, the returns are seen by this CEO to be worth the effort.

Overall, three key ideas supported customer value creation and delivery (and commensurate rewards for the firm): offering solutions rather than products, developing tailored value propositions, and adopting a layered strategic selling approach designed to deliver the types and levels of value sought by different types of customers at various levels in organisations.

6b.3.4 Customer communication

Three major points emerged from the data with respect to customer communication and the creation and delivery of customer value: identification of key audiences, effective articulation of the value created (i.e. the value proposition), and provision of an appropriate brand context for the value proposition. All of these points fall within the ambit of effective communications practice (Varey 2002a).

6b.3.4.1 Identification of key audiences

Identification of key audiences is critical. The focal businesses' customer audiences are intermediaries (i.e. re-sellers), direct business customers and the customers of these customers. Additionally, indirect customers and end-user markets are strong influencers of the product specification, for example design engineers and installers:

CEO: ... we had to win hearts and minds essentially of the end-user community, so we actually had to win jobs, and control those jobs, get the specification written so our gear was specified in with the end-users ... CEO [1,104]

Influencing these markets is therefore important.

6b.3.4.2 Effective articulation of value

Aligned to audience identification is the effective articulation of the value created. The CEO viewed this capability as both crucial and difficult to achieve, both with respect to customers and internally. With respect to customers:

CEO: [large Telco has] no idea how to sell and I guess position themselves and tell people what

it is they're actually offering ... [another large Telco] are actually very good at wrapping up something technical into people talk they're very good at marketing the technologies they've got ...

V: So you see that as a very important ... I guess competency isn't it - managing the interface between the technology and the customer, it's almost a translation competency. Do you think you've got it here?

CEO: Getting there - yeah, you can get 'skiteful' - it's one of the things that we've ended up doing relatively well ... [1,77-85]

In this firm the appropriate form of customer communication is dialogue between partners in a relationship, developing understanding of complex systems and the benefits those systems bring to customers. While the CEO considers his firm to be competent in the area of “wrapping up something technical into people talk” the skills are not evenly distributed:

CEO: [Managing Director understands] the whole value piece far more than most people do. Particularly in the sales process having to communicate the value proposition, it's just core to everything he does, he's so good at trying to get to that. And it's so hard to find. Even people that go all the way through university training still forget the fundamental proposition. It's so hard to meet product-marketing people that can be given something and pick out of it what's relevant for either our customer base for the market and say “this is the value proposition and this is the product proposition.” ... CEO [19,97]

The Managing Director considers this skill to be business ‘fundamentals’:

MD: ... people are seeking what they want of value for themselves, from the organisation, from their families, whatever ... To me that's what systems are all about, is helping people do those things ... what I come back to is the argument that these things form the basic principles, and to me the basic principle is very basic. I mean it's so basic nobody wants to go there ... the very fundamentals, you know the human drivers, the human needs ... what they're trying to do, the frustrations they're trying to avoid and the time they're trying to save, and making things predictable. So you think you're getting this -first of all you have to understand that you want it and that you're going to get it, and then you do get it and it all follows pretty quickly. And that's really what the basic service structure is about, helping people get an expectation and then delivering on it ...It's so simple! Managing Director, [10,536-540]

His starting point with customers is ‘basic human needs’ – the core requirements of the customer - which he points out are usually ignored. From this point he helps the customer develop an expectation, then manages that expectation. His ability to communicate complex ideas in simple terms is an important skill. The CEO and Managing Director appear to be able to translate technical information into a value

proposition and a product proposition relevant to the customer at each level. These internal competencies assist the focal firm to communicate value.

6b.3.4.3 Alignment of brand values

The third important aspect of customer communications is the articulation of brand values. This provides context for the firm's value creation and delivery activities in several ways. Firstly it supports external effort, by providing consonance between what is offered to customers and their perception of who is making the offer. Incorrect alignment is likely to have negative consequences, as the following quotation indicates:

DGM: ... the perception of [firm] out in the marketplace and my perception of [firm] was that they do cables and connectors. They do building cables and all that sort of stuff. [13,7] ... they're good, solid ... not really an integral part of our business, they're not really a business partner ... If somebody from [high profile customer] said "Oh we've just entered into a strategic partnership with [focal firm]" [the response would be] "Well - so what? You know, you can buy cable anywhere!" Divisional General Manager, [13,145]

Thus, if the context for customer value creation and delivery is incorrect, then activities are likely to be less effective. Secondly, clear articulation of brand values and position is useful internally, as a means to developing understanding of the firm's offer, and communicating this across the team. Thirdly, the *process* of developing and positioning the brand values is integral to value creation, as it underpins the leader's understanding of what the organisation stands for, and what it is trying to achieve. In the focal firm, even with the CEO's background in the design industry, this process of developing three words and six points⁴⁴ was arduous:

CEO: ... it's taken me three years. There's bits in this that haven't changed that I thought of three years ago, but pulling them all together has been a bitch of a job! [16,390]

Overall, customer value creation takes place in the context of the brand's image and positioning. It is therefore important that there is internal and external consistency. As the CEO points out, this is difficult to achieve. Under this umbrella, the articulation of value can take place, an important skill in industrial firms is the ability of translating technical products into 'people-speak' – understanding basic human needs and

⁴⁴ Value propositions: 1. comprehensive range of solutions, 2. superior technical knowledge and capabilities, 3. focus on developing key relationships, 4. professional, 5. reliable, 6. stable ... Positioning statement: Refreshing - Technology - Partnership.

translating this into deliverable customer expectations. Finally, all key audiences must be identified and appropriate representations made, including end users and indirect customers.

6b.3.5 Summary – Making promises

Promise making (or customer value creation) entails attention to decisions of which markets, which customers and which offer is to be made, together with the physical making of the promise i.e. customer communication. Business or marketing philosophy and strategy are the driving forces for these decisions.

In the focal firm, a customer-centric philosophy directed a focus strategy based on highly customised solutions. The focus strategy was a response to a limited resource base, a valuable offer and a highly competitive open market structure. The general approach was selectivity, and share of customer rather than market share. The delineation between channel partners and direct customers was an important insight. Business benefits were achieved by migrating numerous low value customers to few large channel partners.

To support a share of customer strategy, the firm took a solutions orientation and exercised its knowledge resources to include more complex equipment in its offer. A solutions orientation reduced pressures from commoditisation and shortening product life cycles, both of which had placed pressure on margins. Greater value was created for customers, enabled by a more holistic view of their business requirements, resulting in more likelihood of achieving preferred supplier status or customer loyalty.

The offer was articulated to customers in the form of ‘value propositions’, or definitions of unique, important and sustainable value. More specific aspects of the value proposition (i.e. the product proposition) were jointly developed. Value was articulated, communicated and delivered to customers at three levels – strategic (top management – addressing business drivers and growth), functional (functional management – addressing cost of ownership, effectiveness, solutions, applications, customisation) and front-line (front line personnel – addressing performance, price, and efficiency).

Communicating the offer was a key part of customer value creation and delivery, both in terms of the actual customer communication and the work entailed in developing a view of what should be communicated. A key issue was the ability of sales people to

filter complex technical information by customer needs, and to help customers develop expectations of the firm's services. The value communicated was not the end result of a strategic process, rather, it was a co-creation process engaged in by both customer and firm. Thus, communication was a key part of the value co-creation process.

Five critical aspects were involved in the successful implementation of these strategic choices:

1. Operationalising a view of the 'right' customers (i.e. creating a key customer definition);
2. Articulating the firm's value propositions;
3. Use of the definition to identify and qualify key customer prospects;
4. Conversion of customer prospects into customers; and
5. Co-creating a view of what each of these customers valued.

Correct customer definition created strong delineation of strategy and effort between channel partners and direct customers, and ensuring a match between the firm's offer and the customer's ability to capitalise on that offer.

Customer value is therefore underpinned by knowledge and relationships. Knowledge supports selection of components and equipment, and transforms these raw materials into customised solutions (i.e. value for the customer that is co-created with the customer). The results indicate that the overlay of a specific value posture perspective highlights the nature and scope of resources appropriate to that value posture, supporting the RBV of the firm. In this case knowledge and relationship-based competencies underlie the activities of a firm characterised by a Relational value posture.

The next section of the thesis presents results relating to the firms actions in keeping promises (or delivering on the value propositions) made to customers.

6b.4 Keeping promises

C: ... what goes wrong in a lot of organisations, is you get very good sounding strategies ... but people wonder two or three years later why didn't it ever take place, and the answer is because no one actually implemented anything. Consultant [15,28].

In the sense of customer value, keeping promises (i.e. value delivery) is as important as making them (i.e. developing and communicating the firm's value proposition). Good strategic thinking is only as good as the firm's ability to operationalise that thinking appropriately, and then to take the appropriate actions (Aaker 2001). In this case, the CEO retained external consultants both to facilitate the strategic thinking process, and to implement the outputs of that process – a logical approach in an SME environment, where resources are scarce.

This section of the thesis examines the focal firm's promise-keeping activities. These activities are directed at delivering value to customers, are strongly process-based, and are related to operations and implementation. The section is organised according to the three key value creating and delivery processes of the firm highlighted in the literature review:

1. **Product/ service innovation** – applying unique knowledge, skills and other tangible resources to create meaningfully different customer solutions;
2. **Supply chain management/ operations** – ensuring maximum customer accessibility to the firm's solutions at least cost;
3. **Customer relationship building / customer intimacy** – profitably establishing, maintaining, enhancing (and when necessary terminating) customer and channel relationships.

6b.4.1 Product/service innovation

CEO: ... it's kind of funny, the value adding for customers now has gone completely outside the product ... The value shift is to helping [customers] market themselves and add value to their customers with these products. CEO [1,122]

Application of knowledge was the key theme relating to customer value delivery with respect to product and service innovation. The firm integrates knowledge and technology sets to create customer solutions. The interplay of resources, knowledge,

business opportunities, customer needs at various levels and the technology landscape produces customer solutions. As discussed previously, the case firm develops solutions (or its value propositions) in consultation with customers. overlap between consideration of which value propositions to make to customers and delivering that value was evident in this case, as value is co-created in consultation with the client. The result is a blending or integration of promise making and promise keeping, or a joint discovery and joint delivery approach (Gouillart and Sturdivant 1994). The firm matches technologies with a deep understanding of customer and end user businesses, then mutually develops solutions addressing networking and processing needs for those businesses.

As discussed previously, a solutions approach (i.e. focusing on customised bundles of technologies rather than individual products and their features and benefits) enables the firm to add value from multiple angles. The firm's skills and knowledge enable it to navigate this complex world. As a consequence of the new strategic direction initiated by the CEO, individuals within the firm are developing a broad understanding of 'technology', across a number of markets, a number of technology types (i.e. 'active' and 'passive' equipment), and from both a technical and applied perspective:

CEO: Because we'd spent all this time with end users understanding how to sell solutions even though they were passive, we did the same with active so we already had those skills ... we had some new people, got some training ... it becomes even more complex and more valuable for the end users ... CEO [1,122]

The solutions approach had already been adopted for the simpler (passive) technology product set, therefore expanding it to encompass the new more complex (active) product set was well within the organisation's capabilities.

Knowledge is drawn from a number of sources – the firm's specialist skills and knowledge, and also from practical industry experience. The combination of both enhances the firm's ability to deliver technology-related value:

SPM: ... Because we actually do go and visit [manufacturing and building] sites, we see the implementation of the product we're selling rather than being a box shifter which never gets to see the product installed ... You have to see how it's being used, or misused! Or ... or used in a way in which you've never seen it used before. Senior Product Manager [2,315-317]

The intelligent observation of customer behaviour provides the basis for new insights into product usage and customer needs – enhancing delivered value. Knowledge of

which technologies to support and how each will evolve is part of the firm's promise making activities, however, delivering on that knowledge is difficult:

NSM: ... we know where the market's going and we can predict where it's moving towards - it's just a matter of being able to place yourself in position to be able to be there when it happens. And that's quite hard. National Support Manager [3,223]

Understanding technology lifecycles (TLC's) and their impact on business opportunities enables the firm to evaluate the potential business impact for customers, assess the best point of inflexion and implement this in consultation with selected customers. Knowledge enables the firm to orchestrate the penetration rates of particular technologies into the market. This provides delivered customer value from exclusivity and timing (i.e. first mover advantage).

The intelligent application of knowledge in the New Zealand context is a key factor:

MD: ... a lot of the value that we provide comes from our knowledge of the technologies we work in and how to optimise their use, and the knowledge of people and source and how to do things in the world that's appropriate for New Zealand. There is a lot of optimising that goes on because the market is small, the sales are small - we're very small in relation to the rest of the world. And many of the products and the technologies are not developed for our size and style of market. Managing Director [10,69]

The ability to identify and orchestrate linkages between customers, business opportunities and appropriate technologies, and to create and sell appropriate solutions is thus based on deep and rich knowledge of the local and international markets, and the technology environment. In addition to this macro-level knowledge, micro-level understanding of multiple levels of customer needs (i.e. at front-line (efficiency), functional (effectiveness) and strategic (growth) level) is also required.

Knowledge resources, the intellectual capability of individuals within the firm based on talent, experience and qualifications, are crucial in this case. Knowledge links the resources of the firm to valuable outcomes for the customer; i.e. supports the keeping of promises or delivered value. Knowledge, knowledge transfer and knowledge enhancement are thus emerging as important topics in this case, and are addressed in the context of resources in the 'Enabling Promises' section of this chapter.

6b.4.2 Supply chain management/ operations

“ ... even though we think we’re a very large customer we’re just a pimple on a gnat’s backside ...” Logistics & Purchasing Manager [2,205-220].

Supply chain management (SCM), or operations, is arguably the most important component of customer value delivery (or service delivery). It is a complex process, entailing the management of the network of entities through which material and information flow, with the aim of achieving maximum customer accessibility at minimum cost. Outcomes are reliant on the firm’s capabilities in inventory management, logistics, sourcing, freighting, and financing. Unlike product innovation performance, with which the CEO was satisfied, SCM – or at least the systems and processes underlying SCM and effective service delivery - was considered unsatisfactory, as discussed previously. SCM was seen by the CEO to be an impediment to customer value delivery. This view is supported by the top performing Account Manager, who comments on the effects on his customers and on himself:

AM: ... [after] 20 years of existence I think [focal firm] still have a long way to go in terms of the actual service delivery that we do to the market ... very few customers would say that we are good at it... if I’ve got 10 companies that I am dealing with, at least one call a day will come in, to let us know that the products have not arrived or it was not stocked properly, blah, blah, blah. So those are things which are not acceptable for a company of this size ... Top Account Manager [14,10-14]

The motivation for this project was the CEO’s concerns with the firm’s ability to fulfil promises i.e. with the administrative or service delivery aspects of his organisation. He perceived this to be not only diminishing customer value but actively destroying it – i.e. ‘beating up customers’.

The order management cycle (OMC) framework discussed previously in Chapter Two of this thesis has been used to frame this section of the results.

The utility of the order management cycle framework in describing the firm’s practices became apparent over the course of the research process as one of the firm’s managers points out:

PM: ... it says “How can I fix my OMC?” ... if you were to read this you’d understand ... you’d think “Jesus, someone from [focal firm] must have written this!” I couldn’t believe it! Product Manager in Workshop 2 [17&18,363]

The order management cycle framework was used by the researcher to explain and summarise the issues in value delivery during both workshops, and on both occasions it had a high level of resonance.

Four aspects of the order management cycle relating to customer value delivery by the focal firm are now explored: offer development, order placement by customers, order response and customer evaluation of the response.

6b.4.2.1 OMC Activity 1: Offer development

AM: What if they wanted a cheeseburger not training?

PM: What about if they wanted training and not a cheeseburger? Account Manager & Product Manager in Workshop 2, [17&18 634-636]

The offer development stage of the order management cycle is crucial to both making and keeping promises. The firm creates the nexus between technology, business opportunities and the customer, as described in the previous section of this chapter. To summarise: the firm engages in pre-order planning, assessing available technologies and negotiating a match between the technologies and the customer set. It then engages in the sourcing, supplier relationship building, financing and procurement activities necessary to obtain this scarce internationally traded product. The firm then communicates the offer appropriately to various groups of customers, i.e. engages in the three-level strategic selling approach detailed in ‘Making Promises’.

All organisational members are involved in the ‘Offer development’ stage. Sales & marketing (including top management and customer service personnel) are in communication with customers, seeking to understand and negotiate value with selected partners at all three levels of value provision. Technical personnel (including top management) are in consultation with key suppliers, seeking to understand where technology developments are headed, and understand how this relates to business opportunities and customer needs. Finance is seeking to find funds to support present and future activities. Purchasing & logistics (and top management) are building supplier relationships, and negotiating to procure exclusive or superior product at least cost.

A sampling of some of the issues facing this firm at this end of the order management cycle are summarised in Table 6.7:

Table 6.7: Issues and challenges in the focal firm’s offer development processes

Issue	Background	Quotations	Result
IT system inadequacies	Source of past advantage Strategic change from component to solutions-based	CEO: ... statistician ... developed a lot of the statistical logic behind when and what we should and should not instruct the Purchasing Department to purchase ... [1,209] ... (but it's) built around component customers. So when you've got a solution package, we have to price components individually ... you have to work around the system (so customisation) is very, very difficult ... there's no way (to modify it) without moving it to a new platform. So we're stuck until we get that done. CEO [16,276-280]	Inability to customise pricing, inaccurate inventory information Unreliable, untimely & irrelevant information
Forecasting difficulties	Strategic surprises in market – unreliable customer demand Vs. Demanding customers wanting immediate delivery in full.	MFA: ... (the Account Managers) know customers are going to place the order (and) we've got to get the goods to them on time ... (so the goods) come in 3-4 months ahead of when the customers ordered and are sitting on the shelf and that means I have had to pay for them before we've even got the order from the customer ... eventually you get the order from the customer who takes 2-3 months to pay, so there's several months between buying the goods and getting the money out of the customer, and to try and balance the cash so you can cover that - you don't want too many customers doing it (and there's the risk that the customer may not) take it at all ... we're taking the risk for him and there's no commitment on his side ... It's a frustrating environment, very difficult to get around. Manager - Finance & Administration [9,175-177]	Excessive inventory holding costs Difficulties for cash flow management Inability to meet customer requirements
High supplier power	Exclusive supply agreements Low firm power owing to small market/ order size	SPM: ... (Logistics & Purchasing Manager's) favourite saying is: "We've got a store full of good ideas." ... without making sure of the market pull or awareness we get product in and see if we can try and sell it rather than actually seeing if there's a market prior to it ... because our hand is being forced by suppliers (who don't understand the NZ market)... Some of the product we have is useless and can't be sold and never could be sold in NZ because it's US specification products that we were probably forced into buying by our supplier. Senior Product Manager [2, 397-399]	Inventory holding costs Difficulties for cash flow management Inability to meet customer requirements

The analysis suggests that one of the key issues facing the firm at the offer development stage of the order management cycle is the tension between meeting customer demands in a timely manner and managing risk and cash flow. This in turn indicates conflict between the needs of customers and the firm. At the lowest or front-line level of value the customer purchases a product and the firm supplies that product. A zero sum game applies, whereby value gained by one party results in value lost by the other. Improved forecasting of demand is a reasonable response to managing this situation. However, customer demand is unpredictable:

LPM: ... lack of planning by the network group customers is just unbelievable ...it's hard to believe that people are putting up a telephone exchange and they don't know until tomorrow. Or the tender market that [Senior Product Manager] was touching on - the tender goes in, the tender is awarded and then the customer says "OK look installation has to be done by next Friday". So there's absolute immense pressure to perform for the customer. And so that explains why the rabbit has to come out of the hat, you have to do all sorts of things. Logistics & Purchasing Manager [2,202-204]

As the LPM points out, customers themselves are under immense pressure, and one result of this pressure is the inability of their front line people to communicate their requirements in a timely manner. As the LPM indicates, extraordinary effort is required to compensate for customer's inability to plan – or willingness to communicate their plans - in turn placing pressure on the firm's people and systems.

6b.4.2.2 OMC Activity 2: Customer places order

Customer purchasing personnel order through customer service or the Account Managers, in response to the offer. It is helpful to calibrate the firm's order management cycle in light of customer expectations:

MD: ... customers are much more critical of standards of performance ... they have many choices and ... are under a great deal of pressure, with the result that they're not forgiving. It's not that they don't want to be, but it's that they can't afford to be forgiving. And some of them are just downright irritable! [haha] ... Customers are unfriendly. It's not that they're not friendly people, but in a business sense they haven't got the time ... And everybody's looking for things that are very difficult to get. Managing Director [10, 55-57]

A fast-moving competitive environment places pressure on all players (customers and suppliers) to perform. As the quotations indicate, in the geographically remote New Zealand market small quantities of globally traded products are difficult to find, purchase and land in a timely manner. These pressures have a downstream impact on both front-line and support staff:

NSM: ... when [customers'] urgency is at a critical high point, they become unreasonable. You've been doing business with them for so long and all of a sudden you just become their worst enemy, and it's like "Hello! We've helped you out so many times and now that you've found that lack of foresight on your part, it's led to an emergency on ours that we're the ones to blame, we're the culprit." And then we go "[Purchasing officer] where is this? Why is it not here yet? The customer wanted it yesterday." "Would you leave me alone, would you piss off!" National Support Manager, Workshop 1 [6&7,424].

Thus, pressure on customers from their own customers results in 'unfriendly', and impatient treatment of the firm's front-line staff. Tolerance for service failure is low and alternative product readily available. Therefore the consequences of service failure are likely to be supplier switching. Internal morale (and hence internal service quality) is also affected as inter-functional understanding is stretched.

The pressure to reduce costs adds further pressure to the motivation for supplier switching:

C: ... one of the symptoms that you'll hear a company talk about [is]: we have an objective of decimating the number of suppliers we've got. Now go in and ask people "Why? Why are you doing that?" What you'll find is the cost of the procurement process is becoming prohibitive ... and that'd be a level one [intrinsic] explanation of it. Consultant, [15,44]

Thus, at front-line level, purchasing staff are under pressure to lower costs and risks of procurement – products are required quickly, reliably, and at low cost. Suppliers who do not perform – quickly – are under threat. Supplier switching is endemic - customers are not only demanding and difficult to please, but also disloyal, acting with a strong sense of self-interest:

SPM: ... if you write the [tender] document and give it to the end-user, you've lost the ball. You have to control the aircraft all the way on to the deck, all the way up to the gang plank, until it's stopped and all the passengers have got off. If you actually write the document which is the aeroplane, it's in the air, it's landed on the deck, if you go "Oh excellent" and walk away, they'll all of a sudden go and substitute a product that's on the tarmac [haha ... they] substitute products because they're looking for more margin, more profit out of the job ... So if they can make more money out of the sale their profitability goes up therefore their long term survival. Senior Product Manager [2,285-287]

NPM: ... [customer] might be a large manufacturing plant somewhere, who will come to us and use our services and technical knowledge to find out what the part numbers and prices and everything are, take it right up to the point of sale, and then the sale goes to one of the wholesalers down the road ... we do all of the ground work ... we put all our knowledge and all of our technical help into it, and then they take it and order it from another company. National Support Manager [3,175].

BDM: ... it is a commodity market, and we have to handle it as that. And like any other commodity, they'll shop around. And if we happen to have it available when they want it at the price they want it then we'll get the business. But if we don't have it on the shelf then they'll say "thank you I'll find someone who does." Business Development Manager [4,280]

As all three managers point out, despite the firm's best efforts, lower priced competitor products can and will be substituted, characteristic of a commodity market. In addition to disloyalty and competitive switching, customers are proactive on sourcing of electronic equipment, meaning disintermediation is a major threat:

LPM: ... customers are looking for things that are more on time, in full on time, so there's no partial deliveries, they want things cheaper all the time, it's a cut throat market out there in the rest of the field, there is no restraint from some of our customers importing the items themselves unless they're proprietary items for us. Logistics & Purchasing Manager [2,374]

BDM: ... the larger companies who prefer to deal direct with the suppliers themselves ... have

components engineers, or even their design engineers who spend a lot of time on the net looking for sources .. Business Development Manager [4,32-36]

NSM: some of our customers have [bought direct] in the past. We'll ask [cable supplier] for a price on a huge amount of cable, and they'll give us a price, only to find out they've actually quoted direct to that customer themselves, and they've got the job anyway, it was in the bag, and the reason why it was in the bag, was because some guy went out with some guy for lunch three months earlier, the decision was already made but they legally have to go through the motions to make it a proper tendering process, even though it was in the bag to start with. It's a dog eat dog world. National Support Manager [3,479]

The environment is clearly hostile and hyper-competitive. This is typical of mature markets, and commodity products (Aaker 2001). In this situation supply performance becomes irrelevant - customers switch to lower-priced alternatives or direct sourcing regardless of supplier delivery performance. A perfectly configured order management cycle cannot compensate for these embedded strategic-level issues (Porter 1996) – excellent operational performance is a necessary but not sufficient condition.

Seemingly, this is an impossible situation – commoditisation, disintermediation, supplier reduction, disloyalty, impatience, unpredictable demand. However, the pressure to supply faster, cheaper, better applies at the front-line (or Level One) point of operations – at other levels in customer organisations, other motivations might apply:

C: Frequently in behind [the asserted motivation to reduce supplier numbers] is, “we want to do business with someone that is going to help us improve our business” ... there's a latent thirst, that they don't just want someone arriving at the end, pushing products through the door. They want someone to help them think through, what should they be doing and therefore what products should they buy. So there is a natural pressure coming the other way in some of the large corporates. Consultant, [15,44]

Thus, the change in value orientation to a stratified (or three-level) view, and pursuing business at the functional and strategic level is a sensible response. With this in mind the CEO reviews his firm's performance realistically:

CEO: ... with the amount of value we're offering at the front end we can afford to drop the ball a little bit. But that's no excuse. CEO [19,289]

The three-level perspective of value is useful in this context – customers at the level one or front-line level are clearly demanding – to configure a system to meet all of their needs every time would result in untenably high costs. However, slack in the

system provided from operating at a higher level (functional or strategic level) cannot compensate for poor performance at the front-line level:

AM: ... service delivery becomes a very critical factor because when you're getting this amount of business from a company, you are no longer talking to just a few people in that organisation. You are now forced to deal with different levels within the organisation, and some of the levels within the organisation will not understand that growth in business is where we get the value for the business. "Okay that's fine, but where is the product now and what are you doing about it?" Top Account Manager [14,20].

Clearly, attention to functional and strategic issues (solutions and business growth) is a counter to the strategic pressures facing customers – however, these promises must still be kept at the operational or day-to-day level.

6b.4.2.3 OMC Activity 3: Firm responds to order

At the philosophical level the individuals at all levels within the firm recognise that effective service delivery or SCM is important:

MD: ... [customers will] recognise service when they get it. Because disappointment occurs when you've got a failure of expectation, an expectation is not met. The expectation may be fallacious in the first place. And this to me is where you start to get really crunchy about "What is service?" and "What is bad service" and "What is good service, and what does it look like?" And it's aboutManaging expectations and managing the failure of expectations ... And the biggest opportunity for exceptional service is managing failed expectations ... And you realise when you get the management of failure right, that's when your service looks the highest. Managing Director [10, 546-558].

Theoretically, therefore, customer service should be excellent. The Managing Director talks here about managing customer expectations, defining service, and service recovery. The Logistics & Purchasing manager is also aware of the impact of service failure:

LPM: ... we're working very hard at the customer satisfaction, relationships, because it's the key from a sales point of view ... [the] account managers ... can go out and sell their hearts out, and they can come inside and we cannot put the order in the computer. Or we could put it in twice. Or they could ask for a black tape recorder and we could send them a white video. We can do silly thing like that, and that just ... all of the hard work outside can be destroyed by inattention, incompetence inside. Logistics & Purchasing Manager [2,342].

However, despite awareness of the issues among the managers responsible for service delivery, front-line managers do not consider the firm delivers. Account Managers

feel compelled to leave their order-generating roles and take on an order-fulfilment role:

AM: ... when a call comes to me, obviously I leave everything and I tend to my customer [and if] they realise that they're getting better service out of me than the people who are actually supposed to do that work, what happens? They start putting the calls to me, then I get bogged down. Top Account Manager [14,117].

SPM: ... yesterday I took some stuff in my car, and drove across town and dropped it off to a customer. Senior Product Manager at Workshop 1 [6&7,351].

The managers have coined a term for this compensation for system failure - 'pizza delivery':

AM: ... one of my colleagues he has been called a pizza delivery fellow ... why has he got the nickname of pizza delivery boy? He is an account manager. Why? Because he is being forced to deliver items on his own, so he has to basically go into the store, pick the goods up and deliver to the customer on time ..." if the customer [is] not getting those items on time, what do I do? If my people who are supporting me are not capable of delivering it ..." The only thing that can be done is he picks the goods up and puts it in his own car and drives to town. Top Account Manager [14,20]

The customer-facing members of the organisation are conscious of the implications for their future sales of this service failure, and this motivates a reactive approach:

V: ... if your target is 70-80% of their business, then [the customer becomes] more reliant on [firm] so I guess the stakes go up ... So if there's that failure in service ...

AM: Yes, it becomes a critical factor ... because if it happens three or four times, the fifth time they probably will not call you, and it takes ... a big dip in the business figures for you to realise that something has gone wrong ... Top Account Manager [14, 25-32].

BDM: [Competitor] has actually stolen one of my biggest customers, with an inferior product for the same price - and that hurts.

V: Why would they do that?

BDM: Because we haven't got any in stock when they need it. Business Development Manager [12,391-393].

These service failures arise for a number of reasons. We have already seen that inability to forecast customer demand and the tension between holding stock and cash flow present difficulties for inventory decisions. At this later point in the OMC, fulfilment, a further set of issues arises – order prioritisation, capability of supply chain partners, and internal procedures. Order prioritisation is an acknowledged problem:

AM: ... there's a first come, first served policy. Which is very, very annoying when the last customer, was a small one-time customer. So if customer A, which is your loyal customer, comes in five minutes later than customer B, who picks up the products and goes, then that item has gone out of stock, so customer A has to wait. So ... it's like "who sees them first?" Top Account Manager [14,88].

Although addressing this issue might seem straight-forward – clearly the system should be reconfigured so that the loyal customer receives the goods. However, with a focus strategy, all customers are loyal customers:

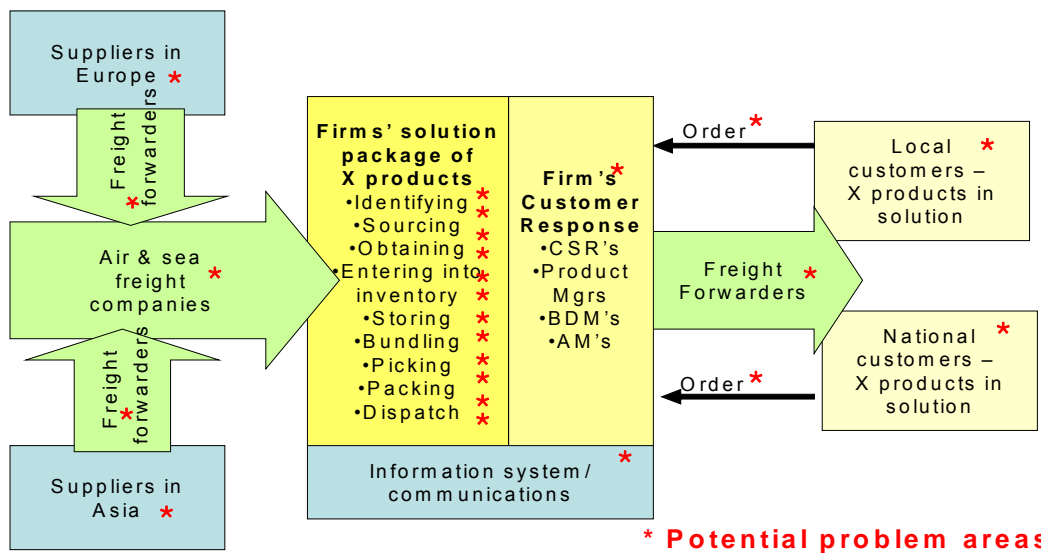
NSM: ... the customers who are strategically more important [should] get it first.

AM: But ... no longer are we dealing with a \$380 client vs. the million dollar client, it's the million dollar versus the million dollar, versus the million dollar, and who do you give it to? National Support Manager and Account Manager, Workshop 1 [6&7,275-279]

At the time of writing the firm continues to grapple with managing scarcity.

The capabilities of supply chain partners are a contributing factor to the issue of scarcity. The ability to forecast global demand accurately and to freight products reliably is important. Figure 6.11 illustrates the complexity of the supply system:

Figure 6.11: Impact on service delivery by supply chain partners



Source: Developed for this research

This complex system has multiple areas where the flow of goods and information could suffer interruption. Customers are placing orders for multiple product solutions – and complexity increases risk. Availability issues with any one of the solution components can compromise the solution – for example, shipping problems:

NSM: It's a constant with us ... what we've got now ... we're caught in excuses, you know the

US shipping strike, there is a huge list of things that we tell our customers and it could be September 11, and price increases have got to do with market volatility due to political upheaval in a certain company. We've got problems with some of the stuff that we supply coming from danger zones ...National Support Manager, in Workshop 2 [17&18,294-295].

Supply problems have high impact on customers using Just in Time (JIT) systems in their production processes:

LPM: Having gone two years and not having any problems with deliveries from [supplier] with [major customer], I got back from holiday, and it was glaringly obvious that we had a problem with one item We would have been 2 weeks out and [customer] would have been really in the crap. But ... we got the advice early enough and were able to shift their production around so that ... there was no problem. Had we not said anything, you know, the crap would have hit the fan something phenomenal, and all they would have remembered is that one time we caused them a problem - not the thousands upon thousands of times that we'd done everything right, over and above the call of duty. Logistics & Purchasing Manager in Workshop 2 [17&18,318].

Close relationships with customers are important in JIT supply agreements, incorporating a high level of trust, involvement and commitment on both sides, and the willingness and ability to broker mutually acceptable solutions to supply problems (Burt 1989). However – as the LPM points out – the customer is not concerned with emeritus efforts, the customer is concerned with outcomes. In addition to supply problems caused by suppliers, supply problems can also be caused by freight forwarders:

CEO: ... the freight company ... were causing a lot of problems, they're even worse now ... we've very little stock we move just locally, it's pretty much all over-nighted out of Auckland, it's incredibly critical to the success of what we're doing. We're jumping up and down about the freight company ... it can take between 2 and 10 days to get something to the South Island ... we can't guarantee a 9am or 9:30 delivery next day in Auckland ... and for crying out loud we can get to Sydney you know! CEO [1,229-233].

These issues are intractable - supply partners can be managed, however, total control is not possible. In addition to externally motivated problems, *internal systems and procedures* can also impact on delivered customer value:

SPM: Areas that we do need to do better though, are order entry, because one thing, we can guarantee that we will deliver the wrong goods in full on time if they're entered wrong. So we can dispatch exactly what the customer doesn't want if it was entered wrong. Senior Product Manager in Workshop 1 [6&7,199].

Thus, both external and internal pressure points impact on the ability of the firm to keep promises made to customers. Measurement of performance in this respect, as the

Senior Product Manager suggests, relates to correct supply – the right goods, all the goods and on time. Time is a crucial metric of customer service in this industry:

LPM: ... time is critical for customers Particularly with the network group ... they just do things within horrible time frames ... to the point where a day lost makes the difference between profit and loss on the job. So [if there's] a guy sitting in Queenstown waiting to wire up a building and the stuff doesn't arrive until 2 days after he's been down there, one they want us to pay and two their credibility goes down the drain with their end customers and of course it comes back up the chain as far as we're concerned as well. Logistics & Purchasing Manager [2,326].

Response time and order accuracy is crucial to customer perception of service.

However this has not been measured:

BDM: ... part of what we haven't been used to doing is measuring response time ... we should also be measuring not just response time to enquiries, but also our accuracy in terms of supply when we say we're gonna supply, because many customers' scorecard their suppliers.

V: Do you know how the customers score you?

BDM: No - I haven't dared ask! Business Development Manager [4,435-445].

The issue of time and accuracy is recognised, however, systems are not yet in place to provide the firm with appropriate performance feedback. Perhaps emeritus performance in a few high profile areas veils unsatisfactory performance in others e.g.

SPM: [Logistics & Purchasing Manager's] constantly managing JIT for [major customer] and trying to manage it for product that's got 26 to 54 week lead-time ... And that's why we call him the magician! Senior Product Manager [2,410].

This quotation captures several issues – the importance of the components the firm supplies for its customers' manufacturing processes, and the difficulty in managing supply so that the right products are available at the right time in a remote geographic location. Clearly, the area of order fulfilment is a crucial capability. It carries significant operational challenges, and has a high potential impact on delivered customer value and the firm's financial performance.

6b.4.2.4 OMC Activity 4: Customer evaluates & responds to firm's performance

SPM: ... we're customer focused ... that's our main strategy. ... because we're trying to bring [our customers] work, we're trying to create the relationships with them, but we're undermining them as fast as we're doing it ... Senior Product Manager [2,216]

CEO: The company spends most of its time beating up customers. [1,112] It frustrates me to death, it frustrates people beyond belief! CEO [1,171]

These quotations capture the background for this project – the firm was conflicted. On the one hand the sales organisation of the organisation promised customer value, while on the other hand support and administration staff created high levels of dissatisfaction, negatively affecting the value created.

CEO: ... those main people that really effect that whole area [of customer after-sales communication] are all so hostile ... I would classify them as hostile in a lot of situations where there is conflict involved. I mean [stores manager] abuses customers ...CEO [1,273].

SPM: [take] a product return. Customer no longer wants it ... “Well we’re not giving you a credit” ... it upsets the customer and undermines the value the sales guys are delivering ... it’s like it’s the Spanish inquisition: “why do they want to return it dadadada etc.” So there’s a whole undermining of the front-line delivered value because of the back engine. Senior Product Manager [2,104]

Customer service levels in general would therefore be uneven, with a high probability of an unsatisfactory experience. If the goods sought were supplied, this would be at the cost of individuals ‘jumping through flaming hoops’ [17&18,595] and ‘throwing yourself on a sword’ [17&18,596] on behalf of customers. This extraordinary effort would logically be invisible to customers, however, the after-sales experience would be highly visible, and would entail other individuals who ‘fight the customer’ [2,102], ‘beating up customers’ [1,112] and ‘butt heads’ [2,77] with customers. The use of metaphors involving physical risk and personal injury reflects the ‘manager as hero’ mindset, as opposed to a more collaborative and non-adversarial view (Gosling and Mintzberg 2003).

The outcome would be divergent customer views of the firm’s performance, depending on the individual and their role. For example, CEO’s and Project Managers might be satisfied with performance on strategic and functional (business growth and solution level) performance, however staff dealing at a transactional or front-line level (e.g. purchasing officers, production personnel, accounts payable) would have issues with responsiveness and reliability – i.e. service quality. It can also be deduced that those involved in negotiating credits or supply issues would be disappointed with the firm’s performance in this area, at best.

6b.4.3 Customer intimacy

C: You’ve got to think of a large account as a marketplace, not as a customer. Consultant, [15,163]

Like SCM, customer intimacy is a crucial element of customer value in this case. Customer intimacy (or customer relationship building) is concerned with activities directed at establishing, maintaining, enhancing (and terminating) customer and channel relationships (Gronroos 1995b). The key themes relating to customer intimacy emerging from the case are philosophy, strategy, activities or process, and outcomes. The philosophy of customer-centrism and adoption of a focus strategy have been discussed previously.

The process of building intimacy was directed by the consultant. He started by auditing the firm's current selling practices, and found them characterised by quantity rather than quality:

C: ... my initial look was they had no process around their selling. It was activity oriented [along the lines of] the more calls you make, the more work you can get, the more proposals we write, the more business we'll get. Consultant [15,66]

Undertaking large quantities of sales calls indiscriminately is unlikely to generate business results commensurate with the level of investment. Thus, the consultant led a change of focus from selling activities (or process) to business results (or outcomes). This change of focus resulted in attention directed at the nature and function of a business relationship:

C: [the focus should be on] long term business relationships, not personal relationships ... A lot of marketing people think [personal relationships are] the objective and that's why they focus on golf events and giveaways ... The objective is to be valued for the business impact that your organisation has ... [in other words] your contribution. Consultant [15,163] (bold added).

Business impact is therefore the desired objective of the relationship. The top performing account manager has operationalised and articulated this idea in the context of his customer-facing activities:

AM: ... I'm not good at somebody who wants drinks, fishing or something like that ... the way I overcome that weakness is be process driven and be business driven. Talk money, but in the right sense ... When I say talk money, I'm saying it's growth. That is what is extremely important, that's what I always look for, is to how can I help them grow further. If they're doing \$1 million can I help them do \$1.5 million ... they may not enjoy my company for casual business, but that's how I overcome it. Top Account Manager [14,68]

The Account Manager is sensitive to the importance of personal relationships, and he is also self-aware. As he is not a bon vivant, he focuses on offering firm-level

benefits⁴⁵. His skill in articulating the firm's offer in the context of his customer's business drivers offsets his perceived weakness in establishing personal connections. Thus, the relationship between the account manager and his customer is predicated on business impact rather than personal affinity, logically likely to have higher impact, superior longevity and more reliable business outcomes for both parties. In the face of the customer pressures outlined previously, it is logical that customers would increasingly prefer a positive contribution to their business than more frivolous contributions.

These insights describe the logic for developing customer intimacy through a business relationship. Accepting that logic, the firm moved towards a systematic approach to establishing business relationships – or customer intimacy.

CEO: ... [we have] a complete relationship model established for what does a strategic partnership ... look like. We can describe the activities that we have on with them, the planning sessions, the reviewing ... [there's] a complete team, with senior to senior, account manager to management, technical to technical ... a team of 3-4 people, developing, managing, building up a relationship ... [For example] this week we have two joint planning sessions ... I'm presenting the market view we have in terms of where the opportunities lie, we're discussing their business plans, we're talking about their customer sets ... the technologies they should be taking to market, discussing some training programmes we can assist with and help them build ... [this is the] kind of value we can bring. CEO [1,132-136]

The firm is bringing its resources to bear on the customers' markets – providing customers with access to potentially profitable technologies, market insight in terms of technology end users, and up-skilling with the willing transfer of skills and knowledge to both themselves and their customers.

Success in implementing the customer-centric or customer-intimate philosophy was predicated on the firm leveraging its skill and knowledge base. As the CEO points out, this required the firm to make a substantial investment in people and knowledge:

CEO: ... [the] skills that were required ... were so new to the company ... a lot of the management had been brought up from hands-on technicians, they hadn't necessarily come from the business environment or had the skills ... that's where we started the education programme, because we knew that business acumen was critical to success ... CEO [1,54]

⁴⁵ NB: This does not suggest that an extroverted personality is not useful – however, of itself, it is not sufficient.

The education programme the CEO is referring to is the undertaking of postgraduate University studies in business by his management team. This has proved to be a critical component of the firm's success in winning business at the strategic level. In addition to leveraging knowledge and acumen, a high level of personal skills is hinted at by the CEO:

CEO: ... Most relationships aren't created without difficulty, they aren't created without negotiation, and that's a really complex dance. And you need to have experienced it, and there is some process in all of that chaos, but it is really difficult. Very few people are capable of doing it. CEO [19,135]

The skills can be inferred to be sensitivity and self-awareness (i.e. as demonstrated by the Account Manager), the ability to listen, comprehend and communicate from the other party's perspective, and to create and articulate shared meaning. More specific investigation of this issue is beyond the scope of this study, however it presents an avenue for future research.

The outcomes of sound relationship building activities are illustrated in the following quotation:

BDM: ... I believe [Account Manager is] the only outside supplier who's got virtually free rein to ... do what he likes in the company. He's built that up over the years, he's got the trust ... even to the extent of ... them ringing up and saying 'hey we're short of x number of products in the last shipment' ... we know we've definitely supplied them, so [Account Manager] will go over there and work through their systems ... To the extent where "well you must have had the product because it's actually out on the production line so how did it get there if we didn't supply it to you?!" [haha] So that's something he's been micro-managing ... which is good, in a way, but it's also bad, because how many other customers can be serviced like that? Business Development Manager [4,358-362]

The story highlights a number of key issues. Firstly, the high level of trust demonstrated by the customer in the focal firm. The Account Manager is seen as a trusted adviser and problem solver, and is extended similar access rights as the customer's own managers. As a corollary, the Account Manager has built up a very high level of knowledge and skill, to the point where he can readily diagnose and rectify issues with service or delivery. The second issue is the longevity of the relationship. The Account Manager's high level of knowledge is predicated on a long term relationship, with staff on both sides having a length of tenure – supporting the ideas of Heskett et. al (1994) with the Service: Profit Chain. The third issue is the opportunity cost of this high level of investment. As the BDM points out “How many

other customers can be serviced like that?” Finally, the importance of the firm’s awareness of and ability to orchestrate value at all levels - strategic, functional and front line. Attention to each in isolation is insufficient to create the ‘virtuous circle’ of benefits for both customer and supplier.

While some relationships in the focal firm are exemplary, others are not. The implications of a low-trust or front line level only relationship are described in the following quotation:

MFA: ... [Our JIT customers] give us their forward orders for the next six months. And all of a sudden one of the customers stops giving us orders and it turns out he’s going to a manufacturer in China. We actually had a commitment which we signed as anything in the pipeline that he had as just in time, that he’s promised to take and he’s agreed with that. But the fact is that somewhere along the line, he was discussing and thinking about moving production to China and nobody mentioned it. And it took us months and months to get something out of him, an order, the system couldn’t tell us what was going on, but anybody with half a brain could work out what was going on. There was a rumour going around, but we couldn’t get it out of them ... obviously we don’t have as close a relationship as you need to have, that’s what I put it down to. Manager - Finance & Administration [9,272]

In this case the relationship with the customer was limited to the front line level (rather than strategic or functional), leaving the firm ‘out of the loop’ of frequent and open communication and hence exposed to competitors. Clearly, a relationship at this level is vulnerable, and potentially costly to the supplier, who may be left holding obsolete inventory.

6b.4.4 Summary – Keeping promises

The three processes critical to effective promise-keeping are product/service innovation, supply chain management and customer relationship-building. A blurring of boundaries between promise making and promise keeping was evident in all of these, as in industrial marketing a ‘joint discovery’ or co-creation process characterises the mutual development of the value offering by both customer and supplier (Gouillart and Sturdivant 1994). With respect to promise-keeping, product innovation was the least important of the three processes in this case. However, effective performance in this area was part of the firm’s core competence, underpinning promise-making capability.

Operational problems relating to expediting customer transactions compromised customer value delivery in this case. The challenging operating environment, coupled

with lack of control over supply-side factors, affected the firm's responsiveness and reliability. The firm was unable to deliver correctly, in full, and on time on a consistent basis. This was exacerbated by inaccurate system information. These factors caused conflict within the organisation, and would logically cause customer dissatisfaction and supplier switching.

The transition from a transactionally oriented strategy (i.e. commodities sold at the front-line / purchasing level) to a more relational or strategic approach (i.e. solutions sold at the functional and senior management level) could potentially alleviate some of these pressures. Improved customer information and joint planning could improve the quality of forecasting, and change the orientation of SCM from reactivity to a more proactive approach. However, attention to satisfactory front line performance is essential – one without the other will not deliver the desired outcomes (i.e. business growth for both parties in the relationship).

The three promise-keeping activities, product innovation, supply chain management and customer relationship building, are intrinsic to the RBV (Srivastava et al. 2001). The evidence from the case supports that view. While product/ service innovation was of relatively less importance to promise-keeping, supply chain management and customer intimacy were crucial.

The chapter proceeds with an exploration of the necessary skills and resources that enable the firm to both make and keep its promises.

6b.5 Enabling promises

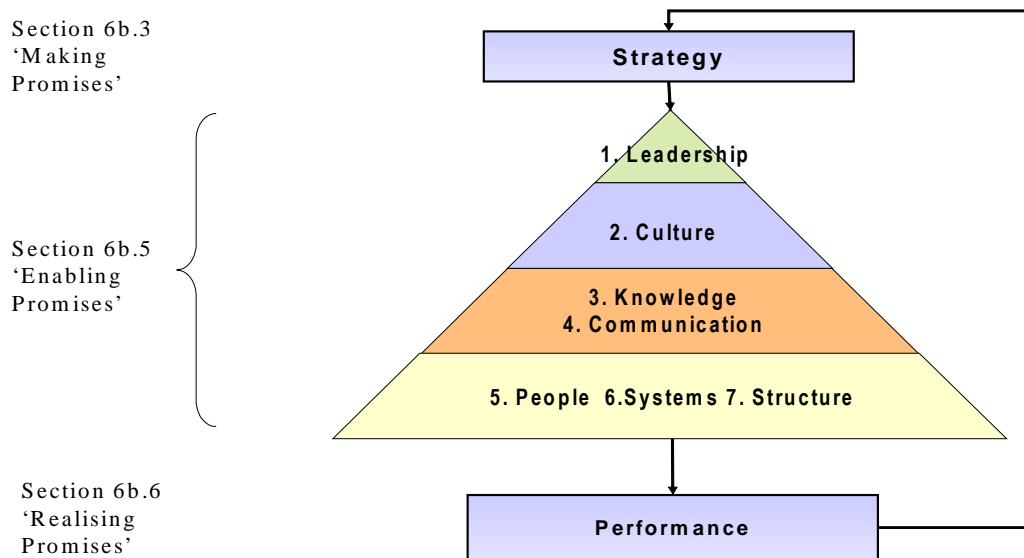
The notion of 'Enabling' promises encompasses provision of the resources, skills and leadership that allow both promise making and promise keeping to be enacted. Enabling was of primary importance to the CEO at the project's inception, as he had been grappling unsuccessfully with implanting change for some time:

CEO: ... there's very little [process improvement] that's gone on for quite a long period of time ... we've had one very large run at unearthing, uprooting a lot of the core processes in the business ...and the culture, 'cos I think they're two different issues. And ... on a scale of 1-10 I'd be very sceptical if we got to one in terms of any success out of that ... CEO [01,6-18]

The CEO’s perception was that his organisation’s culture was impeding process change, indicating perceived importance of ‘enabling’ factors in the process of customer value creation and delivery. This conversation occurred at the beginning of this project, as the CEO grappled with the perceived intransigence of the ‘service units’. As he points out, culture, people and processes are strongly linked.

This section of the thesis presents the results related to these ideas. Figure 6.12 summarises the themes emerging from the data, and relates these to relevant sections in Chapter Six (b):

Figure 6.12: Elements of implementation or enabling strategy and relevant chapter sections



Source: developed for this research

The firm’s core resources are central to enablement, supporting the ability of the organisation to keep (and make) promises. The seven themes relating to enablement have been expressed in a hierarchical framework – leadership being the pinnacle, supported by organisational culture, followed by the more intangible elements of knowledge and communication, in turn predicated on the firm’s people, systems and structure. The ordering in the hierarchy emerged from the data and has been designed to provide a logical framework for the presentation of results. Further exploration and justification of what is essentially a resource and attribute hierarchy is beyond the scope of this study and requires further research.

The elements of the refined conceptual framework will now be addressed.

6b.5.1 Leadership

Two key themes relate to leadership and customer value: leadership style and areas of focus. The formal transition of leadership from father to son occurred in December 2002, when the son took on the role of CEO. To signal the change, he articulated and communicated his approach to the business in a strategy document, which was presented and discussed in a series of meetings:

CEO: This document [tables] is the beginning of my new role, as CEO. I've put this together to develop a sense of purpose and direction to the business and to try and bring all the different areas of the business that I believe have not been constructively developed in line with what we're trying to achieve with the rest of the company. Now my job is to knit it all together, and there was a fair bit of discussion in the last meeting we had about areas that I wasn't happy about in terms of [the] contribution [of] finance/admin and supply and IT ... So without pointing fingers at people, or areas I've said "fit in line!" That's it! And that goes for the way each of those are run, plus the attitude of people within each of those areas. And I actually said that in a staff meeting. People that, when their actions are outside this directive are in a very dangerous position! [ha ha] I didn't say it like that but that's the implication. CEO [19,366]

The quotation encompasses the CEO's leadership style – systematic and logical, involving firstly developing his own understanding of the situation, then codifying this in a formal document, articulating the contents of the document to relevant parties, and communicating clear expectations in a vigorous and unambiguous fashion. Frustration with the performance (or inappropriate performance) of the 'service units' in the business is evident, echoing the findings relating to supply chain processes and consequent negative impact on delivered value. He is giving clear signals to all in the organisation that these issues are to be addressed. While he clearly communicated his expectations and expects rapid action, he also understands that people can have difficulty in adjusting to change and need practical support:

CEO: They can work it out and I'm quite happy to help them, don't care, get it done! (haha) ... I'll take my CEO hat off. I'll help with it, but I'm not going to do it ... There'll be enough coaching on this ... But it's the thinking that's the most important piece. CEO [16,301-308]

'Coaching' and 'help' is a key insight – the CEO is clearly willing and able to support his team by leading from the front, however, the outputs must be developed by the individuals in the areas concerned, thus ensuring buy in.

The Managing Director offers insight into the similarities and differences between the leadership style and agenda of father and son:

MD: ... when I was younger I would have been more aggressive like [CEO] is ... having [him] in the business is like a breath of fresh air and he drives me crazy ... because he has that fire of youth that will go out there - just like I did ... [he's] come in with a youthful set of eyes and grown up and experienced in the newer age, which is different from where we've come from. But what he does is nudges us a little bit, so we turn around as well and tend to add to what he's done ... Managing Director [10,12&31]

A number of issues are highlighted here – the essential differences between past and present, maturity and youth, the inevitability of conflict, and the value of each. The ability of the MD to reflect, predicated on intellectual capability and life experience, is also a theme in this quotation. This capability is supported by the consultant:

C: ... [MD's] a giant intellect ... he's got a brain like a bloody bear trap - it's incredible ... I've worked with a lot of large corporate guys, including as a colleague but also in a consulting role, and I'd put [MD] in the top 5%. ... when I take [him] through [my] stuff, his mind goes "Well if that's true then wouldn't this be true?" "Yes". He's not only got what you've done, he's now extrapolated it ... Consultant [15,243-253]

The CEO ratifies these views and provides an insight into his own thinking:

CEO: ... I've probably got that side of [Managing Director's] brain, which is very sharp thinking. Which frustrates the hell out of you when you sit in the same meeting with the same people and come to review the actions or the result of it, and people have missed things, or they haven't interpreted the meaning or they've gone and concluded a whole lot of actions that were completely out of sync with what we had discussed. It's frustrating ... He's more of an intellectual than I am, but I've got the creative piece, and I guess I'm young enough, having been through owning and running my own business, you have to get things done, you can't afford not to. CEO [19,26]

Both quotations indicate strong common themes of intellect, creativity, and passion – and urgency on the part of the son. While the father has stronger capabilities in technical aspects of the business, particularly in engineering, previous analysis has also highlighted his creativity in terms of futuring and applications of technology. The son's architectural and design heritage indicate creativity of a different (and complementary) nature. The intellect of both is clearly a key resource. Both the energy and urgency of the son and the wisdom of the father was vital to turning the business around. However, there is also evidence of 'culture shock' in the transition - highlighted in the following quotation:

CEO: ... one of our ex-staff members [has] jumped outside his ... legal obligations as a past employee, within the restraint of trade period ... he's caused us loss and we're proceeding against him. And everybody is very supportive that we shouldn't take these things lying down ...

[Managing Director's] a little uncomfortable with it [but] I'm very, very resolute on taking this as far as it needs to go CEO [16 368]

This story exemplifies the differences in approach between father and son. The CEO's strong motivation to look after shareholder value is reflected in his vigorous defence of the family's commercial territory, while the father's more traditional values are reflected in his more measured approach. The son's response to the transgression of the past staff member also sends strong signals to current staff – he expects loyalty and ethical behaviour, and will take strong action to ensure it.

The new leader has clearly sought and gained the support of other members of the organisation in the course of action described above, highlighting the building of personal loyalty to the son by organisational members. Although managers were not asked explicitly about issues of leadership and loyalty, the latter is implicit in responses like these:

BDM: ... it's rewiring, that's what [CEO] wanted to achieve. The basics are right, but there's "I need to get you into the next century". He didn't quite put it like that. That's a bit harsh on him, and a bit harsh on me, but ... Business Development Manager [8,170]

AM: Leadership ... is more than just ... numbers ... He's having a good go at it ... There's some things he won't listen ... until he tries it himself it just doesn't work. Yup. It's kind of fun though! Account Manager [5,82-92]

Although managers have been challenged to make significant personal adjustments over a short period of time, there is clear good will – even affection – on the part of the managers, and strong support for the CEO's efforts.

Overall, there are significant but complementary differences in the leadership styles of father and son, summarised in table 6.8:

Table 6.8: Comparison of styles – Father/ Son

Attribute/ characteristic	Father	Son
Intellect / creativity	√	√
Heritage/ tradition	√	X
Impatience/ urgency/ passion	X	√
Institutional knowledge	√	X
Family values – loyalty, integrity, fairness, hard work, progress.	√	√

Source: Developed for this research

Both have intellect and creativity, albeit in different spheres. Both share the same core family values. The father offers wisdom based of long experience and reflection, while the son offers complementary attributes of an action orientation. It is a matter of conjecture whether replacing (rather than supplementing) the MD with the CEO would have achieved the same results – logic would suggest not. The MD continues to play a key role in providing continuity and a steady, on-going presence, in addition to his engineering/technical/systems and customer relationship building activities at senior level. The combination of heritage and new ideas, philosopher and pragmatist, wisdom and energy unified by shared family values is powerful, and has achieved rapid and effective strategic change.

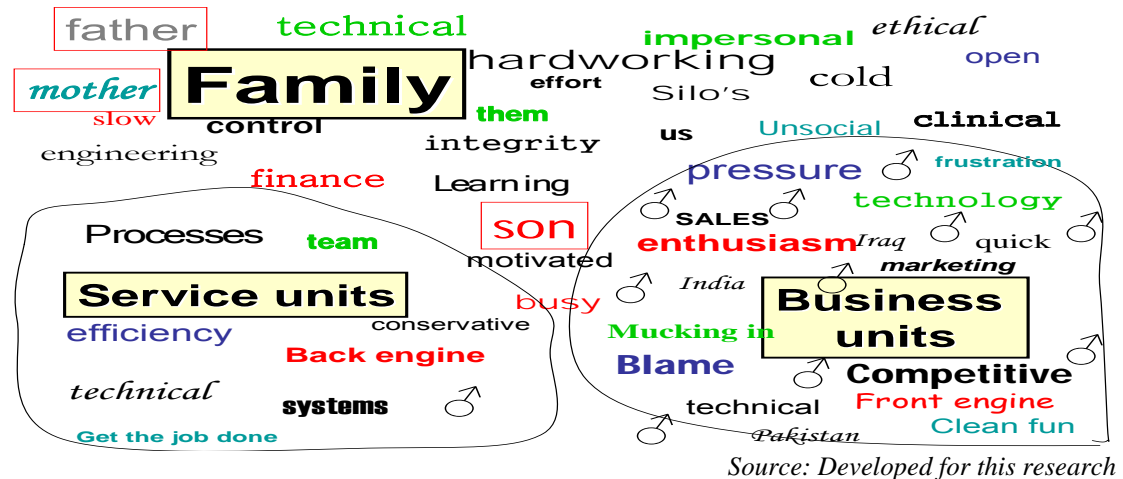
6b.5.2 Culture

... in hindsight, the most important thing is to change the culture, so that the people change the processes ... CEO [1,6]

In-depth cultural diagnosis was not an objective of this study. However, developing a general understanding of the key elements of the firm’s culture was essential to understanding the firm’s ability to create and deliver customer value. As the CEO points out in the above quotation – culture has an impact on behaviour, and behaviour has an impact on organisational processes. The impact of various aspects of organisational culture on customer value creation and delivery presents opportunities for future research.

Key elements of the firm’s culture and the two sub-cultures resident in the support functions (service units) and customer-facing functions (business units) are presented in the following diagram:

Figure 6.13: Predominant themes in culture of focal firm



The terms depicted in the diagram were drawn from the writer's impressions from engagement with individuals from the organisation, the atmosphere in the organisation, and from the evidence emerging from analysis of the data. As shown, there is an over-riding culture (family) and two sub-cultures (service unit and business unit). The culture is dominated by the founding family's values – integrity, intellect, effort. While these are positive traits, managers also perceive an element of austerity and personal disengagement:

AM: It's a cold environment. The glue is missing. Account Manager [5,16-30]

PM: We don't mix with people outside of work ... it's hard to get to know people [because] of the pressure of working. Product Manager [6&7,150]

AM: ... I think this is the only company probably in New Zealand where on a Friday night you will not have people go out for a drink session ... the kind of people that we have ... don't enjoy doing that. Account Manager [14,68]

Lack of communication between organisation members increases the potential for conflict and misunderstanding. Furthermore, the business is strongly male dominated. In the sales and marketing function the management team are exclusively men. Across the company only one woman – the Manager - Finance & Administration and mother – is in the management team. Significantly, she was not included in team building exercises:

V: ... if there's a lot of men, you tend to do things that men like to do, and then the women feel marginalised, like [asks Manager - Finance & Administration] did you hop in the go karts?

MFA: I didn't get invited! Manager - Finance & Administration in Workshop 1 [6&7,159]

Exclusion from teaming events of this important organisational player is likely to result in isolation, which may explain some of the reported difficulties in integrating the administrative side of the organisation with the customer facing side. This idea is expanded in the communications section of this chapter.

The data also suggests two sub-cultures within the organisation:

CEO: ... we have two organisations within the company ... one's more 'get on and do it' and the other's more 'how are we going to manage this so we can do it on a repetitive basis in the future ... ' CEO [1,6]

LPM: ... we've got two different faces in the organisation ... Logistics & Purchasing Manager [2,278]

The two sub-cultures are sales and customer service (the business units) and the administration, IT and finance (the service units) respectively. The front engine is characterised by a team of relatively young managers and customer service personnel (20-40). It is male-dominated, competitive, judgemental, energetic and strongly technically oriented, and tends towards reactivity. There is also ethnic diversity, drawing on skilled people from Asia and the Middle East. A culture of hard work and performance is particularly noticeable in the sales and marketing team:

SPM: ... 60 hours – “oh – are you doing part-time work or something?” Senior Product Manager [2,271]

LPM: There's no room for slackers, particularly in the sales organisation, because if they don't sell, we don't eat ... Logistics & Purchasing Manager [2,352]

DGM:... there's a heck of a lot of effort here ... there's no shortage of people working late, people coming in early. Divisional General Manager [13,11-15]

NSM: You just get on with it and do it ... and don't complain about the fact that it's not in your primary job description ... National Support Manager [3,59]

Although others (presumably non-sales and marketing) are perceived to be less motivated:

SPM: With some people's mentality it's “I come to work to eat my lunch.” Senior Product Manager [2,269]

This perception also hints at cultural attributes in the sales and marketing team:

LPM: ... [our sales organisation has] a blame culture. You get something wrong, it's wrong. I mean the guy that came downstairs this morning was as embarrassed as hell, because he'd be the first person if someone made a mistake to point the finger! Logistics & Purchasing Manager [2,280]

DGM: ... I have heard a lot of criticisms of other people and other things in the company - despite the fact it's always qualified "but they're great people". Divisional General Manager [13,190]

As these senior managers point out, the 'blame' culture results in an erosion of good will. Furthermore, it is not conducive to customer value enhancement:

LPM: ... [if logistics] screw up, yeah we've screwed up, let's go and have a look. Let's fix it for the customer first then find out what we've done ... I don't care who made the mistake, let's get it fixed first, then we'll look at why the mistake was made, and put things in place or change systems or whatever it takes to do, to make sure we don't consistently do this, because at the end of this, we've got a customer! Logistics & Purchasing Manager [2,295]

Clearly, a process improvement perspective is more likely to achieve gains for the customer: furthermore, it is also more likely to foster greater esprit de corps.

DGM: ... when we're talking about a challenge, we need to be looking at the challenge - not who is involved in it. So we've got to be focused on the outcome ... if you've got an issue with the way that some of the things happen around you, then you have to address that issue. Not accept it and go away and grumble about it. Divisional General Manager in Workshop 2 [17&18,,693]

The quotations indicate that a 'blame' culture and/or passive aggression is not helpful. In the sales and marketing area, on the one hand there is high personal loyalty between team members and to the owners, and high levels motivation reflected in prodigious effort. On the other hand people recognise a lack of systematic fostering of individuals and team cohesion, and also system inadequacies. This is neatly summed up by the incoming Divisional General Manager:

DGM: ... there's a heck of a lot of effort here ... there's no shortage of people working late, people coming in early. The enthusiasm is great, frustration levels are probably just as great ... Divisional General Manager [13,11-15]

The service unit (the functioning of which is responsible for some of this frustration) is characterised by a team of relatively older rather than younger managers. It is relatively homogeneous – i.e. white middle-class male-dominated. Principal characteristics are conservatism, efficiency, and a process orientation. The pace is

slower and more measured. This perspective is at odds with the need for customised value delivery, which underlies some of the expressed frustration:

CEO: We have to get this view of customisation. It's the hardest thing for a process company to think of ... "When this customer comes to me, how am I going to do things differently, what's valuable to them, what do they need differently to everybody else?" ... [a] culture that fosters and thrives on lasting relationships, a superb understanding of the customer's business - how do you get this? How do you get despatch to have a superb understanding of the customers business? CEO [19,314]

While the CEO acknowledges the relevance of culture to changing processes⁴⁶, he remains intent on achieving his primary purpose – improving shareholder value:

CEO: The cultural wholeness of the company has to be achieved somehow, but not at the sake of profitability ... Because if we don't sort the profitability out, there will be no room for cultural happiness ... CEO [16,174-180]

Conflict is inherent in these comments. On one hand culture creates the context for customer and shareholder value creation to take place, and without a positive context, change cannot occur. However, if the firm is not on a sound financial footing, then cultural context is irrelevant. There is an element of circularity in this logic – without a value-enhancing culture, value cannot be realised, and without realised value, the resources for creating the cultural context will not be available.

Despite areas of tension and conflict freely and objectively shared by managers during the course of this project (or perhaps because of it – openness and transparency is also a strong cultural characteristic), overall the firm is a cohesive unit and members appear to enjoy each other and their roles:

NSM: ... we [work] on a professional basis, but we also muck, around a lot [haha] you know banter ... National Support Manager [3,357]

AM: I do [enjoy it even though] I get grumpy and I get tired. Account Manager [5,97]

V: ... It sounds like you're enjoying [reengineering the business] enormously.

CEO: Yeah I am, I am.[19,176-177]

DGM: It's a pleasure to work here ... Divisional General Manager [13,61]

⁴⁶ “the most important thing is to change the culture, so that the people change the processes ... “[1,6]

6b.5.3 Knowledge

“As you get into complex products, you can’t add value to the market or your channels without an incredible amount of knowledge.” CEO [16,348]

“... I'd say [our core competence is] knowledge, if you had to pin it down to one single word, one single theme, to me it's that.” Product Manager [11,45-47]

In the focal firm, knowledge is a crucial resource. Two themes were relevant to customer value creation and delivery in the data - different knowledge types, and the knowledge management process.

The data highlighted four different knowledge types, product/ technical, customer/channel, general industry and institutional. *Product and technical knowledge* is basic to customer value provision. The Senior Product Manager (in charge of training) uses the text of an email sent to customer service personnel to illustrate his personal philosophy on the relationship of technical knowledge to customer value:

SPM: “The way to deliver value is to be able to answer questions expediently, give them the information, create value by being able to offer input ... if you’re unable to offer input, then you can’t deliver value. If you are able to deliver value it will increase your sales because people will call you more and rely on you more ... , and by increasing sales you’ll increase your revenue stream to the company which will increase your incentive which will increase your income, which also gives you net profit as far as your knowledge goes as well. So therefore you are able to create more value. So by creating [knowledge] value in yourself you can actually deliver more value”. Senior Product Manager [2,267]

As he points out, the ability to offer value through technical knowledge benefits the customer, the firm and individual. As implied, this value can only be created by applying and customising this knowledge to the customer’s business, leading to the second type of knowledge – *customer (or channel) knowledge*. Knowledge in general is necessary, but not sufficient to create customer value. Customers seek specialised, customised knowledge:

CEO: ... you wouldn’t believe how [customers’] eyes light up [when they realise] we can customise sales training to help ... with their end-customers, so that they can transform their businesses like we’ve done ... CEO [1,354]

Here the firm is offering to transfer specialised technical and relationship knowledge to customers, so that these customers can in turn increase value to their customers – in effect multiplying value through the value chain. This demonstrates leveraging of

both technical and relationship/ customer knowledge, which gives rise to the firm's competencies:

CEO: [One of our competencies is] providing the business opportunities that ... go with emerging technologies. And what is rapidly becoming apparent [is that] it's the most valuable asset that we've possibly got. CEO [19,202]

Product and customer knowledge do not exist in a vacuum – the firm contextualises this knowledge in order to recognise business opportunities. This requires the addition of the third type of knowledge – *market or industry intelligence*, demonstrated in the following quotation:

PM: ... the customer was in the process of a merger with another Australian company... they were in a state of flux [with] changes of staff, management, so we caught a nice window of opportunity which ordinarily would be hard ...

V: So it's a matter of being very aware of what's going on in the market, structure changes, people changes and really recognising that opportunity when it arrives ... How do you learn about those things?

PM: You've got to keep close, keep your ear to the ground, get close to the market [by] talking to the customers and getting intelligence from the market as much as possible ... being out there and getting that continuous flow of feedback Product Manager [11,258-264]

Here information relating to change in customer structure and personnel was combined with technical information and close attention to industry and market changes. This information was transformed into knowledge that enabled a sale to take place i.e. created value for both customer and firm.

The final type of knowledge is *institutional knowledge*, both functional and cross-functional, without which value delivery is compromised. The following story illustrates the role of functional expertise, combined with applications expertise and a sense of empowerment:

LPM: ... And as [the stores manager] is picking goods she's saying "This is not right ... these are 25-way ... they've got on the transaction they're only 15-way. It's wrong." Now in days gone by we'd have said "yup, yup, yup, put it in the parcel it's gone." Now the customer is in Oamaru, got a man sitting there waiting to do his job, and he gets two bits that don't match. You can imagine what it's like for the customer, what does he think of us ... And that was picked up and we fixed it. So ... because of the years that [Stores manager] ... and others down there they look at something and ... rather than just process it they say "hey, we'll hold up the transaction and just ask the question." Logistics & Purchasing Manager [2,344]

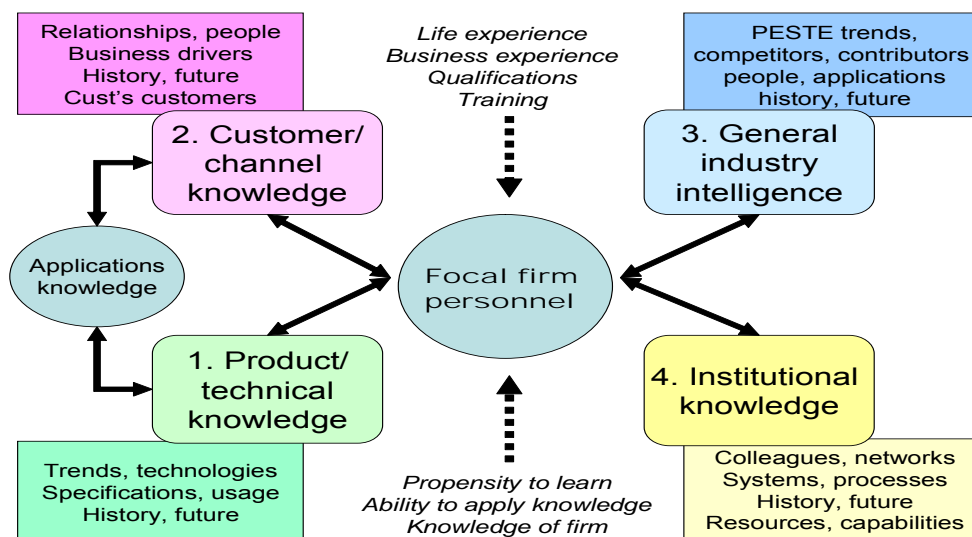
It also answers the CEO’s question “How do you get despatch to have a superb understanding of the customers business?” [19,314]. At the front line level, it would appear that at least one individual in despatch has a working (if not excellent) knowledge of the customers business. While functional expertise is necessary, it is not sufficient for superior value delivery - cross-functional knowledge is required as an account manager explains:

AM: ... it’s not to be expected that someone in the customer service department should be an operational manager and understand the finer points of inventory management and cost minimisation. And it shouldn’t be that the purchasing person should be a guru in sales ... But they should at least have an understanding of what makes the person in the other group passionate and what causes them to move forward I think as we educate individuals in those areas, we’ll be a stronger organisation. Account Manager in Workshop 2 [17&18,611]

Without this kind of cross-functional or process-based understanding, improvements in systems are not possible, communications between individuals in different departments are likely to be unsatisfying, and the delivery of value suboptimal – as discussed in the supply chain management section earlier in this chapter.

Thus, all four types of knowledge, product, customer, industry or contextual and institutional are required for satisfactory (and hopefully superior) value creation and delivery, as illustrated in Figure 6.14:

Figure 6.14: Knowledge type and derivation



Source: Developed for this research

As illustrated, people are central to generating and disseminating the four types of knowledge. Product and technical knowledge, in combination with customer

knowledge, creates applications knowledge. It is this combined knowledge that creates competitive advantage. Implementation of the applications knowledge is predicated on deep understanding of the operating environment, and of the firm's context. Clearly, the quality of the knowledge is predicated on the quality of its creators and users. In this case, the firm's personnel have a high propensity and capacity for learning, in combination with a fund of life and business experience to frame that learning.

The major second theme relating to knowledge and customer value is knowledge management. Knowledge is crucial, however the data highlighted three attributes that render knowledge management challenging: it is fragile, perishable and can be difficult to implant. *Fragility* acknowledges the issue of staff retention - staff turnover can have a negative effect on value delivery:

MFA: ... I would think that the people here would be in training, probably close to probably a minimum of two weeks a year, I would say nearer to a month a year ... With all the time we've got to put in, we have one person pretty well full time, training people ... And every time a person goes you think of the investment that's walking out the door ... Manager – Finance & Administration [9,28-42]

NSM: We had a barrage of people leaving the company about two, two and a half, three years ago. And we calculated at over 100 years of knowledge walked out the door ... It was ... devastating at first, until we picked ourselves back up and got back on our feet. National Support Manager [445-447]

The firm has a high investment in knowledge. The loss of key staff members represents a serious loss of the knowledge asset base, and the investment in that asset. Staff retention is therefore extremely important.

Perishability acknowledges the rapidly changing nature of (in particular) technology knowledge:

NSM: ... with the active market, you have to be upskilling your staff and keeping them up with the play at all times. And if you're out of it for six months, there could be a huge technology shift, and you'd be miles behind, you have to be in there doing it all the time. National Support Manager [3,71]

While the NSM acknowledges the necessity of up-skilling and upgrading knowledge constantly, the process is also problematic: *implanting knowledge* is difficult and costly. In this organisation a new more complex product set required rapid technical up-skilling:

MD: [my experiences and knowledge] has been spread more informally than formally, because it's extremely hard to pass on But I think in recent times that's been a downfall because it tends to be a slow process, and it needs to be a bit more shoehorned. And that's what [CEO] is doing with his crew now ... speeding up the learning and the migration of the knowledge that we have in the business, and the new knowledge that we're bringing in. Managing Director [10,155]

The first step in formalising the learning process was a knowledge audit, followed by a systematic training programme. The audit highlighted knowledge deficits among customer facing personnel:

CEO: ... four out of five of these people we've got in our own training programme ... had low scores in the first exam that we did ... this is very useful information. CEO [1,199]

SPM: ... I did gap analysis... to find out where we are as far as knowledge goes in the company ... as to where we were at, which was not in a very good position, and where I had to get them to. Senior Product manager [2,30]

A reliable metric of product knowledge is a good starting point for knowledge development. Armed with that information an ambitious programme was undertaken:

SPM: I put together a 26 week project, and [CEO] says "Make it 13!" So it's not just accelerated learning we're putting them through, it's accelerated accelerated learning! Senior Product Manager [2,50-52]

While the necessity of the programme was accepted by the customer service team, it was an ambitious programme, and they found it difficult to meet the expectations of the management team:

NSM: ... the first test ... was 53 questions long, we had one week to do it, and it was worse than somebody throwing you in the deep end - it's like somebody throwing you in the deep end and there's no water in the pool! You know it's like PHEW! - you hit real hard. It was really stressful. We knew that we were incapable at that stage of being able to successfully complete it on time, and to the required level ... National Support Manager [2,139]

These difficulties had been foreseen by the Managing Director:

MD: ... I've always wanted to do [the active products] because for me they were exciting. I just didn't want to take the organisation there with everybody in it, because I knew nobody could keep up. But now we're doing it, and of course nobody did keep up very easily and they've blown it to bits! But the organisation's better for it ... Managing Director [10,341]

Implanting technical knowledge quickly creates tension. There is clearly a strategic imperative to rapidly develop knowledge about complex technologies. However, it is equally clear that an 'accelerated, accelerated learning' process places strain on

individuals. Furthermore, while technical knowledge is necessary, it is insufficient, as the Managing Director points out:

MD: ... once you've got the [technical] understanding you've still got to present it to the customers and you've still got to have the relationship ... and be able to deliver all the things that are necessary training and support, making sure that things are turning out right is very necessary. So technical support, pre-sale technical support and after-sale technical support, and in fact for that matter support in any way at all. Being a technical business the technology's central, but that's not all there is, there's a lot more to it than that. Managing Director [10,165]

In recognition of this issue, five managers were sponsored through a general business programme at The University of Auckland. The benefits of this involvement have been significant:

PM: ... before I did the diploma in marketing [US suppliers] used to use all these terminologies which I could never really relate to or understand what they were talking about but now [I can]...It's really good. Product Manager [11,12-14]

Clearly there is a strong justification for general business education in addition to implanting specific technical knowledge. Business knowledge provides the context for technical applications, enabling greater insight into customer needs beyond the functional or functional level. Furthermore, it provides a commonality of reference points and vocabulary, essential for those engaged in customer conversations. The quotation also reflects enjoyment of the benefits of knowledge gained, implying increased personal and job satisfaction and therefore a positive impact on organisational morale and staff retention.

The investment in knowledge is not restricted to the firm's staff – it can also be extended to channel partners, as the CEO explains:

CEO: ... the time invested [in our channel partner training programme] is enormous ... a three month programme, weekly training, three hours a week ... This is serious investment ... CEO [16,342-348]

Overall, knowledge is a crucial resource in this organisation. Four complementary types of knowledge provide value for customers – technical, customer, general and institutional. A systematic programme of knowledge implantation and upgrade has been undertaken to ensure currency and relevance. In addition to the knowledge itself, the ability to communicate and help customers exploit that knowledge before, during and after the sale is required. This is the imperative in terms of creating and delivering customer value in a knowledge-based business.

6b.5.4 Communication

“ ... the more communication we have in the company the better off we are.” Logistics & Purchasing Manager [2,304]

Key themes emerging from the data with respect to the organisation’s internal communications and the impact on customer value were: leaders’ ability to communicate organisational direction, quality of functional and cross-functional communication and management of communication.

6b.5.4.1 Leaders’ ability to communicate organisational direction

Evidence emerged that leaders’ ability to effectively communicate organisational direction was vital, but problematic. The styles of the MD and CEO are very different. The Managing Director acknowledged that in general, people have difficulties understanding his view of the world and his expression of that to them:

MD: ... So to me it looks so obvious, and I guess it’s really the problem that I’ve had all the way along - I cannot believe that people don’t see the same pictures that I see. And I know they don’t. Managing Director [10,342]

CEO: [MD] uses a form of the language that’s really good in certain situations – he’s quite diplomatic in the way he talks. ... And that has its time and place. But when it comes down to actually getting things done, life’s often a lot simpler. And to motivate somebody to do something in the amount of time that people have, they often don’t have time to talk to [MD] ... CEO [19,19-23]

As the CEO points out, the MD’s more obtuse communication style is more appropriate to difficult high level negotiations rather than every day organisational interaction in a high pressure environment. Thus, top-down communication has been ineffective. Additionally, bottom-up communication had been problematic. Managers’ views did not filter up to top management, meaning people did not feel listened to or valued:

AM: [Consulting firm] came in and [questioned] each individual ... And a lot of [firm’s recommendations] were almost word for word for what each individual said ... But it wasn’t until [focal firm] paid the sum of money and it was on a piece of paper with a brand on it that it was listened to ... And that’s kind of frustrating. Account Manager [5,110-116]

Organisational members clearly felt a higher level of comfort in sharing their knowledge and ideas with an external consultant rather than internal senior management. It can be inferred that this higher level of comfort would also apply to

this project and this researcher. Therefore, interruptions in the information flows both top-down and bottom up created frustration at all levels of the organisation.

6b.5.4.2 Quality of cross-functional communication

Frustration with barriers to horizontal communication (i.e. between functions) were highlighted almost universally by managers in the firm. Product managers, for example, operated as a conduit between various organisational functions:

SPM: ... key account managers who are having problems with purchasing or admin that actually go through product management ... they can't talk direct because they bump heads ... I've termed it 'Agony Aunt' because a lot of the traffic goes by product management because we have to talk to them all. Senior Product Manager [2,92] (bold added).

The terminology 'bumping heads' and 'Agony Aunt' implies conflict, and hence time consuming conflict resolution – antithetical to effective delivery of customer value. In addition to slowing the flow of communication, indirect communication also affects the quality and amount of information shared between functions:

LPM: ... one thing my group, particularly the purchasing side, bitch about, is the lack of communication between us internally ... And we're constantly using that information to make decisions, and our biggest bugbear is someone has a piece of information that they keep to themselves ... And as a result of it we could make the wrong decision or we make a poor decision which is the thing that really upsets me. Logistics & Purchasing Manager [2,304]

As the Logistics & Purchasing Manager points out, errors would impact on organisational costs and on service quality. In other functional silos, remoteness from customers was an issue:

MFA: I'm probably not close enough to really know, it's just a feeling I get looking through the customers and one sort of seemed to drop off the bottom, and nobody seems to notice ... I don't have the ability to talk to the customers [the business end of things] does seem to be removed from the accounts ... you do like to know behind the fellow there's a name and something about the person so that it's not just a name on a bit of paper and a number. Manager - Finance & Administration [981-87]

This manager clearly felt isolated from customers – which could explain the perceived lack of empathy complained of by other functional managers with respect to this functional area. However, care and concern was expressed about customers and their well-being – indicating customer orientation and a desire to provide value rather than the oppositional perspective presented by other managers. The impact of poor cross-

functional communication was described by an Account Manager in the second workshop:

AM: ... there could be a strategy or a specific tactical manoeuvre that we're trying to implement. And one person gets told, and ... starts to work on that. The other person doesn't necessarily get that information straight away [so] two people are on different tangents. Now that's complicated by having more than one group. So we have multiple groups on four different tangents. We came to the conclusion that ... inter-department communication is the most critical thing of all and we don't fully appreciate how each one is impacting the other. Account Manager in Workshop 2 [17&18,611]

The complexity of the organisation's business and differential levels of awareness regarding desired strategy and operations practice created significant difficulties and the potential for conflict.

6b.5.4.3 Quality of intra-functional communication

While cross-functional communication was clearly an issue, within-function communication was also problematic. An informal style on the one hand had traditionally worked well:

NSM: ... that's a good benefit of having this environment where we're all on one level, if somebody wants something, just go and talk to them. Very straight forward, very efficient. National Support Manager [3,243]

On the other hand, this style also created difficulties:

DGM: ... they're relying on the fact that they're such a small team and they're involved in everybody else's business, that they think they know what's happening ... and they know what's happening on an issue driven basis or opportunity driven basis. But in terms of putting that into the context of the strategy and where they're going, they can't do that. Divisional General Manager [13,51-53]

As the Divisional General Manager pointed out, in the context of new strategy and significant organisational change, informal communication is not effective.

6b.5.4.4 Communications management

The data indicated that a further significant impediment to effective communication was the lack of an organisation-wide information system:

BDM: ... if you walk through the store and you haven't been introduced to [Stores Manager] she'll bite your head off ... she bit the CEO's head off from [key supplier], so I've been asking for a notice board here that says "welcome to xyz from so and so" visiting us today ... And I can't get that message across – that's what we should be doing ... She's out of the loop. It's not

her fault. So when I've got a visitor I make a point of introducing them ... We've got two systems for internal communication ... [Which can cause problems – for example] if it's something [Account Manager in branch] didn't want to hear, he said "I didn't get that, cause the system wasn't working, you should have sent it from the other one." Business Development Manager [8,76-91]

The lack of a general information system resulted in differential access to information. Some individuals are effectively excluded from day-to-day matters, resulting in reliance on the awareness, energy and availability of other individuals for information vital to their job function. The consequences were miscommunication, misunderstanding, and inefficiency – and sometimes embarrassment. Proactive attempts on the part of individuals to rectify a systemic issue were understandably ineffective.

As we have seen, ineffective top-down and bottom-up information flows, lack of effective communication between and within functions, and poor communications management impeded understanding and action. The incoming CEO acted to address all of these issues. He adopted a direct and action-oriented communication style:

CEO: ... I tend to be a little more to the point with what I'm expecting people to do. As long as they understand the principles of what we're trying to do on the whole, then I'm quite happy to bark simple orders at people and say you know "We need to get to get this done – come back and see me." CEO [19,25]

He also directed his attention to the individuals from whom he is seeking results, rather than through the MD. He gives the example of a breakthrough – he was able to effect a change in IT systems configuration (traditionally under the purview of the MD) that had frustrated him for some time. By the expedient of talking directly to the IT team rather than through the MD, he achieved the outcomes he was seeking:

CEO: ... the IT team, needed specific direction "What are we going to do, when are we going to do it, who are we going to do it with, and leave us to do it and we'll do it." And [MD] was "Well let's talk about this, let's talk about that and let's see how that goes, and let's not worry about time, it's completely inconsequential." We're starting to get back on track. Again with them and everywhere else ... CEO [19,25]

As the CEO notes, an unambiguous and direct style of communication achieved results. This was an important learning and underpinned progress. He also worked to clearly communicate the organisation's objectives and strategy. He prepared a formal document articulating the firm's new direction, and formally presented it to the team:

CEO: ... [I've prepared this document] for the organisation's benefit, so everybody can understand what [firm] is about for themselves and how does that impact their jobs, their direction, what they do on a day to day basis, what's it all for. So the internal piece, the hierarchy of communication starts with the business definition, vision, mission; and then breaks out into the strategic imperatives of the organisation. CEO [16,118]

This provided a point of reference for both the CEO and his team. Cross functional communication was also highlighted:

AM: ... it's education of people within other groups, as to what are the critical success factors of the other group, that we think will lead them to fully appreciate how a company comes together. Account Manager in Workshop 2 [17&18,611]

The identification of the problem, its implications and the need to address it was the first step in improving cross-functional communication. As the Account Manager pointed out, communication underpins understanding – like external relationships, internal relationships are built on communication, which supports the development of trust (Varey and Lewis. 2000).

In terms of implanting more systematic communications, change occurred as new staff members were appointed and culture change was gradually effected. The new GM implemented more formal management and communication procedures within his division:

DGM: [I covered in our] team meeting ... this week, what I believe my purpose is, how I believe that relates to the team and then set an agenda for the regular sessions. The meeting should start on time, finish on time, so that people aren't reluctant to come to them, so that they look forward to coming to them, and there should be an opportunity for each individual to identify key priorities they're working on, key challenges, any challenges they've got that they need help with. Divisional General Manager [13,49-53]

These approaches would be beneficial in the wider organisation. Individuals also took the initiative and developed strategies for dealing with conflict:

NSM: ... you might not necessarily be able to change some of the people and attitudes within the company, therefore you can change yourself. [We're the] champions of customer service, and we have to live and deal with people and their attitudes in a different way, rather than coming to a head like we have in the past. We have to learn how they work and how to approach them and talk to them the way they want to be spoken to, not the way that you normally speak to people ... I used to have a bad relationship with [purchasing officer], now I talk Star Trek and he's my best mate. It could be that simple though, it could be something as simple as that. National Support Manager in Workshop 2 [17&18,401-411]

Echoing the comments of the Account Manager with respect to education, the efforts of individuals also underpin greater trust and understanding between functions.

In our final conversation, the CEO indicated that changes implemented during the course of the project had made a significant difference to delivered value – and that he expected to see rapid improvements over the upcoming year. I asked him what he attributed those changes to:

CEO: We've set a clear path for where the company was going and what the expectation was, for everybody ... And that's reinforced on a monthly basis. I haven't heard any of those horror stories about poor service delivery because people are getting expectations through the company to perform to a standard ... and we communicate that to all the staff every month in our monthly meeting ... So there's a greater awareness of who's important and who's not, and what we expect the standards to be. And when things do jump out of the ordinary we react pretty quickly ... everyone is very clear on what action needs to be taken. CEO [19,234-238]

The impact of unambiguous, open and frequent communication of management expectations impacted on people's awareness both of management expectations, and what was required of them with respect to those expectations.

Overall, the results indicate that effective vertical and horizontal communication is vital to enabling customer value delivery. Attributes of 'effectiveness' are presented in Table 6.9:

Table 6.9: Attributes of effective organisational communication in the case firm

Aspect	Attributes
Leadership	Clarity on objectives, strategy & expectations Ability to listen & respond to bottom-up input
Culture	General climate of respect, openness, personal responsibility
Communications management	Systematic approach IT support - pan-organisational information system (e.g. LAN with general email function).
General characteristics	Unambiguous, transparent, direct, open, frequent, all-inclusive

Source: Developed for this research

Quality of communication in terms of clarity, accessibility, timeliness, accuracy and frequency is essential to enabling development and delivery of customer value.

6b.5.5 People, systems & structure

This section explores the impact of three critical aspects of organisation with respect to enabling customer value development and delivery: people, systems and structure.

6b.6.5.1 People

“... it’s the combination of all [our people] that makes it work. If you take one of those fish out of the pond, they can never quite do what they can do when the organisation as a whole pulls together ... the organisation is incredibly resilient.” CEO [19,226]

As the CEO’s comments indicate, he considers the firm provides an environment whereby individuals can contribute – be the best that they can be. This view is supported by this manager:

BDM: ... I’ve finally found a place where everything I’ve done in the past allows me to work to the best of my ability. From retail selling, to computer selling, my electrical skills, my lighting background, blah, blah, blah, the war stories. Business Development Manager [12,454-459]

The Business Development Manager has extensive technical and business experience, in addition to skills in selling and training. These have been deployed in implementing the new channel strategy with a major distributor, entailing relationship building, and technical training. He also uses these skills and attributes to sell automation solutions to business owners. He has a unique set of skills and attributes that as he points out are ideally suited to his current role.

In addition to the knowledge and skill side of the equation, personal attributes also play an important role in the delivery of value, in particular qualities of self-awareness

and a propensity to learn. As the following quotations illustrate there is a strong thread of other-centeredness, integrity and ownership in the organisation's customer-facing managers:

SPM: ... I was actually a little bit upset that schools [were] being taken for a ride. People would see them as a really good way of make quick money, they go in, rape, pillage and move on. So ... being a New Zealand company, we wanted to take some responsibility ... Senior Product Manager [2,126]

BDM: ... I've done plenty of stage shows ...It was fun, I did that for my kids. They felt good having Dad doing this thing, and I felt good 'cause I was doing something for the community. Took me three years to get out of it though. My kids are at high school and I'm still doing the primary school plays! Business Development Manager [8,409]

DGM: One thing I ... have done on the side for the last 12 months is help small businesses. So I just do it for free, I don't charge, though I should do [haha]... it's such good fun to be able to go into a company for an hour a week, I used to sit down with them on a Friday afternoon, help them get their plan, and then to see the company blossom it's really great fun. Divisional General Manager [13,222-226]

SPM: ... they blatantly lied when we asked if everything was OK, did we need to check the area to make sure whether the installation was done properly. They said "no." ... I don't really expect myself to put on overalls and crawl under buildings, but ... I put on my overalls ... looked under the building, came back over and looked at his boss and said "Do I really need to tell you what's under there?" Senior Product Manager [2,140]

DGM: ... my wife runs a [charitable organisation] for physically handicapped and able bodied kids ...she rang up today and said she hasn't got any money again, and so she couldn't pay her staff wages, so I've paid the staff wages this week. And that's happened time and time again over the years. Divisional General Manager [13,230-234]

NSM: ...[I] go into the zoo in the weekend and work with the animals, and people ... we just sort of walk the elephants, feed the bats ... National Support Manager [3,347-355]

BDM: I'm a swimming coach. Does that explain it? Business Development Manager [12,370-373]

The competitive culture belied a commonality of caring: these managers cared about their customers and the impact their work had on customers' environments, and they also cared for their community and shared their scarce leisure time on their own initiative. It is likely that these values stem from the owning family – and that like has employed like:

MD: ... people sell technological things which they shouldn't sell, they're just not appropriate. Whether they don't understand or just see it as a way of making a quick dollar I don't know ...

sometimes I'm not comfortable with people, with what they sell ... it's not right for the customer ... the lower cost or a different solution – it may be a lower cost or it may be a higher cost... but [it should be] more appropriate or more valuable over time for the customer ...Managing Director [10,123-129]

Here the Managing Director is expressing a value set related to fitness for function, and the responsibility of the seller to meet the long term needs of the buyer. The following quotation expresses the operational interpretation of this philosophy, with respect to a school network:

SPM: ... we're becoming extremely proud of the [school] development we're developing and [installer is] delivering on ... we've had to migrate their headspace, because they're working on cost ... you're undermining the value you're delivering to them if you're only focusing on cost, because they need performance from their networks, and if you deliver dogs of networks, who can afford to go to class when it takes half an hour to deliver the information to class and the other half to send it back again? Senior Product Manager [2,184]

These quotations reinforce the cultural elements of integrity and responsibility highlighted previously, and also the combination of both intellectual and personal attributes that characterise the individuals in this organisation.

The Stage Two results indicated that firms adopting a more utilitarian and socially oriented focus (i.e. a Systemic value posture) characterised not-for-profit and governmental organisations rather than commercial organisations. However, it also indicated that managers espoused social responsibility. Stage Three findings confirm these findings. Managers in the case firm reported considerable satisfaction in engaging in socially responsible behaviours, both inside and outside the firm. This would support a 'theory-in-use' rather than merely an espoused position.

6b.6.5.2 Systems

Systems were an important and controversial subject for the organisation, as indicated in the supply chain management section of this chapter. Primarily 'systems' in this case applied to the IT and logistics system. Historically the Managing Director's interest and skill in the IT area created efficiency advantages, however, maintaining this advantage and also meeting the demands of the new environment has been difficult:

MD: [CEO] will say that we're antiquated and behind the times. And in some ways he's right, but in other ways he's wrong, and he's starting to appreciate that now. So what we've got is a mixture of things, because of the legacy and the technology and a few things that couldn't move

forward that I wanted to, we got stuck. Other things were and still are right at the leading edge and always have been, and our aim at the moment is to shift our systems so that the things [CEO] growls about are added to the things we've already got. The whole lot's upgraded and that will make an enormous leap forward in terms of what people can expect and do ...Managing Director [10,289].

These comments are supported by divergent views of the management team regarding system utility:

Table 6.10: Managerial opinions of logistics IT systems:

	Positive opinions	Negative opinions
Effectiveness/ value to organisation & customers	<p>...our computer system is an immense valuable tool ... (it does) all the calculations for purchasing, which we just couldn't do ... I don't have a magic wand I just have a magnificent computer system that gives me the information and I add some interpretive touches to it. LPM [2,139-143]</p> <p>... a lot of it's become automated (it's) freed up heaps of time ... and if it wasn't for the technology ... we would definitely have an increased amount of difficulty getting done what we do today! NSM [3,65]</p> <p>... we've got quite a highly refined logistical and IT system ... it's ... being enhanced right at the moment, but even our traditional one has done a pretty good job also. So the IT system, also our logistical and delivery system, I'd say it's pretty good and efficient. PM [11,198]</p>	<p>... to (customers') minds our logistics system sucks. Our perception of it is greater than what it is. (Non-sales & marketing people) think it's the bees knees. (CEO's) a realist though, he takes the same view I do, it's a system and it works. BDM [12,39-49]</p> <p>I can't even get a stupid little report done in three years just to make customers lives easier! CEO [1,171]</p>
User- friendliness/ user skills	<p>... (the logistics system) gets let down with people on the end ... they grab the wrong product and the wrong quantities ... Three times in a row once it happened. The system works, it keeps on rectifying and if they follow the rules ... there's no way you could get it wrong. MFA [9,118-127]</p> <p>... most of our external sales guys don't know how to operate the system ... It's there for everybody to use, and there are only a very few (who can) LPM [2,139-143]</p> <p>... the only problem you get is where the people get in the way or start 'helping' the system (haha) MFA [9,223]</p>	<p>... it's not a very user-friendly database, unless you know a part number you can't find the product. BDM [4,97]</p> <p>... when they come to me with a problem ... at the back end of that's a customer. I can say "bugger off, go and find it yourself, 'cos it's there." And then 4 hours later they haven't got back to the customer so it's easier just to tell them, as I know the answer. LPM [2,151]</p> <p>Well occasionally you have to bum rush a system then as you say clean the mess up afterwards – better to ask for forgiveness (than ask permission) ... SPM [2,341]</p>
Reliability/ accuracy	<p>... it just gives us such a stable platform of information, provided we keep the information up to date and 100% accurate ... like all computer systems it's GIGO and when we get little gaps ... that's the most frustrating part of our organisation. LPM [2,258]</p>	<p>... we get to see what the problems are and I've seen our system falling flat on its arse on a regular basis ... NSM in Workshop 1, [6,401]</p>

As the quotations indicate, while managers acknowledge the system's contribution, their views regarding its efficacy vary significantly depending on their role – and their length of tenure in the organisation. Operational, administrative and long-serving managers consider the system excellent – as did the National Support Manager who

acknowledged its role in automating routine transactions. As the Managing Director points out, the issue underlying these operational difficulties is strategic – the system itself has not yet been adjusted to accommodate the strategic change from standardised commodity products to more complex and customised packages of solutions. This view is supported by the CEO, who acknowledges the operational difficulties this is creating:

CEO: It's the biggest problem that the account managers have – the whole structure of the IT system was built around component customers. So when you've got a solution package ... you have to work around the system. Doing things organisationally is very, very difficult – from ordering to delivery to pricing ... some of the fundamental structures in the system create part of the problem we have with it – and some of it is our use of it ... there's no way of modifying the system to achieve what we need to without moving it to a new platform. So we're stuck until we get that done. CEO [19,276-280]

Clearly, the system (like the business), is in transition, and as we have seen, a transitioning IT system poses operational difficulties.

The data highlights two key issues affecting customer value: users' ability to use the information, and quality of the information. These issues are linked. In terms of information usage, non-operations and administration people appear to be struggling, and because of this, customer service can be compromised unless knowledgeable individuals compensate for these skill shortfalls, as the Logistics & Purchasing Manager pointed out. There appears to be a need for 'consciousness-raising' to develop a general understanding of the issues, and some training implemented to address skill shortfalls.

The quality of the information was the second concern:

LPM: ... there are a certain number of things we do external to the system and we do it on handwritten paperwork ... [and that] just destroys the confidence of people in the whole system ... we have a lag in ... stock accuracy, particularly with ... the active products we're moving into ... there's difficult things about the costing ... So we do a paperwork transaction [which creates lags in processing the information and updating the system]. Logistics & Purchasing Manager [2,154-169]

The manager highlights here the linkages between incorrect usage of the system and the quality of the data within the system. Lags in real time information availability have a high impact on operational capability. If the system is not updated information is not timely, reliable and accurate. While these lags are an issue, more serious issues

for customer and shareholder value arise from accounting procedures – in particular lags in writing off missing stock:

LPM: ... this is one of the biggest problems with our sales guys ... [for example] we've got 10,000 showing on the record. We go to find it and we only find 6,000 ... So the next poor guy comes along, he doesn't know there's a problem, he puts an order in [for 10,000 not knowing only 6,000 are available] and tells the customer "yes you can have it tomorrow", and what happens? "Oh sorry [we can't find] 4000 [of those]" ... Logistics & Purchasing Manager [2,175]

In this case, the 4,000 missing units were noted as physically missing by logistics personnel, however were not written off i.e. deleted from the system by accounting personnel. The firm has an integrated accounting and stock keeping system, requiring coordination of accounting and logistics information. If accounting does not change system information in response to physical realities, the accuracy of the system is compromised. This is an example of perceived negative shareholder value impacting on customer value:

LPM: ... every time we say "look we can't find \$25,000 worth of goods" ... that's \$25,000 that comes off the assets of the company, but also comes off the [family's] personal income, their own personal money. So hence there's a very big reluctance to write off stock ... sometimes [Manager - Finance & Administration] writes it off and we find it again. Good! It happens! But – the action of writing off stock and getting stock accurate absolutely 100% is the biggest single bugbear ... as we go looking for things that we know that we've asked to be written off ... more importantly from a customer point of view and customer value and satisfaction we say to the customer "yes not a problem we'll deliver that to you tomorrow" and then we go to find it and it doesn't exist, and we find that months ago, that it hasn't been updated. Logistics & Purchasing Manager [2,177]

He also highlights the implications for future customer value. Automation is the most cost-effective means of purchasing for routine re-buys, for example component products. However, automation is reliant on system accuracy:

LPM: ... [CEO's] drive, is to go on-line and have customers on-line with us, who will go in and look at our screen, now my biggest fear is that we'll go in and say there's 50 of a particular type that they want and we've only got 10 .. From my point of view we can't [go on-line] ... it will be a disaster. The key things are the accuracy and reliability of the information in the computer ... [and without that] you may as well not have one. You may as well not have a system at all. Logistics & Purchasing Manager [2,179]

Clearly, allowing customers direct access to an inaccurate system is inadvisable, hampering aspirations towards e-commerce.

Overall, system suitability, accuracy and reliability is a key aspect of enabling customer value creation and delivery. In the focal firm, top management is rapidly transitioning the IT system from a focus on process reinforcing and enhancing activities to organisational transformation (Venkatraman 1994), to support major strategic redirection. However, two systems issues hamper the process of strategic transition: user unfriendliness, and system inaccuracy/unreliability. The frustration expressed by managers will remain until such time as the system's performance matches their expectations. As the CEO points out '... we're stuck until we get that done'. CEO [19,276-280] Ironically, in a technology-focused company that partners with other companies to enhance their customer value, technology is disrupting value delivery activities.

6b.6.5.3 Structure

The major issue impacting on customer value with respect to structure was the need to ensure organisation structure supported the new strategic direction. However, the structural form was controversial. The CEO considered a divisional or SBU structure appropriate:

CEO: ... we've really got two sales pieces to the organisation ... under each we have leadership, business development, each of them are going to have a GM ... and then we have the sales team under each of those ... and then each one has a technical/ product manager ... and then across those we have a call centre ... CEO [1,189]

While the consultant considered it timely to address structure, he felt this more corporate approach to be 'too far, too fast':

C: ... they're right at the crux point at the moment, of that-sized organisation where [MD] has run it all. For example, the request from me for an organisation chart really was anti-cultural for them 'cos they don't think like that. [So I said to MD] "Who has the responsibility for the performance and for the development of each individual in this organisation? Let's map it out." And ... fundamentally [MD] did. So what you had was that very efficient model, single layer ... [which is] causing a lot of problems now ... [however] a corporate structure approach ... two divisions with two divisional general managers and a corporate CEO ... felt too far, too fast. I understand what they were trying to do and that's okay, the purpose and the intent was excellent, but just a bit too far too fast. So that's evolving, and may or may not ever get as far as that. Consultant [15,31-41]

At the time of writing (November 2003), one division has been established and is working well with its new GM, however the second GM has yet to be recruited.

6b.5.6 Summary – Enabling promises

In the context of the focal firm, the critical factors supporting or enabling the firm's abilities in customer value creation and delivery were leadership, culture, knowledge, communication, people, systems and structure. Key aspects of each are summarised in table 6.11:

Table 6.11: Summary of key attributes enabling customer value

Attribute	Importance	Case illustration
Leadership	High	Father and son provided complementary intellectual and emotional input to the business – wisdom and energy, heritage and change. Both provided leadership in building long-term customer value, developing a customer-centric/ focus strategy, and congruent capabilities and competencies.
Culture	High	Overall organisational culture was conducive to customer value enhancement with core values of integrity, intellect, and effort. Members uniformly displayed high morale and enthusiasm for both the firm and its customers. However less helpful aspects of the culture such as social disengagement and emotional unavailability impacted on team building and esprit de corps. Two functionally based sub-cultures: one process and efficiency-oriented (service units) and the other customer and effectiveness oriented (business units). Each has suboptimal characteristics such as hyper-competitiveness and blame (business units) and firm-centrism (service units). Conflicts within and between these cultures created impediments to customer value delivery. Alignment of cultures may occur over time, however, each is deeply entrenched.
Knowledge	High	Knowledge was a key enabler of customer value creation and delivery. Four knowledge types (technical, customer, general and institutional) underpinned competency in knowledge management. The firm systematically approached this task, addressing issues of fragility (vulnerability to staff turnover), perishability (rapidly changing technologies) and implantation (difficulties in rapid knowledge upgrade) with a planned programme of development in both technical and general business knowledge. Both forms created advantage, and represented a significant source of cost.
Internal communication	High	Quality of communication was predicated on four issues: senior management's ability to clearly and actionably communicate organisational direction, the ability to listen to signals from others in the organisation, the quality of inter-functional and intra-functional communication and the management of communication. The CEO's direct and unambiguous communication style assisted managers to enhance value. However the quality of inter-functional and intra-functional communication was a recognised problem. Inadequate information systems posed serious impediments to information sharing. Value-promoting attributes were clarity, frequency, accessibility, accuracy and transparency.
People	High	Both EQ and IQ translate into willingness and ability to develop and deliver customer value. In the focal firm individuals demonstrate a high degree of EQ – maturity responsibility self-awareness and other-centeredness. These qualities support customer value creation and delivery;
Systems	High	IT systems were in transition from a mass transaction to a customised solutions environment, creating issues for managers in terms of information quality and accessibility – both are required in order to create customer value;
Structure	Low	A structure commensurate with strategy is indicated - however this was not a key outcome of this research.

Source: Developed for this research

Customer value is a function of the willingness and ability of a firm's people to deliver that value. This is in turn predicated on their knowledge, skills and personal qualities – including their personal values. The service environment of the firm is an amalgam of the firm's systems, structure, and culture, in turn determined by the

quality of leadership and communication, and the quality of the ‘raw materials’ i.e. human and financial resources. All aspects contribute to the firm’s ability to create and deliver customer value. Logically, if a customised offer is made, then system flexibility is important. If a standardised offer is made, then a tightly controlled system is more appropriate. This logic also applies to structure, however there is insufficient evidence in this case to draw conclusions regarding this aspect of firm configuration.

6b.6 Realising promises

The case results indicated that ‘Realising’ promises was important in two senses. The first sense relates to the customer ‘realising’ or perceiving that value has been delivered – comparable to the post-purchase evaluation stage of the purchasing decision or buying process. The second sense is financial, whereby the firm is able to appropriate (or realise) a return from the value created and delivered, so that it may continue to undertake these activities in the future. In each sense a metric is implied: that is, measurement is undertaken, and results of that measurement communicated. Results of the study are reported in each of these senses.

6b.6.1 Customer realised value

*“Value management is a three legged stool. And any two legs aren’t enough. We need to articulate our value, we need to measure the value, and we need to review and agree the value.”
Consultant [15,82]*

Measuring and communicating realised value to customers is an important aspect of the customer value creation and delivery process, as the consultant indicates. He relates this back to the notion of value propositions at various levels and provides an indication of the challenges of managing customer perceptions:

C: ... you create value propositions up at this [strategic] level. Because that's the whole reason to be there, because that is the value you're trying to articulate and be valued for. The problem is when it comes to service delivery time ... guess what people put in place for measurement? Level one [intrinsic] measurement processes – called service level agreements. And if you ever go and look at service level agreements, what do they measure? They measure availability, reliability, delivery on time, accuracy of invoice But they're all level one metrics. Consultant [15,82]

As the consultant is pointing out, value must be measured appropriately for its context – i.e. at intrinsic, extrinsic and strategic level – and at all three levels. In particular, organisations must measure value at the strategic level:

C: ... a lot of organisations have got better at articulating their strategic business value and value propositions, but allow the actual measurement, to be level one ... it's not just a subject matter change, it's a people change. So we promised to [strategic/ senior] people and delivered to [intrinsic/ front line] people. Now these people might be quite happy ... if they weren't happy the execs would know about it ... and everything's going hunky dory. But what's happening up [at strategic level] is this thundering silence. And going through the guy's head is "Why have I selected EDS as my strategic IT partner? It was because of a whole lot of things I remember. Is that happening? I don't think it is". Consultant [15,82]

In this example the value provider has articulated – or promised – value at strategic partnership level, delivered the value at all three levels (we assume), however, measurement and communication of the realised value has only been undertaken at front-line level. This means that value promises made are honoured but not perceived to be honoured at strategic or senior level. Management and measurement is thus an important issue in terms of 'realised customer value' – and must be undertaken at all three levels. In the case of the focal firm conscious effort to articulate, measure and review customer value appropriately was made:

C: ... we said “ to make sure it’ll happen, let’s not just have it as a management process but actually put it in the agreement, so that it has to happen”. So ... under [focal firm’s] strategic channel agreement is a commitment that both parties must jointly plan the business, which includes the success measures of the relationship for both parties. So they’ve got to force that out because that is a way of defining the value of the relationship, they have to agree who and how that’s going to be measured, and they have to meet quarterly to review the performance of the relationship ... Now it doesn’t mean to say it’ll work, but it will increase the chances that it will happen ... I’ve got to [sell at all three levels,] articulate value at all those levels, but I also have to measure and manage that value, and have it visible and agreed at all three of those levels ... Consultant [15,169-177]

Strategic value management requires the firm to articulate value at all three levels, to agree on the level of value delivered at all levels, and then to measure the value received at those levels, otherwise the customer may not perceive the promised value was delivered.

6b.6.2 Firm realised value

“We certainly believe there are margins to be had, and without the value you can’t make the margins, and without the margins then we can’t make the profit.” CEO [19,218]

This section reports on results related to the firm’s ability to appropriate its share of the value it creates. It highlights three major points relating to realising value. Firstly, evidence relating to managerial attitudes towards achieving returns is presented. Secondly, evidence based on general business strategy with respect to market or industry structure (i.e. the firm’s ability to achieve monopoly rents) is presented. Thirdly, evidence relating to effective resource acquisition and deployment (i.e. Ricardian rents) is presented. Finally, evidence relating to effective management practice is presented.

With respect to managerial attitudes to realising value, the CEO points out the parameters:

CEO: ... we have to have a low cost attitude, which means highest performance for least amount of money invested. And it’s not just the money, profitability comes from being efficient in managing funds, capital, stock and time. CEO [16, 348]

As he points out, customer value precedes shareholder value. He also points out that without the margins profit cannot be enjoyed – however, margins do not automatically translate to profits, effective general financial and operations management are also required. This firm has achieved superior returns:

CEO: ... [we've achieved growth rates] which we just don't see in the kind of mature industries that we're playing in. We've got growth rates in thousands of percents across customers as a result of some of the relationship strategies that we've put in place. CEO [19,209-212]

As previously indicated, the CEO is strongly motivated to improve shareholder returns:

CEO: ... [we] can't afford to go through an unprofitable period, and if it is it needs to be working towards achieving the profitability piece ... businesses lose sight of the fact that you're in the business of being a business. And to be in business you have to make money, so don't hide the fact ... There's no point being a leading edge distributor if you're not making money. CEO [16,190]

This is in marked contrast to previous practice:

CEO: [Financial performance has] been hidden for too long. The company has also been unprofitable for too long ... we have to get the financial system in a position where we can actually present that information to people ... it's been hidden. That's my parents. They're quick to jump up and down with people throwing money away, but don't necessarily tell people if there's anything left over. CEO [16,157-164]

Supporting the CEO's transparent position on financial performance, market-facing managers in the case firm are focused on improving returns and cognisant of the issues of making returns in the face of an unfavourable industry structure:

SPM: ...the tender market ... is very mature... you can't add any innovation there because the [tender] document stipulates exactly what you get to deliver, so it all boils down to, unfortunately, the price. Which is why we stepped out of that market, because what's the point of driving margins into the deck – and with an organisation like this ... you have to be able to operate in markets where you can deliver value otherwise it's the wrong market for you. Senior Product Manager [2,350]

BDM: ... I don't measure myself on sales, I measure myself on margin ... sales are the first dimension yes, but margin's more important. Collecting pictures of the Queen is the ultimate aim isn't it?... the problem is getting some of them to stick in the building, that's what we have to do. It's margin. You turn over a zillion dollars a year, but if there's nothing that's retained, then what's the point? Business Development Manager [8,183-194]

DGM: [Top Account Manager's] biggest concern is we're seen as being the glory boys in the company, networking active stuff ... but what keeps him awake at night is that the other divisions within the company, in terms of actual dollars contributing is far higher ... he doesn't want to be the top salesman in the division which is running third ... he said "we need a wake up call, we need a kick in the bum to say we've got to be number one. We've got to be the most profitable division." Divisional General Manager [13,117]

BDM: [Manager - Finance & Administration] seems to be of the opinion that I don't mind her making money – in fact I insist she does! Business Development Manager [8,590]

AM: ... it's all dollar driven, the more you get money, the more people will listen to you ... the only reason why they're listening is I think is because the dollars are flowing and I think once they stop probably I don't know it, but touch wood, that's probably when they stop listening too. Top Account Manager [14,44-46]

Thus, the CEO and the sales and marketing team are all focused on sales, margins and profit, in both relative and absolute terms, reflecting the competitive culture. Dollar returns are seen to create power in the organisation. Managers are critical of the markets they operate in, and recognise structural issues that impact on their ability to produce returns.

Given the strong focus on profitability, can the firm appropriate or realise satisfactory returns? Monopoly rents relate to market or industry structure. Monopolistic firms (i.e. those not facing significant competition) can undertake a variety of strategies (for example decreasing on-seller margins, product/ service quality or increasing prices or both) to enjoy above average profits (Peteraf 1993). As we have seen, the case firm was clearly not in a monopoly position – the industry is competitive, resulting in poor returns for average players:

CEO: We've done some profitability benchmarking through distribution of equipment [it's very

hard to get specific to IT], and the average net profit ... is about 3% ... When [consulting firm] pointed that out, he said that we're in an incredibly unattractive industry. CEO [16,196]

SPM: ... you're talking about margins of really really low percentages – you can't run a company like this on percents you can't employ people and engineers on a percent or two ... [competitor] is having real difficulties, look at the current price of their shares – and they're one of our direct competitors ... I can't remember how many staff they've cut down to, they used to have 180 it might be down to 60 now ... they're trying to do a low cost model, turning over \$130 million and making \$400,000 profit ... It doesn't quite equate, does it? Senior Product Manager [2,350-354]

LPM: [there are] lots of competitors in the network market, they cut each others' throat in terms of price, hence the constant pressure on the tender pricing ... to the point where a day lost makes the difference between profit and loss on the job. Logistics & Purchasing Manager [2,326]

The firm's response, as suggested by Hawawini et. al (2000), is to avoid being an average player. Various innovative strategies have been implemented, suggesting this firm has superior management skills – again consistent with the findings of Hawawini et. al (2000), and echoed in the CEO's remarks:

CEO: ... the history of the business has shown that in times of technology upheaval, being at the front edge of that allows you to create profit. Getting back to that meant we had to completely transpose ourselves from one area of an industry to another – we've had to vary it as the technology has changed. [19,218] ... we can set the industry standard, if we don't already. We've definitely got the template to do it and this is probably the reason why we can jump outside the industry profitability index ... CEO [16, 348]

The CEO is suggesting that first mover advantage (being at the leading edge of technology change), predicated on nimbleness and the ability to switch from sector to sector, and intelligent marketing strategy within that, enables the firm to achieve above average returns. For example, the change in channel strategy returns higher sales at lower cost:

BDM: ... [x hundred] customer accounts are migrating to [reseller] ... Which answers [CEO]'s question. More sales, less cost. Credit control – not a problem ... Preferred supplier contract ... direct debited on the last day of the month without fail. Business Development Manager [8,568-577]

The aggregation of demand from numerous small customers to one large customer also enabled a stronger negotiating position with key suppliers:

BDM: For the initial stocking order ... 50% of our yearly sales is going to come to him in one order. I'm not gonna get [x]% [discount from the supplier], my target is [$\frac{1}{2}x$]%, he should be

able to work that out. ... Business Development Manager [8,590]

Table 6.12 summarises the customer value benefits created by this ‘re-intermediation’ strategy or migration of direct customers to channel partners:

Table 6.12: Additional value created through channel strategy change from distributor to redistributor

Value created for:	Key resources	Additional value	Business benefits
Focal firm	Exclusive supplier relationships Excellent technical knowledge	Less customers – from 400 direct customers to one direct customer => Economies of scope & scale	Lower costs Higher revenues Lower business risk Competitive advantage
Wholesaler	Branch network Credit facilities Technical knowledge	More customers – 400 additional customers and/or greater share of customer Enhanced staff knowledge Supplier rationalisation => Economies of scale => Knowledge creation	Greater share of customer Higher gross margins Higher stock turn Competitive advantage NB: Higher business risk
Electrical contractor	Sufficient technical skills/knowledge Time	Convenience: From 6 branches to 84 branches => Time saving	Lower costs to serve Higher margins
Building owner	Finance	Lower maintenance costs Lower cost of ownership	Higher ROI

Source: Developed for this research

As shown, benefits to the focal firm include economies of scale and economies of scope, as the administrative costs (in particular logistics and accounting) of dealing with hundreds of small customers are exchanged for costs associated with one large customer. Secondly, the opportunity to create additional value (and hence competitive advantage) through enhanced service quality should be achieved, as closer attention can be directed to a single wholesale customer at all levels (i.e. counter, management and senior management). Thirdly, the business risk associated with dealing with small independent business operators of variable expertise and ability to pay also migrates to the wholesalers. The value package thus creates competitive advantage – i.e. creates a propensity for the wholesalers to prefer to stock the focal firm’s product rather than those of alternative suppliers who cannot offer the layers of value offered here (i.e. exclusive high performing product with attractive margins and full technical support including training of counter staff). In turn, the wholesaler’s ability to deliver value to their customers is enhanced, as the skill level of counter staff increases. The

small customers enjoy increased value as they can access their preferred product through 84 rather than six outlets, resulting in time and cost savings. All parties have benefited from the change in strategic orientation, enjoying increased value as a result.

Ricardian rents are the above average returns enjoyed when firms have superior access to critical and limited resources (Fahy and Smithee 1999), thus underpinning the RBV. The firm appears to be achieving above average returns, as indicated in this chapter. However, in the knowledge economy (Clieaf 2001) assessing whether these are based on ‘critical and limited resources’ is difficult – even with the support of insight from reflective managers – as this conversation illustrates:

V: What have you got that all the others haven't? What makes you so unique?

CEO: The [family name haha] ... I don't know ... CEO [19,213-216]

However, on further probing, the CEO noted that there was no room for mediocrity. His aspirations for the firm required superior staff, suppliers and customers. The latter point reflects the aspect of the co-creation of value necessitated by the firm's strategy.

A further unique aspect of this organisation (notwithstanding IT system issues) is its logistics capability. A clue to its potential lies in the following comment:

CEO: I still consider that once we get the technology piece right the logistics capability in the company allows us the potential to compete in other areas, separate from what it's currently involved in. CEO [19,232]

The CEO is acknowledging a core competence, and is considering leveraging this into other markets and businesses (Stalk et al. 1992). Like the competency in strategic selling, this competency is predicated on the qualities of people – who are able to transform dollars and a unique mix of technical, business and relational knowledge into a range of sophisticated business processes. These organisational assets are orchestrated by intelligent strategy and strong leadership.

Overall, the context for this case is the knowledge-based firm. The only identifiably unique resource is the focal firm's people – who are able to transform knowledge and raw materials into advantage (and returns) through the framework of strategy and operations. Therefore this knowledge-based firm is enjoying economic rents based on a unique and critical resource – the intellect of its people, i.e. the immediate and

extended family. These human resources translate into intangible assets of knowledge, relationships and brand attributes.

6b.6.3 Summary – Realising Promises

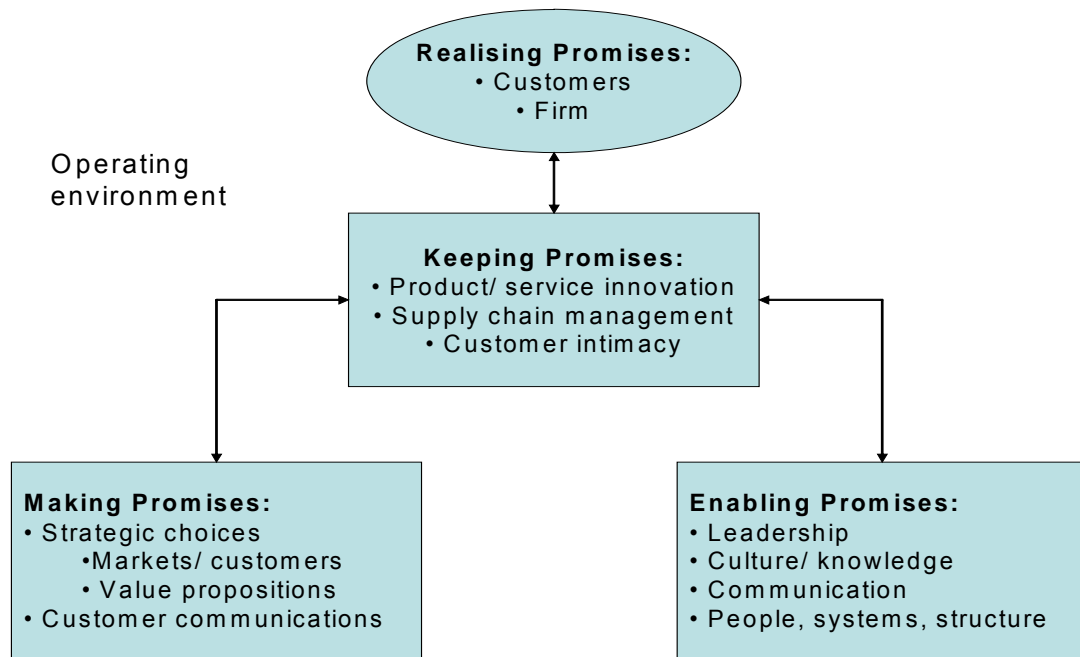
Realising promises entails attention to two factors: ensuring customers perceive they are receiving appropriate types and magnitudes of value, and ensuring the firm achieves appropriate returns on investment. The former relates to customer value management practice. In this case value management was approached systematically and developed, articulated and measured at three levels – strategic, functional and front-line.

With respect to value realisation for the firm: the increasing trend in financial returns reported by the CEO indicate that the firm's approach to customer value management realised value above the cost of capital⁴⁷. Achieving these returns required high initial investment and a high level of skill to maintain, in other words a high level of resourcing. This can be problematic in an SME environment, where financial and human resources can be scarce. As a result of strategic change, preliminary evidence of above average returns in a structurally unattractive industry was emerging, indicating achievement of Ricardian (resource based) rather than monopoly (structurally based) rents. This evidence supports the resource-based view of the firm.

6b.7 Discussion of Stage 3 findings

The findings showed that promises need to be effectively made, kept and enabled in order for effective customer value creation and delivery to take place i.e. for those promises to be realised. Thus, customer value creation and delivery can be viewed as a triad: all three activities (making, keeping and enabling promises) must be present and correct in order to ensure promises are realised . This idea is conceptualised in Figure 6.15:

⁴⁷ Conclusion based on CEO comments, in-depth financial analysis was beyond the scope of this study.

Figure 6.15: The customer value creation and delivery triad

Source: Developed for this research

Promise realisation is the outcome of promissory activities – achieving perceived and actual return for both customers and firm from value creating and delivery producing processes. Realisation of value is based on three contributory aspects: making, keeping and enabling of promises. Making promises entails developing appropriate strategy and communicating that to customers. Keeping promises entails configuring and managing the three value delivering processes of product innovation, supply chain management and customer relationship building. Enabling promises entails the orchestration, configuration and management of the firm’s resource base, including people, finance, plant and equipment. Managing these processes is a complex task. Any weaknesses or inconsistency in any of these aspects of the organisation’s value-related activities results in an undermining of customer value.

The operating environment provides the context for these activities. As Chapter Six (a) showed, Schumpeterian shocks created structural revolution in the industry (Barney 1991). These shocks had a significant impact on the firm’s resource base, and the ability of the firm to exploit resources. The firm was forced to re-evaluate its resources (in terms of assets, capabilities and competencies) in the light of new environmental realities, to redefine those which were valuable and those which were not, and to create new configurations of assets and talent. This approach has been

termed the ‘dynamic capabilities’ approach, and locates the source of advantage at process level, rather than at base resource level (Ethiraj and Cattani 2000).

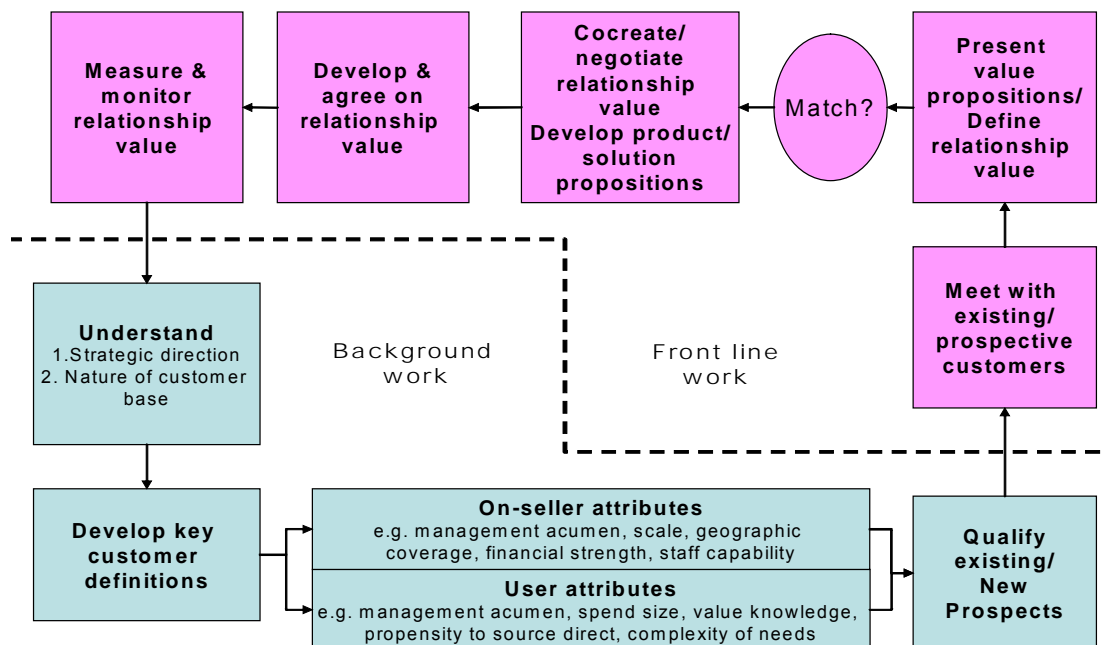
Discussion of the findings is now presented, structured around the four promise-based activities.

6b.7.1 Promise making

Promise making is the point of embarkation for the customer value creation and delivery process. It is a complex, iterative process, aimed at both developing a view of which customers to serve and what value to deliver, and effectively operationalising that view. For the seller, success is predicated on compatible strategy i.e. addressing the right buyers with the right offer, communicated in the right manner. It is therefore inseparable from the resources, capabilities and competencies of the firm with respect to knowledge, relationship-building, and the ability to strategise.

Figure 6.16 illustrates major milestones in the promise-making process from a seller perspective in the buyer-seller dyad:

Figure 6.16: Conceptual framework for promise-making: The customer acquisition and retention process from the perspective of the seller



Source: Developed for this research

Both background and front line work are important in the promise-making process.

Background work entails development of shared understanding of strategic direction

and the implications for customer selection. A definition of appropriate customers is then developed. This definition is operationalised via a set of attributes based on customer type (e.g. on-seller, installer, user and so on, in the interests of parsimony, only on-seller and user customers have been detailed here). Current and prospective customers are then evaluated based on these attributes, resulting in a list of desirable existing and prospective customers. Front line (i.e. customer facing) work entails meeting with qualified customers or prospects at strategic level, and articulating and discussing the firm's value propositions. Relationship value is thus broadly communicated to the customer in economic, strategic and behavioural terms (Wilson and Jantrania 1994). Should a match be recognised by both parties, a relationship agreement can be articulated, and the discussion deepened in both supplier and buyer firms to the functional or technical level. At this level product (or solution) propositions are jointly developed, i.e. value is co-created in a joint discovery process (Gouillart and Sturdivant 1994). More detailed relationship agreements can then be formally articulated, including monitoring and measuring processes.

Clearly, customer value and the customer value creation and delivery process has several attributes in the industrial milieu. Customer value is defined in the context of both buyer and sellers' business drivers, long term strategy, and organisational capabilities. Furthermore, it is a customised construct, developed for and by specific buyers and sellers; and it is underpinned by knowledge and relationships; and reciprocity is inherent i.e. both parties give and receive knowledge-based value.

A joint discovery and delivery approach ostensibly contrasts with that of acknowledged product innovators:

"Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public". Akito Morita, Sony (in Hamel 1994, p. 123).

Sony thus developed products without reference to customers, in effect imposing innovation. The difference in strategy can be explained with a resource-based lens. Sony is a market leader based on product innovation, operating primarily in broad consumer markets (ibid). The focal firm is an industrial distributor rather than a manufacturer, and focused on specific business-to-business customers. Arguably, the firm's customers may not "know what is possible" in its highly technical area of

specialty. In both cases, it is the knowledge of what is possible, plus the resources to operationalise those possibilities that creates advantage. Both are creating markets by educating and communicating. Therefore, the key difference is the nature of the customer value creation and delivery process. Unlike the focal firm, Sony does not engage in a consultative process, it presents fully formed products as a *fait accompli*, based on its considerable investment in R&D-based resources. On the other hand, the focal firm has no investment in R&D facilities, and can choose flexibly from a broad array of internationally traded technologies. Clearly, the customer value creation and delivery process varies based on consumer vs. industrial context, and by the nature of the firm i.e. product-based innovation vs. knowledge-based innovation from trading or service based activities.

In this case, the firm leverages its knowledge capabilities to source products (preferably differentiated) from global suppliers. These are then bundled into customised solutions, incorporating sets of technologies and the firm's knowledge. These solutions underpin the firm's overall value proposition, which is presented to customers at a strategic level (i.e. to top management). These value propositions are then operationalised into product propositions, which are jointly developed with customers at technical or functional management level. The customer can then in turn convert the delivered value into value for their customers, a process that may also be supported by input from the focal firm.

Clearly, the degree of product differentiation is less relevant than the focal firm's ability to understand specific customer needs and develop a customised solution. The solutions approach enables product and knowledge bundling - mitigating the effects of commoditisation and shortening product lifecycles. Under the 'products matter' view, products provide a significant point of difference and higher perceived value or utility to customers (e.g. a specialised component for medical equipment). In this situation, exclusive supplier agreements are important. The firm is pursuing both avenues, creating layers of advantage – differentiation through customised solutions and the products comprising that solution. However, in the context of small remote markets and global suppliers, reliance on access to exclusive products is risky. The benefits of a solutions approach were ability to offer increased customer value through a wider product landscape and leveraging the firm's knowledge, decrease in reliance on specific rapidly changing technologies, decrease in impact of

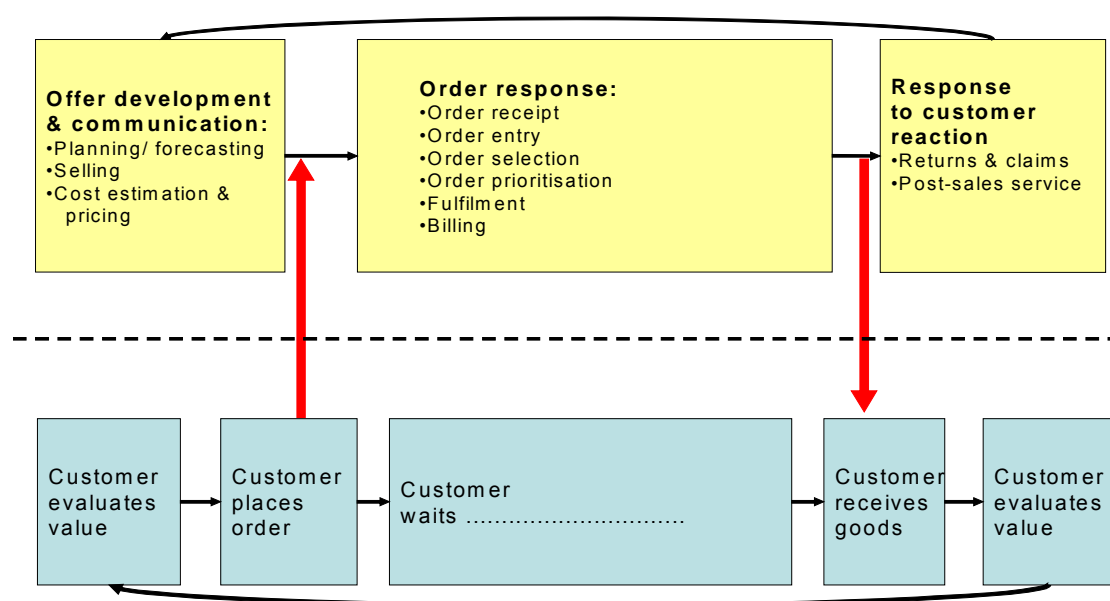
commoditisation with the ability to bundle products and service, and decrease in risk through exposure to a few powerful suppliers. The revenue and cost impact (i.e. value) of the solutions approach is therefore potentially very powerful. It should be noted that this approach requires substantial investment by both buyer and seller, an issue addressed in the discussion on realising promises.

6b.7.2 Promise keeping

Promise keeping (or customer value delivery) entails the configuration and management of the three core business processes: product/service innovation, supply chain management (SCM) and customer relationship building. SCM was found to be a hygiene factor, and the most important process with respect to promise keeping. However, it was also the most complex process in this case, requiring management of a complex array of suppliers and partners, and to an extent, customer demand. The firm had issues with performance in this area – it was unable to consistently deliver correctly, in full, and on time, potentially causing customer dissatisfaction and supplier switching. Product innovation was the least important of the three processes in this case; however, effective performance in this area was part of the firm's core competence, underpinning promise-making capability. Customer relationship building is relatively less important to promise keeping, although strong relationships at the front line and functional customer levels would support more effective value delivery through more effective communication. Perceived lack of ability to deliver would compromise the effectiveness of promise-making activities, therefore suppliers must attend to all three processes, and all three levels of value.

The order management cycle framework has been freely adapted in the following figure:

Figure 6.17: The order management cycle (adapted from Shapiro et al 1992)



Source: Developed for this research

A complex array of people, systems and behaviours are embedded in an organisational structure, including leadership, culture, structure, and resources. This structure provides the environment within which value creating and delivery activities take place⁴⁸ i.e. 'promise-keeping' activities relating to supply chain management and operations.

Overall, SCM performance undermines the ability of the firm to perform at functional and strategic level. However, performance at this higher level can contribute to resolving issues at the front line level e.g. developing more accurate forecasting of customer demand. The two are complementary. Front line level service delivery can be viewed as a hygiene issue (Herzberg 1968) i.e. it *must* be performed well in order to deliver customer value. Motivator factors operate at more sophisticated levels of customer demand. These are addressable by customer-facing members of the organisation e.g. the CEO and the account management team. Motivator (or relational) factors relate to the 'Making Promises' element of customer value creation, and will win business, however, hygiene (or transactional) factors relate to the 'Keeping Promises' element of customer value creation and delivery, and are crucial to keeping it. The order management cycle is a helpful tool for uncovering

⁴⁸ Results relating to the internal environment (or enabling structure) are presented in the 'Enabling Promises' of the thesis.

performance issues against transactional factors, and there are clearly a number of issues affecting the case firm’s performance.

The following table summarises the findings with respect to promise keeping:

Table 6.13: Summary of findings – Relationship of three levels of value and three value-delivering processes in promise keeping

	Front-line	Functional	Strategic
Product/service innovation	Important. Lowest priced commodities, fitness for function.	Most important. Most effective technologies	Not important. A given (hygiene factor)
Supply chain management	Most important. Correct, on time, in full	Least important A given (hygiene factor)	Not important. A given (hygiene factor)
Customer relationship building	Least important.	Important.	Most important.

Source: Developed for this research.

The table highlights the differences in customer value at the three levels in the customer organisation. At the front line level, SCM was most important – this can be defined as the elimination of any inefficiencies incurred through failure to deliver on time, in full. At this level, customer disappointment costs – the person is required to incur expense in following up service failure. Products may be of lesser interest, as specifications are set by influencers higher in the organisation; however, price is of crucial importance, as is quality (i.e. fitness for function) and delivery. At the functional level, product or service functionality was most important, managers seek the most effective technologies, and are concerned with cost of ownership (i.e. the big picture) rather than face value price and cost. Relationships are important, as development of a view of the best solution for the customer’s business needs will be achieved by these managers. At strategic level, managers are concerned most with the relationship and with what that can deliver to their businesses. The relationship is of most value – both product attributes and the supplier firm’s ability to deliver are taken for granted. Clearly, supplier firms must attend to all three levels of value.

As noted, the importance of the three levels of value varies, based on whether the context is promise making or promise keeping.

The following table compares the findings related to promise making and promise keeping with respect to the three levels of value:

Table 6.14: Summary of findings – Relationship of three levels of value and three value-delivering processes in promise making

Promise:	Front-line		Functional		Strategic	
	Making	Keeping	Making	Keeping	Making	Keeping
Product/ service innovation	N/a: individuals either not technically expert (e.g. purchasing officers), or concerned with fitness for function (e.g. installers).	Important. Lowest priced commodities, fitness for function.	Most important. Contribution of technical knowledge and opinion. Consideration of potential cost of ownership.	Most important. Most effective technologies	Important. Underpins representations of value / business growth support.	Not important. A given (hygiene factor)
SCM	Important: Input may be requested on supplier fulfilment capability and purchase process design.	Most important. Correct, on time, in full	Least important – for future consideration (unproven), only important if seen to impede delivery of agreed solutions.	Least important. A given (hygiene factor)	Not important. A given - hygiene factor	Not important. A given - hygiene factor
Customer relationship building	N/A – purchasing relationships developed post-buying decision.	Least important.	Important. Perceived ability of supplier to work jointly to co-develop solutions.	Important.	Most important – ability of supplier to identify business drivers & articulate business growth opportunities.	Most important.

Source: Developed for this research.

At the *strategic level*, the initial representations of value are made by senior managers to senior/ general managers (i.e. CEO to CEO), who are concerned with the supplier's ability to provide business growth. The relationship is therefore most important, and within that, the supplier's ability to understand the customer's business and to articulate value appropriately to the customer. The intellectual and business capabilities of the supplier senior management team and the ability to communicate are therefore a critical resource in this discussion. The offer or in this case the technologies are a means to an end, while it is important, these are considered in the light of the growth opportunities articulated. SCM is an underlying rather than top of mind consideration at this point – the ability to deliver would be assumed, unless there is prior evidence to the contrary. At the *functional level*, managers are most concerned with product or solution attributes and the technical capabilities of the supplier. The supplier would be evaluated on the capability to work with functional personnel to develop joint solutions i.e. Project Managers working with Account Managers. The crucial resource at this level is technical skill and knowledge, and the ability to communicate this knowledge within the customer's business context. SCM

would again be a peripheral consideration, unless the customer perceives any issues with the supplier's ability to deliver on the solution promises. *Front line* personnel are unlikely to be involved in high impact new buy supplier selection decisions, therefore product/service value and relationship value are not relevant at this level. However, input may be sought on potential costs of purchase or past experience with the supplier in terms of ability to deliver, therefore SCM value is important. In the telephone exchange example, installers would resent imposition of a supplier that was inconveniently located, or offered inadequate products that increased cost of ownership (i.e. required callbacks or was difficult to install). However, this is a higher-level business issue involving cost and resourcing decisions, and would be solved for at the functional or senior level.

Both tables should be viewed as a set of propositions – further research is required to explore these initial conclusions further.

6b.7.3 Promise enabling

The critical factors enabling the firm's abilities in customer value creation and delivery were leadership, culture, knowledge, communication, people, systems and structure. Customer value creation and delivery capability is a function of the willingness and ability of a firm's people to deliver that value, in turn predicated on their knowledge, skills and personal qualities – including their personal values – carried out within the service environment of the firm. Failings in any of these areas compromise customer value.

Organisational and personal attributes are inter-related. Systems, structure, people and culture are organised by leadership and communication and predicated on the firm's resource portfolio. These elements provide the organisational environment for value creation. The organisational environment can be viewed in the framework of the service: profit chain (Heskett et al. 1994), whereby the firm's internal service quality (including recruitment and retention activities) impacts on external service quality, through the medium of the employees. The employees' attributes are the other side of the equation. Employees must be both willing and able to provide value to each other and to customers. This in turn is contingent on their knowledge, skills, personal qualities and internal service quality (i.e. the service environment provided by the firm).

6b.7.4 Promise realising

Realising promises relates to return-on-promises for both the customer and the firm. The key findings were that customer value needs to be measured systematically at each level of delivery – strategic, functional and front-line - so that promised value is delivered by top management as well as at the day-to-day service level. Firm-realised value, or appropriation of value, relates to the achievement of margins and profit i.e. maximising sales value at least cost. It was found that in this knowledge context, Ricardian rents were enjoyed, as knowledge represents a unique and critical resource. This finding supports the resource-based view of the firm.

With respect to the four key performance outcomes sought by any strategy (i.e. higher levels of cash, sooner, more often and at less risk) (Doyle 2000b), the firm's strategy delivered higher levels of cash as focus on a few key customers results in economies of scope. Effort could be directed where best returns were achieved, with less wastage of resources. Also, focus on a few larger channels resulted in economies of scale – one large channel aggregated demand from many small customers, resulting in the ability to negotiate larger bulk discounts through suppliers, and achieve significant economies in administration costs (e.g. invoicing and collection). A solutions approach potentially offers more revenue per customer. Cost to serve is higher per customer but lower in aggregate – cost per individual customer is higher owing to the high degree of customisation and the layered selling approach, however the limited number of customers lowers total costs. The solutions approach requires wider scope of knowledge investment and also a wider supplier landscape, (i.e. increases costs) however enables the firm to bundle products and improve margin rather than be exposed to commodity pricing (i.e. increases returns). Benefit from more frequent cash flows sooner may eventuate from larger customers buying more often. Risk is lower as closer customer relationships and hence more open higher level communication decrease the likelihood of 'strategic surprise' and raise supplier switching barriers; and reliance on exclusivity or single product sourcing is decreased with the solutions or bundling approach.

While the literature suggests a positive correlation between customer value and shareholder value (Cleland and Bruno 1997; Doyle 2000; Laitamaki and Kordupleski 1997) the case evidence suggests a zero-sum relationship view. A finite value attaches to a particular activity or solution set, and this finite value must be shared between

what are essentially competing stakeholders – e.g. the end-user (e.g. a business), customer's customers (e.g. installers), customers (e.g. electrical wholesalers) the firm, and the firm's suppliers. This evidence also suggests the notion of value equilibrium, whereby value to all parties settles into a stable state until the next innovation.

6b.8 Chapter Summary

The findings of Stage Three of the study offered three key insights into industrial level selling that also supported Stages One and Two findings. Firstly, customer value can be differentiated by the recipient of that value (i.e. position in the organisation), that contingency has an influence on the nature of value and hence value creating and delivering mechanisms employed, and that customer value can be further differentiated based on value development stage rather than customer type. In the case of positional differentiation, the study indicated that customer value should be addressed at three value levels: strategic, functional and front-line. The implication is that differentiation can be conceptualised at three levels – strategic (firm level differentiation), functional (brand or solution level differentiation) and front-line (service quality level differentiation). All three levels of differentiation should be considered and orchestrated simultaneously, including communication, delivery and measurement of the value delivered. A layered conceptualisation of value is important, as it enables firms to more appropriately understand industrial customer's needs, and to respond to those needs with an appropriate value proposition. The conventional approach advocates creating value by means of a differentiated product offering, however these findings indicate that this is necessary but not sufficient – significant differentiation can only be achieved by an expanded view of value encompassing the firm, the solution and service quality. This expanded view of value places high demands on the firm's resource base. Senior managers require high-level business skills, including the ability to analyse and understand other businesses, to convert this analysis into a set of value propositions, and in communicating those ideas – or negotiating value - effectively to other senior managers. Furthermore, a solutions perspective imposes high applied technical knowledge demands. Personnel at all levels of the supplying firm need to be able to understand both individual technologies, the relationship between these technologies and how to bundle them

effectively, and also the application potential to customers' businesses. The investment required to develop this knowledge is considerable.

These points are captured in the following quotation:

“ ... the actual definition of the value [is] from the customer's perspective. We're assuming we're giving value because we're assuming we know what the customer wants, or perceives value from”. Divisional General Manager in Workshop 2 [17,634]

Here the manager acknowledges that the firm 'second-guesses' the customer, predicated on deep knowledge of customer requirements and technical possibility.

Secondly, the contingency perspective indicated that compatibility of promise 'lenses' is desirable, leading to the idea that a solutions-oriented offer is contingent on customer rather than market-centrism; while with a commodity-oriented offer the reverse applies. A solutions orientation implies a broad and flexible or non-partisan approach to the product offering, providing particular customers with the best possible combination of features and benefits in response to their mutually understood needs.

On the other hand, a commodity-oriented offer implies a volume-based approach, and therefore a market rather than individual customer perspective. These insights have operational implications – clearly, a solutions-oriented offer would require a flexible and effective SCM approach; while a commodity-oriented offer would require a control-oriented and efficient SCM. These issues were illustrated in the case.

Transition from commodities to solutions, and the consequent value process alignment was proving problematic.

Based on the findings, four types of customer value and three types of supplier value are proposed. The four types of customer value are defined by stage in the value development process, and are described as notional, potential, kinetic and realised.

The three types of supplier value created during customer-supplier negotiation are internal, reciprocal and external. These new conceptualisations of value are summarised in Table 6.15:

Table 6.15: Summary of 4 types of customer and 3 types of supplier value – from perspective of supplier

		CUSTOMER			
		Notional	Potential	Kinetic	Realised
SUPPLIER		What might be, based on managerial insights & knowledge in supplier firm	Articulated value, documented and proposed by supplier	Co-created value, jointly developed by supplier & customer	Post-hoc value, enjoyed by customer and supplier
Internal	Supplier value: Inputs to knowledge & skill base of supplier & contributors	Basic internal knowledge/ skills/ process improvement, enhanced contributor relationships	Applied knowledge/ skills/ process improvement, enhanced contributor relationships		
Reciprocal	Mutual value: Learning through supplier-customer interaction	Applied knowledge/ skills/ process improvement, enhanced contributor relationships	Negotiated mutual knowledge/ skills/ process improvement, enhanced buyer-seller relationships		
External	Customer value: Inputs to knowledge & skill base of customer & contributors	N/A	Applied knowledge/ skills/ process improvement, enhanced contributor relationships	Knowledge Relationships Financial returns	

Developed for this research

With respect to customers, *notional customer value* is the intellectual capital of managers, expressed (or unexpressed) ideas relating to the firm's ability to create value for customers. The firm's enabling environment is the backdrop to notional value, and contributes to manager's ideas of what is possible. A matching process is logical at this point, between promises made, and the firm's ability to keep these promises, meaning that the enabling factors (i.e. people, systems, culture etc), are important. *Potential customer value* is fully formed ideas about what to offer customers, internally discussed and ratified, and codified in strategy documents and value propositions. *Kinetic customer value* captures the notion of movement – value development at this stage is an energetic process engaged in jointly by both supplier and customer. Value is negotiated in an iterative and lively process rather than presented/imposed and accepted/taken. *Realised value* is that which is enjoyed (and evaluated) by both customer and supplier.

With respect to suppliers, *internal learning value* is created as the firm gains inputs to its knowledge and skill base (i.e. its people) as a benefit of customer interaction. The people benefit from their experiences in value creation – more is more. Value (i.e. knowledge and skills) are thus built through both internal and external interactions.

The supplier organisation also learns through translating internally created value into externally receivable value – i.e. the nexus between customer value creation and delivery. The nature of the value may change as the firm's ability to deliver it is better understood, highlighting the internally iterative nature of customer value creation and delivery. *Reciprocal learning value* is created as the supplier interacts with the customer. In this interaction process, value is created at the multiple levels identified in this chapter – strategic, functional and front-line – as the individuals in the supplier and customer firm confer and develop a greater understanding of their ability to supply and the nature of their needs respectively. *External learning value* complies with the more traditional notion of customer value – whereby the customer receives value provided by the supplier. As the figure illustrates, both customer and supplier receive both tangible and intangible benefits from all stages of the value creating and delivery process. Thus, in addition to a multitude of complex qualities, value is self-reinforcing: the act of giving value creates value for the giver, in terms of the learning derived.

With respect to the case firm, the nature of promissory activity over its 25-year history has been dynamic. During stability, strategic, operational and enabling aspects were aligned, and consistent positive returns were realised. However, significant environmental change meant that strategy became less appropriately aligned with the operating environment. While operational and enabling activities were consistent with the strategy, returns were likely therefore, to have been inconsistent and declining. As change continued this led to trouble, whereby strategy was inappropriate, and processes and resources similarly so. This situation resulted in the '5 year spiral of death' described by the CEO. Latterly, in rejuvenation, steps toward realigning strategy continued, in tandem with adjustments to internal processes and resources. The evidence indicated that while strategy may be appropriate, lags in the processes and process environments that support value delivery continued to hamper the firm's efforts. The outcome was gaining understanding and confidence in a new environment, and realising positive returns.

6b.9 Chapter conclusion

The findings of Stage Three support the findings of previous stages. With respect to Stage One, the focal firm is identifiably *Pluralistic* in its approach to marketing

practice and customer value creation. All managers championed customer value creation and delivery, not only top management. Value monitoring was conducted at three levels, strategically, functionally and at the front line. A higher user of technology and concern with innovation, learning, and a wider societal and environmental constituency is evident. A focus on customer value creation as a precursor to shareholder value creation was also evident, as was a focus on external partners. Focus was primarily on the firm and its direct and indirect customers, however other stakeholders (e.g. suppliers and society) were also considered. While value created for society was tangential rather than central, a strong thread of social responsibility was evident in the expressed values of the managers, many of whom engaged in socially constructive activities in their leisure time. Linkages can be drawn between the firm's knowledge and skill-building activities with respect to its managers, and the ability of the managers to draw on on these attributes in their personal lives – to the benefit of both the firm and wider society. Financial outcomes with respect to overall revenue streams and profitability were of concern. Performance above the industry average was seen to be achievable, supporting Stage One findings – i.e. that Pluralistic firms tend to enjoy superior performance levels. Administration of the survey instrument to managers within the firm and on-going monitoring of performance relative to others in the industry with a similar resource base would be required in order to confirm this conclusion.

With respect to the results of Stage Two, the case firm was characterised by the *relational value posture*. It operates in a business-to-business context, with value creation directed at creating and sustaining competitive advantage. It is customer and partner centric, and takes a cross-functional rather than functional or wider network approach. Key investments are in relationships, knowledge and in supporting the capabilities and competencies related to those investments – a wider purview than a transactional posture, and narrower than a network posture. The firm is a profit making enterprise, and therefore does not take a systemic posture.

In this case, the changes in value orientation could largely be attributed to extensive changes in the operating environment, particularly the change to a non-protected market and consequent competition. These influences were specific to this case, and may not be general, as there was an indication of strategic contingency that would apply regardless of the characteristics of the operating environment (e.g. a low cost

vs. differentiation approach). The logical conclusion is that the attribution of any one set of characteristics to a given firm is insufficient. The richness of marketing practice should be matched by a richness of interpretation of the firm's behaviour i.e. value posture, marketing practice type and generic strategy. Key informants' attributions of behaviour should also be viewed with caution, as their position in the firm would influence their view of posture, practice type and strategy.

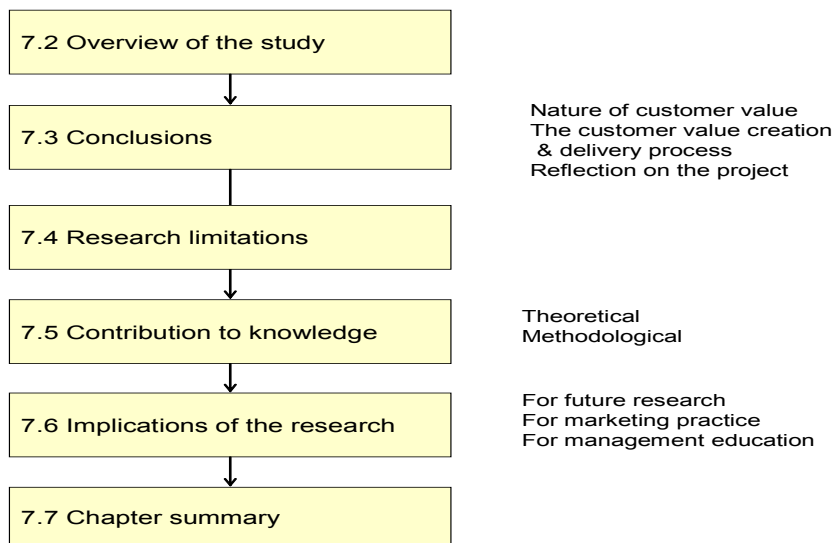
Stage Three further emphasised the importance of critical resources for relationally oriented firms: knowledge, relationships and solution-delivering brands. These resources are cross-functionally based. They represent generic competencies i.e. continuous knowledge acquisition and leveraging, the ability to co-create and maintain value relationships with selected customers, and the ability to develop unique and powerful brands that characterise a customer solution. Each of these elements is intertwined, resulting in a complex offer that would be difficult to copy. Supporting the RBV, the firm's resources can be understood as advantage conferring. In particular, the characteristic of inimitability, as the firm's value based activities were highly path dependent (i.e. based on learning), and similarly have a high degree of economic and practical deterrence in that the required knowledge is both expensive and extremely difficult to inculcate. Furthermore, to an external party, resources supporting the firm's marketing behaviours would be causally ambiguous – being primarily knowledge and relationships. The attribute of durability is more intractable, in that knowledge is clearly perishable and resides in the persons of highly mobile managerial talent. The ability of the firm's resources to confer competitive advantage is difficult to assess at this point, however, there is an indication that superior returns are likely to be enjoyed. Certainly, very poor returns were suffered when the firm was operating under a model based on logistics capability and commodity products in an open competitive environment.

The thesis proceeds with the seventh and final chapter, which discusses the findings from all three stages of the study, and presents conclusions and implications of the research.

CHAPTER SEVEN: CONCLUSIONS & IMPLICATIONS

This chapter of the thesis presents the conclusions and implications of the study across all three stages, integrating and synthesising the findings with respect to customer value and the customer value creation and delivery process.

7.1 Chapter outline



7.2 Overview of the study

Developing a more in-depth understanding of the nature of customer value and the customer value creation and development process is critical as firms seek advantage in an increasingly competitive operating environment. However, the literature review showed that a theory of customer value and customer value creation and delivery has yet to be fully developed. Accordingly, this study was directed at developing theory about both the nature and scope of ‘customer value’ and the process of customer value creation and delivery.

The research questions guiding the study were:

1. What is customer value?
2. How do managers create and deliver customer value?
3. How does customer value creation and delivery relate to assets, capabilities and financial outcomes for the firm?

While the existing literature offered some insight into the nature of customer value, coverage was neither comprehensive nor rich; and rested on theoretical and anecdotal rather than empirical evidence. The literature was therefore used to develop six research propositions to guide the study:

Table 7.1 Summary of research propositions

- Proposition 1:** That customer value creation and delivery (CV) involves four factors: *intentions* (of general business and marketing activities), *managerial focus* (investment focus and activities focus), *management and leadership* (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and *monitoring* (approach to performance measurement). (Chapters 4 & 5).
- Proposition 2:** That the nature of the customer value creation and delivery process will differ between firms (Chapters 4 & 5).
- Proposition 3:** That the differences in approach to the customer value creation and delivery process can be explained by the elements identified in Proposition 1 (Chapters 4 & 5).
- Proposition 4:** That managerial views of customer value creation and delivery have common characteristics across firm types and industries (Chapter 5).
- Proposition 5:** That the customer value creation and delivery process can be conceptualised through the lens of the RBV i.e. as a set of resources, orchestrated by strategy, and delivered via the three core value-generating processes (Chapter 6).
- Proposition 6:** That the customer value creation and delivery process is linked to shareholder value through the mechanism of the artefacts and activities identified in Proposition 5 (above). (Chapter 6).

These propositions guided the research strategy, data collection and data analysis over a three-stage study. The results were a series of empirically-based conceptual frameworks relating to the customer value and the customer value development process of the firm. These frameworks are presented in Chapters 4, 5, 6(b) and 7.

7.3 Conclusions

The nature of customer value, and of the customer value creation and delivery process will now be discussed, based on all three stages of the research.

7.3.1 Nature of customer value

The nature of customer value has been shown in all three stages of this study to be a complex bundle of product and service based benefits, conceptualised and offered by sellers and interpreted and perceived by buyers. In Stages One and Two of the research the notion of ‘customers’ was broad and heterogeneous in nature, relating to buyers of both consumer and industrial goods across a range of firms and industries. In Stage Three of the research the view of ‘customers’ became more specific, being narrowed down to members of an industrial firm’s wider stakeholder constituency, and in particular buyers in a business-to-business dyadic relationship. This more specific view of customers (i.e. members of a stakeholder constituency in an industrial firm’s buyer network and specifically buyers in a buyer-seller dyad) is taken for this discussion.

The literature review led to the development of a new definition:

Customer value is:

- a complex bundle of strategic, behavioural and economic resources;
- received in exchange for the perceived strategic, behavioural and economic resources foregone;
- co-created by both buyers and sellers;
- the output of processes based on the resources, capabilities and competencies of both buyer and seller;
- perceived by buyers and sellers relative to competitors and substitutes;
- moderated by individual, organisational and environmental influences; and
- dynamic, created and delivered over time, within the bounds of a complex buying and selling process.

Source: Developed for this research

Stage Three of the research supported this conceptualisation, showing managers perceived customer value in context, with respect to the firm’s strategy, operating environment and resource portfolio. In Stage Three the issues of complexity, exchange and co-creation were evident in the data, as the case firm grappled with changes in the operating environment and sought to improve its perceived customer value position relative to competitors.

The definition links with the six research propositions through the RBV. The process-based foundations of customer value are highlighted, as are the role of the resources of the firm in the creation and delivery of customer value. Propositions 1-3 highlight

specific elements of the firm's resources relative to customer value creation and delivery: strategy (intended outcomes, managerial focus, stakeholder groups considered, planning processes undertaken, champions of customer value), and performance outcomes (approach to performance measurement).

Several different approaches to customer value creation and delivery (or value postures) were identified and articulated from the literature review, and refined in Stages One and Two of the study. The literature suggested three value postures, relating to the firm's approach to value creation and delivery. These postures were termed Transactional, Relational, and Systemic, and reflected a progressive widening of view of value, from the traditional firm-customer dyad, to the supply chain, and to wider society, respectively. Stage One of the research supported the literature to an extent, identifying three clusters of firms: Traditional Transactional (TT), Traditional Relational (TR) and Pluralistic. Each of these three types of firm adopted a different approach to customer value creation and delivery based on intention, focus, management and monitoring of customer value based activities. TT and TR firms were characterised by a relatively narrow approach to customer value creation and delivery, and the use of traditional performance measures. In Pluralistic firms, customer value creation and delivery was reported as a wider, deeper, more complex undertaking than that of TT or TR firms. Pluralistic firms took a more vigorous, broad and inclusive approach to marketing practice, encompassing partners in a wider value network, activities related to learning and innovation. In general Pluralistic firms reported higher scores on virtually every measure. However, Pluralistic firms did not demonstrate attributes of the Systemic value posture i.e. did not necessarily take a view of value incorporating wider society. Therefore, while the Transactional and Relational value postures were supported empirically, the Systemic posture was not. This issue was clarified in Stage Two of the research.

In Stage Two, the understanding of the nature of customer value was deepened. A key finding was that value was mutable, that is, the nature of customer value changed as firms transitioned from one strategic state to another (i.e. changed from a transactional to relational strategy). Furthermore, the organisational position of managers was found to influence their view of customer value. There was evidence that individuals held a view of customer value contingent to whether they held front-line, functional or senior management positions. At the front line issues of price and service quality

were relevant to customer value. At functional level, issues of cost of ownership and fitness for function were more relevant. At senior management level, issues of contribution to business growth and profitability took precedence in evaluating competitive offers. At each level, perceptions regarding value applying to other levels were underlying (or hygiene) factors rather than critical (or motivating) aspects.

Stage Two further provided evidence for five rather than three value postures: Transactional, Hybrid-Transitional, Relational, Network *and* Systemic. The Network posture captured a more sophisticated approach to relational marketing practice (complying with previous CMP group work), while the Systemic posture was found to apply to particular types of firms – specifically government bodies and not-for-profit firms. Systemic firms were found to operate for social rather than commercial purposes, and were therefore different in their conceptualisation of, and approaches to, value. This was not clear from the Stage One findings. This insight led to the conclusion that the Pluralistic approach is an enhancement of a firm's value posture, rather than a value posture. Thus, a firm's value-related behaviours could reflect any of the five postures, *and* take a more or less pluralistic approach to marketing practice. Firms can therefore be characterised by both a value posture and an approach to marketing practice, and take (for example) a relational-pluralistic value posture, or a systemic non-pluralistic value posture.

In general, social and environmental aspects of value creation were viewed as secondary concerns by managers in commercial environments. The results of Stage Two of the study indicated that the notion of customer value can be either broad or narrow in scope, depending on the purview of the firm and its managers. For-profit firms tended to restrict value-creating activities to immediate customers and contributors, while not-for-profit firms considered a range of stakeholders including employees, consumers of services, society and the environment. While managers in commercial contexts exhibited personal altruism, these social and environmental motivations were not necessarily viewed as appropriate to workplace action.

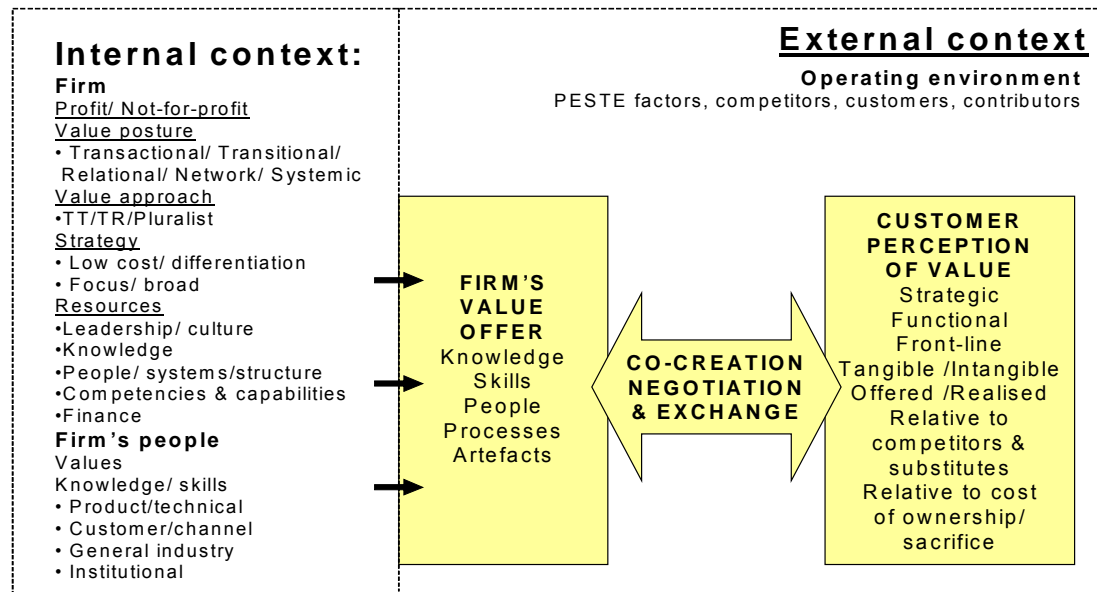
A zero-sum nature of value was supported, resident in the notion of positive and negative value relationships. For example, additional value may be delivered to customers in the form of more volume for the same price. In so doing however, negative value may be created for shareholders (decreased margin decreases share price), employees (overtime results in stress-related disorders) or the environment

(pollution from manufacturing or distributing activities). The idea of intended and unintended consequences arising from customer value creation and delivery is captured here, which should be taken into account when considering what customer value is and is not. Accordingly, customer value can be both positive and negative, depending upon the perspective from which it is evaluated. This idea supports the work of Senge (2001) who posited that value is a holistic construct, which must be considered in the context of a *system* of individuals and entities rather than merely the customer and/or firm.

In both Stage One and Two of the research, context was found to be critical to understanding the nature of customer value. Context related to whether the firm contested business-to-business or consumer markets, generic strategy (i.e. focus or broad, low cost or differentiated (Porter, 1985)), and the nature of individual customers to whom value was offered (e.g. front-line, functional management or top management). Top managers (e.g. CEO and general managers) perceive customer value strategically. Their needs are for goods and services that address their firm's business drivers and promote revenue growth. Functional managers (e.g. operations managers) perceive customer value in technical terms – their needs are for solutions that lower costs of ownership and meet specific performance criteria. Front line personnel (e.g. purchasing officers) people perceive value in objective terms – their needs are for goods and services that arrive on time, in full, to specification and at the correct price.

Building on the findings of both Stage One and Stage Two, Stage Three enriched understanding of the nature of customer value, and particularly the customer value creation and delivery process. The following conceptualisation of customer value is based on the literature review and findings of all three stages of the study, and in particular Stage Three:

Figure 7.1: A new conceptualisation of customer value



Source: Developed for this research

The framework acknowledges the influence of a number of contexts on the nature of customer value. The internal context of the firm is of particular interest, as it was found that the firm's resources, capabilities and competencies underlie the firm's ability to devise, develop and deliver customer value, in alignment with the resource based view of the firm. The framework also acknowledges that while the firm and the customer are two separate entities, mutuality is achieved in the industrial context during the value co-creation, negotiation and exchange process. Customer value is a jointly negotiated construct. Difficulty in conceptualisation arises from that mutuality and from its inseparability from the process of development and delivery. In this respect, it is similar to service quality and relationship quality, both of which are strongly process based and inseparable from the process of developing and delivering services and relationships (Holmlund 1997).

Stage Three also resulted in the identification of four types of customer value (notional, potential, kinetic and realised) and three types of supplier value (internal, reciprocal and external), both of which are co-created during the customer-supplier negotiation process. With respect to customer value, *notional customer value* is the intellectual capital of managers, expressed (or unexpressed) ideas relating to the firm's ability to create value for customers. *Potential customer value* is fully formed ideas about what to offer customers, internally discussed and ratified, and codified in strategy documents and value propositions. *Kinetic customer value* captures the

notion of movement – value development at this stage is an energetic process engaged in jointly by both supplier and customer. Value is negotiated or co-created in an iterative and lively process rather than presented/imposed and accepted/taken. Finally, *realised value* is that which is enjoyed (and evaluated) by both customer and supplier. With respect to supplier value, *internal learning value* is created as the firm gains inputs to its knowledge and skill base (i.e. its people) as a benefit of customer interaction. *Reciprocal learning value* is created as the supplier interacts with the customer, while *external learning value* complies with the more traditional notion of customer value – whereby the customer receives value provided by the supplier.

Clearly, the scope, magnitude and type of customer value is inseparable from the nature, type, strategies and intentions of the firm that is creating and delivering it, and also on the nature, type, strategies and intentions of the customer. Parties in the value creation process give and receive tangible and intangible benefits (and incur costs) from all stages of the value creating and delivery process. Customer value is a reciprocal concept – the act of giving value creates value for the giver, in terms of the learning derived from the effects of value.

7.3.2 The customer value creation & delivery process

The previous discussion highlights the complex and dynamic nature of the customer value construct. This study found that this construct is inseparable from a complex and dynamic process, incorporating the resources of the firm, and the sub-processes that transform these resources into realised value (i.e. outputs) for both customer and firm.

Discussion of insights into the nature of the value creating resources, processes and outcomes for the firm follows.

7.3.2.1 Support for the research propositions

The literature review highlighted six factors involved in customer value creation and delivery – intended outcomes of value-related activities, managerial focus, the organisational members who champion customer value, stakeholder groups considered, planning processes undertaken and approach to performance measurement. These (resource-based) factors were proposed to underlie differences in approach to customer value creation and delivery between firms, articulated in *Propositions 1-3*. Supporting this notion, both Stage One and Stage Two provided

confirmation that firms approached the value creation task from a number of different perspectives or value postures. These value postures highlighted both similarities and differences in the way firms approached the value creation task. The postures featured varying degrees of value co-creation (ranging from one-way value creation to a more holistic approach encompassing the needs of multiple stakeholders), and the influence of buying context.

Proposition 4 enlarged on Propositions 1-3 by proposing that despite differences in approach to value creation and delivery, commonalities would also apply. Supporting this view, Stage Two of the study revealed that managers shared views of the nature of value creation and delivery, i.e. that it was dynamic, evolved over time, and that it was context-specific.

Proposition 5 created explicit linkages with the RBV, proposing that the customer value creation and delivery process could be viewed as a set of resources, orchestrated by strategy and delivered via the three core value-generating processes⁴⁹. Stage Three of the research showed that customer value was intimately linked with the strategy and resources of the firm. Crucial resources were highlighted – relationships, knowledge and solution-delivering brands. The data suggested that these resources could be viewed through the lens of hygiene and motivator factors. Hygiene factors were related to customer value delivery, i.e. operations or supply chain management performance. These factors underpinned service quality and financial performance. Motivator factors related to customer value creation, particularly in the ability to co-create value through the mechanism of close customer relationships, based on the ability to present a ‘value proposition’ founded on the appropriate knowledge and product and service mix. Each without the other was necessary but insufficient.

Proposition 6 considered performance linkages, proposing that a superior delivered value position and above average industry performance were predicated on efficient and effective disposition of resources and processes, orchestrated by appropriate strategy. Stage Three of the research supported that view, finding that resources, strategy and processes had complex linkages, and complementarity to the firm’s operating environment was crucial. Furthermore, the findings suggested that customer value creation was a precursor to shareholder value creation. A superior delivered

⁴⁹ Product/service innovation, operations/ supply chain management, customer intimacy/ relationships

value position created market preference and thus above average margins, and therefore above average industry performance. The case firm claimed greater resource ownership than comparable competitors (in particular knowledge and customer relationships), and above average industry performance. Further research would be required to verify this claim.

7.3.2.2 Value-creating and delivering resources

The traditional view of resource inputs was confined to those of the firm. However, this study found this conceptualisation to be incomplete, as it fails to acknowledge three important resource providers, the value 'climate' within which the value is created, the customer's resources and the resources of the firm's contributors. The value climate (or operating environment), contributes resources such as the skill set within the potential labour pool, infrastructure, industry wisdom, and legislation. Customers are not passive receivers of value, value is co-created or negotiated, and learning occurs during this process. Therefore customers can contribute knowledge, relational, and economic resources. Finally, the wider view of value acknowledges the knowledge, relational and financial contributions of the firm's partners (i.e. resellers, channel partners and suppliers).

Overall, resources must be viewed both jointly and severally, as the complete array of resources should be conceptualised as a complex system.

7.3.2.3 Value-creating and delivering processes

The quality of process inputs is key to the quality of the process itself, and therefore to process outputs. In this research, key inputs to the customer value creation and delivery process were found to be the firm's resources: people, systems, structure, leadership and communications capabilities, culture and knowledge; and as discussed above, ability to leverage the resources of customers, partners and members of its industry network. This array of process inputs or resources is orchestrated by the firm's strategy, in turn orchestrated by the firm's value champion or leader – most appropriately the CEO or senior management team. The single case provided evidence that if there is dissent among senior managers, then customer value development is significantly hampered.

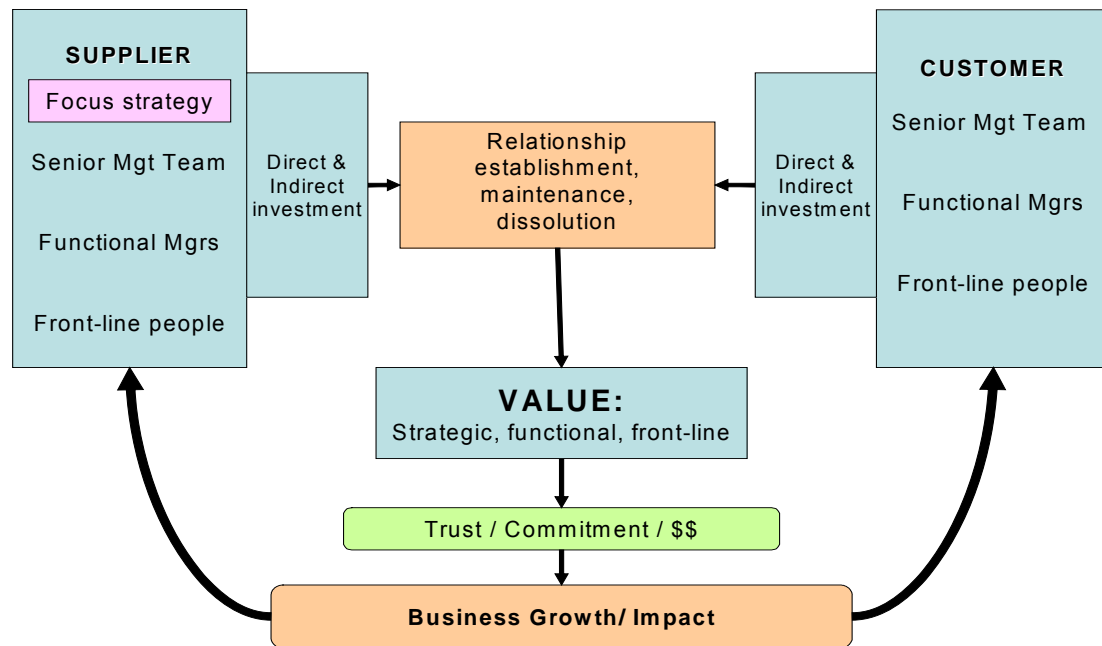
The process of customer value creation and delivery was found to consist of two activities - making promises and keeping promises. Making promises entails *thinking*

or decisions relating to the firm's customer orientation, i.e. making strategic decisions relating to markets, customers, offers or value propositions; and to the effective communication of these ideas. Keeping promises entailed *actions* related to implementing the decisions, relating to the three generic value creating and delivering processes – product/service innovation, supply chain management and customer relationship building. The making and keeping stages of the process were not discrete – an iterative relationship was evident, whereby customer learnings gained from value delivery experience were integrated into the next round of thinking or promise making. In Stage Three of the study enhancing customer value was shown to start with the strategic process. An appropriate customer philosophy and business strategy was developed, and then the organisational resources and processes that supported this strategy were identified and provided. Implementation of the strategy required designing and managing three complex business processes – product/ service innovation, supply chain management and customer relationship building. The firm's resources supported both the creation and delivery of value, encompassing its people, structure, systems, leadership, communication, knowledge base and skills. These findings support the work of Doyle (2000), Srivastava et. al (1999), and the RBV.

Intelligent promise making and keeping recognised the differing types of value sought by individuals within the same customer firm (i.e. strategic, functional and front-line). Thus, value creating and delivering processes occur at multiple levels, simultaneously. This multiplicity can be used to advantage by firms, for example, ability to deliver high level strategic value can compensate for short run operational difficulties creating negative value at the front-line. Attention to all three organisational levels is essential if firms wish to deliver *superior* customer value.

These insights relating to relationship motivation, process, inputs and outputs have been summarised in the following conceptual framework:

Figure 7.2: Contributions to and benefits from customer-supplier relationship value



Source: Developed for this research

The framework assumes the supplier has a customer-centric philosophy, and a focus strategy i.e. a strategy that requires identification, acquisition and retention of the right customers (rather than any customers). The customer is assumed to be rational⁵⁰, wishing to work with suppliers for mutually beneficial outcomes. On this basis, each will therefore be motivated to view the direct costs of establishing and maintaining a business relationship as an investment, with the expectation of commensurate benefits or returns, specifically business growth. The value received by the customer from this relationship is strategic (relating to the customer's business drivers), functional (relating to the means of achieving traction on the customer's business drivers) and front line (relating to products and services used by the customer in the pursuit of their business activities). The receipt and acknowledgement of this value contributes to the trust, commitment and dollar value offered in return to the vendor by the customer. The value received by both parties contributes to the business growth of each (the objective of the relationship), which can then be directed at further investment in business activities – a virtuous circle.

⁵⁰ For the purposes of this framework, a default of customer rationality is assumed. Customers may not be rational according to the view of the supplier, for reasons relating to behavioural rather than technical influences (e.g. power and politics). This is an area for further research.

Overall, the three generic value creating processes underpin the creation and delivery of customer value. The notion of joint discovery underpins the contemporaneous development and refinement of the customer offer (or kinetic value), and the delivery of the value incorporated in that offer (or realised value).

7.3.2.4 Value outcomes

Expanding on the view of customer value offered in Figure 7.1, and leveraging from the previous discussion on resource derivation, value outcomes can be conceptualised as the bundle of tangible and intangible benefits derived by *all* stakeholders. Value benefits are not confined to the firm-customer dyad. There are flow-on benefits (and costs) to supply chain partners, and to stakeholders in the wider environment. The CRM literature commences by proposing a customer-centric view of realised value, typically “what do customers value?” (e.g. Woodruff 1997). While this sounds logical, it is incomplete. The case demonstrated that the customer develops a view of realised value in consultation with the supplying firm, indicating that customer value should be viewed as negotiated and fluid rather than an imposed and rigid construct. Therefore, the outputs of the customer value creation and delivery process should be assessed on this basis. The wise firm manages customer perceptions of value carefully, and ensures there is appropriate reportage against these perceptions, a notion that is well developed in the service quality literature.

Outputs for the firm are derived from the intelligent application of resources, and can therefore be most appropriately understood as resource-based rents. Evaluation of these rents with respect to the investment required to generate the rents can be undertaken accordingly, congruent with the RBV. The value delivered during this process must be measured and communicated internally, to assess the firm’s share of the value created, and externally in order to assure the customer that value has been delivered. Value appropriation was shown to occur based on unique market-based resources, in particular relationships and knowledge, supporting the notion of Ricardian rent. It also supports the view that managers and intellectual capital are the firm’s most crucial resource (Hawawini et al. 2000).

7.3.3 Reflection on the project

As discussed in the Methodology chapter, the three approaches to qualitative data analysis are literal, interpretive, and reflexive (Mason 1996). This study uses a

combination of the interpretive and reflexive approaches, which is appropriate to a pluralistic study incorporating both an interpretive approach and an action research based methodology. Interpretation of meaning and sense making has been undertaken in each of the results chapters, and in the previous discussion. Reflexivity relates to the researcher's contribution to the data creation and analysis process. Accordingly, reflection on process and content follows.

7.3.3.1 Reflection on process

Four main issues arose regarding the process. These were appropriate framing, the researcher's learning process, the writing up process, and the need for responsiveness.

Framing of any study is important. Stage Three of this study was framed as a marketing audit, in order to provide a common point of reference between the managers and the author. This approach worked, indicating that it is important to frame action research projects in such a way that the participants can relate to the process and consider the outcomes relevant. The investment in time and energy made by managers should not be underestimated – their most valuable resource is time, they need to perceive value from any research exercise in order to provide 'good' data. A further point with respect to framing related to the presentation of information. In Stage Two, the author presented a staged or evolutionary interpretation of customer value (i.e. from transactional, to relational to systemic). Managers in turn used this frame to interpret and report on their business' approach to customer value creation and delivery, forming the basis for their evaluation of their firm's value-related activities. On reflection, this frame could have been a straitjacket. However, to their considerable credit the managers adapted the framework to suit their own interpretations. Less insightful, intelligent or empowered managers may not have been capable of taking this scholarly step. The learning therefore goes not so much to care in framing (although this must be taken), as to the quality of participants in this type of research – they must be smart, confident, and inquisitive.

The learning curve for the researcher on this project was steep. There was considerable pressure to quickly understand the macro and microenvironment in a rapidly changing set of technology-based industries, and also to understand the operations and strategy of a distribution organisation managing a complex and globally based supply chain. Additionally, complexities arose from family ownership, from recent strategic realignment, and from learning some of the technical basics

around telecommunications, information technologies and electronics – many of which the researcher was not familiar with in her previous industry exposure. At the same time, the researcher was faced with ‘learning by doing’ with respect to the action research process, a process that differs from pure research and pure consulting. During the process, it became apparent why action research based studies are unusual – the path is not well trod, the demands on the researcher are considerable, and navigating the theory-practice nexus brings time and people management challenges. However, the outcomes were very satisfying – an insider’s view of a turbulent industry, a highly performing firm, and of managers’ own learning journeys. This was in no small part due to the calibre of the managers in the project firm. Again, intelligent and enquiring managers and a culture supporting intelligent enquiry are pre-requisites for action-based research. The on-going contribution of managers in the writer’s executive classes was an important support for the learning process in this project. The classroom forum was helpful in discussing and refining conceptual frameworks. Executive students proved able in considering, discussing and evolving theory both in class discussion and assignments.

The writing up process in action research is demanding. Notionally writing should be done as the action is designed, and as it unfolds. This presents difficulties as the researcher is placed under a great deal of pressure to design and implement the action and reflect on and understand the action process contemporaneously. There is a further element of pressure in that the researcher is ‘in the spotlight’ – she or he has made representations to a group of busy and capable people, and these need to be honoured adequately, otherwise there is a high risk of the process derailing. The author was conscious of a need to focus on the managers rather than the process and the theory, and to encourage meaningful outputs. This is when one discovers that despite a number of years of immersion in both the strategy literature and industry practice, there are knowledge and skills gaps that need addressing, and that there is insufficient time to do so. While a localised project (such as an information system installation) is feasible using this approach, a broad-based, amorphous and open-ended project encompassing the whole organisation and every aspect of every process is ambitious. In this project, the writing was done after the conclusion of the in-firm activity. The in-firm activity required rapid assimilation and conversion of co-created knowledge to managerial outcomes – i.e. the two workshops. In addition to formal in-firm activity there were also networking activities with the consultant and the CEO –

invitations to University seminars, ad hoc emails and telephone conversations on various topics, and informal conversations with visiting academics specialising in subjects of interest to the firm.

Responsiveness during the course of the project was important. While general project planning could be undertaken, the process needed to incorporate responsiveness to emerging issues. For example, prior to project commencement it was not clear that the most helpful theoretical constructs for the firm would be the order management cycle (OMC) (Shapiro et al. 1992) and the service-profit chain (SPC) (Heskett et al. 1994). The potential usefulness of these frameworks emerged from conversations with the managers. The frustrations they expressed in delivering value to customers were clearly aligned to issues associated with these two more operationally rather than strategically oriented areas. My teaching experience indicated that the order management cycle and service-profit chain models help managers to identify problem points in value related processes. When presented in the classroom, manager feedback indicated that many of their frustrations resided in issues described by these models. Presentation to one manager (usually a functional manager) in a classroom, however, is not an effective means of inspiring organisational change. The manager is usually not in a position to initiate the far-reaching policy and practice changes necessary to address the issues underlying their frustrations. This point is reinforced by the single firm case. Many of these managers had a priori knowledge of the order management cycle and service-profit chain models. The power was in exposing the full management team to the models simultaneously, enabling them to share meaning and debate the issues in a purposive manner (i.e. using an action research based process). The action research process provided the nexus between the ideas and the implantation of these ideas i.e. was a catalyst of change. The action research process thus creates a project environment that is both intellectual and practical. The interpretation of the action research process in this case was effective according to both managers and researcher. Managers were able to debate and develop mutual understanding of the practical issues, while the researcher was able to debate and develop understanding of the theoretical issues. The output of these debates was a new constructed reality for both parties.

Some interpretations of action research e.g. (Perry and Sankara 2002) call for the creation of two artefacts to codify the new realities, an action report (i.e. a report

written focusing on managerial outcomes) and a research report (i.e. a research paper or thesis). In this case, the author has produced a thesis, while the managers have a set of memories, new ways of thinking and doing, and some workshop notes. In fast-moving environments, there is little time to produce and consume formal text-based communication, therefore written materials can be of less moment to managers than effective changes to practice. This is particularly applicable to the SME environment and to high-technology firms. The interview and workshop format provided high congruency with the firm's culture and modus operandi – informal, fluid, fluent, dynamic; verbal and physical rather than textual. On reflection, while formal consulting style reports are useful in providing the discipline for articulating complex ideas, the resources required to produce such documents (including the resource of time spent waiting for a consultant or external adviser to produce such a report and reading time) may be a luxury for smaller organisations.

The three-staged multi-method approach provided a progressive refinement of knowledge from various perspectives – a form of theoretical and methodological triangulation. This enabled a rich, flexible and responsive approach to data gathering and analysis, which was helpful in researching a complex and dynamic construct such as customer value.

Overall, action research is a useful approach for understanding complex and difficult research issues. However, there are challenges in finding an appropriate problem, securing the agreement and support of an appropriate site, managing the project in a manner compatible with the firm's culture and resources, and contributing to the advancement of theory. This project is a hybrid of various approaches. It is not 'pure' action research. It uses a hybrid form that was adapted for the particular requirements of this particular study. This is an important issue with respect to action research – the underlying philosophy remains the same, however, each project requires customisation to meet the needs of the researcher, the research collaborators, the problem, and the particular research environment. Therefore, every action research undertaking will be different.

In this case, the project had a smooth genesis, and progressed smoothly. The researcher attributes this primarily to previous relationship building through teaching activities, which created an environment of openness and trust in communications. Furthermore, the firm's culture was conducive to research – the value of knowledge

was unquestioned, therefore intellectual and reflective activity was accepted and entered into enthusiastically. The managers were also motivated to improve the firm's performance, and as the project was clearly directed at this outcome, project activities were entered into willingly. This essentially ideal situation resulted in positive outcomes for both firm and researcher.

7.3.3.2 Reflection on outcomes

From the outset, the CEO of the Stage Three case firm demonstrated an enquiring posture and willingness to risk-take. This was crucial to both the process and the outcomes of the research. For example, when asked how he saw the project integrating the organisation's customer value delivery processes his response was "I'll be as interested to find out as you!" [1,179]. His response captures the spirit of action research – i.e. collaborative enquiry by equally engaged participants. During the individual conversations, managers seemed relieved to share their frustrations. After the second workshop, it appeared that mutuality of understanding was emerging:

V: ... it's come full circle. When we first talked I was saying 'customer value' and you were saying 'well - process, process' and now we're getting some sort of confluence.

CEO: Well I always said it was good timing, because we started the journey internally at the same time. So I imagine the journeys together actually are quite useful. CEO after close of Workshop 2 [17&18,812-813]

This project provided a sounding board and informal support for the CEO and other members of the organisation, at a time when all were uncertain of the outcomes of the new strategic direction. Without prior calibration of culture and communication, and assessment of prior and current states, however, there is no reliable point of comparison. Certainly the workshops provided an opportunity to address an important and tenacious problem – that of successfully integrating the organisation's new 'promise-making' posture with its attitude and ability in 'promise keeping'. The CEO gave the following feedback to the question "Did you find this project useful?" in our final conversation:

CEO: Absolutely. I wish we had more time to have some more [workshop] sessions. Like the last one was fantastic ... some of the areas that could be beneficial tend to get left later so we've concentrated on the front end of the business where we need the return. The theories that we're talking about, I'm finding it hard to assess what is current thinking, as we're beyond it to some extent, some of that theory, we're living it, so it's probably at the back end where a lot of the

theory has probably been more applicable ... Some of the analysis was outside our competencies, I think, so that's been useful as well ... CEO [19,277-279]

The enthusiasm of the CEO for the workshop sessions was interesting. Clearly, this is where *he* perceived the value in the project, whereas from my perspective they were simply two events in an on-going episode. As an outsider I had little insight into the impact of these events on the organisation, as they were conducted after the conversations with organisational members other than the CEO. Thus, I was surprised to hear that he considered the second workshop 'fantastic'. Secondly, the analysis (from my perspective) involved only a very general assessment of capabilities and competencies, and an assessment of gaps therein that would create issues in developing and delivering customer value. I used established theory (e.g. the service profit chain and order management cycle) to communicate these gaps and to initiate debate. Any one of the managers who had completed the course of study taught by the author could also have done this; therefore it was well within the organisation's competencies. However, it appears that I am optimistic about managers' abilities to apply theory – my teaching experience has made me aware that most managers struggle to link seemingly simple frameworks to their businesses. Perhaps only outstanding managers (such as the CEO) are able to readily apply a theoretical constructs to business problems. These insights can also be understood in the frame of promise realisation – the tangible and intangible outcomes of the project as measured and articulated by the researcher and the managers.

Overall, the project is considered to have made a positive contribution to the focal firm's customer value creating and delivering processes. Key issues in delivering value in particular were highlighted, for example difficulties in forecasting specific customer demand, and hence in allocating scarce product resources between customers of equal strategic value. Additionally, operational issues were identified and named, with the result that traction was achieved in addressing these issues – for example the unreliability of inventory records. It also provided a forum for managers to articulate and discuss issues of concern. The underlying benefit was increased firm-wide communication – which supported greater understanding and potentially refinement of important processes.

7.4 Research limitations

The perspective taken in this research is broad in nature, focusing on aspects related to the general nature of customer value and its attendant creation and delivery processes rather than on specific attributes. Thus, the study was exploratory in character. It was directed at theory development, and did so by identifying relevant constructs and variables specific to the nature of customer value, and to the customer value creation and delivery process. Conceptual frameworks and propositions were developed, specific to a number of firms. The purpose of the research was not to test these frameworks and propositions, nor to generalise the results to other populations and firms.

Three limitations arise from the three stages of the research:

1. Nature of the sample / research cases;
2. Nature of respondents;
3. Nature of research process.

In Stages One and Two the *sample and the cases* were drawn from the author's executive students. This may be a limitation in that responses may have been directed at meeting the expectations of the author rather than reflecting the 'true' situation. However, in Stage Two the students demonstrated a critical approach to presented theory, and the results of each of the three stages were consistent. These factors suggest that source effects were not a major issue.

In Stages One and Two, *respondents and case firm informants* tended to be junior to middle level rather than more senior managers, which could affect the quality of responses. However, they were highly motivated, and were drawn from larger well-established firms. The incidence of prior tertiary qualifications was also high, as evidenced from the respondent profile in Stage One and high quality responses, evidenced by relatively few missing values in the data.

Finally, in Stages Two and Three the *research process* resulted in knowledge co-creation in collaboration with research participants and the researcher. While this approach may have resulted in selective perception, framing and reporting on the part of both the author and the research participants, the potential for bias was recognised and addressed by on-going literature work and by presenting findings progressively to

academic audiences, executive students and to the Stage Three case firm over the period of the study. A high quality of in-depth information was obtained, and refined over time with the assistance of multiple and diverse contributors. Consistency of findings across all three research stages suggests either extraordinary systematic bias or response reliability.

7.5 Contribution to knowledge

The theoretical and methodological contributions to knowledge will now be summarised.

7.5.1 Theoretical

Four major contributions were made by this study:

1. A new definition of customer value was developed, addressing weaknesses in previous definitions found in the literature (Table 7.1);
2. A new conceptualisation for the customer value construct was developed (Figure 7.1), complementing the new definition. This conceptualisation provides important insights into the contribution of the firm's resources and value-related processes and addresses weaknesses in previous conceptualisations, integrating the RBV with the marketing literature;
3. Five approaches to customer value (or value postures) underlying customer value creation and delivery were identified: Transactional, Hybrid/Transitional, Relational, Network and Systemic. The value postures were further enhanced by the notion of 'pluralism' i.e. the range and magnitude of value creating behaviours. Pluralistic firms tended to undertake more value related behaviours, and to a greater extent. Thus, firms can be characterised in two complementary ways with respect to customer value creation and delivery – by the nature of value posture, and by the extent of pluralistic marketing practice.
4. Specific insights were:
 - a. That in the industrial context customer value can and should be conceptualised and delivered at multiple levels within firms – strategic, functional and front-line;

- b. That customer value is strongly related to knowledge and learning: it is co-created, and it is transformational in nature, requiring internal and external learning on the part of individuals and the firm as a whole. Learning changes the individuals and the institution. Regardless of whether the learnings are applied, the post-learning organisation is different from the pre-learning organisation.
- c. That effective and on-going development of customer value is central to on-going success, supporting the customer value based theory of the firm (Parasuraman 1997; Slater 1997; Woodruff 1997).

7.5.1.1 Support for the research propositions

The research propositions were based on the three research questions. Table 7.2 presents a summary of findings and the degree to which these findings are explicitly expressed in the extant literature with respect to the research propositions.

Table 7.2: Contributions of the study – propositions, findings, and evidence in the extant literature

Proposition	Key findings	Previously identified? ⁵¹
<p>P1: That customer value creation and delivery (CV) involves four factors: <i>intentions</i> (of general business and marketing activities), <i>managerial focus</i> (investment focus and activities focus), <i>management and leadership</i> (which organisational members champion CV, which stakeholder groups are considered, and characteristics of planning processes) and <i>monitoring</i> (approach to performance measurement). <i>Chapters 4-6</i></p>	<p>Supported.</p> <p>All factors were significant in predicting the approach to value creation and delivery taken by firms. Findings were consistent across all three study stages, regardless of method.</p>	<p>To a large extent.</p>
<p>P2: That the nature of the CV process will differ between firms. <i>Chapters 4 & 5</i></p>	<p>Supported.</p> <p>Building on the identification of three value postures in the literature (Transactional, Relational and Systemic), Stage 1 identified three customer value creation approaches: Traditional Transactional (TT), Traditional Relational (TR), and Pluralistic.</p> <p>Each demonstrated differences in customer value creation and delivery approach. TT complied with the Transactional posture, TR complied with the Relational posture, however, the Systemic posture was not supported. Additionally, a Pluralistic form was found, attributable to marketing 'best practice', whereby these firms undertook various marketing activities to a greater extent than TT or TR firms.</p> <p>In Stage 2, three further dimensions were supported –</p> <ol style="list-style-type: none"> 1. A transitional or hybrid form describes the approach to creating customer value adopted by firms moving from a purely transactional approach to a more relational approach; and 2. A 'network' form describes the approach to creating customer value adopted by firms with a wider purview of business partners than relational firms and without an acknowledged social purpose; and 3. A 'systemic' form describes the approach to creating customer value adopted by not-for-profit and public service organisations. 	<p>To a limited extent.</p> <p>To a limited extent.</p> <p>Not at all.</p> <p>To a limited extent.</p> <p>Not at all.</p>

⁵¹ The degree to which the issue is explicitly addressed in the extant literature

Proposition (continued)	Key findings	Previously identified? ⁵²
<p>P3: That the differences in approach to the CV process can be explained by the elements identified in Proposition 1 (Chapter 4 & 5).</p>	<p>Supported and enhanced.</p> <p>Some explanation was provided, however, the qualitative work indicated other factors might also apply:</p> <ol style="list-style-type: none"> 1. Generic business strategy (i.e. low cost, differentiated, broad, focus); and 2. Managerial position and perspective (strategic/ senior management, functional/ middle management and front-line). <p>Relationships were found between the firm archetypes. While TT, TR and Pluralistic clusters can be regarded as mutually exclusive, combinations of archetypes are plausible - firms can be transactional, transitional, relational, network and systemic and also pluralist, indicating an element of marketing best practice against all these archetypes.</p>	<p>To a limited extent.</p> <p>To a very limited extent.</p> <p>Not at all.</p>
<p>P4: That managerial views of CV have common characteristics across firm types and industries (Chapter 5).</p>	<p>Supported and enhanced.</p> <p>Key commonalities of view were:</p> <p>Value judgements are ascribed to customer value posture by managers – ‘transactional-bad’, ‘relational-good’, ‘systemic better’. Social aims are perceived to be desirable, however not practicable.</p> <p>A ‘progressive’ view of customer value approach is perceived, commencing with Transactional, moving to Transitional-Hybrid, then to Relational, Network and to a Systemic or socially motivated view.</p>	<p>To a very limited extent.</p> <p>Not at all.</p>
<p>P5: That the CV process can be conceptualised through the lens of the RBV i.e. as a set of resources, orchestrated by strategy, and delivered via the three core value-generating processes⁵³. (Chapter 6b)</p>	<p>Supported.</p> <p>The RBV was a useful theoretical foundation for understanding CV creation and delivery, enabling disaggregation of constituent elements and developing understanding of these both in part and as a whole. The lens of ‘promises’ provided a useful operationalisation of aspects of the value-creating processes.</p>	<p>To some extent.</p>
<p>P6: That the CV process is linked to shareholder value through the mechanism of the artefacts and activities identified in Proposition 5 (above). (Chapter 6b)</p>	<p>Supported.</p> <p>Customer value and shareholder value are notionally positively correlated. However, with respect to on-seller customers, unless value is apportioned appropriately between parties, value equilibrium is not achieved.</p> <p>Additionally, there is considerable potential for conflict between customer and operations (i.e. within the order management cycle).</p>	<p>To a limited extent</p> <p>To a very limited extent.</p>

⁵² The degree to which the issue is explicitly addressed in the extant literature

⁵³ Product development management, supply chain management and customer relationship management

Additional findings were that ‘enlightened’ business practices (i.e. learning and innovation, or social and environmental ‘good’) are not prevalent. However these business practices are represented in Pluralistic firms, one third of the survey sample in Stage One of the research. A strong focus on the traditional concerns of profit and survival reflects the exigencies of demanding stakeholder constituencies and a competitive environment.

Furthermore, indication of contingency was found in two respects – strategic and perspectival. Strategic contingency relates to the firm’s generic business strategy (i.e. low cost, focus or broad), while perspectival relates to the organisational position of the individual who is evaluating a value offer (i.e. strategic, functional or front-line).

7.5.2 Methodological

Three major contributions were made by this study:

1. Insight into a pluralist approach to action research – i.e. how to configure a multi-method, sequential and staged study to advance knowledge on complex research issues;
2. Insight into how action research based projects can be designed to co-create value for both faculty and managers in executive marketing courses;
3. Insight into how action research based projects can be designed to co-create value for both faculty and firms in industry based research.

These insights will support the design and implementation of future studies, and provide a useful framework for evaluating past action research based work.

7.6 Implications of the research

Implications of the study for future research, for marketing practice, and for management education are now discussed.

7.6.1 For future research

A number of opportunities for future research were identified during the course of this study. Research issues, paired with research questions and appropriate research propositions follow in Table 7.3:

Table 7.3: Opportunities for future issues based customer value (CV) related research

Research issue	Research question	Proposition
Managerial understanding of CV delivery and performance linkage at business process level.	To what extent do functional managers understand the connection between their activities and their firm's performance?	P7.1: That functional managers do not understand the relationships between their day-to-day activities and the impact on CV and/or shareholder value;
Nexus of CV posture, marketing practice and knowledge management.	What are the relationships between these three constructs?	P7.2: There is a strong positive relationship between CV posture, marketing practice and knowledge management.
Influence of managerial attributes on CV creation and delivery performance	How do managers' intellectual and personal attributes affect their willingness and ability to create and deliver customer value?	P7.3: That there is a strong positive relationship between managerial attributes (e.g. values, knowledge-IQ and personal-EQ skills, including self-awareness and communication) and CV creation and delivery.
Influence of business or generic strategy on CV posture.	How does the firm's generic or business strategy affect its CV creation and delivery approach?	P7.4a: That a transactional value posture is more appropriate for firms implementing a cost-leadership strategy; P7.4b: That a relational posture is more appropriate to for firms implementing a differentiation strategy.

A lack of understanding by functional managers of their firm's financial performance was indicated in all three stages of the study. This finding supports anecdotal evidence from student interaction, and the author's industry experience. There appeared to be a disconnect between (in particular) marketing activities and the impact on shareholder value, attributable to a number of factors including poor internal communications and

lack of managerial skill. The literature supports this position, however offers little insight into this issue, indicating that managerial understanding of the marketing-performance nexus is both important and under-researched.

Secondly, the area of marketing-related knowledge management was highlighted. Again, there is little explicit support for this area in the literature, although the literature on knowledge management per se is extensive. Knowledge was shown to be one of the firm's most valuable resources, and crucial to creating and delivering customer value. Therefore, this area presents an important opportunity for future research. A logical avenue would be cross-disciplinary research, with colleagues in management studies.

Thirdly, personal attributes of managers (e.g. knowledge, personality, values, intellect) have received little attention in the marketing literature. However, this research found that these attributes have a significant influence on the firm's value creating and delivering capabilities. Managerial attributes are more typically reported in the management literature, again suggesting an opportunity for future cross-disciplinary and collegial research.

The fourth area identified for future research was the notion of contingency – consideration of whether a particular generic strategy (e.g. low cost) indicated a more transactionally oriented marketing approach. While there is some attention to contingency in the marketing literature (e.g. Vorhies & Morgan. 2003) this area is under-researched. Furthermore, the value posture framework offers a potentially insightful vehicle to research this issue.

Finally, the action research framework presented in this thesis offers opportunities for developing further research relationships with executive students and with firms associated with executive education. A knowledge co-creation approach has been shown to produce benefits for students, firms and for advancing knowledge, particularly in areas of research that are highly contextual, complex, dynamic and process-based.

This study therefore represents the point of embarkation for a number of projects, based on both methodological approaches and research opportunities. A series of empirically based papers is envisaged:

1. Linkages between the RBV and marketing - a conceptual framework for developing customer value;
2. The derivation and diagnosis of customer value postures; and
3. The use of action research to examine complex process-based phenomena in marketing research.

7.6.2 For marketing practice

Overall, the findings suggest that firms and managers would benefit from an improved understanding of customer value creation and delivery in general, and with respect to their particular contexts. The findings also indicate that firms could achieve a return on an investment in developing this understanding.

The practice of reflection on promise-making and promise-keeping activities fosters internal learning, and improved communication inter and intra-functionally, and vertically through the organisation. As reflection is generally a luxury for busy managers, programming it in to the organisation's activities regularly via a facilitator (suggesting an action research opportunity) would provide considerable benefit for both facilitator and firm.

A customer value frame could be applied to strategising activities, providing a purposive and systematic framework for approaching this often organic and unfocused process. To this end, the findings of this study can be translated into a customer value audit, applicable in various contexts.

The holistic or systemic view of customer value is useful in 'consciousness raising' – i.e. creating hitherto unrecognised opportunities for creating further value by leveraging stakeholder relationships. Attention to wider systems of value, and in particular a societal view, merits attention. These opportunities should be assessed in terms of the propensity to deliver or realise value for the firm on multiple dimensions, enhancing the balanced scorecard approach.

The findings also highlight the importance of resource 'matching' i.e. ensuring the appropriate enabling resources are secured and configured for the three generic value-producing processes, and that the firm is using these resources effectively in producing customer value. Again, an audit framework would be a useful assessment mechanism.

The contingency perspective highlights the importance of self-knowledge on the part of firms – understanding business drivers, strategic direction, and the implications of that direction for operations. A useful first step would be completion of the CMP instrument by all managers within the firm, with results checked against a census of firms, and also internally to check for congruence of view with respect to approach to marketing practice. This could be a useful diagnostic tool, and also for stimulating useful managerial discussion.

Finally and perhaps most importantly, the findings confirm that managerial talent is one of the firm's most valuable resources, particularly with respect to the skills of knowledge deployment and relationship building. This highlights the importance of on-going personal development for managers – and balancing intellectual, skill-based and emotional skills. The implication is that investment in focused managerial development will return for the firm in the form of enhanced customer value and competitive advantage. A further implication is the importance of excellent staff recruitment and retention, as identifying and keeping high performing managers is crucial to the firm's competitive performance.

7.6.3 For management education

In general, the findings of this study support the Vargo and Lusch (2004) view of a new dominant logic for marketing, i.e. one that is relationship, solutions, service and value driven.

While this logic permeates much of this University's executive courses, it cannot be held to dominate. The implication is that marketing courses reflect marketing's past logic, i.e. do not explicitly reflect the dominant logic of marketing practice, leading to issues of relevancy. If this is so, then clearly courses developed under the old logic require re-examination.

The study further suggests that executive marketing courses should explicitly incorporate the notion of customer value, and RBV-based theory relating to customer value creation and delivery. This has particular application to students in industrial and business-to-business firms. The approach taken here – the making, keeping, enabling and realising of promises – is a potentially useful structuring device.

In executive teaching, the customer value perspective has already proved useful in communicating complex ideas to managers, however the extant literature is difficult

to synthesise and present in an applied manner. This research provides a new set of detailed conceptual frameworks for understanding value, that help to integrate the literature and present ideas in a form useful for managers. Many of the frameworks in this thesis have been introduced to the writer's classes, and have been well received.

The study also ratified the need for teaching an holistic view of the firm in the context of its wider environment in marketing strategy courses.

Finally, an action-research based approach has been shown to be useful and beneficial to both students and faculty – this approach should therefore be actively encouraged.

7.7 Chapter & thesis summary

This chapter concludes the research, providing a review of the major findings in the context of the research limitations. The contribution to knowledge with respect to both theory and methodology, and implications of the research for future research, for marketing practice and for management education were discussed.

The study built understanding of customer value, of how customer value was created and delivered, and how that process related to the assets, capabilities and financial outcomes for the firm. During that process considerable value was co-created and enjoyed by the researcher and multiple parties in the researcher's knowledge network, echoing the findings.

This has been an ambitious study incorporating innovation in both methodology and theory. The intention is that it will form the basis for future studies by the author that will enhance and test the theory that has been developed, and it is hoped that publication will encourage others to adopt an action research based approach.

The final word goes to the Managing Director of the Stage Three focal firm. His insights arise from ensuring his firm's survival for over twenty five years in a turbulent industry. Here, he captures the nature of the challenges inherent in understanding and improving customer value-oriented practice:

“ ... there isn't one thing that makes it work, there's a set of things that you've got to be able to address, and any one of them will let you down. No one of them is a magic bullet, but any one is a point of weakness or even a point of failure. They all have to be present.” Managing Director of industrial SME [10,55]

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GLOSSARY OF TERMS

Active equipment: relatively complex, electronic items that can exchange information, e.g. active semi-conductors and integrated circuits.

Bundling: Creating a package of products and services that is sold at one price, rather than pricing each component individually.

Cable: A linking mechanism or conductor for transmitting electrical or optical signals or electrical power.

Connector: An instrumentality that links: wire or equipment linking one component to another.

JIT (Just In Time): type of supply arrangement whereby suppliers undertake to deliver products and services in to manufacturers on or about the time when they are required for input into the manufacturing process, thus saving the customer inventory holding costs.

Network: Set of hardware and software comprising a communication system.

OEM (original equipment manufacturer): company that supplies equipment to other companies to resell or incorporate into another product using the reseller's brand name. More recently, OEM refers to the company that acquires a product or component and reuses or incorporates it into a new product with its own brand name.

Passive components: relatively simple, electro-mechanical items i.e. cables and connectors

Process: A set of activities that transform an input into an output.

Process automation: The automatic operation or control of equipment, a process, or a system, techniques and equipment used to achieve automatic operation or control of a manufacturing process.

Prototype: An original or model used as the basis for further product development.

Re-distributor: Company that purchases products and on-sells to other distributors (e.g. an importer that re-distributes to wholesalers).

Reseller: a company that buys a product or service from another company and repackages it, usually adding something to it, to other companies under its own company or brand name, or who sells it on, unchanged.

RFP: (Request for product) a formal document describing detailed technical specifications, provided by a customer to competing supplier firms.

Telco: Descriptor for companies engaged in the telecommunications sector, including telephone network suppliers, network installers, and componentry manufacturers or distributors.

Tender: Process of bidding for a customer's business. Competitors respond in confidence and in writing by a given date to a tender document prepared by the customer stating requirements and specifications. The customer selects the tender or business proposal that best meets their needs (which may change from the original specification.)

Value proposition: description of value provided to the customer that is unique, different, sustainable. Across firms, each would have similar elements, however each firm tailors its own value proposition for its own customers.