

CONSIDERING THE NATURE OF VALUE CAPTURING MECHANISMS IN INDUSTRIAL BUYER-SUPPLIER EXCHANGE – A STRUCTURED ABSTRACT

Daniel D Prior, University of New South Wales, Australia

INTRODUCTION

The notion of value appropriation or value capture is a primary way benefits realization is described in buyer-supplier relationships. Using the concept of value as the operational term, this literature considers the realization of benefits as a trade-off between the sacrifices and the paybacks rendered through buyer-supplier exchange. However, an assumption exists in this literature that value appropriation/ capture occurs *at the expense* of other activities such as value creation and is inequitably distributed between exchange partners (Mizik and Jacobson 2003; Wagner, Eggert and Lindemann 2010).

In this paper, I present an extended abstract to address three sets of issues. Firstly, I argue that the concept of value is broad and multifaceted. Value is not measurable only in financial terms. Secondly, I argue that the current conceptualization of value appropriation/ capture embodies the assumption that an inequitable distribution of value is inevitable and that this is not necessarily the case. Thirdly, I argue that for each party to exchange, a set of mechanisms exist that result in the perception of value appropriation/ capture. I use a grounded theory approach to develop these claims, based on a sample of managers in the Australian IT industry.

THEORETICAL SETTING

In this section, I briefly explore the nature of value appropriation and capture. I extend the current theoretical understanding of these concepts through an integration of the broader notions of value found in the customer value literature. I also argue that value appropriation/ capture does not necessarily occur at the expense of the other exchange partner if the desires they have for the exchange are different.

Value as a Multifaceted Concept

The concept of value receives varied interpretations. These depend on the perspective of the evaluator and the specific measures they choose (Woodruff 1997; Zeithaml 1988). Financial value is easiest to measure since monetary terms are objectively assessable. This approach constitutes the predominant method in the economic, management and marketing literatures at present. It is appealing to use financial measures due to their correspondence with measures of profitability. Alternative measures of value are present in the customer value literature. Howard and Sheth (1969) and Sheth, Newman and Gross (1991) argue that customers consider value in terms of a range of benefits, only some of which are financial in nature. Customers look for epistemic, conditional, social, emotional and functional benefits from a purchase. Consequently, their appraisal of value focuses on this broader interpretation. Evidence exists that suppliers also consider at least some of these dimensions in their appraisals as well (Henneberg, Pardo, Mouzas and Naudé 2009; Hutchinson, Wellington, Saad and Cox 2011).

Value appropriation and capture is described almost exclusively in financial terms in the marketing and management literatures. Mizik and Jacobson (2003), for example, describe value appropriation as those activities associated with 'extracting profits in the marketplace'. Consequently, value appropriation/ capture equates to the sequestration of financial returns. While this is conceptually convenient, I argue that it does not capture the broad, multi-faceted nature of the value concept.

P1: Value appropriation is measurable in both financial and non-financial terms

Value Appropriation/ Capture as an Inequity

The notions of value appropriation or capture depict a set of activities that relate to the preferential realization of benefits. That is, a partner that is more able to extract value from a given exchange situation is said to appropriate it or to capture value

for itself. Conventionally, this is at the expense of the other partner who is then unable to extract the same benefits from the exchange. The total value available constitutes a 'pie' in that it is confined to a limited set of benefits (Jap 1999, 2001; Wagner, Eggert and Lindemann 2010). This conceptualization, however, relies on financial measures of value such as profitability and economic rents. In these terms, value is indeed restricted since both parties only have access to finite funds and are limited by their willingness to part with these. In adopting the multifaceted notion of value I present above, financial value only constitutes one of a number of dimensions of this concept.

According to customer value theory, both parties to exchange hold a set of desires or wishes for a given exchange (Woodruff 1997). It is more likely that suppliers seek financial returns from the exchange while customers seek the realization of benefits. In this sense, the financial pie becomes less relevant. Instead, the desires of each party are complementary and, consequently, do not always represent a trade-off.

P2: Value appropriation does not occur at the expense of the other party to exchange if the bases of benefits realization do not render conflict

Method

To explore the claims presented in this paper, I use a grounded theory approach (Glaser and Strauss 1967; Strauss and Corbin 1990). To this end, I conducted face-to-face and telephone interviews with eleven managers in the Australian IT industry. In general, these people all have extensive experience in the management of complex IT projects either from the buyer side, the client side or both. IT projects typically involve the installation of large, complex systems that require ongoing interactions between diverse teams of individuals. This environment is ideal for the nature of this study. It yields a rich context to explore the implications of the propositions in this study.

To ensure data quality, I used the criteria of credibility, transferability, dependability, conformability and integrity of from interpretive research (Hirschman 1986; Lincoln and Guba 1985) as well as the criteria of fit, understanding, generality and control from grounded theory (Strauss and Corbin 1990).

Developing a Broader Model of Value Appropriation

In this section, I briefly explore the propositions of the study through the qualitative data gained. I then use this framework to develop a new understanding of the mechanisms used in value appropriation/ capture.

Value as 'More than Just Financial'

The data supports the notion of value as a multifaceted notion, as argued by P1. This is evident from both buyer and supplier viewpoints. Interviewees that responded as buyers indicated that they consider dimensions such as quality, timeliness, responsiveness and expertise in the supplier above financial value.

"The budget is a major constraint. Our organization usually stops short of getting what we need due to budget. Instead, I wish they'd [senior management] would allow us to implement what we initially agreed on... we sell ourselves short more often than not" Michael, client project manager.

"When a supplier helps us solve a problem, it goes a long way. We rely on their expertise, particularly with the more complex problems that we're not experts in" Chris, client project manager.

Interestingly, suppliers also indicate a multi-faceted assessment of value. Indeed, some major considerations are how difficult a client is to work with, what can be learned from a given project and whether it will lead to follow-on work.

"If a client is easy to work with, it makes our lives easier... A client makes it easy for us if they know what they're doing, if they are efficient in getting us access to their systems and if they don't change their minds every five seconds" Bill, supplier managing director.

Value Appropriation/ Capture as Complementary

P2 also receives support in the data. Respondents indicate that they often try and help each other where possible, regardless of the payment arrangements. In this sense, notions of co-operation are evident instead of direct trade-offs between parties. This was more common once a project began. Valuable outcomes for clients mostly relate to the achievement of project milestones, or the completion of major tranches of work. This often involves a dynamic process that is often characterized by the juggling of diverse resources while also solving complex problems. The value that is appropriated/ captured by the client is twofold i) the problem-solving activities that occur through the process of delivery and ii) the delivery of project milestones.

“When [supplier A] identified that error, it saved us at least six weeks work. We are very grateful... They really have some good people” Greg, Client project manager.

“We opened a bottle of champagne the day that the implementation of our new SAN solution was handed over to us” John, Client project manager.

For suppliers, value also took the form of expertise gained through project experience and the improvement in reputation from doing a good job.

“Our team really learned a lot from the job with [client X]. They [client X] didn’t really understand what they were asking for, so we really had to walk them through it. Once we got going, it was really obvious their systems weren’t up to scratch ... My guys ended up doing double time and worked weekends. They’re now a lot more wary while also having a much more thorough understanding of how projects can go pear shaped. It was a tough gig” Bob, supplier program manager.

However, some circumstances did promote this adversarial process to value appropriation/ capture. This is particularly the case during the negotiation of contracts.

“Its often the case they want us to supply all of this documentation, like a project plan, a quality plan, a communication plan, and a risk management plan, as part of the quote. These take time and energy to complete... We won’t quote unless we think we’ve got a good chance of winning” Dennis, Supplier business development manager.

Mechanisms of Value Appropriation/ Capture

Previous studies of industrial buyer-supplier relationships identify a range of mechanisms of value appropriation/ capture. Communication and information exchange are among the more commonly identified elements, as is the presence of mutual goals and the complementarity of resources (Jap 1999, 2001; Wagner, Eggert and Lindemann 2010). However, most of this research focuses on the conditions necessary for collaboration to occur such as the presence of idiosyncratic resources and environmental conditions. I argue that the perceptions of parties to exchange are shaped more by the actions of their counterparts.

The data reveals that the perception of value appropriation and capture requires three primary mechanisms.

1. An opportunity for assessment. According to the emergent symbolic interactionist and social constructionist perspectives of value (Flint 2006; Vargo 2008; Vargo and Lusch 2004), assessments occur within idiosyncratic contexts and constitute a comparison between stimuli and desires. This is reflected in the data gathered for this study. Respondents indicated that they assess the performance of their counterpart at specific times and places. For customers, the most common opportunity for the recognition of value appropriation/ capture was at a project meeting. For suppliers this is more likely to occur during the delivery process when it is evident the client has taken efforts to ensure smooth project completion.

2. Communications about value dimensions. In lieu of an assessment opportunity, both parties engage in a series of activities that impact value appropriation/ capture. These result in the production of stimuli. Those forms that were frequently cited in the data include email, telephone and face-to-face meetings.
3. Systems or processes. The data reveals a systematic approach to the completion of projects. All projects discussed with respondents have a relatively standardized approach to delivery that allow value appropriation/ capture by both parties. The general trajectory involves the initial negotiation between parties, the agreement of payment milestones as well as steps for problem-solving in the event of unforeseen circumstances. These facilitate the completion of activities that lead to positive outcomes for both parties.

LIMITATIONS

This extended abstract provides a brief description of a qualitative study conducted in the Australian IT industry. Consequently, its implications are specific to this context and are not generalizable. The nature of the study also limits its contribution to the development of symbolic interactionist and social constructionist concepts of value.

CONCLUSION AND DIRECTIONS FOR FURTHER RESEARCH

This extended abstract presents a brief synopsis of a new way at considering customer value appropriation/ capture. It argues that value transmission occurs in not just financial terms. Instead, value is a broader concept that incorporates functional, emotional, social, epistemic and conditional elements (Howard and Sheth 1969; Sheth, Newman and Gross 1991). Consequently, these elements must be factored into notions of value appropriation and capture. Since buyers and suppliers seek different outcomes from exchange processes, these goals do not necessarily represent a source of conflict as implied through common conceptualizations of value appropriation and capture. Instead, the differences in the goals of both parties lead to differences in the types of mechanisms they deploy.

While research into the subjective nature of the value construct is ongoing, this paper extends this to include notions of value appropriation and capture. Future research in this area is likely to focus on describing the nature of processes and interactions between assessments of value and the determinations that value has been appropriated or captured. In addition, research could focus on the measurement of the value construct, particularly in a manner that directly relates perceptions of benefits realization and other forms of performance management.

REFERENCES – AVAILABLE ON REQUEST