

Interaction, Roles and Value Creation Dynamics in Management Consultancy

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Abstract

At the heart of IMP research, lies the interaction between buyer and supplier (Håkansson, 1982) and the recognition that businesses are not islands but are embedded in a wider network (Håkansson and Snehota, 1989; Anderson et al., 1994). Whilst there is a plethora of research developed from an IMP perspective, it tends not to focus on pure service industries, with service research being left to other Nordic researchers, e.g. Grönroos, 2008). However, calls by Grönroos (2011) and recent debate sparked by Vargo and Lusch (2004, 2011) along with a recognition that IMP principles are not solely relevant to hard-core industrial contexts leads us to consider the role of IMP focussed research in Management Consultancy. A model is developed which explores the interactions that occur when a client needs not-possessed capabilities for its own value creation purposes from a knowledge intensive supplier.

Keywords: value, interaction, professional services.

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1. Background to the research

At the heart of IMP research, lies the interaction between buyer and supplier (Håkansson, 1982) and the recognition that businesses are not islands but are embedded in a wider network (Håkansson and Snehota, 1989; Anderson et al., 1994). Whilst there is a plethora of research developed from an IMP perspective, it tends not to focus on pure service industries, with service research being left to other Nordic researchers, (e.g. Grönroos, 2008). However, calls by Grönroos (2011a) and recent debate sparked by Vargo and Lusch (2004, 2011) along with a recognition that IMP principles are not solely relevant to hard-core industrial contexts (Ford, 2011) leads us to consider the role of IMP-focussed research in Management Consultancy.

Gummesson (1998: 247) notes “an unsold product has no value, and a service provider without customers cannot produce anything” so value is not produced in a void, but through interaction in a relationship with customers; a product or service unconsumed is without value (Priem, 2007). The relationship between buyer and seller should deliberately have a role in value creation; Corsaro *et al.*, (forthcoming) emphasize the need to consider the dynamic nature of relational value. Such value emerges from the process of exchange that involves every intangible attribute that a supplier and a buyer offer collaterally to an exchange of goods or services, before, during and after the buyer-seller exchange, i.e. episodes of interaction (Håkansson, 1982), e.g. knowledge sharing, reputation, long term productivity gains from mutual learning (Normann and Ramírez, 1993).

This paper considers a range of perspectives on value creation and considers the dynamics of the process along with the roles actors take and the resources and capabilities (activities) needed by both parties to the interaction. This research also harnesses the foundational research on competencies and dynamic capabilities and specifically on *strategic learning dynamic capability* with a direct causation on value creation, as in fact Ngo and O’Cass (2010) argue that value creation depends on firm capabilities. However, the link between resources and value creation in the literature has been sparse (Ngo and O’Cass, 2010).

Additionally, there is little empiric evidence in the extant literature that might explain how capabilities in a management consulting firm create value. However, it has been recognized that knowledge capabilities are mission critical to business. Aarikka-Stenroos and Jaakkola (2012) undertook research with similar focus, making salient 5 stages or components of the value co-creation process but the research does not involve a detailed analysis of the role, effect or mediation of competencies; these will be explored by this research.

The aim of this study is to explore actor roles, resources and capabilities in a professional services context. A conceptual model is developed which explores the interactions that occur when a client needs not-possessed capabilities for its own value creation purposes from a knowledge intensive supplier. However, it is acknowledged that these interactions occur as part of a complex staged process where the vendor needs to communicate an attractive value-in-offering to the customer after understanding the customer’s value creation opportunities, and

under an asymmetry of information context whose effects may be partially or completely equalised by credence, composed of trust and the firm's reputation (Möller and Törrönen, 2003) and/or by an established relationship; the value-in-offering-leverages on past knowledge and existing relationships (Zerbini, Golfetto and Gibbert, 2007).

This is a conceptual paper, which concludes in a theoretical model; the model is in the process of being empirically validated. The remainder of the paper develops the conceptual framework. It is anticipated that preliminary findings from the data will be presented at the conference.

2. Literature Review

2.1 Value

Tzokas and Saren (1999) argue that a commonly agreed *raison d'être* of marketing is to assist organisations to create value for their customers that is superior to that of their competition, and Normann and Ramírez (1993: 65) contend that "strategy is the art of creating value". However, in the business literature it is difficult to find another term used as superficially as *value* ...

"Nowadays the virtues of value are extolled by many; consultancies peddle their value solutions... normative advice is offered by academicians ... managerial prescriptions are conveyed by thought leaders... airport bookstores carry treatises from value creators... advice is seemingly ubiquitous ... however, managers seek this advice despite their appetite being rarely nourished" (Lindgreen, Hingley, Grant and Morgan, 2012: 211).

The *value* construct has been approached from many angles under diverse contexts, with ambiguous meaning (Parasuraman, 1997; Graf and Maas, 2008). Concurrently, there is general recognition of the complexity and subjectivity of the meaning of *value* (Hilton, Hughes and Chalcraft, 2012), and there is little agreement about a unified definition of value in the extant literature (Howden and Pressey, 2008; Khalifa, 2004). The interest and importance of *value* is a critically important factor in strategic management (Spiteri and Dion, 2004) and the creation of value as the core purpose and central process of economic exchange it is taken as a given (Vargo, Maglio and Akaka, 2008).

Value creation has been argued to be a function of power relationships between buyers and sellers, requiring competences of both parties (Håkansson and Snehota, 1995; Möller, 2006); hence Möller (2006) proposed a continuum with three basic modes of value production: (1) core value production in stable exchange markets, (2) value added value exchanges, and (3) future value creation via radical innovation. A resulting 3 by 3 matrix-model was then proposed to explain conceptually the value creation processes depending on the strength of the value creation drive, dominated either by the buyer or the supplier or in equilibrium. The model allows the identification of *dynamic capabilities* required from the buyer and the supplier for each one of those combinations (Möller, 2006). All in all (Ulaga and Eggert, 2006) contend the impact of a relationship in B2B vendor differentiation has even greater impact than cost considerations.

Value connotations and meanings are dependent on context (Priem, 2007) and therefore, value has been explored from different perspectives which may partially contribute to the lack of agreement among researchers about value (Sánchez-Fernández and Iniesta-Bonillo, 2007; Lepak, Smith and Taylor, 2007). The definition of *value* has also gained complexity as new research has come into light, and the difficulty in arriving at a unified definition might appear to lie in the dynamic and evolutionary nature of value perceptions. Four perspectives of value are discussed below: Service-Dominant-Logic (S-DL) and service systems; value and relationships; value and Resources-Based-View (RBV) theory including competences and dynamic capabilities; and, value co-creation.

2.1.1 Co-creation, Service Dominant Logic (S-DL) and Service Systems;

The concept of S-DL was first published in 2004, reviewed in 2008 and has stimulated extensive debate (Vargo and Lusch, 2004; Vargo and Lusch, 2008a; Vargo and Lusch, 2008b; Vargo and Lusch, 2008c; Vargo and Lusch, 2011; Vargo and Lusch, 2006; Vargo et al., 2008; Edvardsson, Tronvoll and Gruber, 2011; Hunt and Madhavaram, 2006; Lusch, Vargo and Tanniru, 2010; Sheth, 2011). An alternative perspective focuses on a service logic perspective (Grönroos, 2008; Grönroos, 2011a; Grönroos, 2011b; Grönroos, 2006; Gummesson, 2011; Payne, Storbacka and Frow, 2008).

A key tenet of S-DL is that service is the fundamental basis of exchange, i.e. service is exchanged for service, diverging from a traditional goods-dominant logic (G-DL) perspective of value creation. “Service is a perspective on value creation rather than a category of market offerings” (Edvardsson, Gustafsson and Roos, 2005: 118).

S-DL provides influential foundation to this research for the purposes of explaining value creation in the management consulting industry, as a *Service System*:

“Service systems are value-co-creation configurations of people, technology, value propositions connecting internal and external service systems, and shared information ... S-DL provides just the right perspective, vocabulary and assumptions on which to build a theory of service systems, their configuration and their modes of interaction ... S-DL may be the philosophical foundation of service science” (Maglio and Spohrer, 2008: 18).

S-DL posits that value is co-created with customers (Vargo and Lusch, 2008a) when customers and providers engage in dialog and interaction during product design, production, delivery, and consumption. The salient differences between G-DL and S-DL perspectives can be summarized in their views about the meanings and implications of relationship (See Annex Table 3 for a listing of S-DL Foundational Premises).

Vargo, Maglio and Akaka (2008) introduced the model in Figure 1 to explain the diverse constructs of value and value co-creation within a *service system*; it is worth noticing: (1) the *value-in-use* in both sides of the relationship with a value-in-exchange as the tangible transactional exchange piece, (2) *information-sharing* flow dominates in management consulting services whereas for instance, *work-sharing* dominates in outsourcing services, and

(3) service systems engage in *knowledge-based* interactions to co-create value (Maglio and Spohrer, 2008); this model helps to understand the evolution from traditional services marketing which might have looked only at customer-lifetime-value (Rust, Lemon and Zeithaml, 2004) or customer-equity (Zeithaml, Bitner and Gremkier, 2000) as the accumulated value-in-exchange that the supplier may receive in a life-time relationship with a customer.

Service system actors or resources are connected to each other and to other service systems through value propositions, driving service-for-service exchanges (Vargo et al., 2008; Spohrer, Vargo, Caswell and Maglio, 2008). “The process of value co-creation is driven by-value in-use, but mediated and monitored by value-in-exchange “ (Vargo et al., 2008: 150), and all social and economic actors are resource integrators (FP10).

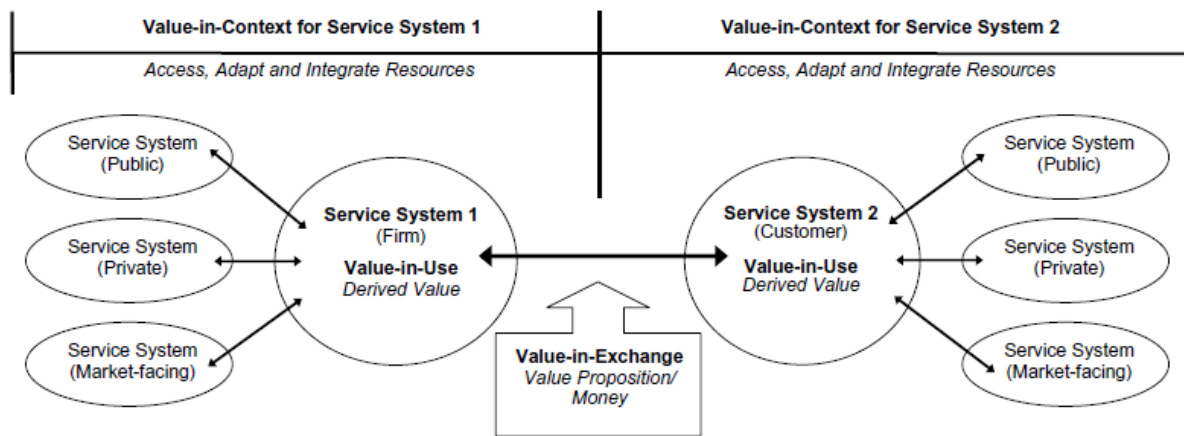


Figure 1 -Value co-creation among service-systems, taken from (Vargo et al., 2008: 149). Value co-creation is driven by value-in-use but mediated by value-in-exchange

Grönroos (2008) identifies both, differences and relationship between value-in-use converted into value by means of the customer’s self value-generating processes and resources, and value-in-exchange as the classic concept found in business economics literature that assumes value embedded in goods or services which will be exchanged for money. Co-creation occurs during vendor-customer interactions; under the provider firm perspective, the firm adjusts its marketing to customers consumption which is intended for self-value creation; the providers are not creators of value but of a *value facilitation* process ... “the value created when products [and services] are used is more important for both the customer and the firm, than the value that is exchanged between them” (Grönroos, 2008: 303). Such a view has synergy with the IMP perspective, see Ford (2011).

Grönroos (2008) contends that providers should not be focused on goods or services but on attending customers’ needs for value generation purposes, even beyond the point of exchange. An example can be the Japanese automotive service concept, which promotes future value creation interactions from the moment of the car acquisition. Likewise, value can only be created for customers through the firm’s dynamic capabilities if the supplier has been able to identify

successfully the customers' value proposition and thus invest resources to attempt to create customer value (Ngo and O'Cass, 2009; Zubac *et al.*, 2010).

Edvardsson, Tronvoll and Gruber (2011) contend that service exchanges and value co-creation are complex interactions that depend on social forces given *value* is a social construction, which can be asymmetric for the parties involved; see also the interaction approach (Håkansson, 1982). Management consulting is a particularly a *high credence* service¹, i.e. large asymmetries of information and risk exist and frequently the seller determines the customer's requirements, and the buyer is often compelled to trust the supplier (Howden and Pressey, 2008). It follows that a consultant's reputation has a critical role in the value in offering, to be confirmed or disconfirmed by the client's experience and becoming a key driver of the value in use. Notwithstanding, the greater the information asymmetry, the larger the mutual dependence between supplier and buyer to create value (Möller and Törrönen, 2003).

Value creation is argued by Grönroos & Ravald (2011) in a logic of service when a customer uses its own resources to create value-in-use from the vendor's service offering or *value facilitation*; the customer assumes a role of co-creator of value in a mutual reciprocal action through the interactions (Grönroos & Ravald, 2011). Payne *et al.*, (2008) developed a framework based on business processes to conceptualize value co-creation; both the customer and the provider engage in a learning process based on the experiences produced by the diverse encounters as relationship creating events and experience-designed processes on the provider side.

A last note is that S-DL does not deal with effects in value co-production resulting from asymmetry of information and capabilities between customer and consultant (Aarikka-Stenroos & Jaakkola, 2012).

2.1.2 Relationship Theory in Value Creation

The role of the relationship in value creation has been studied as a fundamental component in the value creation process. Value derived from relationships has been an evolving construct with differing points of view and many nuances modifying its definition.

Value in its role in a dyadic relationship is studied from two perspectives: (1) as the resulting value of a buyer-seller relationship, and (2) creation of value through or in the relationship (Lindgreen and Wynstra, 2005). Value from the relationship has been determined as a simple *relationship benefits less corresponding relationship costs* (Zeithaml, 1988; Desarbo, Jedidi and Sinha, 2001), or as the perceived benefits plus relationship benefits divided by the sum of perceived sacrifice plus relationship sacrifices (Ravald and Grönroos, 1996) or as the expected relationship value i.e. "the perceived net worth of the tangible benefits to be derived over the life of the relationship" (Hogan, 2001: 340).

¹ Credence services mean they are sold *on a promise* basis

The fact is the relationship between buyer and seller has a critical role in value creation, and is as important to marketing management as the marketing mix (Zolkiewski and Turnbull, 2002); relationship value emerges from the process of exchange that involves every intangible attribute that a supplier and a buyer offer collaterally to an exchange of goods or services, before, during and after the exchange, e.g. knowledge sharing, reputation and long term productivity gains from mutual learning. Grönroos (1997) defined *perceived customer value* equal to *core value* plus/less *added value*, where *added value* is implicitly referred as the benefits and costs of the relationship; however, the added value is difficult to tangibly grasp or measure since very few companies have systems and processes to measure it (Zolkiewski and Turnbull, 2002).

The connotations and context of relationship value (implicitly dyadic) has been explored by Wilson and Jantrania (1994). While Walter, Ritter and Gemünden (2001) consider the functions of customer relationships which have: (1) direct value creating functions related to the firm’s immediate performance: profit, volume and safeguard, and (2) indirect functions, namely innovation, market, scout and access. Value drivers can be related to product, service and relationships Lapiere (2000) or, more specifically, product quality, delivery, time-to-market, direct product costs, service support, supplier know-how, personal interaction and process costs (Ulaga, 2003). These drivers were later enhanced by Eggert, Ulaga and Schultz (2006) who added: core offering, sourcing process, customer operations and relationship life cycle (moderator). Their model demonstrates the dynamic nature of value creation in business relationships ... “offering superior value through personal interaction and service, access to know-how and increased time-to-market appear as promising avenues for differentiation” (Eggert et al., 2006: 25). Howden and Pressey (2008) later compiled several author’s key value dimensions in seller-buyer contexts; their findings are focused to high credence relationships where buyer’s find it difficult to evaluate the purchase even after consumption, see Table 1 **Error! Reference source not found.**

The findings evidence the potential of the *value dimensions* to reduce the information asymmetry disequilibrium and reduce perceived risk. An example of information asymmetry in management consulting services is an overpromise of results by the consultant during the sale process, which would possibly lead to a lower-than-expected value in use, after the consumption of the services (i.e. *disenchantment*).

Author(s)	Approach	Value dimensions
(Howden and Pressey, 2008)	Empirical – Professional Services managers’ perceptions of competencies that create CV. Case study from an insurance brokerage in the UK.	From the customer point of view: (1) agent’s know how, (2) trust, (3) personal interaction, (4) service fulfilment, (5) location and (6) direct / indirect costs. From the perspective of front-line staff: (1) trust, (2) personal interaction, (3) service fulfilment, (4) location and, (5) direct / indirect cost.
(Harmsen	Empirical – Marketing	Identified 28 competencies which create CV. The 5

and Jensen, 2004)	managers perceptions of competencies that create CV.	most highly rated were: (1) product development, (2) customer relations, (3) ability to adapt / flexibility, (4) strategy, and (5) market analysis competence.
(Baxter and Matear, 2004)	Empirical – CV dimensions as perceived by suppliers b-2-b buyer-seller relationships.	CV dimensions: (1) competence, (2) attitude, (3) intellectual agility, (3) relationships, (4) organisation and renewal, and (5) development.
(Möller and Törrönen, 2003)	Conceptual – Supplier’s capability profiles which produce value.	CV creation viewed as a spectrum ranging from core-value production based on 8 capabilities: (1) production, (2) delivery, (3) process improvement capacity, (4) incremental innovation, (5) relational, (6) networking, (7) radical innovation and, (8) mastering the customer’s business.
(Ulaga, 2003)	Empirical – Purchasing behaviour of mfg. companies in the USA. Buyer value dimensions in b-2-b buyer-seller relationships.	CV creation dimensions: (1) product quality, (2) service support, (3) delivery, (4) supplier know how, (5) time-to-market, (6) personal interaction, (7) direct product costs, and (8) process costs.
(Walter, Ritter and Gemünden, 2001)	Empirical – Supplier’s perspectives of customer value.	CV creation as the result of ‘direct-value functions’ or ‘indirect-value-functions’. Direct: (1) profit function, (2) volume function, (3) safeguard function (directly related to company performance). Indirect: (1) innovation function, (2) market function, (3) scout function, (4) access function (indirectly related to company performance).
(Lapierre, 2000)	Empirical – Industrial customers of IT.	CV dimensions: (1) alternative solutions, (2) product quality, (3) product customisation, (4) responsiveness, (5) flexibility, (6) reliability, (7) technical competence (8) supplier’s image, (9) trust, and (10) supplier’s solidarity with customers.
(Lapierre, 1997)	Empirical – Professional services.	CV dimensions in 2 areas: Value Exchange: (1) technical quality, (2) functional quality, (3) relational variables, and (4) image.

Value-in-use: (1) financial, (2) social, (3) operational, and (4) strategic.

Table 1-Dimensions of relationship value, adapted from Howden and Pressey (2008: 792)

2.1.3 Resource Based Value as Predecessor of *Capabilities*

Resource Based Value (RBV) theory was developed under the argumentation that: (1) the firm is a collection of resources, including intellectual assets and capabilities and, (2) that the possession of simultaneously *valuable, rare, inimitable and non-substitutable* resources can be a source of superior performance and may enable an organisation to achieve competitive advantage (Barney, 1991; Barney, 2001). Zubac et al. (2010: 515) claim validity for RBV argued as “currently the dominant theoretical framework for understanding heterogeneous firm performance” such that explains competitive advantage differences among competing firms.

Further to the early proponents of RBV, researchers explored the effect of key resources as both core sources of sustained value and as the main source for competitive advantage (Barney, 1991; Bowman and Toms, 2010; Bowman and Ambrosini, 2007; Bowman and Ambrosini, 2000). The firm’s availability and development of key resources foster the implementation of value-creating strategies that competitors cannot easily imitate (Varadarajan and Jayachandran, 1999; Barney, 2001; Teece, 2009).

Clulow, Barry and Gerstman (2007) found that the most important source of value is derived from intellectual-based assets and capabilities; they argue that value flows from resources with specific attributes that are transformed into a sustainable competitive advantage and thus into customer value, assuming that the deployment of key resources concurs with a customer assessment of value.

Bowman & Ambrosini (2000) discussed the sequential steps of how value is created by the firm and is later realized or captured by the client; in a later article Bowman & Ambrosini (2007) relate value creation to five value creating activities, and thus build a resources perspective to firm value creation and to firm strategy management and competitive strategy. However, customer value or value-in-use² is not considered in their later model, nor in RBV in which *value* is related to wealth to the firm, i.e. RBV lacks a theory of customer value creation (La, Patterson and Styles, 2008; Flint, Woodruff and Gardial, 2002; Priem, 2007; Sirmon, Hitt and Ireland, 2007; Makadok, Piga, McWilliams and Siegel, 2002). In the same vein, Sirmon et al. (2007) posit it is not sufficient to have resources to achieve competitive advantage; resources need to be accumulated, used and combined in order to create value (Sirmon et al., 2007). Lindgreen *et al.*, (2012) propose a model of value creation based on three stages of resources: (1) analysis and further resources bundling activities, (2) creation and further resource leveraging activities, and (3) delivery and further resources structuring activities.

² Priem (2007) uses the term “value creation” as an equivalent

2.1.3.1 Dynamic Capabilities and Competences;

Organisations create value not just by understanding the needs of their customers, but by deeply understanding the nature of their own capabilities, competencies and resources. There is a great deal of synergy between this perspective and IMP thinking, see for example, Baraldi *et al.*, (2007). In fact, a *strategy trap* occurs when a firm does not connect their value propositions and customer needs with their own core competences (Marr, 2006).

A core competence is a set of capabilities linked to the strategic value proposition of an organisation (Marr, 2006); core competences come at a higher level than dynamic capabilities since they allow the firm to recombine their dynamic capabilities (Zubac *et al.*, 2010) with a market orientation, and are key determinants of customer-focused performance (Wang and Lo, 2004).

Capabilities, a fundamental intangible or intellectual resource are abilities to perform a task or an activity; they have been also discussed as information based processes e.g. business routines (Amit and Schoemaker, 1993; Winter, 2003) ... “bundles of brilliance or centres of excellence” (Marr, 2006: 47), and also as “complex bundles of skills and accumulated knowledge, exercised through organisational processes that enable firms to coordinate activities and make use of their assets” (Day, 1994: 38) or in an IMP context ‘resources’ (Håkansson and Johanson, 1992; Håkansson and Waluszewski, 2002).

Capabilities become competencies³ when they are valuable, rare, inimitable and non-substitutable (Barney, 1991; Prahalad and Hamel, 1990), and capabilities are significant in the context of value creation (Ngo and O’Cass, 2009). The creation of customer-value thus depends on a firm’s capabilities, e.g. the possession, application and utilization of knowledge and skills for the benefit of the receiver (Ngo and O’Cass, 2009), or as Hubbard *et al.* (2008) argue, to be able to meet customer expectations and add value to targeted customers.

Capabilities can be (1) *operational*, e.g. repetitive processes at a functional level, also known as *ordinary capabilities*, that get tasks done proficiently (Winter, 2003; Teece, 2009), or (2) *dynamic*, which are processes that allow the firm to change its resource base looking forward to meet different strategic and competitive challenges (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter, 2007; Zubac *et al.*, 2010). Nevertheless, there is a blurry line between operational and dynamic capabilities given change is always present⁴ (Helfat and Winter, 2011).

³ A nomenclature inconsistency is found with those authors that use competencies and capabilities interchangeably like (Zerbini *et al.*, 2007: 785; Day, 1994). The difference, if any is a subtle one depending on intention or interpretation of use. However, authors like Zollo and Winter (2002) do make the differentiation of capabilities as operational routines and competences more generically as abilities as “the object on which dynamic capabilities operate” (Zollo and Winter, 2002: 340).

⁴ i.e. from a high level perspective, a manufacturing capability might seem purely operational, but technology self-innovations may happen over time, however keeping a low profile and a true dynamic capability hidden.

Dynamic capabilities are resident in a firm's tacit knowledge and its organisational processes and in the leadership skills of its top management (Teece, Pisano and Shuen, 1997).

A *dynamic capability* is a capacity of an organisation to create, extend or modify its resource base deliberately (Helfat et al., 2007; Winter, 2003); dynamic capabilities enable an organisation to “create, deploy and protect the intangible assets⁵ that support superior long-run business performance” (Teece, 2009: 3). They are intangible, context specific and reside mostly in tacit knowledge and are difficult to manage, observe and develop, and almost always ill-documented. Dynamic capabilities are difficult to transmit and to copy and cannot be bought from elsewhere (Maklan and Knox, 2009). Zollo and Winter's (2002: 340) definition of dynamic capability differs slightly from Helfat et al. (2007) and Teece (2009) in that Zollo and Winter (2002) emphasise the role of learning, and argue that dynamic capabilities apply to stable markets as well, not only to rapidly changing environments.

Zubac et al. (2010) describe the interrelationships of resources, offering a perspective relating both *core competences* and *dynamic capabilities*, which sometimes have been mistakenly used with the same meaning⁶; there are several incongruent views in the literature about their classification (Möller, 2006; Marr, 2006).

The integration of knowledge, learning capabilities and competencies are interpreted in **Error! Reference source not found.** with two objectives: (1) a unification of constructs in order to avoid the ambiguity found in the literature, and (2) to provide an initial understanding of the value creation mechanisms underlying the *operant resources*, as used in Service Dominant Logic; however, the *operant resources* construct requires to be decomposed into several orders of detail below the conceptual level used in most S-DL literature for analysis purposes.

Figure 2 - Integration of capabilities, competencies and knowledge

In B2B markets, O'Cass & Ngo (2012) identify the *sensing* initiator-dynamic-capability as *market orientation* (MO) capability⁷, which provides a knowledge base to develop the value creation processes and deploy specific capabilities selectively to create value, and as precursor and activator of key market-relating mechanisms, i.e. combining distinctively with innovation capabilities and marketing capabilities in order to create superior value. Market orientation is directly linked with performance in terms of return on assets (Neill, McKee and Rose, 2007; et al., 2009b; Morgan, Slotegraaf and Vorhies, 2009a).

⁵ *Intangible assets* have been also identified as “knowledge that can be converted into profit” (Sullivan, 1998: 4)

⁶ To illustrate the point, Zerbini et al. (2007: 785) use the term ‘competences’ while citing the definition of ‘capabilities’ by Day (1994: 38), as the former authors clarify their interchangeable use of terms.

⁷ “[MO ...] the extent to which a firm engages in the generation, dissemination, and response to market intelligence pertaining to current and future customer needs, competitor strategies and actions, channel requirements and abilities, and the broader business environment” (Morgan, Vorhies and Mason, 2009b:910)

Berghman, Matthyssens and Vandenbempt (2006) make reference to Day (2002) to highlight the importance of *market sensing* as the initiator of value creation. They contend *sensing* is not sufficient; information needs to be assimilated and transformed, thus building a market orientation dynamic capability rooted on strategic [market] learning needs to take place in order for the firm to generate market driving value creation.

All in all, knowledge has emerged as the most strategically-significant resource of the firm particularly in dynamic market conditions (Grant, 1996) and in the form of operant resources, which are “the fundamental source of competitive advantage” (Vargo and Lusch, 2008b: 7). Dynamic capabilities and knowledge management do have an area of strong relationship or overlap (Easterby-Smith and Prieto, 2008) mostly related to tacit knowledge.

Learning can be a dynamic capability itself (Ambrosini, Bowman and Collier, 2009) or can arise from learning (Zollo and Winter, 2002: 340) by means of experience accumulation enacted by organisational routines, articulation and dissemination of knowledge, and knowledge codification. *Strategic Learning* capability (Thomas, Sussman and Henderson, 2001) is an organisation’s dynamic capability that implies learning from a firm’s customers in order to improve the provider firm’s value facilitation capabilities aiming to the customer’s value creation capabilities (Hubbard et al., 2008) considering that the ultimate judge of value is the customer (Vargo and Lusch, 2004), and “a superior learning capability is an important contributor to competitive advantage” (Slater, 1997: 165).

The *strategic learning* dynamic capability ultimately commands the resource investments that the firm should make in order to acquire, manage and develop the required skills or operational capabilities under the firm- managers’ understanding of how it can create value for its customers (Hubbard et al., 2008).

2.3.1.2 A Capabilities-Based Value Creation Model

Ngo and O’Cass (2010) developed a value creation business model under the perspective of buyer-seller dyad so as to explain both parties’ perspectives of value creation. Those perspectives relate to *value-in-use* (client) and *value-in-offering* (provider) which occur during a market exchange ... “knowing what value is to be created for the client helps to explain what value the firm will be rewarded for creating” (Ngo and O’Cass, 2010: 498).

Ngo and O’Cass (2010) contend the creation of value for customers founded on capabilities, meaning the possession, application and use of specialised knowledge for the benefit of the customer. Their model depicted on Figure 3, explains how value is created in three steps: (1) developing the value strategy or ‘architecture’, (2) executing the value creation through operant-resources or capabilities (innovation, marketing and production capabilities) or ‘value creation engineering’ where business culture and its manifest behaviours are discussed as allowing the establishment of the architectural infrastructure for the value creation process, and (3) a ‘value box’ the explains the harvesting of value outcomes.

The first step or ‘value creation architecture’ has a strong correspondence with the *strategic learning* dynamic capability, i.e. how organisations learn from their clients to improve their

value creation capabilities and then generates that strategic orientation that commands the arrangement development and nurturing of other capabilities.

The ‘value creation engineering’ step offers a value creation perspective aligned with the ‘service profit chain’ concept of Heskett, Sasser and Schlesinger (1997), which posits a direct relationship between customer loyalty, customer satisfaction value of goods or services service quality and productivity; the ‘value creation engineering’ can be interpreted as a capabilities-based abstraction of the *value creation logic* by Stabell and Fjeldstad (1998).

The third step or ‘value box’ of Ngo and O’Cass (2010: 504) is composed of four constructs, depending on the value-in-offering or value-in-use perspectives.

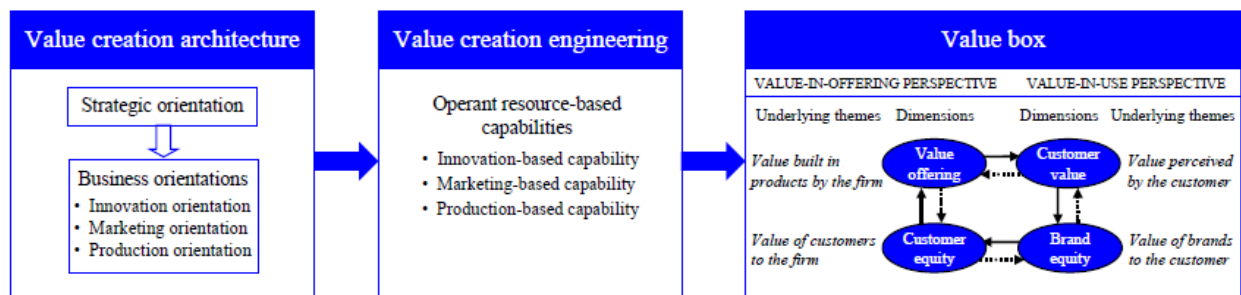


Figure 3 - “Value Box - Value creation business model”, taken from (Ngo and O’Cass, 2010: 499)

O’Cass and Ngo (2011) later proposed a refinement to their model by considering the timing perspective at which actors consider value, mainly when use value is created, when it is exchanged, when the service is consumed or used, and post-use, when the service is evaluated, and focusing on value offering effectiveness (O’Cass and Ngo, 2011); many new theories are resulting from the study of the creation of joint value and its context (Edvardsson *et al.*, 2011).

2.1.4 Value co-creation.

Aarikka-Stenroos and Jaakkola (2012) developed the analysis of co-creation of value from the model of Vargo *et al.*, (2008) in Figure 1, in the context of knowledge intensive businesses. Co-creation of value happens in different modes before, during and after the exchange, in five key activities: “[1] diagnosing needs, [2] designing and producing the solution, [3] organising the process and resources, [4] managing value conflicts and, [5] implementing the solution” (Aarikka-Stenroos and Jaakkola, 2012: 23). Those activities are not necessarily sequential; they can occur iteratively, in parallel or in different order. The following Table 2 reflects the roles played and resources contributed by supplier and customer in value co-creation in knowledge intensive business services as being our research case of management consulting.

<i>Value creation roles played by the supplier</i>	<i>Supplier Resources</i>	<i>Value creation roles played by the customer</i>	<i>Customer Resources</i>
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Value option advisor	Expert knowledge	Co-diagnoser	Information on needs
Value process organiser	Diagnosis skills	Co-designer	Information on context
Value amplifier	Facilities and professional equipment	Co-producer	Industry expertise
Value experience supporter	Experience	Co-implementor	Production material
	Objectivity and integrity	Co-marketer	Effort and time
	Relational Capital	Co-developer	Financial resources

Table 2 - Co-creation of value in knowledge intensive services. Taken from Aarika-Stenroos and Jaakkola (2012:22)

Notwithstanding, Hilton et al. (2012) argue that, if value is phenomenologically determined by the client, i.e. a personal evaluative judgement, value cannot be created; the authors define service co-creation instead as a "process of resource integration undertaken by two or actors with the intention of each realising a value proposition" (Hilton et al., 2012: 1504). The value creation roles identified by Aarika-Stenroos and Jaakkola (2012) in Table 2 should rather be identified as service co-creation roles involving resource integration of both customer and supplier resources, in line with S-DL Foundational Premise #9 (Table 3).

Developing a Theoretical Framework: Integration of Models

A theoretical framework is proposed in Figure 4, which draws from the integration of concepts depicted in models of Figure 1 and Figure 3 and includes concepts from S-DL.

Value is created by the interaction of a supplier trying to sell and a customer interested to buy with a value objective in mind, or as Gummesson (1995) had noted, consumers do not buy goods or services but offerings that render services, which create value. Value under S-DL is defined as simple as "the improvement of a service system *well-being*" (Vargo et al., 2008: 149). Nevertheless, research literature evidences value is a complex higher order construct given that its comprehensive assessment is subjective (cognitive and affective) and it is context / industry dependent and time dependent. The value creation process depends on capabilities both at the side of the supplier and the customer.

The model in Figure 4 proposes that an exchange happens when the client (Service System 2) needs not-possessed capabilities for its own value creation purposes. A knowledge intensive supplier (Service System 1) may offer a value proposition by supplying those capabilities for a

purpose or expected client *value-in-use*; the vendor's *value-in-offering* is developed from a deliberated market offering strategy. When such market offering is co-developed anticipating the needs of the customer, responds to a proactive market shaping capability, which not just addresses customers' needs but shapes a market solution with the customer (Spencer and Cova, 2012; Zerbini et al., 2007).

However, this exchange occurs in a complex staged process where the vendor needs to communicate an attractive value-in offering to the customer after understanding the customer's value creation opportunities, and under an asymmetry of information context whose effects may be partially or completely equalised by credence, composed of trust, firm's reputation (Möller and Törrönen, 2003) and/or by a former relationship established; the value-in-offering-leverages on past knowledge and existing relationships (Zerbini et al., 2007).

Value-in-offering as the content of a value proposition surges from the value creation potential inherent in the resources possessed by actors (Hilton et al., 2012). Then, a perceived customer value is generated. Lusch and Vargo (2006) had differentiated co-production as a precursor of co-creation of value; co-production is more related to the value-in-offering and consumption stages.

Figure 4- Theoretically integrated model; to be explored and empirically confirmed

The knowledge intensive provider i.e. Service System 1, needs to deeply understand the value creation strategy⁸ and requirements of the client (Howden and Pressey, 2008; Möller, 2006); the client needs to understand the capabilities and value creation strategy that the vendor will bring and acknowledge its internal operant resources needs so that it can capture value (profit) by co-producing value. Möller's (2006) matrix framework distinguishes the managerial capabilities required and resulting profiles for value, depending on the value creation strategy combination of buyer and seller if the relationship is balanced or else, which party drives value creation. It follows that a client that hires a consultant without the capabilities to learn from it, wastes opportunities for value creation and potentially its money.

In order for the vendor (in our case, a consulting firm) to initiate the cycle, it should have previously configured its value-in-offering as the result of a strategic learning dynamic capability commanding a strategic orientation (Ngo and O'Cass, 2010) and configuring the firm's dynamic capabilities to seize a market opportunity. In other words, in order to seize a market opportunity the consulting firm has to dynamically configure its resources to (1) apply its operant resource based capabilities to produce the value-in-offering, (2) ensure that the firm has the knowledge capabilities to respond to the delivery of the value-in offering and the co-production of value delivery capabilities that will result in the expected (or higher) customer results, and (3) manage the relational capital and/or reputation of the firm (Möller, 2006; Ulaga and Eggert, 2006).

⁸ According to Möller & Törrönen (2003) the value production types or 'strategies' can be in a continuum from (1) Short term-transactional, exchange focused, (2) Value adding –relational, to (3) Future oriented, highly relational

Ngo and O’Cass (2009: 501) propose three *value creation business orientations* that have their corresponding capabilities or operant resources, those being (1) marketing-based, (2) innovation-based, and (3) production-based capabilities (see Figure 3). The authors define *strategic orientation* as governing construct following Miles, Snow, Meyer and Coleman (1978) organisational strategy theory that uses “prospector, analyser, defender and reactor” symbolic archetypes; for this model the researcher proposes the *strategic learning dynamic capability* construct instead, as a more comprehensive and operant-resource-oriented theory to explain the configuration of the operant resources accordingly to Ngo and O’Cass (2009) model.

Once the exchange happens, the consumption of the service takes place. Economic-value⁹ is captured by the supplier (System Service 1) which obtains profits (Priem, 2007: 220; Bowman and Ambrosini, 2000); the supplier can only facilitate value to the customer, not create value (Grönroos and Ravald, 2011). Value creation, under S-DL tenets occurs only at the client side (System Service 2) who embarks in the process of creating value with its own operant resources (Bowman and Ambrosini, 2000; Makadok et al., 2002; Lepak et al., 2007). Value-in-use is finally phenomenologically assessed by the client (Vargo and Lusch, 2004), hence Vargo and Lusch (2011) describe exchanges as bounded relationships, i.e. “temporary moments (sometimes made tangible through goods) in intersecting value co-creation processes and relationships” (Akaka, Vargo and Lusch, 2012); “essentially, value is a personal judgement of worth by a beneficiary” (Hilton et al., 2012:1508).

Value offering capabilities exist as an *intangible inventory of value-in-offering potential* (or inventory of intellectual capital); the capabilities also develop at the provider side as a co-product altogether with money received¹⁰. Those capabilities in the form of intangible assets generated (hopefully not depleted), can be classified as relational capital, structural capital, and human capital (or organisational learning), knowledge and reputation (Marr, 2006). The organisational learning implicitly involves the refinement and improvement of the strategic learning dynamic capability.

Helkkula, Kelleher and Pihlström (2012) research characterises customer’s phenomenologically determined value as *value-in-experience*, which: (1) is individually intra subjective and socially inter-subjective, (2) can be both lived and imaginary (e.g. by recommendations or expectations), (3) is constructed based on previous, current and imaginary future experiences so *it is temporal in nature*, and (4) emerges from individually determined social contexts. However, further research will be required to discriminate B2C versus B2B instances, given the multiple actors involved in B2B and their particular phenomenological experience. Helkkula et al. (2012) also contend that the phenomenological value experience does not necessarily follow a linear sequential timeline e.g. pre-assessment, consumption and post-assessment, but progresses in an iterative *hermeneutic spiral* of individual and collective making sense of value in the experience.

⁹ Word “economic” added to distinguish value from S DL definition

¹⁰ A Consultant or service provider might even offer a service for free just to acquire the skills and the experience credentials, as an investment to acquire the said capabilities.

These findings offer alternative perspectives to interpret timeline implications in value creation, as per Figure 4.

The above model is currently being empirically validated – it is anticipated that preliminary findings will be presented at the conference.

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Annex

Table 3 - Ten Foundational premises of Service Dominant Logic (Vargo and Lusch, 2008b: 7)

1	Service is the fundamental basis of exchange. Explanation: The application of operant resources (knowledge and skills), “service,” as defined in S-D logic, is the basis for all exchange. Service is exchanged for service.
2	Indirect exchange masks the fundamental basis of exchange. Explanation: Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent.
3	Goods are a distribution mechanism for service provision. Explanation: Goods (both durable and non-durable) derive their value through use – the service they provide.
4	Operant resources are the fundamental source of competitive advantage. Explanation: The comparative ability to cause desired change drives competition
5	All economies are service economies. Explanation: Service (singular) is only now becoming more apparent with increased specialization and outsourcing
6	The customer is always a co-producer. Explanation: Implies value creation is interactional
7	The enterprise cannot deliver value, but only offer value propositions. Explanation: Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but cannot create and/or deliver value independently.
8	A service-centred view is inherently customer oriented and relational. Explanation: Because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational
9	All social and economic actors are resource integrators. Explanation: Implies the context of value creation is networks of networks (resource integrators)
10	Value is always uniquely and phenomenologically determined by the beneficiary. Explanation: Value is idiosyncratic, experiential, contextual, and meaning laden