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THE VALENCES OF "VALUE" FOR THE STRATEGIC MANAGEMENT PROCESS

OGREAN Claudia
Lucian Blaga University of Sibiu, Romania

Abstract:

Value represents one of the key concepts in strategic management, because the evolution of both the theory and practice of strategic management has been greatly shaped by the generic searching for value. But the approaches of value have been quite various and sometimes controversial, making value one of the most complex and dynamic determinants and metrics of the strategic competitiveness of the firm. Therefore, the paper aims to identify, based on literature review, the multiple valences value has for the strategic management process (in all of its phases: analysis, formulation and implementation), in order to capture as much as possible of its multiple facets (as concerns value drivers, value creation and value distribution) into a comprehensive framework – able to successfully manage and measure the contribution of value to the strategic competitiveness of the firm, while enhancing it.

Key words: *strategic competitiveness, value drivers, value creation, value distribution, value measuring*

1. Introduction

The concept of *value* is a common (complex, yet sometimes diffuse) presence in almost any approach regarding businesses, as well as their processes and performances, no matter the particular angle or level of analysis. Thus:

(a). *at general level*, different *theories of the firm* emphasize on specific fundamentals, expressions and metrics of value, such as: resources (Barney, 1995; Barney, & Clark, 2007); stakeholders (Brenner, 1992; Donaldson, & Preston, 1995); knowledge (Grant, 1996; Spender, 1996); management and entrepreneurship (Bartlett, & Ghoshal, 1993; Cox, 1996); behaviors (Cyert, & March, 1963); corporate social responsibility (McWilliams, & Siegel, 2001); competence (Foss, & Knudsen, 2013).

Of particular interest for this paper should be mentioned Becarra's (2009) *theory of the firm for strategic management* – which, by integrating the "multidisciplinary basis of business strategy", advocates for "*a value theory of the firm in strategic management*" (as corollary to previous neoclassical, behavioral, contracting, and resource based theories), making *value* the centerpiece of strategy and strategic management. The theory portrays the firm as “a collection of heterogeneous resources whose role in society, its organizational boundaries, and its actual performance is inherently associated with the creation of economic value for customers and its capture by the firm’s resources and owners” (Becarra, 2009).

(b). going a step further in search for performance, *at particular level*, the *process of strategic management* and particularly the *strategic decisions* are those responsible for the long run of the firm; and both of them highly capitalize value (in all of its valences). And this is because:

- on the one hand, as Hitt, Ireland, & Hoskisson (2013) argue on a quite visual logical model, “the *strategic management process* is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns; (…) *strategic competitiveness* is achieved when a firm successfully formulates and implements a value-creating strategy. A *strategy* is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (…) *Core competencies* are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals. (…) A firm has a *competitive advantage* when it implements a strategy that creates superior value for customers and that its competitors are unable to duplicate or find too costly to imitate (Hitt, Ireland, & Hoskisson, 2013);
- on the other hand, “strategic competitiveness relates to critical strategic decisions by which managers can affect firm competitiveness” (Hitt, Hoskisson, & Harrison, 1991) – while, as Sempels, & Hoffmann (2013) suggest, *strategic decisions* are (…) based on four main *pillars*: the definition of long-term direction of the organization and its scope of activities; *the organization of the processes of value creation, distribution and capture*; the management and allocation of resources and competencies within the company; the steering of necessary adaptations to a constantly changing environment (Sempels, & Hoffmann, 2013).

(c). moving on to operationalizing the above mentioned concepts (theory of the firm and the process of strategic management), and particularly the *strategy* – as “set of goal-directed actions a firm takes to gain and sustain superior performance relative to competitors or the industry average” (Rothaermel, 2015) – at *individual level*, “the translation of strategy into action takes place in the firm’s *business model*, which details the firm’s competitive tactics and initiatives” (Rothaermel, 2015). And, at its very core, business model places value, because: “put succinctly, business model refers to the logic of the firm, *the way it operates and how it creates value for its stakeholders*” (Casadesus-Masanell, & Ricart, 2010). A more in depth approach details on how a *business model* “consists of four interlocking *elements* that, taken together, *create and deliver value*: *customer value proposition* (CVP) - a way to create value for customers; profit formula - the blueprint that defines *how the company creates value for itself* while providing value to the customer; *key resources* - assets (people, technology, products, facilities, equipment, channels, and brand) *required to deliver the value proposition* to the targeted customer; *key processes* - operational and managerial processes *that allow successful companies to deliver value* in a way they can successfully repeat and increase in scale" (Johnson, Christensen, & Kagermann, 2008).

In these condition, the paper aims to identify, based on literature review, the multiple valences value has for the strategic management process (in all of its phases: analysis, formulation and implementation), in order to capture as much as possible of its multiple facets (as concerns value drivers, value creation and value distribution) into a comprehensive framework – able to successfully manage and measure the contribution of value to the strategic competitiveness of the firm, while enhancing it. Due to the complexity of its task, the paper will combine some of the most notorious approaches with some of the most recent (and relevant) ones, by emphasizing on the strategic perspective, while leaving aside strictly financial, accounting or cultural aspects, for future integrative and trans-disciplinary research.

2. Value drivers, value creation / destruction and value appropriation / distribution

As regards the *value drivers* (VD), the literature in the field of strategic management offers a plurality of tools and instruments helping strategists to identify sources of value both within (e.g. VRIO model of the resource based view of the firm and the value-chain perspective) and outside (e.g. PESTEL analysis and Porter's five forces model of industry competition) the company when performing a strategic analysis.

In addition to these well-known models, and in strong connection with the new dynamics and trends registered within the business world, a series of new approaches have emerged: **(a).** either complex/integrative – developing a taxonomy of the drivers of organizational performance in terms of organizational assets: "financial assets, physical assets, relationship assets, human assets, culture assets, practices and routine assets, and intellectual property assets. (Marr, Schiuma, & Neely, 2004); identifying "10 basic VDs that are suitable to represent sources of CA (competitive advantage) in most industries: tangible assets, customers, institutions, investors, partners & suppliers, internal relationships, corporate culture, know how, intellectual property, process (Greco, Cricelli, & Grimaldi, 2013); **(b).** or focused on a particular dimension of value / context, while emphasizing on: *Value drivers: the manager's guide for driving corporate value creation* (Scott, 1998); *Value drivers of e-commerce business models* (Amit, & Zott, 2000); *Business relationships as value drivers* (Wimmer, & Mandják, 2002); *Competitiveness: a match between value drivers and competencies* (Gelei, 2003); *Strategic management of intangible assets and value drivers in R&D organizations* (Pike, Roos, & Marr, 2005).

Once the value drivers are identified, the process of *value creation* – through the formulation of strategy (at corporate, business and functional levels) and the operationalizing of the business model, as "construct that mediates the value creation process" (Chesbrough, & Rosenbloom, 2002) – has to be in focus. There are at least two thorny interrelated issues that govern this process, influencing the strategic choices, the particular evolution paths, as well as the outcomes and the impacts of the entire process: the first one refers to the *beneficiaries of value creation* (firm, owners/shareholders, customers, society, etc.) and the second one is concerning the relationships between *value creation – value destruction – value appropriation (capturing) – value distribution.*

The *classical view / approach* of strategic management views "strategy as a quest for value", arguing that "the purpose of business is, first, to create value for customers and, second, to appropriate some of that customer value in the form of profit – thereby creating value for the firm" (Grant, 2015).

By envisioning "the firm and its stakeholders in two-way relationships" and therefore by considering "as a unit of analysis the relationships between a business and the groups and individuals who can affect or are affected by it" (Parmar et al., 2010), *the modern / stakeholder approach* advocates for "creating value for stakeholders" – both primary (financiers, suppliers, employees, customers, and communities) and secondary (competitors, consumer advocate groups, special interest groups, media, and government), while arguing that "a stakeholder approach to business is about creating as much value as possible for stakeholders, without resorting to trade-offs. (Freeman et al., 2010).

Remaining within the same stakeholder paradigm, but embracing a larger view, Argandoña (2011) identifies six different types of value of possible interest for a company's stakeholders – economic extrinsic value (economic value), intangible extrinsic value (provided by the company in forms such as recognition, training), psychological intrinsic value (satisfaction of the work done), intrinsic value (operational learning), transcendent value (evaluative learning), and value that consists of positive or negative externalities – and concludes: "if the value created in companies is not just one type, but of several it is possible to find better ways of creating economic and non-economic value in a sustained way, so that all the stakeholders, who help to create that value, also share in its enjoyment, albeit in different and changing ways over time, so that the economic optimum (efficiency criterion) is guaranteed and management is improved" (Argandoña, 2011).

The *contemporary approach* goes a step further – by emphasizing on *shared value* and arguing that "the purpose of the corporation must be redefined as creating shared value, not just profit per se" (Porter, & Kramer, 2011). This kind of approach has led to the emergence of the shared value creation framework, which "seeks to enhance a firm's competitiveness by identifying connections between economic and social needs, and then creating a competitive advantage by addressing these business opportunities (Rothaermel, 2015). In practical terms, creating shared value involves a set of "policies and operating practices that enhances the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (Porter, & Kramer, 2011).

Both the concept and the process of value creation are strongly connected with and influenced by concepts (and processes) such as *value destruction, value appropriation (capturing)* and *value distribution*. These relationships and their dynamics have a lot to do with the paradigm that defines value at firm level – as a win-win game (with multiple participants and multiple winners) or a zero sum game (where one's win is gain on the expense of the others' lose) – and the time horizon that circumscribes it (due to the fact that, for instance, a short-time approach may lead to expected outcomes in the short run, but to disastrous impacts in the long-run). And that's why *value* should be considered (defined, internalized and operationalized) not only through different lenses (and their kaleidoscopic facets), but also by taking a dynamic perspective on it – in order to capture the image of the bigger picture, to make knowledgeable decisions, and to reach the desired (and properly defined) goals.

In this line of thought, while developing *a model of value creation*, Haksever, Chaganti, & Cook (2004) pay attention to both: (a). *value created* (benefits/rewards) *and activities that create them* for different stakeholder groups, and taking into consideration the financial, nonfinancial and time dimensions of value; and (b). *value destruction* (costs/risks) *and activities that lead to them* for the same stakeholder categories (shareholders, employees, customers, suppliers, and community) and taking into consideration the same value dimensions (financial, nonfinancial and time).

On the other hand, Lepak, Smith, & Taylor (2007) develop *a multilevel perspective* on *value creation and value capture* arguing that "value creation depends on the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation – whether individual, organization, or society – and that this subjective value realization must at least translate into the user's willingness to exchange a monetary amount for the value received. (…Furthermore,…) much like the value creation process, value capture varies considerably, depending on the particular source that directs the process and the level of competition and isolating mechanisms surrounding the value that is created".

At their turn, Garcia-Castro, & Aguilera (2015) analyze *incremental value creation and appropriation in a world with multiple stakeholders*, starting by defining "total value created by the firm and its stakeholders" – as "the total economic value accrued by all the stakeholders of the firm" (where stakeholders are 'any group or individual who creates and captures economic value in its interaction with the firm') – and then developing "a framework – based on an analytical taxonomy of value creation and appropriation – wherein the trade-offs in stakeholder value appropriation can be systematically included".

3. Value mapping and value measuring

Value mapping and value measuring are essential endeavors in order to fully determine the valences of value for the strategic management process and the contribution of value to the strategic performance / competitiveness of the firm.

Although "it is difficult to find a perfect match between a company and a performance measurement framework" (Wongrassamee, Simmons, & Gardiner, 2003), the Balanced Scorecard has stepped up by becoming "a tool for creating a strategy-driven performance management company" (Kaplan, & Norton, 2001); basically, it provides "a framework to look at the strategy used for value creation from four different perspectives: **(1).** financial – the strategy for growth, profitability, and risk viewed from the perspective of the shareholder; **(2).** customer – the strategy for creating value and differentiation from the perspective of the customer; **(3).** internal business processes – the strategic priorities for various business processes, which create customer and shareholders satisfaction; **(4).** learning and growth – the priorities to create a climate that supports organizational change, innovation, and growth" (Kaplan, & Norton, 2001).

More or less originated into the strategy map developed by Kaplan and Norton through the Balanced Scorecard, new approaches have emerged – in order to integrate new concerns for the strategic management process such as: stakeholders, sustainable business or shared value.

Thus, realizing that "for performance measurement and performance management to be effective they both need to drive value creation to meet the needs of stakeholders", Jack (2002) proposes a *value mapping solution* which integrates "the relationship between stakeholder needs, strategic objectives, value outcomes, value drivers, and targeting of effort". According to the author, "Value Mapping addresses the criteria identified as being important for effective performance measurement. The Value Mapping diagram places emphasis on Stakeholder and Organization Value Needs as an essential starting point that informs the review and development of strategic objectives and the desired value outcomes. Value Outcome Maps and measures for these predicted value outcomes are then produced. The approach is comprehensive yet focuses the organization on measures that are identified as useful for value creation. Additionally, just as in geographical maps value maps can describe all levels of detail in the organization and can integrate across business units, departments, functions and teams" (Jack, 2002).

Going a step further, Bocken et al. (2013) propose *a value mapping tool for sustainable business modelling*, arguing that: "the novel design aspects of the tool include: **(1).** four representations of value – represented by: value captured (current value proposition), value destroyed (negative value outcomes of current model), value missed (value currently squandered, wasted or inadequately captured by current model) and value opportunity (new opportunities for additional value creation and capture through new activities and relationships) – to facilitate a systematic value assessment; **(2).** stakeholder segments – customers, network actors, society, and the environment – to facilitate a multiple stakeholder view of value; **(3).** a network centric rather than firm centric perspective to encourage the optimization of value in a network (i.e. considering all actors involved in the design, production and distribution of a product or service). The firm is represented as "employees and shareholders" to facilitate a network perspective" (Bocken et al., 2013).

Although Porter & Kramer's (2011) model of *creating shared value* does not explicitly develop a shared value map, the entire endeavor of "anchoring shared value measurement in strategy" which was later on exposed by Porter et al. (2011) have the vocation to offer not only a performance management tool but also to act as a map – because it links strong and eloquent business and social result with each one of the levels of shared value (reconceiving product and markets; redefining productivity in the value chain and enabling cluster development) (Porter et al., 2011).

Under these circumstances, while advocating that “a new framework for measurement that focuses on the interaction between business and social results is among the most important tools to drive shared value in practice”, Porter et al. (2011) develop their approach on *measuring shared value*: “despite its complexities, *the pathway to shared value measurement* is clear. First, companies must anchor shared value measurement in shared value strategy. (…) Second, shared value measurement must establish a direct link between meeting social needs and improving the business. (…) Third, measurement must assess the extent of value creation – tracking social and business results relative to the costs – in order to ensure the efficiency of current and future efforts. Fourth, companies must clearly distinguish shared value measurement from other important forms of measurement, including compliance, sustainability, and impact assessments. Fifth, companies must adopt pragmatic approaches to navigate shared value measurement challenges” (Porter et al., 2011).

4. Conclusions

Tacit or explicit, value is one of the most powerful stimulus that energizes the search for strategic competitiveness, regardless of the particular angle of approach (industrial organization, resource-based view, transaction cost economy, etc.), the phase of the strategy and strategic management process (analysis of the internal and external environment, formulation of the strategy, and implementation of the strategy), or the dominating paradigm regarding the very existence of the firm (for satisfying shareholders, stakeholders, society, etc. needs and expectations).

Having in their core questions such as “why do some firms succeed while others fail” and/or “why do some firms outperform others”, strategy and strategic management are responsible to continuously search for the best answers able to lead firms to competitive advantage and strategic competitiveness. If considering that “from a strategy perspective the firm is essentially a competitive unit with one strategy to attract customers and capture economic value versus other firms” (Becarra, 2009), and “the business process is basically a value creating and value delivering process” (Baloch, & Inam, 2010), the perspective on things and contexts is enlarged (although it becomes more complex) and the task of finding the best solutions is, if not simplified, at least clarified.

Under these circumstances, all the facets and valences of value, as well as the interconnections and dynamics among them have to be considered and taken into account into an integrative and comprehensive framework – in order to accurately assess the potential of each particular context for creating value, to properly drive the process of creating it and to fully benefit from it. Consistent with this assumption, the paper has combined some of the most notorious approaches – on value: value drivers, value creation, value / destruction and value appropriation / distribution, value mapping and value measuring – with some of the most recent (and relevant) ones, by emphasizing on the strategic perspective, while leaving aside strictly financial, accounting or cultural aspects, for future integrative and trans-disciplinary research.

Although the search for value is not a program, but rather a continuous business process and a permanent concern for strategists, considering the high potential of a logic model as regards change and performance improving (McLaughlin, & Jordan, 1999; Funnell, & Rogers, 2011), future research will also focus on developing a *logic model for enhancing value in strategic management*; the model will encompass and integrate, into a dynamic and iterative perspective: *resources – activities – outputs – short-term outcomes – intermediate-term outcomes – long-term outcomes – impact* (Knowlton, & Phillips, 2012).

5. References

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