Investing in Resources to Create

Customer Value:

The Organisational, Strategic and

Performance Implications

Thesis submitted for Doctor of Philosophy

Angelina Zubac

Business School

University of Adelaide

August 2008
CONTENTS

FIGURES AND TABLES .................................................................................................................................................. V

ABSTRACT .................................................................................................................................................................. VIII

DECLARATION .......................................................................................................................................................... X

ACKNOWLEDGEMENTS ............................................................................................................................................ XI

PART I ...................................................................................................................................................................... 1

INTRODUCTION: STUDY OUTLINE AND OBJECTIVES ..................................................................................... 2

CHAPTER 1: THE STUDY .......................................................................................................................................... 3

1.1 BACKGROUND .................................................................................................................................................. 3
1.2 STUDY’S OBJECTIVES ................................................................................................................................... 4
1.3 CRITICAL CONCEPTS AND TERMS .............................................................................................................. 4
1.4 UNDERLYING ASSUMPTIONS ....................................................................................................................... 6
1.5 THREE RESEARCH QUESTIONS .................................................................................................................... 7
1.6 STRUCTURE OF THIS THESIS ........................................................................................................................ 8

PART II ..................................................................................................................................................................... 12

INTRODUCTION: LITERATURE REVIEW .............................................................................................................. 13

CHAPTER 2: THE RESOURCE-BASED VIEW AND CUSTOMER VALUE .......................................................... 14

2.1 THE RESOURCE-BASED VIEW ..................................................................................................................... 15
   Historical origins of the Resource-based View ................................................................................................. 15
   The development of the Resource-based View ................................................................................................. 17
2.2 THE DEVELOPMENT OF A TYPOLOGY OF RESOURCES .......................................................................... 18
2.3 THE RBV AND UNDERSTANDING FIRM PERFORMANCE .......................................................................... 23
   Creating value in an idiosyncratic environmental context ............................................................................ 24
   Dynamic resource-based or the competency view of the firm ........................................................................ 25
   Performance and economic rents .................................................................................................................... 26
   The primacy of customers ............................................................................................................................... 28
   The managerial challenge ............................................................................................................................... 29
2.4 THE CUSTOMER VALUE CONCEPT IN STRATEGIC MANAGEMENT ....................................................... 30
   Other definitions of customer value ................................................................................................................ 34
   Operationalising customer value ................................................................................................................... 35
   CHAPTER SUMMARY ..................................................................................................................................... 39

CHAPTER 3: THE STRATEGY-MAKING, RESOURCE ALLOCATION AND DECISION-MAKING LITERATURE ........................................................................................................................................... 41

3.1 THE STRATEGY-MAKING PROCESS LITERATURE ...................................................................................... 42
   Strategy and achieving an environmental fit .................................................................................................... 42
   The problem of achieving a strategic dynamic fit .......................................................................................... 44
   Organisational form ....................................................................................................................................... 45
   The strategy process itself ............................................................................................................................. 48
3.2 RESOURCE ALLOCATION PROCESS ............................................................................................................ 52
3.3 THE STRATEGIC DECISION-MAKING PROCESS ......................................................................................... 54
   Performance feedback and customer value .................................................................................................... 57
   Creating customer value through the firm’s established processes ............................................................. 59
   CHAPTER SUMMARY ..................................................................................................................................... 61

CHAPTER 4: LEARNING AND FIRM PERFORMANCE ........................................................................................... 64

4.1 THE LEARNING LITERATURE ....................................................................................................................... 65
4.2 CUSTOMERS, LEARNING AND THE ABILITY TO ADAPT .......................................................................... 69
4.3 CHAPTER SUMMARY ..................................................................................................................................... 70

PART III ..................................................................................................................................................................... 72

INTRODUCTION: METHODOLOGY ....................................................................................................................... 73
CHAPTER 5: STUDY DESIGN AND FIRM SELECTION ............................................................... 74

5.1 CASE STUDY METHODS ................................................................................................. 75
   Fieldwork ..................................................................................................................... 75
   Research design ......................................................................................................... 76
   Minimum number of interviews ................................................................................. 77
   Unit of analysis .......................................................................................................... 78
   The use of interviews and other sources of evidence ................................................. 78
   Time period .................................................................................................................. 79
   Concern for rigour ....................................................................................................... 79

5.2 FIRM SELECTION ......................................................................................................... 81
   Individual firm selection: Market dynamism .............................................................. 81
   Classifying the firm in this study: Which industry? ....................................................... 82
   Initial shortlist of firms ............................................................................................... 83
   Finalising the dataset .................................................................................................. 84
   Maintaining anonymity .............................................................................................. 84
   Classifying the firms in this study into high and low performing ................................ 84
   Managers’ assessment of firm performance ............................................................... 85
   Revenue and productivity indicators .......................................................................... 86
   Accounting firm selection: Firms A, B, C, D, E, F, G .................................................. 87
   The dataset of high and low performing accounting firms ........................................ 89
   Software engineering firm selection: Firms H, I, J, K, L, M, N ....................................... 90
   The dataset of high and low performing software engineering firms ....................... 92
   Rouse and Daellenbach’s methods and the selection methods used in this study .......... 94
   The final dataset of accounting and software engineering firms ............................... 94

5.3 CHAPTER SUMMARY .................................................................................................... 95

CHAPTER 6: DATA COLLECTION, DATA MANAGEMENT AND METHOD OF ANALYSIS96

6.1 THE INTERVIEWS ......................................................................................................... 96
   Informant selection ..................................................................................................... 96
   Managerial perceptions ............................................................................................. 96
   The number of interviewees ....................................................................................... 96
   Titles of the interviewees .......................................................................................... 98

6.2 THE DESIGN OF THE QUESTIONNAIRE ...................................................................... 99
   Questionnaire structure ............................................................................................ 99
   Logical flow of questions .......................................................................................... 101
   Pilot study ................................................................................................................ 101
   Average length of time to conduct interviews ........................................................ 103
   Field study interviewing protocol ............................................................................ 103
   The interviewing process .......................................................................................... 103
   Management of individual interviews ..................................................................... 104
   Opportunity to review typewritten responses .......................................................... 104
   Semi-structured questionnaire ................................................................................ 104
   The extensive use of open-ended questions ............................................................ 105
   Delving into the details of twelve potentially interrelated processes ....................... 106

6.3 DATA ANALYSIS ......................................................................................................... 108
   Within-firm analysis: Triangulation of managers’ responses ..................................... 109
   Individual case analysis ............................................................................................ 109
   Across-firm analysis: Tabulating the data to enable across-firm analysis .................. 110

6.4 CHAPTER SUMMARY .................................................................................................. 111

PART IV ........................................................................................................................... 112

INTRODUCTION: RESULTS FOR RESEARCH QUESTION 1............................................. 113

CHAPTER 7: UNDERSTANDING AND CREATING CUSTOMER VALUE AT THE ACCOUNTING & SOFTWARE FIRMS .............................................................................. 114

7.1 THREE DIMENSIONS OF CUSTOMER VALUE ......................................................... 114
   Overview of managers’ perceptions of customer value .............................................. 114
   The specific commercial & assurance-based benefits delivered to customers .......... 116
   The similarities between the accounting firms and the software firms .................. 117
   The differences between the accounting and the software firms ............................ 122
How are accounting and software firms affected by dynamism in their markets? ......................... 124
7.2  CRITICAL CUSTOMER VALUE CREATING ASSETS ................................................................. 125
  The assets used to create customer value .................................................................................. 125
7.3  MANAGERS’ PERCEPTIONS OF VALUE CREATING ACTIVITIES AND CAPABILITIES .......... 130
  Attributes/benefits embedded in or associated with accounting products and services .......... 131
  Attributes/benefits embedded in or associated with software products and services .......... 138
  Consequences achieved when using/provided with accounting products and services .......... 147
  Consequences achieved when using/provided with software products and services .......... 153
  The goals and purposes achieved through accounting products and services ...................... 160
  The goals and purposes achieved through software products and services ......................... 166
7.4  CHAPTER SUMMARY .............................................................................................................. 174

CHAPTER 8: UNDERSTANDING AND CREATING CUSTOMER VALUE ................................. 176
8.1  SUPERIOR ABILITY TO DELIVER VALUE TRI-DIMENSIONALLY ............................... 176
  Creating multiple dimensions of customer value at the accounting firms ......................... 177
  Creating multiple dimensions of customer value at the software firms ............................. 184
8.2  ABILITY TO VIABLY DIFFERENTIATE BETWEEN CUSTOMERS .............................. 188
  Ability to viably differentiate between customers at the accounting firms ....................... 193
  Ability to viably differentiate between customers at the software firms ........................... 196
8.3  CHAPTER SUMMARY .............................................................................................................. 199

PART V ........................................................................................................................................... 200
INTRODUCTION: RESULTS FOR RESEARCH QUESTION 2 .................................................. 201

CHAPTER 9: CUSTOMER LEARNING AT THE ACCOUNTING & SOFTWARE FIRMS ......... 202
9.1  CUSTOMER VALUE LEARNING ............................................................................................ 202
  Customer value learning at the accounting and software firms ....................................... 203
  Customer value learning by interacting and using other information sources .................. 203
  Critical customer and market learning structures, methodologies and processes ............... 210
9.2  CHAPTER SUMMARY .............................................................................................................. 216

CHAPTER 10: CUSTOMER LEARNING AT THE HIGH & LOW PERFORMING FIRMS .... 218
10.1  DIVERSE AND INTEGRATED MODES OF CUSTOMER LEARNING ............................. 218
  Diverse and integrated learning activities and processes at the accounting firms ............. 219
  Diverse and integrated learning activities and processes at the software firms .................... 226
10.2  CHAPTER SUMMARY .............................................................................................................. 231

CHAPTER 11: CREATING THE CUSTOMER VALUE DELIVERY STRATEGY AT THE ACCOUNTING AND SOFTWARE FIRMS ................................................................. 232
11.1  PEOPLE AND THE CUSTOMER VALUE DELIVERY STRATEGY ............................... 232
  People and the customer value delivery strategy at the accounting firms ....................... 234
  People and the customer value delivery strategy at the software firms ............................ 235
11.2  PROCESSES AND THE CUSTOMER VALUE DELIVERY STRATEGY ....................... 240
  Processes and the customer value delivery strategy at the accounting firms .................... 242
  Processes and the customer value delivery strategy at the software firms ....................... 248
11.3  CHAPTER SUMMARY .............................................................................................................. 256

CHAPTER 12: CREATING THE CUSTOMER VALUE DELIVERY STRATEGY AT THE HIGH AND LOW PERFORMING FIRMS ................................................................. 258
12.1  USING PEOPLE’S EXPERIENCE AND TECHNICAL KNOWLEDGE ......................... 258
  Using people’s experience and technical knowledge at the accounting firms .................... 259
  Using people’s experience and technical knowledge at the software firms ....................... 266
12.2  INTEGRATED CUSTOMER LEARNING, STRATEGIC AND OPERATIONAL PROCESSES .... 271
  Customer learning, strategic and operational processes at the accounting firms .............. 272
  Customer learning, strategic and operational processes at the software firms ................... 279
12.3  CHAPTER SUMMARY .............................................................................................................. 282

PART VI ........................................................................................................................................... 284
INTRODUCTION: RESULTS FOR RESEARCH QUESTION 3 .................................................. 285
FIGURES AND TABLES

FIGURE 2.1 The Different Resources Types and their Interrelationships 19
FIGURE 2.2 Customer Value Hierarchy 37
FIGURE 3.1 Customer Value Learning and Customer Value Delivery Competency 63
FIGURE 5.1 Percentage Change in Revenue over the Three Year Period 2001/2002 to 2003/2004: Accounting and Audit Firms 88
FIGURE 5.2 Percentage Change in Revenue over the Three Year Period 2001/2002 to 2003/2004: Software Engineering Firms 91
FIGURE 15.1 Mapping Critical Customer Value Dimensions to the Benefits that Managers Create through the Firm’s Resource Investments 337
FIGURE 15.2 ‘Dynamic’ Managerial, Technical and Marketing Capabilities Required to Create Value for Accounting Customers Tri-dimensionally 341
FIGURE 15.3 ‘Dynamic’ Managerial, Technical and Marketing Capabilities Required to Create Value for Software Customers Tri-dimensionally 342
FIGURE 15.4 Matrix of Customer Learning Modes and the Level of Dynamism in the Market Environment 353
FIGURE 15.5 The Critical Customer Value Learning and Performance Evaluation Flows and Feedback Loops for Firms Operating in Non-dynamic Market Environments 360
FIGURE 15.6 The Critical Customer Value Learning and Performance Evaluation Flows and Feedback Loops for Firms Operating in Dynamic Market Environments 361
FIGURE 15.7 Customer Value Learning and the Differences Between the High and Low Performing Firms in the Study 375
TABLE 5.1 Research Design 77
TABLE 5.2 The Accounting Firms: Change in Revenue, Relative Average Revenue Per Partner and Managers’ Profitability Rating 89
TABLE 5.3 The Accounting Firms: The Normalised Scores and their Averages 90
TABLE 5.4 The Software Firms: Change in Revenue, Relative Average Revenue Per Employee and Managers’ Profitability Rating 93
TABLE 5.5 The Software Firms: The Normalised Scores and their Averages 93
TABLE 5.6 Matrix of High Performing and Low Performing Firms Operating in Non-Dynamic and Dynamic Market Environments 94
TABLE 6.1 Number of Managers Interviewed 97
TABLE 6.2 Titles of the Interviewees 98
TABLE 6.3 Sections of the Questionnaire and the Processes it Explores 106
TABLE 6.4  Example of Tabulated Results  110
TABLE 7.1  The Benefits that Accounting & Software Engineering Firms Need to Deliver to their Customers to Create Value for them Tri-dimensionally  119
TABLE 7.2  Assets Used to Create Customer Value  126
TABLE 7.3  The Accounting Firms: Activities and Capabilities Required to Create Customers’ Desired Product and Service Attributes or Benefits  133
TABLE 7.4  The Software Engineering Firms: Activities and Capabilities Required to Create Customers’ Desired Product and Service Attributes or Benefits  140
TABLE 7.5  The Accounting Firms: Activities and Capabilities Required to Create Customers’ Desired Consequences  148
TABLE 7.6  The Software Engineering Firms: Activities and Capabilities Required to Create Customers’ Desired Consequences  154
TABLE 7.7  The Accounting Firms: Activities and Capabilities Required to Achieve Customers’ Goals and Purposes  161
TABLE 7.8  The Software Engineering Firms: Activities and Capabilities Required to Achieve Customers’ Goals and Purposes  167
TABLE 8.1  The Ability of the High and Low Performing Firms to Create Multiple Dimensions of Customer Value  178
TABLE 8.2  Ability of the High and Low Performing Firms to Viably Differentiate Between Customers  188
TABLE 9.1  Critical Customer Learning Activities at the Accounting and Software Engineering Firms  203
TABLE 9.2  People/Teams, Methodologies, Systems and Processes that Facilitate the Exchange of Customer Information and Enable Learning and Analysis  211
TABLE 10.1  The Ability of the High and Low Performing Firms to Encourage Diverse Customer and Market Learning Activities  220
TABLE 11.1  The People Responsible for Developing and Implementing the Firm’s Customer Delivery Strategy  236
TABLE 11.2  Strategic and Operational Processes Used to Develop the Customer Value Delivery Strategy  243
TABLE 12.1  The Ability of the High and Low Performing Firms to Draw on the Experience and Technical Knowledge of People  259
TABLE 12.2  The Ability of the High and Low Performing Firms to Integrate the Firm’s Customer Learning, Strategic and Operational Processes  273
TABLE 13.1  The Relationship Between the Firm’s Customer Learning Processes and Resource Allocation Processes  287
TABLE 13.2  The Resources Associated with the Ability to Satisfy Customers  290
TABLE 13.3  The Resources Associated with the Ability to Help Customers Cope with Change  292
TABLE 13.4  The Most Important Resource Investments Made in the Last Three Years  294
TABLE 13.5  Methods Used to Track and Measure Performance  297
TABLE 14.1  How Customer Learning and Resource Allocation Processes are Linked at the High and Low Performing Firms  306
TABLE 14.2  Important Differentiating Resource Investments at the High and Low Performing Firms  319
TABLE 14.3  The Use of Robust Measures and an Integrated Performance Learning and Measurement System at the High and Low Performing Firms  327
TABLE 15.1  Different Approaches Taken to Exchanging Information with Others Internally and Externally  350
TABLE 15.2  Different Approaches Taken to Accessing and Using Internal and External Sources of Information  352
This qualitative, case-based study examined how managers conceptualise customer value and translate customer learning into customer value creating processes. The study considered a sample of high and low performing firms operating in non-dynamic and dynamic market environments to investigate market and firm-level effects. It was found regardless of whether a firm operates in a non-dynamic or dynamic market environment, managers approach customer value as a time dependent and tri-dimensionally construct. In order to operationalise customer value, managers need to constantly consider:

1. The attributes or benefits that are embedded in or customers can associate with the firm’s products and services,
2. The consequences achieved by customers when using or being provided with the firm’s products and services, and
3. The goals and purposes which are achieved by customers after they use or received the firm’s products and services.

In other words, in order to create optimal levels of customer value, managers must be able to map the configuration of activities that need to be undertaken at the firm to the configuration of commercial and assurance-based benefits customers want to have delivered to them through the firm’s products and services at different points in time. They must then be able to map these activities and benefits to the combination of resources that can realise them. This includes the combination of dynamic capabilities
which the firm uses to develop products and services that can help customers cope with change and have their idiosyncratic problems addressed.

However, it was found that firms that operate in dynamic market environments tend to invest in and develop more structured and ordered approaches to customer learning than the firms that operate in non-dynamic market environments. They also rely more on bottom-up/top down decision-making processes to develop the firm’s customer value delivery strategy than firms that operate in non-dynamic market environments. Firms that operate in non-dynamic market environments tend to use top-down decision-making processes and are more likely to lever off their strategic planning processes to develop their customer value delivery strategy than firms that operate in dynamic market environments.

Consistent with these findings and the RBV literature, it was found that the high performing firms were better at creating value for their target customers across three customer value dimensions. Their managers were also better at identifying when it was in everyone’s best interests to differentiate between customer groups, and integrate and link critical customer learning and decision-making processes. This includes processes that promote strategic and operational forms of customer learning, and continual customer value learning and performance tracking.

In summary, the study demonstrated that heterogeneous firm performance can be explained by the way managers at different firms are able to conceptualise customer value, how they develop their customer value delivery strategies, and their differing abilities to integrate key customer value learning and decision-making processes. Moreover, it demonstrated that a firm is more likely to sustain a competitive advantage and be persistently high performing if it develops a core customer value learning and customer value delivery competency.
DECLARATION

This work contains no material which has been accepted for the award of any other degree of diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to this copy of my thesis, when deposited in the University Library, being made available for loan or photocopying, subject to the provisions of the Copyright Act 1968.

.................................................................

Dated 31st August 2008
ACKNOWLEDGEMENTS

I would like to thank my PhD Supervisors, Professor Graham Hubbard, Professor Lester Johnson and Professor Neal Ashkanasy. Graham for his constant guidance, encouragement and especially for helping me through the difficult periods of thesis and paper writing, Les for being so positive and helping me understand how to adapt my learnings to conference and journal papers, and Neal for his encouragement and insights into the publication process and academic life in general. To all three of you, thank you for being such outstanding supervisors.

I would also like to thank my mother, Vera Zubac, my late father Milorad Zubac, my grandmother, Anna Sherekbin and my late grandfather, Karl Sherebkin, my sisters Krys Zubac and Julie Thorne and their families, including Tarlen Zubac-Howlitt, Jamilla Zubac-Howitt, David Thorne, Samuel Thorne, Aaron Thorne and Rachel Thorne, my brother Alex Zubac and his wife, Jan, and my Aunt, Valentyna Kirilana Scherebkin and her family. Thank you for your encouragement and support.

I would also be remiss if I did not thank my dear friend, Geoffrey Robin and his late father, Angus Robin, my late dear friend, Wanda Henry, my dear friends Cecilia Kugler, Linda Williamson and her husband, Mark, James Graham and his wife, Meredith, and not to forget Molly Mykat, and my neighbours Donata Folchini, Vanessa Makris and Alex Wood, as well as my above-average Bank Manager, Graham Taylor. Thank you for your kindness, encouragement and/or coming to the rescue when I really needed it.

I am extremely indebted to the research librarians at the University of Adelaide and the Mt Eliza Business School, especially Margaret Galbraith and Mark Suares, and Sharon Wilson, formerly the Finance Officer at the Adelaide Graduate School of Business. Thank you for your assistance and professionalism.
PART I

STUDY OUTLINE AND OBJECTIVES
Part I of this thesis is an outline of the study and the thesis. It includes a description of ideas that motivated the study, its objectives, critical concepts and terms, the study’s assumptions, the research questions and the structure of the thesis.
CHAPTER 1

THE STUDY

1.1 Background

The resource-based view (RBV) is currently the dominant theoretical framework for understanding heterogenous firm performance (Barney & Arikan, 2001). Since its inception, it has been used extensively by researchers to explain how different types of resources make it possible for some firms to consistently outperform their competitors. To this end, RBV scholars have spent the last 15 years identifying the different types of resources that can be associated with a firm’s ability to earn rents and how market barriers might be erected around them to ensure the advantage that they confer upon the firm is not eroded (Mahoney, 2005).

There has also been a marked tendency for strategic management scholars to presume that the field of strategic management should be more concerned with explaining how firms capture the value that they create rather than how they created it in the first place. This is despite the fact that the ability to create customer value on an ongoing basis is integral to a firm being able to sustain high levels of performance (Priem, 2007). As a result, little is still known about the way managers learn about their customers’ values and then invest in resources to create value for them. Similarly, little is still known about the way firms develop strategic, resource allocation, decision-making and learning processes to complement their customer value learning and customer value creation efforts.
1.2 Study’s Objectives

This study sets out to explain how customer value is created and then appropriated at a firm through the firm’s resource investment processes. Drawing on the RBV, the strategy, resource allocation, decision-making, and learning literatures, and, to a lesser extent, the marketing literature, this study examines whether managers conceptualise and approach customer value as a multidimensional construct. It also examines how managers use the firms’ customer value learning and decision-making processes to make commercially justifiable, customer-related, resource investment decisions.

This study aims to identify if those firms that consistently invest in the development of resources that create customer value, including the development of sophisticated customer learning processes tend to outperform those firms that do not. This is a logical extension of the idea that managers must develop their firm’s customer value creation strategies in tandem with the firm’s resource investment strategies if they are to cater to customers’ needs and improve the firm’s financial performance. It is also consistent with the idea that different customers will want different benefits delivered to them through the firm’s products and services at different times, and some firms will have more capacity to fully satisfy their customers than others.

1.3 Critical Concepts and Terms

In this study, resources are defined as the assets and capabilities that the firm has at its disposal to develop and deploy to produce and deliver potentially profitable products and services to its customers (Barney & Arikan, 2001). A firm’s assets include the tangible and intangible financial, physical, human, technological and organisational inputs which are used by it to develop, produce, modify, improve and deliver its products and services to its customers (Barney, 1991). In this study, capabilities are defined as the ability to perform a particular task or activity (Helfat, et al. 2007). A firm
may possess managerial, technical or marketing capabilities (Spanos & Lioukas, 2001).

In the literature, there are two broad types of capabilities: operational and dynamic capabilities. Operational capabilities are defined as the firm’s capacity to combine, assemble and deploy its various assets using pre-determined protocols, activities, routines, processes, systems and the skills of its employees to make products and services that are a source of potential profits to the firm available to its customers. A firm’s dynamic capabilities are defined as the means by which the firm is able to change and positively respond to marketplace change. Dynamic capabilities ‘build, integrate, or reconfigure the firm’s other resources and capabilities’, including its operational capabilities and other dynamic capabilities (Helfat & Peteraf, 2003: 997). Thus, a firm’s operational capabilities enable the firm to deploy both the firm’s tangible and intangible assets, including its human-based and intangible or knowledge-based assets. The firm’s operational capabilities can be combined or recombined using a firm’s dynamic capabilities. The same applies to a firm’s actual organization, which can be thought of as an asset-based blueprint for how the firm’s people are expected to work together and use the key processes of the firm, such as the firm’s resource allocation processes (Peteraf, 2005). A firm’s organisational capabilities are its ability ‘to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result’ (Helfat & Peteraf, 2003: 999).

In this study, dynamic capabilities are considered to have the capacity to evolve into a core competency, which is a firm’s ability to reconfigure its dynamic capabilities to allow the firm to diversify appropriately and sustain any competitive advantage that it may have in the marketplace (Amit & Schoemaker, 1993; Lei, et al. 1996; Winter, 2003). Core competencies allow a large proportion or even all of a firm’s resources to be used to develop a recognisable presence in the marketplace and have a competitive
advantage. They allow different configurations of resources to be used at different times in a firm’s life (Makadok, 2001). The implication of this is that a firm will need to use its resources to create customer value and some resources will be more useful for realising different dimensions of customers’ values through the firm’s products and services than others (Wernerfelt, 1984; Barney, 2001a; Srivastava et al., 2001; Priem, 2007).

1.4 Underlying Assumptions

This study assumes that managers will seek to optimise customer value rather than maximise it. In other words, managers will consider it to be in the firm’s long-term best interests if they can create as much customer value as is possible through the firm’s resources but not beyond the point where the firm’s financial performance starts to be negatively affected.

The study is also based on the assumption that managers regularly reconfigure their firm’s resources to allow the firm to create customer value and that they think of customer value as a multidimensional construct. This is because customers’ needs are always changing and they are multidimensional. The implication is that managers must continually learn about customer value and constantly think about how the firm can deliver high levels of value to its customers on an ongoing basis through the firm’s strategies. They also have to invest in specific resources to be able to continually assess and improve upon or fine-tune how the firm creates customer value. Consistent with the RBV, this means that for a firm to be able to successfully create customer value its managers need to invest in the development of the firm’s dynamic capabilities.
1.5 Three Research Questions

Thus, this study examines whether performance differences between firms can be explained by (1) the way managers conceptualise and approach the customer value construct, (2) managers’ propensity to invest in resources that create customer value, especially dynamic capabilities (3) managers’ propensity to continuously reconfigure their firm’s resources to allow it to engage in customer value creating activities on an ongoing basis, and (4) the strategies managers pursue on their firm’s behalf to create customer value and improve the firm’s financial performance. It specifically addresses three research questions:

**Question 1:**
How do managers create customer value through the firm’s resource investments?

**Question 2:**
How do managers translate customer learning into processes which allow the firm to deliver value to its customers?

**Question 3:**
How does the ability to develop processes which allow managers to learn about customer value on an ongoing basis affect a firm’s performance?
1.6 Structure of this Thesis

The chapters that follow Part I are divided into seven parts. Part II of this thesis is made up of three literature review chapters. These three chapters were used to derive one of each of the three research questions which are the subject of this thesis study. Chapter 2 reviews the RBV and the customer value literatures. It describes how the RBV has taken the field of strategy management back to its original emphasis of exploring how firm resources earn economic rents by directly or indirectly creating customer value. It also describes the different ways customer value has been defined and how it needs to be defined if it is to be operationalised using the firm’s resources.

Chapter 3 reviews the extant strategy, resource allocation and the decision-making literatures. Its objective is to examine how these critical firm-level processes make it possible for managers to create customer value, as well as point to the reasons why some firms are better at using these critical processes than others.

Chapter 4 reviews the extant learning literature. Its objective is to show that firms that develop customer learning processes and competencies may be able to consistently outperform their competitors. This is because these firms will have increased their capacity to cater to customers’ needs and, as a result, make profitable and strategically important resource investments.

Part III is made up of two chapters. It describes the methods used to conduct this study. Chapter 5 describes the study design, including the reason why case study methods were chosen and the final dataset. In regard to the latter, the final dataset was made up of 14 high and low performing accounting and software engineering firms. As outlined in Chapter 5, the reason why accounting and software engineering firms were selected to take part in the study is because they have the capacity to represent firms operating in non-dynamic and dynamic market environments, respectively. Thus, they
have the capacity to help one understand if managers invest in resources, especially
dynamic capabilities differently to create customer value when the market environment
is dynamic as opposed to when it is non-dynamic. In line with Rouse and Daeckenbach’s
(1999) recommendation for studying heterogeneous firm performance, the reason why
firms were required to be high or low performing is that high and low performing firms
allow one to understand the performance effects of different customer learning and
value creation approaches.

Chapter 6 describes the interviewing process and how the responses provided by the
interviewees were used, including how they were triangulated on a within-firm basis
and then an across-firm basis to address the three research questions of this study (Yin,
2003). It also describes the semi-structured questionnaire and the interviewees, that is,
the people from the management teams at the 14 firms in the final dataset who made
themselves available to be interviewed.

Part IV is made up of two chapters. It is a presentation of the results for this study’s
first research question: How do managers create customer value through the firm’s
resource investments? In the first section of Chapter 7, the three customer value
dimensions which the interviewees believe are delivered to customers through the
firm’s resources are described. In the second section, the assets that accounting and
software engineering firms use to create customer value are discussed. In the third
section, the combination of activities and capabilities which are used at the accounting
and software engineering firms and which create different dimensions of customer value
are discussed. The objective of the third section is to understand if accounting and
software engineering firms invest in resources differently to create customer value and
whether this can be attributed to the degree of dynamism within the marketplaces within
which they operate.

Chapter 8 describes the differences between the high and low performing accounting
and software engineering firms and how they create customer value. It describes the way in which the high performing firms in this study were more able to create value for customers along multiple dimensions than the low performing firms, including the point in time customers are making the decision to purchase the firm’s products and services, when they are being delivered to them, and after they have been delivered and payment for them made. It also describes how the managers at the high performing firms displayed a more pronounced ability to understand when it is appropriate to differentiate between customer groups and use different combinations of dynamic and operational capabilities to engage in customer-oriented activities.

Part V is made up of four chapters. It reports on the findings of this study’s second research question: *How do managers translate customer learning into processes which allow the firm to deliver value to its customers?* Chapter 9 describes the way in which managers learn about customer value, including the processes used at the accounting and software engineering firms to enable customer learning. It also describes why it is important when a firm operates in a dynamic market environment for its managers to establish protocols and processes that ensure the firm’s people are able to learn about customers in a structured and ordered manner.

Chapter 10 describes the way managers learn about customer value at the high and low performing accounting and software engineering firms. It highlights the fact that high performing firms have a propensity to use a diversity of learning processes to learn about customers. They also have a tendency to integrate these learning processes much more than the low performing firms.

Chapter 11 reports on how the managers at the accounting and software engineering firms contribute to the firm’s customer value delivery strategy, including when top-down and bottom-up/top-down decision-making processes were used. It also describes the processes that they used to develop the firm’s customer value delivery strategy.

Chapter 12 describes how the high and low performing accounting and software
engineering firms develop the customer value delivery strategy, including to what extent the firm’s operational and strategic processes need to be integrated and supported by appropriate organisational structures.

Part VII is made up of two chapters. It reports on the findings of this study’s third research question: *How does the ability to develop processes which allow managers to learn about customer value on an ongoing basis affect a firm’s performance?* Chapter 13 describes the relationship which the interviewees at the 14 firms in this study believed exists between their customer learning and resource allocation processes.

Chapter 14 describes how the high and low performing firms in this study track and measure the performance of the firm’s customer value creating resource investments, including the ways in which the high performing firms were more able to develop robust and integrated methods to track and measure the firm’s performance.

Part VII is made up of two chapters. Chapter 15 is a discussion of the analysis and an interpretation of the data as it pertains to the three research questions. It describes the significance of the study’s findings, with an emphasis on explaining how managers learn about and create customer value through the firm’s resources, the market effects and whether the different approaches used at firms to learn about and create customer value can explain heterogeneous firm performance.

The first section of Chapter 16 describes the conclusions that can be drawn from the findings, including how they contribute to the RBV, strategy process, resource allocation, decision-making and learning literatures. The second section of Chapter 16 describes the study’s limitations and its implications for future research.
PART II

LITERATURE REVIEW
Part II of this thesis is made up of three chapters. Chapter 2 reviews the RBV and the customer value literatures. Chapter 3 reviews the extant strategy, resource allocation and the decision-making literatures. Chapter 4 reviews the extant learning literature.
CHAPTER 2

THE RESOURCE-BASED VIEW AND CUSTOMER VALUE

This chapter reviews the RBV and customer value literatures. The purpose of reviewing these two literatures together is to demonstrate that managers may be able to make better resource investment decisions if they conceptualise and approach customer value as a multidimensional construct. This is conducive to it being operationalised effectively.

In the first section of this chapter, a short history is provided of the origins of the RBV. In the second section, a typology of resources is derived from the RBV literature. This typology explains the reasons why some resources can be more important to a firm at different times in its life. In the third section, a description of the different ways a firm’s resources can allow it to earn rents is provided. In the fourth section, the way in which customer value has been treated in the strategy and the marketing literatures is described. The objective of this section is to show that customer value has traditionally been defined from the customer’s perspective and that to understand how resources are used to create customer value one needs to define it from a managerial perspective.

In the fifth section, the reason why it makes sense to define customer value as a multidimensional construct is explained. To this end, it is suggested that Woodruff’s (1997) multi-dimensional conceptualisation and definition of customer value may explain how managers approach customer value and use the firm’s resources to create it. This provides a basis for deriving the first research question of this study, which is described at the end of this chapter.
2.1 The Resource-Based View

The RBV is an explanation of performance differences between firms that assumes that firms that are high performing are made up of bundles of resources that give them an advantage in the marketplace (Barney & Arikan, 2001). It is also predicated on the idea that firms that are not high performing will have every incentive to copy the resource configurations and strategies of high performing firms if it is perceived that those resource configurations and related strategies are performance enhancing (Wernefelt, 1984; Barney, 1991; Conner & Prahalad, 1996). However, it can be very difficult for competitors to duplicate the resource configurations of high performing firms because of a range of isolating mechanisms (Rumelt, 1984; Mahoney & Pandian, 1992; Peteraf, 1993; Hoopes, et al. 2003).

Historical origins of the Resource-based View

The RBV is currently the dominant theoretical framework for understanding heterogenous firm performance. Its genesis comes from the work of Penrose (Mahoney & Pandian, 1992: Barney & Arikan, 2001), who describes firms as ‘a collection of productive resources the disposal of which between different uses and over time is determined by administrative decision’ (Penrose, 1959: 24). Penrose’s ideas contributed to the development of the modern RBV by providing insight into how firms interact with the environment and discover ‘productive opportunities through a dynamic learning process’ while ‘guided by path dependencies’ (Rugman & Verbeke, 2002: 771) and by providing theories of effective management, resource allocation and limits to firm growth (Kor & Mahoney, 2004).

Realising the significance of Penrose’s theories, Wernefelt (1984) coined and introduced the term, ‘resource-based view’. Wernefelt argued that resource barriers are
analogous to industry-level entry barriers. A firm could give itself a first mover advantage or diversify more effectively by exploiting its resource position advantages. This was in contrast to the prevailing Industrial Organisation (IO) economics position that firm performance is dependent on how well a firm is positioned in its industry (Porter, 1985; Hoskisson, et al. 1999).

By focusing on the firm’s resources rather than its production function (Wernerfelt, 1984), one could determine whether a firm’s competitive advantage was the result of it controlling rare and/or hard to imitate resources (Conner, 1991; Teece et al., 1997; Lockett & Thompson, 2001). It was also argued that even if two firms possess a similar set of resources, it is unlikely that they will remain similar and they may end up being completely different over time. This is because no two firms will organise in exactly the same way in the long run and their managers will almost always use the firm’s path dependent and idiosyncratic resources differently (Hoskisson, et al. 1999).

Although Wernefelt’s (1984) paper was barely cited in the five years after it was first published, the numbers of studies that it has stimulated since then is prolific (Wernefelt, 1995; Barney & Arikan, 2001; Mahoney, 2005). For instance, Barney (1986) found that firms often possess resources that differ radically and to the extent to which they can be traded. This can lead to firms developing in an industry heterogeneously. Dierickx and Cool (1989), on the other hand, found that it could be difficult for firms to copy the resources of competitors because of time compression diseconomies and limited opportunities to use substitutes or trade resources.

Barney’s 1991 paper was considered to be timely when it was first published, as it helped to direct scholars’ attention to the attributes that made some resources the source of a competitive advantage (Hoskisson, 1999; Barney, et al. 2001b). It suggested that high performing firms possess resources that are ‘valuable, rare, inimitable’ or without
‘strategically equivalent substitutes’ in some way (Barney, 1991: 99,106). These four attributes could be used to link performance to the firm’s internal characteristics. They could also be seen as a means to refute and enrich the positioning arguments of IO economics (Porter, 1991; Mahoney & Pandian, 1992; Barney, 2001b).

The development of the Resource-based View

As a result of the general sense of dissatisfaction among strategy researchers with the ability of neoclassical economics and IO economics to explain (1) competition in non-price and cost terms, (2) why firms find new ways to do things, (3) the benefits associated with an economy being populated by a diversity of firms, (4) the role resources play in a firm’s competitive position, (5) the performance implications of resources not being perfectly mobile or easy to imitate, and (6) the performance implications of managers’ resource allocation decisions (or lack of them), the RBV emerged as an alternative explanation of performance differences between firms in the strategic management literature (Nelson, 1991; Hodgson, 1999; Barney, 1991; Lippman et al., 1991; Rumelt et al., 1991; Amit & Schoemaker, 1993; Bogner, et al. 1998; Hoskisson et al., 1999; King & Zeithaml, 2001; Juga, 1999; Nickerson et al., 2001; Spanos & Lioukas, 2001; Mahoney, 2005).

Notably, RBV has been used to study whether the source of superior firm performance resides in firm or industry effects (Hansen & Wernerfelt, 1989; Rumelt, 1991; Henderson & Mitchell, 1997; Mauri & Michaels, 1998; McGahan & Porter, 1999; Chang & Singh, 2000; Ruefli & Wiggins, 2003), the sources of sustained competitive advantage (Peteraf, 1993; Collis, 1994; Collis & Montgomery, 1995; Collis & Montgomery, 1998; Long & Vickers-Koch, 1995; Barney, 1995; Cockburn et al., 2000; Lieberman & Montgomery, 1998), and how resources, including different kinds of
capabilities develop over time (Porter, 1991; Teece et al., 1997; Roberts, 1999; Rosenbloom, 2000; Eisenhardt & Martin, 2000; Helfat & Raubitschek, 2000; McGrath, 2001). RBV has also been used to determine whether the firm’s initial bundle of resources and subsequent resource investments are the sources of the firm’s success (Teece et al., 1997; Hoskisson et al., 1999; Eisenhardt & Martin, 2000; Barney, 2001a; Priem & Butler, 2001a; Makadok, 2001; Srivastava et al., 2001), and to what extent the process of customer value creation might be highly context and resource dependent (Wernerfelt, 1984; Barney, 2001a; Priem & Butler, 2001a; Makadok, 2001; Srivastava et al., 2001; Priem, 2007).

2.2 The Development of a Typology of Resources

One of the problems with studying the RBV is that it can be difficult to identify a universally acceptable way to define the different resources that can make up a firm, including those that can affect the firm’s performance and which can be applied in a variety of ways (Mahoney, 2005). This section describes the different resource types which have been described in the extant RBV literature and their interrelationships. These are also described diagrammatically in Figure 2.1.

*Resources* are the unique combination of assets and capabilities within a firm that allow it to develop and implement strategies to improve its overall performance. Although some scholars have used this term to describe a firm’s assets, most scholars now use it to describe all the firm’s assets and capabilities (Barney & Arikan, 2001). It is also usual to refer to a firm’s *assets* as its tangible and intangible financial, physical, human, technological and organisational inputs (Barney, 1991). *Capabilities* are now commonly defined as the ability to perform a particular task or activity (Helfat, et al. 2007). A firm may possess managerial, technical or marketing capabilities (Spanos &
Lioukas, 2001). Capabilities give the firm the ‘ability to integrate, build and reconfigure internal competences’ (Teece et al. 1997: 516). They can also be described as the information based processes that are developed and implemented through a firm’s human resource base or people (Amit & Schoemaker, 1993).

**Figure 2.1**
The Different Resource Types and their Interrelationships

A dynamic capability can evolve into a core competency if it can be used to deploy other dynamic capabilities and enables the firm to become a major player in the marketplace.

Types of Dynamic and Operational Capabilities

Operational capabilities deploy the firm’s various assets

Types of Assets

Core competencies are used to deploy and integrate the firm’s dynamic capabilities

Dynamic capabilities can be used to deploy other dynamic capabilities and are used to deploy operational capabilities
It is now usual in the RBV for scholars to differentiate between the two broad types of capabilities that a firm can possess: dynamic and operational capabilities (Helfat, et al. 2007). The concept of a dynamic capability was developed to explain why some firms have been able to outperform their competitors over long periods of time and despite the marketplace changing significantly (Teece et al. 1997). This includes situations where the firm is operating in a marketplace where it is normal to experience significant variations in market revenue and survival is contingent on the ability to introduce new technologies and/or products and services. Dynamic capabilities can be defined as those processes at the firm that allow the firm to change and positively respond to marketplace change. They ‘build, integrate, or reconfigure the firm’s other resources and capabilities’ (Helfat & Peteraf, 2003: 997). They allow the firm to change its resource base in some way to meet different strategic and competitive challenges (Helfat, et al. 2007). Dynamic capabilities are ‘specific and identifiable processes such as product development, strategic decision making and alliancing’ (Eisenhardt & Martin, 2000: 1105). In the literature, dynamic capabilities have also been described as ‘architectural competences’, ‘integrative capabilities’, ‘implicit/social’ or ‘collective knowledge’, ‘organizational architecture’, ‘combinative capabilities’, ‘managerial systems’, ‘value and norms’ and ‘invisible assets’ (Henderson & Cockburn, 1994: 65).

All other capabilities are operational capabilities. Operational capabilities are the firm’s capacity to combine, assemble and deploy the firm’s assets using pre-determined protocols, activities, routines, processes, systems and the skills of its employees to make products and services that are a source of potential profits to the firm available to its customers.

Thus, operational capabilities allow the firm’s managers to deploy and manipulate the firm’s assets. Dynamic capabilities allow the firm’s managers to deploy and
manipulate the firm’s operational capabilities. Dynamic capabilities are considered to be high in the hierarchy of capabilities because they ‘operate to extend, modify or create ordinary capabilities, those capabilities that permit a firm to make a living in the short term’; they essentially enable the firm to produce, deliver and promote its products and services to target customers as part of the firm’s normal operations (Winter, 2003: 991).

Although the fact that a firm possesses dynamic capabilities can explain why some firms have been able to outperform their competitors despite the marketplace changing significantly, they do not explain why some firms become global leaders or possess the ability to successfully diversify into new markets whenever they choose to do so. The concept of a core competency was developed to explain why some firms are superior performers. Core competencies are defined as ‘the collective learning of the firm, especially how to coordinate diverse production skills and integrate multiple streams of technology’ (Prahalad & Hamel, 1990: 82). They can also be seen as the means by which the limits of a firm’s business are fixed because they cannot be readily reassembled using market mechanisms (Teece et al. 1997). They connect disparate or global processes and can take over a decade to develop. They are difficult to imitate and allow a firm to successfully cater to the needs of customers in its target markets (Prahalad & Hamel, 1990).

Although some RBV scholars believe the term ‘dynamic capability’ can be used interchangeably with the term ‘core competency because dynamic capabilities allow a firm to deploy and manipulate other dynamic capabilities (Helfat, et al. 2007) many scholars believe there is a distinction that can be made between the two. According to Eisenhardt and Martin (2000), all firms need to possess dynamic capabilities. They also found that is it usual for them to become standardised over time, especially when a firm operates in a very fast-moving market environment. In other words, dynamic
capabilities are likely to be copied if it is believed that they can give the firm an advantage in the marketplace. It is unlikely that they can be the source of a firm’s competitive advantage indefinitely (Eisenhardt & Martin, 2000). Thus, core competencies are even higher up in the hierarchy of capabilities than the firm’s dynamic capabilities because they allow the firm to effectively combine or recombine the firm’s dynamic capabilities to address critical strategic problems. In a sense, core competencies are higher-order dynamic capabilities (Lei, et al. 1996; Helfat, et al. 2007).

A very important set of distinctions have been made here which can explain how a firm’s resources interrelate in the RBV literature. A firm’s capabilities enable the firm to deploy the firm’s tangible and intangible assets, which includes its human-based and intangible or knowledge-based and organisational assets. A firm’s dynamic capabilities can be used to organise and recombine the firm’s operational capabilities and can be used to reconfigure other dynamic capabilities. The firm’s dynamic capabilities have the capacity to evolve into a core competency, which is a capacity of the firm to use many of its dynamic capabilities or even all of its resources to develop a recognisable presence in the marketplace. Firms that possess core competencies will often find it much less difficult to replicate competitive advantages even in the face of a major market- or technological-based change. The exception is when a core competency becomes a core rigidity (Leonard-Barton, 1992).

Indeed, there could be as many as five competency modes, such as (1) managers’ cognitive ability to define an appropriate strategy for the firm, (2) managers’ cognitive ability to define when new management processes are appropriate, (3) managers’ coordinative flexibility to reconfigure and redeploy the firm’s resources, (4) the flexibility of resources to be used in different operations, and (5) the flexibility of
capabilities to be used in different ways when manipulating the firm’s resources (Sanchez, 2004). Each competency mode can be associated with the different kind of strategic options that can become available to a firm through its managers’ actions and its resources.

2.3. The RBV and Understanding Firm Performance

One of the important contributions the RBV has made to the field of strategic management is that it has rendered the firm the most important unit of analysis once again. It has also made the firm’s internal organisation, managers’ resource deployment decisions, and the way in which the rent generating properties of a firm’s resources can be affected by the market environment a critical subject for research (Conner, 1991; Hoskisson et al., 1999). However, a firm’s resources’ ability to positively contribute to a firm’s performance is dependent upon a number of contextual factors, including whether they allow the firm to achieve a fit with the market environment or not (Barney, 2001a; Priem & Butler, 2001a). The implication of this is that it is important for a firm’s managers to be able to appreciate which environmental exigencies might impact their firm, including their direction, timing and magnitude, otherwise it will be impossible for them to make good resource investment decisions (Zajac & Kraatz, 2000).

Thus, the intrinsic value of a resource is just as important to understand as rareness, inimitability or an inability to substitute: ‘in all high-quality resource-based work, researchers must begin by addressing the value of resources with theoretical tools that specify the market conditions under which different resources will and will not be valuable’ (Barney, 2001a: 43). At different points in time, some resources will have more capacity to allow the firm to cater to customers changing tastes and needs (Srivastava, et al. 2001). Of course, if the resource in question is also difficult to imitate,
acquire or be replaced by a substitute resource then any extra value accruing to the resource will be related to the market for resources rather than the firm’s unique context.

It is now generally accepted that for a firm to be high performing, its managers need to think about both the activities that the firm needs to engage in to position the firm and the kinds of resources the firm needs to utilise to allow those activities to occur (Porter, 1991; Barney, 2001a; Mahoney, 2001; Spanos & Lioukas, 2001), including the assets and capabilities that a firm’s managers need to control (Porter, 1987; Bogner, et al. 1998; Sanchez, 2003). Essentially, the dynamics of competitive advantage is driven by either (1) the exploitation of favourable combinations of resources, practices and/or market positions by firms, or (2) by eroding the favourable market position of competitors by successfully imitating their strategies (Cockburn et al., 2000). As the RBV stream in the strategic management literature is now suggesting, by just focusing on how firms are positioned in the marketplace against their competitors, we exclude the possibility that some firms are relatively more successful in the marketplace because their resources have unique characteristics (Aharoni, 1993; Bowman & Ambrosini, 2000; Cockburn et al., 2000).

**Creating value in an idiosyncratic environmental context**

Priem and Butler (2001a) argue that the value of a firm’s resources can be determined from the competitive context within which a firm is operating and by determining how some firms are more able to fulfil the needs of its customers than other firms. For this reason, they advocate evaluating the value creating attributes of resources through their ability to systematically create above-average industry returns. Barney argues this is a traditional definition of competitive advantage and that discussing above
average industry returns is problematic because it requires a definition of an industry. Even if an adequate definition of an industry can be found, competition can come from numerous sources, not just from within an industry.

For this reason, notions of competitive advantage need to be applied to the firm from the perspective of the firm and the customers it seeks to satisfy. It needs to involve the actions of competitors and be defined in respect to the return expectations of the firm’s owners. The term ‘competitive advantage’ may need to be used much more sparingly if scholars are to understand how a resource’s value is related to the interplay of many structural factors within a firm’s market. It may be ‘more helpful if the key underlying constructs [of a firm’s competitive environment] were carefully defined and the specific mechanisms purported to generate competitive advantage carefully detailed’ (Priem & Butler, 2001a: 34), including the entrepreneurial and creative capabilities of the firm’s managers (Barney, 2001a).

**Dynamic resource-based or the competency view of the firm**

Generally speaking, a firm’s resources will allow a firm to be high performing when they are valuable, rare, inimitable and non-substitutable but this applies to situations where the market environment is relatively static or predictable (Barney, 1991; Hoskisson et al., 1999). In a dynamic environment, resources are arguably ‘more homogenous, fungible, equifinal and substitutable than is usually assumed’ (Eisenhardt & Martin, 2000: 1105). This is because as the market environment becomes faster moving firms will adopt resources profiles that are similar, including many of the same technologies and strategic processes as their competitors. They will also need to be committed to programmes of continual innovation to survive or stay competitive. Under these circumstances, performance differences between firms may be more attributable
to the firm’s resource selection processes and the quality of the deployment decisions of the firm’s managers than possessing resources that are valuable or difficult to acquire (Long & Vickers-Koch, 1995; Srivastava & Shervani, 1998; Han & Kim, 1998; Kim & Mauborgne, 1999).

However, Barney’s (1991) original logic can still be applied to the concept of a dynamic capability. This is because a capability can be said to have become valuable because it allows the firm to successfully compete in the market(s) where the firm is currently operating. Although a firm’s dynamic capabilities may give it an advantage in a market at a particular point in time, if that market changes that dynamic capability may no longer be valuable to the firm (Barney, et al. 2001a; Peteraf, 1994; Schulze, 1994). The sources of a firm’s competitive advantage will tend to be related to imperfections in the market for resources (Barney, 1991a; Lockett & Thompson, 2001). Some resource configurations may also create synergistic forms of value, such as those that allow the firm to create new forms of knowledge or learning (Kogut & Zander, 1992; Pisano, 1994; Chakravarthy, et al. 2003).

**Performance and economic rents**

One of the more important ways that RBV scholars have explained how resources create value for a firm is by explaining how resources allow a firm to earn economic rents. However, there are many definition of ‘economic rents’ in the RBV literature, including a return in excess of a resource owner’s opportunity costs (Mahoney & Pandian, 1992), earnings in excess of break-even (Peteraf, 1993), and a superior return on capital (Amit & Schoemaker, 1993). Researchers have found it useful to consider how some resources can generate certain kinds of rents. For instance, the rents that a firm earn can be (1) ‘Ricardian’, that is, the result of the existence of a heterogeneous
Within a dynamic capabilities framework, firms earn Ricardian rents because they possess an ability to innovate and offer ‘markedly lower costs, or offer markedly higher quality or product performance’ that is hard to imitate, as opposed to earning rents that are the result of efficient product-market positioning (Teece et al., 1997: 513). They can also earn ‘entrepreneurial’ rents (Eisenhardt & Martin, 2000; Barney, 2001a).

With the intention of clarifying what is meant when a firm is said to have earned rents through its resources, Peteraf and Barney (2003: 314-315) define a firm’s competitive advantage as the firm’s ability to ‘create more economic value than the marginal (breakeven) competitor in its product market’, where economic value is the ‘difference between the perceived benefits gained by the purchaser of the good and the economic cost to the enterprise’. A firm could have a competitive advantage when it is compared to another firm. However, the second firm could also have a competitive advantage when it is compared to its competitors, and so on. At any one time, many firms in an industry could have a competitive advantage. This also means if the residual value created, that is, ‘what is left over after the consumers have been allocated a share of the total value’ is greater than its rival’s residual then a differential competitive advantage exists.

In line with these ideas, Peteraf and Barney (2003: 316 & 321) define economic rent as the ‘returns to a factor in excess of its opportunity cost’, which implies that the firm’s resources have been combined in such a way that the firm has benefited from being organised or being in the possession of a critical resource or even several critical resources. However, there can be no automatic guarantee that the firm’s owners or other.
resource owners will receive their fair share of the economic rent created. This is because competitive advantage is essentially an intermediate outcome of the firm’s rent creation processes. It does not mean that the firm may have captured the rents created, as evidenced by higher returns. This is because the rents created may be fleeting. When this is the case, it may be impossible to achieve a sustainable competitive advantage.

**The primacy of customers**

It has also been suggested that the value creating attributes of resources may best be analysed from a cost-price and perceived value view. These arguments relate to how a customer’s value proposition is affected when a better price for a product/service or a suitable substitute is available. They also relate to the nature of a transaction. Bowman and Ambrosini (2000: 3) use the terms ‘use value’ and ‘exchange value’ to more precisely explain the differences between ‘the specific qualities of the product perceived by customers in relation to their needs’ and ‘the monetary amount realised at a single point in time when the exchange of the good takes place’, often being defined as the price customers are willing to pay (Porter, 1985). Extending this logic, ‘perceived use value can be translated into monetary terms: it can be defined as the price the customer is prepared to pay for the product if there is a single source of supply’ (Bowman & Ambrosini, 2000: 3), or if the firm has a temporary competitive advantage that comes from a firm’s present customers perceiving that a premium price is justified (Collis, 1994; Porter, 1985).

In RBV, the notion of ‘use value’ is especially pertinent as ‘the intervention of people is necessary to create new use value from the acquired resources’ (Bowman & Ambrosini, 2000: 5). Firms invest in resources that allow them to attract customers by finding novel ways to organise and deploy resources (Galunic & Rodan, 1998), lever off
the firm’s existing know-how (Helfat, 1997), and/or lever off the resources of partnering firms (Harrison et al., 2001). Within this context, the ‘source of differential profits between firms (or super-normal profits) is located somewhere within the firm’s transformation processes’ or entrepreneurial expertise (Bowman & Ambrosini, 2000: 6), and involves the human or cultural aspects of a firm’s resource combination (Wernerfelt, 1984; Barney, 1986; Castanias & Helfat, 2001).

In RBV, researchers need to focus on understanding how the firm earns economic rents because a proportion of the ‘exchange value’ earned by the firm is usually retained by the firm’s owners and is not always reinvested back into the firm. It is important to understand how firms create and appropriate or capture value from its resources (Bowman & Ambrosini, 2000; Barney 2001a).

**The managerial challenge**

The challenge that managers face is to make sure that they ‘identify, develop, protect and deploy [those] resources and capabilities that provide the firm with a sustainable competitive advantage and, as a result, a superior return on capital’ (Amit & Schoemaker, 1993: 33). As these resources and capabilities are superseded by ‘higher-order’ resources, the firm’s managers will be faced with another challenge. Managers need to be able to recognise quickly that the firm’s resources have been superseded and then ensure the firm invests in more appropriate resources (Collis, 1994: 143).

There could also be situations where it is clear the firm has derived a benefit from they way it is organised but its managers are not fully able to appreciate which resources positively affected the firm’s performance. In this case, the firm possesses resources that are ‘causally ambiguous’; both the firm’s managers and its competitors find it difficult to understand exactly how the firm’s various resources have contributed
to the firm’s performance (King & Zeithaml, 2001: 75). The challenge for managers when resources are causally ambiguous is to make sure they do not divest the firm of resources that may have allowed it to succeed in the marketplace.

2.4 The Customer Value Concept in Strategic Management

One of RBV’s more important contributions is that it has taken the field of strategic management back to its original emphasis of exploring how firm resources earn economic rents by directly or indirectly creating customer value (Hoskisson et al., 1999) and, in this regard, understanding what might constitute a firm’s strengths or weaknesses from a current resource endowment perspective (Barney, 1995). It is also important to understand how strategies to capitalise on a firm’s strengths and increase the firm’s customer base can be justified in how they raise the performance expectations of customers to bring about a sale (Barney, 1986; Conner, 1991; Mahoney & Pandian, 1992; Amit & Schoemaker, 1993; Lengnick-Hall & Wolff, 1999; Mahoney, 2001).

This idea is fundamental but is yet to be supported by a definition of customer value in the strategic management literature that enables one to examine the full spectrum of performance benefits that any given resource investment creates for a firm or how it ultimately leads to customers opting to transact with the firm. Most definitions in the literature so far have only looked at the purely economic or broad operational aspects of customer value. For instance, Porter describes customer value as the advantage that a firm creates for its customers by either lowering its customers’ costs or by raising its customers’ performance in real and perceived terms (Porter, 1980; Porter, 1985). Gale refers to customer value as being the market-perceived quality adjusted for the relative price of the product (Gale, 1994). Ramirez refers to customer value as the actions and interactions which the acquired resource supports or makes possible for customers
(Ramirez, 1999). Customer value has also been described as the trade-off between perceived quality and price plus the intrinsic and/or extrinsic benefit that is derived (Zeithaml, 1988; Desarbo et al., 2001; Chang & Wildt, 1994), as the emotional bond/behavioural pattern that is established with the customer (Butz & Goodstein, 1996), as a series of sacrifices and relationship benefits (Ravald & Gronroos, 1996), and as an equity position a customer may have in a firm (Ulaga, 2001).

Although very little work has been conducted to date in strategic management to determine how managers systematically learn about customer value and then use that learning to attempt to satisfy the full spectrum of customers’ values or, at least, particular components of their customers’ values, a considerable amount of research has been conducted into the benefits that improved product performance and quality improvement systems bring to a firm and its customers, including how they enable the firm to increase its market share (Porter, 1985; Buzzell & Gale, 1987; Kroll et al., 1999; Langlois & Steinmueller, 2000; Desarbo et al., 2001). A number of studies have demonstrated that firms that do not undertake quality improvement programs as a matter of course will find it difficult to compete in the longer term, especially if customers come to expect a certain standard of products and services from the same kinds of firms (Gale, 1994; Lengnick-Hall, 1996; Ramirez, 1999).

The quality improvement research stream is almost exclusively focused on explaining the benefits that can accrue to a firm by cost effectively developing products and services that are high in standard and with low error rates. The quality improvement stream can also be seen as a partial restatement of Porter’s value chain/generic strategy argument because it emphasises the performance benefits of products having certain attributes as opposed to the performance benefits of resources having certain attributes. As a result, the emphasis is on understanding how the firm can make cost savings
through improved efficiency gains, and how the firm differentiates its products and services through lower prices and superior product/service attributes (Stabell & Fjeldstad, 1998; Hoskisson et al., 1999; Helfat & Raubitschek, 2000).

According to Prahalad and Hamel (1994), the effects of changing customers’ expectations can be significant; it is important for strategic management researchers to understand the impact of customers on the firm’s strategic processes, its resource allocation processes and the implications of these things on the management of quality. Not only is it important to understand the firm’s customers’ concern for quality, price and performance, the method by which these ends or results are achieved is just as important to understand.

The role that resources play in creating customer value in different ways has also been examined in general terms in the core competence/capability streams (Prahalad & Hamel, 1990; Porter, 1991; Teece et al., 1997; Eisenhardt & Martin, 2000; Kim & Mauborgne, 1999). Although the customer value creation process is very important in this stream, it too has only been explored in a non-granular fashion. Rather than focus on how the firm came to develop products and services that the firm’s customers were willing to buy, they focus on explaining how firms develop processes that allow them to use knowledge and technological know-how at the firm to cope with marketplace change and successfully diversify.

Afuah and Danneels have gone against this general trend as their research explores how firms can create value for customers along multiple dimensions. Afuah (2002) defines customer value as the performance characteristics of a product as perceived by the customer, which is a function of its physical characteristics. These physical product characteristics are in turn a function of the capabilities that underpin them. In a study of cholesterol lowering drugs, Afuah was able to show that the capabilities that were most
important for creating customer value were the focal firm’s ability to use technology and employ complementary assets, which included its ability to lever off its reputation, marketing and distribution channel management skills. The model showed that the value of distinctive technological capabilities could be estimated against the product characteristics that customers value. Although the study shows that customer value is multi-dimensional, it did not indicate if it is possible to map a hierarchy of values or explain how the development of the firm’s more customer-centric resources might be tied to the values determined by management to be most critical to the firm’s success.

Danneels (2003) showed that an exclusive focus on a firm’s existing customer-base will have a definite downside, as it was found that firms need to simultaneously pursue a combination of tight and loose coupling with customers. Although tight coupling has the advantage of yielding fine-grained insights into customers’ needs and a better appreciation of how the firm’s resources might be used to better serve customers, it could also disadvantage the firm. Tight coupling could lead to the firm ignoring potentially valuable customers or missing other opportunities that might be in the process of unfolding in the marketplace.

Unless a firm pursued both loose and tight coupling strategies, it could end up trading off increased levels of customer satisfaction against a desirable level of market prescience. When a firm learns about its customers its managers also need to learn about non-current customers, understand why the firm is doing well or poorly from the perspective of its existing and prospective customer base, and determine which specific environmental factors could affect future market opportunities. This is consistent with ensuring the firm does not become overly customer-led (Slater & Narver, 1998) or its managers ignoring potentially radical shifts in the firm’s technological environment (Christensen & Bower, 1996). As was the case with Afuah’s study, Danneel’s study did
not explicitly point to how it might be possible to map a hierarchy of values or how the firm’s resources might be developed to track and reflect customers’ changing values.

**Other definitions of customer value**

In contrast to the strategic management literature, the role the customer plays in determining a firm’s success has long been a preoccupation in the marketing literature and many attempts have been made to explain the customer value construct (Zeithaml, 1988; Butz & Goodstein, 1996; Anderson & Narus, 1998; Woodruff, 1997; Sheth & Sisodia, 1999). To this end, marketing researchers have focused almost exclusively on understanding how to get the product/service mix right to motivate a customer to buy the firm’s products in preference to a competitors’ products (Varadarajan & Jayachandran, 1999), how a firm might develop a capacity to become much more market-customer focused (Jaworski & Kohli, 1990; Jaworski & Kohli, 1993; Slater & Narver, 1994; Slater & Narver, 2000; Sheth & Sisodia, 2000), how to develop profitable relationships with customers (Sheth & Parvatiyar, 1995; Berry, 1995; Bendapudi & Berry, 1997), and/or how to develop a service orientation and close the service expectations-perception gap (Berry & Parasuraman, 1992; Bharadwaj & Varadarajan, 1993; Berry & Parasuraman, 1997; Voss et al., 1998).

Distinctions have also been made between customers’ perceived value and total customer value. To this end, customers’ perceived value has been defined as ‘the differences between the prospective customer’s evaluation of all the benefits and all the costs of an offering and all the perceived alternatives’ and total customer value has been defined as ‘the perceived monetary value of the bundle of economic, functional, and psychological benefits customers expect from a given market offering’ (Kotler, 2003: 60). It has only been in recent times that the resource-customer connection has emerged
in the field of marketing as an important area of empirical research (Vorhies, 1998; Varadarajan & Jayachandran, 1999; Menon et al., 1999; Kotler, 2003). A number of studies have been conducted recently that have examined the customer value/rent creation properties of a resource, which includes studies that specifically examined firms’ product development, customer relationship and supply chain management processes (Vorhies, 1998; Srivastava & Shervani, 1998; Srivastava et al., 1999; Srivastava et al., 2001; Sharma et al., 2001; Hogan, 2001).

**Operationalising customer value**

The large number of ways in which customer value can be approached and defined in both the strategic management and marketing literature suggest that value can be created for customers along multiple dimensions. They also show a firm’s customers’ values are affected by time, an almost inestimable number of combinations of environmental contingencies, and it involves the input of many players. Similarly, customer value can be extremely difficult to measure consistently across firms, as it is viewable from either managers’ or customers’ perspective. It is realisable through a firm’s products and services, which are produced through the firm’s resources.

Consistent with the RBV, if managers are to create customer value and improve the firm’s performance, customer value needs to be defined in terms that links it to resources, in particular, those resources that allow the firm to create optimal amounts of customer value, *which is the ability to create as much customer value as is possible although not beyond the point that the firm’s performance begins to be negatively affected*. This is because even though it is desirable to maximise customer value, in reality this is difficult to do. The firm must achieve a trade-off between the values it can afford to embed in its products and services and those that it cannot afford to invest in
through its resources.

However, despite the large number of ways in which customer value can be conceptualised and measured in the strategic management literature, few definitions of customer value exist in either literature that have the ability to describe how customer value might be systematically operationalised through the firm’s resources (Srivastava et al. 2001). This is despite the irrefutability of the antecedent relationship high levels of customer value have with the firm’s ability to create competitive advantage or shareholder value (Srivastava et al. 1999), and the existence of research that has shown that customer- and market-related processes are pervasive and play an important role in a firm’s success (Srivastava et al. 2001). This has meant that there has also been a corresponding lack of interest in identifying how a firm’s managers might define customer value for the benefit of the whole firm. Although the firm’s marketing processes evolve as a direct result of the customer expressing a need or a want in some way, the firm’s other processes will also need to evolve to reflect what customers want or need too.

It is for these reasons that I believe that Woodruff’s definition of customer value from the marketing literature is one of the few that satisfactorily defines customer value: *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* (Woodruff, 1997: 142). This definition ‘delineates clearly the complete domain of customer value’. It shows that it can be de-constructed into three product-related dimensions and that it can be operationalised using a firm’s resources (Parasuraman, 1997: 154; Slater, 1997).

One of the other advantages of this definition is that it can provide insight into the
different resource investment patterns that emerge at a firm over time or at critical points in time in the firm’s development. It has the capacity to be used to reflect those things both managers and customers believe will be valued in the future and that which was actually received. Similarly, it provides a basis for capturing the effects of a firm’s customers’ total value proposition changing over time (see Figure 2.2). Starting from the bottom of the hierarchy, one can see how this depiction of customer value illustrates how desired product attributes and attribute performances shape customers’ desired consequences in a use situation and then their goals. One can also see that as the firm’s customers’ goals change, there will be a corresponding change in what they will value from a product or service attribute or attribute performance and in-use perspective.

![Figure 2.2 Customer Value Hierarchy Model](image)

The definition can also be applied to customers’ desires and what they actually received (Woodruff, 1997). Moreover, this definition has the capacity to create a corresponding understanding of the firm’s managers’ perception of and capacity to learn about (1) customers’ desired product attributes and attribute performance, (2) customers’ desired consequences in use situations, (3) customers’ goals and purposes, (4) customers’ attribute-based satisfaction, (5) customers’ consequence-based satisfaction, and (6) customers’ goal-based satisfaction.

It follows that the more each of the three dimensions of customer value is delivered to a firm’s customers through its resources, the closer the firm will come to creating as much customer value as is possible, and this is whether or not a firm’s managers perceive this to be so. If each dimension is fully met then a firm has been able to maximise customer value. Customer value is optimised if the firm only invests in as much customer value as the firm can afford and up to the point the firm’s performance begins to be negatively affected. In addition to this, Woodruff’s definition makes it possible for managers to form an understanding of the dimensions that customers from different segments value and then concentrate on them in an appropriately strategic manner. This too can provide insight into why managers might choose one resource investment over another (Woodruff, 1997; Parasuraman, 1997). The higher levels of abstraction inherent in this approach for defining customer value links products, their uses and the consequences of the product in use to the experiences of goal-oriented customers.

Therefore, if managers are to create profit-maximising levels of customer value using a firm’s resources, they need to find ways to understand it and map its different dimensions against those firm-specific resources that can best deliver an optimal product and service mix to the firm’s customers over time. This may include
understanding the different attributes of a product and/or service that customers’ value, the benefits and attitudes that they derive from the use of these products and/or services, and how the customer derives extra value by being able to access the product and/or service in question via a network (Srivastava et al. 2001).

Consistent with the RBV, if a firm’s managers can determine how much customer value their firm can afford to deliver to its customers through its resources and then act accordingly, the firm will more likely be able to create performance enhancing levels of customer value. To do this efficiently, a firm’s managers must develop a shared understanding of the different ways a firm’s resources can be used to satisfy the firm’s customers and develop processes, capabilities and competencies to be able to act upon this knowledge (Woodruff, 1997; Srivastava et al. 1999). This shared understanding of customer value will need to reflect customers’ multidimensional values and what is most important to the firm. This leads to the following research question:

How do managers create customer value through the firm’s resource investments?

2.5 Chapter Summary

This chapter reviewed the RBV and customer value literatures. It established that research into RBV has generally focused on examining how resources can lead to a firm gaining a competitive advantage, or creating value for the firm in some other way. It also established that little is still known about the way managers at different firms invest in resources as a result of a common view of the customer value construct being
developed at their firm or how this common view subsequently guides their resource investment decisions.

This chapter also discussed how the terms ‘use value’ and ‘exchange value’ can explain how value accrues to a firm (Bowman and Ambrosini (2000: 3). It suggests that if customers are to buy the firm’s products and services, and believe that they were charged a fair price, managers need to invest in an appropriate mix of resources. This means they need to understand how their firm can create customer value through its resources and then appropriate the value that was created (Priem, 2007). They need to understand which forms of customer value the firm can afford to deliver customers and which resources they need to invest in to that end. To understand how this occurs at firms, it becomes necessary to use an ‘operational’ definition of customer value, such as Woodruff’s definition (Woodruff, 1997).
CHAPTER 3

THE STRATEGY-MAKING, RESOURCE ALLOCATION AND DECISION-MAKING LITERATURE

The preceding chapter established that the way managers approach the customer value construct could determine how well their firm performs in the marketplace. It follows that if managers can share their views and develop the same understanding of the dimensions of customer value that their firm needs to deliver through its products and services to satisfy its customers, they may be able to develop strategies that will allow the firm to perform successfully in the marketplace.

To better understand this phenomenon, this chapter reviews the strategy-making, resource allocation, and decision-making literatures. Its objective is to examine how these critical firm-level processes are used by managers to create customer value, as well as point to the reasons why some firms are better at developing and using these critical processes than others. Moreover, it examines the reasons why some firms can consistently create value for their customers over long stretches of time.

In the first section of this chapter, the strategy process literature is reviewed. It describes how the notions of ‘fit’ and ‘organisational form’ have been explained in the strategy process literature. The way in which the strategy process literature treats managers’ contributions to their firm’s context is also discussed, including how managers’ different behaviours and cognitive frames need to be synthesised. The idea that a strategy might be emergent rather than the result of rigorous planning is also discussed in this section.

In the second section, the resource allocation literature is discussed. It highlights how
the resource allocation process can be used to drive the firm’s strategic planning processes. It also explains what is involved when the resource allocation process is considered to be rational rather than an inherently political process.

In the third section, the strategic decision-making literature is discussed, including how the ability to perform well in the marketplace can be attributed to a firm’s propensity to develop processes that address managers’ decision-making and cognitive shortcomings, that is, develop processes that allow for managers’ inability to make consistently good or optimising resource investment decisions. This section also describes the performance feedback literature, including the fact that scholars have found that managers often develop strategies and make resource investment decisions that reflect the firm’s past performances. This suggests that one of the ways managers learn about customer value is by tracking and measuring the firm’s ability to satisfy customers and its financial performance. These concepts provide a basis for deriving the second research question of this study, as described at the end of this chapter.

3.1 The Strategy-Making Process Literature

Strategy and achieving an environmental fit

That a firm needs to achieve a fit with its environment (Zajac & Kraatz, 2000), or achieve ‘alignment between strategic choices and critical contingencies posed by either environmental or organizational contexts’ (Venkatraman, 1990: 19) is one of strategic management’s most fundamental of assumptions (Bluedorn et al., 1994). It is generally presumed managers can guide a firm’s evolution and positively affect a firm’s performance by devising strategies that respond to market, competitive and organisational forces (Lovas & Ghoshal, 2000; Noda & Collis, 2001) or, in other words, that managers can successfully conceptualise or measure a multiplicity of internal and
external factors that affect a firm and then strategically apply this knowledge (Schoemaker, 1992; Zajac & Kraatz, 2000). These strategic processes can occur at a business-unit level or at a corporate level (Rumelt, 1991; Bowman & Helfat, 2001), and involve the recognition and exploitation of opportunity by the employment of entrepreneurial actions (Barringer & Bluedorn, 1999), and/or managerial expertise (Castanias & Helfat, 2001). They could also involve a commitment to deploy resources to avoid the effects of opportunist behaviour (Williamson, 1991; Conner, 1991; Mahoney, 2001).

Thus, managers can formulate strategy by taking account of a variety of perspectives, including from a competitive position stance (Yair, 1993; Porter, 1996; Chen, 1996; Ferrier, 2001) and/or by having a strong appreciation of a resource’s value (Barney, 1991; Amit & Schoemaker, 1993; Lengnick-Hall & Wolff, 1999; Hoskisson et al., 1999; Juga, 1999). Strategy may also be implemented by looking at the impact a strategy might have on customers’ current value systems (Slater & Narver, 1994; Slater & Narver, 1998; Slater & Narver, 1999; Hult & Ketchen, 2001; Matsuno & Mentzer, 2000).

For this very reason, Drucker’s (1994) definition of strategy is most apt - that strategy is ‘a firm’s theory of how it can gain superior performance in the markets within which it operates’ (Barney & Arikan, 2001: 140). This definition incorporates the idea that strategy can be either planned or emergent (Mintzberg, 1990), that it can be the result of many people’s contributions, and the willingness of the firm’s senior managers to make predictions about the firm’s ability to perform in the marketplace.

Thus, the strategy development process requires that managers understand (1) the competitive market environment, and (2) that achieving a fit with the firm’s market environment is a highly complex, multi-dimensional and dynamic process, particularly
when there could be a number of possible courses of action for maximising firm performance and satisfying the firm’s customers at any one time.

The problem of achieving a strategic dynamic fit

Because it is inevitable that a firm’s market environment will change over time, different configurations of resources will become valuable and have the ability to achieve fit with the market environment at different points in time (Barney, 2001a). This is an inherently dynamic process even though ‘fit’ implies that a match has occurred at a single point of time (Porter, 1991; Priem & Butler, 2001a; Barney, 2001a). If the dynamics of fit are to be better understood, then the notion of strategic fit needs to be addressed by simultaneously looking at the dynamics of strategic change (Zajac & Kraatz, 2000), and by analysing a firm’s propensity for adapting to change (Eisenhardt & Tabrizi, 1995), including how well a firm’s managers pick resources and determine which capabilities they will build and exploit (Makadok, 2001).

The firm will also need to lock into a trajectory of change that is performance enhancing or, if it is constrained by the path dependencies associated with decisions made in the past, it will need to find ways to overcome them (Teece et al., 1997; Eisenhardt & Martin, 2000). For instance, a firm’s culture, leadership, entrepreneurial skill, capacity for learning or innovating, and ability to exploit a first mover advantage could enhance or impede how a firm may perform (Lieberman & Montgomery, 1998; Barringer & Bluedorn, 1999; Roberts, 1999; Rosenbloom, 2000; Helfat & Raubitschek, 2000; McGrath, 2001). Any attempt to achieve a fit with the market environment would need to reflect the firm’s current internally-induced constraints.

Firms also operate in market environments that may include a combination of dynamic/unpredictable and static/predictable contingencies: ‘within a given population
of organizations the likely existence of significant cross-sectional and longitudinal
differences in organizational resources and environmental conditions will create very
different situations for firms attempting to maintain strategic fit over time’ (Zajac &
Kraatz, 2000: 430). In addition to this, it may be subjected to varying levels of inter-
firm rivalry and/or be employing a variety of traditional, generic positioning strategies
against different competitors. Thus, it will also be necessary to monitor the dynamics of
competition (Chen, 1996; Campbell-Hunt, 2000).

**Organisational form**

In strategic management, ‘strategic fit’ or the way the firm aligns itself to its
environment has always involved some notion of organisational form (Venkatraman &
Camillus, 1984). According to McKelvey (1982), organisational form can be ‘defined
as the configuration of attributes determining an organization’s resource demands’
(Porac & Thomas, 1990: 225). It can also be described as ‘those characteristics of an
organization that identify it as a distinct entity and at the same time, classify it as a
member of a group of similar organizations (Romanelli’s 1991: 81). Both of these
definitions are broad and a potential means by which the firm’s evolution and industry
convergence might be explained (Rindova & Kotha, 2001). They are also a foundation
for explaining the firm’s processes of organisation and the way in which the firm’s
different parts or subunits contribute to the organisation’s unity and its objectives, that
is, contribute to ‘the maintenance of its characteristic activities, function, or nature’
(McKelvey & Aldrich, 1983: 110).

The firm’s resources can be configured in a variety of ways to achieve a fit. For
instance, the firm could acquire another firm or it could significantly alter its resource
profile to better adapt to changing circumstances (Helfat, 2000). The firm could also
develop new internal businesses or it may move some business activities outside the firm’s boundaries (Barney, 1999). This could include contracting work out, establishing coordinated supplier networks or organising for an alliance partner to develop some of the firm’s business (Markides & Insead, 1996; Das & Teng, 2000; Barringer & Harrison, 2000; Dyer & Nobeoka, 2000; Gulati & Nohria, 2000).

For a firm to take a particular route, its managers must have some understanding of why the firm exists and which structures, organisational arrangements, routines, resources and capabilities define it. They must also understand what makes it distinct but, at the same time, what classifies it as a firm competing in a particular market environment and possessing certain competitors (Rindova & Kotha, 2001). All the firm’s resources and especially its capabilities will play an important role in defining the firm and determining its ultimate shape (Pettigrew et al., 2001; Child & McGrath, 2001).

Firms have become much more knowledge-intensive, dependent on other firms and required to operate in high velocity market environments. As a result, it tends to be difficult for all but the few and most fortunate of firms to have any lasting market power because of the need to cooperate with other firms. Firms are often required to adopt organisational forms that allow them to cope with large amounts of market-based paradox (Child & McGrath, 2001). Thus, a firm’s ability to compete effectively in the longer term may depend in part on it adopting resource configurations that allow it to make profound organisational changes as they become necessary (Eisenhardt & Martin, 2000). It may also depend on its managers understanding that one of the fundamental reasons why the firm exists is to make sense of and coordinate the knowledge it has at its disposal (Kogut & Zander, 1992; Grant, 1996; Spender, 1996), including any knowledge that it shares with its partners (Kogut, 2000).
The firm may choose to align the organisation with its environment using traditional value chain logic but there is a risk that the firm will fall short of achieving a consummate strategic fit (Ramirez, 1999). If it is assumed that a firm’s activities are the building blocks by which the firm creates valuable products for its customers and that it needs to manipulate critical primary and support activities either as an individual firm or as part of a network to undertake value-adding activities (Stabell & Fjeldstad, 1998), it is possible that the firm will be limited in how quickly it can respond to change that is non-sequential and transitive (Teece et al., 1997; Ramirez, 1999). It may also lack the flexibility to fully exploit intangible resources such as knowledge or firm culture (Fiol, 1991; Galunic & Rodan, 1998; Fiol, 2001; Claver et al., 1998). It may be more appropriate to organise the activities of the firm around processes that encourage the co-production of value using the firm’s customers. This is because it is likely that the firm’s customers are able to articulate which physical/tangible attributes, human activities, risk-sharing activities, systems or infrastructure, and information that is most appropriate to manifest in the firm’s products and services (Ramirez, 1999).

Similarly, the market environments of some firms can be so dynamic and uncertain that more modular forms of organisation are required (Galunic & Eisenhardt, 2001; Schilling & Steensma, 2001). In this situation, a firm is often multi-business and has made a deliberate choice to organise itself around a combination of resources and product-market areas (or charters) (Galunic & Eisenhardt, 2001), or loosely coupled networks of people and organisations (Schilling & Steensma, 2001). The rationale behind these forms is that they cope with uncertainty and paradox better, and are necessarily ‘configurational and coevolutionary’ (Child & McGrath, 2001: 12). Instead of making organisational changes that focus on the production process, the customer is the focus and the main driver of change (Homburg et al., 2000).
From this perspective, firms are continuously morphing, that is, making incremental and ongoing transformations to ensure that their ability to effectively compete and attract customers is not eroded (Rindova & Kotha, 2001). This may be in response to the positive feedback of a strategy’s initial success (Noda & Collis, 2001), and could include a cost-benefit trade-off between the resources that the firm seeks to control or influence as part of a greater strategy and the transaction costs involved in cooperating with other firms and sharing resources (Gulati & Singh, 1998; Barney, 1999; Barringer & Harrison, 2000; Mahoney, 2001).

**The strategy process itself**

According to Mintzberg et al. (1987a and 1987b), there have been as many as ten separate schools of thought in the strategic management literature. Although these ten schools all provide a useful way of thinking about the strategy process, the reality is that managers will use a combination of formal and informal processes to develop their strategies. A firm’s strategy need not always be the result of formal planning processes or be solely the domain of senior management for it to be successful. Strategies that have emerged incrementally or serendipitously can also be very successful.

As a result, the strategy formulation and the strategy implementation literatures are now considered to be related literatures (Schendel, 1992a, Schendel, 1992b). Organisational renewal scholars, for instance, believe the content and process side of strategy need to be treated as interdependent. This is because a firm’s context will be shaped by different managerial behaviours and the interaction between the firm’s managers’ different cognitive maps. The firm’s administrative systems is also likely to evolve to support the firm’s strategy and the firm’s more senior managers’ view of what the firm is capable of achieving in the marketplace, including its people’s ability to
make objective strategic decisions and to learn from experience (Chakravarthy & Doz, 1992).

The other reason why the strategy process should be seen to be multi-faceted is because it tends to be very difficult to have a competitive advantage for more than a few years. Firms tend to grow rapidly for short periods of time. They will often stop growing altogether after four years. Market niches and special advantages are also of a fairly transient nature. When this is the case, a firm’s strategies and the processes which support them must reflect this. A firm’s strategies need to be implemented with a degree of urgency and draw on the skills of many people if it is to capitalise on the firm’s current advantages (Simon, 1993).

It may also be appropriate to look at strategy through the options lens (Bowman & Hurry, 1993; Sanchez, 1993). If a firm’s strategies emerge from the firm’s resource investment choices and these follow incremental patterns of change, then it is likely that they are shaped by managers’ desire to give the firm as many strategic future options as is possible. Their resource investment configuration choices will also reflect those options for the future, including the options that new capabilities or forms of knowledge might bring to the firm. When it is likely that the market environment could change in ways that were unanticipated, the firm’s strategy will often be emergent (Bowman & Hurry, 1993).

Thus, the more opportunities a firm can take up in the future, the better. They give the firm more option value, which can also be thought of as an enhanced ability to cope with uncertainty. Firms that have more option value can change their strategies rapidly and pursue different opportunities as the need arises (McGrath, 2001). Firms that have high option value are more likely to perform consistently in the marketplace. They need less top management oversight, and will tend to be characterised by many projects and
employ people who are interested in learning and continually acquiring new knowledge. This has important implications for how firms should be managed. Loose coupling is useful when trying to stimulate or maximise learning or discovery at a local level, while tight coupling is useful when trying to diffuse knowledge and opinion across multiple units, although for some firms it may still be more appropriate to encourage serendipitous learning under competition.

This is very similar to Ghoshal and Bartlett’s (1994) position. They do not believe that the strategic processes used at firms are the result of rational behaviours. They criticise scholars who believe they are the result of rational behaviours, such as Bower (1970) and Burgelman (1983). These authors have suggested that it is possible to develop strategy and allocate a firm’s resources using a rationalist model. In the Bower-Burgelman model of resource allocation, the firm’s context is seen as shaped by process variables, which are subsequently shaped by changes in the firm’s structure and systems. Ghoshal and Bartlett (1994) found that firm performance is related to the way its managers shape its organisational context, especially the extent to which they created an internal environment that was characterised by discipline, commitment, stretch and mutual trust.

Tangential to these ideas, Black and Boal’s (1994) research suggests that because a firm’s resources will have different economic life-cycles, they will need to be constantly bundled and unbundled over time. It will be impossible for the firm to sustain a competitive advantage otherwise. The firm’s strategies and the resource allocation processes at the firm will tend to evolve around the decision trees of the firm’s managers. From this perspective, the firm’s resource configurations are socially constructed and self-forming. They are dependent on people’s social networks and restrained by rigid management structures.
Thus, the strategy making process is an emergent process and iterative process of resource allocation. It is often the result of trial and error. In situations where a strategy emerges, it is still required to be developed in line with the top management team’s logic, with an appropriate degree of urgency and with the input of people from multiple levels of the organisation (Noda & Bower, 1996). Top management will play an active role in a firm’s structural context especially when a firm’s strategy is emergent (Mintzberg & McHugh, 1985; Noda & Bower, 1996; Maritan, 2001). They will play an active role in determining how the firm will be organised, its performance measured, and which reward systems the firm will use while the firm’s middle managers will tend to be responsible for delineating the content of the firm’s strategy and defining the firm’s markets (Bower, 1970; Burgelman, 1983; Ghoshal & Bartlett, 1994).

It is appropriate to think of the strategy process as being both a dynamic and a partly evolutionary process, as it involves a great many choices and possibilities (Barnett & Burgelman, 1996). A firm’s managers need to focus on the pace and path of the firm’s change. They must also accept that the firm’s different strategies are not only internally selected but are externally selected, and that firms operating in the same markets will almost always adopt different strategies, albeit sometimes variants of the same strategy. Competitive advantage is more likely to be the result of managers’ ability to learn experientially and to identify how to respond to environmental cues well in advance of any performance benefit for the firm becoming discernible (Cockburn, et al. 2000).

The firm’s strategic planning processes need to involve search processes that pursue more than one source of information. They also have to be dynamic and evolving, and involve search mechanisms that assess how different external and internal sources of rent are important for managers to understand, such as the firm’s customers’ preferences and the firm’s compensation system (Cyert, et al. 1993). The firm’s search processes
may need to extend to the firm’s broader industry environment, as it may be a better source of experience and information about opportunities and better modes of operating than that which the firm itself can identify. This is because the firm will often be constrained by its own organisation and the path dependencies associated with the competencies that have initially defined it (Ingram & Baum, 1997).

3.2 Resource Allocation Process

Ever since Bower’s (1970) study, where it was determined that the resource allocation process involves (1) three tiers of management, and (2) three key processes, that is, the definition of content (or the process by which characteristics of a proposed resource investment are determined), the impetus for commitment (or the zeal and level of diligence by which the firm’s general managers sponsor a project), and structural context (or the way the firm’s businesses are formally organised and its managers measured and rewarded), research into the resource allocation process has proliferated (Bower, 2005).

For instance, Burgelman (1983) examined the process by which new organisational units are incorporated into the firm’s existing operations or established as a new freestanding division or department. This research helped to determine that the process by which firms develop strategy must co-evolve with the processes at a firm directed at realising both ‘induced- and autonomous-strategic initiatives’ through the firm’s resources (Burgelman, 2005: 60-61). Contrary to Ghoshal & Bartlett’s (1994) views which were described earlier, it also showed that the internal ecology of strategy making is emergent and strongly influenced by a firm’s top management team. This is because a firm’s Chief Executive Officer (CEO) and top management team will normally play a guiding role in the firm’s strategy context-determination processes. This is provided that
the bottom-up resource allocation processes of the firm do not fail as a result of information distortions or the firm’s lower-level managers not being privy to or aware of information relevant to the problem at hand (Sull, 2005a), such as when a disruptive technology needs to be managed outside the mainstream resource allocation processes of the firm. When this is the case, it will be important to ensure the firm is investing in new products or innovations but is still able to make products and services available to customers profitably and which can address their present needs (Christensen, 2000; Sanchez, 2001a).

The large body of research into the resource allocation process strongly argues that resource allocation drives strategy (Bower & Gilbert, 2005). This is because in order to develop a strategy, the firm’s managers need to understand if the firm’s businesses are organised appropriately, and its managers measured and rewarded in a manner that makes them focus on achieving the firm’s financial objectives. Similarly, they need to understand whether it will be necessary to adopt cognitive frames for collecting, interpreting and retaining information which key stakeholders, such as capital providers and customers believe are more appropriate to use when making strategic or major resource allocation decisions (Gilbert, 2005). However, the ability to form appropriate cognitive frames will differ between firms and some firms will have an advantage because their frontline, middle and top management teams have learned to identify resource driven strategies which should and should not be escalated or de-escalated (Noda & Bower, 1996).

This is consistent with the RBV as it too is concerned with the decision-making processes that are used to allocate the firm’s resources and understand how different sunk costs might affect the firm. It is also concerned with the idea that a firm’s managers’ ability to manage the firm’s knowledge and its people contributes to the
firm’s performance. This is similar to the view taken in resource allocation theory which assumes that strategy originates with those who have the knowledge to solve the firm’s specific strategy related problems (Peteraf, 2005).

3.3 The Strategic Decision-Making Process

Research into the processes that managers use to make decisions has been greatly influenced by the work of the behavioural theorists, such as Simon, March and Cyert. It has variously concentrated on understanding how managers weight alternatives and how managers tend to address problems of induction, categorise different organisational phenomenon and then develop shared mental models (Porac & Thomas, 1989).

Decision-making theory has also been characterised by a number of debates and dichotomies. This includes the rationalist and the non-rationalist view of the firm as a decision-making forum. In the rationalist view, it is believed that firms develop dynamic processes that reflect managers’ tendency to look for optimising solutions, and they will do so by exploring all possible alternatives. The non-rationalist view assumes that managers are only occasionally able to recognise an optimising strategy. Managers are also likely to be heavily influenced by the political or emotional ramifications of any decision, as opposed to whether the decision is based on fact and represents the best use of the firm’s resources (Cyert & March, 1963; Eisenhardt & Zbaracki, 1992; Cyert & Kumar, 1993).

It is important for research into the decision-making processes to display an awareness of the imprecise and heuristic nature of the organisational rent creation process. It also needs to focus on identifying under what conditions a firm’s managers are more likely to make suboptimal choices and to what degree (Amit & Schoemaker, 1993). This includes identifying ways in which the rational and non-rational approaches
to strategic decision-making might be balanced depending upon the problem at hand and the firm’s circumstances. For instance, when a firm is operating in a relatively stable market environment, it may better able to adopt a rational or organization-wide model of decision-making to achieve its outcome. In contrast, when the firm is operating in a more volatile market environment, it may need to adopt more political or complex decision-making modes. These ideas can be extended to the strategic management process, as it is likely that rational and top-down processes will be more appropriate when the firm is operating in a relatively stable marketplace, as opposed to situations in which the firm is operating in a much less predictable market environment.

Decision-making theory has also been influenced by research into a firm’s learning processes. Argyris (1976) found that managers often subdivide problems and learn through repetition. If a problem is solved the same way often enough, managers will learn from this experience and adapt their decision-making processes accordingly. The more complex and ill-structured a problem, the more likely there will be a number of possible solutions. If a firm is dominated by complex problems then it is likely that its managers will regularly make serious errors of judgement even if they are competent. In this kind of decision-making environment, it will be important for a firm’s managers to develop robust systems for learning.

Argyris (1976) also found that learning can occur at least on two levels. Single-loop learning results in changes in behaviour rather than a fundamental change in understanding, while double-loop learning is highly iterative and involves unlearning. Crucially, double-loop learning will lead to managers adopting new mental modes to solve problems, as well as a fundamental change in how they perceive the broader environment and what they will include in the firm’s strategy.

Over a firm’s lifetime, there will be a constant need to acquire knowledge, and then
apply that knowledge and learn from it (Cyert, et al. 1993). This is because industries evolve, the business cycle will change, and the advantages associated with holding privileged information will eventually be eroded away. There will also be significant differences in the knowledge held at firms that are large and decentralised, and how their decision-making processes evolve. In a decentralised system, the majority of the firm’s more entrepreneurial decisions will need to occur at the business unit level, while in a centralised system these decisions will tend to be made at a much higher level (Cyert & Williams, 1993).

Thus, over any firm’s life-time, it tends to be incumbent upon its managers to develop shared mental models and a shared understanding of which organisational events, structures and experiences need to be acted upon or linked to managerial thought and the firm’s administrative processes (Porac & Thomas, 1989). The decision-making rules that a firm’s managers use may need to be adjusted according to the firm’s prior aspiration level and the firm’s actual performance (Levinthal & March, 1981). If it is difficult to make an association between the firm’s strategic actions and its actual performance, it is likely that simple decision rules will need to be used, such as trial and error (Kahneman, 2003; March & Shapira, 1987). A firm’s operational goals will be useful here, as operational goals help managers to make a link between the actions that the firm needs to take to achieve a desired outcome (March & Simon, 1993).

This reinforces Cyert and March’s (1963) view that a firm’s managers aspire to what they believe is possible. They tend to assume that just by desiring a good performance outcome they will bring one about. Likewise, a firm’s managers will tend to base their decisions much more on the performance targets that are critical for the firm to meet rather than a map of probable outcomes and acceptable risks (March & Shapira, 1987). The implication of these facts is that managers are very much influenced by what their
competitors are doing in the marketplace, their perception of how successful they are compared to their competitors and how different are their firm’s strategies to the strategies of their competitors (Reger & Huff, 1993).

**Performance feedback and customer value**

As discussed, resources cannot create customer value and, in turn, generate rents for a firm without some managerial intervention (Makadok, 2001). This intervention may come in many forms and could involve a number of processes for systematically learning about customers (Henderson & Cockburn, 1994). Managers also operate in environments that are fraught with uncertainty, which renders it extremely difficult for them to accurately determine customers’ preferences and predict how they might change (Cyert & Kumar, 1996). Organisational knowledge also develops recursively and in stages through managers identifying different ways to solve problems and build new dynamic capabilities (Zollo & Winter, 2003).

Thus, it can be very difficult for managers to identify the path to long term profits and to predict how different approaches to dealing with customers, setting prices, and organising production and organisational processes might improve the firm’s performance prospects. Managers need to constantly search for information that could reduce this uncertainty. The firm will need to be organised to search for information and test different hypotheses about what information is most relevant to improving the firm’s performance prospects (Cyert & Kumar, 1996: 218). As the firm evolves, it will be normal for it to develop a range of adaptive learning processes (Levinthal & March, 1981) and organisational learning capabilities which rely on the firm having established performance feedback processes (Greve, 2003a & 2003b).

Different performance outcomes will affect managers’ learning experiences and will
have a bearing on the decision-making processes that will be used at the firm. This is because they explain the drivers of organisational change (Cyert & March, 1963). Thus, the firm’s ability to efficiently and objectively identify and measure critical performance targets will play a role in differentiating the firm and its strategies from its competitors (Schoemaker, 1992; Kaplan & Norton, 1996). The firm’s budgeting and reporting routines are especially important in this respect, as they are usually used by managers to understand how successfully the firm has responded to the marketplace (Greve, 2003b). They allow the firm’s managers to gain some insight into whether they have made good boundary decisions, product line choices and whether the firm’s organisation is sound, which includes whether the firm has developed an appropriate set of incentives for its managers to efficiently transfer knowledge across the firm and react to externally- and internally-based sources of rent as markets evolve (Cyert & Kumar, 1996).

Research shows that low performance tends to be associated with an increased propensity for managers to launch new innovations, reorient the firm strategically, adopt new products market strategies, take higher risks, invest more in R&D and acquire more production related assets (Greve, 2005b). This is normally the result of ‘problemistic’ search activities being undertaken by the firm. Managers also tend to rely on a variety of sources of information about the marketplace and the firm’s ability to organise appropriately when formulating or reviewing their strategic plan. The firm’s search processes need to be perceived as evolving and part of a dynamic system. ‘Specifically, firms have realistic chances of searching for profitable new markets or product locations only if there is a diversity of beliefs regarding the distribution of consumer preferences….. But such diversity of beliefs can be sustained over time, in an equilibrium sense, only if there is diversity of information regarding crucial behavioral
attributes of consumers. Secondly, the presence of sustainable cost advantages will also largely stem from specialized production and/or organizational related information’ (Greve, 2005a: 54).

Thus, it is important for managers to collectively learn about the firm’s customers and their reactions to the firm’s various product offerings and pricing policies (Cyert, et al. 1993: 47). If managers can form an understanding of the dimensions that customers from different segments value, then it should also be possible for them to develop methods to regularly and rigorously monitor changes in customers’ values as part of the firm’s broader search activities (Woodruff, 1997). Should customer learning become embedded in the firm as a process or allowed to complement its existing processes, the firm will have developed a dynamic capability, provided it is designed to allow the firm’s managers to make customer-related and strategically important resource investment decisions on an ongoing basis. If the firm can be said to have become a leader in the marketplace, the firm may have developed a customer-centric core competency (Collis, 1994; Parasuraman, 1997, Woodruff, 1997).

Creating customer value through the firm’s established processes

These facts suggest that a large proportion of the firm’s strategic planning and resource allocation processes need to be designed to help managers learn about target customers’ values and how the firm’s resources can be used to create performance enhancing levels of it. However, the strategic planning and resource allocation literatures do not explicitly discuss to what extent or how they should be designed to this end. Nevertheless, the literatures do point to the fact that the firm’s customer learning, strategic planning and resource allocation processes need to intersect to allow managers to formulate the firm’s customer value creation and related resource
investment strategies. Figure 3.1 diagrammatically describes the way in which these key processes are likely to relate to each other.

The framework in Figure 3.1 shows that a firm’s managers will regularly engage in customer learning activities. They will apply what they learn to develop a customer delivery strategy. Ideally, the firm’s customer delivery strategy should clearly define those activities which each of the firm’s business units (or business partners) should be doing to achieve the firm’s customer value creation objectives (Woodruff, 1997). Figure 3.1 also shows that the firm’s resource investment decisions will normally be moderated in some way by the firm’s senior or corporate decision-makers, since they are the ones who are responsible for aligning them with the firm’s longer-term strategy, and approach to risk and performance management (Bromily, et al., 2001). It will be normal for firms to attempt to align the firm’s customer value delivery strategies, which occur at the business unit level, with the firm’s corporate strategic objectives. While identifying how the firm will actually create customer value through its products and services, it is likely that the firm’s managers will simultaneously consider how the firm should be combining and deploying its resources and which resources need to be acquired.

Although in all probability the process of developing a customer value delivery strategy will be iterative and involve many parties and managerial levels (Bower, 1970; Ghoshal & Bartlett, 1994; Mintzberg, et al. 1998, Noda & Bower, 1996), it is likely its execution will be much more linear, even though many parts of the firm are involved and/or a number of business partners. The flow of activities and the resource investments that they imply as described in this framework suggest that the firm will encourage the repetition of positive forms of learning, including those forms that enable managers to identify if the firm could further close the gap between actual customers’
desires and its managers’ perception of those desires. The firm’s managers are likely to develop a capacity to evaluate the firm’s performance that is also customer value creating by developing different ways to measure and assess the firm’s performance, which could include how customers rate the firm’s performance.

The framework as shown, suggests that customer value creation needs to be an explicit part of the firm’s strategic and resource allocation processes. It needs to involve the establishment of decision-making processes that allow managers to (1) learn about their customers and their values, (2) understand the dimensions of customer value which are of strategic value to the firm, and (3) develop and implement strategies that lead to the full rent earning potential of all its existing and acquired resources being exploited (Woodruff, 1997; Parasuraman, 1997; Srivastava et al., 1999; Ramirez, 1999). This leads to this study’s second research question:

How do managers translate customer learning into processes which allow the firm to deliver value to its customers?

3.4 Chapter Summary

This chapter reviews the strategy, resource allocation and decision-making literatures. It explains how different scholars have described the evolution of these processes within a firm. It supports the notion that despite their different emphases, these processes, and especially the firm’s strategic decision-making processes will be complex and largely managerially driven. Their ability to positively affect a firm’s performance will be dependent on the extent to which they can be used recursively and
to reflect change in the marketplace.

This chapter also explains how these processes might be used to synthesise the information managers gather about customer value. If a firm’s strategy is the result of many people’s contributions, then it is likely that many people are involved in deciding which dimensions of customer value are important for the firm to deliver to customers through its products and services. This chapter suggests that if managers are to create customer value, they need to learn about customers and use what they learn about them to make strategic and other resource allocation decisions. The implication of this is that these key processes need to intersect to make it possible for managers to identify how the firm should be approaching its customer value creation and delivery problems.

As Figure 3.1 suggests, firms’ varying ability to learn about customers and then apply that learning in an efficient and customer value creating way may partly explain heterogenous firm performance. Firms that develop sophisticated customer learning processes and then use that learning to create customer value may have developed a core competency. This is most likely to be the case if the firm’s customers learning processes allow the firm’s managers to continually consider how the firm can improve on its customer value creation efforts.
Evaluate alignment with:
1. The firm’s external business partners
2. The firm’s internal business units
3. Corporate level
4. Business unit level
5. The firm’s governance & organisation
6. The firm’s medium- to-long-term corporate strategic plan
7. The firm’s performance & risk management frameworks
8. Develop complementary resource investment (or resource allocation) strategies
9. Implement the customer value delivery strategy by delivering products & services to target customers that can fulfil their needs or by creating the potential for this by making the firm more efficient and/or changing the firm’s future product & service mix
10. Track performance of customer value delivery by external partners
11. Track performance of customer value delivery by business units
12. Evaluate the firm’s overall business performance

Figure 3.1
Customer Value Learning and Customer Value Delivery Competency
(Allows the firm to create customer value by using the firm’s resources strategically)
CHAPTER 4

LEARNING AND FIRM PERFORMANCE

The previous two chapters established that a firm’s performance may be dependent on it possessing customer-centric and interconnected decision-making processes. Such processes can help a firm’s managers identify, in a coordinated manner, how best to create customer value. Their effectiveness is likely to be related to the way they allow the firm to change to better respond to customers’ needs.

This chapter reviews the learning literature. The first section describes the different ways managers learn about their internal and external environments, and how learning processes might develop at a firm. It also establishes that managers often develop and manipulate the firm’s learning capabilities to ensure they can be used to bring about specific performance outcomes and match the pace of the market environment (Eisenhardt & Martin, 2000).

The second section describes adaptive learning processes. Researchers have found that in order to successfully compete in the marketplace firms need to develop learning capabilities which are adaptive. The implication here is that high performing firms are more likely to have developed processes which allow their managers to continuously improve upon the processes that they use to learn about the firm’s customers and then act on that learning than low performing firms.
4.1 The Learning Literature

Firms cannot innovate and deliver products of value to their customers unless their managers have an ability to recognise when information about the environment is valuable and of a strategic nature. However, some managers will be better able to absorb and apply this kind of potentially valuable information than others. Most managers will find it difficult to determine if they have been able to develop an optimal learning capability at their firm (Cohen & Levinthal, 1990).

Thus, learning needs to be thought of as a relative phenomenon. Learning is the process by which knowledge is acquired and comprehended. Learning is different from knowledge, as knowledge ‘is the beliefs that guide organizational action; it is causal understanding that may or may not fully reflect the realities of the environment a firm faces’ (Chakravarthy, et al. 2003: 306-307). The ability to accumulate, leverage and protect knowledge, and then develop processes to use it effectively is essential if a firm is to grow profitably and sustain growth.

The firm’s ability to change how it is organised will be dependent on the firm’s learning processes. It will also be dependent on the extent to which the firm’s top managers can change the mental modes that direct action across the whole organisation. Unexpected performance results could lead to a dramatic questioning of the beliefs which have formed the foundation of the firm’s strategy. In this respect, the process of learning at firms may be much more complex than the single- and double-loop learning models that have tended to dominate the learning literature (Barr, et. al. 1992). In dynamic markets, managers may need to develop knowledge and learning systems to allow the firm to develop and lever off modular product designs. It is not sufficient in dynamic markets for a firm’s people to just possess know-how or the ‘practical understanding of how current products work’ even if systems of learning can be put into
place to enable the firm’s products to be continuously refined. It is necessary for firms to also possess and be able to apply ‘know-why’ and ‘know-what’ knowledge, as they allow the firm to adapt current designs or develop new products and imagine and develop new kinds of products, respectively. In this respect, competitiveness is predicated on managers’ ability to promote learning (Sanchez & Heene, 1996).

Learning is of special interest to RBV scholars because experiential learning can lead to a firm adopting optimal practices. This is something that research into firm’s learning curves has been unable to capture. Managers often underplay the importance of the distant future or the wider market environment. Likewise, it can be difficult to achieve a balance between exploration and exploitation, and problem detection and diagnostics at different points in time. It can also be difficult to achieve a balance between the production processes and customer driven learning processes that the firm develops (Levinthal & March, 1993). In other words, it can be very difficult for managers to develop the right number of loosely coupled processes - the kind that make it possible for them to interpret problems on an ongoing basis. However, it is possible to design organisations that are better placed to learn from experience and exploit valuable knowledge than others.

According to Schulze (1994), research into the RBV can be divided into two schools, the structural school and the process school. The structural school explains firm performance and the creation of rent from a market perspective, while the process school assumes that markets are constantly in and out of equilibrium. In the process school, firms create rents because their managers are constantly learning how to use the firm’s resources to meet the needs of the market environment (Peteraf, 1994).

As opposed to the structural school, process-oriented theory or dynamic resource theory allows researchers to examine why some firms are superior performers when
faced with a similar set of environmental conditions. It allows the researcher to identify the internal firm-level and managerial behaviours which create situations where it becomes possible for some firms to consistently outperform their competitors (Schulze, 1994). This includes situations where competitive advantage can be attributed to a capacity to develop learning processes rather than possessing hard to imitate or rare resources (Collis, 1994) or conduct local or domain-specific searches, which is necessary when firms are operating in fast or technology intensive markets (Stuart & Podolny, 1996).

Firms will also benefit if they adopt learning modes suited to their circumstances. For instance, some people will ‘learn by doing’ while others will be more inclined to ‘learn before doing’ (Pisano, 1994: 86). Different learning methods will need to be used across a firm to meet different objectives and to accommodate the skillsets of different groups of people. This means different learning and organisational competencies will need to be developed at a firm to ensure the firm’s knowledge can be appropriately exploited. If they are to be performance sustaining, they will also need to be designed to change over time to reflect what is occurring in the firm’s marketplace. If the strategy process is to be effective, it will need to be largely learning driven and able to involve the conceptualisation and integration of different modes of knowledge (Lei, et al. 1996). Knowledge will also need to be diffused in an effective and timely manner (Szulanski, 1996).

Firms need to develop both planned and flexible learning processes to allow for the fact that a firm’s strategies can be planned and incremental, emergent and the product of learning all at the same time (Brews & Hunt, 1999). This will be the case especially when a firm needs to find radical ways to address marketplace change and improve upon its financial performance, otherwise it will be difficult for its managers to explore
its options and then adequately exploit them (Collis, 1994; Crossan, et al 1999; Crossan & Berdrow, 2003).

Although single-loop and double-loop models of learning are useful, they do not capture the complex nature of the many interactions that need to occur at a firm for learning to take place. Crossan, et al. (1999) found that the ability to interpret and integrate knowledge can occur at an individual level, group level and/or at the institutional or organisational level. Knowledge may be fed from these different levels iteratively and constantly, that is, to and from the individual, group and organisational levels of the firm. This requires firms to develop processes that enable their managers to explore the environment and exploit knowledge in a coordinated manner, especially as it applies to the firm’s resource allocation decision processes. Sanchez (2001b) found that learning can occur at the interface between the individual, group and organisational levels. This indicates that learning also occurs after many parties have interpreted the facts at hand.

In a situation where firms operate in high velocity markets, firms will need to develop capabilities that can match the nature and pace of the market environment. An ability to constantly learn and evolve the firm’s dynamic capabilities will be essential for such firms to possess if they are to have any chance of successfully competing in the marketplace. Firms will need to develop dynamic capabilities that are made up of clearly-defined and settled routines when the firm is operating in moderately paced markets but when they are operating in high velocity markets they will need to develop much more fragile and semi-structured routines as these will be easier to change (Eisenhardt & Martin, 2000). In situations where a firm’s products and services are the product of scientific or technological knowledge and systems of core or integrative knowledge, the firm will most likely have more and superior access to opportunities and
a higher number of product options, if it applies a combination of incremental and step learning processes. The exception to this is if the firm has in the past invested in too many constraining systems of learning and knowledge management (Helfat & Raubitschek, 2000).

4.2 Customers, Learning and the Ability to Adapt

From both a strategy process and a behavioural theory perspective, it is important to understand how different goals and performance outcomes can affect managers’ learning experiences, as well as their ability to make good decisions consistently. The goals set for the firm over time and its actual performance can explain the firm’s current resource mix and why it has set prices in a particular range or become inclined to use certain resource allocation processes (Cyert & March, 1963). By understanding how firms develop adaptive learning processes (Levinthal & March, 1981), and develop processes of organisational learning through performance feedback (Greve, 2003a & 2003b), the drivers of organisational change can be better understood.

Firms will differ in the type and magnitude of changes they make depending on the goals set for the firm and how their managers interpret different performance outcomes at critical times in the firm’s life (Levinthal & March, 1981). Lower than expected performance will often cause the firm to be reoriented strategically, take on more risks or develop previously shelved innovations (Greve, 2003b). The processes through which managers choose the firm’s performance targets will influence how the firm is able to differentiate itself from competitors (Schoemaker, 1992; Kaplan & Norton, 1996).

There is an abundance of research into how these kinds of processes allow managers to understand which performance-related problems the firm should be addressing.
However, there is still much to learn about how different strategic processes. This includes how the firm’s budgeting and reporting routines can be used to identify which goals the firm should strive to achieve (Greve, 2003b). The way in which the firm is structured, the number of businesses it is in, and the ability of its most senior or corporate level managers to monitor performance and manage the firm’s many resources can affect how the firm performs in the marketplace (Chandler, 1991). All of these things can affect the firm’s ability to create optimal levels of customer value. This leads to this study’s third research question:

How does the ability to develop processes which allow managers to learn about customer value on an ongoing basis affect a firm’s performance?

4.3 Chapter Summary

This chapter explains why firms need to develop learning processes and how they can be used to create performance enhancing levels of customer value. According to the RBV, if managers are able to get close enough to customers then they may be able to exploit what they know. However, little is still known about how managers systematise the process of learning about customers and their values.

If managers can form an understanding of the dimensions that customers from different segments value, then it also follows that the firm will benefit. This will be the case especially if its managers can develop learning processes that enable them to identify when their customers’ values changes. If customer learning can be translated
into strategic actions and become embedded in the firm as a process and/or become a core competency of the organisation, then the firm will have increased its capacity to make profitable and/or strategically important resource investments on an ongoing basis. This will be especially the case if learning involves understanding how customers’ needs change and how this could affect the firm’s performance.

Consistent with the learning literature, a firm’s ability to perform well in the marketplace will be contingent on the nature and quality of its customer learning processes. It will also be contingent on extent to which these processes are integrated with the firm’s various strategic processes. In all probability, firms which are able to establish performance feedback loops to help their managers more rigorously assess if the firm has created customer value are more likely to be high performing. This is because their managers should have a greater capacity to make performance enhancing resource investment decisions.
PART III

METHODOLOGY:
Part III of this thesis includes two methodology chapters. Chapter 5 describes the study design, the reason why case study methods were chosen, the final dataset and how Rouse and Daellenbach’s (1999) criterion for studying heterogeneous firm performance was met. Chapter 6 describes the interviewing process, the semi-structured questionnaire, and who was interviewed from the management teams at the firms in the final dataset.
CHAPTER 5

STUDY DESIGN AND FIRM SELECTION

This chapter describes the methods that were used to study the three research questions described in Chapter 2, 3 and 4:

Question 1:
How do managers create customer value through the firm’s resource investments?

Question 2:
How do managers translate customer learning into processes which allow the firm to deliver value to its customers?

Question 3:
How does the ability to develop processes which allow managers to learn about customer value on an ongoing basis affect a firm’s performance?

The first section of this chapter discusses the reason why case study methods were chosen and the study design, including the reasons why firms were categorised as operating in dynamic and non-dynamic markets, and as high and low performing, as well as the methods used to categorise them as such. The second section explains the methods employed to select firms to take part in this study. It also provides an overview of the 14 firms that took part in the study.
5.1 Case Study Methods

The objective of studying these three research questions is to explain how managers learn about customer value and then use what they learn about their customers’ values to make potentially performance enhancing resource investments. Because these questions require one to identify how managers conceptualise the customer value construct and then link it to the firm’s operations and its unique context, it is best studied using qualitative case-based methods, in particular, explanatory case-based methods. Explanatory cases are most apt when answering ‘how’ questions and when it is necessary to gather data in the field by conducting interviews (Yin, 2003).

They are especially useful for understanding how different behaviours and resource combinations affected the firm’s performance at critical points in time, which is something that cross-sectional studies cannot always capture (Barney et al. 2001a). As Rouse and Daellenbach (1999: 487) suggest, ‘large sample, multi-industry, single time-period samples using secondary sources of data will not help disentangle the key factors that may provide sustainable advantage.’ However, case-based studies and fieldwork can help to identify the key factors.

Fieldwork

By meeting with a firm’s key decision-makers within the physical domain of the firm, it is more likely that one will be given insight into the way individual firms differentiate themselves in the marketplace through their managers’ resource investment decisions and the processes they develop (Burgelman, 1983; Leonard-Barton, 1992; Ghoshal & Bartlett, 1994; Christensen & Bower, 1996; Maritan, 2001; Noda & Collis 2001). Similarly, insight can be given into how managers believe their resource investment decisions affected the firm’s performance (Rouse & Daellenbach, 1999;
Barney et al., 2001; Lockett & Thompson, 2001). It is for these reasons that interviews were conducted for this study within the physical domain of the firm.

Research design

Multiple case studies were used to identify if managers use the firm’s resources to create customer value in a manner that is predicted by the extant RBV literature. This includes the notion that firms that develop learning processes which allow them to cost effectively create value are better able to cope with a changing marketplace and more likely to be high performing. The benefit of using a multiple case design is that it can be considered theoretically replicable if it includes a sufficient number of cases. The number required will differ to that required of a statistical study. A study will have a sufficient number of cases if it allows one to examine the different contextual scenarios under which the extant theory can and cannot be supported. This can also render the study externally valid (Yin, 2003).

In the case of this study, as established earlier, RBV scholars know very little about the way managers conceptualise customer value in order to operationalise it using the firm’s resources (Woodruff, 1997, Afuah 2002, Danneels, 2003), as well as the ways in which it is important for them to develop dynamic or learning capabilities to create customer value (Cohen & Levinthal, 1990; Aharoni, 1993; Peteraf, 1994; Collis, 1994; Srivastava et al., 2001; Greve, 2003a & 2003b). To enable this study to reflect the theory and be replicable, firms which operate in dynamic market environments and non-dynamic environments were included (Barney, 1991, Peteraf, 1994; Teece, et al. 1997; Eisenhardt & Martin, 2000). To understand the performance effects, firms which differed markedly in their ability to perform in the marketplace were included (Rouse & Daellenbach, 1999; Greve, 2003b).
The aim was therefore to gain insight into the practices and resources that managers at these different kinds of firms use to create customer value and learn about the firm’s customers. As shown in Table 5.1, by conducting fieldwork in at least three high and low performing firms which operate in non-dynamic and dynamic market environments, it was considered likely one could gain access to enough managers to interview to understand how customer value is created through the firm’s resource investments, including its customer learning processes.

![Table 5.1](image)

<table>
<thead>
<tr>
<th>Research Design</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>n = 12</td>
<td>High Performing</td>
<td>Low performing</td>
</tr>
<tr>
<td>Non-dynamic</td>
<td>3 x firms</td>
<td>3 x firms</td>
</tr>
<tr>
<td>Dynamic</td>
<td>3 x firms</td>
<td>3 x firms</td>
</tr>
</tbody>
</table>

To ensure that the extant theory could be examined in a manner that could account for the effects of a firms’ unique contextual conditions, the firms included in the study were also required to be (1) either established in Australia or, if not an Australian firm, the Australian division of a multinational firm, (2) managed by a team of managers rather than owner operated, with a Chief Executive Officer or a Managing Partner/Director in charge, and (3) in business for at least three years.

**Minimum number of interviews**

A minimum of three people were required to take part in interviews at each firm, as this number allows one to triangulate the answers provided in a reasonably objective manner, that is, one could refer to the answers provided by the majority of managers at that firm to understand why a particular manager’s answers may have been different or,
if required, contact the manager in question to further clarify their response. This meant a minimum of 36 managers were required to be interviewed, that is, nine within each category of firm. However, firms were encouraged to make a larger number of managers available to take part in interviews if this was possible, as it would be more likely that one could gain even richer insights into what is considered normal practice. This would be especially the case at firms that are medium-to-large in size. As discussed below, a total of 59 managers were ultimately interviewed.

**Unit of analysis**

The unit of analysis for this study was each firm. Each firm was used to learn about the processes managers use to understand their customers’ values and then make resource investment decisions to create customer value (Maritan, 2001).

**The use of interviews and other sources of evidence**

Since it was important to understand how firm performance affected the resource investment decisions managers make to create customer value, case studies for each firm were developed based on interviews with managers and by reviewing ex post, publicly available documents, such as firm’s annual reports and websites (Schendel, 1992a). Interviews were only conducted with managers who had profit centre responsibility or were involved in developing the firm’s strategy, as it was more likely that they could provide insight into the tacit or codified forms of information used at their firm to make strategic, resource investment decisions (Rouse & Daellenbach, 1999).
**Time period**

This study examines the processes used to create customer value and the performances achieved during the period 2001 through to 2004.

**Concern for rigour**

This study was designed to display the same concern for rigour as would be required from a good quantitative study (Eisenhardt, 1989; Porter, 1991; Rouse & Daellenbach, 1999; Yin, 2003). To ensure construct validity, the questionnaire used in this study was tested via a pilot study. The pilot was designed to determine if the managers taking part in interviews would be able to understand and relate to the terms being used in the questionnaire in an operational setting. The objective was to avoid using terminology from the extant literature that the interviewees or some of the interviewees could not understand or were inclined to interpret differently.

The final questionnaire included questions that allowed one to understand how managers develop their view of customers’ values from a variety of perspectives, including whether they considered customers’ multiple needs and how the firm could differentiate itself from its competitors (Woodruff, 1997). (A copy of the questionnaire can be found in Appendix A.) It also included questions that were designed to explain how managers developed and used different processes to create customer value, including how they established and used different decision-making, product development and product delivery processes to create customer value.

To ensure that these processes could be linked to the desire to meet customers’ needs in some way, all the process-oriented questions were supplemented by questions that could determine if their development was driven by internal factors, such as the need to improve the firm’s operations, or external factors, such as changing customer tastes or
technological change.

These multiple sources of evidence could help to identify if the managers from all the firms in the study invested in resources to create customer value in the same way and for the same reasons, or if they differed depending upon their firm’s unique circumstances and as a result of the markets within which they operated.

To ensure internal validity, the study was designed to gather data about how managers approach the problem of customer value creation with the view to answer the three research questions (Yin, 2003). This included understanding if the extant literature and Woodruff’s (1997) conceptualisation of customer value can explain how managers create value through their resource investments, how managers translate customer value learning into processes and the perceived performance effects.

Similarly, the study was designed to determine if managers develop customer-centric processes to improve the firm’s performance as predicted by the RBV literature and related literatures. Managers were also asked to explain the reasons why they believe the firm adopted the behaviours that they identified as being pertinent to the question at hand. These questions were designed to identify if other issues, not raised in the extant literature, were important (Yin, 2003).

To ensure that the questionnaire was reliable and the study could be replicated with confidence, it was tested via a pilot study and both an interview protocol and data analysis protocol was used. The pilot study was designed to ensure that the questions were phrased in such a way that different interviewees at different times would interpret them in the same way. The interview protocol was designed to ensure interviews were approached consistently while the data analysis protocol was designed to ensure results were interpreted consistently (Eisenhardt, 1989; Yin, 2003). (See Chapter 6 for more information about the pilot study and the protocols that were used.)
5.2 Firm Selection

Firms were selected for this study because they were capable of representing firms operating in non-dynamic market environments and dynamic market-environments, and because they were high or low performing. By studying this combination of firms, one could understand if the RBV could explain how managers create customer value and if certain customer value creating resources could positively affect a firm’s performance (Pettigrew, 1990; Aharoni, 1993; Bowen & Wiersema, 1999; Ray et al. 2004).

Individual firm selection: Market dynamism

It was determined that, consistent with the dynamic capability literature, in which dynamic market environments are defined as those markets that change rapidly and which tend to be characterised by significant year-to-year variations in market revenue (Teece, 1997), firms selling accounting and software engineering products and services could represent firms operating in non-dynamic market environments and dynamic environments, respectively. The rationale used is outlined below.

Although accounting and audit firms are privately owned and do not make profitability figures publicly available, the revenue figures which were available confirm that small to large size accounting firms tend to experience marginal year-to-year changes in revenue. In the BRW Top 100 Accountants Survey, which is conducted each year, revenue changed on average by no more than 5.5% for the top 100 firms over the 2001 to 2004 financial periods for both the first and second tiers taking part in the survey.

According to the Australian Bureau of Statistics, software engineering firms are in the ICT industry. An analysis of listed firms in the Australian ICT industry that earned
more than $10 million\(^1\) revealed that average revenue fluctuated from between 9% to as much as 26% over the period 2001 to 2004. According to the PricewaterhouseCoopers TechReview (2003), 2002 was an extremely poor year for firms in ICT. For the 2002 calendar year of the 103 technology companies examined, the market value of these firms dropped by a total of 49%, which is a significant drop compared to the top 200 stocks in the ASX200 and S&P indices, which dropped 12%. An analysis of total shareholder return for 2002 revealed that 77% of technology companies in the survey produced negative returns for shareholders, with over 50% of these companies producing negative returns in excess of -26%. Only 23% of listed technology companies delivered positive returns and paid dividends.

Taken together, these facts support the view that software engineering firms tend to experience much greater year-to-year fluctuations in revenue than accounting firms and tend to operate in markets which are much more dynamic.

**Classifying the firm in this study: Which industry?**

In this study, a firm was considered to be in accounting and auditing if the majority of its staff were in the unit groups, 2211-11 (accountants), 2212-11 (external auditors), and 2212-13 (internal auditors), as outlined in the Australian Standard Classification of Occupations (ASCO), with the latest version of this document being 1997. As outlined in ASCO (1997), *accountants* are individuals who plan and develop systems and services that help enterprises and individuals manage their financial dealings. They also advise on associated record-keeping and compliance requirements. *External auditors* are individuals who design and operate information and reporting systems to meet external financial reporting requirements. *Internal auditors* are individuals who

---

\(^1\) These figures apply to Australian ICT firms earning more than $10 million during the 2001/2002 financial year.
examine, verify, evaluate and report on financial, operational and managerial processes, systems and outcomes to ensure financial and operational integrity, as well as regulatory compliance.

As outlined in ASCO (1997), a firm was considered to be in software engineering if the majority of its staff were in unit group 2231-13 (systems designer), 2231-15 (software designer), 2231-17 (applications and analyst programmer), and 2231-19 systems programmer. *Systems designers* are individuals whose research evolves around understanding the nature of certain computer and communication systems. They also develop techniques for their effective application. *Software designers* are individuals who design and modify the operating environment software, which links computer software and hardware. *Applications and analyst programmers* are individuals who write, test and maintain computer programs to meet the application needs of the end-users of computer systems. *A systems programmer* is an individual who writes, maintains and updates programmes which control the functioning of a computer system.

**Initial shortlist of firms**

Firms that were likely to meet the performance criterion were initially identified through referral. A number of industry experts from the accounting and software engineering industries were approached at the beginning of 2002 and asked to identify firms that they considered were high or low performing. A shortlist of firms that could be suitable to take part in this study was then put together based on their recommendations. The objective was to conduct fieldwork at these firms from the second half of 2002 through the end of 2003. This objective was achieved.

Senior managers from the firms placed on the shortlist were then approached to confirm if their firm could take part. If a firm could take part, interviews were then
scheduled to ensure that all the managers who would be taking part at the firm could be interviewed within the same week.

**Finalising the dataset**

The final dataset of firms operating in both non-dynamic and dynamic markets was determined by drawing on managers’ perceptions of their firm’s performance, and by reviewing revenue and productivity data available for all the firms for the period 2001 through to 2004. This information was then normalised to a score. The rationale and processes used are discussed below.

**Maintaining anonymity**

A commitment was made to keep the identities of all the firms that participated in this study confidential. Firms were renamed using a letter of the alphabet.

**Classifying the firms in this study into high and low performing**

Firms were classified as being high or low performing to understand the performance effects of different customer-related resource investments and to enable the last research question to be fully addressed (Rouse & Dallenbach, 1999). In the case of this study, it was determined that level of performance could not be established definitively ex ante this study. This is because it can be very difficult to determine if a firm is high or low performing relative to its competitors, as a firm’s competitors may not always be easy to identify and managers may use different benchmarks for performance in different industries. It can also be very difficult to compare firms objectively based on the financial data that is available (Porac, et al. 1989; Porac & Thomas, 1990).

As described below, after the initial shortlist was identified, firms were classified as
high or low performing after all interviews were completed by drawing on managers’ perceptions of their firm’s performance and by analysing objective revenue related data.

**Managers’ assessment of firm performance**

Because managers will develop shared mental frames of firm performance and it is likely these will influence managers’ resource investment decisions (March & Shapira, 1987; Porac & Thomas, 1989; Cyert, et al. 1993; Cyert & Williams, 1993; Reger & Huff, 1993; Kahneman, 2003), it was considered appropriate to use a combination of objective financial measures and managers’ perception of their firm’s performance in the marketplace to understand firm performance and competitiveness, rather than rely solely on financial figures.

At the end of each interview, the interviewee was asked to rate the profitability of their firm compared to competitors on a scale of 1 to 10. An overall score for each firm was then derived by calculating the average of the ratings provided by each manager interviewed at the firm in question. These scores were used in conjunction with objective financial information to determine whether it was appropriate to include a firm in this study and classify it as high or low performing. The soundness of these classifications was further reinforced by referring to any facts raised in interviews that could explain why a firm’s performance should be considered anomalous or exceptional for the relevant period.
Revenue and productivity indicators

As detailed below, revenue figures and productivity measures were also used to classify a firm as high or low performing. Productivity measures were used to ascertain if a firm was utilising its people productively. For the accounting firms, this figure used was the return per partner figure for 2004. For the software engineering firms, the figure was the return per employee for 2004. The percentage by which these productivity measures deviated from the average of competitors was also derived. The methods used to derive these figures are described in the next section, including how they contributed to a final score.
**Accounting firm selection: Firms A, B, C, D, E, F, G**

Figure 5.1 describes the change in revenue figures for the accounting firms selected for this study. These figures are based on the Business Review Weekly (BRW) Top 100 Accounting Firm Survey (2001/2002, 2002/2003, and 2003/2004). The BRW Survey is conducted each year and it is considered the best way for an established firm in the accounting industry to benchmark itself against its competitors, allowing for the fact that accounting firms do not make profit figures publicly available, with the exception of the few which are listed on the Australian Stock Exchange. Revenue figures and partner productivity figures are made publicly available each year through the BRW Survey.

The original research design required that at least three high performing and three low performing firms be included in the dataset. An additional accounting firm was included in this study after a dataset of three high performing and three low performing accounting firms had already been identified because it met the criterion and was likely to be a very good example of a low performing firm. This seventh firm was named ‘G’. Firm G was considered interesting because it went into receivership during the period that was used to determine if a firm was high or low performing. Despite going into receivership, members of the management team at Firm G were keen to honour their commitment to take part in interviews.

The amount of revenue earned per partner employed from 2001 to 2004 was determined for each of the seven firms. These were compared to the average for all other firms in the BRW Top Accounting Survey (2004), which makes both revenue data and employee figures publicly available each year. The percentage by which a firm deviated from the average was calculated to identify if the firm was earning higher than normal revenues and/or using its people productively. If these figures in conjunction
with the change in revenue figures suggested that a firm could be described as high performing or low performing, the firm was then included in the final dataset.

It should be noted that if a firm primarily provided services to Top 500 corporations and government departments, it was considered appropriate to compare the revenue earned per partner performance data to the averages of all the other firms in Australia that provided services to these kinds of customers. Similarly, if the firm taking part in the study was a second tier firm, that is, a firm that provided accounting & audit services to Australian small-to-medium sized and some large businesses, and high net worth individuals, it was considered appropriate to compare the firm’s revenue earned per partner performance data to all the other second tier firms listed in the BRW Top 100 Accountants survey.

<table>
<thead>
<tr>
<th>Percentage Revenue Change 2001/2002 to 2003/2004</th>
<th>77.8%</th>
<th>56.8%</th>
<th>26.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACCOUNTING &amp; AUDIT FIRMS</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Figure 5.1](image-url)
The dataset of high and low performing accounting firms

The percentage change in revenue and the deviations from the average revenue per partner as a percentage were then compared to managers’ collective views at individual firms. Each firm’s managers’ views were determined by calculating an average of all the ratings provided by that firm.

Table 5.2 summarises the information which enabled the seven accounting firms to be characterised as high or low performing. As previously mentioned, these firms were renamed A, B, C, D, E, F and G because a commitment had been made to the management of the participating firms to keep their firm’s identify confidential.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Change in Revenue over the 2001 to 2004 period (%)</th>
<th>Above or Below Average Revenue/ Partner 2004 as Compared to Direct Competitors</th>
<th>Managers’ Rating of Profitability for the Last Financial Year (Scale 1-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>+77.6%</td>
<td>+41.3%</td>
<td>8.7/10</td>
</tr>
<tr>
<td>B</td>
<td>+36.3%</td>
<td>25.2%</td>
<td>7.3/10</td>
</tr>
<tr>
<td>C</td>
<td>+56.8%</td>
<td>15.0%</td>
<td>5.5/10</td>
</tr>
<tr>
<td>D</td>
<td>-3.8%</td>
<td>-30.0%</td>
<td>7.0/10</td>
</tr>
<tr>
<td>E</td>
<td>-21.7%</td>
<td>-14.8%</td>
<td>5.6/10</td>
</tr>
<tr>
<td>F</td>
<td>+26.2%</td>
<td>-36.5%</td>
<td>6.5/10</td>
</tr>
<tr>
<td>G</td>
<td>-100%</td>
<td>0.0%</td>
<td>1.0/10</td>
</tr>
</tbody>
</table>

The percentage change in revenue and the revenue per partner percentage deviation from the average figures in Table 5.2 were then multiplied by 10 to yield a score that was on the scale of -10 to +10, that is, a scale that represents the percentage range of -100% to +100%.
These were added to each firm’s managers’ average ratings of the profitability for their firm for the last financial year to derive a total performance score. It was determined that Firms A, B, C could be classified as high performing while Firms D, E, F, and G could be classified as low performing. This information is summarised in Table 5.3.

**Table 5.3**
The Accounting Firms: The Normalised Scores and their Averages

<table>
<thead>
<tr>
<th>Firm</th>
<th>Numerical Score for Change in Revenue 2001 to 2004</th>
<th>Numerical Score for Deviation from Average Revenue/Partner 2004 as Compared to Direct Competitors</th>
<th>Managers’ Rating of Profitability for the Last Financial Year (Scale 1-10)</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>7.76</td>
<td>4.13</td>
<td>8.7</td>
<td>20.59</td>
</tr>
<tr>
<td>B</td>
<td>3.63</td>
<td>2.52</td>
<td>7.3</td>
<td>13.45</td>
</tr>
<tr>
<td>C</td>
<td>5.68</td>
<td>1.50</td>
<td>5.5</td>
<td>12.68</td>
</tr>
<tr>
<td>F</td>
<td>2.62</td>
<td>-3.65</td>
<td>6.5</td>
<td>5.47</td>
</tr>
<tr>
<td>D</td>
<td>-0.38</td>
<td>-3.00</td>
<td>7.0</td>
<td>3.62</td>
</tr>
<tr>
<td>E</td>
<td>-2.17</td>
<td>-1.48</td>
<td>5.6</td>
<td>1.95</td>
</tr>
<tr>
<td>G</td>
<td>-10.00</td>
<td>0.00</td>
<td>1.0</td>
<td>-9.00</td>
</tr>
<tr>
<td>Average</td>
<td>1.02</td>
<td>0.00</td>
<td>5.94</td>
<td>6.97</td>
</tr>
</tbody>
</table>

**Software engineering firm selection: Firms H, I, J, K, L, M, N**

Although the original research design required that at least three high performing and three low performing firms needed to be included in the dataset, an additional software engineering firm was included in this study but for reasons that differed for the inclusion of the Firm G. Prior to conducting interviews at Firm M, the CEO revealed that he was also the CEO of a firm which shared a building with Firm M. He was willing to make staff available from both firms to participate in the interviews. This firm was named Firm N.

Firm N was subsequently included in the dataset of low performing firms because it
shared many of its resources with Firm M and vice versa, including offices, the phone system and information. Although both Firm M and Firm N experienced a positive change in revenue over the 2001 to 2004 period, they were unable to earn enough revenue to break-even and were still dependent on its owners’ cash injections, equity investors’ cash injections, and government grants. These facts could provide insight into how firms which share resources and closely collaborate create customer value for their customers.

Figure 5.2 describes the change in revenue figures for the seven software engineering firms selected for this study. These figures are based on figures derived from annual reports, press release documents, and the Map of the Australian Software Engineering Industry 2002 (Software Engineering Australia, 2002), and in the case of Firm M and N, were based on advice from the CEO.

![Figure 5.2](image)

The amount of revenue earned per employee from 2001 to 2004 was also derived for each software engineering firm. These were compared to the average for all other firms in the category ICT specialist firms in the Australian Bureau of Statistics Survey.
(Australian Bureau of Statistics, 2003-04). In the case of the private firms that were initially identified as suitable to take part in this study and which were not obliged to make financial performance data publicly available, whether these firms were experiencing a sustained increase or decrease in revenue was determined by reading press releases about them or by confirming a figure with a senior manager. The percentage by which a firm deviated from the average was calculated to identify if the firm was earning higher than normal revenues and/or using its people productively. It was then determined if the firm was high performing or low performing.

**The dataset of high and low performing software engineering firms**

The percentage change in revenue and the deviations from the average revenue per employee as a percentage were then compared to managers’ collective views at individual firms. Each firm’s managers’ views were determined by calculating an average of all the ratings provided by managers at that firm.

Table 5.4 summarises the information which enabled the seven software engineering firms to be characterised as high or low performing. The percentage change in revenue and the revenue per employee percentage deviation from the average figures were then multiplied by 10 to yield a score that was on the scale of -10 to +10 that is, a scale that represents the percentage range of -100% to +100%. These were added to each firm’s managers’ average ratings of the profitability for their firm for the last financial year. It was determined that Firms H, I, J could be classified as high performing while Firms K, L, M, and N could be classified as low performing.
Table 5.4
The Software Firms: Change in Revenue, Relative Average Revenue Per Employee and Managers’ Profitability Rating

<table>
<thead>
<tr>
<th>Firm</th>
<th>Change in Revenue over the 2001 to 2004 period (%)</th>
<th>Above or Below Average Revenue/ Employee 2004 as Compared to Direct Competitors</th>
<th>Managers’ Rating of Profitability for the Last Financial Year (Scale 1-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>7.6%</td>
<td>15.4%</td>
<td>5.2/10(^2)</td>
</tr>
<tr>
<td>I</td>
<td>92.8%</td>
<td>28.1%</td>
<td>8.0/10(^3)</td>
</tr>
<tr>
<td>J</td>
<td>12.2%</td>
<td>17.9%</td>
<td>5.06/10(^4)</td>
</tr>
<tr>
<td>K</td>
<td>-5.00%</td>
<td>-40.1%</td>
<td>4.5/10</td>
</tr>
<tr>
<td>L</td>
<td>-13.9%</td>
<td>-11.2%</td>
<td>5.4/10(^5)</td>
</tr>
<tr>
<td>M</td>
<td>15.0(^6)</td>
<td>0.0%</td>
<td>3.4/10</td>
</tr>
<tr>
<td>N</td>
<td>15.0(^7)</td>
<td>0.0%</td>
<td>2.7/10</td>
</tr>
</tbody>
</table>

Table 5.5
The Software Firms: The Normalised Scores and their Averages

<table>
<thead>
<tr>
<th>Firm</th>
<th>Numerical Score for Change in Revenue 2001 to 2004</th>
<th>Numerical Score for Deviation from Average Revenue/ Employee 2004 as Compared to Direct Competitors</th>
<th>Managers’ Rating of Profitability for the Last Financial Year (Scale 1-10)</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>9.28</td>
<td>2.81</td>
<td>8.0</td>
<td>20.09</td>
</tr>
<tr>
<td>J</td>
<td>1.22</td>
<td>1.79</td>
<td>5.1</td>
<td>8.11</td>
</tr>
<tr>
<td>H</td>
<td>0.76</td>
<td>1.54</td>
<td>5.2</td>
<td>7.5</td>
</tr>
<tr>
<td>N</td>
<td>1.50</td>
<td>0.00</td>
<td>3.4</td>
<td>4.9</td>
</tr>
<tr>
<td>M</td>
<td>1.50</td>
<td>0.00</td>
<td>2.7</td>
<td>4.2</td>
</tr>
<tr>
<td>L</td>
<td>-1.39</td>
<td>-1.12</td>
<td>5.4</td>
<td>2.89</td>
</tr>
<tr>
<td>K</td>
<td>-0.05</td>
<td>-4.01</td>
<td>4.5</td>
<td>0.44</td>
</tr>
<tr>
<td>Average</td>
<td>1.83</td>
<td>0.14</td>
<td>4.9</td>
<td>6.88</td>
</tr>
</tbody>
</table>

\(^2\) Annual report available for 2004 and 2005 reveals firm was profitable, earning profit amounts of between $2 million and $4 million.

\(^3\) Annual report reveals a small loss in 2001/02 but profits of between $2 million and $5 million in 2002/03 and 2003/04.

\(^4\) Annual report data reveals global entity ran at a gross profit of $600 million+ between 2001/02 and 2003/04, with Asia Pacific consistently earning net revenue of around $60 million.

\(^5\) Annual report reveals $10 million+ loss in 2001/02, profit of $1 million+ in 2002/03 and profit of $4 million + in 2003/04.

\(^6\) Figure is an estimate which was provided by the CEO of Firm M and Firm N.

\(^7\) Figure is an estimate which was provided by the CEO of Firm M and Firm N.
Rouse and Daellenbach’s methods and the selection methods used in this study

These selections methods are different to the method recommended by Rouse and Daellenbach (1999). They suggested that high and low performers be identified by determining whether they deviated by one or more standard deviations from a key financial metric. However, one of the study’s objectives was to understand how resources are used to create customer value in different market environments. When assessing firm performance in a dynamic market environment, the use of standard deviations may be appropriate but is much more problematic when a firm operates in a non-dynamic market environment. The use of one performance indicator can also pose problems unless the dataset is controlled for differences in accounting methods.

The final dataset of accounting and software engineering firms

Thus, seven firms were selected to represent the accounting industry and seven to represent the software industry. These are summarised in Table 5.6. The accounting firms represent firms that operate in non-dynamic market environments while the software engineering firms represent firms that operate in dynamic market environments. In both cases, the firms were selected because they could be described as relatively high performing or low performing over the 2001/02 to 2003/04 period.

<table>
<thead>
<tr>
<th>Table 5.6</th>
<th>Matrix of High Performing and Low Performing Firms Operating in Non-Dynamic and Dynamic Market Environments</th>
</tr>
</thead>
<tbody>
<tr>
<td>n = 14</td>
<td>ACCOUNTING &amp; AUDIT</td>
</tr>
<tr>
<td></td>
<td>Operates in non-dynamic market(s)</td>
</tr>
<tr>
<td>High performing</td>
<td>A, B, C</td>
</tr>
<tr>
<td>Low performing</td>
<td>D, E, F, G</td>
</tr>
</tbody>
</table>
5.3 Chapter Summary

This chapter described the study design, why case study methods were chosen and the final dataset of 14 firms. It explained why accounting and software engineering firms were used as proxies for firms operating in non-dynamic and dynamic market environments, respectively. It also explains why only high and low performing accounting and software engineering firms were used and how this met Rouse and Daellenbach’s (1999) criterion for studying heterogeneous firm performance. The following chapter describes the field interviews and the methods used to ensure the study was reliable and the results could be considered valid.
CHAPTER 6

DATA COLLECTION, DATA MANAGEMENT AND
METHOD OF ANALYSIS

This chapter describes the methods used for this study to gather the data, manage it and analyse it. The first section of this chapter describes the interviewing process, the interviewees, the use of managers’ perceptions and the questionnaire used to conduct the interviews. The second section describes the analysis methods, including the steps used to triangulate the responses provided by individual interviewees on a within-firm basis and the methods used for tabulating the data to enable across-firm analysis.

6.1 The Interviews

Informant selection

The people who were interviewed were managers who are responsible for developing the firm’s strategy and making major resource investment decisions, as it was likely that managers with these responsibilities could provide a detailed understanding of the firms’ higher level decision-making processes as it pertain to the creation of customer value (Burgelman, 1983; Glick, et al. 1990; Crossan & Berdrow, 2003).

Managerial perception

This study relied heavily on the perception of managers because its objective is to understand how managers learn about customer value and then use the firm’s resources to create customer value. Thus, it was important to capture information about how managers develop a shared interpretation of customer’ value and the likely impact of
environmental change on both customers and the firm (Priem & Harrison 1994; Zajac and Kraatz, 2000).

*The Number of interviewees*

After a firm had been selected to take part in this study, the manager who had been nominated to schedule interviews was asked to identify managers to take part in interviews who are involved in developing the firm’s strategy and making major resource investment decisions, that is, the people at the firm with profit centre responsibilities. A minimum of three people were required to take part in interviews at each firm, as this number would allow the answers provided by managers at the one firm to be triangulated. In most cases, more than three people were nominated by the firms. The smaller firms in this study made three managers available to take part in interviews, while the medium-to-large size firms made between four and eight people available.

Table 6.1 describes the number of managers who participated in interviews.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Number of Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4</td>
</tr>
<tr>
<td>B</td>
<td>4</td>
</tr>
<tr>
<td>C</td>
<td>4</td>
</tr>
<tr>
<td>D</td>
<td>3</td>
</tr>
<tr>
<td>E</td>
<td>8</td>
</tr>
<tr>
<td>F</td>
<td>5</td>
</tr>
<tr>
<td>G</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Firm</th>
<th>Number of Interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>6</td>
</tr>
<tr>
<td>I</td>
<td>5</td>
</tr>
<tr>
<td>L</td>
<td>3</td>
</tr>
<tr>
<td>K</td>
<td>3</td>
</tr>
<tr>
<td>J</td>
<td>4</td>
</tr>
<tr>
<td>M</td>
<td>3</td>
</tr>
<tr>
<td>N</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
</tr>
</tbody>
</table>
**The Titles of the Interviewees**

The titles of the interviewees who took part in this study or their relationship with their firm are described in Table 6.2.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Titles of Interviewee</th>
</tr>
</thead>
</table>
| A    | o Professional Director of Projects  
      | o Director of Finance & Administration  
      | o Group Manager for IT Consulting  
      | o Director of Human Resources |
| B    | o Partner, Risk & Assurance Services  
      | o Manager, Assurance and Advisory Services  
      | o Managing Partner  
      | o Partner in Charge of Auditing & Consulting Services |
| C    | o Director of Human Resources  
      | o Partner in Charge of Business Services (includes the small-to-medium enterprise market)  
      | o General Manager of Strategy & Operations  
      | o Director in Charge of Consulting, Sales & Marketing |
| D    | o Chief Executive Officer (CEO)  
      | o Partner in Charge of New South Wales  
      | o General Manager of Knowledge Services |
| E    | o CEO  
      | o Chief Operations Officer (COO)  
      | o Chief Financial Officer (CFO)  
      | o Managing Partner in Charge of Victoria  
      | o Global Manager in Charge of Enterprise Risk Services  
      | o Partner in Charge of Human Resources  
      | o Chief Marketing Officer  
      | o Retired Partner (At the time of the interviews at Firm E, this recently retired partner was providing the firm with consultancy services that relate to how the firm should identify and develop its future partners.) |
| F    | o Managing Partner  
      | o General Manager of Operations  
      | o Head of Insolvency & Business Recovery  
      | o Information Technology (IT) Manager  
      | o Managing Partner – Financial Services |
| G    | o Head of Accounting & Policy  
      | o Principal in Charge of Audit  
      | o Principal in Charge of Superannuation |
| H    | o Executive Chairman and Founder  
      | o CEO |
Table 6.2
Titles of the Interviewees

<table>
<thead>
<tr>
<th>Firm</th>
<th>Titles of Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>○ Finance Manager</td>
</tr>
<tr>
<td></td>
<td>○ Operations Manager</td>
</tr>
<tr>
<td></td>
<td>○ Development Manager</td>
</tr>
<tr>
<td></td>
<td>○ Business Development Manager</td>
</tr>
<tr>
<td></td>
<td>○ CEO</td>
</tr>
<tr>
<td></td>
<td>○ Chief Operations Officer</td>
</tr>
<tr>
<td></td>
<td>○ Product Manager</td>
</tr>
<tr>
<td></td>
<td>○ Marketing Manager</td>
</tr>
<tr>
<td></td>
<td>○ Human Resources Manager</td>
</tr>
<tr>
<td></td>
<td>○ Director of Marketing Asia Pacific</td>
</tr>
<tr>
<td></td>
<td>○ Interim Financial Controller</td>
</tr>
<tr>
<td></td>
<td>○ Vice President Strategy &amp; Professional Services</td>
</tr>
<tr>
<td></td>
<td>○ Chief Technology Officer</td>
</tr>
<tr>
<td></td>
<td>○ Marketing &amp; Business Development Manager</td>
</tr>
<tr>
<td></td>
<td>○ CFO</td>
</tr>
<tr>
<td></td>
<td>○ General Manager Hospital Services</td>
</tr>
<tr>
<td></td>
<td>○ General Manager Operations</td>
</tr>
<tr>
<td></td>
<td>○ CFO</td>
</tr>
<tr>
<td></td>
<td>○ Managing Director (MD)</td>
</tr>
<tr>
<td></td>
<td>○ COO</td>
</tr>
<tr>
<td></td>
<td>○ CEO</td>
</tr>
<tr>
<td></td>
<td>○ Software Development Manager</td>
</tr>
<tr>
<td></td>
<td>○ Marketing Director</td>
</tr>
<tr>
<td></td>
<td>○ CEO</td>
</tr>
<tr>
<td></td>
<td>○ Co-founder &amp; Director of Product Strategy</td>
</tr>
<tr>
<td></td>
<td>○ Director of Business Development</td>
</tr>
</tbody>
</table>

All of these managers were involved in making decisions about how the firm would deliver value to the firm’s customers.

6.2 The Design of the Questionnaire

Questionnaire structure

The questionnaire was divided into three parts. The first part focused on how managers learn about their customers, conceptualise customer value, and then translate their understanding of customer value into tangible output through the firm’s resource investments.
The second part of the questionnaire focused on understanding which resources managers use to create the dimensions of customer value which they believe are most important to the firm’s success, and whether they tended to take a form that allowed customer learning to be translated into specific processes. These include processes that allow the firm’s managers to measure and track the performance of their firm’s resource investments, with an emphasis on understanding if the firm is using its resources to create enough customer value. This part of the questionnaire would make it possible to understand if distinct differences exist between firms in accounting and software engineering, and the high and low performing firms in the dataset.

In the very last part of the questionnaire, the interviewees were asked to rate how well their firm satisfied customers, helps its customers cope with change and the firm’s profitability. In each case, they were required to rate the firm on a scale from 1 to 10. These ratings were used to ascertain if a firm’s managers believe some resources contribute to the firm’s performance more than others. They could establish whether high performing firms were at an advantage because they had invested in resources that allowed the firm to learn about customers on an ongoing basis and came closer to delivering optimal levels of value to them through the firm’s resources than their competitors. The opposite applied to the low performing firms in the dataset. As discussed in Chapter 5, the profitability ratings were used to select the final dataset.

Thus, the first part of the questionnaire was designed to gain insights into the first research question. The second part of the questionnaire was designed to gain insights into the second research question. The third part of the questionnaire was designed to gain insights into the third research question. The findings are reported in Chapter 7 through to Chapter 14.

However, to answer all the questions fully, it was necessary to refer to all the
answers provided by a firm’s managers. This made it possible to understand how an individual firm’s processes interrelate and if there were performance implications associated with the firm using them to learn about customers’ values. It was important to analyse all the answers provided in a holistic manner rather than separately. As revealed during the pilot study, it was likely that some of the interviewees would provide insights into the research questions during a part of the interview not specifically designed to address the question.

**Logical flow of questions**

Judd et al. (1991) recommends that questions be designed to capture broad responses and then become increasingly more focused on extracting specific responses. This help to avoid interviewees pre-empting questions and providing what they believe would be a positive or exemplar response. The questions in each section of the questionnaire followed this ‘funnel’ approach.

**Pilot study**

Prior to conducting the actual field study, a pilot study was conducted with five senior managers. The objective of this pilot study was to determine whether the questions in the questionnaire were valid and reliable, which included verifying that the terminology used was unambiguous and accessible to practising managers. The pilot study allowed potential problems with the questionnaire to be rectified before commencing the study proper.

The first version of the questionnaire had been reviewed by two experts in questionnaire development. Their suggestions were used to draft the second version of the questionnaire, which is the version used to conduct the pilot study.
All the individuals taking part in the pilot study were or had been heavily involved in developing their firm’s strategy and/or took or were still taking an active part in making the firm’s major resource investment decisions.

After meeting with the pilot test participants and interviewing them, the questions which were identified by the five pilot participants as needing more clarification or rephrasing were amended. Some of the participants also identified definitions of key terms which needed to be made available to the interviewees as a supplement to the questionnaire. As a result, definitions accessible to Australian managers were drafted and used during the interviews. See Appendix A.

These definitions were drafted by referring to the extant literature, as described in Chapter 2, Chapter 3 and Chapter 4. Before accepting these definitions as final, the pilot participants were given an opportunity to review the definitions and confirm whether other managers were likely to find them relevant in the workplace. These definitions were placed in a folder that study participants could refer to whenever a particular term or construct needed to be defined.

It should be noted that during the actual study all the interviewees were told that although the definitions provided might be useful to them, if they wanted to suggest another way of defining a term that could help them answer a question more fully then they should volunteer an alternative definition. During the actual interviews, most of the interviewees were happy to use the definitions provided, although almost all the interviewees qualified the definitions which were provided for management capabilities and marketing capabilities. Generally, these managers believe management capabilities also involve being able to lead and inspire people, while marketing capabilities also involve the ability to develop strong, one-on-one relationships with customers.

The pilot participants were also approached to ascertain whether the changes made to
the questionnaire addressed their concerns and whether the second version could be used effectively in the workplace. All five participants were satisfied that the changes made had improved the questionnaire and that it was unlikely that the study participants would be confused by any of the questions, especially if they were to be interviewed in-person.

The final draft of the questionnaire was returned to the experts in questionnaire design, who reviewed it once more. A few minor changes were made to the questionnaire before taking it into the field to conduct the study.

**Average length of time to conduct interviews**

During the pilot study, the pilot participants took around 90 minutes to complete the questionnaire. In the actual study, interviews took between 90 and 180 minutes.

**Field study interviewing protocol**

After conducting the pilot study and prior to going into the field, a field study protocol was devised. The field study protocol was used to ensure access was gained to firms in a transparent manner, the study participants were assured that the information provided would be used in confidence and ethically, all interviews were conducted professionally and any inconvenience to the participating firm was minimised (Yin, 2003).

**The interviewing process**

At the commencement of each interview, the interviewee was told that the study sought to identify how managers learn about their customers and whether what was learned was used to identify which resources the firm should invest in to develop
products and services that can positively benefit customers and the firm’s performance.

Before starting each interviewee, the interviewees were also asked to consider the questions from the perspective of their role in the organisation in the first instance. However, if they could provide interesting insights into the firm’s practices by taking a firm-wide perspective when answering a question then they should also answer the question from this perspective. The intention behind this was to build up a picture of the way the different managers at the different firms in the study needed to interact to make customer-centric resource investment decisions.

**Management of individual interviews**

After each interview, the handwritten notes were typed up within a 48 hour period to ensure that the typed up version remained true to what was said, mitigating the chance that the interviewees’ answers might be misinterpreted at a later date.

**Opportunity to review typewritten responses**

After conducting interviews at the firms selected for this study, all the interviewees were given the opportunity to correct any errors of fact in the typed-up version of their interview and to confirm whether their views about customer learning and the firm’s practices were reflected (Miles, 1979). Some notes were returned with a request to make a correction to them. However, these were minor or involved adding a fact about the firm’s practices that had been mentioned in the first instance.

**Semi-structured questionnaire**

A semi-structured questionnaire was used to conduct this study, as semi-structured questionnaires allow one to ask all the interviewees the same theoretically grounded and
pre-tested questions, rendering the responses easier to triangulate on a within-firm basis than if the questionnaire had been entirely unstructured (Seidler, 1974). It was also less likely that a response would be misinterpreted, since a response that deviated from the norm could be further investigated by asking the interviewee to clarify their response further.

The questionnaire was designed to elicit responses, including atypical responses which could be used to understand if managers were conceptualising customer value and operationalising it in a manner that is consistent with the extant literature (McClintock, et al. 1979; Leonard-Barton, 1990). The advantage of using a semi-structured questionnaire is that it becomes easier to replicate the study in other industry settings (Yin, 2003; Judd, et al 1991). This can render the original study more generalisable (Jick, 1979).

The extensive use of open-ended questions

The majority of the questions in the questionnaire were open-ended. The benefit of using open-ended questions is that one is more likely to yield rich responses from the interviewees, including a much more unbiased view of how a firm invested in its resources to create customer value (Judd, et al. 1991).

In regard to the few closed questions that were asked, all interviewees were asked to elaborate on why they took a particular stance, for instance, why they said ‘yes’ or ‘no’. This made it possible to yield internally consistent responses, especially as some interviewees may have provided a ‘yes’ or ‘no’ response with a particular situation or context in mind. As well as being a means of accessing rich insights into the firm’s operations, the invitation to further qualify answers allows one to unobtrusively assess the mode of reasoning adopted by the interviewee (Webb & Weick, 1979).
Delving into the details of twelve potentially interrelated processes

Since the objective of this study is to report on the results of three ‘how’ questions, which examined how managers’ conceptualise customer value and operationalise it, the bulk of the questionnaire was based on the Customer Value Learning and Customer Value Delivery Competency framework described in Figure 3.1 in Chapter 3. This framework describes the learning and decision-making processes which firms are likely to use to create and deliver value to customers, as derived from the literature.

The first few questions in the questionnaire were designed to establish the interviewees’ role at the firm and what their role involved. The intention behind these questions was to understand to what extent an interviewee had to deal with customers on a daily basis and whether the interviewee played a major decision-making role at their firm. The rest of the questions were framed to explore each of the twelve boxes described in the framework, except for the first question which was designed to understand an interviewee’s role at their firm. The rest of the questions were designed to be asked in sequence even though some of the processes they were investigating were likely to be used in a non-sequential manner.

Thus, the questions followed the flow of the twelve boxes of Figure 3.1, starting from Box 1 and ending with Box 12. These and the sections of the questionnaire that apply to them are described in Table 6.3.

<table>
<thead>
<tr>
<th>Box</th>
<th>Process</th>
<th>Section in Questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Processes to engage in external customer and market environment learning activities</td>
<td>II</td>
</tr>
<tr>
<td>2</td>
<td>Processes to engage in internal customer and market environment learning activities</td>
<td>II</td>
</tr>
</tbody>
</table>
Table 6.3  
Sections of the Questionnaire and the Processes it Explores

<table>
<thead>
<tr>
<th>Box</th>
<th>Process</th>
<th>Section in Questionnaire</th>
</tr>
</thead>
</table>
| 3   | Processes to create a customer value delivery strategy on two levels:  
     • Corporate level  
     • Business unit level                                                                                                                                                                                                                                                  | III, IV                   |
| 4   | Process to evaluate alignment with the firm’s mode of organisational governance                                                                                                                                                                                                                                                     | V, VI                     |
| 5   | Process to evaluate alignment with the firm’s medium-to-long term strategic plan                                                                                                                                                                                                                                                   | VII, XI                   |
| 6   | Process(es) to evaluate alignment with the firm’s performance and risk management frameworks                                                                                                                                                                                                                                             | VII                       |
| 7   | Process(es) to develop the firm’s resource allocation strategies                                                                                                                                                                                                                                                                     | IV, VII                   |
| 8   | Process(es) to translate customer value delivery into internal processes, and products and services                                                                                                                                                                                                                                   | VIII                      |
| 9   | Process(es) used to deliver products and services to target customers or create the potential for the firm to do this by making the firm more efficient and/or changing the firm’s future product/service mix. These processes may be used by:  
     • The firm’s business units  
     • The firm’s business partners                                                                                                                                                                                                                                          | IX                        |
| 10  | Process(es) to track performance of customer value by the firm’s business units                                                                                                                                                                                                                                                     | X                         |
| 11  | Process(es) to track performance of the firm’s business partners                                                                                                                                                                                                                                                                      | X                         |
| 12  | Process(es) used to evaluate the firm’s overall business performance, including how they are linked to the firm’s customer value delivery performances                                                                                                                                                                                | XI, XII                  |

The questions that related to each box had the potential to yield rich insights into managers’ treatment of the customer value construct and the customer-centric resource investments processes that they develop in real-life to create customer value. Thus, the questionnaire had the capacity to address all three research questions, especially the second research question which sought to examine how firms develop context dependent processes to create customer value. By using the Customer Value Learning and Customer Value Delivery Competency framework as a guide, the questionnaire could provide insight into:
1. The various temporal boundaries managers erect around and associate with the firm’s customer-centric activities and resource investments (Barley, 1990),

2. The way the firm’s strategy formulation, resource allocation and budgeting processes are linked and used by managers to help them make decisions about how the firm will create customer value (Bower, 1970; Burgelman, 1983; Mintzberg & McHugh, 1985; Chakravarthy & Doz, 1992; Schendel, 1992a, McGrath, 2001; Maritan, 2001), and

3. How firms accumulate and use important knowledge about the firm's customers, markets and impending change (Kogut & Zander, 1992; Nonaka, 1994; Foss, 1996; Grant, 1996b; Nonaka et al. 2000; Foss, 2003).

6.3 Data Analysis

The study required the responses provided by the managers from the 14 firms to be analysed on a within-firm basis and then on an across-firm basis. Within-firm analysis was necessary to allow the answers provided by managers to be triangulated to develop a ‘firm’ response, while across-firms analysis was necessary to allow comparisons to be made between firms operating in non-dynamic markets and dynamic markets, and those which were high or low performing.

Thus, the data had to be organised in a manner that allowed analysis to be conducted on a within-firm and then on an across-firms basis. The findings of this study would be based on the data collected and analysed during across-firm analysis. Industry-specific factors identified as relevant to study were analysed to understand if market dynamism could still be considered a factor. Such responses included statements as ‘that’s what’s done in the accounting industry’ ……and ‘that’s what’s done in the software industry.’
Within-firm analysis: Triangulation of managers’ responses

All the answers provided by the managers from the one firm were arranged in such a manner that it was possible to see how each manager answered the same question. Their individual responses were triangulated by first identifying if managers were providing fundamentally the same answers for the same questions. Even though some managers may have used different terminology to describe the firm’s practices and its resource investments, it was still possible to identify which were considered most important to managers at the same firm. The responses were then summarised by using the same terms used by the majority of respondents or the person who explained the firm’s practices in the most descriptive manner (Strauss & Corbin, 1990).

All atypical responses were further investigated and analysed. If an individual response could not be attributed to a manager’s role at the firm or the interviewee explained that they were expressing a minority view, all of the answers provided by the interviewees at that firm were reviewed again to better understand to what extent an interviewee held an idiosyncratic opinion. If it was clear the interviewee had identified a different way of doing things at the firm which no-one else had mentioned or they were indeed expressing a dissenting opinion, this was noted.

Individual case analysis

After triangulating the responses, the firm’s individual practices were described in more detail and in case form (Yin, 2003). This step allowed one to more fully appreciate the connections between different processes and the way they may have been used at a particular firm to create customer value. It also allowed one to more fully appreciate if a firm’s customer-centric resource investments were driven by the firm’s unique context. Each firm’s history and the reasons why the firm invested in different resources at
different points in time were carefully noted. This step also made it possible to identify descriptions of firm’s practices that were relevant to this study.

**Across-firm analysis: Tabulating the data to enable across-firm analysis**

All the triangulated responses were then tabulated to enable across-firm analysis, that is, they were arranged in a spreadsheet in a manner that allowed one to easily compare the firms operating in non-dynamic market environments and dynamic market environments, and the high performing and low performing in the final dataset to be compared. As was the case when conducting within-firm analysis, the terms that were used by the majority of respondents were used to form categories for the tabulated results. These enabled answers to be grouped using categories that described the general idea that the interviewee was trying to convey through the idea or example provided (Strauss & Corbin, 1990).

Table 6.4 is an example of some of responses to one question, that is, how each firm’s managers’ collective responses were tabulated and placed in a spreadsheet to enable comparison between firms in non-dynamic and dynamic market environments.

<table>
<thead>
<tr>
<th>Table 6.4</th>
<th>Example of Tabulated Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In a “use situation ……. what value do you think customers are deriving from the product/service that they bought from you?”</strong></td>
<td><strong>Non-dynamic firms</strong></td>
</tr>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td><strong>Achieve a particular end result</strong></td>
<td></td>
</tr>
<tr>
<td>Identified useful performance measures</td>
<td></td>
</tr>
<tr>
<td>Specific customer assignments and project completed on time</td>
<td></td>
</tr>
<tr>
<td>A specific risk is mitigated</td>
<td></td>
</tr>
</tbody>
</table>
Table 6.4
Example of Tabulated Results

<table>
<thead>
<tr>
<th>In a “use situation …… what value do you think customers are deriving from the product/service that they bought from you?”</th>
<th>Non-dynamic firms</th>
<th>Dynamic Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>A particular product produced to customers’ specifications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automated customers processes with software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product can be used to improve market share</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For ease of analysis, the same tabulated results were then arranged on a high performing and low performing firm basis on a new worksheet in the spreadsheet, that is, A, B, C, H, I, J and then D, E, F, G, K, L, M, N, respectively.

The tabulated responses allowed one to easily identify and count the firms that had provided the same response for a given question. Tabulation made it easier to systematically analyse the answers given and understand which responses were typical or atypical of accounting & auditing firms, and those firms classed as high and low performing in this study (Yin, 2003).

6.4 Chapter Summary

Chapter 6 described the methods that were used to interview managers, the questionnaire and the managers who were interviewed at the 14 firms. It also described the protocols that were used to conduct interviews and triangulate the responses from a within-firm and across-firm perspectives. The next three sections is a formal presentation of the results obtained for the research questions.
PART IV

RESEARCH QUESTION 1:

RESULTS & GENERAL FINDINGS
Introduction: Results for Research Question 1

This study was prompted by the fact that there is a dearth of research in the RBV literature which can explain how firms create value, especially how they create value for the firm’s customers. To address this gap in the literature and to understand how managers conceptualise customer value and create it through the firm’s resources, Chapter 7 and Chapter 8 examined the study’s first research question:

**Question 1:**

How do managers create customer value through the firm’s resource investments?

The first section of Chapter 7 describes the three customer value dimensions the interviewees at the 14 firms in this study believe their firm creates for their customers. The second section of Chapter 7 describes the assets that accounting and software engineering firms use to create customer value. The third section of Chapter 7 describes the activities and capabilities that enable their realisation, including the combinations that accounting and software engineering firms employ to create each dimension of customer value.

Chapter 8 reports on the differences in the way in which the high and low performing accounting and software engineering firms approached customer value. The first section, concentrates on the different ways the high and low performing firms created value for customers along multiple dimensions. The second section reports on how the high and low performing firms delivered value to different customers, including high value customers.
CHAPTER 7

UNDERSTANDING AND CREATING CUSTOMER VALUE
AT THE ACCOUNTING & SOFTWARE FIRMS

7.1 Three Dimensions of Customer Value

The interviewees were asked a series of questions to determine whether customer value is approached as a multidimensional construct at their firm. The first of these questions examined whether the interviewees believe their firm’s products and services reflect customers’ desired product attributes and attribute performances. The second question examined whether the interviewees believe the firm’s products and services create value for customers in use situations, that is, when customers are consuming their firm’s products or while they’re being provided with its services. The third question examined whether the interviewees believe their firm’s products and services allow customers to achieve their goals and purposes. The interviewees were also asked to explain in what way the firm’s customer value creation efforts allow the firm to compete in the marketplace, help customers to cope with change and whether they believe it is important for their firm to sometimes differentiate between customer groups, especially high value customers.

Overview of managers’ perceptions of customer value

The interviewees explained that they believe it is important for their firm to cater to customers’ desired product attributes and performances, their needs in use situations, and their goals and purposes. As managers, they believe it is important for them to constantly consider:
1. The attributes or benefits that are embedded in, or customers can associate with, the firm’s products and services,

2. The consequences achieved by customers when using or being provided with the firm’s products and services, and

3. The goals and purposes which are achieved after customers use or have been provided with the firm’s products and services.

The interviewees at accounting and software engineering firms explained that the firm will have a greater capacity to fully satisfy its customers if it can create value for them across all three of these customer value dimensions. They also explained that their firms must create customer value across these three dimensions in a logical sequence and in a manner which reflects the practicalities of operating a commercial enterprise. In other words, customers must have the first dimension of customer value delivered to them before the second dimension of customer value can be delivered to them. Likewise, they must have the second dimension of customer value delivered to them before the third dimension of customer value can be delivered to them.

The interviewees also explained that if customers’ goals and purposes change, the firm’s ability to satisfactorily deliver on the consequences customers want to achieve in use situations, and the attributes and benefits they want to have embedded in the firm’s products and services are also likely to change. The interviewees believed that as managers they must constantly consider what customers want from the firm and how they want to transact with it at different points in time. The interviewees identified three periods of time when this is most critical:

1. The point in time when customers make the decision to purchase;
2. The period during which products and services are delivered to customers in some way;

3. The period after customers have received and paid for the products and services.

According to the interviewees, the first timeframe corresponds to the first dimension of customer value, the second corresponds to the second dimension of customer value, and the third corresponds to the third dimension of customer value.

**The specific commercial & assurance-based benefits delivered to customers**

Table 7.1 describes the specific commercial and assurance-based benefits the interviewees at the accounting and software engineering firms believed their firm needs to deliver to customers to satisfy their multidimensional needs. Moreover, it shows that all the interviewees believed customers use their firm for either one of two reasons:

1. The firm has the kinds of products and services that customers can use to improve their businesses commercially, and

2. Customers have been given some form of assurance that they are buying competitive products and services.

Table 7.1 shows that although there are similarities between the accounting and software engineering firms there are also a large number of differences in the benefits that the interviewees at the accounting and software engineering firms believed are important. Table 7.1 also shows that the individual accounting firms in this study are required to deliver value in a similar or comparable way to each other. This is because customers do not expect accounting firms to offer highly differentiated compliance-
based products and services or do work their people are not qualified to do. The same principle applies to the software engineering firms. They were required to deliver value in a similar or comparable way to each other too. However, as Table 7.1 reveals, there were minor differences between the software engineering firms. These differences can be attributed to the fact that some of the firms provided software integration services and/or turnkey software solutions while others developed shrink-wrapped packaged software solutions. One firm in the dataset developed game software which meant it was necessary for its managers to also consider publishers’ needs and how end-users wanted to play the firm’s games.

**The similarities between the accounting firms and the software firms**

As Table 7.1 shows, one of the other important facts which the interviewees at the accounting and software engineering firms revealed about the benefits customers want delivered to them is that customers are just as interested in the relationship that they can have with the firm and its people as they are in its products and services. This means that at each stage of the value creation process managers need to ensure that those people who are required to deal with customers are interacting with customers and transacting with them in a way that is appropriate and which customers will consider to be value enhancing. Even if a firm has been in business for many years and has a large customer base, customers’ perceptions still need to be constantly managed. According to the interviewees, if at any time customers are given the impression that the firm is not interested in them and/or a competitor’s products and services may suit them more, then the probability that the firm will lose customers will increase significantly. This includes the point in time customers are making the decision to purchase, the period during which customers are being provided with the firm’s products and services, and
the period after customers have received the firm’s products and services and paid for them.

Thus, according to the interviewees, customers must be given constant assurance that the relationship they have with the firm is a sound one and has the potential to be long-lasting. The closer the firm needs to be to its customers or the more valuable the customer relationship is to the firm, the more important this will be.

Moreover, at the point in time when customers are contemplating buying accounting or software engineering products and services, the more necessary it will be for the firm to make products and services readily available that have embedded in them the attributes customers require. They also need the capacity to explain the firm’s product and services, especially why customers should not buy competitors’ products and services. It can be appropriate to provide this information overtly, for instance, through the use of advertising. It can also be appropriate to provide it in a more understated or discreet manner, for instance, by giving customers detailed product specifications or letting them know they are available should they want them.

According to the interviewees, at the point in time that the firm is delivering specific benefits to customers or creating sustainable forms of value, the firm’s people will also need to ensure they are interacting and finalising transactions with customers in a manner that customers find reassuring. For instance, at all of the firms in the study it was considered important for senior management to meet regularly with customers to ensure they are satisfied with the products and services which are being or were delivered to them. It was also considered appropriate for the firm’s senior management to meet with customers regularly to discuss if the firm can help them to formulate or implement their strategic plan.
Table 7.1
The Benefits that Accounting & Software Engineering Firms Need to Deliver to their Customers to Create Value for them Tri-dimensionally

<table>
<thead>
<tr>
<th>Value Dimension</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>The attributes or benefits that are embedded in or can be associated with the firm’s products and services</td>
<td><strong>Commercial Benefit</strong>&lt;br&gt;• Products and services are affordable&lt;br&gt;• Products are high in quality and services are delivered to a high standard&lt;br&gt;• Products and services give customers scope to use their time more productively and focus on revenue generation&lt;br&gt;• Good working relationships can be developed with the firm’s people</td>
<td><strong>Commercial Benefit</strong>&lt;br&gt;• The software is affordable and can be considered commercially viable&lt;br&gt;• The software can help customers complete tasks faster&lt;br&gt;• The software enables business processes to be automated and/or end-to-end transactions to be completed in real-time&lt;br&gt;• The software is modular and customers can buy add-ons&lt;br&gt;• Customers are given the option to have the software integrated into existing systems&lt;br&gt;• The software is highly functional&lt;br&gt;• The purchase of the software automatically entitles customers to receive after sales support&lt;br&gt;• Customers may be given assistance to write their business case so that they can justify the purchase of the software to their own managers&lt;br&gt;• Customers can become involved in the development process and/or project planning and/or beta testing</td>
</tr>
<tr>
<td><strong>Customer Assurance</strong>&lt;br&gt;• Products and services are competitively priced&lt;br&gt;• The firm’s products and services can be positively associated with its reputation&lt;br&gt;• Customers can be confident that they will be dealing with qualified and well trained accountants</td>
<td><strong>Customer Assurance</strong>&lt;br&gt;• The software and any accompanying services are competitively priced&lt;br&gt;• The firm’s software products and services can be positively associated with its reputation&lt;br&gt;• The software was first to market or can be considered a best practice or innovative solution&lt;br&gt;• The software always reflects the latest rules and regulations&lt;br&gt;• The software is secure and/or can be accessed via a secure network</td>
<td></td>
</tr>
</tbody>
</table>
Table 7.1
The Benefits that Accounting & Software Engineering Firms Need to Deliver to their Customers to Create Value for them Tri-dimensionally

<table>
<thead>
<tr>
<th>Value Dimension</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>The consequences achieved when using or being provided with the firm’s products and services</td>
<td>Commercial Benefit • Customers are given access to valuable and/or privileged market-related knowledge, including insight into how to better measure their firm’s competitiveness and financial performance • Customers are able to justify the expense of purchasing the products and services to their superiors or stakeholders in a use situation</td>
<td>Commercial Benefit • The software may assist with end-to-end transaction processing and electronic record keeping • The software may give customers an enhanced ability to analyse transactions and/or keep track of transactions or website usage • Customers are given access to valuable and/or privileged market-related knowledge through the firm’s people or the software, including insight into how to better measure the firm’s competitiveness and financial performance • Customers may be given access to a secure network or the ability to work securely • Customers are given the ability to make faster or better decisions and/or mitigate specific risks • Customers can easily learn how to use the software to solve problems • Customers may be regularly given feedback about the progress of project work and/or advice about how to re-scope a project, including how to justify new budget requests to stakeholders</td>
</tr>
<tr>
<td>Customer Assurance</td>
<td>Advice is provided by an expert or the person who is providing the solution is supervised by an expert or has consulted with an expert • Advice is provided in a manner that inspires confidence and makes customers believe it is objective</td>
<td>Customer Assurance • Customers can be confident they will be given after sales support in a use situation</td>
</tr>
</tbody>
</table>
Table 7.1
The Benefits that Accounting & Software Engineering Firms Need to Deliver to their Customers to Create Value for them Tri-dimensionally

<table>
<thead>
<tr>
<th>Value Dimension</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>The goals and purposes achieved after using or being provided with the firm’s products and services</td>
<td><strong>Commercial Benefit</strong>&lt;br&gt;• A particular compliance problem has been solved&lt;br&gt;• Customers’ business processes and systems have been improved in some measurable way&lt;br&gt;• Customers cost base has been lowered&lt;br&gt;• The firm’s risk profile has been improved&lt;br&gt;• Customers have a greater understanding of their industry and how their firm is positioned in it&lt;br&gt;• Customers are able to develop their strategic plan and implement it more decisively</td>
<td><strong>Commercial Benefit</strong>&lt;br&gt;• A new software system is in place and/or business systems have been reengineered and/or automated&lt;br&gt;• Customers’ firms are more efficient and/or is characterised by less duplication&lt;br&gt;• Customers cost base has been lowered&lt;br&gt;• The firm’s risk profile has been improved&lt;br&gt;• There is less probability that problems will arise as a result of human error&lt;br&gt;• The software complements people’s workflows and/or takes the drudgery out of working life</td>
</tr>
<tr>
<td><strong>Customer Assurance</strong>&lt;br&gt;• The majority of customers consider the firm’s partners and many of its others employees as someone they can approach to get advice from regularly or an impartial and fair quote to do more work</td>
<td><strong>Customer Assurance</strong>&lt;br&gt;• The majority of customers consider the firm’s senior managers and many of its others employees as someone they can approach to get advice from regularly or an impartial and fair quote to do more work</td>
<td><strong>Customer Assurance</strong>&lt;br&gt;• The majority of customers consider the firm’s senior managers and many of its others employees as someone they can approach to get advice from regularly or an impartial and fair quote to do more work</td>
</tr>
</tbody>
</table>

As Table 7.1 reveals, the interviewees also believed it is important for a firm to have a good reputation in the marketplace and the ability to make clear to customers why they should consider the firm’s products and services to be just as good if not better than those of competitors. For instance, the interviewees at the accounting firms believed that it is important for the firm to have a good reputation in the marketplace, including a reputation for always working in customers’ best interests. This helps to reassure customers that they are dealing with a firm that can meet their needs and there is no reason to investigate the viability of using an alternative firm. The interviewees at the software engineering firms believed customers are more likely to buy upgrades of
the firm’s software if it can be demonstrated that the firm’s upgrades are as good as anything competitors might produce and that customers will get the functions that they want if they buy the firm’s software. The interviewees at both the accounting and software engineering firms believed that customers are assured if the firm has a good reputation in the marketplace and is generally perceived to be as competitive as any of its contemporaries. It helps them to believe that it is to their advantage to be in a commercial relationship with the firm.

**The differences between the accounting and the software firms**

As Table 7.1 shows, the main difference between the accounting and the software engineering firms is that at the accounting firms and as customers see it people play a much more visibly pervasive role in the value creation process than they do at the software engineering firms. According to the interviewees at the accounting firms, if an accounting firm’s people do not have accredited skills, cannot work independently or cooperatively when they need to work with each other, do not have the ability to transfer commercially useful knowledge to customers in a timely manner, and/or are unable to inspire confidence in their customers, then it is unlikely the firm will be able to compete effectively with other accounting firms. The interviewees also explained that the skills that the people at an accounting firm possess also determine how the accounting firm will be structured. They determine how many business/service lines the firm needs, which determines the number of divisions, etc.

Although people are very important at the software engineering firms, software firms are usually not required to lever off and promote the skills of individual employees. According to the interviewees at the software engineering firms, only a handful of the firm’s people are required to have regular, face-to-face contact with customers. These
are usually the people employed to do business development, and anyone involved in working directly with customers to gather their requirements information.

Although software customers may be charged for the services of specific employees and in a manner that enables customers to understand these employees’ contribution, the bulk of customers are usually not given the opportunity to know the identities of all the people involved in the software development process.\(^8\) This is because employees’ roles are usually defined in relation to what they contribute to the software development process. The exception to this is if employees are involved in providing a service, such as an integration service or after sales support. These employees will be required to work collaboratively with colleagues but also independently when this is required. In a manner comparable to the accountants, anyone who has regular contact with customers must have the ability to inspire confidence. They must also be able to recognise when customers need to have commercially useful knowledge transferred to them. Generally, people contribute to the software development process by providing support services, project management assistance\(^9\) or by developing software code.

\(^8\) It should be noted software developers are usually trained to develop software using one of a number of standard methodologies. Common to all of these methodologies is the fact that the developers are required to evaluate customers’ requirements, identify customers’ required architectures, and use iterative and incremental processes of learning and quality assurance to perfect the software (Jacobson, et al. 1999; Aurum, et al. 2003).

\(^9\) Project management is a ‘structured methodology’ that allows firms to manage projects in a systematic manner. It began to emerge as a formal discipline and internationally applied discipline in the 1940s. Mature processes began to emerge in the aerospace, defence and construction industries from 1960 to 1985; in the automotive industry from 1986 to 1993; in the telecommunications industry from 1994 to 1999; in the information technology industry between 2000 to 2003; and in the health care industry from 2004 to 2006 (Kerzner, 2006: 1-6).
How are accounting and software firms affected by dynamism in their markets?

As shown in Table 7.1, although the interviewees at both the accounting and software engineering firms believed that it is essential to be highly responsive to customers’ changing needs and values, it tends to be much more important for the software engineering firms to invest in resources that allow them to pre-empt the regulatory and/or technological changes that can affect customers. This is because it is important for managers not to invest in the development of software that is not competitive and loses currency too quickly.

The interviewees at the software engineering firms explained that it is very important to sell customers software which is current, compatible with the latest software business applications, and which reflects both regulatory and technological change. However, they also believed that it is important that the firm take a measured approach to changing the firm’s software, that is, it should not to invest in resources whose cost cannot be justified in the medium-to-long term. They have learned that customers do not want to be continually changing their computer systems and applications. Similarly, customers do not want to pay for functions and technologies that they will not or cannot use in the short-to-medium term. Customers expect the firm to incorporate functions and technologies into their software and offer services to customers that the firm’s direct competitors do but they also do not want to be subsidising the firm’s investments beyond a point that they believe is reasonable. In most cases, they want the firm to be competitive and profitable so that it can continue to develop as a business but only if it develops commercially viable products and services.

At the accounting firms, on the other hand, they need to make it easy for customers to understand the skills that individuals can offer them and how they will benefit if they develop a long-term relationship with them. Accounting firms can also hire more people
if they need them and utilise their skills with much less prior investment than the software engineering firms. For instance, at Firm H, software development projects were not approved unless the business case could demonstrate a potential 20% return-on-investment within a 12-month period.

If a software engineering firm invests in developing software with functions and applications, and technologies, etc. that customers do not want and will not pay for, then the consequences can be serious. The firm’s market competitiveness and financial position could be negatively affected. If an accounting firm invests in people and acquiring knowledge its customers cannot immediately use, this can usually be identified at a point in time when it is still possible to avert any potentially serious problems for the firm. In most cases, this will involve identifying if the firm can use people and the knowledge they hold in different ways, and whether or not the firm should reduce its intake of new hires or retrench some people. According to the accounting interviewees, it is preferable to avoid the latter option.

### 7.2 Critical Customer Value Creating Assets

In this section, the assets that the interviewees at the accounting and software engineering firms believed their firms needs to possess and use to create customer value are discussed.

**The assets used to create customer value**

As Table 7.2 shows, the interviewees at the accounting and software engineering firms believed their firms used two broad asset types to create customer value:

1. Assets which can be used to develop and deliver products and services; and
2. Assets which can be used to build relationships with customers.
### Table 7.2

**Assets Used to Create Customer Value**

<table>
<thead>
<tr>
<th>Assets Used to Develop and Deliver Products and Services</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualified staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff who can explore business opportunities</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Functional or Divisional Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting &amp; auditing, and other business specialisations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account management teams</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial services function</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Knowledge-based Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialist or technical knowledge, including knowledge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>that is gained through accreditation processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding of the legislative environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proprietary knowledge/intellectual capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Knowledge management database</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical materials/library</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National or global/industry-level research</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Critical Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National or global network of affiliated firms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National branch office network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliance partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alumni and other networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated systems and functions</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Human Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT specialists (programmers, architects, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product and project management specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology experts and planners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry research specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer advisory board or pricing committee or research</td>
<td></td>
<td></td>
</tr>
<tr>
<td>participants</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Functional or Divisional Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scalable technology-based customer solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information management function</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network &amp; IT infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contractors or alliance partners who operate or develop</td>
<td></td>
<td></td>
</tr>
<tr>
<td>software products</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Knowledge-based Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global technology trends research</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market research data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer requirements database</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proprietary knowledge/intellectual capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Critical Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers of content</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriate office space</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licensed software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D or other grants or concessions from the Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demonstrator versions available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have reference sites and case studies for customers to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT resources and programmes can be used to train staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer sensitive channels to market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The interviewees explained that within these two categories, it is important for accounting and software engineering firms to possess specific customer value creating human, functional and knowledge-based assets. Although there were differences in the kinds of people the interviewees at the accounting and software engineering firms
believed their firms needed, it was very important that they both had skilled and well-trained employees. At the accounting firms, these people need to have the capacity to deliver accounting services while the software engineering firms, and the firm needs to have employees who can contribute to the software development process and/or manage projects. At the software engineering firms, it was also considered very important to have people on hand or access to people who can monitor what was happening in the software engineering industry. At all the software engineering firms it was considered very important to be able to work with customers to get advice or feedback about the firm’s software products, especially how to improve or upgrade them.

The interviewees at both the accounting and software engineering firms believed their senior managers make it possible to build good working relationships and other linkages with customers. At the accounting firms, senior managers are required to proactively develop relationships with customers, especially people in senior management, and encourage and help lower-level staff to do the same. At the software engineering firms, the firm’s senior managers are responsible for developing customer relationships and defining how lower-level staff should interact with customers.

The interviewees at both the accounting and software engineering firms believed that the functions or divisions which allow the firm to develop and deliver products and services to customers should be considered assets. They allow the firm’s people to organise and create customer value in a coordinated manner. At the software engineering firms, the interviewees believed that it was also important to have contract or alliance partners who can help the firm develop products and services but also had the capacity to develop relationships with customers on its behalf. For instance, Firm I often used external trainers to deliver training seminars. It was to Firm I’s advantage if its trainers were effective and could liaise with customers in a professional manner.
The interviewees at both the accounting and software engineering firms also stated that it is important to be able to access technical forms of knowledge, including proprietary knowledge. At the accounting firms, it was important to have people who can understand the legislative environment while at the software engineering firms it was considered very important to have people at the firm who can understand the global technological environment. At the software engineering firms, it was also important to conduct market research and have methods in place for populating and using the firm’s customer requirements database. The interviewees at both the accounting and software engineering firms explained that the firm’s ability to create customer value is enhanced if it already has a customer base. The more customers that a firm has the more likely it will be able to lever off that base and create products and services which customers want. It is also easier to create assurance-based forms of value for customers.

There were also a number of intangible assets that the interviewees at the accounting and software firms believed are important to be able to lever off. At the accounting firms, the interviewees believed the firm’s organisation should be considered an asset. They believed it is important to be appropriately organised to be able to operate effectively. The firm’s reputation and customers who are inclined to refer the firm were also considered to be critical assets. At the software engineering firms, the ability to be organised and operate effectively were considered to be important but it was also acknowledged that a software engineering firm is more likely to be successful if it can establish networks and knowledge bases that give its people access to useful information about the software engineering industry. This includes the firm’s own knowledge base, the knowledge bases of other organisations, and any networks the firm may be part of, including firms that give it access to customer sensitive channels to market.
7.3 Managers’ Perceptions of Value Creating Activities and Capabilities

Consistent with the RBV, the interviewees at the accounting and software engineering firms explained that before a firm can lever off its asset base to engage in customer value creating activities, the firm must have the capacity to develop and use a variety of customer value creating capabilities. In this section, the combinations of activities and capabilities which accounting and software engineering engage in and use to create customer value are discussed, including the combination they use to create each of the three dimensions of customer value.

In the first part of this section, the activities and capabilities that enable accounting and software engineering firms to create the first dimension of customer value are discussed. In the second part of this section, the activities and capabilities that enable them to create the second dimension are discussed. In the third part of this section, the activities and capabilities that enable them to create the third dimension are discussed.

It should be noted that in this section the capabilities which the interviewees identified as important were categorised as a dynamic or an operational capability in line with the definitions provided by the RBV literature. A capability was categorised as a dynamic capability if it could allow the firm to respond to marketplace change in some way. A capability was categorised as an operational capability if it was not a dynamic capability and was used in the firm’s day-to-day operations and deploy assets. Once the capabilities were categorised as a dynamic or operational capability, they were further subdivided and categorised as a managerial, technical and marketing capability. These categorisations were based on the interviewees’ own descriptions of what constituted a managerial, technical and marketing capability at their firm.
Attributes/benefits embedded in or associated with accounting products and services

As Table 7.3 shows, the interviewees at the accounting firms believed accounting firms can create products and services with customers’ desired attributes or benefits by engaging in product-related and relationship building activities, and by possessing a variety of capabilities. It also shows that in order to satisfy high value customers, accounting firms need to engage in activities that are different from those that are undertaken to create value for the bulk of the firm’s customers. High value customers were defined by the interviewees as customers who regularly buy the firm’s products and used its services and/or were responsible for a relatively large proportion of the firm’s income and/or were of strategic value to the firm. In regard to the latter, a customer was considered to be of strategic value if the firm could lever off its reputation.

Although Table 7.3 describes the activities and capabilities which the interviewees at all the accounting firms in this study believe create customer value, the managers at the different firms considered some combinations of them to be more important than others. This can be attributed to the differences in the individual accounting firms’ context, including the differences in their customers’ values, and their ability to cater to customers’ needs using the resources at their disposal. According to the interviewees, these differences can distinguish the firm and can explain why customers buy the firm’s products and services rather than competitors’ products and service. In other words, the interviewees believed their firm needed to engage in certain configurations of activities using certain resource combinations to be successful.

For instance, the interviewees at Firm A believed one of the more important reasons why customers buy the firm’s products and services is because it has a good reputation in the marketplace and its people can develop good working relationships with
customers. They believe the firm has been able to successfully create the perception that
the firm’s people will always work in their best interests, including provide them with
objective, relevant and prudent and advice about their businesses. According to the
Professional Director of Projects, ‘our reputation in the market has helped us build a
[customer] network and it helps us draw in the work that is linked to us in this way.’

The interviewees at Firm A also believed that customers buy the firm’s products and
services because customers believe they are just as good as those provided by the first
tier accounting firms. However, they are much cheaper. According to the Director of
Human Services, the fact that customers are keen to refer the firm can be attributed to
the values the firm is known to foster internally, such as the importance of client care,
project quality, technical expertise, ongoing training and honesty in all things. Firm A is
also known as a firm that rewards good performance. This also inspires confidence in
customers and makes it more likely that the firm will be referred to other potential
customers. The benefit of high referral rate is that the firm does not need to invest
heavily in advertising or brand development.
<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Created</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Commercial Benefit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Products and services are affordable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Products are high in quality and services are delivered to a high standard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Products and services give customers scope to use their time more productively and focus on revenue generation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Good working relationships can be developed with the firm’s people</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Customer Assurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Products and services are competitively priced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s products and services can be positively associated with its reputation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customers can be confident that they will be dealing with qualified and well trained accountants</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Product-related Activities</strong></td>
<td><strong>All Customers</strong></td>
<td><strong>Dynamic Capabilities</strong></td>
</tr>
<tr>
<td>• Develop product and services that are commercially viable and affordable</td>
<td></td>
<td><strong>Managerial Capabilities</strong></td>
</tr>
<tr>
<td>• Ensure the benefits of the product/service can be easily communicated to customers</td>
<td></td>
<td>• Strategic analysis and planning skills</td>
</tr>
<tr>
<td>• Ensure compliance-based products/services enable customers to meet their compliance obligations</td>
<td></td>
<td>• Resource management processes</td>
</tr>
<tr>
<td>• Ensure the product/service reflects the firm’s values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Develop innovative or market sensitive products/services</td>
<td></td>
<td><strong>Technical Capabilities</strong></td>
</tr>
<tr>
<td>• Ensure the firm’s products/services meet customers’ industry-specific needs</td>
<td></td>
<td>• Ability to understand market trends</td>
</tr>
<tr>
<td>• Ensure the firm offers specialist products/services</td>
<td></td>
<td>• Ability to understand the implications of regulatory changes</td>
</tr>
<tr>
<td><strong>Marketing Capabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to focus on customers’ needs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to bundle disparate products/services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Brand/product positioning skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to develop strategies that develop interest in the firm’s products/services and help the firm to acquire new customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributes or Benefits</td>
<td>Critical Activities</td>
<td>Critical Capabilities</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------</td>
<td>-----------------------</td>
</tr>
</tbody>
</table>
| **High Value Customers** | • Ensure customers meet with high value customers regularly  
                          • Provide evidence that the firm’s partners and senior managers can develop good working relationships with customers in senior management  
                          • Develop the brand in such a way that it makes high value customers believe that their needs can be met by the firm  
                          • Develop a brand image that it appeals to high value customers  
                          • Provide specialist or differentiated products and solutions  
                          • Ensure the firm’s people can explain why customers should believe the firm’s products/services represent value for money | **Operational Capabilities**  
                          **Managerial Capabilities**  
                          • Budgeting and financial management skills  
                          • Ability to identify how people need to work at the firm to achieve its objectives  
                          • Processes for recruiting and retaining good people  
                          • Knowledge management and knowledge transfer capabilities  
                          • Performance management processes which can stimulate the development of new products and other innovations  
                          • Formal and informal meeting structures and protocols  
                          • Ability to communicate effectively with customers |
<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
</table>
| **Relationship Building Activities** | *All Customers*  
- Ensure customers can access senior staff  
- Ensure the firm’s people know how to communicate effectively with customers  
- Ensure the firm hires flexible, innovative and/or experienced people to work with customers on their problems  
- Demonstrate the firm’s ability to add value by providing high levels of technical assistance  
- Demonstrate the firm’s ability to solve customers’ compliance problems  
- Demonstrate the firm’s ability to solve customers’ non-compliance problems  
- Demonstrate that the firm’s people are experienced in key industries  
- Develop the reputation that the firm always works in the best interests of customers  
- Ensure customers know they can be given insight into their future needs  
- Ensure the firm develops a good reputation in the marketplace  
- Ensure the firm’s employees are considered to be high quality and insightful  
- Ensure the firm’s people develop the reputation of being fun or pleasant to work with | *Marketing Capabilities*  
- Ability to lock in new customers by building trust and enduring relationships  
- Ability to lever off contacts in industry  
- Business development skills  
- Processes established to cross-sell products/services  
- Ability to lever off jobs successfully completed |
Firm B’s managers also believed customers buy the firm’s products and services because of its reputation and its people’s ability to communicate effectively with customers. The firm’s people are also good at making it clear to new customers that it is not the firm’s policy to sell products and services that are not of commercial value to them. The Manager of Assurance & Advisory Services believes that ‘[our customers] have a need. They see what we have to offer and how we can address that need. We offer a commercially attractive proposition, commercially digestible proposition. We sell people, not products so we develop a rapport too.’ Firm B’s Managing Partner believes customers buy the firm’s products and services because its people have a reputation for being innovative and customer-oriented. It is also generally known that

<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Develop the impression that the firm can provide the same level of service as larger firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Let it be known that other customers are happy to recommend the firm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Let it be known that the firm is associated with less litigation than its direct competitors (Firm E only)</td>
<td></td>
</tr>
<tr>
<td>High Value Customers</td>
<td>• Develop the impression that the firm’s people are superior/better than competitors’ people</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lever of the fact that the firm is large enough to be a credible provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lever off the fact that firm has national and/or global scope</td>
<td></td>
</tr>
</tbody>
</table>
partners are expected to become involved in all customer assignments.

Firm C’s interviewees believed the firm’s reputation and its people’s ability to develop good working relationships are responsible for the bulk of its sales. The Director in Charge of Consulting, Sales & Marketing, explained that ‘if [customers] know us, it is the strength of the relationship and the quality of our work. If they don’t know us, it would have something to do with the specialisation, our expertise, quality, the solution and our experience.’ The General Manager of Strategy & Operations also believes customers buy the firm’s products and services because ‘the firm’s people are fun to be around.’

The CEO at Firm D explained that although a minority of customers buy the firm’s products and services because they need to meet a particular compliance obligation, the majority buy the firm’s products and services because of Firm D’s reputation in the marketplace and the quality of its people. In regard to the knowledge-based services it provides to smaller accounting firms, the General Manager of Knowledge Services believes customers buy the firm’s products and services because they are tailored to accountants’ needs. They allow accountants to get access to technical information quickly. This makes up for the fact that they do not have systems in place at their own firms to do this information gathering work themselves.

The interviewees at Firm E believed customers buy the firm’s products and services because of its reputation and its people’s relationship management skills. The interviewees believed that in addition to being able to help customers meet their compliance needs, customers are also attracted to the fact that Firm E’s people can solve very complex and/or strategic problems. Firm E is a large, full-service global firm, and it has a large number of specialisations. The CEO explained, ‘customers like the [global] brand, they like the professional who they deal with, and the fact that we
differentiate ourselves by the calibre of our people.’ According to the retired partner, who took part in this study because he was providing Firm E with advice about its people capital, Firm E’s customers also appreciated the firm’s price-logistics mix. He believes customers appreciate the fact that Firm E can make both commoditised and customised products and services available to customers. The firm’s people are also good at clarifying how the future is likely to unfold and will often develop solutions to customers’ problems before customers realise they have problems to address.

The interviewees at Firm F believed customers buy the firm’s products and services because its people are dependable and can provide professional guidance at a reasonable price. The firm’s services are also reputed to be high in quality and it is well known that the firm has many people at the firm who are considered to be experts in their field.

The interviewees at Firm G believed customers bought their firm’s products and services because it had created the perception that Firm G had become big enough to be able to help customers with all their accounting and business needs. Firm G had acquired firms which already had an established clientele.

Attributes/benefits embedded in or associated with software products and services

As Table 7.4 shows, software engineering firms also create customers’ desired attributes or benefits by engaging in product-related and relationship building activities. They also were required to possess a large number of enabling dynamic and operational capabilities. Moreover, if we compare Table 7.3 and 7.4, the interviewees at the software engineering firms identified a larger range of customer value creating activities that their firms needed to engage in than the accounting firms. However, the software engineering firms only differed slightly from the accounting firms in regard to the kinds of dynamic and operational capabilities which were believed to be important.
As Table 7.4 shows, the software engineers were also less inclined to differentiate between different customer groups. The exception to this is when the firm offered software solutions that were complex and had to be integrated into customers’ existing business systems. The interviewees at the software engineering firms also defined high value customers in a way that was similar to the accounting firms, that is, customers who buy many of the firm’s products, were a major source of income or were of strategic value to the firm. However, customers were also considered to be high value if they were interested in becoming involved in the firm’s R&D efforts, beta testing or were happy to be used as an example in a reference site.

As Table 7.4 shows, as was the case with the accounting firms, some combinations of activities and capabilities were highlighted by the interviewees at the different software engineering firms more than others. This can be attributed to the individual software engineering firms’ context, including the differences in their customers’ values, their ability to cater to customers’ needs and the resources at their disposal. It can also be attributed to the fact three of the software engineering firms developed software and provided integration services while four made packaged or a shrink-wrapped packaged form of their software available to customers. Three of the seven software engineering firms were also contracted to develop software for their customers.
<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Created</strong></td>
<td><strong>Product-related Activities</strong></td>
<td><strong>Dynamic Capabilities</strong></td>
</tr>
<tr>
<td><strong>Commercial Benefit</strong></td>
<td><em>All Customers</em></td>
<td><em>Managerial Capabilities</em></td>
</tr>
<tr>
<td>• The software is affordable and can be considered commercially viable</td>
<td>• Ensure the software product/service is designed to meet customers’ compliance needs (not games)</td>
<td>• Disciplined business case evaluation processes</td>
</tr>
<tr>
<td>• The software has the capacity to help customers complete tasks faster</td>
<td>• Develop highly functional and application rich software</td>
<td>• Software development and release processes</td>
</tr>
<tr>
<td>• The software enables business processes to be automated and/or end-to-end transactions to be completed in real-time</td>
<td>• Ensure the software product/service is commercially viable and affordable</td>
<td>• Processes to gather and manage business requirements</td>
</tr>
<tr>
<td>• The software is modular and customers can buy add-ons</td>
<td>• Ensure networks are secure and users have ID capability if they need it</td>
<td>• Ability to effectively price products and services</td>
</tr>
<tr>
<td>• Customers are given the option to have the software integrated into existing systems</td>
<td>• Develop the software product/service so that customers’ processes and transactions can be automated (not games)</td>
<td>• Ability to localise products, and/or understand the local legislative environment</td>
</tr>
<tr>
<td>• The software is highly functional</td>
<td>• Develop the software product/service to enable real-time transaction processing (not games)</td>
<td>• Ability to translate research into new products and services</td>
</tr>
<tr>
<td>• The purchase of the software automatically entitles customers to receive after sales support</td>
<td>• Ensure after sales support is provided</td>
<td><strong>Technical Capabilities</strong></td>
</tr>
<tr>
<td>• Customers may be given assistance to write their business case so that they can justify the purchase of the software to their own managers</td>
<td>• Ensure that the firm makes other software products and services available to customers 24 hours a day and/or online</td>
<td><strong>Marketing Capabilities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to focus on customers’ needs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to bundle disparate products/services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Brand/product positioning skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Processes to develop strategies to develop interest in the firm’s products/services and acquire new customers</td>
</tr>
</tbody>
</table>
### Table 7.4
THE SOFTWARE ENGINEERING FIRMS
Activities and Capabilities Required to Create Customers’ Desired
Product and Service Attributes or Benefits

<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Customers can become involved in the development process and/or pre-project and project planning process and/or beta testing</td>
<td>• Give different segments the opportunity to purchase software products that are adapted to their needs, including at prices they are willing to pay</td>
<td><strong>Operational Capabilities</strong></td>
</tr>
<tr>
<td><strong>Customer Assurance</strong></td>
<td>• Give customers a choice of commercial fee structures</td>
<td><strong>Managerial Capabilities</strong></td>
</tr>
<tr>
<td>• The software and any accompanying services are competitively priced</td>
<td>• Ensure the software is always technologically current</td>
<td>• Processes for recruiting and retaining good people</td>
</tr>
<tr>
<td>• The firm’s software products and services can be positively associated with its reputation</td>
<td>• Provide customers with scalable and modular solutions (NB. New games can be created using retrofitted solutions)</td>
<td>• Ability to identify how people need to work at the firm to achieve its objectives</td>
</tr>
<tr>
<td>• The software was first to market or can be considered a best practice or innovative solution</td>
<td>• Allow customers to negotiate for the production of lower-level quality software products (games only)</td>
<td>• Ability to write detailed job descriptions</td>
</tr>
<tr>
<td>• The software always reflects the latest rules and regulations</td>
<td>• Ensure software product is easy-to-use</td>
<td>• Ability to get creative or technical people to understand and use business processes</td>
</tr>
<tr>
<td>• The software is secure and/or can be accessed via a secure network</td>
<td>• Ensure the software product/service can enhance business processes</td>
<td>• Ability to communicate effectively with customers</td>
</tr>
<tr>
<td><strong>Most Valuable Customers</strong></td>
<td>• Ensure the software product can be used on different platforms</td>
<td><strong>Technical Capabilities</strong></td>
</tr>
<tr>
<td>• Ensure software is an enterprise-wide and critical solution (not games)</td>
<td>• Design the software product so that it may be used by customers’ customers</td>
<td>• Ability to develop turnkey, shrink-wrapped packaged or enterprise-wide solutions</td>
</tr>
<tr>
<td>• Ensure software integration services are available if they are required</td>
<td>• Ensure software is an enterprise-wide and critical solution (not games)</td>
<td>• Ability to communicate technical information in easy to understand terms</td>
</tr>
<tr>
<td><strong>Marketing Capabilities</strong></td>
<td>• Ensure software integration services are available if they are required</td>
<td>• Ability to lock in new customers by building trust and enduring relationships</td>
</tr>
<tr>
<td>• Ability to leverage off jobs successfully completed</td>
<td></td>
<td>• Ability to leverage off contacts in industry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business development skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Processes established to cross-sell products/services</td>
</tr>
<tr>
<td>Attributes or Benefits</td>
<td>Critical Activities</td>
<td>Critical Capabilities</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------</td>
<td>-----------------------</td>
</tr>
</tbody>
</table>
| **Relationship Building Activities**  
*All Customers*  
• Develop the firm’s reputation in the marketplace  
• Ensure the firm is associated with credible or well-branded partners  
• Lever off the fact that the software product is considered an industry benchmark  
• Communicate the fact that the software product can be used in horizontal and/or vertical industries  
• Communicate the fact that the firm is committed to using open systems  
• Demonstrate the firm’s ability to add value by providing technical assistance  
• Demonstrate the firm’s ability to solve customers’ compliance or control problems  
• Demonstrate the firm’s ability to solve customers’ non-compliance problems  
• Demonstrable that the firm’s people are experienced in key industries  
• Develop a reputation for always working in customers’ best interests  
• Ensure customers know they can be given insight into their future needs  
• Develop good working relationships with customers  
• Ensure customers have been assured that the software product is value for money solution |
<table>
<thead>
<tr>
<th>Attributes or Benefits</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Respond to customers’ enquiries quickly</td>
<td>• Ensure the firm’s people’s creativity is reflected in their work</td>
<td></td>
</tr>
<tr>
<td>• Ensure the firm’s people’s creativity is reflected in their work</td>
<td>• Hire people who are good at identifying solutions to customers’ problems</td>
<td></td>
</tr>
<tr>
<td>• Hire people who are good at identifying solutions to customers’ problems</td>
<td>• Ensure after sales services are available</td>
<td></td>
</tr>
<tr>
<td>• Ensure after sales services are available</td>
<td>• Ensure customers are regularly given or given access to software updates</td>
<td></td>
</tr>
<tr>
<td>• Ensure customers are regularly given or given access to software updates</td>
<td>• Ensure customers are given timely information about updates/new solutions/new games</td>
<td></td>
</tr>
<tr>
<td>• Ensure customers are given timely information about updates/new solutions/new games</td>
<td>• Make sure customers know the firm is large enough to be a credible provider</td>
<td></td>
</tr>
<tr>
<td>• Make sure customers know the firm is large enough to be a credible provider</td>
<td>• Ensure the customer believes the firm’s solutions are comparable to or superior to competitors’ solutions, including larger competitors</td>
<td></td>
</tr>
<tr>
<td>• Ensure the customer believes the firm’s solutions are comparable to or superior to competitors’ solutions, including larger competitors</td>
<td>• Ensure customers understand the solution is better value than an in-house solution</td>
<td></td>
</tr>
<tr>
<td>• Ensure customers understand the solution is better value than an in-house solution</td>
<td>• Lever off the fact that the firm has a loyal customer base who will buy new versions of the software or add-ons when given the opportunity to do so</td>
<td></td>
</tr>
<tr>
<td>• Lever off the fact that the firm has a loyal customer base who will buy new versions of the software or add-ons when given the opportunity to do so</td>
<td>• Communicate the fact that the firm was first or early to market</td>
<td></td>
</tr>
<tr>
<td>• Communicate the fact that the firm was first or early to market</td>
<td>• Ensure customers appreciate that the firm can bundle products/services or provide a one-stop solution</td>
<td></td>
</tr>
<tr>
<td>• Ensure customers appreciate that the firm can bundle products/services or provide a one-stop solution</td>
<td>• Communicate the fact that the software is used nationally or globally</td>
<td></td>
</tr>
<tr>
<td>• Communicate the fact that the software is used nationally or globally</td>
<td>• Lever off the fact that the software is used at schools and universities (Firm I only)</td>
<td></td>
</tr>
</tbody>
</table>
For instance, Firm H’s both develops software and integrates it. The firm’s software allows customers to automate their stockbroking transaction processes. Firm H’s customers pay an initial fee for the software and then are charged a small percentage of each transaction that is completed online. This billing method makes it easier for customers to manage their cashflows but also gives them the assurance that it is in Firm H’s best interests to ensure that their services are not interrupted at any time. They are further assured by the fact that Firm H provides 24-hour support services.

According to the CEO, Firm H’s software was first to market. This allowed the firm to capture a large part of the market and earn enough revenue to be able to invest in even more R&D. As a result, the firm’s software is even more functional and application rich than it was when it was first launched. The firm now works with its customers to update and continually improve the software. Firm H also offers integration services. Every time the firm’s people get involved in an integration project, they become more experienced and knowledgeable, and more able to instil confidence in the firm’s customers. Customers are also made aware of how difficult it would be for them to develop and implement a suitable and high-standard software solution in-house. The Operations Manager explained that Firm H’s solutions are arguably superior to anything its competitors can offer. The Development Manager believed customers buy the firm’s products and services because ‘[our software is] mission critical… it’s a combination of our reputation and the systems we provide. They are the backbone of this business.’ The software can also be expanded over time. This is because it is scaleable and add-ons are available.

Firm I’s software products are packaged and sold through retail outlets in a shrink-wrapped packaged form. Customers can also download the software from the firm’s website. According to the interviewees, the firm’s customers buy its products because
Firm I’s products have a good reputation, they are high in quality or their accountant recommended it to them. Accountants find it is easier to do their work if their customers use the same accounting software. The CEO explained that ‘recommendations from accountants and current users account for 92% of [Firm H’s] sales.’ The Marketing Manager believes customers buy the firm’s products and services because it can help them solve their compliance problems, streamline their business processes, they are easy-to-use and are highly functional, customers can fix problems themselves easily, they can easily access product updates and get phone support.

At Firm J, the interviewees identified several reasons why customers buy the firm’s products and services. This includes the fact that the firm’s products are high in quality, the firm has a good reputation, it can provides enterprise-wide solutions to most of their business process problems, and Firm J’s networks are efficient and secure. According to the Vice President Strategy & Professional Services, ‘because of [our firm’s] reputation, especially [our] long established reputation for being able to provide a secure and robust solution set, we [are able to] rely on word-of-mouth recommendations rather than marketing.’ Some customers also want to use Firm J’s products because they do not want to use Microsoft’s products and services. The firm’s people are good at leveraging off this fact.

Firm K’s interviewees believed their customers buy the firm’s products and services because Firm K uses robust systems and documents how it develops all of its game software. This is of value to its customers who are game publishers. They cannot afford to commission a firm to develop game software if they do not believe it has the systems and processes in place to ensure games are developed on time, to budget, their specifications and fully documented. All of Firm K’s processes are supported by a reliable IT system. Firm K also uses technology that is up-to-date. According to the
Marketing & Business Development Manager, ‘[publishers have] confidence in the company, its history, its technology and its ability to deliver.’ They know that Firm K develops games that sell and that it is known as the firm that develops games that accurately simulate real-life racing situations.

At Firm L the interviewees believed customers buy the firm’s products and services because they can be used to help customers make medical decisions. The firm’s software is also very useful in a hospital setting. Customers can also buy a range of complementary products from Firm L, which means they do not have to shop around as much. They also know Firm L’s software can be used to gain access to useful medical-related information easily. Doctors use it to help them diagnose and treat patients. The software is also affordable and most of the firm’s products self-installs.

The interviewees at Firm M highlighted a number of reasons why they believe customers use Firm M’s products and services. The COO believed customers buy the firm’s products and services because Firm M uses the latest technologies. It also can quickly build websites for enterprise partners’ customers. These end-user customers do not have to do the work of building a website themselves. He explained that Firm M’s people ‘know our enterprise partners’ own customers better than they do.’ It also takes on the difficult role of dealing with small-to-medium sized firms, including the time-consuming work of ‘hand-holding.’ The Software Development Manager explained that customers buy the firm’s products and services because Firm M has positioned itself as an entry level provider with relatively cheap products. Firm M is also able to inspire confidence in end-users because of its enterprise partners are large corporations.

The interviewees at Firm N also believed customers buy its software because it is technologically very advanced and can be considered innovative. Firm N’s dynamic trading engine allows people to sell and buy products online more efficiently, and much
faster and more efficiently than any other online B2B trading product on the market. Customers are also able to become part of an online business community without investing their own time and money to build relationships and linkages within a community. Firm N’s people do the work of building trading relationships and vetting firms for them. The larger the trading community becomes, the more confident Firm N’s customers become that they are dealing with a firm that will not go out of business without any warning.

**Consequences achieved when using/provided with accounting products and services**

Table 7.5 describes the activities that accounting firms engage in and the capabilities that they use to help customers achieve their desired consequences in a use situation, that is, when customers are using or being provided with the firm’s products and services. In contrast to Table 7.3, Table 7.5 shows that the interviewees at the accounting firms did not believe it is important for them to differentiate between high value customers and other customers. However, they did believe that to be able to cater to customers’ needs in use situations the firm needed to be able to drawn on a large number of dynamic and operational capabilities, including partners and employees who can communicate effectively with customers.
<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Created</strong></td>
<td><strong>Product-related Activities</strong></td>
<td><strong>Dynamic Capabilities</strong></td>
</tr>
<tr>
<td><strong>Commercial Benefit</strong></td>
<td><strong>All Customers</strong></td>
<td><strong>Managerial Capabilities</strong></td>
</tr>
</tbody>
</table>
| Customers are given access to valuable and/or privileged market-related knowledge, including insight into how to better measure the firm’s competitive and financial performance | - Ensure experienced senior people are always involved in customer projects  
- Ensure all customers assignments/projects are successfully completed and as negotiated  
- Improve customers’ business processes  
- Help customers better understand how their firm is performing by identifying useful performance measures  
- Ensure matters of urgency are escalated in customers’ organisations as they arise  
- Transfer useful knowledge to customers during the engagement  
- Provide complex and unique solutions as negotiated and/or as re-negotiated  
- Ensure specific risks are mitigated  | - Strategic analysis and planning skills  
- Organisational design capabilities  
- Ability to form cross-functional teams to help solve customers’ more complex problems  
- Performance management processes which enable goal setting and efficient delivery  |
| Customers are able to justify the expense of purchasing the products and services to their superiors or stakeholders in a use situation | - Ability to quickly develop templates and standard methodologies for conducting accounting, auditing or business consultancy assignments  
- Ability to successfully respond to tenders  | - Technical Capabilities  
- **Managerial Capabilities**  
- **Technical Capabilities** |
Table 7.5
THE ACCOUNTING FIRMS
Activities and Capabilities Required to Create
Customers’ Desired Consequences

<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Assurance</td>
<td>Relationship Building Activities</td>
<td>Marketing Capabilities</td>
</tr>
<tr>
<td>• Advice is provided by an expert or the person who is providing the solution is supervised by an expert</td>
<td>All Customers</td>
<td>• Ability to access and use customer relationship management database</td>
</tr>
<tr>
<td>• Advice is provided in a manner that inspires confidence and makes customers believe it is objective</td>
<td>• Respond positively to customers’ requests to use their preferred staff</td>
<td>Operational Capabilities</td>
</tr>
<tr>
<td></td>
<td>• Ensure customers believe they are receiving unique products/services</td>
<td>Managerial Capabilities</td>
</tr>
<tr>
<td></td>
<td>• Ensure customers believe they are receiving high quality products/services</td>
<td>• Budgeting and financial management skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Resource and project management processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Project planning/work-in-progress meetings processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• People leadership and team development skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to supervise, develop and mentor junior staff</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to understand the risks/potential liabilities associated with different engagements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to identify the right person for the job</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Knowledge management and knowledge transfer capabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to coordinate divisional or specialist people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Protocols in place for senior managers to mentor junior staff</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to communicate effectively with customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to communicate effectively internally</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to network in key industries</td>
</tr>
</tbody>
</table>
As was the case when delivering the first dimension of customer value, the interviewees at all the accounting firms in this study believed create customer value, the interviewees at the different firms believed some activities and capabilities played a more important part in creating value for customers in a use situation than others. For instance, the interviewees at Firm A believed that could create the second dimension of customer value because its people had the ability to understand when it is appropriate to impart commercially useful knowledge to customers. The firm’s success in use situations is also contingent upon how well the firm’s products can bring about a desired business outcome when the firm’s products and services are used or provided. The Director of Finance & Administration explained that to be able to achieve all of these things, partners need to be heavily involved in all assignments. Although junior staff often had the technical skills to help customers improve their businesses, they were

<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
</table>
|                                | Technical Capabilities | • Analytical, technological, financial and risk assessment skills  
|                                |                      | • Ability to communicate technical information in easy to understand terms |
|                                | Marketing Capabilities | • Relationship management capabilities  
|                                |                      | • Marketing and/or business development skills |
|                                |                      | • Ability to use IT to complement customer interactions |
often not experienced enough to understand if they were solving customers’ problems in the most effective manner. Partners were required to supervise their work and provide technical input too. The fact that partners were heavily involved in all assignments also helped to make customers feel confident that their work was receiving the attention it deserved.

The interviewees at Firm B believed that they were good at helping customers achieve their desired consequences in use situations because customers could get customised solutions. The firm’s people were very good at adapting frameworks they had developed previously to customers’ individual needs. Customers could also get timely and objective advice about changes in the industry and events that could affect their firm. According to the Managing Partner, ‘the value we provide is three tiered. At the top, we work with the audit committee and the board to provide independent assurance, credible policy advice. We have a quality focus. Senior management sees us managing their risks. Line management see us as agents for change. We help escalate matters that can’t get pass first base because of internal politics. We will focus on risk and compliance here.’

Firm C’s interviewees believed the value customers derive in use situations from the firm’s products and services can be summarised as improved knowledge and business processes. Although customers benefit from having their compliance problems solved, they derive more value from the work that is done to improve their business processes.

The interviewees at Firm D believed customers need to think the firm’s people will always work to the highest of standards and that advice will be proffered to them in a timely manner. The CEO explained that although compliance services are valued by customers, they had much less capacity to make a difference to customers’ businesses than Firm D’s non-compliance services, such as its strategic consulting services. These
helped customers to understand what they needed to do to operate their businesses more strategically. The General Manager of Knowledge Services believed the value that customers derive in use situations can be summarised as the ability to help them do their day-to-day work and mitigate the risk that they are not up-to-date with the latest accounting methods. Firm D also gives customers practical assistance with their direct mail campaigns. For those customers who work by themselves and use Firm D’s advisory services, Firm D was able to give them a sense of community. She explained, ‘we need to act as a big brother, as small firms tend to be very isolated. They can get assistance from us quickly.’

At Firm E, the interviewees believed that in use situations customers wanted a particular problem solved or a discrete piece of work completed. They also want active help with risk mitigation and useful knowledge transferred to them whenever this is required. The interviewees explained that many of their customers were under a great deal of pressure. Customers appreciated anything the firm could do for them that would make them less anxious. The interviewees also believed customers want to be given more insight into how to best measure their business performance. The firm’s people were constantly being asked to help customers develop better measures, especially ‘dashboards’ of performance.

The interviewees at Firm F believed that in use situations it was essential that customers believe the firm’s people are trustworthy and reliable. According to the Managing Partner Financial Services, ‘[in regard to] the investment advice, we give customers comfort. We help them believe that they can trust the outcomes. They can deal with us because we’re trustworthy people, and we understand the outcomes they require. [In regard to] consulting, they feel comfortable that our input is from a competent and experienced base, that we’re practically focused, we understand the
factors that drive value, measurable value.’

According to the Head of Accounting & Policy at Firm G, some customers used Firm G because they needed help meeting their compliance obligations, while others used the firm because they wanted to improve their businesses in some way. If the firm can help customers achieve either or both of these desired consequences, it is more likely to be successful. However, it was to the firm’s advantage if it could provide more non-compliance services. This is because the firm could charge more for these services, the potential to improve customers’ businesses in some substantial way was larger, and non-compliance products and services give partners more opportunities to develop long-term customer relationships. The Partner in Charge of Superannuation also believes customers have an expectation that they will be able to work regularly with a partner. He explained, ‘customers know what they are buying, compliance work or a broader base accounting service. The relationship is between the professional and the client.’

**Consequences achieved when using/provided with software products and services**

As Table 7.6 shows, just as was the case with the accounting firms, software engineering firms help customers to achieve their desired consequences in use situations by engaging in a combination of product-related and relationship building activities. According to the interviewees at the software engineering firms, these are enabled by a large number of capabilities. Prime among these are the firm’s software development and project management processes. The interviewees explained that these processes are used extensively at software engineering firms. Everyone at the firm is expected to understand how these two processes work, as they allow the firm to develop software in a consistent manner and enable customers in a use situation. According to the interviewees, they can be used regardless of the type of software the firm develops.
Table 7.6
THE SOFTWARE ENGINEERING FIRMS
Activities and Capabilities Required to Create
Customers’ Desired Consequences

<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Created</td>
<td></td>
<td>Dynamic Capabilities</td>
</tr>
<tr>
<td>Commercial Benefit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The software may assist with</td>
<td>• Provide reliable</td>
<td>• Strategic analysis</td>
</tr>
<tr>
<td>end-to-end transaction</td>
<td>and timely project</td>
<td>and planning skills</td>
</tr>
<tr>
<td>processing and electronic</td>
<td>management services</td>
<td>• Organisational design</td>
</tr>
<tr>
<td>record keeping</td>
<td>• Ensure customers’</td>
<td>capabilities</td>
</tr>
<tr>
<td></td>
<td>projects progress</td>
<td>• Ability to form</td>
</tr>
<tr>
<td></td>
<td>as planned</td>
<td>functional and</td>
</tr>
<tr>
<td></td>
<td>• Ensure customer</td>
<td>cross-functional</td>
</tr>
<tr>
<td></td>
<td>can use the solution</td>
<td>teams to help solve</td>
</tr>
<tr>
<td></td>
<td>when consulting</td>
<td>customers’ more</td>
</tr>
<tr>
<td></td>
<td>(not games)</td>
<td>complex problems</td>
</tr>
<tr>
<td></td>
<td>• Ensure the software</td>
<td></td>
</tr>
<tr>
<td></td>
<td>enables end-to-end</td>
<td>• Disciplined business</td>
</tr>
<tr>
<td></td>
<td>transaction</td>
<td>case evaluation</td>
</tr>
<tr>
<td></td>
<td>processing (not</td>
<td>processes</td>
</tr>
<tr>
<td></td>
<td>games)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure customers’</td>
<td></td>
</tr>
<tr>
<td></td>
<td>processes are</td>
<td>• Dynamic Technical</td>
</tr>
<tr>
<td></td>
<td>automated as</td>
<td>Capabilities</td>
</tr>
<tr>
<td></td>
<td>required (limited</td>
<td>• Ability to identify</td>
</tr>
<tr>
<td></td>
<td>for games)</td>
<td>suitable business</td>
</tr>
<tr>
<td></td>
<td>• Provide secure</td>
<td>partners and</td>
</tr>
<tr>
<td></td>
<td>technological</td>
<td>outsource work to</td>
</tr>
<tr>
<td></td>
<td>solutions</td>
<td>outside firms</td>
</tr>
<tr>
<td></td>
<td>• Design and</td>
<td>• Ability to gather</td>
</tr>
<tr>
<td></td>
<td>implement new</td>
<td>and manage business</td>
</tr>
<tr>
<td></td>
<td>business processes</td>
<td>requirements</td>
</tr>
<tr>
<td></td>
<td>if required</td>
<td>• Policies and</td>
</tr>
<tr>
<td></td>
<td>• Ensure customers</td>
<td>procedures in place</td>
</tr>
<tr>
<td></td>
<td>can manage</td>
<td>to analyse customers’</td>
</tr>
<tr>
<td></td>
<td>and record their</td>
<td>needs</td>
</tr>
<tr>
<td></td>
<td>financial records</td>
<td>• Have developed</td>
</tr>
<tr>
<td></td>
<td>(not games)</td>
<td>flexible templates</td>
</tr>
<tr>
<td></td>
<td>• Ensure the software</td>
<td>and standard</td>
</tr>
<tr>
<td></td>
<td>product has</td>
<td>methodologies for</td>
</tr>
<tr>
<td></td>
<td>been produced to</td>
<td>developing software</td>
</tr>
<tr>
<td></td>
<td>customers’</td>
<td>• Protocols and</td>
</tr>
<tr>
<td></td>
<td>specifications</td>
<td>processes in place</td>
</tr>
<tr>
<td></td>
<td>• Ensure specific</td>
<td>for successfully</td>
</tr>
<tr>
<td></td>
<td>risks are</td>
<td>responding to tenders</td>
</tr>
<tr>
<td></td>
<td>mitigated</td>
<td></td>
</tr>
<tr>
<td>Customer Assurance</td>
<td>• Ensure customers’</td>
<td>• Dynamic Marketing</td>
</tr>
<tr>
<td></td>
<td>workflows are</td>
<td>Capabilities</td>
</tr>
<tr>
<td></td>
<td>reflected in the</td>
<td>• Ability to access</td>
</tr>
<tr>
<td></td>
<td>software product</td>
<td>and use customer</td>
</tr>
<tr>
<td></td>
<td>so that they can</td>
<td>relationship</td>
</tr>
<tr>
<td></td>
<td>do their work more</td>
<td>management database</td>
</tr>
<tr>
<td></td>
<td>efficiently</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Give customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>direction on major</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IT purchases when</td>
<td></td>
</tr>
<tr>
<td></td>
<td>practicable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure customers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>are involved in</td>
<td></td>
</tr>
<tr>
<td></td>
<td>every step of the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>software</td>
<td></td>
</tr>
<tr>
<td></td>
<td>development process</td>
<td></td>
</tr>
<tr>
<td></td>
<td>if they express a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a desire to be</td>
<td></td>
</tr>
<tr>
<td></td>
<td>involved</td>
<td></td>
</tr>
</tbody>
</table>

All Customers

Most Valuable Customers

Managerial Capabilities

Operational Capabilities

Managerial Capabilities

154
### Table 7.6
THE SOFTWARE ENGINEERING FIRMS
Activities and Capabilities Required to Create
Customers’ Desired Consequences

<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
</table>
|                                 | • Ensure customers receive the software products/services that were negotiated and be willing to renegotiate aspects of a deal if the product do not reflect customers’ original expectations or new requirements  
• Ensure the software product is exhilarating to use and do everything possible to make it a ‘blockbuster’ (games only) | • Project planning/work-in-progress meetings processes  
• People leadership and team development skills  
• Performance management processes, including processes to reward good performance  
• Knowledge and performance data sharing skills  
• Ability to communicate effectively with customers  
• Ability to communicate effectively internally  
• Ability to effectively network in key industries |
| **Relationship Building Activities** |                     | **Technical Capabilities** |
| All Customers                    | • Provide customers with web support, including access to knowledge-based services  
• Ensure 24-hour phone or web support is available  
• Ensure software can be adapted during production if customer requires it  
• Ensure customers are trained when they need training or can access training easily (not games)  
• Ensure customers can access the firm’s content and knowledge-based products easily  
• Ensure a high level of after sales service  
• Ensure all interactions with the customer are positive so that customers are not given any reasons to stop using the firm’s software products/services even if it is ‘sticky’ | • Analytical skills, including an ability to analyse different kinds of reports  
• Ability to integrate software solutions if required  
• Ability to communicate technical information in easy to understand terms |
| **Marketing Capabilities**       |                     |                       |
|                                 | • Relationship management capabilities  
• Marketing and/or business development skills  
• Ability to use IT to complement customer interactions |
In contrast to the accounting firms, the interviewees believed it is important to be able to differentiate between high value customers, as these customers want to be treated differently in use situations to the firm’s other customers. Some high value customers can be very demanding. These customers usually want to be given regular feedback about the progress of project work the firm is doing for them or involvement in the software development process. They also want to be given access to the firm’s experts, especially when a project is at a critical phase. As was the case with the accounting firms, it is essential that the firm’s people have the technical capacity to do the work that customers require, including the ability to effectively communicate ideas to customers. The interviewees also believed that it is very important that the firm has protocols in place for gathering customer requirements and making this information

<table>
<thead>
<tr>
<th>Customers’ Desired Consequences</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Valuable Customers</td>
<td>• Ensure customers believe that the software product will remain current for a reasonable period of time</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure customers are given a good integration experience, including access to experienced staff and information communicated to them in the most effective manner possible (mainly Firm H, Firm J, Firm L and Firm N)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Most Valuable Customers</td>
<td>• Give customers access to the firm’s more senior people</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Allocate an account manager or team to look after high value customer accounts</td>
</tr>
</tbody>
</table>
available to anyone at the firm who needs to use it.

There were slight qualitative differences in the way the different software engineering firms created value for customers in a use situation. Again, these differences can be attributed to the fact that some software engineering firms sold a turnkey product, others a shrink-wrapped packaged software product while others were contracted to develop software on another firm’s behalf. Customers also had different needs in use situations. For instance, the interviewees at Firm H explained that customers want automated systems, including the ability to process transactions in real-time. They also want to be confident that they comply with all stockmarket rules. During the integration process, customers expect to be given advice about the implications of any new stockmarket rules or trends. The interviewees at Firm H believed customers need to be made aware of the fact that once they have the software installed they automatically are part of Firm H’s customer network.

At Firm I, the interviewees believed that once the firm’s software is installed, customers are usually better able to manage their financial affairs. This helps them to save both time and money. They are also able to better comply with regulations, maintain more accurate records, and quickly generate reports about their own financial performance. The COO explained that Firm I’s accounting software is as functional as some of the most expensive in the marketplace but that it is around 2-3% of the price. Customers can also get immediate website or phone support for the software. The Human Resources Manager explained, ‘the firm has a [subscription service], that people pay a fee to join. These people get priority support, access to upgrades. Non-[subscription service] users may want that level of support and may feel short-changed or get their noses out of joint because they think it should have been offered for free….’ The CEO even monitors phone wait time from his office. He will pick up a phone call
According to the Director of Marketing Asia Pacific at Firm J, Firm J provides enterprise-wide solutions that allow customers to complete tasks or do their work better. Firm J customises its software solutions, depending on the needs of individual customers. The Interim Financial Controller and the Vice-President Strategy & Professional Services believes Firm J’s products and services allow customers to work more efficiently and securely. If customers have a positive integration experience and they believe the software will be able to meet their future work needs, they will use the firm again.

The interviewees at Firm K believed the main benefit that publishers get from using Firm K to build its games is confidence. They can be confident that Firm K will ultimately develop a software game which they can on-sell to the end-user. This is because Firm K’s people constantly consult with publishers throughout the software development process, and work with them to decide which content will be included in the software. They are also able to monitor their software project’s progress, including whether the firm is still working within its budget. The interviewees explained that the firm’s people know publishers want to meet very specific sales and financial targets. They also explained that in the case of end-users (gamers) the game had to be enjoyable, which meant the game had to simulate a real-world action experience. These customers want to feel the kind of emotions that one would normally experience if actually racing. End-users also want to be sold a product which represents good value for money. This usually means a game that they can enjoy for at least three months or which they can consider to be just as good as other games they played.

At Firm L, the interviewees believed that the firm’s products and services allow customers to make quick and informed decisions. This could be done at the point of
care, including in a triage situation. The firm’s practice management software can also help mitigate the risk of a doctor misdiagnosing a patient. The software helps doctors save time and work more efficiently. The firm’s knowledge-based products allow doctors to access information about the latest medical techniques when they need it. The CFO explained, ‘all products for clinicians help them treat patients, manage their practice, gives them access to knowledge and improve safety and efficiency. We believe that in the health industry, help with patient care is critical, otherwise we’re in the wrong business.’

At Firm M, the interviewees believed that the benefit that customers derive in a use situation will differ depending on whether the customer is an enterprise partner or an end-user. Enterprise partners want Firm M to build websites for their customers and give them access to the Internet. If these customers have a website, then the probability that Firm M’s enterprise partners will be able to sell them even more products and services is greatly increased. Similarly, anyone who looks at their website and does business with them will also want to have a website, that is, if they do not have one already. For those enterprise partners who sell directory services, these customers will also be more inclined to buy and list themselves on their directories and become part of their network. Because Firm M takes on the responsibility of building websites for the end-user, enterprise partners are given more scope to focus on core business issues.

The end-user benefits because they do not have to build their own website. Firm M builds it for them. They also benefit because the website can be used to stimulate business. They can also modify their website by themselves. As part of the price of purchase, customers are given access to a Help Desk. This takes the pressure off enterprise partners. According to the Marketing Director, ‘[end-users] are given access to a lot of knowledge, they’re provided with a 1300 number for after care service,
everyone gets lots of information from us as first time users and during the actual delivery of the product. We strongly promote the ethos that we can do it for you.’

The interviewees at Firm N believed customers benefit in a use situation because the firm’s software helps them to do their procurement work more efficiently and cost effectively. The software also gives them easy access to a network of suppliers. Customers find the software easy to use and they can get easily identify all the vendors and buyers in the hospitality market. Customers are also able to make their own procurement rules more transparent to vendors and other parties, including their own employees.

**The goals and purposes achieved through accounting products and services**

As Table 7.7 shows, the interviewees at the accounting firms believed their firms can also create value for customers by helping them achieve their business goals and purposes. They believed that it is only possible to realise customers’ goals and purposes after customers have been provided with the products and services they purchased. However, partners can determine how the firm can help customers achieve their goals and purposes at the point in time when the decision to purchase is being made or while the firm’s products and services are being provided. The interviewees also explained that one can verify if customers have achieved their goals and purposes by asking them or, alternatively, by analysing if customers received everything that they asked for and/or the partner in charge of the engagement promised them.

Table 7.7 shows that accounting firms need to engage in many product-related and relationship building activities and possess a range of operational and dynamic capabilities to ensure customers get the outcomes they want. The activities and capabilities that are involved here are not always the same as those that the firm uses to
cater to customers’ needs in a use situation, although they can be. The interviewees also believed that it is in the firm’s best interests if it can achieve all of its customers’ goals and purposes. However, the firm’s performance is more likely to be adversely affected if it is unable to help high value customers to achieve their goals and purposes.

<table>
<thead>
<tr>
<th>Goals and Purposes Achieved</th>
<th>Critical Activities</th>
<th>Critical Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Created</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Benefit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A particular compliance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>problem has been solved</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customers’ business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>processes and systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>have been improved in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>some measurable way</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customers cost base has</td>
<td></td>
<td></td>
</tr>
<tr>
<td>been lowered</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s risk profile</td>
<td></td>
<td></td>
</tr>
<tr>
<td>has been improved</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customers have a greater</td>
<td></td>
<td></td>
</tr>
<tr>
<td>understanding of their</td>
<td></td>
<td></td>
</tr>
<tr>
<td>industry and how their</td>
<td></td>
<td></td>
</tr>
<tr>
<td>firm is positioned in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Customers are able to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>develop their strategic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>plan and implement it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>more decisively</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product-related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Improve customers’</td>
<td></td>
<td></td>
</tr>
<tr>
<td>business processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in some measurable way</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enable customers to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>satisfactorily fulfil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>their compliance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>obligations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Give customers objective</td>
<td></td>
<td></td>
</tr>
<tr>
<td>information about their</td>
<td></td>
<td></td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Develop new intellectual</td>
<td></td>
<td></td>
</tr>
<tr>
<td>capital, including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>methodologies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Transfer insights and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>privileged information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>about customers’ industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers understand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>their investment needs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers’ risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>have been significantly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>mitigated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers’ risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>profile is significantly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>lowered</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Help customers implement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>their strategic plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamic Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Strategic analysis and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>planning skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to change focus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as the market changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamic Marketing Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to understand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>customers and their</td>
<td></td>
<td></td>
</tr>
<tr>
<td>problems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• People leadership and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>team development skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Performance management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tracking capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ability to communicate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>effectively</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Analytical, technological,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial and risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>management capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goals and Purposes Achieved</td>
<td>Critical Activities</td>
<td>Critical Capabilities</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>--------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td><strong>Customer Assurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The majority of customers consider the firm’s partners and many of its others employees as someone they can approach to get advice from regularly or an impartial and fair quote to do more work</td>
<td><strong>Most Valuable Customers</strong></td>
<td>• Ensure customers are consulted about product and service innovations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide direction and help customers take an firm-wide approach to implementing their strategic plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Marketing Capabilities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Relationship building capabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to convey to customers that the firm understands their problems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to leverage off jobs successfully completed</td>
</tr>
<tr>
<td><strong>Relationship Building Activities</strong></td>
<td><strong>All Customers</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Build long-term business relationships</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Provide customers with a 360 degree view of their businesses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Help customers identify industry benchmarks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Give customers objective information about their future needs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Help customers understand the full potential of their businesses</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Valuable Customers</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure customers can buy the firm’s other products/services by making them available through initiatives to cross-sell the firm’s products/services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lever off any positive histories the firm has with a customer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Make sure customers believe the firm’s people are honest and ethical</td>
<td></td>
</tr>
</tbody>
</table>
There were a number of qualitative differences between the goals and purposes that the interviewees from the different accounting firms highlighted. For instance, the interviewees at Firm A believed customers always want to meet their compliance obligations but they also value any insight that can given into how they can achieve their business’ full potential in the marketplace. The Professional Director of Projects explained, ‘we [help clients] define what they want. We improve the probability of success by creating knowledge, identifying how they can improve on their successes. We give them insight into their industry, confidence that they are being given valuable knowledge, and we also do what we can to challenge their thinking. As a result, they are able to better understand the opportunities available to their businesses - the aspects that they might not recognise. It’s a knowledge creation process.’

The interviewees at Firm B believed the firm was good at helping customers achieve their goals and purposes because their products and services are specifically designed to do this. They also believed their people are very good at identifying the things customers at all levels of management need from the firm. The Partner in Charge of Auditing & Consulting Services believes it is very important to help customers understand what is considered to be best practice in their industry. The Manager Assurance & Advisory Services explained, ‘we sit down with customers and identify the areas in the strategic plan they need to improve.’

At Firm C the interviewees explained that its products and services allow its customers to achieve their business objectives because it people are highly skilled. Processes have also been put in place to ensure the firm’s people can understand what it is customers want and if the firm has been delivering on everything that had been promised. They explained this was not always easy to do. Customers often had business
objectives that differed significantly from each other while others keep on changing their objectives. According to the Director in Charge of Consulting, Sales & Marketing, ‘we don’t undertake any work unless we understand how it fits with the clients’ overall business direction.’

The interviewees at Firm D believed that customers need to have a clearly defined compliance outcome or tangible evidence that the firm had helped them improve or grow their business in some way. It is necessary to ensure that customers have useful knowledge transferred to them at all stages of their relationship with the firm. Firm D is heavily involved in training for this reason. The interviewees also believed that once Firm D sells one product to a customer, it can sell more. If the firm has helped customers achieve their goals and purposes, it is likely that they will keep on using the firm. It is for this reason that the firm’s people are encouraged to develop as many good working relationships with the firm’s customers as is possible and to lever off the firm’s past successes as well as they can.

The interviewees at Firm E believed that Firm E helps its customers achieve their goals and purposes because it is able to reduce customers’ risks. Customers are taught how to make better decisions. This includes teaching them to understand the kinds of facts and metrics they should rely on to make decisions and what they need to do to meet their compliance obligations. Firm E also develops new methodologies for customers. These are designed to ensure customers’ long-term goals and purposes can be achieved. Customers also want to be given more insight into how to more accurately measure and track their performance in the marketplace. They know that it can be difficult to understand the lags associated with some measures. If the firm can help them develop reliable ‘dashboards’ of performance then this is much appreciated. The retired partner explained, ‘across their whole business, we help [customers] reduce their costs,
understand their cost drivers, integrate their businesses and develop strategies. We often have to manage all of these goals at the same time. This will depend on the relationship with the client and/or the urgency of the project, those things that keep the CIO, CFO and CEO awake at night. We make our money in the white-water and, to an extent, downstream too but we’re not at all like an H&R Block.’

According to interviewees at Firm F, Firm F helps its customers to achieve their business objectives because it helps them understand their business investment needs and the drivers of their businesses. Customers can also get access to employees who are experts or referrals to alliances partners who are experts. The Head of Insolvency & Business Recovery believes that the firm’s people are good at identifying the fine details of a problem in a way that customers cannot. They can also clarify those things that constitute a successful business outcome. This is also something that customers cannot always do themselves.

At Firm G, the interviewees believed that Firm G’s products and services were able to achieve customers’ goals and purposes because they helped to meet their compliance obligations and achieve business improvement objectives. The firm’s effectiveness tended to be easier to measure once an assignment has been concluded. The interviewees also believed that if customers say they are happy with the services they were provided with and pay on invoice, then it is likely their goals and purposes were achieved.
The goals and purposes achieved through software products and services

As Table 7.8 shows, software engineering firms help customers achieve their goals and purposes by ensuring the software that was purchased can do everything customers expected it to do. The interviewees believed that customers’ goals and purchases are achieved if customers can understand exactly how they can use the software that they bought to improve their operations and their financial performance. As was the case with the accounting firms, the interviewees at the software engineering firms believed that one can determine if customers’ goals and purposes were achieved by asking them or by verifying if they received what they negotiated and/or were promised. The interviewees explained that the firm needs to engage in many activities and possess many capabilities to ensure customers get the outcome they desire. These may not be the same as those that are used to create value for customers in use situations. The interviewees all believed that it is extremely important for the firm to invest the time to ensure customers understand how the firm’s software can benefit them in the future.

There were a number of qualitative differences between the different software firms in how they helped customers achieve their goals and purposes. For instance, the interviewees at Firm H believed they achieve customers’ goals and purposes by making them more efficient, helping them lower back office costs and build wealth more securely. Once the firm’s software is integrated into customers’ systems, customers can concentrate more on increasing their customer base. Customers can also finalise transactions with their own customers with more confidence. All of these things put Firm H’s customers in a position where they can pursue more revenue-generating opportunities, better understand and manage regulatory change, determine how the firm can build on its software platform and become more strategic in how it operates in the marketplace.
Table 7.8
THE SOFTWARE ENGINEERING FIRMS
Activities and Capabilities Required to Achieve
Customers’ Goals and Purposes

<table>
<thead>
<tr>
<th>Goals and Purposes Achieved</th>
<th>Critical Activities</th>
<th>Critical Dynamic and Operational Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Created</strong></td>
<td><strong>Product-related</strong></td>
<td><strong>Dynamic Capabilities</strong></td>
</tr>
<tr>
<td><em>Commercial Benefit</em></td>
<td><em>All Customers</em></td>
<td><em>Managerial Capabilities</em></td>
</tr>
<tr>
<td>• A new software system is in place and/or business systems have been reengineered and/or automated</td>
<td>• Ensure customers can keep records or build wealth more efficiently as a result of installing the software (not games)</td>
<td>• Strategic analysis and planning skills</td>
</tr>
<tr>
<td>• Customers cost base has been lowered</td>
<td>• Ensure customers’ business processes have been significantly and measurably improved as a result of installing the software or buying software development services</td>
<td>• Ability to change focus as the market changes</td>
</tr>
<tr>
<td>• Customers’ firms are more efficient and/or is characterised by less duplication</td>
<td>• Ensure customers’ transaction management processes are substantially improved (not games)</td>
<td>• Ability to anticipate customers’ future requirements</td>
</tr>
<tr>
<td>• The firm’s risk profile has been improved</td>
<td>• Ensure customers can promote their businesses better as a result of using the software products/services</td>
<td><em>Dynamic Marketing Capabilities</em></td>
</tr>
<tr>
<td>• There is less probability that problems will arise as a result of human error</td>
<td>• Ensure customers have been given the ability to integrate their processes with suppliers/ regulators</td>
<td>• Ability to understand customers and their problems</td>
</tr>
<tr>
<td>• The software complements people’s workflows and/or takes the drudgery out of working life</td>
<td></td>
<td><strong>Operational Capabilities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Managerial Capabilities</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to communicate effectively</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>Technical Capabilities</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Analytical and risk assessments skills</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ability to integrate software systems and other business processes</td>
</tr>
<tr>
<td>Goals and Purposes Achieved</td>
<td>Critical Activities</td>
<td>Critical Dynamic and Operational Capabilities</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------</td>
<td>-----------------------------------------------</td>
</tr>
</tbody>
</table>
| **Customer Assurance**     | • Ensure customers can an online customer/supplier network s  
• Ensure customers’ back office costs are significantly lowered  
• Make customers aware of the fact that they can focus more on revenue generation if they use the firm’s software or its services  
• Give customers the ability or the option to become a reseller and increase their revenue opportunities  
• Ensure customers are able to get objective information about their performance as a result of using the software products/services  
• Ensure customers can reduce their error rate by automating their processes  
• Ensure customers are able to manage their knowledge better  
• Ensure customers are given the capability to develop vertical hubs or take part in one or participate in an online community  
• Ensure customers have been able to meet all their critical compliance needs (not games)  
• Provide turnkey or other solution through good project management  
• Ensure customers understand their business’ potential better  
• Give customers the option to be invoiced on a variable cost/pay as used basis and/or pay for different levels of after sales support or subscription services  
• Ensure the software is scalable and can be built upon over time | • Ability to integrate and improve the firm’s own systems  
**Marketing Capabilities**  
• Relationship building capabilities  
• Ability to convey to customers that the firm’s people understand their problems  
• Ability to lever off jobs successfully completed in the past |

---

*Table 7.8*  
THE SOFTWARE ENGINEERING FIRMS Activities and Capabilities Required to Achieve Customers’ Goals and Purposes
## Table 7.8
### THE SOFTWARE ENGINEERING FIRMS
Activities and Capabilities Required to Achieve Customers’ Goals and Purposes

<table>
<thead>
<tr>
<th>Goals and Purposes Achieved</th>
<th>Critical Activities</th>
<th>Critical Dynamic and Operational Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure that the software product reflects local practices and regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure the software solution is easily integrated into established processes and reflects customers’ workflows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure the software product is compatible with leading applications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure the software product can be customised or changed easily</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure the software always reflects customers’ interests (games)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Relationship Building Activities**

*All Customers*

• Ensure the firm’s people learn about customers by developing long-term relationships
• Ensure the firm’s people keep in regular contact with customers to make them feel valued
• Lever off the fact that customers are given the impression that their strategies are aligned with the firm’s
• Ensure customers are aware of the firm’s commitment to continual improvement
• Ensure customers appreciate that they can access specialist knowledge through the software
• Ensure customers appreciate that they will be given 24-hour phone or web support
The interviewees also made it clear that they believed customers’ goals and purposes are advanced by the way Firm H charges them for the software. Customers do not pay for the whole software by making a lump sum payment. They pay an initial lump sum and then a fee to the firm whenever they use it to complete a transaction. According to the Executive Chairman, ‘we’re offering [customers] efficiency. We need to measure our own delivery against that but that’s the principle price point. We will only charge them on a use basis.’ Customers know it is in Firm H’s best interest to keep customers’ costs low. This provides customers with the assurance that they can pursue a broader set of opportunities in the stockmarket than would otherwise be possible if they were required to pay Firm H upfront. Firm H also collaborates with its customers on software

<table>
<thead>
<tr>
<th>Goals and Purposes Achieved</th>
<th>Critical Activities</th>
<th>Critical Dynamic and Operational Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure customers appreciate that the software will be kept up-to-date</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure that the firm develops all solutions on time and to specification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Communicate to customers the fact that the firm has an ongoing R&amp;D program and/or involve them in it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers understand that the firm has exemplary internal processes, which means it is likely projects will be completed on time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers appreciate that the firm has few or no direct competitors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensure customers appreciate that the firm is stable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
upgrades and takes an active interest in ensuring its software reflects best practice in stockbroking. Over the course of the relationship with the firm, this puts customers in a better position to understand how the firm’s software can be upgraded to reflect best practice methods.’

At Firm I, the interviewees believed its products and services allow customers to meet their goals and purposes because it allows them to automate their business and accounting processes. Customers can also keep track of the progress of their businesses, work in tandem with their accountant, and focus much more on revenue generation and marketing as opposed to spending too much time bookkeeping and keeping accounts.

The interviewees at Firm J explained that its products and services help customers to achieve their business objectives in a large number of ways. The manner in question depends upon the particular business or industry-specific problem that individual customers want to have addressed. However, in general, customers want to lower their costs and become significantly more efficient. The Vice President Strategy & Professional Services believed customers achieve these outcomes and their other objectives because the firm’s software is reliable and secure. Solutions are also tailored to customers’ systems and the way people are required to complete tasks and do their day-to-day work.

The interviewees at Firm K believed customers achieve their goals and purposes because the firm produces games that are marketable and easy to sell at stores. Many of the games that Firm K produces are based on a movie. If Firm K completes the game when the movie is released and ensures it uses content which reflects the movie’s storyline, then it is more likely that the game will be successful. If the end-user thinks that the game is innovative or is an industry-first, then it is even more likely that more people than originally anticipated will buy the game. In addition to this, because Firm K
provides a turnkey service and gives publishers regular feedback about the progress of
each game that they commission, publishers can plan for the future with more
assurance. According to the Marketing & Business Development Manager, ‘we look at
everything from their view. It keeps coming back to content, and being an ‘industry
first’ that can be sold at the store level. We provide a full turnkey service and they don’t
have to think about it too much.’ If Firm K develops a game that end-users find
enjoyable or which turns out to be a blockbuster, publishers will be able to sell more
units and meet their profit targets.

At Firm L, the interviewees believed that its products and services enable customers
to achieve their business goals because they complement doctors’ and other users’
workflows. The firm’s software makes it easier for doctors to work to their full
potential, gain access to important knowledge easily, reduce their risks and keep
accurate records. The fact that the software can take the drudgery out of the
administrative side of doctors’ work is also important. Taken together, all of these
things allow doctors to be more productive. Doctors are more able to build sustainable
medical practices.

When asked how Firm M’s products and services enable customers to achieve their
business objectives, the CEO explained that the website building business helps the
firm’s enterprise partners and their customers better promote their businesses. This is
because enterprise partners are able to provide website services with Firm M’s
assistance. This gives their customers the impression they are interested in meeting their
business needs in every way. End-users are also able to promote their businesses on the
Internet, often for the first time. Similarly, they are given access to a search engine and
access to all relevant business-to-business directories.

Firm M’s enterprise partners are also given the assurance that the end-user will be
less inclined to use off-line advertising methods, which gives enterprise partners even more scope to lever off their existing product and services, and resource base. The COO explained that this has led to lower churn rates for enterprise partners’ other products. Firm M’s people also help end-users to gain the confidence to maintain their own websites. This includes the confidence to modify them when they need to do so. According to the Software Development Manager and the Marketing Manager, a website gives end-users the scope to promote their businesses on a 24-hour basis, which means they do not have to spend as much time responding to customers’ general enquiries. Customers can also experiment with different methods to promote their businesses online and do so at minimal cost.

The interviewees at Firm N believed that customers’ goals and purposes are achieved because the firm’s software helps customers reduce their costs and rationalise their systems. Customers can buy goods and services off the Internet with much more assurance than they would otherwise be able to if they had not been using Firm N’s software. The Director of Business Development believes customers are given the benefit of ‘a lot of hand holding.’ To set up the procurement system properly, customers’ systems must be reengineered and in a manner that promotes their business objectives. Moreover, customers are able to formalise the procurement process and ensure everyone understands how the procurement system at their firm is controlled and monitored.
7.4 Chapter Summary

This chapter examined how managers conceptualise and approach customer value. It was found that managers do conceptualise and approach customer value in multidimensional terms. The interviewees at both the accounting and the software believe it is important for them to constantly consider:

1. The attributes or benefits that are embedded in, or customers can associate with, the firm’s products and services,
2. The consequences achieved by customers when using or being provided with the firm’s products and services, and
3. The goals and purposes which are achieved after customers use or have been provided with the firm’s products and services.

It was also found that the interviewees believe customers use the firm for two reasons:

1. The firm has the kinds of products and services that customers can use to improve their businesses commercially, and
2. Customers have been given some form of assurance that they are buying competitive products and services.

Moreover, it was found that no two firms create value for their customers in the same way even if they operated in the same markets or made the same kinds of products and services available to customers. All firms are required to create customer value for customers across three value dimensions. If a firm is to be successful it needs to invest in resources that deliver the configuration of benefits that its target customers want. This explains why the interviewees at the accounting firms in this study highlighted a
comparable albeit different combination of benefits that they are required to deliver to their customers through the firm’s resources. The same applies to the software engineering firms. The software firms focused on delivering the three dimensions of customer value but were required to invest in resources idiosyncratically to deliver target customers’ desired benefits. The implication of this is that managers need to invest in resources to create value for target customers but in a way that allows the firm to overcome any potentially performance-constraining path dependencies which might be associated with these resources. The more dynamic the marketplace, the more likely the firm will need to overcome such path dependencies. The corollary of this is that at both the accounting and software engineering firms, the firm’s people were expected to do their best to give customers the impression that they the firm was overcoming these problems.

At both the accounting and software engineering firms, it was considered to invest in resources to create customer value prudently. This was especially the case at the software engineering firms because customers do not want to pay for technologies or software changes that they cannot use in the short-to-medium term. Software engineering firms are also more likely to be negatively affected if their managers make poor or hard to reverse resource investment decisions than the accounting firms.

The following chapter explores these ideas further by describing how the managers at the high and low performing firms conceptualised and approached customer value.
In addition to the differences that existed between the accounting and software engineering firms in this study, two major differences were revealed between the high and low performing firms in this study. Firstly, it was found that the high performing firms had a far greater capacity to create value along multiple dimensions than the low performing firms, including at the point in time customers are making the decision to purchase the firm’s products and services, when they are being delivered to them, and after they have been delivered.

Secondly, the interviewees at the high performing firms tended to display a greater ability to understand when it is strategically appropriate and profitable to differentiate between different customers groups, especially cater to the specific needs of high value customers. This meant they also displayed a greater ability to develop close, mutually beneficial and enduring business relationships with their high value customers.

8.1 Superior Ability to Deliver Value Tri-Dimensionally

As will be discussed in the following sections, it was found that the high performing firms were much better at creating customer value for customers across all three customer value dimensions than the low performing accounting firms. This made it easier for their managers to develop a superior understanding of their firm’s target customers’ needs and how the firm’s resources could be used to optimise customer value.
Creating multiple dimensions of customer value at the accounting firms

As Table 8.1 shows, the interviewees at the high performing accounting firms attribute much of their success to the fact that the firm’s partners are very good at explaining to customers how the firm can help them through the products and services it sells. In particular, they are very good at explaining the longer-term benefits of buying the firm’s products and services, including the benefits of developing a longer-term and mutually beneficial relationship with the firm.

Towards the end of each assignment, the partners at the high performing firms will spend a significant amount of their time clarifying whether the firm met customers’ expectations and whether they will need assistance with more work in the future. If the partner in charge can subsequently explain how the firm can help and or just give customers’ some useful general advice about work they may need to have done in the future, they are even more likely to further endear customers to the firm. They may even be able to pre-empt customers’ future goals and purposes. All the partners at the high performing accounting firms tended to be better at doing than the partners at the low performing accounting firms.
<table>
<thead>
<tr>
<th>Ability to create multiple dimensions of customer value</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm has been able to achieve a good balance between selling compliance and non-compliance based products and services and is able to create customer value across multiple dimensions when providing both kinds of products and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners and other staff can convincingly explain why customers should buy the firm’s products and services, including in what ways they are likely to benefit from them in the short-to-longer-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are heavily involved in all customer assignments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners and other staff take the time to confirm that customers’ expectations have been met and whether the firm can help them solve other problems in the future</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• In line with customers’ and market expectations, the firm’s software products are functional, technologically up-to-date and able to be used with the latest versions of other business programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accounting Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm mainly sells compliance-based products and services and finds it difficult to create value for customers across multiple dimensions when providing both compliance and non-compliance based products and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners and other staff cannot convincingly explain why customers should buy many of the firm’s products and services, especially those designed to create value for customers in the longer-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are not heavily involved in all customer assignments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners and other staff do not always take the time to confirm customers received what they expected and whether the firm can help them solve other problems in the future</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• In line with customers’ articulated needs, the firm’s software products are functional, technologically up-to-date and able to be used with the latest versions of other business programs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Partners at the high performing accounting firms are also more likely to become heavily involved in assignments than the partners at the low performing firms. This benefits everyone. Customers and the firm benefit because the probability that lower-level staff may misinterpret what they need to do for customers is significantly reduced.
If they do approach an assignment in an inappropriate manner, it is likely that the partner will notice this and take corrective action. Customers can also raise concerns with partners during the course of an assignment if they do not think work is being approached productively. The fact that partners play a part in all assignments gives customers more confidence and stops them from worrying that they are subsidising the education of the firm’s lower-level staff rather than having their work attended to properly.

For instance, at Firm A partners are required to become heavily involved at all assignments. It was generally believed the more exposure customers had to the firm’s people, especially its partners the easier it will be for customers to trust the firm’s people’s judgement. If a trust relationship is established, it is much more likely the firm will be used again.

The interviewees at Firm B explained that they did not believe it was enough to just have the technical skills to do customers’ work, its people had to have the ‘soft’ skills too. The Managing Partner explained, ‘I think there are seven contenders for the 100 metre race. All of them are very competent. The one who gets the gold is the one who can relate to clients the best.’ Thus, if customers believe the firm’s partners and other staff understands them and their problems, the firm will be more able to lever off this fact and build a large, loyal customer base. The larger this base, the more the firm can justify the investment in developing specialisations. If Firm B has a large number of commercially relevant specialisations, it will have even more capacity to meet customers’ future needs.

The interviewees at Firm C believed its partners are very flexible and that the firm has been able to develop a good reputation in the marketplace because its people are skilled, flexible and highly responsive to customers’ needs. All of these things
combined make it easier to work with customers and learn more about their values. They also make it easier to understand when it is appropriate to provide a customer with a standard solution and when it is appropriate to provide a customised solution. According to the Director in Charge of Consulting, Firm C’s people have a reputation for ‘getting to the nut of a problem’ quickly.

Although the interviewees at the low performing accounting firms believed their customers are generally satisfied with their performance and the firm can meet their accounting and other business needs, they tend to find it difficult to create value for customers across as many dimensions or as fully as the high performing firms. They explained that partners are not always able to become involved in customers’ assignments, notwithstanding the fact they were required to sign off on all assignments as having been satisfactorily completed.

The low performing accounting firms did not have access to as many customer value creating resources as the high performing firms. This can be attributed to their inability to be able to lever off the skills of their people and the fact that they had been unable to develop as diverse a customer base as the high performing accounting firms. For instance, many of Firm D’s customers were small-to-medium sized firms. Even though the bulk of the firm’s partners were good at explaining how the firm can help them and customers appreciated what they were being told, it was difficult to sell small-to-medium sized firms anything other than compliance-based products and services. Although these customers often had very specific goals and purposes, they only wanted the firm to focus on helping them run their firms or complete discrete pieces of work for them, that is, achieve their needs in a use situation only. These customers tended to be very cost sensitive and were happy to compromise on quality if the survive could survive without a high quality product or service. This meant Firm D was usually given
fewer opportunities to help customers solve more complex medium-to-long term problems. Customers at small-to-medium sized firms were also less able to appreciate the benefits of working with the firm’s people on a regular basis. Neither could they appreciate how a partner could help them to develop their strategies. According to the CEO, this made it more difficult to persuade customers to consider buying some of Firm D’s more innovative products and services, such as its succession planning product.

Firm E had similar problems. However, in its case even though the firm’s people had good technical and people skills, it was involved in less litigation than its competitors, its people can give customers a 360 degree view of their businesses, and its partners can explain its value proposition in dollar terms, it was difficult for Firm E to retain its best people. The CEO explained that until the partnership team developed better leadership skills and became better at identifying who had partnership potential, the firm would not be able to reduce its turnover rates. It was also less likely customers would get the staff that they wanted and/or a consistently high level of responsiveness. This meant it would be harder for them to feel they should invest their time to build good working relationship with the firm’s partners and other staff because they could never be sure the person would be working for the firm in the future.

The other problem associated with being unable to retain good staff is that people who were knowledgeable about customers’ businesses were constantly leaving with knowledge about customers’ firms that was of considerable commercial value to Firm E. This made it more difficult for the people who were still at the firm to fully address customers’ problems and to create value for them across tri-dimensionally. As a result, it tended to be harder for Firm E to compete with the other large, global accounting firms in Australia. Firm E’s competitors also focused on Top 500 firms, large firms and other large organisations. If at any point in time customers got the impression that a
competitor could better serve their needs, it is highly likely they will stop using Firm E and will begin buying that competitor’s products and services.

It was also more difficult for Firm E’s partners to be able to confidently ascertain whether staff had delivered everything to customers that the firm had agreed it would deliver to them. Because Firm E is large and it is not practicable for its partners are only able to meet with customers in senior management. They find it difficult to be present throughout an assignment and usually did not have the time to meet with customers who were not in senior management, even if these customers had important insights that might be useful to learn about. There were many times when Firm E’s partners only found out about a problem because a customer refused to pay on an invoice.

According to the interviewees, Firm F was having problems retaining many of its accounting customers. This is because the accounting marketplace had become much more competitive. The firm’s partners were also finding it much more difficult to convince all but the most loyal of the firm’s customers to not consider rivals’ products and services. The interviewees explained the partnership team was currently revising its strategy and evaluating if the firm could deliver its products and services to customers more profitably. The only parts of the firm which were currently profitable were its financial and insolvency areas. In regard to these business service lines, the interviewees believed the firm had managed to find gaps in the financial services and insolvency markets. The partners who ran these areas were very experienced, very well connected and able to understand how customers wanted to be treated.

According to Firm G’s former Head of Accounting & Policy ‘[the firm was chosen over competitors] because of the historical relationship. Clients don’t move until staff up and go or they don’t get the services they need. Your existing client base will stay true to you. Size and breadth of service becomes more important because the client will
go to other firms if you’re not providing them with what the competitors can provide them with.’ However, once it became known that Firm G was in financial difficulty, it became much more difficult for even the most capable and well connected of partners to convince their customers to stay with the firm. Once Firm G began losing senior staff and other staff, this became an even more serious problem.

**Creating multiple dimensions of customer value at the software firms**

As Table 8.1 shows, the interviewees at the high performing software engineering firms believed their firms were successful because not only did they have the capacity to develop highly functional and application rich software, they could do so in a timely manner. They were also able to ensure the firm’s software remained compatible with other current applications and the latest in hardware. Moreover, everyone appreciated that customers want the firm’s software can do everything that competitors’ software can do. In most cases, this means it has to be fit-for-purpose, compliant, modular, scaleable, up-to-date, compatible with other current applications and able to be used on the latest and/or open platforms. If the firm’s people were not good at conveying that this was the case at all stages of their dealings with customers then it was harder for the firm to compete in the marketplace. It was also harder for them to develop relationships with customers which were of mutual benefit, for instance, actively involving customers in R&D.

Firm H is an example of a high performing software engineering firm which was able to meet customers’ software expectations and deliver value to a large number of customers across multiple dimensions. It was the first firm in Australia to offer automated stockmarket transaction processing. It has been able to lever and benefit from this fact ever since it sold its first product. In addition to this, Firm H’s customers have
always helped Firm H develop new software and have always been happy to be used as case studies. Their eagerness to cooperate has made it easier for the firm to cost-effectively refine and upgrade the firm’s software. The firm’s people are also able to better understand what the software needs to be able to do for customers to be able to cater to their needs. According to the Business Development Manager, ‘our client-base sells our product for us by assuring market share. [They also participate] in reference sites for us.’ In many respects, customers cannot work without the firm’s software. This benefits Firm H because the only reason an existing customer might consider using a competitor’s software is if Firm H’s software became out-of-date or was superseded, they had a bad integration experience or they were given inadequate after care services.

Firm I and Firm J had similar advantages which they could lever off. The interviewees from Firm I explained that Firm I’s software was very well known, it is extremely easy to install and use, it complements customers’ actual workflows, many people learned to use it when they were at school, customers can get training when they need it and the firm regularly upgrades the software. The CEO explained that the founder had a ‘let me follow you home approach.’ He would actually ask people at the point of purchase if he could follow them home and observe how they used the software.’ This meant that the firm’s software was developed to meet customers’ specific requirements, especially their needs in a use situation. The firm has also been able to develop a culture where everyone takes a strong interest in understanding customers’ values. Customers can also choose to pay for a higher level of after sales service by becoming the highest level of subscriber. This benefits customers because they are paying for the level of after sales care that they want. This benefits Firm I because it does not have to spend time and money providing after sales services that some customers do not want.
The Director of Marketing Asia Pacific at Firm J explained, ‘we have a highly loyal customer base….We’re getting better at attracting non-traditional customers. Customers can see they [will get] value for every dollar and person they employ.’ The firm’s customers also associate Firm J with a higher level of value received for each dollar spent as compared to the level of value they would have got from purchasing a competitor’s products and services. The firm’s people worked hard to develop this perception. Firm J’s products and services also give customers more flexibility, as they are cross-platform and they are developed to be reliable and secure. This reduces customers’ long-term risks.

Although the low performing software engineering firms were just as committed to providing high quality software and services as the low performing firms, this tended to be harder for them to do because their processes were much less mature or they were financially constrained. For instance, at Firm K even though it has exemplary development and project management processes, its brand is well known, and it has a history of always meeting publishers’ expectations, as well as any milestones set for its projects, Firm K is unable to spend as much time and money to develop a much broader range of products and services than the high performing software engineering firms and, thus, increase the likelihood that the firm is creating customer value across multiple dimensions. This is because the publishers commission only the games that they want. They are reluctant to give Firm K budget for anything that they cannot benefit from directly or in the short-run. The fact that Firm K cannot deal directly with end-users also makes it difficult for Firm K’s people to understand what end-users want from a game. Firm K has been able to develop a good reputation for being able to develop exhilarating games among the gaming community but has been able to fully lever off this fact. At the time of these interviews, Firm K’s people were investigating if the firm
could eventually become a publisher, and develop and distribute games itself.

In Firm L’s case, its people were still learning about the different ways in which its customers used the firm’s products and services, and might want to use them in the future. The interviewees acknowledged that there is still a large amount that they did not know about how doctors and others in the medical profession work, including how their firm’s software could be used to complement their workflows. Doctors also tend to have very little free time. This meant they were disinclined to work with Firm L’s people to identify how the firm could better help them. Firm L was also partly dependent on sponsorship and advertising money from pharmaceutical firms. This meant it could sometimes be difficult for it to create the perception that it always worked in doctors’ best interests and was not promoting its sponsors’ drugs as opposed to giving doctors impartial advice about them.

The interviewees at Firm M and Firm N explained that their firms do not have any direct competitors. Most of the competitors that it did have did not survive the last downturn in the IT industry. However, according to the interviewees Firm M and Firm N were still not big enough and their processes were not mature enough to be able to fully cater to customers’ multidimensional needs. Neither firm had enough people on staff to be able to fully understand or pre-empt customers’ needs. Because Firm M and Firm N are still dependent on cash injections from equity investors and Government grants, it was difficult for staff to focus on anything other than customers’ articulated and most immediate concerns. Their main priority was to earn enough money to stay in business.
8.2 Ability to Viably Differentiate Between Customers

As Table 8.2 shows, the interviewees at the high performing accounting and software engineering firms believed their firms were very good at understanding when it is appropriate to differentiate between different kinds of customers, including when it is appropriate to focus on the needs of high value customers.

<table>
<thead>
<tr>
<th>Ability to viably differentiate between customers</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
</table>
| **Accounting Firms:** | • Partners and other staff understand that the firm should not compromise on accounting product and service quality and should always achieve customers’ desired consequences in use situations  
• The firm’s people have the skill and the time to create value for high value and loyal customers across multiple dimensions, including the skill and time to develop strong working relationships with all of its high value and loyal customers  
• Partners and other staff ensure high value customers always get what they were promised, including their preferred staff assigned to them | **Accounting Firms:** | • Partners and other staff understand that the firm should not compromise on accounting product and service quality but believe their needs will be met if they sell enough standardised products and services  
• The firm’s people do not always have the skill or time available to create value for its high value customers across multiple dimensions, including the skills and time to develop strong working relationships with its high value and loyal customers  
• There is a general belief that some customers were not worth keeping. These customers would still be given products and services that were high in standard but they were discouraged from using the firm again |

Table 8.2
Ability of the High and Low Performing Firms to Viably Differentiate Between Customers
Table 8.2
Ability of the High and Low Performing Firms
to Viably Differentiate Between Customers

<table>
<thead>
<tr>
<th></th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Performing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners and other staff understand that if a high value customers is dissatisfied the firm’s reputation could be adversely affected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The products and services delivered to high value customers always reflect industry best practice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm may create value for ‘one-off’ customers across only one or two dimensions, that is, the first and second dimension of customer value</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s people understand that the firm must never compromise on software product or service quality and this means that the firm will always ensure all customers’ most essential consequences in use situations are able to be achieved</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm is committed to creating value for high value and loyal customers across multiple dimensions and takes the time to develop strong working relationships with all of its high value and loyal customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Senior managers always ensure that high value customers get the products and services that they negotiated and are given every opportunity to become involved in initiatives to improve its products and services, including become involved in the firm’s R&amp;D efforts and beta testing</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Low Performing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s people understand that the firm must never compromise on software product or service quality and will work with customers to define what they believe constitutes high quality and what they need to achieve in use situations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm creates value for high value and loyal customers across multiple dimensions if these customers express a desire to be treated differently or have negotiated to have differentiated products and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Senior managers always ensure that high value customers get the products and services that they negotiated and may be given the opportunity to become involved in the software development process or the firm’s R&amp;D efforts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

189
The interviewees at the high performing firms believed that it is very important at their firm to make sure that high value customers always get what they were promised. These customers are very much aware of the fact that they can affect the firm’s long-term financial performance, including its ability to survive financially. If they are dissatisfied with the firm, they can easily spread bad word-of-mouth about the firm. Their managers tend to be influential so anything bad that they might have to say about the firm will have weight in the marketplace. These firms are also in a strong position to litigate if they are especially unhappy with the firm’s products and services.

The interviewees at the high performing firms also believed that they were good at acquiring and retaining profitable customers. This is because their managers were very good at understanding when a customer was ‘one-off’ and unlikely to use the firm again, and when a customer was likely to use the firm repeatedly. The customers who were likely to use the firm repeatedly were usually very loyal and often the source of referrals.
The interviewees at the high performing firms believed that it was in everyone’s best interests if they could understand when it was appropriate to focus on creating value for customers across multiple dimensions and when it was not. They believed that ‘one-off’ customers could be satisfied if value was created for them across only two dimensions while loyal customers wanted to have value created for them all three customer value dimensions. The interviewees at the high performing firms believed that some customers are not at all interested in having their goals and purposes focused upon. As long as these customers are sold products and services that are commercially relevant, can meet their needs in a use situation, and which compared well to competitors’ products and services, their needs will be perceived as having been addressed. In contrast, loyal customers and high value customers expected the firm and its people to display an appreciation of all their needs, including assistance to achieve their longer-term goals and purposes.

The interviewees at all the high performing firms explained that it is very important for the firm to ensure that all customers are provided with products and services which are high in quality. The firm’s reputation could be badly affected if a customer or a group of customers are not happy with the firm and creates bad word-of-mouth. Moreover, once customers have decided to use the firm, it is essential that customers’ desired consequences in use situations are always achieved. Customers can tolerate the idea that they might have been better off if they used the firm’s competitor’s products and services but they cannot tolerate the idea that the firm did not do what had been agreed to or was unable to help them achieve their short-to-medium needs and objectives.

The interviewees at the high performing firms also explained that high value customers want to be sold products and services that are considered best practice. This
means that high value customers do not just want products and services that meet their needs in a use situation, they want to be put in a position where they can say that they have been provided with products and services which reflect industry best practice. All of the interviewees at all the high performing firms believed that this was something that they could achieve and in a way that was superior to anything competitors could do.

The interviewees at the high performing firms explained that all customers expected to receive the firm’s standard product and service offering at the very least, unless they specifically asked the firm to give them a non-standard or customised solution. They explained that there was still a presumption that it was always good to exceed high value customers’ expectations whenever this was possible. It was also considered to be very important to ensure high value customers are assigned the people that they asked to have work on their projects. The low performing firms could not always do this either because they were smaller, less organised or did not give customers this option.

The high performing firms had an advantage over the low performing firms because they tended to better at developing long-lasting business relationships with customers. In regard to high value customers, this was considered to be very important. The interviewees at the high performing firms believed their firm is very good at attracting and retaining high value customers because their senior managers are very proactive and work very hard to develop a dialogue with these customers.
Ability to viably differentiate between customers at the accounting firms

As Table 8.2 shows, there were some qualitative differences in the way that the high performing accounting firms differentiated between customers. For instance, Firm A did not have a policy to discriminate against any of its customers. The firm’s people are expected to treat customers the same and ensure everyone receives products and services which are high in quality. At no stage are customers to be given their impression that their work is less important than another customer’s work. The interviewees explained that many of the firm’s customers are small-to-medium in size businesses and were likely to stop using the firm if they believed their work was not considered to be as important as the work of other customers.

However, the interviewees did admit that high value customers are treated differently because they wanted to be treated differently. It is also normal practice to allocate account managers to them. The Director in Charge of Consulting, Sales & Marketing at Firm C believes ‘[high value customers] use us because of our experience but also our relationships. We have to establish relationships, an ability to interact and understand their business.’ As a result, high value customers either received extra or differentiated products and services because they asked for them, they were willing to pay for them or because it was realised they could not be satisfied otherwise.

If it were possible to partner with a high value customer in some way, this was something that the high performing accounting firms would do too. For example, employees at the high performing accounting firms were often considered to be an extension of high value customers’ own employee base. In some cases, Firm A, Firm B and Firm C’s employees spent months on end working for a high value customer. This often occurred when customers bought a non-compliance product and service, such as an auditing service where the firm’s people were required to work closely with Board
The interviewees at the low performing accounting firms in this study were committed to developing good working relationships with high value customers and were keen to partners with them whenever an opportunity to do so arose. The Partner in Charge of NSW at Firm D explained ‘we are able to listen and then respond.’ At Firm E, the Chief Marketing Officer said the firm was good at developing pseudo-partnerships with its high value customers: ‘we provide 100% quality, a collaborative style of service, congenial relationships and value-add intangibles.’ At Firm F, the Managing Partner summed up the values that allowed the firm to attract and retain its most valuable customers as its people’s ‘responsiveness’. It was important for the firm’s people to be ‘on call.’ This created the impression that the firm’s people were like regular staff.

However, in the same way that it was difficult for the low performing firms to create value along across multiple dimensions and in a manner conducive to individual customers’ needs, it was difficult for Firm D, Firm E, Firm F and Firm G to ensure its high value customers were always treated in a manner that was mutually beneficial. This could be attributed to the fact that their people were less skilled or did not have the time available to focus on developing such relationships. It can also be partly attributed to the fact that the firm had been unable to use its resources to develop a diverse enough customer base. As the CEO at Firm D explained, the fact that the majority of its customers are small-to-medium size firms made it very difficult for its people to find the time to develop a diverse and high value customer base. The interviewees at Firm D believed its partners and other staff are good at understanding which customers are loyal, high value or had the potential to become high value. However, the firm did not have enough staff to understand when it might be appropriate and profitable to actively
discriminate between customers. Unless high value customers asked for differentiated products and services, it was often easier to deliver the firm’s standard product range.

According to the interviewees at Firm F and Firm E, it could be very difficult to compete in the current marketplace and develop mutually beneficial relationships with customers. These firms found it difficult to retain many of their best people. This lessened the likelihood that high value customers would have products and services delivered to them as well or as consistently as they would have liked. Even if the firm’s people were able to develop a strong rapport with key customers, it was difficult to lever off this fact. This is because these firms found it difficult to retain good staff and customers were constantly being poached.

According to the interviewees at Firm G, Firm G had originally targeted small-to-medium size firms. However, its executive decided to be more ambitious and target larger firms. This created many problems for the firm’s people. The firm’s product and service mix was still being developed and the firm’s people did not always know how to present them to different customers. The partnership team were also keen to rid the firm of unprofitable and/or time-consuming customers. They actively promoted a policy for identifying such customers and divesting the firm of them. This created conflict as some customers had worked with some of the firm’s people for many years and were very loyal. Consequently, when the firm got into financial difficulty many customers and senior staff members totally lost confidence in the firm. They made little effort to help the firm overcome its problems. Whenever a partner left the firm, they took customers who were personally loyal to them with them.
Ability to viably differentiate between customers at the software firms

As was the case with the high performing accounting firms, the interviewees at all the high performing software engineering firms believed it is important to be able to viably differentiate between customers. They also believed that they were good at developing partnering relationships with key customers and collaborating with them. It was normal practice at the high performing software engineering firms to regularly consult with the high value customers about the direction the firm’s software should take. High value customers were usually very keen to pilot new software products and other innovations on the firm’s behalf once these products were ready to be trialled. These customers were usually given the opportunity to become an official partner or a high level subscriber. For instance, according to the Executive Chairman at Firm H ‘high value customers use [the firm] because of our support services we offer with these products. It’s the human interface between us and them. This builds the confidence factor and keeps them engaged with us. Also, we provide certain [software] functions that allow these customers to engage with us.’

At Firm I, the Chief Operations Officer explained that once many of the firm’s customers, including its high value customers use the firm’s products and services they become committed to them. This is because the software product is ‘a sticky product, once they buy it, they use it until they get too big or leave [their] business.’ However, the Human Resources Manager at Firm I explained that despite its stickiness, it and other products like it can be easily ‘bought off the shelf.’ This means that the firm must be able to keep customers engaged. If a customer wants differentiated products and services, they can become a subscriber.

The firm was also good at making high value customers believe the firm is very interested in meeting their needs. According to the Human Resources Manager, the firm
appreciated the fact that these customers want to be treated differently and feel important: ‘[high value customers use the product because of] the level of customer service. They can form a personal relationship with the National Sales Manager and this makes them feel important…their problems will be addressed quickly.’

Most of Firm J’s customers are large firms or organisations. According to the interviewees, the larger and more valuable the customer the more important it is for the firm’s people to be able to accurately and comprehensively describe how they were likely to benefit if they bought the firm’s products and services. If a customer had paid large amounts of money in the past and had bought many of the firm’s products and services or had given Firm J entry into an industry it had not previously worked within, they expected the firm’s people to display an appreciation of this, especially when they entered into negotiations with them. According to the Director of Marketing Asia Pacific, ‘if they are entrenched with [Firm J’s] products/maintenance programme they expect to see significant returns, even perks as expected in the IT industry. They would expect significant value-add.’ In addition to this, because they had a vested interest in the firm’s products and services, they expected to be consulted about any changes that might be made to them and be allowed to become involved in R&D.

Although the interviewees at the low performing software engineering firms were also committed to developing differentiated services if there was a case for doing so, they were often unable to do this because they could not fully understand how to do this, were required to focus on some customers more than others or did not have enough resources available. This meant they were often unable to lever off the fact that they had high value customers. For instance, Firm K was required to work within the parameters set by them by publishers. Even though it was of strategic advantage to them that publishers had a large customer base of end-user gamers, Firm K’s people could not
deal with end-users without dealing with the publishers. At Firm K, the interviewees believed that the firm would have more bargaining power and a more enhanced ability to understand and satisfy publishers needs if they could deal with end-users more. The Marketing & Business Development Manager explained, ‘end-user customers want extras, value-add, to become part of a community, they want exclusive content… They want to feel special….We even [tape] interviews with our staff [and place them at the end of the game] to help them develop an affinity with the company.’ However, Firm K was unable to provide them with anything other than a general sense of community.

Firm M and Firm N also had to work within the parameters set for them. According to the Chief Operating Officer, ‘high value customers use [Firm M] because of our customer service, because we operate a customer service desk for our enterprise partners. We all have five business cards and the switchboard operates on that basis too.’ They value the relationship that they have with the firm but they want Firm M to focus on catering to end-users needs in use situations only. Even though enterprise partners are of strategic value to the firm because they give them access to their large customer base and the firm can lever off its brand name, Firm M cannot directly approach end-users without going through their enterprise partners first.

In the case of Firm N, Firm N is only considered to be a means by which vendors selling and buying products hospitality products and services can connect to buy and sell each others’ products. It does not have the resources and has been unable to develop enough product breadth to be able to cater to its different customers’ specific needs. In other words, Firm N is not in a position to identify how it might positively discriminate in favour of its high value customers. The exception to this is when the decision is taken to address high value customers’ software problems before the problems of other customers.
Firm M and Firm N are also still dependent on cash injections from equity investors and Government grants. This means they are not as free to invest in resources to create customer value as they see fit. The firm must get approval from investors or a government committee before it can deviate from its current customer value creation strategy, as outlined in the original submission for equity or government funding.

8.3 Chapter Summary

This chapter reported on the finding that high performing firms have a far greater capacity to create value along multiple dimensions than the low performing firms, including at the point in time customers are making the decision to purchase the firm’s products and services, when they are being delivered to them, and after they have been delivered and payment is made for them. The chapter also reported on the finding that managers at the high performing firms believed it is very important to understand when it is strategically appropriate and profitable to differentiate between different customers groups, especially focus on the needs of high value customers and the relationships they want to build with the firm’s people. The high performing firms were good at leveraging off their reputation in the marketplace but also had the means to create value discerningly. The low performing firms had less capacity to lever off their reputation. They also had less capacity to invest in resources to create value for its customers in a manner that could profitably satisfy the bulk of their customers.

These ideas are explored in more detail in Part V. Chapter 9 through to Chapter 12 report on how managers create and deliver value to customers through the firm’s resources.
PART V

RESEARCH QUESTION 2:

RESULTS & GENERAL FINDINGS
Introduction: Results for Research Question 2

According to Woodruff (1997: 147), ‘an organization should have in place a process for creating and gaining internal consensus about which value concept is best. Unfortunately, there is very little in the way of guidelines or techniques for how this should be done.’ This chapter attempts to provide some insight into the mechanisms, organisational structures and processes involved here. In line with the RBV literature, and the strategy process, resource allocation and strategic decision-making literatures, Chapter 9 through to Chapter 12 reports on how the 14 firms in this study learn about customer value and then translate customer value learning into actions (Woodruff, 1997; Srivastava, et al. 1999), that is, they report on the findings for the second research question:

**Question 2:**

How do managers translate customer learning into processes which allow the firm to deliver value to its customers?

Chapter 9 reports on how the managers learn about customer value. It also identifies the processes that they believed are important to enable customer learning. Chapter 10 reports on how the managers at the high and low performing firms learn about customer value. Chapter 11 reports on how managers at the accounting and software engineering firms contribute to the firm’s customer value delivery strategy and the processes that are used to create the firm’s customer value delivery strategy. Chapter 12 reports on the differences between the high and low performing firms in this regard.
CHAPTER 9

CUSTOMER LEARNING AT THE ACCOUNTING AND SOFTWARE FIRMS

9.1 Customer Value Learning

In the first part of each interview, the interviewees were asked how they learned about the firm’s markets and its customers. They were then asked to describe the processes they employed to allow the firm’s people to share what they learned about the firm’s markets and customers. This section reports on the responses the interviewees at the accounting and software engineering firms provided.

It should be noted that the interviewees at the accounting firms identified an almost identical set of market and customer learning activities to each other. The processes which they believed enable customer learning were also very similar. The same applied to the software engineering firms. None of the software engineering firm interviewees identified activities or processes which distinguished any of them from each other. However, the interviewees at the accounting firms did differ from the software engineering firms in regard to the kinds of activities and processes that they engaged in and used.
Customer value learning at the accounting and software firms

According to the interviewees at the accounting and software engineering firms, learning occurs as a result of (1) two or more organisational members sharing or exchanging information, (2) one or more organisational member(s) sharing or exchanging information with a party external to the firm, (3) one or more organisational member(s) using the firm’s internal knowledge-based resources, or (4) one or more organisational member(s) accessing external sources of information about the marketplace and customers.

Customer value learning by interacting and using other information sources

The activities which the interviewees believed allow people to share information with each other and gain access to other sources of information about customers are summarised in Table 9.1:

<table>
<thead>
<tr>
<th>Two or more organisational members sharing or exchanging information</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Learning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending informal meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending formal meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Talking to colleagues, including technical experts and specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conducting internal seminars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending technical briefings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending formal training and/or mentoring sessions with partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Ensuring there is a diversity of staff in assignments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conducting performance reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Learning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending informal meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Attending formal meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Talking to colleagues, including technical experts and specialists</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Conducting internal seminars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Liaising with product development team members</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table 9.1
Critical Customer Learning Activities at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>One or more of the firm’s people sharing or exchanging information with a person or people external to the firm</th>
<th>External Learning</th>
<th>External Learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>Software Engineering</td>
<td></td>
</tr>
<tr>
<td><strong>External Learning</strong></td>
<td><strong>External Learning</strong></td>
<td><strong>External Learning</strong></td>
</tr>
<tr>
<td>• Attending networking events</td>
<td>• Attending networking events</td>
<td>• Attending networking events</td>
</tr>
<tr>
<td>• Talking to customers, especially key decision-makers</td>
<td>• Talking to customers, especially key decision-makers</td>
<td>• Talking to customers, especially key decision-makers</td>
</tr>
<tr>
<td>• Talking to suppliers</td>
<td>• Talking to suppliers</td>
<td>• Talking to suppliers</td>
</tr>
<tr>
<td>• Talking to alliance or channel partners</td>
<td>• Talking to alliance or channel partners</td>
<td>• Talking to alliance or channel partners</td>
</tr>
<tr>
<td>• Conducting customer awareness sessions and seminars</td>
<td>• Conducting customer awareness sessions and seminars</td>
<td>• Conducting customer awareness sessions and seminars</td>
</tr>
<tr>
<td>• Working closely with customers</td>
<td>• Working closely with customers</td>
<td>• Working closely with customers</td>
</tr>
<tr>
<td>• Conducting roadshows</td>
<td>• Conducting roadshows</td>
<td>• Conducting roadshows</td>
</tr>
<tr>
<td>• Interviewing customers about their needs</td>
<td>• Interviewing customers about their needs</td>
<td>• Interviewing customers about their needs</td>
</tr>
<tr>
<td>• Talking to competitors/other professionals from other accounting firms</td>
<td>• Talking to competitors/other professionals from other accounting firms</td>
<td>• Talking to competitors/other professionals from other accounting firms</td>
</tr>
<tr>
<td>• Following up on sales enquiries with potential customers</td>
<td>• Following up on sales enquiries with potential customers</td>
<td>• Following up on sales enquiries with potential customers</td>
</tr>
<tr>
<td>• Using personal network</td>
<td>• Using personal network</td>
<td>• Using personal network</td>
</tr>
<tr>
<td>• Talking to finance press contacts</td>
<td>• Talking to finance press contacts</td>
<td>• Talking to finance press contacts</td>
</tr>
<tr>
<td>• Talking to potential customers</td>
<td>• Talking to potential customers</td>
<td>• Talking to potential customers</td>
</tr>
<tr>
<td>• Talking to people in government</td>
<td>• Talking to people in government</td>
<td>• Talking to people in government</td>
</tr>
<tr>
<td>• Ensuring senior people are involved in all assignments</td>
<td>• Ensuring senior people are involved in all assignments</td>
<td>• Ensuring senior people are involved in all assignments</td>
</tr>
<tr>
<td>• Senior staff liaising with industry leaders and experts</td>
<td>• Senior staff liaising with industry leaders and experts</td>
<td>• Senior staff liaising with industry leaders and experts</td>
</tr>
<tr>
<td>• Providing products and services to other professionals</td>
<td>• Providing products and services to other professionals</td>
<td>• Providing products and services to other professionals</td>
</tr>
<tr>
<td>• Interviewing dissatisfied or exiting-customers</td>
<td>• Interviewing dissatisfied or exiting-customers</td>
<td>• Interviewing dissatisfied or exiting-customers</td>
</tr>
</tbody>
</table>
Table 9.1
Critical Customer Learning Activities at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Accessing and using internal and external databases and other sources of customer-related information</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Learning</td>
<td>• Accessing and using information from dedicated databases (see Table 9.2)</td>
<td>• Accessing and using information from dedicated databases (see Table 9.2)</td>
</tr>
<tr>
<td>External Learning</td>
<td>• Reading newspapers/journals</td>
<td>• Reading newspapers/journals</td>
</tr>
<tr>
<td></td>
<td>• Reading information provided by email subscription services</td>
<td>• Reading information provided by email subscription services</td>
</tr>
<tr>
<td></td>
<td>• Reading competitive intelligence reports</td>
<td>• Reading competitive intelligence reports</td>
</tr>
<tr>
<td></td>
<td>• Conducting market research</td>
<td>• Conducting market research</td>
</tr>
<tr>
<td></td>
<td>• Watching television programmes</td>
<td>• Personally reading about competitors’ progress</td>
</tr>
<tr>
<td></td>
<td>• Participating in media events</td>
<td>• Reading product reviews</td>
</tr>
<tr>
<td></td>
<td>• Researching gaps in customers’ knowledge</td>
<td>• Reviewing competitors’ advertising</td>
</tr>
<tr>
<td></td>
<td>• Identifying customers’ compliance needs by reviewing legislation</td>
<td>• Analysing licensor’s market research reports (if relevant)</td>
</tr>
</tbody>
</table>

As Table 9.1 shows, the interviewees at both the accounting and software engineering firms believed customer and market learning occurs as a result of people sharing and exchanging information about customers with each other. However, the accounting firms tend to employ a larger variety of methods than the software engineering firms.

The interviewees from the accounting firms explained that accounting firms need to hire people with a large range of skills and specialisations. It can also be necessary for them to assemble teams of people who have not worked together before to work on customers’ assignments. It was also considered important to give the firm’s people as
many opportunities as possible to constructively exchange what they know about customers. It was believed the firm would not be to capitalise on the fact that diverse groups of people have been brought together and people would not be able to do their work properly if they did otherwise. Thus, the firm’s people are encouraged to come together regularly and in as many forums as is practicable to learn about customers. Partners are also expected to mentor younger staff. They are expected to supervise younger staff during assignments and teach them how to work autonomously. The benefit of partners and younger staff working together is that they can share each others insights into customers’ problems and how best to solve them. At Firm B this was taken a step further. Third year staff are expected to mentor second year staff and second year staff are required to mentor new hires and graduates.

Although the software engineering firms also hire many specialists who are required to work together to solve customer value related problems, it was much less necessary to encourage staff to meet regularly and in a variety of forums to discuss customers and the marketplace. The interviewees explained that at software engineering firms, everyone understands the role they are supposed to play in the customer value creation process, in particular, the role they play in the software development process. Meetings tend to be convened only if there is a specific technical problem that needs to be solved and the input of other managers or technicians is required.

Similarly, although senior managers at the software engineering firms are expected to mentor younger staff, they are not expected to do so to the same extent that partners at the accounting firms are expected to do so. According to the interviewee, people are hired because of their qualifications and/or experience. If the firm does hire someone who is inexperienced, they usually learn how to do their work very quickly because their work is either very technical or task-oriented. They are also required to focus on
gathering or assessing detailed customer requirements much more than senior staff. This tends to make it less necessary for senior staff to regularly mentor them.

The interviewees at the software engineering firms also believed that the people on the firm’s product development team are usually the best source of information about customers’ needs and the marketplace. This is because the product development team deals with and consults with more people internally and externally than anyone else at the software firms, including customers. They are usually more up-to-date with the latest technologies than anyone else too.

Table 9.1 shows the interviewees at the accounting and software engineering firms encourage their people to regularly liaise with external parties to share and exchange customer and market-related information with them, including customers, suppliers, alliance partners and other industry professionals. The interviewees at the accounting and software engineering firms explained that it is important to ensure opportunities are found to learn about customers by talking to customers. It is best to do this when discussing customers’ needs or working on a project, although it was also considered helpful if the firm’s people were able to establish social ties with customers.

The interviewees at the accounting firms explained that partners were expected to develop both working and social relationships with customers. There was less of an expectation for lower-level staff to do this but if they could then this was generally considered to be a good thing, as it was more likely that they would learn something important about customers or get good sales leads. However, it was also realised that it unlikely that lower-level staff had the capacity to socialise with customers in senior management.

The interviewees at all the accounting firms also explained that it is very important for partners to interview customers who have expressed dissatisfaction with the firm’s
performance. This helped them learn about the things the firm could have done better and reduce customer turnover.

The interviewees at the software engineering firms explained that they believed it is important for staff to work with customers to learn about their needs and socialise with them if this were possible. This was especially important if someone had been hired to engage in business development, sales or marketing activities. However, the interviewees also believed that it was not essential to focus on obtaining privileged information about customers’ values serendipitously. This is because software engineering firms have protocols for gathering information about customers’ requirements as part of the software development processes. The firm also hires people to deal with customers regularly and on a face-to-face basis, such as the firm’s development people. However, there was a general belief that it is the role of the firm’s senior management team to establish relationships with customers in senior management and to generate opportunities through these relationships.

There was also a general belief that it was important to focus on customers who had expressed an interest in the firm’s software or had bought software from the firm in the past. Because the software engineering industry is very competitive, the interviewees believed it is important for everyone to focus on doing the work that they were employed to do. The only people who were really expected to deal with customers on a daily or face-to-face basis and engage in sales related research were those who were specifically employed by the firm to do this work, such as the firm’s business development managers.

Table 9.1 also shows that the interviewees at both the accounting and software engineering firms believed it is important to liaise with competitors, especially other professionals and other employees who worked at competitors’ firms. The interviewees
at the accounting firms explained that it can be difficult for accounting firms to hold on to good employees. It was usually in an accounting firm’s best interests if partners kept in touch with other professionals not working at their firm. If a suitable vacancy arose, then it was easier to fill the role. It was also considered less risky to offer the role to someone who a partner already knew.

The interviewees at the software engineering firms also believed it was important to keep track of people who might be good to hire in the future but it was also considered just as important to find out if competitors were doing something new, including developing functions and technologies that the firms was not currently offering customers.

Table 9.1 also shows that the interviewees at the accounting and software engineering firms believed their people learn about customers and the marketplace by accessing internal and external sources of information, including their own internal databases or reports generated by outside parties. There were only slight qualitative differences between the accounting and software engineering firms. The interviewees at the accounting firms believed it is important to focus on accessing information sources that can identify and explain customers’ knowledge gaps or how their compliance obligations might change, while at the software engineering firms the interviewees believed it was much more important to understand the kinds of problems customers can or might have with the firm’s software. There was also much more emphasis at the software engineering firms on competitor intelligence than at the accounting firms.
Critical customer and market learning structures, methodologies and processes

Table 9.2 describes the organisational structures, systems, methodologies and analytical processes which the interviewees at the accounting and software engineering firms in this study said that their people use to learn about customers and the marketplace. In line with the customer learning activities that managers engage in, these can be divided into two categories:

1. The organisational structures, systems, methodologies and analytical processes which allow the firm’s people to interact to share information, and
2. Those organisational structures, systems, methodologies and analytical processes which can be used to learn about and further analyse customer-related problems.

As Table 9.2 shows, the people/team structures and processes used at the accounting and software engineering firms to facilitate the exchange of information between employees were similar. At both types of firms there was a very strong emphasis on using account and quality management teams, and regular staff meetings to ensure information is properly exchanged and disseminated.

According to the interviewees at the accounting firms, these people/team structures are able to work because of the partnership structure.10 Because partners own the firm, they have a vested interest to ensure people are organised and teams are formed that enable useful customer-related information to be identified and disseminated across the firm. According to the interviewees at the software engineering firms, its people are able to work together because everyone understands how they are expected to contribute to the firm’s software development related projects and when it is appropriate to consult

---

10 A comprehensive account of how professional service firms operate and the partnership structure is applied at professional service firms can be found in Maister (1997).
and work with specialists, such as the people in the firm’s account management or quality assurance teams.

<table>
<thead>
<tr>
<th>People/Teams, Methodologies, Systems and Processes that Facilitate the Exchange of Customer Information and Enable Learning and Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Team structures and systems or processes that facilitate the exchange of customer information</strong></td>
</tr>
<tr>
<td><strong>Accounting</strong></td>
</tr>
<tr>
<td>People/Team structures</td>
</tr>
<tr>
<td>• Account management teams</td>
</tr>
<tr>
<td>• Quality assurance teams</td>
</tr>
<tr>
<td>• Regular staff meetings</td>
</tr>
<tr>
<td>• Internal staff project updates</td>
</tr>
<tr>
<td>• The partnership structure</td>
</tr>
<tr>
<td>Systems/Processes</td>
</tr>
<tr>
<td>• Communications system and protocols (phone, email, etc.)</td>
</tr>
<tr>
<td>• White papers are regularly developed and distributed to customers/staff</td>
</tr>
<tr>
<td>• Process to refer opportunities to other partners and specialists</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Database systems, methodologies and processes that enable customer learning and customer-related facts or data to be analysed</td>
</tr>
<tr>
<td>---</td>
</tr>
</tbody>
</table>
| **Databases Systems** | - Limited or partial use of the CRM system  
- Extensive use of the knowledge management system  
- Extensive use of resource management/timesheet system | **Databases Systems** | - Extensive use of the CRM system  
- Extensive use of the knowledge management system  
- Extensive use of project management system/software |
| **Analytical Methodologies** | - Account management methodologies  
- Total and continual quality improvement methodologies  
- Bid and tender management methodologies  
- Limited use of project management methodologies | **Analytical Methodologies** | - Account management methodologies  
- Total and continual quality improvement methodologies  
- Bid and tender management methodologies  
- Extensive use of project management methodologies |
| **Data Analysis Processes and Other Analytical Processes** | - Processes to identify and report on work in the pipeline and agree on the resources that will be required to do the forecast work  
- Formal project update meetings with customers  
- Accounting product development processes  
- Strategic planning sessions which address customers needs  
- Supply driven product development processes  
- Meetings to discuss impact of legislative changes on customers  
- Processes used for handling and addressing customers’ complaints  
- Processes used to resolve conflicts of interest  
- Staff performance management processes | **Data Analysis Processes and Other Analytical Processes** | - Processes to identify and report on work in the pipeline and agree on the resources that will be required to do the forecast work  
- Formal project update meetings with customers  
- Software development and upgrade processes  
- Software requirements gathering process  
- Reports that track customers’ usage of the firm’s website  
- Brainstorming meetings to identify creative solutions to customer problems  
- Market research processes  
- Case study write-up and reference site development process |
According to the interviewees at the accounting firms, staff can use the customer relationship management (CRM) or a similar database but tended to be reluctant to use it regularly or exploit the information in it as fully as it was possible to do so. This is because they preferred to keep track of useful customer-related information mentally or they found it difficult to access when they needed it. In contrast, the interviewees at the software engineering firms believed the firm used its CRM system extensively and that it played an important role in ensuring useful information was transferred across the firm. In most cases, the CRM was used to collect data and generate reports. The reports were used to understand if the firm was performing and was satisfying customers. The CRM was available to everyone at the software engineering firms and was usually accessed through the firm’s Intranet. The CRM was used to document everything the firm’s customers ever said they wanted from the firm’s software, including what they wanted in the next version of it. Many people contributed information to the database, including support services or call centre staff, quality assurance specialists, business analysts and marketing or sales staff.

Knowledge management systems were used extensively at both the accounting and the software engineering firms. These databases were used to gain access to information about techniques that might be used to solve customers’ problems, techniques used in the past and work that was done for customers in the past.

At the accounting firms, the resource management or timesheet system was used to keep track of resources and engage in resource planning activities. The interviewees at the software engineering firms, on the other hand, use project management software extensively to keep track of resources and engage in resource planning activities. Project management software was used because it could be used across the enterprise
but also because it is critical to the software development process and allows everyone to do the work they were hired to do. Both the accounting and software engineering firms used the Intranet to communicate useful information to staff, including publishing white papers and other critical documents.

The accounting and software engineering firms both had protocols in place to ensure opportunities would be referred to the right person at the firm and both used the email system to exchange information about opportunities.

The accounting and software engineering firms both used account management, quality improvement, bid and tender management, and project management methodologies. However, in line with their limited use of project management software, the accounting firms did not use project management techniques as pervasively as the software engineering firms. Instead, partners were expected to mentally or manually monitor if accounting assignments were being completed to plan and in line with customers’ expectations.

There were a number of notable qualitative differences between the data analysis processes and other analytical processes used at the accounting and software engineering firms, notwithstanding the fact that they both had processes in place to identify work in the pipeline and the resources the firm would need to do this work, track the progress of assignments and projects, and develop new products and services. According to the interviewees at the accounting firms, whenever the partnership group met they discuss the work that each partner believes their firm will be doing in the next year and the resources that will be needed, especially how many people will be required. The analysis was either based on present commitments to customers, what customers said they would need from the firm in the next year and/or the history of work done in the past. If the partners were unsure of whether they had enough skilled people at the
firm they organised for a skills gap analysis to be done. This work is normally done in consultation with the firm’s human resource specialists.

At both the accounting and the software engineering firms, it was considered important to keep customers up-to-date with the progress of assignments or projects, which was also seen as an opportunity to work with customers to determine what the firm could do better. According to the interviewees at the software engineering firm, the firm’s sales or business development managers and project managers tend to do this work. Their analysis were also based on what had been promised customers, what customers said they would need from the firm in the next year and/or the history of work done in the past.

The interviewees at the accounting and software engineering firms also explained that their firm used a number of analytical processes to understand the products and services that customers want and are likely to need from the firm. According to the interviewees at the accounting firms, these include the firm’s strategic planning and product development processes, and meetings specifically designed to understand how customers might be affected by legislative and other changes. Partners use these processes to identify what they collectively believe customers are likely to buy from the firm, including to what mix of compliance and non-compliance products and services the firm should make available.

According to the interviewees at the software engineering firms, the firm’s software development and gathering requirements processes were very important and allowed everyone at the firm to understand what customers wanted from the firm’s software. These processes could be used to understand the functions and other applications that needed to be embedded in the firm’s software in the next release cycle. It was also considered very important to keep track of how customers’ used the firm’s websites and
to conduct market research regularly.

Because software development can be difficult and it may be necessary for the firm’s people to work together to interpret customers’ problems, the firm’s people met regularly to ‘brainstorm’ and try to find innovative but practical ways to solve customers’ problems. These processes were complemented by the case study write-up and the reference site development processes at the firm. It was also normal practice at the software engineering firms to conduct post-project reviews and determine if the firm could have done something much better.

The interviewees at the accounting firms were also adamant that it is essential to learn about any potential conflict of interest before making a commitment to work for a customer. It was considered extremely important to ensure that the firm’s auditing commitments did not conflict with any business consulting work the firm might accept from an auditing customer. This is because accounting firms have a legal obligation to provide objective auditing services. As a result, partners were required to discuss any potential conflicts of interest with the rest of the partnership team, including the effects on work already started. If the firm did take on work where such a conflict might arise, ‘Chinese walls’ were set up to restrict access to audit information about customers. At the software engineering firms, conflicts of interest rarely arose. These kinds of precautions were not necessary. However, the firm’s people were still required to use any information they gathered about customers with integrity and lawfully.

9.2 Chapter Summary

This chapter reported on the methods managers use to learn about customers and the resources that they use to develop a consensus view of how the firm will use the firm’s resources to create value for its customers. It was found that learning occurs as a result
of (1) two or more organisational members sharing or exchanging information, (2) one or more organisational member(s) sharing or exchanging information with a party external to the firm, (3) one or more organisational member(s) using the firm’s internal knowledge-based resources, or (4) one or more organisational member(s) accessing external sources of information about the marketplace and customers.

The interviewees at both the accounting and software engineering firms believed customer and market learning occurs as a result of people sharing and exchanging information with each other about customers. However, notwithstanding the fact that customer learning tends to be approached in a somewhat generic manner, it was found that the accounting firms encourage a wider range of people interactions methods than the software engineering firms. This is because the accounting firms need to hire people with a large range of skills and specialisations, and regularly assemble cross-disciplinary teams. At the software engineering firms, everyone was expected to focus on the role they play in the software development process. The software engineering firms also had processes in place to ensure all customer-related information is shared and placed in the firm’s databases in a structured manner.

Chapter 10 develops these ideas further and reports on how the managers at the high and low performing firms learn about customers and the marketplace.
CHAPTER 10

CUSTOMER LEARNING AT THE
HIGH AND LOW PERFORMING FIRMS

This chapter describes the differences between how the high performing and low performing accounting and software engineering firms learn about markets and customers. It highlights the way in which the high performing firms were better able to engage in and use a more diverse range of learning activities and processes, and integrate and/or automate market and customer learning processes than the low performing firms.

10.1 Diverse and Integrated Modes of Customer Learning

As Table 10.1 shows, it was considered very important at the high performing accounting and software engineering firms for their people to be able to engage in a diversity of market and customer learning activities. These needed to be complemented by processes that could allow customer-related information to be seamlessly disseminated across the firm. Although the interviewees at the low performing firms acknowledged that it was important to be able to engage in a diversity of customer learning activities and ensure processes were in place to support them, it was difficult for the people at the low performing firms to find the time to network with each other and customers to ensure they were gaining access to information about customers that was critical to their work.

The interviewees at the high and low performing accounting and software engineering firms also revealed that the high performing firms tended to have many
more integrated and, in the case of the software engineering firms, many more automated market and customer learning processes than the low performing firms.

**Diverse and integrated learning activities and processes at the accounting firms**

As Table 10.1 shows, the interviewees at the high performing accounting firms believed their firms engage in a diversity of activities and use many processes to allow their people to learn about markets and customers. They also explained that this is possible because of the firm’s partners and the culture that they promote at the firm. According to the interviewees at the high performing accounting firms, partners are required to encourage the smooth flow of customer-related information across the firm, including between divisional team members and across divisions, between and across the firm’s quality assurance and account management teams, and to other partners as it is required. They explained that this is because the partnership group is heavily committed to ensuring lower-level staff members are able to freely share what they know about customers and the marketplace with each other. They also believed it is important for partners and other staff, including junior staff to regularly meet with customers and other parties external to the firm to learn about customers and the marketplace. It was generally believed that the more good working internal and external relationships and networks that the firm’s people could develop and exploit, the more the firm would benefit.
Table 10.1
The Ability of the High and Low Performing Firms
to Encourage Diverse Customer and Market Learning Activities

<table>
<thead>
<tr>
<th>Diversity of customer and market learning activities</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Partners as Facilitators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners/senior management are required to encourage the smooth flow of customer-related information across the firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are required to meet with all dissatisfied customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are interested in identifying and rewarding lower-level and junior staff who have the potential to become partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are rewarded for developing new business, and referring work to other specialists at the firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lower-level staff as Facilitators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lower-level staff are not required to focus exclusively on billable work and are encouraged to develop internal and external relationships and networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lower-level staff are rewarded for their ability to develop internal and external relationships and networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Staff leaving the firm are usually able to get good references</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Professional Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Professional development and training activities are regularly conducted at the firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accounting Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Partners as Facilitators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners strictly adhere to the traditional partnership model and expect all customer-related information to be given to them</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are not required to meet with all dissatisfied customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are not interested in identifying and rewarding lower-level and junior staff who have the potential to become partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Partners are rewarded for developing new business but are inclined to run their areas as if they are separate businesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lower-level staff as Facilitators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lower-level staff are required to focus exclusively on billable work and are not actively encouraged to develop internal and external relationships and networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lower-level staff are rewarded for their ability to develop internal and external relationships and networks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Staff leaving the firm cannot always get good references</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Professional Development</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Professional development and training activities are not usually conducted at the firm</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The interviewees at the accounting firms explained that partners were able to learn first-hand about customers’ problems or work that they were dissatisfied with by meeting with customers and discussing their concerns. The interviewees at the high performing firms explained that because partners were required to be heavily involved

<table>
<thead>
<tr>
<th>Table 10.1</th>
<th>The Ability of the High and Low Performing Firms to Encourage Diverse Customer and Market Learning Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>High Performing</td>
<td>Low Performing</td>
</tr>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td><strong>Software Engineering Firms:</strong></td>
</tr>
<tr>
<td>Senior Managers as Facilitators</td>
<td>Senior Managers as Facilitators</td>
</tr>
<tr>
<td>• The senior management team is able to ensure all customer-related information flows smoothly across the firm</td>
<td>• The senior management team cannot always ensure all customer-related information flows smoothly across the firm</td>
</tr>
<tr>
<td>• The senior management team regularly meet with all customers in senior management</td>
<td>• The senior management team’s time tends to get monopolised by demanding customers</td>
</tr>
<tr>
<td><strong>The Software Development Process as a Coordinating Mechanism</strong></td>
<td><strong>The Software Development Process as a Coordinating Mechanism</strong></td>
</tr>
<tr>
<td>• Everyone understands how the software development requirements gathering process is used to facilitate learning and communication, and how to get access to critical customer-related information</td>
<td>• The firm’s people are still learning how to use the software development requirements gathering process to facilitate learning and communication, and get access to critical customer-related information</td>
</tr>
<tr>
<td>• The product development and/or software release cycle, the knowledge management system and/or the CRM system, the communications system, the accounting system, and people’s sales and customer support roles are all integrated so that customer requirements can be efficiently gathered, and to give customers the impression that their suggestions and complaints are always taken seriously</td>
<td>• The product development and/or software release cycle and the knowledge management system and/or the CRM system, and people’s sales and customer support roles are partially integrated and allow customer requirements to be gathered but it can still be difficult to identify all customer requirements and seriously respond to all customer suggestions and complaints</td>
</tr>
</tbody>
</table>

The interviewees at the accounting firms explained that partners were able to learn first-hand about customers’ problems or work that they were dissatisfied with by meeting with customers and discussing their concerns. The interviewees at the high performing firms explained that because partners were required to be heavily involved
in all customer assignments it tended to be much easier for them to learn about customers’ problems or approach them at a later date about their problems. For instance, all of Firm A’s partners were required to spend a large proportion of their time dealing with customers and working on-site. It was well known in the industry that Firm A’s partners worked with customers for a much larger proportion of their working week than the partners at all the other firms in the industry. This meant they could get first-hand information about customers’ problems from customers and the firm’s own people. They could also better understand how the firm’s lower-level staff members were using their time and what kind of team structures worked.

One of the other benefits of partners being required to spend a large proportion of their time at customers’ premises, supervising the firm’s staff and dealing with customers is that they can learn first-hand if the firm had any major skills gaps. As a result, they are able to advise the human resource manager if they think the firm needs to hire more people and if the firm needs to conduct a skills gap analysis. Individual partners are also put in a position where they can understand if a customer needs to be assigned their own account management team or whether they should be referred to another partner or whether their work requires the combined skills of a cross-disciplinary team. They can also identify if people were being utilised properly and ascertain if they could be utilised in better ways in the future. When the partnership meets, the partnership team discusses whether or not they believe the firm’s people are delivering value to customers, and whether the firm’s strategy is working and is proving to be profitable. It was generally believed at all the high performing accounting firms that the more involved partners were in customers’ assignments the more likely customers would be happy with the work that was done for them and customer-related information could be disseminated effortlessly across the firm.
According to the interviewees at the high performing accounting firms, lower-level and junior staff did not need to have the permission of their divisional partner to liaise with others at their firm and could convene meetings with their colleagues at their discretion. They were also free to liaise and convene meeting with other partners if they thought they or a partner had information that they could share about customers and/or the marketplace. Everyone at the firm, including lower-level and junior staff members are encouraged to develop good working relationships with as many customers as possible. The interviewees explained that if a lower-level staff member had the capacity to deal with customers who were very senior, they were allowed to deal with these customers by themselves. They did not need to refer customer enquiries and other issues to a partner unless there was a strong possibility that the customer wanted more work done and the partner was required to confirm that the firm was able to assist.

The interviewees at the high performing accounting firms also explained that anyone who had the ability to engage in business development activities could do so. This was not considered the sole domain of partners and if lower-level or junior staff had the ability to develop their own clientele they were not prohibited from doing so. Neither was it mandatory that they all refer sales leads to their partner.

According to the interviewees at the high performing accounting firms, if a person was good at developing internal and external relationships and networks, and could develop relationships with customers in senior management, this would normally be acknowledged. This was usually done through the performance review process and people were either rewarded by being paid bonuses or a salary increase. Everyone was expected to refer work to other specialists if this was required and could be rewarded for doing so. The interviewees believed it was in partners’ best interests to create such a culture because the more work the firm won, the more the whole firm would benefit.
Similarly, partners were rewarded at the high performing firms if they were able to show that they were especially good at mentoring junior staff and developing teams of people who could work together and proactively share their ideas about how the firm’s products and services could be used to create customer value.

As a review of the items in Table 10.1 will show, the low performing accounting firms did not engage in as diverse a range of activities or use as many processes to learn about markets and customers as the high performing accounting firms. According to the interviewees at the low performing accounting firms, the traditional partnership model is still used. This means partners are expected to actively engage in business development activities, develop good working relationships with each other and customers, supervise staff and mentor junior staff. Consequently, lower-level and junior staff tended to be discouraged from engaging in business development activities, and using the firm’s time to develop customer relationships, especially relationships with customers in senior management. They were also discouraged from initiating meetings with colleagues and customers without a partner’s permission or without inviting them to the meeting. If they were obliged to convene a meeting, they were obliged to tell the partner in charge about the outcome. It was then up to the partner to decide if they wanted something actioned.

Similarly, even if a lower-level staff member was good at business development and stimulating sales leads, they were usually not allowed to develop the business opportunity by themselves. The exception was if the junior staff member was considered to be partnership material. However, this was rare. At the low performing firms especially, people were usually identified as partnership material very late in their career at the firm. This was one of the reasons there was a high rate of staff turnover at the low performing firms. Even if a junior staff member was the kind of person who
could bring in large amounts of revenue for the firm, it was unlikely they would be rewarded for doing so. Thus, it is much more likely that they would leave the firm before a partnership could be offered to them. Taken together, all of these things also made it difficult for customer-related information to be able to flow freely and smoothly across the firm.

In comparison to the high performing accounting firms, the low performing accounting firms did not invest in as much professional development and in-house training as the high performing firms. According to the interviewees at the high performing firms, it was very important to ensure the firm’s people were up-to-date with the latest in accounting and training was regularly conducted in-house. For instance, at Firm A the firm promoted six values, and three of these involved developing the firm’s people technical and people management skills: Client care, technical expertise, staff rewards, honesty, business excellence, and staff training and development. It also expected its specialists to conduct regular training sessions at the firm, preferring to use the firm’s own specialists rather than bring in training specialists from outside the firm. According to the Partner in Charge of Business Services at Firm C, all divisions are allocated a training and professional training budget each year of $5,000 and an amount of $20,000 to develop the firm’s technical methodologies. All professional staff members are encouraged to take professional development courses through the Institute of Chartered Accountants or CPA Australia.

According to the interviewees at the high performing firms, even if a staff member left the firm, they were normally able to get good references. This meant people were motivated to share information while they were at the firm and even after they had left the firm, provided they did not join a competitor’s firm. One of the other benefits of this policy was that an employee left and joined an organisation which could use the firm’s
accounting services they were more likely to refer the firm. The low performing firms were less inclined to promote this ethos, with the exception of Firm E. However, because Firm E was very large, it was very difficult for partners to give all of its exiting employees the attention that they deserved unless they were moving into a role in senior management.

Diverse and integrated learning activities and processes at the software firms

As the items in Table 10.1 show, the high performing software engineering firms also tended to have more diverse and integrated market and customer learning activities and processes than their low performing counterparts. At the high performing software engineering firms, it was considered very important that senior management work actively towards ensuring all customer-related information flowed freely and smoothly across the firm. They made sure that everyone understood how they were required to manage the knowledge that they accumulated about customers, including how to deal with it electronically. There was also an emphasis on regularly meeting with customers in senior management to confirm if the firm was developing software that met their needs.

Although the interviewees at the low performing software engineering firms also believed their firm used diverse methods to learn about markets and customers, and had been able to integrate many of their customer learning processes, they believed it was more difficult for their firm’s senior managers and other staff members to find the time to ensure everyone was gaining access to critical customer-related information and this information was being properly disseminated. These processes were also yet to be fully integrated and/or automated. The interviewees explained that many of their customers were very demanding, which often meant it was difficult to find the time to
communicate anything but the most urgent facts about customers to other staff members.

The interviewees at the high and low performing software engineering firms unanimously agreed that one of the more important integrating customer learning processes at their firm was the software development process. This process not only allows the firm’s people to gather customers’ requirements in a systematic manner, it helps the firm’s people to understand when and how they should communicate with each other and customers.

At the high performing software engineering firms, everyone understood their role in the firm and how they contributed to the firm’s software development and/or release cycle. This meant that the firm’s senior people did not have to spend as much time instructing staff or helping them decide what should make up the firm’s product and service mix. This made it easier for them to concentrate their efforts elsewhere, for instance, spend more time developing business relationships with influential people or customers in senior management.

At the high performing software engineering firms, the software development process also tended to be much more integrated and complemented by other processes. For instance, Firm I’s systems are heavily integrated and they all are designed to complement or support the software development process. This helped to ensure the success of the software release cycle. People were encouraged to gather requirements, rate them and embed them in the next version of the software in a consistent and timely manner. This helped to ensure the next release had the functions customers said they wanted. To facilitate this, Firm I’s accounting system, knowledge portal and phone system are also all integrated and are designed to complete many tasks automatically. Each of these information systems allow people and other systems to gain access to the
information that they need automatically and from whichever system it was first placed in. For instance, retail and online sales are automatically recorded in the knowledge portal, CRM and the accounting system. People in the call centre and in product development can look at this data whenever they need to do so.

This level of automation makes it easier for everyone at the firm to keep track of sales and customer demand. Issues that are raised and not closed off on the knowledge portal as actioned will automatically be sent through to the CEO, the firm’s quality assurance people and its product development manager to action. If a subscriber is on hold on the phone for longer than a few minutes, they will be automatically placed at the beginning of the phone queue to go straight through to the next available call centre person or the CEO. If the CEO believes someone has been waiting in a queue for too long, he will apologise to them for the delay and personally attend to their problem.

According to the interviewees at the low performing software engineering firms, although everyone understood what the software development process involved, these firms were still learning about what worked and still developing organisational structures that could ensure valuable customer-related information could be disseminated across the firm. As a result, the firm’s people did not have the time to learn about everything that customers’ wanted or were likely to want in the future. They usually did not have the time to learn about anything but customers’ most essential requirements. Consequently, they focused on learning about what customers require in the next release. The interviewees at the high performing software engineering firms were always keen to learn about anything that customers might want in the next release or subsequent releases. This information was usually collected and placed in a database to be used at a later date. This included helping the firm’s managers develop the firm’s strategic plan.
The interviewees at the high and low performing software engineering firms also revealed that the high performing software engineering firms spent a much larger proportion of their time updating their existing software(s) than the low performing software engineering firms. Although the high performing software engineering firms did spend time developing new software products and services, these tended to be an extension or an adaptation of an existing software product and service. Thus, in comparison to the low performing software engineering firms, this automatically gave them a greater range of opportunities to develop even deeper relationships with their customers, especially long established customers.

For instance, the interviewees at Firm J explained that most of their customers bought updates and extensions of Firm J’s software. Only occasionally did the firm win a new customer, that is, a customer who needed to have the firm’s software installed for the first time. This benefited Firm J because its people did not need to invest a large amount of their time developing new customer relationships. In contrast, a large amount of time had to be invested at Firm K, Firm L, Firm M and Firm N to win customers, get sales leads and learn about customers’ needs more generally. This was within a context where the firm’s product offering was still being developed.

In other words, it tended to be less important at the high performing firms to find forums by which privileged information about customers could be obtained. The people they dealt with on a day-to-day basis were able to give them rich insights into what was likely to entice them to buy an update of the firm’s products and services, or extensions of them.

Compared to the low performing firms, this also meant that fewer ad hoc meetings had to be convened to share new information about customers. The high performing firms could lever off the fact that they were established players in the marketplace.
Compared to the low performing software engineering firms in this study, it was less likely that a competitor could radically change their software within the current release cycle and the firm had to ensure it did the same. Also, if established customers believed a competitor had developed new software or function that they could use, they usually felt comfortable and confident enough to approach the firm’s people to explain that this was now the case. This gave the firm’s people ample time to think about whether it was in their best interests to provide the same software or function.

As discussed in Chapter 8 and as Table 8.3 shows, the low performing software engineering firms tended to have less capacity to lever off the relationships they developed with customers. This was the case even if they had been able to develop good working relationships with customers and already had an established customer base. They still had to conduct market research of some kind and engage in other activities to get useful customer-related information serendipitously. For instance, at Firm L this was because it was still developing its knowledge-based products and software which doctors could use in a hospital setting. However, the medical practitioners who were currently using the firm’s software products tended to use it differently. They also did not have time to give the firm feedback about how it might be further developed to enable them to use it diagnose and treat customers. The firm was still learning how to get access to this kind of feedback in a manner that suited doctors.

Firm K had similar problems. Firm K’s publisher customers were based overseas. This meant that it was not practicable for anyone other than the firm’s more senior executives to deal with them on a regular basis. The rest of the firm’s people had to keep up with what was happening in the gaming industry generally by playing competitors’ games themselves.

Firm M and Firm N were still establishing themselves as business organisations.
Their people were still learning about what worked. It was also not practicable for anyone but the firm’s more senior managers to deal with senior management at customer firms. It was normal practice at Firm M and Firm N for meetings to be convened on a daily basis to allow the firm’s CEO and other senior managers to convey what they believed its more influential customers wanted. Even though these meetings allowed people to share what they knew about customers, these firms were still too under-resourced to be able to gather customers’ requirements, develop the software and deliver it to customers on time without any complications arising.

10.2 Chapter Summary

This chapter reported on the finding that at the high performing accounting and software engineering firms it was considered to be very important for people to be able to use a diverse number of customer and learning activities, and to have processes in place to ensure customer-related information can be freely and smoothly disseminated across the firm.

The two chapters that follow examine how managers apply the knowledge that they accumulate about customers. They report on the roles people play in the customer value creation processes and the processes they use to create customer value.
CHAPTER 11

CREATING THE CUSTOMER VALUE DELIVERY STRATEGY AT
THE ACCOUNTING AND SOFTWARE FIRMS

This chapter reports on how the accounting and software engineering firms in this study develop and implement their firm’s customer value delivery strategy. The first section focuses on how people are used and organised to this end while the section that follows focuses on how processes are used to develop and implement the firm’s customer value delivery strategy.

11.1 People and the Customer Value Delivery Strategy

The interviewees at the accounting and software engineering firms were asked to explain how the firm develops its customer value delivery strategy, including who is responsible for deciding what will constitute the firm’s product and service mix, and which processes are used at the firm to help its managers determine how the firm will be best able to profitably deliver value to customers using the firm’s resources and capabilities.

It should be noted that the interviewees at both the accounting and software engineering firms believed the firm’s customer value delivery strategy can be developed through the firm’s strategic planning processes but that it is possible to develop it using other processes. They explained that at times it may be more appropriate to use operational processes to develop the customer value delivery strategy, such as the firm’s budgeting, human resource management and product development processes. The interviewees believed a customer value delivery strategy should explain which products
and services the firm will make available to customers and how the firm’s resources will be used to that end.

According to the interviewees at both the accounting and software engineering firms, the roles people play in the development of the firm’s customer value delivery strategy are fairly well defined. They explained that the people who have the most knowledge about the firm’s customers, its products and services, and an ability to make or influence the firm’s resource investment decisions are responsible for developing the firm’s customer value delivery strategy.

At the accounting firms, the firm’s customer value delivery strategy is determined through a top-down decision-making process. Although lower-level staff may become involved and may help to determine the firm’s product and service mix, the firm’s partnership team are responsible for finalising the strategy and then ensuring it is implemented. At the software engineering firms, the firm’s customer value delivery strategy is determined through a combination of bottom-up/top-down decision-making processes. However, the senior management team has the responsibility of finalising it and ensuring it is implemented.

According to the interviewees, the level of senior management or lower-level staff involvement at any one time also depends upon the nature of the decision that must be made. If the decision is of a strategic nature, such as what should constitute the firm’s final product and service mix or to acquire another firm, the firm’s most senior people need to be heavily involved in the decision. This is because they understand how the firm’s customer value creation efforts can affect the firm’s strategy. They also understand the kind of relationships which must be established with different customers.

If a decision is of an operational nature, such as which staff members should be involved in a customer project, the partner in charge of the relevant service line, in the
case of the accounting firms, or a general/divisional manager, in the case of the software engineering firms, are responsible for driving the decision-making process. At any point in time, if someone at a strategic or operational level believes staff at a lower-level, particularly technically oriented staff may be able to provide insight into how the firm could better deliver value to its customers, that person will be invited to contribute ideas or proffer an opinion.

**People and the customer value delivery strategy at the accounting firms**

As Table 11.1 shows, the interviewees at the accounting firms explained that the partnership group are usually responsible for deciding which customer values the firm should attempt to deliver on, what should constitute the firm’s product and service mix, and whether the firm has the resources available to deliver on that mix. Decisions about delivery mode and whether to use outside parties concerned them but only if the decision could affect the firm’s corporate strategy in some way or its relationship with key customers. Such decisions were usually the domain of the partner in charge of a service line. This is because they are responsible for implementing the firm’s customer value delivery strategy. However, the partnership team still had the power to veto any delivery mode decisions that they might make that the team does not agree with as a group. This is because the partnership team is legally liable for any work that is poorly performed, including any work completed by parties external to the firm on the firm’s behalf.

If a partner or a staff member in a business unit, service line or division is interested in introducing a new service line or new products or services, the partnership group must be involved in the decision and approve any plans for how to proceed. This is because the decision to introduce a new product or service into the firm’s current
portfolio of products and services could affect the way the firm is perceived in the marketplace and change the way the firm’s resources are used. The firm’s partners are also considered to be both technical experts and commercially astute. It is likely that they will be able to make some useful suggestions about how to proceed. This increases the probability that the firm will develop and deliver superior product and services.

There may also be occasions when a decision has to be made about whether a new or existing product can be standardised in some way and offered to a large number of the firm’s customers. If the partnership group can help clarify how this might be done, they will provide the individual partner with advice. Even if they do not become involved, the partnership team still have the responsibility for approving the final product design. This is considered especially important in situations where a partner may need to draw on resources from other service lines.

**People and the customer value delivery strategy at the software firms**

As Table 11.1 suggests, the interviewees at the software engineering firms explained that the firms’ customer value delivery strategy is developed through a combination of bottom-up/top-down decision-making processes. At various times, the firm’s senior management will drive the process while at other times lower-level staff will drive it. When the senior management team is not driving the process, they will play a steering role. When this is the case, they help the firm’s functional and technical people, especially the firm’s product development, marketing and sales managers to understand if they are developing a customer value delivery strategy that is in alignment with the firm’s corporate strategic plan.
Table 11.1
The People Responsible for Developing and Implementing
the Firm’s Customer Delivery Strategy

<table>
<thead>
<tr>
<th>The people responsible for developing and implementing the firm’s customer value delivery strategy</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
</table>
| **Developing the Strategy** | • The partnership team develop the customer value delivery strategy but will consult with the firm’s technical experts if they need to do so  
• The partnership team decide what will constitute the firm’s final product and service mix and whether the firm will develop new products and services  
• Individual partners are required to submit their product and service plans to the whole partnership group to approve  
• NB. At Firm B, decisions about the financial services are made by the Product Committee, which is made up of technical in-house experts and partners | **Developing the Strategy** | • The executive team work in conjunction with divisional managers and technical staff to develop the customer value strategy  
• The executive team work in conjunction with lower-level managers and technical staff to confirm the firm’s final product and service mix  
• Functional/divisional managers are required to submit their product and service plans to the executive team to approve  
• NB. At Firm J, the Board and Worldwide Management Committee are responsible for deciding which products and services the firm will sell globally, although the R&D Group may recommend some products/services. Decisions about how best to localise the firm’s products and services are made by the regional offices.  
• At Firm H, the Pricing Committee may need to be consulted about an intended product and service mix | **Implementing the Strategy** | • Service line/divisional partners are responsible for implementing the customer value delivery strategy  
• Line/divisional partners’ performance and their teams’ ability to successful implement the firm’s strategies is measured as part of the firm’s performance management processes | **Implementing the Strategy** | • Functional/divisional managers are responsible for implementing the customer value delivery strategy  
• Functional/divisional managers’ performance and their teams’ ability to successful implement the firm’s strategies is measured as part of the firm’s performance management processes |
The reason the customer value delivery strategy is developed as a result of bottom-up/top-down decision-making processes is because software needs to be developed with the input of many people. The people who become involved at different stages of the software development and/or release cycle either have an intimate knowledge of customers’ needs, including the needs of key customer groups, the firm’s resource constraints, privileged or technical knowledge that they can apply to the software development or change process, and insight into the relationship different customers want to foster with the firm through the firm’s software.

There were a number of minor qualitative differences between the software engineering firms in this study in how they developed their customer value delivery strategy. These differences can be attributed to the fact that some of the firms developed turnkey software while others did not, and they also targeted different kinds of customers. For instance, Firm H develops its own proprietary software and has the capacity to implement it into customers’ systems if this is required, while Firm I localises an offshore originator’s products and sells it as a shrink-wrapped packaged product from retail outlets or over the Internet. Both firms provide after sales support services. Both firms allow customers to provide advice about product upgrades or to participate in the firm’s R&D activities or become involved in beta testing.

At both Firm H and Firm I the interviewees explained that it is important for the senior management team to make sure that the firm’s technical people get objective information about customers’ requirements. However, the senior management team at Firm H focuses on helping the firm’s technical people make good objective decisions about the firm’s product and service mix for the next release cycle, while at Firm I the senior management team works closely with the firm’s operational and technical staff to decide in what ways customers’ articulated requirements, especially mandatory
requirements will be reflected in the firm’s products and services in the next release cycle.

At Firm J, the dynamic was totally different and this can be attributed to the fact that Firm J is a large multinational that has a large software product and service range. At Firm J, the Board and the Worldwide Management Committee are responsible for deciding what will be in the firm’s product and service mix. The Worldwide Management Committee is required to put all proposals for new initiatives past the Board and the executive team. Representatives from each region, including the Asia Pacific region are required to sit on the Committee. They are required to explain their region’s technological, financial and human resource needs. These managers are responsible because they develop the strategic plan for the whole global group and make sure it is implemented through the firm’s divisions.

The executive team includes the CEO, the Chief Technology Officer and the Chairman’s advisors. All of these people must approve the intended product and service mix, and final approval must be given by the Board. The Board must also be given details about how outside parties might be used to help the firm develop its products or services or deliver them to customers. This is important as it allows the Board to remain conversant with the firms Firm J may want to consider acquiring in the future. The Vice President Strategy & Professional Services explained that decisions about the firm’s products and services tend to be more top-down and then bottom-up. It is believed that the people at the lower rungs of the organisation need to be involved because they understand if a global software product can be localised to meet their customers’ regional-specific needs.

However, at the regional level, the decision to localise a product or service is made collaboratively. This is done in a similar manner to that which was described by the
interviewees at Firm H, Firm I and Firm L. The senior management team in Australia, including the Marketing Manager and anyone else with regular contact with the firm’s customers are required to identify how the product will be localised. These decisions need to be made collaboratively because Firm J operates in such a geographically and economically diverse marketplace. Moreover, not all products can be applied to all markets at the same time. If Head Office tried to roll out the same suite of products across all regions at the same time and set the same performance targets for them, it is unlikely these targets could be achieved. This is the reason why the regional President of Australia is always given the final say as to how the firm’s global products and services will be adapted for the Australia-Asia market. However, the President always consults with the local staff and the Australian office’s channel partners before making any decisions. Each region is given an individual budget and the regional President and the President’s management team then develop the regional product/service strategy. This strategy must align with the firm’s global strategy.

At Firm K, M and N, everyone in the senior management team is involved in deciding which products and services will be delivered to customers. Lower-level employees are encouraged to actively contribute ideas about the firm’s product and service mix at any time.

At Firm K, the MD usually leads the debate and will have the final say. He is also the head of the steering committee. The role of this committee is to ensure that the firm’s projects planning initiatives achieve their objectives. There are two active Board members on the steering committee. The interviewees explained that because it is Firm K’s policy to hire talented and creative people, everyone is expected to get involved in the project planning phase. The senior management team is always involved in project planning because they are experienced and they understand Firm K’s strategic and
financial objectives. Firm K’s people are encouraged to work collaboratively because many different skills need to be brought into play to develop a game.

At both Firm M and Firm N, the whole management team is involved because these firms have fairly flat management structures and everyone at these firms is actively involved in the requirements gathering processes in some way. The CEO of both of these firms explained that the person who drives the decision-making process at any point in time will be the person who is closest to the customer or the person who needs timely technical input to do his or her job properly, such as the Product Development Manager. The CEO explained that while the firm still has a flat management structure, there was no point in putting together job descriptions where people were given highly differentiated managerial and decision-making roles. As long as he was consulted on a daily basis, it was rare that anyone began to make decisions that exceeded his or her authority.

11.2 Processes and the Customer Value Delivery Strategy

As already indicated, the interviewees at both the accounting and software engineering firms believe the firm’s customer value delivery to be an integral part of their firm’s corporate strategy. Although they believed a large proportion of their firm’s customer value delivery strategy can be prepared outside of the firm’s formal strategic planning process, the strategic planning process is still used by the senior management team to determine if the firm’s current customer value delivery strategy is satisfying customers’ needs, could be improved upon or better aligned with the corporate strategy. The interviewees also explained that the successful development, finalisation and implementation of the firm’s customer value delivery strategy often depends on operational processes, such as the firm’s budgeting, human resource management and
product development processes. This tended to be more so at the software engineering firms than at the accounting firms in this study.

According to the interviewees at the accounting firms, the customer value delivery strategy helps to define the mix of compliance-based and other business-related products and services the firm will offer customers through its divisions. At the software engineering firms, it defines which software products and services will be made available to customers as a turnkey product or in a shrink-wrapped packaged form, and to what extent the firm will offer integration services or contract out its services.

At both the accounting and software engineering firms, the customer value delivery defines how many standardised and customised products and services or which combinations of them the firm will make available to customers. The interviewees at the accounting and software engineering firms also believed a customer value delivery strategy is useful if it can define the way in which customers’ needs have changed and the ways they may change in the future. It is considered to be especially useful if it can identify the mix of products and services it should offer customers in the future or if some products and services should be developed or delivered through a network of some kind.

The way in which the strategic planning process and the firm’s operational processes intersect at the accounting and software engineering firms is described in the following sections.
Processes and the customer value delivery strategy at the accounting firms

As Table 11.2 shows, all the accounting firms in this study use a combination of strategic planning and budgeting processes to develop the firm’s customer value delivery strategy. The strategic planning process is mainly used by the partnership team to determine whether the firm is selling the right mix of compliance and non-compliance products and services, individual partners are performing and the firm has enough skilled people to do the work forecast for the next year. It is also used to discuss if the firm should discontinue a service line or introduce a new service line.

Any new products and services or a concept to introduce a new service line must be presented to the partnership team by the partner in charge of the relevant division via a business case. The partner might prepare it or organise for the business case to be prepared by a lower-level staff member. According to the interviewees, new products and services, service lines or any other major initiative at the firm cannot be approved without a business case. This includes proposals to acquire another firm. All business cases are required to explain how the initiative will benefit customers. For instance, at Firm C the firm’s strategy is required to support the firm’s people-based core values, which are the standards and behaviours that the firm’s people need to display at all times to customers and each other. The partnership team will not develop a strategy or endorse projects that do not reinforce these values. All business cases must spell out exactly how quality will be assured and customers will benefit.
<table>
<thead>
<tr>
<th>Strategic processes used to develop the firm’s customer value delivery strategy</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>● An annual or quarterly strategic planning process is used to determine the firm’s customer value strategy</td>
<td>● Generally, an annual or quarterly strategic planning process is used to determine the firm’s customer value strategy</td>
<td></td>
</tr>
<tr>
<td>● The strategic plan is refined on an ongoing basis</td>
<td>● The strategic plan is refined on an ongoing basis</td>
<td></td>
</tr>
<tr>
<td>● New initiatives or business lines need to be approved by the Partnership team</td>
<td>● New initiatives or business lines need to be approved by the executive team</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● The firm’s business analysts play a role in ensuring senior managers understand the functions that customers have requested to be included in the next version of the software</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Firm M and N: These two firms do not have a formal process. The CEO convenes meetings as they are required, and the firms’ strategies are usually developed and refined by the management team together on a whiteboard</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Firm K: Works closely with publishers to develop the firm’s customer value strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Firm H: The Pricing Committee must review all business cases for new products and services, especially any proposals to develop new software technologies</td>
<td></td>
</tr>
</tbody>
</table>
According to the retired partner who was working on a project at Firm E to determine how the firm should identify people with partnership potential, ‘historically, service lines like audit have been grudge purchases. Clients have to have them. We now use very elaborate processes of a global nature [to understand customers’ needs]. At the other extreme, we have our consulting team. They have methodologies and tool kits to assist with things like implementations. They’re not highly procedural and can vary
significantly project-to-project. For us, it is important to have partners who have mechanisms in place that allow them to get a feel for where there is a strong market pull. We will then develop a standard methodology around the services that customers want. We’d then get a team together and fly them to the United States to package our existing competencies, for example, we might package a set of products around the Internet. We’re a flatly structured organisation. This [competency-building] work starts from the bottom because we’ve got 1000s of people who are client facing and they all have the ability to convince a partner that something is going to be important, who may then escalate the issue as described.

It was also normal practice at all the accounting firm in this study to develop the firm’s budget at or around the same time as the firm’s strategic plan, as this made it easier for the partners to understand if the firm had the funds to do all the activities being proposed during at the firm’s strategic planning meeting. It was also considered important that partners completed all performance reviews and resource planning/forecasts before they took part in the firm’s strategic planning process. The performance reviews helped the partnership team understand why individual partners and the people under them were performing to expectation or not. The resource planning process also helped to inform the strategic planning process because it allowed the partnership team understand if firm’s people were being used productively and whether there was slack time that needed to be eliminated. Taken together, these processes helped the firm’s partnership team to understand if individual partners had the ability to generate the revenue levels set in the budget and in what ways the firm’s strategy could help them do this.

There were some qualitative differences in how the accounting firms in the study used their strategic planning, budgeting, performance management and resource
planning processes. These differences can be attributed to the fact that the partners at each of the accounting firms approached the strategic planning, budgeting, performance management and resource planning processes differently. They all had to keep their firm’s unique context in mind. It can also be attributed to the fact that some of the firms developed their strategic plan annually, refining it throughout the year while others had quarterly strategic plans or rolling plans. Most plans were reviewed on a monthly basis or whenever partners met.

At all the accounting firms, the partnership met at least once a month and at some of the firms they met weekly. Any firm-level problems that needed to be discussed at these meetings were addressed. These meetings were also used to determine if the strategic plan was indeed being implemented properly. This included assessing whether the firm had enough skilled people, whether any staff needed more training and whether staff were being fully utilised. The resource planning processes of the firm were very important in this regard. It could help the partnership team understand what needed to be done to use people more productively in the future.

Firm A and Firm G were the only accounting firms in this study that used practice software management. Compared to Firm G, Firm A used this software much more successfully. According to Firm A’s Director of Finance & Administration, he used this software extensively to understand the firm’s immediate and longer-term human resource needs. Each division at Firm A also had their own dedicated resource planning manager. The Director of Finance & Administration uses the practice management software to monitor Firm A’s people’s performance and report back to the partnership team. He may also use it to ascertain whether partners were achieving their monthly and annual targets. Firm G did not have such a mature process. While it was still in operation, the practice management software was used to coordinate and collate
people’s timesheet information.

Because Firm A’s partnership team associate the ability to use appropriately skilled people at customers’ assignments with the ability to satisfy customers, Firm A’s human resource function is used to complement its resource planning processes. The Director of Human Resources explained that the firm would not have been so successful if it had not been able to hire the right people. The Director of Human Resources meets regularly with partners and/or departmental heads to determine if more people or people with different skills should be hired. Although practice management software can be used to help identify if the firm has enough people with the right technical skills, it cannot be used to identify if the firm has people with the right ‘soft’ skills, that is, those skills that allow a person to develop strong personal and professional relationships. This is something that someone from Human Resources needs to ascertain in consultation with the partners. The same applies to understanding if the firm needs to spend more money on training or bring in new skillsets.

The interviewees at the other accounting firms believed that their firm would benefit if it installed practice management software. However, they were all of the opinion it was still far too expensive to acquire. They explained the fact that they did not have practice management software was not a problem because partners could usually keep track of people’s movements mentally or by using a spreadsheet. Some parts of the firm had databases that could help to do this work too. For instance, Firm B’s audit department uses a specialist audit database to keep track of work in progress and to understand customers past, current and future audit needs. The database is considered particularly helpful for allowing Firm B’s people to document the work they completed for customers. It also helps them lever off solutions developed in the past to help other customers. The interviewees at Firm B explained that sometimes project planning,
account management and formal quality assurance processes might be used to help partners keep track of the firm’s resources and determine if they were focused on addressing customers’ needs.

According to the interviewees, the opportunity to discuss the firm’s current organisation structure is always taken whenever the partnership team meets. This always occurs whenever they come together to develop the strategic plan. For instance, the interviewees at Firm C explained that the partnership team is constantly considering if the firm could be organised more efficiently and in a way that better benefits customers. They believed this is why the firm is currently structured on a divisional basis. It had been determined in the past that a divisional structure makes it easier for partners to understand the skillsets at the firm. It also makes it easier to put together cross-disciplinary teams.

The interviewees at the accounting firms all stressed that it is always easier to make an incremental change to the firm’s product and services mix rather than radically change it. They explained that partnerships tend to be very risk adverse and will not take a risk unless there is a good reason for it, such as it being more risky for the firm not to offer customers a new service line than to offer it. The interviewees also explained that the requirements that the firm’s most senior partners regularly meet with customers should be considered to be both a strategic and operational function.

**Processes and the customer value delivery strategy at the software firms**

As Table 11.2 shows, the senior management teams at the software engineering firms also use strategic planning and budgeting processes to put together the firm’s customer value delivery strategy. However, the interviewees at the software engineering firms did not believe either of these processes could be used effectively unless a mature software
development process was in place. The interviewees believed that when these three processes are used together and effectively, they allow all the firm’s managers and everyone else at the firm to understand what should constitute the firm’s product and service mix, whether the decided mix could create optimal levels of customer value, whether the firm needed to introduce new products and services, and whether it had the resources it required to successfully implement the firm’s customer value delivery strategies. The interviewees also explained that the software development process was critical because it put lower-level staff in a position where they can actively contribute to the development of the firm’s strategic plan and not just the firm’s customer value delivery strategy.

The interviewees at the software engineering firms revealed that there were some qualitative differences in how they used the firm’s strategic planning, budgeting and software development processes to develop the firm’s customer value delivery strategy. These differences can be partly attributed to the firm’s unique context, in particular, the fact that some of the firm used the software development process primarily to upgrade their software while others used it to develop new software altogether. For instance, the interviewees at Firm H explained that its managers rely heavily on its software release cycle processes to make all of its strategic decisions. Although Firm H’s people do not have to spend much of their time developing new software, they do spend a large part of their time refining and updating the firm’s software. The information collected through the software release cycle process is critical, as it allows the firm’s senior management team to identify which functions need to embedded in the next release of the software. All customer requirements are rated by the firm’s people. Those requirements rated as mandatory, such as a change in regulations will automatically be included in the next release of the software. At the other extreme, requirements rated as ‘nice to have’ are
only incorporated into the firm’s next software release if the management team believes they are affordable and it is everyone’s longer-term best interest to make them available.

According to the interviewees at Firm H, without the software development process, it would be difficult to understand if the firm has the right systems in place and the ability to give customers the capacity to do real-time transaction processing. The firm’s senior managers cannot determine this by themselves and the strategic planning process is unable to be used to determine these things. If a manager believes the firm needs to upgrade the firm’s IT system or begin using a new technology, that manager is required to present this argument in a business case document and present it to the senior management team to review. The same applies to situations where a manager believes the firm’s product and service might become out-of-date in the near future or easily superseded. In this case, a business case for a new product and service needs to be presented to the Pricing Committee. If it is approved by the Pricing Committee, it will then be presented to the senior management team.

A comparable set of processes are used at Firm I. The CEO explained that its strategies are always inspired by its customers somehow and the software development process. These are used to manage the software release cycle. The software development process allows the firm’s people to understand which benefits the firm can afford to deliver to customers through the firm’s software in the next release cycle. Beta testing is conducted as part of the software development process. It allows staff and customers to ascertain whether the firm’s final software product meets the firm’s quality standards and can be released more widely. The firm’s premium subscribers are usually the first group of customers given the opportunity to evaluate early versions of the software.

Firm I uses the software development process to gather customer requirements and
then identify the firm’s priorities, which include identifying how it will satisfy its customers, and meet Firm I’s own cost drivers, targets for market growth and resource planning objectives. Issues are often ranked according to whether they are ‘mandatory’, ‘highly desirable’, or ‘nice to have’. The Marketing Manager explained that Firm I’s strategic planning process is very business case driven. Business cases are put together to identify the resources and people skills it needs. The firm’s senior people assess the recommendations made in these documents as part of the firm’s strategic planning processes. The business cases that support the firm’s strategic objectives are approved and budgets will then be allocated accordingly.

The success of all of these intersecting processes can be partly attributed to the firm’s human resource policies. According to the Human Resource Manager, everything possible is done to ensure Firm I hires the best software development and call centre people. The Human Resource Manager explained the recruitment process is structured around identifying people who have the right technical skills and motivation. There is also a very strong focus at Firm I on ensuring its people receive ongoing training and development. For instance, new call centre staff are given two weeks of training before starting at the call centre. They are taught to listen carefully to customers’ complaints or suggestions and how to respond to them.

According to the Chief Operations Officer, all Firm I’s systems are integrated and evolve around the software release cycle. Its accounting system, knowledge portal and phone system are all automated. Retail and online sales are automatically recorded. This information is then automatically placed on the firm’s knowledge portal and also finds its way into the firm’s accounting system. This makes it possible for everyone at the firm to keep track of sales and customer demand. Issues that are raised and not closed off on the knowledge portal as having been actioned will automatically be sent through
to the CEO, the firm’s quality assurance people and its product development manager to
action.

The interviewees at Firm J explained that in Australia the quarterly budgetary cycle
is used to determine how the firm can best deliver value to its customers. The firm’s
Australian managers compete with managers from other regions for resources. They are
required to explain how the resources being requested will be used to support the firm’s
global strategies. If they believe it is important to develop new software functions and
capabilities, they are required to explain how these capabilities support the firm’s global
strategies. Since Firm J’s Head Office is in the United States and it is a multinational
organisation, unusual funding requests must be submitted to the Worldwide
Management Committee. The role of this committee is to identify how Firm J’s product
and service suite will be developed and used to satisfy customers in the different regions
within which it operates. They are also responsible for determining how resources will
be used to support the firm’s strategic plan, including how much budget will be
allocated to each of the regional offices. Around 200 people are involved in this process
and each region is expected to participate by sending representatives across to
Committee meetings. Conferences are regularly held, as they help everyone understand
how they can support the firm’s strategies and better deliver value to the firm’s
customers.

According to the interviewees at Firm K, Firm K is dependent on publishers to
commission games. As a result, even though the strategic planning, budgeting and
software development processes are considered to be very important, they are not used
in the same way or relied on to the same extent that they are at other software
engineering firms in this study. Firm K’s senior managers and the commissioning
publishers work together to identify what should be included in a game. They also
determine if Firm K will need extra resources to develop a game and how much budget should be allocated to the firm. Once these things have been determined, the project planning phase begins. During this phase, the project is fully scoped and specific resources allocated to it. The firm’s most senior people and all product development specialists participate in project planning. This helps them to develop the firm’s strategic plan and its budget for the next year.

Once the planning phase is complete and project milestones set, the project begins and project management methods are applied. These are designed to complement the software development process. The project’s progress is tracked on a weekly and sometimes on a daily basis. Publishers get regular updates. This information helps publishers to ascertain whether the budget they gave the firm has been used as planned. Publishers are also given the option to help the firm develop characters for the game they commissioned. This helps them to understand if a game is being developed that end-users are likely to find interesting and which can easily be promoted. Publishers are also consulted on the level of functionality that is being built into a game and to what extent software or artwork from another project can be re-used. In this sense, the customer value delivery strategy at Firm K is highly dependent on the firm’s software development and budgeting processes, especially their ability to generate useful information about Firm K’s capabilities. The firm’s strategic plan is developed once publishers identify what they want and the customer value delivery strategy has been finalised.

In Firm L’s case, these customer value creating processes were yet to be properly integrated. As a result, the firm’s senior managers were not given the means to work with lower-level staff to understand what should constitute the firm’s customer value delivery strategy. In an attempt to offset this problem, Firm L’s managers
commissioned a firm of strategy consultants to help it develop its three-year strategic plan. This plan identified the products and services that Firm L should develop over the next three years, as well as how the firm should position itself in the health software market. The plan also identified three ‘business horizons’ (or markets) within which Firm L could compete. This included the medical practitioner, medical procurement and clinical knowledge markets. The identification of these horizons allowed the firm’s senior management team to work together to determine how the plan would be implemented, which resources would be required, and how much budget should be allocated to the plan’s realisation.

The interviewees at Firm M and Firm N explained that because their firms were still very small, the strategic planning process was not very mature yet and could be described as very ad hoc and informal. However, whenever the firm’s senior managers met to discuss the firm’s strategic plan and the firm’s customer value delivery strategy, they made a point to gather as much customer related data and other related metrics data as was possible to help guide them. The interviewees at Firm M and Firm N explained that strategic planning was not done on an annual basis or on a quarterly basis but whenever it was necessary. The interviewees believed that it could be said that the firm engages in strategic and customer value activities every day.

At Firm M’s daily meetings, the firm’s senior managers discuss the websites which were recently commissioned by their enterprise partners and whether or not the firm has enough resources to complete the websites, including whether the firm has enough people. Because Firm N has the same CEO, the same approach is taken at Firm N. However, the emphasis is on understanding if the software is being integrated into customers’ firms properly and/or whether the firm has to identify new suppliers or different ones.
At Firm M and Firm N, the CEO and the other senior managers meet with the firm’s technical and operational people whenever they have something they want to discuss with them. For instance, they often will convene a meeting if they are worried a project may not meet its milestones and want to discuss what should be done. The Software Development Manager at Firm M explained that the firm’s project management processes are used to keep track of the way the firm’s resources are being utilised. Gantt charts are used extensively at the firm to understand if the firm’s resources are being employed productively. A considerable amount of time and effort is also expended at both Firm M and Firm N to document how the firm’s software products and services should be produced and delivered to customers. For instance, Firm M has developed a manual that documents how a website is to be built. It describes such things as the resolution a picture will be scanned and saved onto a website.

Firm M’s senior managers are constantly meeting with the firm’s enterprise partners while Firm N’s senior managers are constantly meeting with firms using or interested in its trading engine. They will discuss what they learned from customers with the firm’s other managers if they think this is appropriate. Everyone at Firm M and Firm N is encouraged to constantly think about how the firm can improve upon the way it delivers products and services to the firm’s customers. The interviewees explained that many of the meetings convened at the firm on a daily basis are really nothing more than brainstorming sessions. They are often more tactical than strategic. People’s ideas are analysed by the whole team through the use of a whiteboard. It is not considered important to formally document what was decided at these meetings.
11.3 Chapter Summary

This chapter described the way managers at the accounting and software engineering firms were expected to contribute to the development of the firm’s customer value delivery strategy and its implementation. It also described the strategic and operational customer learning and decision-making processes which are used to help them develop and implement the customer value delivery strategy. It was found that the people who have the most knowledge about the firm’s customers, its products and services, and an ability to make or influence the firm’s resource investment decisions are responsible for developing the firm’s customer value delivery strategy.

At the accounting firms, the firm’s customer value delivery strategy is determined through a top-down decision-making process. Although lower-level staff might become involved in its development, it was generally believed the partnership team had the capacity to understand customers’ needs and how they might be affected by change in the marketplace. At the software engineering firms, the firms’ customer value delivery strategy is developed as a result of a combination of bottom-up/top-down decision-making processes. As opposed to the accounting firms, this is because it was generally believed that the senior management team did not have the capacity to understand all the benefits that the firm’s software could deliver to customers, including the technologies involved and how customers might be affected by changes in the marketplace.

All the accounting firms in this study use a combination of strategic planning and budgeting processes to develop the firm’s customer value delivery strategy. The strategic planning process is mainly used by the partnership team to determine whether the firm is selling the right mix of compliance and non-compliance products and services, individual partners are performing and the firm has enough skilled people to
do the work forecast for the next year. It is also used to determine if the firm should discontinue a service line or introduce a new service line.

The senior management teams at the software engineering firms also use strategic planning and budgeting processes to prepare the firm’s customer value delivery strategy. However, the interviewees at the software engineering firms did not believe either of these processes could be used effectively unless a mature software development process was in place. This is because these three processes allow all the firm’s managers and everyone else at the firm to understand what should constitute the firm’s product and service mix, whether the firm should introduce new products and services, and whether it had the resources at hand to implement the firm’s customer value delivery strategies. The interviewees also explained that the software development process was critical because it put lower-level staff in a position where they could actively contribute to the development of the firm’s corporate strategy. Taken together, the three processes made it easier for the software engineering firms to keep track of customers’ changing needs and ensure the firm’s customer value delivery reflected them.

These ideas are discussed further in Chapter 12. It reports on how the high performing firms differed from the low performing firms in how they used people and processes to develop and implement their customer value delivery strategies.
CHAPTER 12

CREATING THE CUSTOMER VALUE DELIVERY STRATEGY AT
THE HIGH AND LOW PERFORMING FIRMS

The way in which the high and low performing accounting firms in this study use people and combine their strategic and operational processes to develop and the firm’s customer value delivery strategy is discussed in this chapter.

12.1 Using People’s Experience and Technical Knowledge

As Table 12.1 shows, one of the major differences between the high and low accounting and software engineering firms in this study is that the high performing firms are better at drawing on the experience and technical knowledge of all of their people. This is regardless of whether decision-making processes and responsibilities at the firm were top-down or a combination of bottom-up/top-down. As the interviewees revealed, the high performing firms were better at drawing on the experience and technical knowledge of their people because they were able to encourage behaviours that led to people freely sharing information about customers, and working together in a cooperative and constructive manner.
Using people’s experience and technical knowledge at the accounting firms

As Table 12.1 shows, the interviewees at the high performing accounting firms explained that they believed it is very important for partners to share their ideas about customers freely, and to work together constructively and cooperatively. This created an environment where everyone at the firm became committed to sharing what they know about customers and their views about how best to create and deliver value to customers. If the partnership team is unable to work together to identify how the firm should be creating value for its customers and the people under them could not do this either, then it is unlikely the firm will be able to benefit from its people’s experience and ability to technically address customer’s problems. The implication of this is that it could be difficult to achieve an appropriate balance between being supply and demand driven in regard to the value that is delivered to customers through the firm’s products and services.

<table>
<thead>
<tr>
<th>Ability to draw on people’s experience and technical knowledge</th>
<th>High Performing Accounting Firms:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The partnership or executive team have ultimate responsibility for developing the firm’s customer value delivery strategy but rely heavily on the input of individual partners and their people, especially those who deal extensively with customers and have high levels of technical knowledge</td>
<td>• The partnership team are able to achieve a fair balance between being supply and demand driven</td>
</tr>
<tr>
<td>• The partnership team are able to achieve a fair balance between being supply and demand driven</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low Performing Accounting Firms:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The partnership team has ultimate responsibility for developing the firm’s customer value delivery strategy but partners still operate as if they have individual businesses, which means there is an expectation that the partnership team will allow individual partners to deliver value to customers as they see fit</td>
</tr>
<tr>
<td>• The partnership team are unable to achieve a fair balance between being supply and demand driven</td>
</tr>
</tbody>
</table>
The interviewees at the high performing accounting firms explained that there were a number of factors, including behaviours that were encouraged at their firms which they believe are instrumental for ensuring everyone at the firm can work together to create customer value.

Table 12.1
The Ability of the High and Low Performing Firms to Draw on the Experience and Technical Knowledge of People

<table>
<thead>
<tr>
<th></th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s senior management team works with major customers to develop a customer value delivery strategy for the firm that is in the firm’s and the majority of its customers’ best interests</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The senior management team provide guidance to the Development, Marketing and Sales Departments and ensures everyone is able to work cooperatively and can fully utilise the information they have available about customers’ values</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The firm’s technical and customer-facing teams are able to cooperate to rate customer requirements as ‘mandatory’, ‘important’, ‘nice to have’ to reflect customers’ values and agree through a consensus process what the firm can afford to do to improve the software in the next release cycle. The firm’s senior management play a strong steering and/or final decision-making role here and will investigate initiatives to grow the firm and its customer base</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For instance, the interviewees at Firm A explained that the partnership team promoted an ethos where everyone was expected to think constantly about the way they
were using their time. Everyone was required to spend the majority of their time doing billable work for customers. If a partner had an idea for a new product and service or had an employee who had a good idea, the person with the idea was encouraged to develop it but not when they had billable work to do for a customer. If a new product or service was subsequently developed and it proved to be profitable the person who developed it would be favourably performance reviewed and rewarded. They were often given a promotion, a pay rise or a bonus. However, it was still considered important that everyone focus on customers’ current needs and work the hours that they were required to each week, as it was believed that the more hours spent with customers or working on customer assignments the more likely the firm would be able to achieve its profit targets.

Partners were encouraged to become heavily involved in all customer assignments. This was to ensure lower-level and junior staff members were approaching their work properly, customers’ issues were being appropriately dealt with, and the firm’s people were working constructively and collaboratively. The interviewees believed that the firm’s partners had the greatest capacity of anyone at the firm to understand if the firm’s people were delivering value to customers and successfully implementing the firm’s customer value delivery strategies.

The interviewees at Firm B explained that one of the reasons why the firm was able to develop and implement effective customer value delivery strategies was because the firm’s partners had learned how to respect the technical skills of each other. They had also learned how to develop the firm’s customer value delivery strategy as a team and help individual partners understand how they and their teams could contribute. This usually took the form of the partnership team helping a partner understand whether they were offering customers the right mix of products and services, and whether new
product and service proposals were viable. The interviewees explained that the partnership team were constantly meeting to ascertain if the firm was making products and services available to customers which were high enough in standard. There was an emphasis on ensuring everyone at the firm focused on delivering products and services which were high in quality.

The interviewees at Firm C explained that they had moved away from the traditional partnership model and were using a composite model, which meant that it was no longer acceptable for individual partners to make decisions about the values they would deliver to customers through their division’s products and services by themselves. They were required to spend much more of their time working with the whole partnership team to develop the firm’s customer value delivery strategy and making sure their division was successfully implementing it. Because partners were now spending a much larger proportion of their time working together to make strategic decisions, they were required to develop the managerial skills of the people under them. This helped them to identify senior accounting professionals who they could appoint to manage a customer engagement and supervise junior staff. This also made it easier for them to identify people who were partnership material. One of the benefits of this model is that partners are given more scope to divide their time equally between focusing on the firm’s strategic problems and operating their divisions.

As the interviewees revealed, there was a perception at the low performing firms that partners and their people needed to share information about customers more, and do more to promote cooperative and constructive behaviours, as this was in the firm’s best interests but this was often very difficult to do in practice. Generally, the low performing accounting firms did not have the kind of culture or organisational structure that can made it easy for people to work together productively.
For instance, the interviewees at Firm D explained that everyone at their firm understands that partners must be able to work cooperatively and encourage their staff to the same. However, Firm D still has a regionally based organisation structure which makes this difficult for them to do this. The firm has not been able to develop the kind of culture where all partners feel they can openly discuss problems they might have with a customer or ideas they might have for new products and services.

According to the interviewees at Firm D, each of Firm D’s state offices is headed by a partner and each regional office will have their own partnership team. Each partnership team in each state will work together to develop a customer value delivery strategy. They do not need to get final approval from the partners at the other offices or the partners at Head Office. A partner from another part of the firm might object to some aspect of their plan but there is no obligation to seriously consider changing course. In Firm D’s case, the state offices are still run as if they are separate businesses and it is not considered politically prudent to be seen to be interfering in how other offices run their practices.

At Firm E, the executive team of ten partners are responsible for deciding what should constitute the firm’s customer value delivery strategy. According to the interviewees, this could cause problems because Firm E is a very large global organisation. It can be difficult to make good decisions about the firm’s customer value delivery strategy without the input of non-partner staff and/or a large number of people, including partners in charge of a service line and/or a geographic region, their staff, and anyone else who might have the technical expertise and knowledge to advise the executive team. Firm E’s partners encourage non-partner staff to develop any ideas they might have for a new product or service, as this can help the executive partnership team gain a better understanding of what should be part of the firm’s customer value delivery
strategy and also identify junior staff members who have the potential to become partners. However, because the firm is so large it can be difficult for the firm’s partners to make the best use of any new product and service proposals. It can also be very difficult to develop a customer value delivery strategy that can satisfy all of the firm’s customers.

There was also a general belief that the firm was still far too supply-driven, that is, rather than ask customer about what they wanted from the firm, partners had a tendency to make products and services available that they thought customers wanted. According to the interviewees at Firm E, this approach was successful when it came to compliance-based products but it did not always work for products and services which were not compliance-based. Firm E’s Australian offices were also required to align their strategies with the firm’s global customer value delivery strategy. This meant the success of the Australian office was contingent on how well the firm’s partners could work together to adapt the firm’s global customer value delivery strategy to the Australian marketplace. Because so many people needed to be involved in this process, it was often very difficult for Firm E’s partnership team to do this well as they would have liked to be able to do it.

The interviewees at Firm F explained that the partnership team is responsible for the firm’s customer value delivery strategy and deciding which accounting products and services the firm will make available to customers. They are responsible in much the same way as the other second tier accounting firms in this study. However, all product and service-related decisions in regard to the financial products the firm will be selling must first go through the Financial Services Product Committee. This is because the financial services industry is heavily regulated. All product-related decisions must be made in a transparent manner and display a concern for customers’ financial well-being.
Once the Committee is happy with what is being proposed, the executive partnership team is required to review the decision and approve it if they are happy with it. However, the interviewees acknowledged that it can be difficult to identify a suite of products and services that serve both customers’ and the firm’s longer-term financial objectives.

The interviewees also explained that the only accounting division that was performing well was Firm F’s insolvency division. The reason for this is that the partner in charge of that area was very experienced and had anticipated that there would be an increase in demand for insolvency products and services. The interviewees also explained that Firm F had only just become a national firm, with offices in all states. As a result, the firm’s partners were still learning how to work together and what was the best way to collaborate to make decisions. They were also still trying to understand how they could differentiate the firm from its competitors now that Firm F was offering products and services nationally.

Firm G was the only accounting firm which was a consolidator. According to the interviewees at Firm G, its executive team had the responsibility of developing the firm’s customer value delivery strategy and determining which products and services the firm would make available to its customers across the country. Although partners not on the executive team were consulted, the executive team generally did not believe that non-executive partners were capable of making good decisions on the whole firm’s behalf even if they could make shrewd service line decisions. They also did not believe they were very good at marketing or could understand how to lever off the fact that Firm G was now a national firm.

Firm G also had serious cultural problems. While it was still in operation, it was apparent partners who were not on the executive did not have any confidence in the
decision-making capabilities of the executive team. As a result, they did not pay much
time to the executive team’s directives. Instead they ran their divisions as if they
were not part of Firm G but separate businesses. This led to the executive team’s
inability to formulate a customer value delivery strategy that others were keen to
implement. Consequently, the firm was unable to successfully lever off the experience
and technical know-how of its people.

**Using people’s experience and technical knowledge at the software firms**

As Table 12.1 shows, the interviewees at the high performing software engineering
firms also believed that their customer value delivery strategy was successful because
the firm had a culture and working environment which made it easy for people to share
information about customers, and to work constructively and cooperatively. They
believed that because the firm’s senior managers could work well with each other to
make decisions and they knew when it was appropriate to become actively involved in
project work and when it was not, it tended to be easy to deliver value to customers. The
interviewees at the high performing software engineering firms believed the better the
firm’s senior managers are at understanding how different people at the firm could
contribute to the software development process, the more likely the firm could develop
software that customers will buy. Similarly, if they can understand the extent to which
they should allow the firm’s different customers to provide feedback about the firm’s
software and/or become involved in the software development process, the more likely
the firm would be able to develop saleable software. As was the case at the high
performing accounting firms, the managers at the software engineering firms were able
to encourage the kinds of behaviours which made it possible for people to share their
customer learnings and lever off the experience and technical expertise at the firm.
For instance, the interviewees at Firm H explained that although many of its senior managers were technically very skilled and had been heavily involved in the software development in the past, they were now much more interested in ensuring the firm’s people were using their time constructively and focusing on developing software that customers wanted. The interviewees explained that Firm H had got into financial difficulty a few years ago because its software developers were spending too much time developing technologies that they thought would be good for the firm and which interested them. As a result, the firm had to retrench a large number of people. When the firm was in a position to hire people again, the senior management team made it a point to only hire people who were proficient in technologies that customers said they wanted, especially JAVA-based products and services. They made it clear to all new hires that it is very important to make changes to the software only if customers said they wanted them. Thus, it is now normal practice for the firm’s senior managers to play a steering role and only become involved in solving technical or project-related problems when complex solutions are required. The interviewees explained that now that the firm was a large firm and a major player in the stockmarket software market, it was now much more important for the firm’s senior managers to ensure people were doing their job properly, working well together and/or regularly consulting with customers.

The interviewees at Firm I explained that the firm’s senior managers had learned that it was really important for them to be able to make the ‘right strategic calls.’ This was easier to do in a flat organisation which promoted democratic principles. Even though the senior management team will still make many ‘decisions behind closed doors,’ people were encouraged to share their ideas, including solutions for doing a job better. The interviewees believed that the more motivated people were, the more likely the firm
would benefit. Lower-level staff members were encouraged to approach the CEO whenever they wanted to express a view or share an idea.

According to the Human Resources Manager at Firm I, people were hired if they had the right qualifications, they were technically adept, a ‘cultural fit’ and were able to appreciate the importance of developing software that promoted both the firm’s and customers’ best commercial interests. According to the interviewees, the firm was functioning very well now because the CEO and the COO were able to work well with each other and they both understand how to get the best out of the people under them.

The interviewees at Firm J explained that given that most of the firm’s customer value delivery strategy was developed by Head Office, it was very important that its senior managers in Australia were able to help people translate Head Office’s strategic vision to reflect the needs of the local market. There was also a belief at Firm J that customers wanted to buy solutions and not just software. As result, it had become very important for the firm’s managers to ensure everyone was able to work together to develop solutions for customers, including the firm’s technical people, sales staff and project managers. According to the interviewees, its senior managers had learned how to utilise people’s different perspectives.

The interviewees at the low performing software engineering firms explained that it was not always easy for their senior managers to bring out the best in its people. There were many reasons why this was the case. For instance, the interviewees at Firm K explained that their senior managers were only just beginning to work well together to develop the firm’s customer value delivery strategies. Because the firm developed game software it needed to hire creative people. However, the problem with creative people is that it can be very difficult to get them to appreciate why everything needs to be documented. As a result, the firm’s senior management had to spend a large part of their
time encouraging lower-level staff to document customers’ requirements and to use project management techniques.

The interviewees at Firm L explained that when the firm first listed on the stockmarket, it had been very difficult to convince everyone at the firm that the firm now needed to operate differently. As a result, two of the original founders of the firm were bought out and asked to leave. The firm was also totally restructured. The CEO also made it a point to hire people who did not have preconceived ideas of how the firm should be run. Consequently and despite the benefits inherent in hiring enthusiastic young people, instead of focussing on strategy-making, the senior management team were required to spend a large part of their time promoting the new structure and explaining how people needed to work together.

Firm M and Firm N had similar problems. According to the interviewees, these firms were still relatively young and growing. New people were joining the firm all the time. The firms were also still developing processes and learning how to document everything. The structure of these firms was also still very flat. As a result, the senior managers needed to regularly convene meetings with each other and with lower-level staff to understand how projects needed to be approached. Sometimes these meetings were very constructive but they could also lead to people being distracted from their daily activities.

The interviewees at the high performing firms also explained that although it is very important to always consider the views of large and influential customers, they were now big enough that they were not obliged to do everything that these customers wanted. They were also aware of the fact that their software products and services were used extensively by their customers to help run their businesses. This meant that they were aware of the fact that it was in all their customers’ long-term best interests if the
firm continued to develop and upgrade its software, and do well in the marketplace. As a result, the firm’s people were free to make decisions about their firm’s software which was in the firm’s commercial best interests.

At the low performing firms, it was generally recognised that it was important to gather customer requirements and make sure they were rated as ‘mandatory’, ‘important’ or ‘nice to have.’ However, it was difficult to reject some customers’ requests even if they were not in the firm’s best interests.

For instance, Firm K’s managers’ ability to make objective decisions about the firm’s software is constrained by the fact that publishers will give the firm a set budget. Throughout the production process, which can take anywhere between one and two years, the firms’ people are required to give their publisher customers constant feedback about the game’s development. They also need to constantly assure them that Firm K is using the budget that it was given appropriately and can still finish the game on time. Publishers may also change their specifications in the middle of the production process. This means the firm’s people may be required to re-scope the project and negotiate a new budget. As a result, it can become very difficult for Firm K’s senior managers to get everyone focused on developing a customer value delivery strategy that satisfies the firm’s customers but also gives the firm the ability to grow.

Firm L, on the other hand, is constrained by the fact that its senior management team is still learning how to work together and make decisions that everyone agrees on, including how best to manage Firm L’s large and diverse portfolio of medical and knowledge-based software. It is also difficult to consult with people in the medical community who are busy providing care at an institution and/or running their own medical practices, which means that decisions are sometimes made without recourse to these customers’ views. The firm’s managers were also not always sure that sponsors
were giving them objective feedback. This is because many of their sponsors were in pharmaceuticals and they often wanted the firm to promote products that could lead to Firm L being accused of having a conflict of interest.

Firm M’s managers are constrained by the fact they must constantly consult with Firm M’s equity investment partners and business enterprise partners. They were unable to develop a model for providing website design services without consulting with either of these parties. This means that it can be difficult to invest in a customer value delivery strategy that can ensure the long-term survival and wealth of the firm.

Firm N is also still dependent on cash injections from its equity investors and Government grants. As a result, its managers must also achieve a balance between working in the firm’s long-term best interests and making sure it will continue to get cash injections from investors and the Government. The firm’s managers explained that it is highly desirable to begin offering products and services in industries other than hospitality but this was difficult while the firm was not yet earning enough and was only allowed to take highly measured risks.

12.2 Integrated Customer Learning, Strategic and Operational Processes

As Table 12.2 shows, the interviewees at the high and low performing firms explained that it is important for a firm to have customer learning, strategic planning and operational processes in place that everyone can understand and actively use if they need to. They also believed the firm’s managers will have more capacity to develop a successful customer value delivery strategy if these processes are integrated and ensure all critical customer- and firm-related information is made available to the firm’s decision-makers in a timely manner. This made it easier for the firm’s senior managers to make decisions. It also made it more likely that they could make good decisions, as
well as consult with everyone that needed to be consulted. The interviewees also explained that the way these processes intersect can help their senior managers to ascertain if the firm was organised in an appropriate manner, which included giving the firm’s people the ability to do the work that they were hired to do and achieve a commercially viable balance between ensuring the firm develops products and services customers need now and will need in the future. In this sense, the actual act of integration was quite deliberate and can be described as making it possible for the firm to develop a core competency that has as its objective the successful development and implementation of the firm’s customer value delivery strategy.

**Customer learning, strategic and operational processes at the accounting firms**

As Table 12.2 shows, the interviewees at the high performing accounting firms explained that the firm’s customer learning, strategic and operational processes were highly integrated. This made it possible for everyone to contribute to the development and/or implementation of the firm’s customer value delivery strategy. This state of affairs was the result of the firm’s partners being able to successfully define how people can contribute to the firm’s customer value delivery strategy and/or its implementation, including how they were to use the firm’s IT systems to this end. The firm’s partners are able to help everyone understand which products and services the firm will be making available to customers, the firm’s product and service delivery protocols, how new products and services are to be developed, the markets that the firm operates in, when it is appropriate to use alliance partners, and how the firm’s products and services are to be marketed.

Similarly, the firm’s partners are able to help everyone understand the processes that they must use to create customer value and how divisional staff are supposed to behave
and interact, including which managerial and technical qualities and attributes they need to display at all times.

<table>
<thead>
<tr>
<th>Integrated customer learning, strategic and operational processes</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Firms:</td>
<td>Accounting Firms:</td>
<td></td>
</tr>
<tr>
<td>- Learning, strategic and operational processes are consciously integrated and are used in a complementary manner</td>
<td>- Learning, strategic and operational processes are not integrated and tend to be used in a fragmented manner</td>
<td></td>
</tr>
<tr>
<td>- Everyone understands how different partners, their divisions and their customers contribute to the customer value delivery strategy and how everyone at the firm is able to benefit if the corporate strategy is fully executed</td>
<td>- The corporate strategy has not been properly communicated across the firm and this has led to divisional partners focusing on delivering on customers' articulated needs and achieving their own divisional financial targets</td>
<td></td>
</tr>
<tr>
<td>Software Engineering Firms:</td>
<td>Software Engineering Firms:</td>
<td></td>
</tr>
<tr>
<td>- Learning, strategic and operational processes are consciously integrated and are used in a complementary manner</td>
<td>- Learning, strategic and operational processes are not integrated and tend to be used in a fragmented way</td>
<td></td>
</tr>
<tr>
<td>- Senior management encourages the software development and/or release cycle to be used to develop the customer value delivery strategy, develop baseline solutions and shape the firm's corporate strategy</td>
<td>- Senior management encourages the software development and/or release cycle to be used to develop the customer value delivery strategy with an emphasis on making good tactical decisions</td>
<td></td>
</tr>
</tbody>
</table>

Table 12.2
The Ability of the High and Low Performing Firms
to Integrate the Firm’s Customer Learning, Strategic and Operational Processes
For instance, the interviewees at Firm A explained that everyone understood at their firm that even if someone was not a partner they could still contribute to the development the firm’s customer value delivery strategy. For instance, lower-level staff members are actively encouraged to share their ideas for new products and services with their partners. If a staff member has an idea that the partner believes is worth developing, that person will be asked to do more research and/or develop a business case to present to the partnership team. The interviewees explained that Firm A expects its partners to meet regularly to discuss the strategic plan and any changes that needed to be made to it. It is also considered to be very important that everyone understand how to use the firm’s practice management software, including how it can be used to help them achieve divisional objectives. The firm’s resource planners are required to ensure the firm’s people are being fully utilised, as it was generally believed that the firm success depends on the ability to maintain high utilisation rates. If a division had problems meeting its targets, the whole partnership team will meet and discuss why this might be the case. If there was a possibility that the firm needed to invest in more training or hire new staff, then the partnership team would work together to ascertain that this was indeed the case. They would then consult with the Director of Human Resources to understand how any training or staff recruiting exercise might be approached.

According to the Director of Human Resources at Firm A, the firm promotes a competency model which has helped people understand what is expected of them and the part they play in implementing the firm’s customer value delivery strategies. As set out in the model, the firm’s people are required to invest in the development of their own technical skills. This is because the firm is ‘selling knowledge, not a product.’ As a result, everyone is encouraged to participate in the firm’s professional development and
training programmes but also to use their own time to keep their skills up-to-date. However, according to the Director of Human Resources, technical capability only makes up 50% of the firm’s competency model. The rest is divided between knowing how to manage oneself in the workplace, manage relationships and managing processes.

The benefit of this competency model is that it stops silos from developing at the firm and encourages teamwork. A partner from one division can easily seconder a person from another division to work on a project which can use that person’s skills. The firm has a uniform approach to marketing and relationship management. Everyone understands it is in the firm’s best interests if they work transparently, share knowledge freely and make it a point to document everything on the firm’s databases. According to the Director of Finance & Administration, ‘managing people effectively leads to leadership. But that requires lots of effort. We provide feedback via formal staff appraisals, formal training in capabilities, we identify training weaknesses, and not just on a technical level but in general management and leadership.’

According to the interviewees at Firm B, partners are expected to develop the firm’s customer value delivery strategy but they have also learned that a large part of the firm’s customer value delivery strategies will be developed outside of the firm’s formal strategic planning processes. As a result, the firm’s partners are expected to work with customers and lower-level staff to identify how the firm can create customer value in the most effective way. This has led to the firm developing a three tiered management approach to delivering value. Firm B’s senior partnership team are expected to work with customers’ audit committees and their Boards to provide independent advice, including advice about the firm’s risks and governance practices. Divisional partners will work with their senior professionals to assist customers in senior management. They will help them to better understand their compliance obligations and how to
mitigate them. Lower-level staff members and junior professionals are expected to help customers who are business unit or business line managers deal with difficult change-related problems and escalate issues on their behalf when this is necessary, including when are unable to do this by themselves for political reasons.

According to the interviewees at Firm C, there is a strong perception at the firm that the firm’s human resource management, marketing and practice management processes are already highly integrated. The partnership team recognised that for the firm to be able to grow and become better positioned as a brand in the marketplace, the firm’s people needed to be good at relationship management and understand how the firm was being positioned in the marketplace. However, to achieve these things it is also necessary to have uniform practice management processes in place. If the firm’s people do not know how to manage their time it will be difficult for them to achieve their divisional targets. According to the interviewees, people can keep track of their time and understand if they are engaging in profitable activities through the firm’s IT system. One of Firm C’s strategies is to become better at collecting information about its people’s performance and measuring it.

Conversely, the interviewees at the low performing accounting firms explained that the firm’s customer learning, strategic and operational processes were not very integrated which meant not everyone could contribute to the development and/or implementation of the firm’s customer value delivery strategy. Partners were less able to define how people can contribute to the firm’s customer value delivery strategy and/or its implementation, including how they were to use the firm’s IT systems to this end. They were also less able to help everyone understand the role of each division, and how everyone across the firm is expected to behave and interact, including which managerial and technical qualities and attributes they need to possess and apply in their
work.

For instance, the interviewees at Firm D believed the firm is now at a stage where it needs to develop more integrated processes, including uniform processes across all of its offices. According to the CEO, the firm started out as a one person firm. It has since grown to be a firm with national scope. However, it has been difficult to get all the state offices to adopt the same strategic and operational processes. The partnership team in Head Office is also heavily committed to innovation and has programmes in place to develop the firm’s intellectual capital while the partnership teams in the state offices are much more interested in just doing the work customers say they need done for them. Consequently, it has been difficult for the firm to position itself in the marketplace as an innovator. It has also been difficult for lower-level staff to feel free to contribute to the firm’s product development and other innovation driven programmes.

The interviewees at Firm E explained that the firm’s customer learning, strategic and operational processes are still too fragmented. Much work still needs to be done integrate them. The firm also needs to develop a stronger leadership culture if it is to grow and compete successfully in the marketplace. According to the COO, Firm E currently works on a cashflow model which means profits are distributed in the year that the firm makes them and cannot be reinvested in the firm to grow it. The problem with this is that the partnership team’s decisions end up being too short-term in the focus. According to the Global Partner in Charge of Enterprise Risk Management, it is also difficult for the firm to understand the marketplace when many of the problems it solves are extremely complex and the firm cannot always recruit and retain people who can do the ‘brain surgeon stuff.’ The firm still operates on a ‘pyramid structure,’ which ambitious people are required to try to climb. However, it is well known that only a small percentage of people become partners and most people do not stay at the firm for
more than five to six years.

The firm is also quite large and has a large number of channel partners, which means internal and external communications can be a problem. It can be difficult for people to learn about the firm’s products and services, and understand how different customers can be helped. The firm has a number of account management, and national communications, knowledge management and marketing programmes but they are still in the process of being developed. As a result, people do not always have the means to understand how they can contribute to the development of the firm’s customer value delivery strategy and its successful implementation.

The low performing accounting firms were also characterised by partnership groups who developed their firm’s strategic plan without consulting with lower-level staff. In addition to this, divisional partners were expected to develop divisional customer value delivery strategies which were consistent with the firm’s corporate strategy. This could be a constructive process if the divisional partner was able to identify how the firm-wide approach to delivering customer value could be adapted to the division and if they agreed with it. If they did not, there were often many problems.

For instance, the interviewees at Firm G believed that one of the reasons it eventually went into receivership was because its executive team could not convince the majority of people at the firm that the firm’s corporate customer value delivery strategy and corporate strategy was sound. This meant that individual partners ignored most of the executive team’s directives and used customer value creation methods that suited them. They ran their divisions as they saw fit. When the firm got into financial trouble, they did nothing to help the firm develop a new customer value delivery strategy. They either left the firm taking customers loyal to them with them or spent time lobbying to have the part of the firm that they previously owned and sold to Firm G sold back to them.
Customer learning, strategic and operational processes at the software firms

The interviewees at the high performing software engineering firms explained that it is important for the firm to have a customer value delivery strategy that everyone can understand and is committed to successfully implementing. However, this could not be achieved unless the firm’s customer learning, strategic planning and operational processes were integrated. At a software engineering firm, this was synonymous with having effective software development processes and a clearly defined release cycle. These two processes allowed the firm’s senior managers to understand what should be included in both the firm’s customer value delivery strategy and its corporate strategy, and understand to what extent they could be implemented in tandem with each other.

According to the Executive Chairman at Firm H, ‘half of our capacity is in our development activities. They’re structured to work with business development analysts, architects, delivery people, the whole business cycle, which involves half our head count…in regard to implementing our customer value delivery strategy] that’s the other side, the operational side of the business, hardware, network engineers, support people who go on site, train, etc.’ The Executive Chairman explained that ever since the firm began, it has been important to have the capacity to innovate and understand what was happening in the marketplace.

The point in time when it became mandatory that all stockmarket transactions be automated was a turning point for the firm. This helped everyone to understand that the firm needed to use its product development processes to achieve the firm’s operational objectives but also its strategic objectives. For instance, the firm now has a development subgroup that builds new products. They are currently developing two to three products. Some of the firm’s large customers, including third party clearers have said that they believe they need a better front office function and, as a result, this initiative is taking up
10% of the firm’s capacity. The Business Development function is also important. The firm has ten business development managers. They are either working on case studies or developing opportunities in different states. These managers work with customers to define their current and future needs. They also gather information that helps the firm’s senior management team understand which software improvements and innovations will be critical for the firm to develop in the future.

In the case of Firm I, one of its strategies was to work with customers to make sure they received software that can help them do their accounts and which will stay current for a reasonable period of time. To be able to achieve this, it is important to have a mature software development process and a clearly defined release cycle. Customers are consulted extensively about their ideas while the software is being developed. They are also encouraged to become involved in beta testing. If they identify changes that need to be made to the beta version of the software, the software development team will then make those modifications. Similarly, customers are consulted about the way the offshore originator’s product will be regionalised and whether the standard accounting product should be adapted to help them do more specialist work. The firm’s accounting software products were originally developed for people working in all markets, that is, horizontal markets but it has become clear that the firm can develop products suited to vertical markets. For instance, the development team recently developed an enterprise resource management system for small businesses and an accounting package which can be used in retail environments, especially by those using scanner technologies.

In contrast, the interviewees at the low performing software firms did not believe the firm’s customer learning, strategic planning and operational processes were integrated or as integrated as they should be. This made it more difficult for them to successfully develop and implement their customer value delivery strategies. There was still an
inability at these firms to use the software development process to achieve both the firm’s strategic and operational objectives. In other words, the software development process was not as pervasively used as it should have been. Rather than help the firm’s managers make strategic decisions, it tended to be used to make tactical or operational decisions.

This is because the senior managers at these firms found it difficult to focus on anything other than customers’ short-to-medium term needs. They were still learning about customers and how they could get the best out of the firm’s people. They also had not established protocols for rating customers’ requirements from both customers’ and the firm’s perspective. As a result, it could be difficult to understand if the firm can afford to deliver on all customers’ articulated requirements, including the functions and other applications which customers and the firm’s experts believe customers will need in the future. This was such a problem at Firm L that its management brought in the services of a well-know strategy management consultancy. At Firm K, even though everyone understood that the firm needed to make racing games that made publishers happy and end-users found stimulating, it was clear the firm would not be able to grow if it did not try to do other things. However, it was difficult to convince publishers to give the firm larger budget and help fund the firm’s growth. The Marketing & Business Development believed the firm should work towards becoming a company that both made games and publishes them. However, this would be difficult while the firm’s people were obliged to concentrate on publishers’ work exclusively. It was also going to be difficult to convince the publishers the firm currently works with that the firm would not become a direct competitor.

At the low performing firms, although the firm’s technical and professional people were encouraged to respond to customers’ requests as much as possible, it tended to be
much more difficult for them to do this as productively as the high performing firms. Because these firms were still establishing themselves in the marketplace, they were not very profitable yet. This meant that they were not as free to respond to customers’ requests in anything but a reactive manner. For instance, the CEO of Firm M and Firm N explained that it was difficult for his people to find the time to anticipate customers’ needs. If a customer did not explicitly ask for something, it was unlikely they would get it. The firm’s people did not have protocols in place or the time to pre-empt customers’ needs. Consequently, most decisions at these firms were either of a technical, operational or tactical nature. Similarly, the firm was obliged to put the needs of its large and high value customers’ before the needs of many of its other customers. If these customers were not kept happy, Firm M and Firm N might lose them and could find it difficult to survive.

12.3 Chapter Summary

This chapter reported on the finding that one of the major differences difference between the high and low accounting and software engineering firms in this study is that the high performing firms tend to be better at drawing on the experience and technical knowledge of all of their people than the low performing firms. This is regardless of whether decision-making processes and responsibilities at the firm were top-down or bottom-up/top-down. As the interviewees revealed, the reason they were better at drawing on the experience and technical knowledge of their people is because their senior managers were able to successfully encourage people share customer-related information, and to work cooperatively and constructively.

The high performing firms also had customer learning, strategic planning and operational processes which were much more integrated than the low performing firms.
One of the reasons the high performing firms had more integrated processes is that their managers believed that integrated processes make it easier for the firm’s decision-makers to get access to all critical customer- and firm-related information in a timely manner.

These findings provide insight into the reasons why some firms are better at creating value for their customers than others and how one might explain heterogeneous firm performance. However, it does not explain why some firms are able to consistently outperform their competitors. These ideas are explored in Part VII of this thesis.
PART VI

RESEARCH QUESTION 3:

RESULTS & GENERAL FINDINGS
Introduction: Results for Research Question 3

As described in the first few chapters of this thesis, a firm’s performance may be dependent on how well its managers are able to learn about customers and then exploit what they learned to create customer value. It was also established that the ability to be consistently high performing could depend on whether the firm is able to learn about customers on an ongoing basis, that is, it may depend on whether the firm is able to establish processes that enable continual customer value learning. Part VI reports the results for the third research question, which focuses on examining how performance feedback processes allow the firm to create customer value:

**Question 3:**

How does the ability to develop processes which allow managers to learn about customer value on an ongoing basis affect a firm’s performance?

Chapter 13 reports on how the managers at the accounting and software engineering firms learn about and measure the firm’s ability to create customer value. Chapter 14 reports on the differences between how the managers at the high and low performing firms in the study learn about and measure the firm’s ability to create customer value.
The first section of Chapter 13 describes the relationship which the interviewees at the accounting and software engineering firms believed exists between their customer learning and resource allocation processes. The second section describes the resources that the interviewees at the accounting and software engineering firms believed contributed to their firm’s performance, including their ability to satisfy customers. The third section of this chapter reports on how the accounting and software engineering firms in this study measure and track the performance of initiatives to create value for their customers.

13.1 Customer Learning and Resource Allocation

The interviewees at the accounting and software engineering firms were asked to explain the relationship between the firm’s customer learning processes and its resource allocation processes. The interviewees agreed that they believed that the relationship between the firm’s customer learning and resource allocation processes needs to be a close one. However, this could be difficult to achieve or do so consistently, especially if the firm did not have protocols or processes in place which made it mandatory for its managers to always consider the potential impact on customers of their various resource allocation decisions.
**Customer learning and resource allocation at the accounting firms**

As Table 13.1 shows, the interviewees at the accounting firms except for those from Firm G believed their firm’s customer learning and resource allocations processes were highly linked. The interviewees at Firm G believed their firm did not have the opportunity to establish formal linkages between its customer learning and resource allocation processes before it was wound up. This was something that individual partners had to do for themselves.

<table>
<thead>
<tr>
<th>Relationship between customer learning and resource allocation</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>A close relationship in practice because the partnership team needs to make resource allocation decisions which reflect:</td>
<td>- Customers’ current and future accounting needs</td>
<td>- Customers’ current and future software needs</td>
</tr>
<tr>
<td></td>
<td>- Customers’ appetite for the firm’s current product and services mix</td>
<td>- Customers’ appetite for the firm’s current product and services mix</td>
</tr>
<tr>
<td></td>
<td>- Likely customer demand for any new product and service offering</td>
<td>- Likely customer demand for any new product and service offering</td>
</tr>
<tr>
<td></td>
<td>- Customers expectations of product and service quality</td>
<td>- Customers expectations of product and service quality</td>
</tr>
<tr>
<td></td>
<td>- Customers’ need to have the right people allocated to them</td>
<td></td>
</tr>
</tbody>
</table>

According to the interviewees at the accounting firms, it is important to apply what was learned about customers when the firm is preparing its annual budget or the partnership team is considering a business case for a new project initiative. The interviewees explained that the partnership team is always reluctant to allocate budget
or approve a business case without understanding how customers will benefit. They expect to be given any information collected about customers, including customers’ appetite for the firm’s current products and services, and new products and services. Any information about how customers have rated the firm’s performance will also be reviewed.

The interviewees explained that it is always important to understand if the firm has been able to successfully conclude all assignments and match the right people to the customers’ assignments. This helps the partnership team to understand if the firm’s current budget allocation approach is appropriate or whether it should be changed. It also helps them to identify the approach they should take when reviewing business case submissions and other proposals with extraordinary budget funding requests. One of the biggest challenges that the interviewees believe accounting firms need to overcome is the fact that it can take some time before the firm can get access to critical information about customers’ needs or for its people to appreciate that they have learned something important about customers. This means it is unlikely that partners will always have all the information they need about customers on hand to make resource allocation decisions.

**Customer learning and resource allocation at the software firms**

As Table 13.1 shows, the interviewees at the software engineering firms believed their firm’s customer learning and resource allocations processes are closely related, although the interviewees at Firm J believed the link will more often than not be an indirect one in practice. They explained that it was rare that anyone at their firm was given the opportunity to deeply learn about customers. They attribute this to the fact that the Australian offices only play a minor role in the development of the firm’s global
product and service range. As a result, customer learning is restricted to what is learned through participation in the Worldwide Management Committee and working with customers to identify how they want the firm’s global products to be adapted to the local market.

The interviewees at the other software engineering firms believed that there are many reasons why the relationship between customer learning and resource allocation must be a close one. These mainly evolve around the need to develop software that reflects customers’ needs and the timeliness of the release cycle. As was the case at the accounting firms, the more information the firm’s senior management is able to be given or has been able to accumulate about customers, the more likely they will be able to prepare budget and approve business cases that lead to customer value being created and delivered to customers. The information that most interests the senior management team is data that is collected about customer’s current appetite for the firm’s products and services, their likely appetite for any new products and services, and how satisfied they are with the firm’s performance.

13.2 Satisfying Customers, Coping with Change and Monitoring Performance

Towards the end of each interview, the interviewees were asked to rate the extent to which their firm has been able to satisfy customers, and how well they were able to help their customers cope with change.

The accounting and software firms’ ability to satisfy customers

The interviewees at both the accounting and software engineering firms in the study except for Firm E and Firm J believed their firm had been able to meet customers’ minimum expectations and their customers were generally satisfied with the products
and services that they received. In Firm E’s and Firm J’s case, there was a belief that the firm had been unable to fully satisfy its customers because most of their customers were large corporations and there was an expectation that Firm E and Firm J had to be as good as if not better than their direct competitors. The marketplace had also been very competitive in the last year.

Contrary to what one might have expected, despite going into receivership, the interviewees at Firm G believed the firm and its people had been able to satisfy its customers. This could be attributed to the fact that once Firm G went into receivership, the firm’s divisional partners were still very keen to meet customers’ needs. They were motivated to do this because they thought they could entice customers to follow them to whichever accounting practice they ended up working.

As Table 13.2 shows, the interviewees at both the accounting and software

<table>
<thead>
<tr>
<th>Resource investments that contributed to satisfaction</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People-related:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• High quality staff, including partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Well-trained, accredited and technically competent people</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Staff with good account management skills</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Function or Process-related:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The product development process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Investment in developing more flexible and efficient processes, including the firm’s quality assurance processes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 13.2
The Resources Associated with the Ability to Satisfy Customers

<table>
<thead>
<tr>
<th>People-related:</th>
<th>Function or Process-related:</th>
</tr>
</thead>
<tbody>
<tr>
<td>High quality staff, including partners</td>
<td>The software product development process</td>
</tr>
<tr>
<td>Well-trained and technically competent people</td>
<td>Investment in developing more flexible and efficient processes, including the firm’s quality assurance processes</td>
</tr>
<tr>
<td>Staff with good account management skills</td>
<td></td>
</tr>
</tbody>
</table>

290
engineering firms believed the same resources contributed to the firm’s ability to satisfy customers, including high quality people, technical capability, product development processes, senior managers, account management skills and flexible or more efficient processes.

The accounting and software engineering firms and coping with change

The interviewees were asked to rate how well their firm has been able to help customers cope with change. Again, the interviewees believed their firm had been good at helping customers cope with change, with only two exceptions. These were Firm E and Firm G. The interviewees at Firm E believed Firm E had been able to help customers with compliance problems but that its competitors were offering customers specialisations Firm E was not able to offer them yet. The interviewees at Firm G believed Firm G had not been able to help its customers cope with change in any significant way because its senior management team had been too preoccupied with building a firm with national scope and then keeping it from going into receivership.

The interviewees were also asked to identify which of its resource investments have made it possible for the firm to help customers to cope with change. As Table 13.3 shows, the answers which the interviewees at both the accounting and software engineering firms provided were almost identical to those that they associated with the ability to satisfy customers. However, the interviewees from the software engineering firms place a greater emphasis on the resource investments that helped them to develop or further develop the firm’s processes, business functions and its people’s skills. This included the firm’s product development processes, more efficient customer delivery and support functions, its people’s business development capabilities, the requirements gathering processes, a function that enabled research into regulatory and market-based
change, improved IT infrastructure and its people’s project management skills.

<table>
<thead>
<tr>
<th>Resource investments that contributed to the firm being able to help customers cope with change</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People-related:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- High quality staff, including partners</td>
<td></td>
<td>High quality staff, including senior managers</td>
</tr>
<tr>
<td>- Well-trained, accredited and technically competent people</td>
<td></td>
<td>Well-trained and technically competent people</td>
</tr>
<tr>
<td>- Staff with good account management skills</td>
<td></td>
<td>Staff with good account management skills</td>
</tr>
<tr>
<td>- People with a commitment to keep up-to-date with the latest changes in software and computer technology</td>
<td></td>
<td>Improved IT infrastructure</td>
</tr>
<tr>
<td><strong>Function or Process-related:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Investment in developing more flexible and efficient processes, including the firm’s quality assurance processes</td>
<td></td>
<td>Investment in developing more flexible and efficient processes, including the firm’s quality assurance processes</td>
</tr>
<tr>
<td>- Investment in research on the likely impact of regulatory or market change on customers</td>
<td></td>
<td>Investment in research on the likely impact of regulatory or market change on customers</td>
</tr>
<tr>
<td>- Investment in improving the firm’s project management processes, including how customer requirements and other changes will be documented</td>
<td></td>
<td>Investment in improving the firm’s project management processes, including how customer requirements and other changes will be documented</td>
</tr>
<tr>
<td>- The software product development process, including the requirements rating and solution development processes</td>
<td></td>
<td>The software product development process, including the requirements rating and solution development processes</td>
</tr>
<tr>
<td>- Software release cycle</td>
<td></td>
<td>Software release cycle</td>
</tr>
<tr>
<td>- Business development function</td>
<td></td>
<td>Business development function</td>
</tr>
</tbody>
</table>
The most important customer-related resources investments

As Table 13.4 shows, when the interviewees were asked to identify which customer-related resource investments had been the most important for their firm, the interviewees at both the accounting and software engineering firms said customers had most benefited from the firm’s investments in people, new or better products and services, and more efficient communications to customers.

The interviewees at the accounting firms believed customers had benefited because they had invested in improving the firm’s internal processes and ensuring the firm’s people could focus on customers’ problems properly. Conversely, the interviewees at the software engineering firms explained that customers also benefited from the firm’s investment in improving and streamlining the firm’s software development process, software release cycle, and processes used to implement or make software available to customers in a shrink-wrapped package form. These processes made it easier for the firm’s people to understand the functions and other attributes that customers wanted embedded in the software, including whether they wanted the software to reflect the latest in software and hardware technologies.
### Table 13.4
The Most Important Resource Investments Made in the Last 3 Years

<table>
<thead>
<tr>
<th>Most important customer-related resource investments</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>People-related:</td>
<td>• More senior managers, and more skilled and accredited people</td>
<td>• More skilled and technical accredited people, including project team-oriented people</td>
</tr>
<tr>
<td>• More skilled and technical accredited people, including project team-oriented people</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Firm H and I: Improved culture</td>
<td>• Firm I: Introducing a staff incentive system</td>
<td></td>
</tr>
<tr>
<td>• Firm I: Introducing a staff incentive system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>People-related:</td>
<td></td>
<td>Firm J: Acquired a firm to access its intellectual capital</td>
</tr>
<tr>
<td>Product-related:</td>
<td></td>
<td>Firm H: Reengineered the software front-end</td>
</tr>
<tr>
<td>• Developed a new specialisations (Firm C achieved this through a merger) and/or developed new intellectual capital</td>
<td>Product-related:</td>
<td></td>
</tr>
<tr>
<td>• Better quality assurance and/or use of account management teams</td>
<td>• Developed new intellectual capital, including software functions specific to customers’ needs and/or open platforms and other technologies</td>
<td></td>
</tr>
<tr>
<td>Customer-specific:</td>
<td>• Better customer communications to customers as a result of the increased use of a CRM and/or account management teams and/or a customer support function</td>
<td>• Firm I: In-sourced the call centre</td>
</tr>
<tr>
<td>• Firm A and F: Invested more in brand development</td>
<td>• Firm I and J: Invested more in brand development</td>
<td></td>
</tr>
<tr>
<td>Function or Process-related:</td>
<td>• More time was made available to staff as a result of the introduction of the Internet and/or more software applications and/or mobile communications and/or the introduction of other process improvements, such as better resource management</td>
<td>Function or Process-related:</td>
</tr>
<tr>
<td>• Improved product development processes/software release cycle and/or shorter software release cycle, including more extensive use of business analysts to gather requirements and/or use the knowledge management system to manage requirements data</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Tracking and measuring performance at the accounting and software firms

As Table 13.5 shows, the interviewees at both the accounting and software engineering firms identified a large number of methods which were used to measure and track customer satisfaction and the firm’s performance. These could be divided into those that were used to measure and track customer satisfaction, the firm’s financial performance, project performance and staff satisfaction.

As Table 13.5 shows, the interviewees at the accounting firms believed a variety of interrelated measures and methods are used to track the performance of their firm’s various resource investments. The budget process, performance review and post-project review processes are used extensively to assess many of the measures gathered at the firm on a regular basis. The interviewees explained that although there were many measures that were by themselves indicative of the firm’s success, it was always better to use a variety of measures to understand how the firm has been performing whenever this was possible. They applied this rationale even when a key performance indicator (KPI) was established to specifically measure at set intervals the performance of a particular resource investment.

The interviewees at the accounting firms explained that because people and their knowledge are so important to an accounting firm’s success, it can be difficult to find metrics to measure performance, especially measure the performance of people who the firm had hired recently or the success of a training initiative. They also explained that metrics can be affected by both external and internal factors. This means it may be necessary to rely on subjective methods to assess performance, such as asking a customer if a particular employee is working for them and communicating with them in a satisfactory manner.
Similarly, the interviewees believed that the more people who can understand how the firm measured and tracked performance, and became involved in assessing the firm’s performance the more likely a sound assessment of the firm’s overall performance could be made. If it could be shown that a large proportion of people’s time was being used to work on customer assignments, this was generally believed to be a good thing. The interviewees explained that it was assumed that people were busy because they were attracting new customers or getting a lot of repeat accounting business. This implied that customers believe the firm is good at helping them meet their compliance obligations and/or the firm’s products and services were ‘good value for money.’

All of the accounting firms conducted customer interviews and/or customer satisfaction surveys of some kind. The latter were sent to customers in the mail, conducted over the phone or conducted in person. Partners also made it a point to meet with customers who expressed dissatisfaction to discuss the firm’s performance. The information that was gathered was then analysed against the information accumulated in the firm’s financial reporting system, including profit & loss statement and balance sheet information. This was done to better understand which customers or groups of customers, and which products and services are most important to the firm financially.

Generally, partners will meet to discuss the results of these analyses on a quarterly basis or, if there were issues of immediate concern, once a month or even sooner. All of the interviewees believed that the link between customer satisfaction and firm performance could only be assessed by the partners subjectively, notwithstanding the ready availability of quantitative measures.
# Table 13.5

Methods Used to Track and Measure Performance  
(In order of type of measure and prevalence)

<table>
<thead>
<tr>
<th>Measure/Track Customer Satisfaction</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer interviews (13)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer surveys/product ratings (12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in a key segment (8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer retention (6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/sales targets met in key segment (7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers paid on invoice on time (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low level of complaints (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of calls made to call centre (3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of repeat business sales (2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High subscription renewal rate (2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identified new customer advocates (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account managers given positive feedback (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relatively low levels of litigation (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of exiting customers (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer training attendance levels (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of customers who buy upgrade (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low wait queue times to call centre (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of customers involved in R&amp;D (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in sponsors (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of new customers (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of bad press reports (1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The interviewees also explained that even if customers were keen to fill out customer satisfaction questionnaires or be interviewed by partners, it could take them some time to fully appreciate the value that the firm may have created for them. In the case of compliance-based products and services, they often had no choice but to purchase them. Many customers could not appreciate the longer-term benefits associated with some products and services, such as a strategic planning service. When this was the case, a firm’s partners could not rely on customers’ feedback to understand if customers had

Table 13.5

Methods Used to Track and Measure Performance
(In order of type of measure and prevalence)

<table>
<thead>
<tr>
<th>Measure/Track Financial Performance</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; Loss/Balance Sheet (14)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Contribution to profit (8)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Divisional budget(s) (7)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Project budget(s) (7)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Increase in sales (5)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Firm’s share price (1)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure/Track Project Performance</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to meet project milestones (4)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Ability to meet all project KPIs (4)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Ability not to exceed budget (4)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>Project debriefs (2)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
<tr>
<td>New products developed (2)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure/Track Staff Satisfaction</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff retention (1)</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
<td>□ □ □ □ □ □ □ □ □ □ □ □ □</td>
</tr>
</tbody>
</table>

The interviewees also explained that even if customers were keen to fill out customer satisfaction questionnaires or be interviewed by partners, it could take them some time to fully appreciate the value that the firm may have created for them. In the case of compliance-based products and services, they often had no choice but to purchase them. Many customers could not appreciate the longer-term benefits associated with some products and services, such as a strategic planning service. When this was the case, a firm’s partners could not rely on customers’ feedback to understand if customers had
been satisfied. Customer satisfaction was tracked on a segment basis but none of the accounting firms believed they had were very good at understanding if a customer segment was more satisfied than another customer segment.

There were some qualitative differences in how Firm E tracked the performance of its various resource investments compared to the second tier firms in this study. According to the interviewees, Firm E’s people’s work and level of utilisation was tracked on a six minute increment basis. The partnership team and the Programme Management Office are responsible for assessing if people were using their time appropriately. The Programme Management Office also tracks the progress of all customer projects. They kept track of each project’s budget and assessed whether there were any opportunity costs associated with the project which were not originally anticipated.

At Firm E, the satisfaction of its most important customers segment or high value customers is normally tracked on a service line or state basis. According to the Global Partner in Charge of Enterprise Risk Services, segment specific information can be gathered from Firm E's scheduling, project and budget variance tracking systems. All the interviewees at Firm E explained that despite Firm E’s size and global scope its performance management system is still evolving. This means its partners are still grappling with the problem of what is the best way to measure the firm’s resource investments, especially its investments in people and developing the firm’s capabilities. According to the interviewees at Firm E, this was still largely determined subjectively.

As Table 13.5 shows, the performance of the firm’s resource and capability investments at the software engineering firms is also regularly tracked and measured using a variety of performance tracking and measurement systems. According to the interviewees customer interviews and customer satisfaction surveys are regularly
conducted either through the mail, over the phone or in person. Market share and customer retention is also regularly tracked and measured. The interviewees also believed that it is important to track and measure the firm’s financial performance and the firm’s ability to complete projects as planned. Compared to the accounting firms, it was considered much more important to have a variety of measures in place to track and measure the firm’s ability to complete projects on time and to specification.

According to the interviewees, the senior management teams and/or steering committees at the software engineering firms rely on all these methods and measures to make decisions. They track the progress of projects and the performance of individual divisions regularly. They expect to be given project Gantt charts and departmental monthly reports, budget variation information, submissions to re-scope a business case or write a new business case, and timesheets information regularly. If there’s a serious problem that needs addressing, they expect to be able to be given the latest versions of these information sources as soon as possible to assess, as well as any explanations for why the initiative or project may have fallen behind schedule, etc.

The interviewees at the software engineering firms explained that it is always important to look at all project-related or divisional measures in conjunction with the firm’s financial reports. If a KPI has been set for an individual initiative or a person, it will be difficult to understand if the KPI is reliable and can accurately reflect performance unless it is compared with the firm’s financial metrics. The interviewees explained that it is normal for the firm to use customer surveys or sales reports to put together KPIs.

The interviewees also explained that they regularly conduct customer satisfaction surveys throughout the year. This helps them understand if the firm is consistently delivering value to customers. As was the case with the accountants, this information is
not analysed in isolation from the other data collected about the firm’s performance, including the performance of projects, divisions and the firm as a whole. At Firm H and Firm I, the interviewees explained that one needed to continually consider if the data being collected was reliable and measured what it was supposed to measure. The managers at these firms made it a point to meet regularly and to debate in an open forum whether the data showed that the firm’s resources were being used wisely and in their firm’s customers’ best interests. The management team at these firms also regularly conducted post-implementation reviews. These reviews assess whether the assumptions presented to them in a business case were sound. If the investment had not been sound it would normally be discontinued. If it had been sound but needed more funds, it would normally be given more funds.

The interviewees at Firm I believed their firm had been able to develop measures that had been tested and proven to be valid over time. They also believed the firm uses highly integrated processes to assess and track its ability to perform in different ways. The product development process was considered to be a good source of information about the firm’s performance, especially the information that was gathered about customers’ values, their current satisfaction levels and whether everyone was satisfactorily completing their project-related tasks, including satisfactorily working towards eliminating all forms of duplication. Performance is tracked against tasks completed, including the milestones, KPI and target outcomes identified in the original plan, although it was admitted that some of these items are easier to track than others. The COO explained that one of his challenges was to make sure that everything was compared to the current state of the balance sheet, as it was not in the firm’s best interests to have too many intangibles or capital expenditures on the balance sheet. The marketplace was fast-moving and in his experience shareholders want evidence that the
firm can manage its cashflows. The managers at Firm J applied similar processes to that of Firm H and Firm I. However, the performance of the firm’s resource and capability investments is usually tracked by the members of the local Customer Council. The Customer Council meets regularly to discuss if they believe the firm is performing.

Firm K relied heavily on its steering committee to track the progress of its projects. The steering committee regularly peruses the information gathered about the progress of its various game projects. They assess whether the firm has spent the firm’s budget in its publisher customers’ best interests. They also look at reviewers’ reports, the firm’s labour statistics, general ledger data and the firm’s profit and loss figures. This is usually done on a monthly basis or more regularly if a project has fallen behind schedule. The interviewees explained that Firm K will still be paid even if a game ‘flopped’ but everyone realises that it is not in the firm’s long term interests to give publishers any reason to regret using the firm.

Firm L, Firm M and Firm N track the performance of their resource and capability investments through the use of account management teams, by perusing data collected on the financial management system, and analysing project-related and customer satisfaction measures, such as the number of customers using the firm’s products and services and margin per customer. The project steering committee is responsible for monitoring all KPIs. If a KPI was not achieved, the reason why is investigated. The interviewees at Firm L, Firm M and Firm N explained that their firms were still relatively young and had not developed robust methods to track and measure the performance of their resource investments.

As was the case with most of the accounting and software firms in this study, account management teams were also considered to be an invaluable source of feedback about project performance and customers’ satisfaction levels, including whether the
firm’s most valuable customers were satisfied. They were also able to provide feedback about the extent to which individual customers represented the needs of other customers in the same industry.

13.3 Chapter Summary

This chapter examined the processes which are used at the accounting and software engineering firms taking part in this study to allow managers to learn about customers and create customer value on an ongoing basis, with an emphasis on understanding how the firm’s performance tracking and measurement processes are used to this end. The interviewees at the both the accounting and software engineering firms believed it can be difficult to establish links between the firm’s customer learning and resource allocation processes. This is despite the fact that the ability to establish such links is more likely to make the firm successful in the markets within which it operates.

According to the interviewees at the accounting firms, one of the biggest challenges that the interviewees believed accounting firms need to overcome is the fact that it can take some time before the firm can get access to critical information about customers’ needs or for its people to appreciate that something important has been learned about customers. The interviewees at the software engineering firms also believed it can be difficult to understand if something important has been learned about customers. The explained that it is important to get as much feedback about customers as possible and the marketplace to understand if the next release of the firm’s software could meet customers’ changing needs.

The interviewees at the accounting firms explained that although there were many measures that were by themselves indicative of the firm’s success, it was always better to use a variety of measures to understand how the firm has been performing whenever
this was possible. They applied this rationale even when a key performance indicator (KPI) was established to specifically measure at set intervals the performance of a particular resource investment. They also explained that because people and their knowledge are so important to a firm’s success, and the firm can be affected by both external and internal factors, it can be difficult to find metrics to measure performance. As a result, managers need to work together to subjectively assess the firm’s performance and determine if the metrics that was being used accurately reflected its performance, including its ability to create customer value.

Although the accounting firms used a large number of methods to track and measure the firm’s ability to create customer value and, as a result, improve its performance prospects, they did not use as many tracking and measurement processes as the software engineering firms. This is because the software engineering firms need to constantly assess if their software is meeting customers’ needs, it is still competitive and the next release of the software will also be able to meet customers’ needs. Similarly, since software development can be costly and it can take time before the firm earns a return-on-investment, it is also very important to ensure all projects are run efficiently and that managers are able to assess if the firm is achieving its customer value creation objectives.

The next chapter describes these findings in more detail, in particular, why the high performing firms were better at tracking and measuring if the firm had created customer value than the low performing firms in this study.
CHAPTER 14

CUSTOMER LEARNING AND MEASURING PERFORMANCE AT THE HIGH AND LOW PERFORMING FIRMS

The first section in Chapter 14 describes the differences between the high and low firms, including the extent to which resource allocation decisions are able to be made which factor in how customers’ values have changed or may change. The second section reports on the differences between the high performing and accounting firms, and the resources which the interviewees believed contributed to their firm’s performance. This includes understanding if it is important to establish performance feedback loops that can provide insight whether the firm has been able to create customer value.

14.1 Focusing on Performance: Customer Learning and Resource Allocation

Although the interviewees at both the accounting and software engineering firms explained that it is highly desirable to have a close relationship between the firm’s customer learning and resource allocation processes, they also acknowledged that this could be difficult to do in practice. However, the high performing firms in this study were able to overcome these problems by establishing links between the firm’s customer learning and resource allocation processes, investing in people who could establish and maintain these links, and by establishing and using a robust performance tracking and measurement system.
Customer learning and resource allocation at the high performing firms

As Table 14.1 shows, the interviewees at the high performing accounting firms believed that their firms made it easy for their partners to make good budget and other resource allocation decisions because the firm’s partnership team can acquire information in different ways, including through a variety of people.

<table>
<thead>
<tr>
<th>How customer learning and resource allocation processes are linked</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Firms:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A diversity of people are involved in collecting data about customers and a large amount of it is analysed in a manner that can help the firm’s partners make good, timely resource allocation decisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A diversity of people are involved in identifying how different resource allocation decisions will benefit the firm and customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team do not make major strategic resource allocation decisions without understanding the potential impact on customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team meet regularly throughout the year to discuss if the firm is meeting customers’ expectations and to refine the firm’s strategies, including conduct post-implementation reviews of the firm’s customer value delivery and resource allocation strategies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team is capable of making major resource allocation decisions in cooperation with each other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Firms:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• A diversity of people are involved in collecting data about customers but only a small amount is able to be analysed in a manner that can help the firm’s partners make good, timely resource allocation decisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team are responsible for identifying how different resource allocation decisions will benefit the firm and customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The majority of the resource allocation decisions which the partnership team make are operational in focus and are only made once work has been won</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team meet regularly throughout the year to refine the firm’s strategies but most of the decisions they make about the firm’s customer value delivery and resource allocation strategies are reactive, and involve better managing customers’ expectations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• The partnership team is not always capable of making major resource allocation decisions in cooperation with each other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
For instance, the partnership team meets at least once a year to develop the firm’s strategic plan and budget, and then periodically throughout the year to refine the strategic plan and the budget, especially if changes need to be made to the strategic plan or there was an unexpected budget variance. At these meetings, the partnership team will discuss what they have learned about the firm’s customers as a result of meeting

<table>
<thead>
<tr>
<th></th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Software Engineering Firms:</strong></td>
<td>• The firm has been able to develop a customer learning culture</td>
<td>• The firm has not yet been able to develop a customer learning culture</td>
</tr>
<tr>
<td></td>
<td>• Everyone is expected to become involved in requirements gathering in some way</td>
<td>• Only those hired to do requirements gathering engage in this activity</td>
</tr>
<tr>
<td></td>
<td>• A diversity of people are involved in identifying how different resource allocation decisions will benefit the firm and customers</td>
<td>• The senior management team are responsible for identifying how different resource allocation decisions will benefit the firm and customers</td>
</tr>
<tr>
<td></td>
<td>• Customer learning occurs iteratively and the firm’s people are required to consult with customers extensively</td>
<td>• Customer learning occurs at fixed intervals and the firm’s people are required to consult with customers as they see fit</td>
</tr>
<tr>
<td></td>
<td>• The senior management team are reluctant to make major strategic decisions that do not consider both the short-term and long-term potential impact on the firm and customers</td>
<td>• The senior management team rarely have the time to make major strategic decisions that consider both the short-term and long-term potential impact on the firm and customers</td>
</tr>
<tr>
<td></td>
<td>• The senior management team use project management methods to monitor projects and determine if the firm’s customer value delivery strategy is being implemented</td>
<td>• The senior management team use project management methods to monitor projects and determine if a project needs to be re-scoped or more budget negotiated</td>
</tr>
</tbody>
</table>

Table 14.1
How Customer Learning and Resource Allocation Processes are Linked at the High and Low Performing Firms
with the customers during the course of an assignment, staff in their division, staff in the account management teams, staff in the quality assurance team, staff in a support area of the firm, such as human resource management or marketing and anyone else at the firm or external to it who has had something to share about the firm’s customers. In addition to this, the partnership team are also given many reports to read throughout the week, including divisional weekly and monthly utilisation rates, customer satisfaction ratings and lists of outstanding debtors.

According to the interviewees at the high performing firms, all of these things give the partnership team a very good sense of what information sources and perspectives are the most reliable, and what it is the firm can do for its customers. Moreover, the partnership team can use the information before them to develop a consensus view of customers’ most pressing needs and how the firm might be able to profit by addressing them. This helps them make better resource allocation decisions because the partnership team are able to adopt the same conceptual framework when solving resource allocation problems at different levels, including at the enterprise-wide, divisional, project and partnership level. Because the partnership team are constantly meeting to refine the firm’s strategic plan, its budget and review divisional performance, this is essentially an iterative process of continual improvement.

For instance, the interviewees at Firm A explain that the partnership team meets annually to develop the firm’s strategic plan and budget, and at least monthly to refine it. This gives them the opportunity to discuss how customers and the firm have been impacted by the firm’s resource allocation decisions, including to what extent the firm has been able to deliver value to its customers. According to the Professional Director of Projects, the opportunity to discuss these matters was also taken at partners’ fortnightly operational meetings and other meetings, such as when the human resource
management team meets. According to the General Manager for IT Consulting, in a project assignment it is important to gather as many facts and details from customers at the start. As the project progresses the project team should then try to identify common themes, in particular, general issues or areas of need that customers have identified. This helps everyone understand if the project is being approached properly and if the firm has allocated the right and enough resources to it.

According to the Director of Human Resources, the firm encourages its people to think of customers as alliance partners. As a result, it is always important to consider customers’ articulated needs before all else. This is important as it helps the firm’s people understand if changes need to be made to the firm’s product and service mix, and whether the firm should begin to approach resource allocation differently. The interviewees at Firm B and Firm C identified similar issues but they believed that customer learning and resource allocation needed to be closely related because it is essential that the right people be assigned to the firm’s different customers. One of the benefits of matching staff to customer assignments is that it is more likely that the partnership team will be able to be given more accurate information about the firm’s customer value creation efforts than if customers’ preferred staff were not used. This helps them to make better resource allocation decisions, including whether the firm should invest in the development of new products and services.

At the high performing software engineering firms, the firm’s customer learning and resource allocation processes were described as closely linked. The interviewees explained that it was important to have a close relationship between these two things because the software development process could not be effective if they did not have a close relationship. The interviewees at Firm H explained that this fact was constantly being reinforced at Firm H. The interviewees at Firm H believed that Firm H has been
able to develop a customer learning culture as a result. Thus, everyone was expected to be involved in requirements gathering in some way. The Business Development Manager explained that customer learning occurs iteratively at the firm. He believed that by going back and forth to customers to ask about their needs and constantly asking if the firm was meeting creating value for them, and by using any other sources of evidence available to them, the firm increased the probability that it was delivering products and services to its customers that satisfied their needs.

The interviewees at Firm I also believed that everyone at Firm I is involved in customer learning in some way. People’s customer value learning efforts are supported by the fact that the firm has highly integrated customer learning and resource allocation processes and systems. They allow customer requirements to be gathered, analysed, rated and then used to make commercially sound resource allocation decisions. The CEO explained that the firm regularly conducts customer surveys, customer requirements are gathered through the call centre and other forums, and information about customers is always recorded on the knowledge browser, which everyone at the firm can access. Customers are integral to the firm’s resource allocation process. If a customer raises an issue or makes a complaint, it is a policy of the firm to give that customer feedback about how their issue or complaint was handled within six weeks. Every complaint is taken seriously because it could be a symptom of a much larger problem which only one customer was interested in bringing up. The CEO explained that the sooner the firm knows about a problem, the faster it will be able to redress it by allocating resources to fixing the problem.

At Firm J, the interviewees believed that in Australia its customer learning processes are indirectly linked to the firm’s global resource allocation processes but closely linked when it comes to its Australian operations. The interviewees also explained that in the
same way that Firm H and Firm I use their knowledge management system Firm J uses its system knowledge management system to gather and disseminate information about customers. Everyone involved in software development in any way is required to use the system. They are also required to use project management methods to keep track of projects. This means that the firm’s senior management can always get a good picture of how the firm’s resources are being used and how the should be used in the future. According to the Vice President Strategy & Professional Services, Firm J is slowly improving its customer learning and resource allocation processes. However, these processes are not yet fully integrated and cannot be described as robust yet. As a result, the firm’s people are encouraged to proactively share their customer-related learnings with others, especially any information that could be used to make good resource allocation decisions.

**Customer learning and resource allocation at the low performing firms**

The interviewees at the low performing firms explained that they believe it is important to establish links between the firm’s resource allocation processes and customer learning. However, there were a number of reasons why the partnership team could not rely on the information about customers that they were given. In addition to this, sometimes there was just too much information for partners to handle or when they were given access to useful information about customers it was too late.

For instance, according to the CEO at Firm D, there are many situations where it might not be appropriate to assume customers know what they want or they are always right. Although they may be able to provide valuable feedback, the onus is still on Firm D’s partners to try to anticipate what customers may want or need in the future. This was especially important in regard to compliance-based products and services, as it is
unlikely customers can appreciate how they might be affected by a regulatory change or the introduction of some other regulatory regime. The Partner in Charge of NSW explained that although every effort is made to ensure partners are given useful information when they need it, the firm does not have processes in place to make sure this occurs.

The interviewees at Firm E explained that they believe that there is a strong relationship between customer learning and the firm’s resource allocation processes. However, because so many people are involved in customer learning and Firm E uses a large number of processes to learn about customers, it can be difficult to ensure all useful facts about customers are always passed on to partners to use to make the firm’s resource allocation decisions. For instance, although account managers were required to pass on customer-related information to partners, this information was usually only used to make resource allocation decisions that related to the needs of specific customers. The Global Partner in Charge of Enterprise Risk Services and the Chief Operating Officer explained that resource allocation decisions were still very reactive at Firm E. Most decisions were made as a result of a customer saying they wanted to have some work done. If the firm wins work, the resources which the responsible partner will need will be made available to that partner unless there are compelling reasons why the firm cannot give the partner the required resources.

The interviewees also believed that one of Firm E’s problems is that it makes too many resource allocation decisions which will benefit the firm in the short-term but not enough that could benefit it in the longer-term. Unless the firm’s partnership team becomes better at appreciating the way in which customers could be affected by its resource allocation decisions, that is, decisions which often did not take customers’ and the firm’s long-term interests into account, they will continue to under-invest in
resources that can benefit the firm in the longer-term. The CEO also explained that the firm’s executive team make strategic resource allocation decisions while divisional partners are responsible for making resource allocation decisions that relate to customer assignments. This can cause problems for the firm if lead service partners do not inform the executive team of a slump in customer demand as soon as it becomes obvious or they do not appreciate that the firm’s people do not have the requisite skills to cope with customers’ future needs. The CEO explained that a firm of Firm E’s size can become insolvent in less than six weeks. If the executive team is not given information in a timely manner, they may not be able to make decisions about changing the firm’s resource mix before it is too late.

The interviewees at Firm F explained that they too believe that there needs to be a close relationship between customer learning and the processes the firm uses to make resource allocation decisions. However, this could be difficult. The problem with some service lines is that it can be difficult to learn about customers in a structured or systematic manner. This means that information is accumulated in a fragmented or ad hoc manner. This could lead to lagged decision-making. For instance, it is a requirement in the firm’s financial services areas that the financial services committee regularly meet to discuss the firm’s current financial service offering and whether they still reflect customers’ best interests. However, most of the analysis that they conduct at these meetings evolves around understanding why customers are inclined to buy one set of financial products and services over another. Although these statistics can be indicative of the effectiveness of Firm F’s communications and that customers were getting high enough returns for the time-being, they did not help Firm F’s people understand if they were indeed working in customers’ longer-term best interests.

There have also been occasions in the accounting division where Firm F missed out
on a tender because its people were not able to assure customers that the firm had the resources in place to successfully provide them with the services that they needed. According to the Managing Partner, the firm’s partners understand that there will be times when customers’ and the firm’s resource investment expectations will differ. This is because although it might seem as if a customer has similar problems to those experienced by other customers, this might not be the case. Similarly, some customers may have expectations of what the firm should be doing for them and the resources they should be using that differ significantly from the expectations of other customers. According to the Head of Insolvency, one of an accounting firm’s biggest challenges is to find a way to understand and manage the expectations of the firm’s different customers.

The interviewees at Firm G did not believe the firm had established linkages between customer learning and the firm’s resource allocation processes. This was attributed to Firm G’s inability to develop mature processes or organise appropriately. According to the interviewees, when Firm G first listed on the stockmarket, its management was much more interested in understanding how to consolidate the 50 firms that Firm G had purchased than understanding how the firm’s resources needed to be used to create customer value. Unfortunately, at the point in time when it was beginning to develop processes to systematically learn about customers and use this information to make better resource allocation decisions the firm stopped trading.

At the low performing software engineering firms, the firm’s customer learning and resource allocation processes were described as closely related because software engineering firms need to use the software development process to gather and interpret customer requirements. However, it was often very difficult for the firm’s decision-makers to make long term and strategic resource allocation decisions because the firm is
still dependent on customers or investors to provide them with cash or working capital.

For instance, the interviewees at Firm K explained that it is important to have customer learning and resource allocation processes that are highly related. However, it can be difficult to be anything but reactive or make anything other than short-term resource allocation decisions. In most cases, the firm’s resource allocation decisions were almost entirely focused on ensuring customer projects were completed satisfactorily. The Chief Technology Officer explained that the firm will only invest in resources that it has committed to using and acquiring to work on a game that it has been signed up to develop. If a publisher wants to change the game while it is still being made, Firm K will work with the publisher to re-scope the project. The budget will be renegotiated if this is necessary. If the end-user gives Firm K feedback about the game when it is at prototype stage and Firm K’s people believe the game could still be improved, they will approach the publisher to see if they will pay for the extra development work. Even if the firm’s managers are given privileged insights into customers’ needs, they are restricted to making resource allocation decisions that publishers are likely to endorse.

The interviewees at Firm L believed there was a close relationship between Firm L's customer learning processes and its resource allocation processes. However, the firm’s managers are restricted to making resource allocation decisions that they can demonstrate will benefit the bulk of the firm’s customers. This often causes many problems. Medical practitioners are often too busy to think about and give feedback about the ways technology can be used to help them do their work better. The General Manager of Hospital Services was also of the opinion that the phone surveys that the firm regularly conducted can create a misleading picture of what it is that the majority of the firm’s customers want. There is no evidence that they are reliable. This means
there is a very strong possibility that the firm’s resources are being used to cater to the needs of a vocal minority rather than the needs of the majority. Firm L has also committed itself to a quarterly release cycle. Most software engineering firms commit to a yearly release cycle. Although this ensured the firm’s software remained up-to-date with the latest regulations, a quarterly release cycle makes it harder for Firm L’s people to engage in and benefit from deep customer learning.

The interviewees at Firm M and Firm N believed that the firm’s customer learning processes and its resource allocation processes are closely linked. However, the emphasis at Firm M and Firm N is on using these processes to ensure customer projects are completed quickly and to specification. The Software Development Manager explained that Firm M’s management team learned very early in the firm’s development that customers would rather receive a high level of customer service than ever increasing levels of software functionality. As a result, it was difficult for the firm to invest its resources in developing software that included anything customers did not request. Although this was a commercially prudent way to approach the resource allocation process, there was a danger that the firm might stop experimenting, and might stop developing new functions and software products entirely in the future, even if the firm has been able to earn enough revenue to justify experimenting in this way.

The Director of Business Development at Firm N explained that it was difficult for a firm of Firm N’s size to be anything but reactive. This firm was still very small and was still developing. As a result, everyone at the firm was required to focus on delivering on customers’ articulated needs, revenue-generation, and not necessarily on what was in customers’ and the firm’s long-term best interests.
14.2 Important resource investments at the high and low performing firms

As the preceding subsections will have suggested, the interviewees at both the high and low performing accounting and software engineering firms had much in common in regard to the resource investments which they believe were important at their firm. Nevertheless, it is possible to distinguish the high performing accounting and software engineering firms from the low performing firms in this study by their propensity to invest more in these performance-enhancing resources, in particular, their propensity to invest in hiring more knowledgeable and technically proficient people, people with an existing clientele in specialist areas, and ensuring the firm’s people developed better resource planning, leadership and communication skills. There was only one exception to this general principle. According to the interviewees at Firm G, Firm G had over-invested in these resources. They explained that at one stage Firm G had 200 people working at Head Office when 50 would have been sufficient.

More knowledgeable, skilled and managerially competent people

As Table 14.2 shows, the high performing accounting firms were characterised by a propensity to invest heavily their people’s professional development and in new staff, especially in more knowledgeable and technically proficient staff. The interviewees at the high performing accounting firms explained that the partnership invested heavily in developing everyone’s managerial and communications skills. They explained that it had become necessary to invest in more knowledgeable and technically proficient staff. The firm had acquired more customers and a large number of the firm’s customers were now demanding to be provided with more specialised accounting services. They explained that it had been very important to hire people with specialist accounting skills and/or an existing clientele whenever this was possible. This could also involve bringing
in new partners. They explained that it had been important to invest in training and professional development, especially developing the partners’ and other staff members’ resource planning, managerial and communications skills. According to the interviewees, there was a strong belief at the firm that the better people become at managing other people and communicating complex ideas to colleagues, customers and other parties, the more likely it will be that they will be able to think strategically and positively contribute to the firm’s customer value creation efforts. It was also more likely the firm would be able to develop the kind of working environment and culture which made it easier to retain good staff.

For instance, the interviewees at Firm A explained that Firm A had invested in hiring more knowledgeable and technically proficient people. The firm had also invested in a number of initiatives to improve its people’s leadership and communication skills. The interviewees explained that there was a belief at Firm A that there is a big difference between people who are managers and those who are able to become leaders. The Director of Human Resources explained that Firm A had successfully developed many of its people’s leadership and communication skills. Its partners had the foresight to develop and promote a very specific management model. The model promotes the idea that to achieve Firm A’s mission and to exemplify its values, employees have to develop the ability to build good working relationships with everyone they come in contact with inside and outside of the firm. Everyone understands that it is important at the firm that everything possible is done to ensure the talents of all of the firm’s people can be fully exploited. The Director of Finance and Administration explained that people with leadership skills are good at encouraging other people and showing them how they can help grow the firm. Such people also have the ability to successfully implement strategies. He also explained that the Managing Partner has made it clear to
the partnership team that he believed the firm would have a very uncertain future if it
did not address the fact that many of its current managers will be retiring and will
eventually need to be replaced.

<table>
<thead>
<tr>
<th>The nature of the people, training/professional development and work environment investments</th>
<th>High Performing</th>
<th>Low Performing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Firms:</td>
<td>More knowledgeable and technically adept people hired, including specialists and partners with an existing customer base</td>
<td>More knowledgeable and technically adept people were hired but only after a partner generated work for them to do</td>
</tr>
<tr>
<td></td>
<td>Invested in enterprise-wide initiatives and programmes to develop people’s resource planning, leadership and communication capabilities</td>
<td>Staff are expected to engage in professional development activities outside of work hours, although partners will develop people with partner potential</td>
</tr>
<tr>
<td></td>
<td>Relatively low turnover levels</td>
<td>Relatively high turnover levels</td>
</tr>
<tr>
<td></td>
<td>Invested in developing a positive work environment and culture</td>
<td>Did not invest in developing a positive work environment and culture</td>
</tr>
</tbody>
</table>

| Software Engineering Firms: | Some staff were retrenched and/or more knowledgeable, technically proficient and commercially astute people hired | Did not have enough financial resources to hire more knowledgeable, technically and commercial astute people |
| | Experienced senior managers were brought into the firm to re-evaluate the firm’s strategy and aggressively cut costs | The firm focused on hiring people who understand the software development process and project management |
| | Senior management team were able to achieve a balance between strategic planning and helping functional managers do their work better | A relatively large number of senior managers were hired because they were young and enthusiastic but not very experienced in business |
| | Invested in developing a positive work environment and culture | Invested in developing a positive project team environment |
| | Relatively low turnover levels because staff were paid well and/or were offered performance incentives | Relatively high turnover levels because competitors paid higher salaries |
The interviewees at Firm B and Firm C expressed similar views. Firm B invested heavily in developing its people’s management skills because the partnership team believes the firm will begin to stagnate, especially if its people are unable to work with each other and complete customer assignments to a high standard. They explained that the firm’s people need to be good communicators and relationship builders. They also need to be good at managing time, directing others and explaining complex ideas to others, especially to customers and junior staff members.

At Firm C, the interviewees believed that the larger the firm becomes, the more important it becomes for it to have managers who can think strategically and help develop a positive working environment. The Director in Charge of Consulting, Sales & Marketing explained that it is part of Firm C’s current strategy to encourage its people to develop protocols and processes that can make the firm more efficient, ensure resources are utilised more effectively, and make it easier for its managers to monitor its people’s performance, including their ability to create and deliver customer value.

As Table 14.2 shows, it was often difficult for partners at the low performing accounting firms to hire more people without being sure that there was work for them to do. The low performing accounting firms were also characterised by no or low levels of investment in training and professional development. This included improving their people’s resource planning, leadership and communication capabilities. The firm’s people were required to engage in training and professional development outside of work hours. In most cases, they had to pay for this additional study themselves. This was study that they needed to do anyway if they wanted to keep their qualification up-to-date. The partnership team would only considering investing in developing a staff member if they believed that particular person had the ability to earn a high amount of revenue for the firm. The partnership teams at the low performing accounting firms
seldom invested in enterprise-wide training and professional development programmes.

For instance, at Firm D it was difficult to get partners who adhered to the traditional partnership model and who were in a state office to appreciate how important it is to invest in management training and to develop staff with partnership potential. The interviewees at Firm F also believed their firm was at a disadvantage because it could not adapt and move away from the traditional partnership model. If a particular partner was a good manager and leader, then it was likely that the people under that partner were able to become fairly good managers. The opposite was true if the partner was not a good manager and leader. The interviewees at Firm F also believed that Firm F was hamstrung by the inability of its managers to get accurate and timely information about the firm’s performance from each other and the firm’s reporting systems.

In contrast, the interviewees at Firm E did not believe individual partners should run their divisions as if they were separate businesses. This firm also had access to considerably more resources, including financial resources than all the other accounting firms in the study. Its problem was that it did not have a history of investing in developing its managers. The CEO admitted that when he first joined the firm to become the new CEO he had been shocked at how bad the standard of management was at the firm. He immediately implemented a leadership training programme and organised for a large number of partners to go overseas to be trained at a leading business school. He believed the firm’s partners had started to become better managers and leaders but that it would take some time before the firm would begin to benefit.

In Firm G’s case, the executive team had invested heavily in developing a centralised management function and had also made the mistake of acquiring around 40 accounting practices all around the same time. This meant that the executive team needed to spend a lot of their time thinking about how best to integrate these many practices. This made
it difficult for them to understand if they needed to invest in management training or hire more specialists. The interviewees also explained Firm G also had too many people working at Head Office.

As Table 14.2 shows, the high performing software engineering firms were also characterised by a greater tendency to invest in hiring more knowledgeable and technically proficient people. This included when they needed them. They also divested the firm of staff that were no longer needed, especially if the software market slowed. According to the interviewees at the high performing firms, it had also been important to ensure the firm hired the right mix of people. If the firm had too many people working at the firm who were not able to appreciate that they worked at a commercial enterprise this could affect the firm. The interviewees explained that it had been important to hire people who can think strategically but can also understand why it is important to keep costs low. The interviewees also explained that it had been very important to invest in training and development, improving the firm’s culture, making sure the firm could retain its best people, and a new incentive scheme.

For example, when Firm H got in financial difficulty when the worldwide market for software slumped, its Board and senior management team realised Firm H needed to retrench some staff. They realised they needed to bring in people who were good at resource management, especially financial management and cutting costs. A number of new managers were hired. They re-evaluated the firm’s strategy and cut many costs. They made some people redundant and got the remaining staff focused on developing and integrating products and services that customers actually needed, as opposed to developing new technology because this work was interesting.

Firm I experienced similar problems. According to the interviewees, it had become necessary to retrench some staff and hire some new managers because Firm I needed
people who could help the firm get out of financial trouble. There was also a perception that Firm I’s executive team had allowed Firm I’s functional managers to run their areas how they wanted to for too long. The CEO decided he needed to become much more ‘hands-on’ and become much more involved in both strategy development and the firm’s operations. The CEO also hired a new COO. This person was hired because he had a reputation for knowing how to turn-around firms that had got into financial trouble. One of his first initiatives was to in-source the call centre, as it was clear that the firm’s reputation was being affected by the bad service that was being provided by the firm to which Firm I’s call centre had been outsourced. The CEO and the COO also made it clear to the firm’s employees that the firm would only incorporate new functions into the firm’s software if customers wanted them or needed the changes. It was no longer appropriate for the firm’s people to change the software just because a technology interested them. An employee incentive scheme was also introduced. All of these initiatives contributed to the firm’s people becoming more focused on the firm’s long-term financial health, learning to work better in teams and customer value creation.

Firm J had also just recovered from a period of poor financial performance. According to the interviewees this was one of the reasons it was interested in hiring people who were technically competent but also commercially astute. Firm J’s Head Office is also overseas. This rendered it even more important that it have managers at the firm who can think strategically but who are also commercially astute. It was essential for the firm to have managers who had the ability to adapt the global strategy to the domestic market. Firm J also invested large sums of money to ensure its people were aware of what the firm’s products can do. It gave many of the firm’s people the opportunity to participate in the firm’s global planning efforts and travel overseas to Head Office. The senior management team focused on developing a culture where
everyone could work together, including work effectively with customers. According to
the interviewees, the firm encouraged Firm J’s people to treat customers as partners, as
most of its revenue came from firms that had already purchased some of Firm J’s
software or who had a ‘pleasant’ or relatively problem-free integration experience.

As Table 14.2 shows, the low performing software engineering firms had invested
much less in new hires and developing their people’s resource planning, leadership and
communication skills. This was mainly because they were still growing their customer
base, they needed to keep their costs low, the firm’s senior management was still too
inexperienced to realise which skills were needed, and they lacked the financial
resources to make such investments. According to the interviewees, when they hired
someone it was because the person was technically and/or commercially oriented and/or
already trained in the right areas. The management at the low performing firms were
reluctant to invest in training and professional development. If they did invest in
training, it was to ensure key personnel were able to keep up-to-date with the latest
techniques, such as JAVA code writing.

For example, Firm K was a relatively young firm and still financially dependent on
its publisher customers. Publishers were only interested in giving Firm K enough budget
funds to develop the games that they wanted. They were not interested in subsidising
Firm K’s growth in any way unless it could be shown that they would be able to benefit
from Firm K’s growth in some way. According to the interviewees, the only reason the
firm was able to retain good staff in a competitive market is that the bulk of the people
the firm hired were very interested in game software development.

Firm L was also still a relatively new firm. It hired new managers when the firm
listed on the stockmarket but the CEO did not want to hire too many people with
entrenched views of how a firm should be run. As a result, the CEO focused on hiring
people and bringing them into management straight after they left business school. This meant it could sometimes take awhile for the CEO to understand if any of these new managers needed additional training. It also became necessary for the CEO to ask the original developers to leave the firm because they objected to the way the firm was being run. In this climate it became difficult for everyone to gain an appreciation of what they needed to do to develop a productive working environment, create customer value, and improve their firm’s performance.

Firm M and Firm N were also still relatively new firms. Firm M and Firm N also had the same CEO. He was very experienced and was able to entice some senior people to come and work at his firms. However, he believed Firm M and Firm N’s first priority was to build a strong customers base and become a financial secure firm. This meant few resources could be directed to developing the firm’s people’s leadership and communication skills or a positive working environment. Firm M and Firm N were also still dependent on funding from the Government and equity investment. Thus, even if these firms had the opportunity to bring in more experienced technicians and managers, it would have been difficult to pay them good market rates. This is because these salaries could be difficult to justify to the firm’s equity investors or Government organisations that gave these two firms grant money.

14.3 Tracking and Measuring Performance

The interviewees were asked to explain how they measure and track the firm’s performance, including how they measure and track the success of the firm’s customer value creation initiatives, customer satisfaction and the firm’s financial performance.
Tracking and measuring performance at the high and low performing firms

According to the interviewees at the high and low performing firms, diversity of measures are needed to understand the firm’s performance at different points in time. However, any system that is evolved must be an idiosyncratic system. In other words, the performance tracking and measurement system must be able to reflect the firm’s unique context. This means it needs to be able to track and measure the different resource investments made at the firm to create value for customers and positively contribute to the firm’s financial performance. According to the interviewees, this outcome can be achieved if the firm’s performance tracking and measurement system is robust, utilises reliable measures and allows the firm’s people to understand if the firm has been able to create customer value.

Reliable measures, and integrated performance learning and measurement systems

As Table 14.3 shows, the interviewees from the high performing accounting and software engineering firms believed that their firm were using measures that gave them accurate feedback about their firm’s performance, including the firm’s financial performance and the extent to which value was being delivered to customers. This is because the measures had been used at the firm for a long time, had been extensively scrutinised, assessed and improved upon when possible, and/or none of the managers at the firm had been given any reason to believe that they were not reliable. They reflected individual managers’ own observations about the firm’s performance. They also reflected the management team’s consensus view of how well the firm was performing.

In contrast, the interviewees at the low performing accounting and software engineering firms were less confident that they were using reliable measures of the firm’s performance. This was because their tracking and measurement systems were
still evolving or not as mature as the systems at the high performing firms in this study, and their management teams were still learning how to work together.

The interviewees from the high performing accounting and software engineering firms also believed that performance was regularly tracked and everyone in the firm was required to take part in the firm’s performance management process, including the senior management team. The senior management team was expected to regularly monitor the firm’s performance.

<table>
<thead>
<tr>
<th>Reliable measures and integrated performance learning and measurement systems</th>
<th>High Performing Accounting and Software Engineering Firms</th>
<th>Low Performing Accounting Firms and Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Managers believe they understand which measures are reliable and can explain different kinds of performances</td>
<td>• Managers believe they do not understand which measures are reliable and can explain different kinds of performances</td>
<td></td>
</tr>
<tr>
<td>• Managers believe they understand how different metrics are correlated</td>
<td>• Managers do not believe they understand how different metrics are correlated</td>
<td></td>
</tr>
<tr>
<td>• The firm has mature management reporting processes and it is used by management extensively to track and measure performance</td>
<td>• The firm does not have mature management reporting processes and/or tends to use them in an ad hoc manner to track and measure performance</td>
<td></td>
</tr>
<tr>
<td>• Strong tendency to partner with customers to identify how the firm’s products and services can reflect industry best practice</td>
<td>• Less inclined to partner with customers to identify how the firm’s products and services can reflect industry best practice</td>
<td></td>
</tr>
</tbody>
</table>

At the high performing accounting firms, account management, product development, management reporting, financial reporting and/or practice management systems or variation of them were used extensively. The interviewees believed they were effective because they were used by managers who were experienced and/or
trained in their use, and required to use them as part of their role at the firm. They also believed they were effective because they could be used to help managers make good operational, tactical and strategic resource investment decisions. This included identifying if the firm’s people were being utilised properly and were skilled in areas that were of use to customers. They also helped the management team understand if the firm’s strategy was working or if the feedback they were getting about the firm’s feedback was confounding. According to the interviewees, these systems were established many years ago and were still being refined.

In contrast, even though the low performing accounting firms used many of the same systems as their high performing counterparts, the interviewees at the low performing firms did not believe they were being used to their full potential yet. The firm’s financial performance was tracked periodically, in many cases just annually or as was seen fit, which often meant they were used in an ad hoc manner. The interviewees also believed that their systems were not yet integrated enough. The management team were just not able to get the information that they needed to make good decisions. They found it difficult to be confident that they were using metrics and other data that could help them make good decisions consistently.

Although the interviewees at the high performing accounting firms believed it is important to understand if the firm was delivering specific forms of value to customers and whether some segments were better served, they did not have formal or granular methods in place to track these kinds of performances. However, they did believe it was possible to get a good sense of how well the firm had been delivering value to customers by tracking the performance of individual divisions or service lines.

At the high performing software engineering firms account management, management reporting, and financial reporting were used extensively. These firms were
also characterised by a software development and/or software release cycle, and project management practices that allowed managers at all levels of the firm to regularly track the firm’s performance. These firms had CRM or knowledge management systems which were used to monitor the firm’s performance. The interviewees at the high performing software engineering firms believed these systems were effective because managers found them accessible, useful and there was a commitment at the firm to use them regularly. They were required to use them to develop the firm’s strategy but also used them at every stage of the software development process to ensure that customers’ requirements were reflected in the firm’s software.

Just as was the case with the high performing accounting firms, they also helped the management team to understand if a project was on track and if the firm’s strategy was working. For instance, the interviewees at Firm I believed their customer learning and performance monitoring systems were highly integrated. If a customer had contact with the firm and gave feedback about the firm’s software in any way, the firm had procedures and processes in place to ensure the information was captured and used. Compared to the low performing software engineering firms and the high performing accounting firms, the systems used to track performance were much more pervasive and iterative. It was also normal practice at Firm I for key staff members to meet regularly with customers and staff amongst themselves to discuss if they were interpreting customers’ needs properly.

The high performing accounting and software engineering firms were also much more inclined to partner with customers to identify how to reflect industry best practice in their products and services. For instance, at Firm B it was considered very important to think as the firm’s long-term customers as partners and to help them identify what should be considered best practice at their firm. As a result, Firm B’s people worked...
with their customers regularly to identify how the firm could improve its risk management practices and develop risk products and services that could be used at other comparable firms. Firm H’s people also worked with Firm H’s customers extensively to identify how transaction processing could be better automated and made more real-time. Since the majority of stockbroking firms in Australia used its software, this meant that many of its customers played a part in improving the stockbroking industry’s practices.

In contrast, the low performing accounting and software engineering firms were less inclined to treat their customers as partners and/or were not in a position to develop best practice products and services. This was because these firms were still developing their customer base and were still not in a strong enough financial position to invest their time in this way. For instance, it was not in Firm K’s long-term best interest to develop a game that was significantly higher in quality than the publishers wanted. Firm M’s situation was similar. Its enterprise partners had very set ideas about the websites that they wanted to make available to their own customers through Firm M’s services. Although Firm M’s managers were committed to developing a high quality, standard product, it was not in its best interests to do more than this.

### 14.4 Chapter Summary

In regard to the resource investments which allow the firm to create customer value on an ongoing basis, it is possible to distinguish the high performing firms from the low performing firms in this study by their propensity to invest much more in hiring more knowledgeable and technically proficient people, people with an existing clientele in specialist areas, and ensuring the firm’s people developed better resource planning, leadership and communication skills. They also invested much more time and money to establish links between the firm’s customer learning and resource allocation processes,
and to develop a more reliable and robust performance tracking and measurement system. In regard to the latter, they were committed to ensuring it could be used to continually improve on how the firm creates and delivers value to its customers, and to identify both subtle and radical shifts in the firm’s and customers’ market environment.

The interviewees from the high performing firms also believed that performance was regularly tracked and everyone in the firm, including the senior management team who is expected to take an active interest in monitoring the firm’s performance. The interviewees at the high performing firms believed they were effective because they were used by managers who were experienced and/or trained in their use, and because it mandatory to use them. They also made it possible to make good operational, tactical and strategic resource investment decisions. In most cases, even though these tracking and measurement systems had been established many years ago, they were constantly being reviewed and refined. In contrast, even through the low performing accounting firms had invested in systems that were similar to those of their high performing counterparts, the interviewees at the low performing firms did not believe they were being used to their full potential yet.

These findings and the findings from the preceding chapters will be discussed in more detail in Part VII.
PART VII

DISCUSSION AND CONCLUSION
Introduction: Discussion and Conclusion

This section is a comprehensive description of the study’s findings and their significance. Chapter 15 is a discussion of the analysis and an interpretation of the data as it pertains to the three research questions. It describes the way in which these findings are significant. Chapter 16 describes the conclusions that can be drawn from the findings. It also describes the study’s limitations and its implications for future research.
CHAPTER 15

DISCUSSION

This chapter discusses the implications of the findings of this study as outlined in Chapter 7 through Chapter 14 of this document. The first half of this chapter describes what was learnt about the resource investment practices of managers at the accounting and software engineering firms, allowing for the fact that these firms operate in marketplaces that differ markedly in their level of dynamism. The second half of this chapter describes what was learnt about the differences between the resource investment and customer value creation practices of the high performing firms and the low performing firms in this study.

15.1 Creating Customer Value and Market Dynamism

Creating customer value and market dynamism: Research Question 1

The first research question sought to clarify how managers conceptualise and approach customer value. Irrespective of who was interviewed and regardless of whether a firm operated in a non-dynamic or dynamic market environment, it was found that managers conceptualise and approach customer value tri-dimensionally. It was also found that in order to deliver value to customers tri-dimensionally, managers must be able to deliver a large number of benefits to customers at different points in time. This means managers must be able to identify the combination of resources they must invest in to engage in all the activities they need to undertake to deliver different configurations of benefits to target customers. As Figure 15.1 shows, managers must constantly think about:
1. The attributes or benefits that are embedded in or customers can associate with the firm’s products and services,

2. The consequences achieved by customers when using or being provided with the firm’s products and services, and

3. The goals and purposes which are achieved after customers use or have been provided with the firm’s products and services.

As shown in Figure 15.1, to be able to deliver a range of commercial and assurance-based benefits to customers through the firm’s products and services profitably, it is necessary for firms operating in both non-dynamic and dynamic market environments to possess a large number of capabilities, including a relatively large number of ‘dynamic’ managerial, technical and marketing capabilities. These allow the firm to engage in customer value creating activities which reflect the practical realities of running a commercial enterprise and competition. They make it possible for the firm to properly utilise its human, functional and knowledge-based asset base to develop a performance-enhancing mix of products and services, and build appropriate relationships with customers.

Figure 15.1 also shows that regardless of the market environment, it can be in the firm’s and customers’ long-term interest if its managers are able to identify when it is appropriate to differentiate between customer groups. The interviewees explained that high value customers often need to have different or extra benefits delivered to them at different points in time, especially benefits that can help them achieve their longer-term goals and purposes. Figure 15.1 also suggests that not all customers need to have benefits delivered to them along the third dimension of customer value, especially customers who are unlikely to use the firm again or regularly. As depicted by the lower
loop in Figure 15.1, managers do not believe it is appropriate to differentiate between customers as far as the first dimension of customer value is concerned, that is, the attributes that the firm embeds in the firm’s products or customers associate with them. They also believe it is important to make products that are high in standard and/or which can be considered part of the firm’s standard product and service mix available to all the firm’s customers. Because accounting and software customers need to achieve certain consequences when using or being provided with the firm’s products and services, there is also very little scope to compromise on how value is delivered to customers in use situations. However, in regard to software customers, it could be in everyone’s best interest if the firm gives some customers the option to negotiate to receive non-standard software products and services, or more specialist, industry- or market-specific versions of them.

Moving from the left side of Figure 15.1 to the middle of Figure 15.1, these principles can be applied to the specific commercial and assurance-based benefits that need to be delivered to customers through the firm’s products and services, and when using or being provided with the firm’s products and services. Moving across to the far right of Figure 15.1, one can see that the firm will need to invest in the development of a corresponding set of dynamic and operational capabilities to meet the needs of different customers. The exact configuration depends upon the firm’s unique circumstances, although as will be discussed in the next section, it is important for firms to invest in certain types of dynamic capabilities to be able to cope with a changing marketplace, customers’ changing needs and operate the firm effectively.
Figure 15.1
Mapping Critical Customer Value Delivery Dimensions to the Benefits that Managers Create through the Firm’s Resource Investments

Customer Value Delivery Dimension

- Goals and purposes achieved after using or being provided with the firm’s products & services
- Consequences achieved when using or being provided with the firm’s products & services
- Attributes or benefits that are embedded in or can be associated with the firm’s products & services

Benefits to Deliver to Customers

- Commercial and assurance-based benefits to deliver to customers to achieve their goals & purposes
- Commercial and assurance-based benefits to deliver to customers to achieve their desired consequences in use situations
- Commercial and assurance-based benefits to deliver to customers via the firm’s products & services

Operational & Dynamic Capabilities

- Managerial, technical & marketing capabilities used to achieve customers’ goals & purposes
- Managerial, technical & marketing capabilities used to achieve customers’ desired consequences
- Managerial, technical & marketing capabilities used to create desired product & service mix

The customer value creation competency integrates the firm’s operational and dynamic capabilities and allows the firm to lever off a common asset platform.
As the upper loop in Figure 15.1 shows, it may be in both the firm’s and its customers’ best interests if its managers help customers from different segments achieve their goals and purposes differently. Since these can only be realised after the firm has provided customers with the firm’s products and services, and their needs have been catered to in a use situation, the ability to cater to customers’ goals and purposes depends on these dimensions and the kinds of relationships developed with customers.

Figure 15.1 also shows that as customers’ goals and purposes change, the ability to satisfactorily deliver on the consequences customers want to achieve in use situations, and the attributes and benefits they want to have embedded in the firm’s products and services are also likely to change. The study established regardless of the level of dynamism in the firm’s industry, managers need to constantly consider customers’ values but also at what point in time they were interacting and/or transacting with the firm. As customers’ values change, the exact configuration of benefits which managers need to focus on delivering to customers through the firm’s resources will also change.

As the study revealed, how quickly or effectively a firm’s managers can begin to deliver different configurations of benefits to deliver to customers will depend on the firm’s past resource investments, in particular, whether or not the firm currently has the capabilities to concentrate on delivering a different mix of benefits to customers and the ability to overcome any negative path dependencies associated with other past investment decisions.

Figure 15.1 suggests that in order to deliver value to customers across one dimension it will be necessary to consider if there are any path dependencies associated with that dimension. Managers need to allow for the fact that the first customer value dimension must be delivered before the second dimension can be delivered and the second must be
delivered before the third dimension can be delivered. In other words, the process of delivering value to customers is also a time dependent process. It begins at the point in time that customers are making the decision to purchase and involves managers’ perceptions of why customers buy the firm’s products and services. Once they have made the decision to purchase, the firm will then be able to deliver value to customers’ in a use situation and then help them achieve their goals and purposes. These too involve managers’ perceptions of customers’ needs, that is, once they have made a commitment to use the firm’s products and services. Thus, the ability to deliver value to customers diminishes only if customers stop using the firm’s products and services, they cannot derive value from them anymore (and this can be for a great many reasons), and/or the firm’s managers decide not to invest in a relationship with them anymore.

**Tri-dimensional Delivery: Integrating dynamic capabilities: Research Question 1**

As described in Chapter 7, to be able to deliver value to customers tri-dimensionally, it was found that firms operating in non-dynamic and dynamic market environments need to invest in and develop a large number of customer value creating assets and capabilities. Many of these will be very similar to each other while others will be different and, in most cases, they will be developed to cope with the specifics of the firm’s context, its marketplace and the industry to which it belongs.

Table 7.2 describes the asset base that firms operating in non-dynamic and dynamic market environments lever off. Many of the assets which are used by firms operating in non-dynamic and dynamic market environments are the same, as one would expect. Most importantly, these are the assets that the firm needs to lever off using the dynamic and operational capabilities at its disposal. These were described in Table 7.3 through to Table 7.8. These six tables support the idea that firms need to invest in, develop and use a large number of capabilities to create customer value tri-dimensionally, that is, to
deliver the specific benefits that target customers require. The combinations of these which the interviewees at both the accounting and software engineering firms in this study highlighted are listed in Table 7.3 through to Table 7.8 in Chapter 7.

If one considers how important the dynamic capability and core competency views of the firm have become in the RBV literature, the way in which dynamic capabilities are used by the firms in this study to create different dimensions of customer value is of special interest. If dynamic capabilities are those processes at the firm that allow the firm to change and positively respond to marketplace change (Helfat & Peteraf, 2003: 997) and they can evolve into a core competency, which is ‘the collective learning of the firm, especially how to coordinate diverse production skills and integrate multiple streams of technology’ (Prahalad & Hamel, 1990: 82), it follows that the way in which a firm uses it dynamic capabilities to create customer value will determine whether or not the firm can keep pace with the marketplace. This includes the ability to match or exceed the product and service offerings of competitors. In other words, they will determine the shape of any customer value creating related core competency that the firm may be able to develop.

Figure 15.2 describes the dynamic capabilities which are used by accounting firms to create value for customers tri-dimensionally while Figure 15.3 describes the dynamic capabilities which are used at the software engineering firms. Both of these diagrams are based on Table 7.3 to Table 7.8 but focus on the dynamic capabilities which are used at the firm to create customer value. If Figure 15.2 and Figure 15.3 are compared to each other, one should be able to see that accounting and software engineering firms use an almost identical set of managerial and marketing dynamic capabilities to create customer value tri-dimensionally. However, they use a qualitatively significantly different set of dynamic technical capabilities. (NB. None of the firms in the study used their dynamic technical capabilities to create the third dimension of customer value.)
Figure 15.2
The ‘Dynamic’ Managerial, Technical and Marketing Capabilities Required to Create Value for Accounting Customers Tri-dimensionally

<table>
<thead>
<tr>
<th>Dynamic Managerial Capabilities</th>
<th>Dynamic Technical Capabilities</th>
<th>Dynamic Marketing Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Strategic analysis and planning skills</td>
<td>* Ability to understand market trends</td>
<td>* Ability to focus on customers’ needs</td>
</tr>
<tr>
<td>* Resource management processes</td>
<td>* Ability to understand the implications of regulatory change</td>
<td>* Ability to bundle disparate products/services</td>
</tr>
<tr>
<td>* Organisational design capabilities</td>
<td>* Ability to understand and develop strategies that develop interest in the firm’s products/services and help the firm acquire new customers</td>
<td></td>
</tr>
<tr>
<td>* Ability to form cross-functional teams to solve customers’ more complex problems</td>
<td>* Have developed templates and standard methodologies for conducting accounting, auditing or business consultancy assignments</td>
<td></td>
</tr>
<tr>
<td>* Performance management processes which enable goal setting and efficient delivery</td>
<td>* Ability to successfully respond to tenders</td>
<td>* Ability to access and use the CRM database</td>
</tr>
<tr>
<td></td>
<td></td>
<td>* Ability to understand customers and their problems</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Value Dimension</th>
<th>Product and services attributes</th>
<th>Customers’ desired in use consequences</th>
<th>Customers’ goals &amp; purposes</th>
</tr>
</thead>
<tbody>
<tr>
<td>When the decision to purchase is being made</td>
<td>While products &amp; services are being delivered</td>
<td>After products &amp; services delivered/paid for</td>
<td></td>
</tr>
<tr>
<td>A change in one customer value dimension will lead to the need to use the firm’s dynamic capabilities to deploy resources differently</td>
<td>Relevant Timeframe</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Figure 15.3**

The ‘Dynamic’ Managerial, Technical and Marketing Capabilities Required to Create Value for Software Customers Tri-dimensionally

<table>
<thead>
<tr>
<th>Customer Value Dimension</th>
<th>Dynamic Managerial Capabilities</th>
<th>Dynamic Technical Capabilities</th>
<th>Dynamic Marketing Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributes/benefits embedded in/ associated with the products and services</td>
<td>Disciplined business case evaluation process</td>
<td>Software development and release processes</td>
<td>Ability to focus on customers’ needs</td>
</tr>
<tr>
<td>When the decision to purchase is being made</td>
<td>Strategic analysis and planning skills</td>
<td>Processes to gather and manage business requirements</td>
<td>Ability to bundle disparate products/services</td>
</tr>
<tr>
<td></td>
<td>Disciplined business case evaluation process</td>
<td>Ability to effectively price products/services</td>
<td>Brand/product positioning skills</td>
</tr>
<tr>
<td></td>
<td>Organisational design capabilities</td>
<td>Ability to localise products and/or understand the local legislative environment</td>
<td>Ability to develop strategies that develop interest in the firm’s products/services and help the firm acquire new customers</td>
</tr>
<tr>
<td></td>
<td>Ability to form functional and cross-functional teams to solve customers’ more complex problems</td>
<td>Ability to translate research into new products and services</td>
<td></td>
</tr>
<tr>
<td>Consequences achieved by customers when using the products and services</td>
<td>Strategic analysis and planning skills</td>
<td>Ability to identify suitable business partners and outsource work to outside firms</td>
<td>Ability to access and use the CRM database or an equivalent database</td>
</tr>
<tr>
<td>While products &amp; services are being delivered</td>
<td>Disciplined business case evaluation process</td>
<td>Ability to gather business requirements</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>Organisational design capabilities</td>
<td>Policies and procedures in place for analysing customers’ needs</td>
<td>Ability to understand customers and their problems</td>
</tr>
<tr>
<td></td>
<td>Ability to form functional and cross-functional teams to solve customers’ more complex problems</td>
<td>Have developed flexible templates/standard methodologies for developing software</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to anticipate customers’ future requirements</td>
<td></td>
</tr>
<tr>
<td>Goals and purposes achieved by customers after using the products and services</td>
<td>Strategic analysis and planning skills</td>
<td>Processes in place for successful tendering</td>
<td></td>
</tr>
<tr>
<td>After products &amp; services delivered/paid for</td>
<td>Disciplined business case evaluation process</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A change in one customer value dimension will lead to the firm’s dynamic capabilities being used to deploy assets and operational capabilities differently.
The implication of this is that one could take the position that it is a firm’s dynamic technical capabilities which make it possible to keep pace with the level of dynamism in the market environment. The fact that firms operating in non-dynamic and dynamic market environments need to invest in and develop a comparable set of dynamic managerial and marketing capabilities implies that firms operating in both non-dynamic and dynamic market environments must remain responsive to their individual customers’ changing needs in much the same way. This includes how customers’ needs may have changed marginally or, at the other extreme, significantly. However, notwithstanding the need to take a holistic approach, to understand how customers are affected by specific technological and/or regulatory changes, and to develop the firm’s products and services to meet customers’ specific needs, the firm’s managers must invest in an appropriate mix of ‘dynamic’ technical capabilities. This increases the probability that they can create customer value across the three dimensions of customer value successfully.

Figure 15.2 and Figure 15.3 also show that different dynamic capabilities are used to create each of the three dimensions of customer value. The exception to this is the firm’s strategic analysis and planning skills and/or business case evaluation processes. These are used to create customer value tri-dimensionally at the accounting firms and bi-dimensionally at the software engineering firms, as opposed to creating it across one dimension only. As the arrows moving to the right and then back across to the left indicate (at the bottom of Figure 15.2 and Figure 15.3), different configurations of dynamic capabilities need to be used at the different points in time to create value for target customers.

As Figure 15.2 shows, the interviewees identified eight dynamic capabilities which
make it possible for an accounting firm to develop products and services with the attributes and benefits that customers desire, and, most importantly, identify if the firm should begin making products and services available to customers with a different set of attributes and benefits. They allow the firm’s people to engage in analytical and planning activities that make it possible for them to define and pre-empt customers’ needs. Since these dynamic capabilities are important to have in place before customers’ make the decision to purchase, this could explain why accounting firms need to develop four dynamic marketing capabilities. Without them it would be difficult to attract and retain customers, which involves being able to communicate to customers that the firm’s products and services are competitive.

Figure 15.3 is similar. It shows that the interviewees identified ten dynamic capabilities which make it possible for the firm to develop software products and services that display the appropriate attributes. However, in addition to having a strong analytical and planning emphasis, software firms need to be able to gather customer requirements in a structured manner, including in a way that is compatible with the firm’s software development and release processes. Figure 15.3 also shows that it is important to be able to identify how the firm’s products and services can evolve or when it might be appropriate to develop new products and services or price the firm’s software products differently. The implication here is that because software firms operate in dynamic market environments, the firm will need to invest in dynamic capabilities that lead to customers deciding to use and/or persist with the firm’s software products and services.

Moving across to the middle of Figure 15.2, the interviewees at the accounting firm identified seven dynamic capabilities which allow the firm to achieve customers’ desired consequences when provided with the firm’s products and services. Because
people are integral to the customer value delivery process for accounting customers, it is important for the firm to develop a performance management system that gives the firm the ability to manage people in a change situation, in particular, make it a requirement that the firm’s people approach customers’ problems flexibly and in a proactive manner, especially when customers’ needs change mid-assignment. One of the more interesting findings is that to be able to achieve customers’ desired consequences, accounting firms need to possess organisational design capabilities and be able to establish cross-functional teams. The implication is that managers at accounting firms will make many organisational and team-based decisions based on what they understand constitutes customers’ desired consequences in a use situation.

Figure 15.2 also shows that it is important at accounting firms to be able to develop templates and standard methodologies, and to be able to do so quickly as customers’ compliance and other business requirements change. They also need to be able to respond to customers’ tender requests, including be able to explain how they will approach each phase of an engagement. These facts suggest that accounting firms are required to be able to respond to customers’ changed needs in a commercial viable and practical manner. They also suggest that it may not have been usual in the past for accounting firms to invest in developing capabilities that allow the firm to cope with major shifts in the marketplace and/or customers’ values. However, it has always been important for accounting firms to be able to monitor shifts in what customers require in use situations, as their increased usage of CRM databases or equivalent databases suggests.

Figure 15.3 reinforces these principles. The interviewees at the software engineering firms also identified ten dynamic capabilities which allow the firm to achieve customers’ desired consequences when provided with the firm’s products and services.
However, in the case of the software firms, it was not considered important to have a performance management system in place. This is because the firm was able to encourage people to solve customers’ problems flexibly and creatively by just ensuring people with different technical and managerial skills were brought together to solve problems. As was the case with the accounting firms, the managers at software engineering firms will make many organisational and team-based decisions based on what they understand constitutes customers’ desired consequences when using the firm’s products and services.

Figure 15.3 also shows that the ability to develop templates and standard methodologies, and approach tenders systematically were also considered important in the same way that these capabilities were considered important at the accounting firms. It also shows that compared to the accounting firms, the software engineering firms are required to have in place relatively more dynamic technical capabilities, including the ability to identify suitable business partners, gather and assess business requirements, and analyse customers’ systems. The implication is that software engineering firms are more likely to be required to cope with significant changes in their customers’ values in regard to use situations than the accounting firms. As was established in the earlier chapters, software engineering firms not only have to keep track of individual customers’ changing needs but also how new technologies need to be reflected and/or how the firm’s software should be upgraded. There is also the expectation that software firms will offer the same level of functionality as their competitors and/or will develop functions and other applications to offer customers as part of the firm’s standard offering. The implication is that it is even more important at the software engineering firms to be able to monitor shifts in what customers require in use situations. This explains why CRMs and/or other knowledge-based systems were more extensively used
at software engineering firms than the accounting firms. They allow the firm’s people to keep track of how customers want to use the firm’s software now and in the future. These ideas are consistent with the finding that customers only want software engineering firms to develop technologies and functions if they can be of use to them in the short-to-medium term.

Moving across to the far right of Figure 15.2 and Figure 15.3, one should be able to see that the accounting and software engineering firms both require strategic planning capabilities, and the ability to change focus as the market changes, as well as an ability to understand customers’ and their problems. However, the software firms also required the ability to anticipate customers’ future requirements. Although both the accounting and software engineering firms did not differ in regard to their need to conduct strategic planning, this fact does reinforce the idea that software engineering firms must be able to identify all of their customers’ requirements for the next release cycle.

In regard to the accounting and software engineering firms, one can see that these dynamic capabilities allow the firm to build an ongoing relationship with its various customers. The implication is that these dynamic capabilities allow the firm to establish to what extent it will focus on helping its target customers achieve their goals and purposes after they received the firm’s products and services. For instance, they might be used to identify how the firm’s senior management might work with high value customers and build enduring relationships with them or whether the firm should offer a subscription service that not only entitles customers to a certain level of after sales service but ties them to the firm in a commercially pragmatic manner.

Thus, the vertical and horizontal blocks in Figure 15.2 and Figure 15.3 show that managers invest in different kinds of dynamic capabilities to create customer value tri-dimensionally, that is, different combinations of ‘dynamic’ managerial, technical and/or
marketing capabilities. The ability to create any one of these customer value dimensions is dependent on whether or not a firm’s managers have invested in the ‘right’ combination of dynamic capabilities and have learned to appreciate at what point in the value creation process they are needed.

These dynamic capabilities allow the firm to respond to change in the marketplace in a commercially prudent manner but also identify to what extent the firm should be responding to changes in target customers’ values. The extent to which a firm needs to focus on fully satisfying all of its customers will depend upon the level of dynamism in the marketplace and managers’ interpretation of which customer groups are important for the firm to target. Although firms will need to invest in a number of industry-specific and market-sensitive technical capabilities to be able to create value for their customers across two critical customer value dimensions on an ongoing basis, these need to be supported by investment in a complementary set of dynamic managerial and marketing capabilities.

It should also be noted that Figure 15.2 and Figure 15.3 describe the dynamic capabilities which create customer value for accounting and software engineering customers but not the operational capabilities. The operational capabilities which are used to create customer value are described in Table C, Table D and Table E in Appendix D. Since dynamic capabilities determine how the firm will use its operational capabilities and utilise the assets at its disposal, the configuration of dynamic and operational capabilities used at a firm should provide even more insight into why the firm organises the way that it does, and it developed its current strategy and past strategies.
Customer learning and level of dynamism in the marketplace: Research Question 2

Drawing inspiration from the strategy, resource allocation and decision-making literatures, the second research question sought to clarify how managers translate customer learning into processes which allow the firm to deliver value to its customers. It was found that there were more similarities than differences between the accounting and software engineering firms in how their people learn about customer value. At both the accounting and software engineering firms, learning occurs as a result of (1) two or more organisational members sharing or exchanging information, (2) one or more organisational member(s) sharing or exchanging information with a party external to the firm, (3) one or more organisational member(s) using the firm’s internal knowledge-based resources, or (4) one or more organisational member(s) accessing external sources of information about the marketplace and customers.

The two types of firms also had the use of account management and quality improvement teams in common. They both used bid and tender management, and project management methodologies, although the software engineering teams tended to rely much more on project management methodologies than the accounting firms. However, in regard to work in the pipeline, the partnership team at the accounting firms were responsible for identifying what work the firm would be doing in the future and how it would be approached. They confirmed which customer assignments the firm would accept, if partners’ sales forecasts were achievable and the resources that would be made available to divisional partners. The business development managers and project managers tended to do this work at the software engineering firms. Their analyses were based on what had been promised customers, what customers said they would require from the firm in the next year, sales data and/or the history of work done in the past.
Despite the large number of similarities there were a number of noteworthy differences between the accounting and software firms. These provide insight into how the level of dynamism in a firm’s market environment can affect the way a firm’s people will learn about customers and the marketplace. Table 15.1 describes the differences between the accounting and software engineering firms in this study. Accounting firms have less structured processes in place to ensure people meet to share and exchange information about customers than the software engineering firms. This is because accounting firms hire people with a range of skills and specialisations. It is also not always evident in the first instance how they might be used to solve complex customer problems. Partners are also expected to mentor lower-level staff and this is best done in a way that suits individual partners and the person who is being mentored. At the software engineering firms, on the other hand, people are hired to contribute to the software development process in very specific ways. These are usually clearly defined in managers’ and other staff members’ job descriptions.

<table>
<thead>
<tr>
<th>Table 15.1</th>
<th>Different Approaches Taken to Exchanging Information with Others Internally and Externally</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Learning Mode</strong></td>
<td><strong>Accounting Firms</strong></td>
</tr>
<tr>
<td>Two or more organisational members sharing or exchanging information</td>
<td>Unstructured</td>
</tr>
<tr>
<td>One or more organisational member(s) sharing or exchanging information with a party external to the firm</td>
<td>Unstructured</td>
</tr>
</tbody>
</table>

At the accounting firms, partners are expected to liaise with external parties, including customers, suppliers, alliance partners and other industry professionals. They
are encouraged to learn about the marketplace and gain access to privileged information serendipitously as much as they can. At the software engineering firms, senior managers and those managers specifically hired to engage in business development activities or gather customer requirements are expected to liaise with external parties. Although it can be useful if other managers and employees are able to serendipitously gain access to privileged information about customers and the marketplace, it is generally believed that the firm is more likely to get all the information it needs about customers and the marketplace by complying with the structure imposed on them by the software development process. Partners at the accounting firms were also more likely to socialise with competitors to identify people who might be good to hire in the future rather than try to learn something new about customers and the marketplace than the software engineering firms. For instance, partners made it a point to stay in touch with people they had gone to school/ university with or worked with previously. Although the managers at the software engineering firms were always keen to identify potential future hires, if they socialised or liaised with a competitor this was because they wanted to find out if any of their competitors were developing new software or technologies.

However, the people/team structures and processes used at the accounting and software engineering firms to facilitate the exchange of information between employees were similar. There was a very strong emphasis on using account and quality management teams, and regular staff meetings to ensure information is properly exchanged and disseminated. According to the interviewees at the accounting firms, these people/team structures are able to work because of the partnership structure. According to the interviewees at the software engineering firms, its people are able to work together because everyone understands how they are expected to contribute to the firm’s software development or implementation related projects and when it is
appropriate to refer to specialists, such as the people in the firm’s product development, account management or quality assurance teams.

As Table 15.2 shows, there were differences between the way the people at the accounting and software engineering firms learn about customers and the marketplace by accessing internal and external sources of information, including their own internal databases and reports generated by outside parties. Although people at the accounting firms will use a CRM or a similar database, they did not use it regularly or as fully as they could. This is because they found it more convenient to keep track of customer-related information mentally. In contrast, the interviewees at the software engineering firms believed its CRM system (or equivalent database) was used extensively and that it played a valuable role by allowing useful information to be transferred across the firm.

<table>
<thead>
<tr>
<th>Learning Mode</th>
<th>Accounting</th>
<th>Software Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>One or more organisational member(s) using the firm’s internal knowledge-based resources</td>
<td>Accessed and used irregularly</td>
<td>Accessed and used regularly</td>
</tr>
<tr>
<td>One or more organisational member(s) accessing external sources of information about the marketplace and customers</td>
<td>Accessed as required</td>
<td>Accessed regularly</td>
</tr>
</tbody>
</table>

Knowledge management systems were used extensively at both the accounting and the software engineering firms to manage the firm’s proprietary knowledge and intellectual capital that the firm had access to from external sources. These were accessed on a needs basis at the accounting firms while they were used on an almost daily basis at the software engineering firm. In both cases, they were used to understand
how the firm should be developing and managing its intellectual capital and/or how to
develop software that reflects best practice or incorporate the same technologies
competitors were using in their software.

These findings are of significance if they can be generalised to all firms operating in
non-dynamic and dynamic market environments. As Figure 15.4 shows, firms that
operate in non-dynamic market environments may not need to invest in and develop
customer learning processes to the same extent that firms which operate in dynamic
market environments. This is because people have a tendency to interact with other staff
members and outside parties to learn about customers in an unstructured manner. As
long as the firm’s employees are gaining access to useful information about customers
and they interact with others in a positive and productive manner, there will not be any
need to impose a structured process on them.

![Figure 15.4 Matrix of Customer Learning Modes and the Level of Dynamism in the Market Environment](image)

As a result, there will be less need to invest in orientation and training programmes
or methods to monitor how the firm’s people interact with others to learn about
customers and the marketplace. People can manage their time with this in mind. If a staff member does not have revenue-generating work to do and/or no deadlines to meet, the staff member will be allowed to use this slack time to engage in customer and market learning activities. The opportunity can also be taken to build a network of reliable information sources that can be levered off in the future on the firm’s behalf.

When a firm operates in a dynamic market environment, on the other hand, it will be necessary to impose structured processes and dictate how and under what circumstances different staff members are able to interact with other staff members and outsiders. This is because everyone is aware of the fact that to achieve the firm’s deadlines it is necessary for staff members to work cooperatively, often in project teams, and complete the work they were hired to do. It is rare that managers and staff will have slack time available. Thus, unless someone is paid to spend a proportion of their time to interact with others to learn about customers, they will be discouraged from engaging in these activities. Those who are hired to interact with others will need to do so in a structured manner, and this will usually be defined in their job description.

Similarly, when a firm operates in a non-dynamic market environment, the firm’s people have less need to refer to internal and external repositories of knowledge. It will also be less necessary for the firm to mandate when and how they should be used, including used to store information and disseminate interesting facts about customers. Thus, there will be less need to invest in and develop the firm’s databases, and other repositories of knowledge. The exception to this is when the firm has intellectual capital that needs to be developed so that the firm can develop standard methodologies and templates. The firm may also have divisions where it is important to regularly access and use the same database. For instance, at the accounting firms, audits were documented on the same database. Such a database could be used by audit staff to learn
about audit work done in the past. This made it easier for the firm’s people to complete all audit work in a timely manner. This could be very important at those times throughout the year when the audit workload normally became heavy.

When a firm operates in a dynamic market environment, there will be more pressure on staff to keep track of customers’ changing values, and technological change and other changes in the marketplace. This means that it will be imperative that everyone knows which databases they can access and use to learn about and share information about customers and the marketplace. This includes at all stages of a project. As a result, there will be more pressure on managers at firms operating in dynamic market environments to invest in and develop uniform and easy to access databases, including repositories of information which staff can access from the Intranet. It will also be important to develop protocols and processes for recording information, including rating it and ensuring current facts about customers are made easily accessible to everyone who needs it to do their work and meet their deadlines. Such protocols and processes help to mitigate the risks associated with a key project team member leaving the firm before the project(s) they are involved in is/are concluded.

Figure 15.4 also shows that the study could not clarify whether firms operating in non-dynamic and dynamic market environments invest in and develop procedures and processes for interacting with others and using repositories of knowledge which were structured or irregular, or unstructured and regular (see the quadrants labelled ‘undetermined’). There is a possibility that in industries other than accounting and software engineering, a firm’s market environment does not influence how the firm’s people approach others and use knowledge repositories. It is possible that firms which are diversified or at an early stage of their development may develop mixed approaches as a result of a combination of market and non-market factors. This has implications for
People, processes and the customer value delivery strategy: Research Question 2

The second research question sought to clarify how managers translate customer value learning into processes which allow the firm to deliver value to customers. It was designed to understand how people are used and organised, and processes formed. Its objective was to clarify how managers are able to use what they learn about customers to make customer-related strategic decisions and resource allocation decisions. It was found that at both the accounting and software engineering firms, the roles people play in the development of the firm’s customer value delivery strategy are fairly well defined. However, the level of dynamism in a firm’s marketplace affects the way people are organised and expected to contribute to the strategic and resource allocation decision-making processes of the firm. This is because the people who have the most knowledge about the firm’s customers, its products and services, and an ability to make or influence the resource investment decisions of the firm are usually responsible for developing the firm’s customer value delivery strategy. The level of dynamism in the marketplace tends to determine who has this knowledge.

At the accounting firms, the firm’s customer value delivery strategy is determined through a top-down decision-making process while at the software engineering firms it is determined through a combination of bottom-up/top-down decision-making processes. The reason the customer value delivery strategy is developed as a result of bottom-up/top-down decision-making processes at the software firm is because software needs to be developed with the managerial and technical input of many people.

At both types of firms, lower-level staff will become involved in the development of the customer value delivery strategy but the degree varies and will depend on the extent
to which they can contribute to the strategic and resource allocation decisions which need to be made. When appropriate, the firm’s senior management will drive the process while at other times lower-level staff will drive it. When the senior management team is not driving the process, they will play a steering role. This usually involves them helping the firm’s functional and technical people, especially the firm’s product development, marketing and sales managers to understand if the customer value delivery they are developing reflects the firm’s corporate strategy.

At both the accounting and software firms, the senior management team is always responsible for finalising the customer value delivery strategy and ensuring it is implemented. It is also important to ensure the firm is able to make the right mix of standardised and customised products and services available to customers, including offer some products and services to customers through the infrastructure of another firm. As a result, it may be more appropriate for lower-level staff to become heavily involved in decisions about the firm’s product and service mix. In all other respects, the senior management team will drive the process.

Thus, at both the accounting and software engineering firms, the level of senior management or lower-level staff involvement at any one time also depends upon the nature of the decision that needs to be made. If the decision is of a strategic nature, such as should the firm acquire another firm, the firm’s most senior people need to be heavily involved in the decision. This is because they understand how the firm’s customer value creation efforts can affect the firm’s corporate strategy and they also understand the kind of relationship that the firm needs to establish with its customers, especially its most valuable customers.

One of the implications of these findings is that in non-dynamic market environments it is easier for senior managers to gain a strong understanding of all the
strategic and technical issues that should be considered when developing a customer value strategy than it is when a firm operates in a dynamic market environment. As a result, there is less need to ensure lower-level or technical staff are organised in a way that makes it easy for them to contribute to the firm’s strategic and resource allocation decision-making processes. Thus, it is more likely that firms that operate in non-dynamic market environments will use top-down decision-making structures when developing the firm’s customer value delivery strategy and a combination of bottom-up/top down when operating in dynamic market environments.

It was also found that the senior management teams at both the accounting and software engineering firms dealt extensively with customers. Similarly, anyone working on a customer’s project or who needs to consult with customers about their requirements or potential new products and services also dealt with customers extensively. These facts are important as they help to clarify if firms operating in non-dynamic market environments will develop a customer value learning and customer value delivery competency in a way that is significantly different to firms operating in dynamic market environments (see Figure 3.1). This will be the case because at both the accounting and software engineering firms the firm’s customer value delivery strategy is considered to be an integral part of their firm’s corporate strategy. However, there may be times when a large proportion of their firm’s customer value delivery strategy will need to be developed outside of the firm’s formal strategic planning process. This is because the customer value delivery strategy can only be successfully finalised and implemented by using operational processes, such as the processes used to manage projects, develop the budget, recruit and manage people, and develop new products and services. The firm’s strategic planning processes are used to determine and validate if these processes are being used appropriately and to implement the firm’s customer
value delivery strategy. They are also used to determine whether the customer value delivery strategy is being implemented in a manner that supports the firm’s medium-to-longer term strategic objectives.

As Figure 15.5 and Figure 15.6 reveal, there were discernible and important differences between the accounting and software engineering firms which could be generalised to other firms operating in non-dynamic and dynamic market environments. As Figure 15.5 shows, accounting firms use customer learning processes to develop their customer value delivery annually and periodically to review it. This corresponds with when the corporate strategy is completed and reviewed, that is, when the corporate strategy and budgets is finalised and later reviewed by the whole partnership team.

As Figure 15.5 shows, the customer value delivery strategy and the firm’s corporate strategy, as well as any supporting strategic frameworks, such as the firm’s risk and performance management frameworks are able to be completed and applied because the firm’s and business partners’ ability to satisfactorily deliver is tracked and measured. The metrics and other performance-related facts are an indirect form of customer learning. They are also monitored at the accounting firms on an annual basis and regularly reviewed.

Figure 15.6 is based on almost identical principles as Figure 15.5. However, there is one major difference between the accounting firms and the software firms. The customer learning which occurs as a result of the firm’s people interacting with customers is far more pervasive and iterative at the software engineering firms. As Figure 15.5 shows, at the accounting firms the customer value delivery strategy may be modified as a result of learning when providing customers’ with accounting products and services. Such learning can also affect the firm’s current resource investment or resource allocation strategy.
Evaluate alignment with Figure 15.5.

The Critical Customer Value Learning and Performance Evaluation Flows and Feedback Loops for FIRMS OPERATING IN NON-DYNAMIC MARKET ENVIRONMENTS

12. Evaluate the firm’s overall business performance

1. External customer and market environment learning activities
2. Internal customer and market environment learning activities

10. Track performance of customer value delivery by external partners
11. Track performance of customer value delivery by business units

The firm’s external business partners
The firm’s internal business units

Evaluate alignment with
4. The firm’s governance & organisation
5. The firm’s medium-to-long term corporate strategic plan
6. The firm’s performance & risk management frameworks

3. Create a customer value delivery strategy

Corporate level
Business unit level

9. Implement the customer value delivery strategy by delivering products & services to target customers or by creating the potential for this

8. Translate the customer value delivery strategy into internal processes and tangible output

7. Develop complementary resource investment strategies

Annual review
Periodic review
Customer assignment-based review(s)
Evaluate the firm's overall business performance.

1. External customer and market environment learning activities

2. Internal customer and market environment learning activities

3. Create a customer value delivery strategy

4. The firm's governance & organisation

5. The firm's medium-to-long term corporate strategic plan

6. The firm's performance & risk management frameworks

7. Develop complementary resource investment strategies

8. Translate the customer value delivery strategy into internal processes and tangible output

9. Implement the customer value delivery strategy by delivering products & services to target customers or by creating the potential for this

10. Track performance of customer value delivery by external partners

11. Track performance of customer value delivery by business units

The firm's external business partners

The firm's internal business units

Annual review

Periodic review

Project-based review(s)

Figure 15.6
The Critical Customer Value Learning and Performance Evaluation Flows and Feedback Loops for FIRMS OPERATING IN DYNAMIC MARKET ENVIRONMENTS
As Figure 15.6 shows, at the software engineering firms the customer value strategy may be modified as a result of learning when providing customers’ with software products and services but it can also be affected by what is learned while implementing the firm’s whole customer value delivery strategy. This is because the managers at software engineering firms expect the firm’s people to be constantly gathering customer requirements in one way or the other. Customers are also given the opportunity to help develop updated versions of the firm’s software or new software. For instance, they may become involved in R&D and beta testing. When a software engineering firm integrates software at a customer’s organisation, the customer may become heavily involved in the project. For instance, at Firm K it was well known that publishers always want to be involved projects and will re-scope a project half way through if they believe they can improve upon the original game concept.

The implication is that a firm’s ability to create customer value and, therefore, value for itself could be affected by whether or not its managers have had the foresight to invest in and develop customer learning and decision-making processes, as well as other processes which allow the firm to develop an appropriate market-sensitive customer value delivery strategy and then implement it. Performance heterogeneity could be partly explained by the fact that the managers at some firms are better able to use both strategic and operational processes to ensure the customer value delivery strategy is constantly evolving. Moreover, that they do so in a manner that reflects the degree to which it is necessary for the firm to be responsive to customers’ changing values and/or match the pace of the marketplace.
Consistent with the learning literature, the third research question sought to clarify how the ability to develop processes which allow managers to learn about their customers and create value on an ongoing basis affects firm performance. It is likely that firms that are able to integrate processes and establish performance feedback loops to help their managers are better able to make customer-centric, performance enhancing resource investment decisions.

It was found that the managers at both the accounting and software engineering firms believe that a firm is more likely to be successful if it can establish links between the firm’s customer learning and resource allocation processes. However, even though such links can be difficult to establish, they can be established if it is made mandatory that managers consider the impact of their resource allocation decisions on customers when making major resource allocation decisions. This includes when they are developing both the firm’s corporate and customer value delivery strategies, and when they are reviewing business case documents for new products and services, or internal processes. The same applies to lower-level managers if and when they are involved in developing the firm’s corporate and customer value delivery strategies. As a result, processes are in place at both the accounting and software engineering firms to ensure managers are given access to any information collected about customers, including customers’ potential appetite for the firm’s current products and services, and new products and services, and customer service ratings.

According to the interviewees at the accounting firms, one of the biggest challenges an accounting firm needs to overcome is the fact that it can take some time before the firm can get access to critical information about customers’ needs or for its people to appreciate that they have learned something important about customers. This means it
can take some time before the partnership team can be sure they have been given access
to all the information that they need about customers to make decisions and that the
information is reliable. At the software engineering firms, the interviewees believed the
more information the firm’s senior management is given or can accumulate about
customers the more likely they will be able to prepare budgets and approve business
cases that allow the firm to performance-enhancing levels of create customer value.

The interviewees at the high performing accounting and software engineering firms
believed that their senior people are able to make good budget and other resource
allocation decisions because they are able to acquire information about customers in
different ways and they have information passed on to them about customers in
different ways. According to the interviewees at the high performing software
engineering firms, it is also important to ensure that senior management can get
information about customers in a timely manner. The software development process
will not be as effective unless they can get information when they need it. According to
the interviewees at the high performing accounting and software engineering firms,
these links can be established if the firm is able to develop a customer learning culture
and everyone understands it is important to consult extensively with customers.

At both kinds of firms, the link between customer learning and resource allocation
decision-making can be made stronger if a cooperative, customer learning culture is
developed at the firm. It was also found that it was generally believed that a firm will
have more capacity to satisfy customers if it hires high quality people, qualified
technicians, the firm’s senior management are good managers and leaders, the firm’s
product development processes are robust, it uses account management teams and it has
been able to establish flexible and efficient processes. However, these resources were
more likely to be effective if the firm was able to establish methods to regularly track
and measure the firm’s performance, including whether the firm was increasing customer satisfaction, achieving its financial targets, achieving its project targets and staff were satisfied.

The difficulty that the firms in the study faced is that the methods that they used to track and measure performance had evolved to meet managers’ information needs at the time. This means that they evolved to reflect the firm’s unique and idiosyncratic context. The corollary of this is that they did not always necessarily evolve to ensure managers always got access to the information that they needed about customers’ values to make good resource allocation decisions. In other words, one can always expect that there will be path dependencies associated with the way each tracking method and measurement can be used. As the interviewees revealed, these problems can be overcome to some extent by ensuring the firm’s managers can access information while strategic planning, budgeting, reviewing people’s performance, conducting post-project reviews, and by using a large variety of measures to understand if the firm was achieving its customer value delivery objectives. Similarly, they can be alleviated by setting up KPIs to specifically measure at set intervals the performance of a particular resource investment, as well as by using subjective methods to assess performance, such as asking a customer if a particular employee is working for them and communicating with them in a satisfactory manner. The more these individual performance measures are used in conjunction with each other, including those designed to measure the firm’s overall performance, the more likely the firm’s management team will be able to develop a good understanding of the resource investments which allowed the firm to create customer value and, consequently, value for itself.

The implication of these findings is that when a firm operates in a non-dynamic market environment one can expect its managers to be using the tracking and
measurement system that was originally developed and used at the firm while one can
expect the opposite when a firm operates in a dynamic market environment. When a
firm operates in a dynamic environment, it is much more likely that its managers use a
tracking and measurement system which is very much different to what was first used.
This can explain why the interviewees at the accounting firms believed that KPIs need
to be set up to measure the performance of new initiatives, and why subjective methods
were also considered to be necessary to employ. When a firm operates in a dynamic
market environment, it is much more likely that the performance tracking and
measurement system will have been changed many times. It should reflect the ways in
which managers in the past believed it is possible to keep track of and measure
customers’ ever changing values. This also explains why at the software engineering
firms, it was important to use the management and financial reporting system in tandem
with the firm’s project management system.

This provides insight into how everyone at the firms operating in dynamic market
environments, including lower-level staff members were able to contribute to the
development of the firm’s customer value delivery strategy. By linking the management
and financial report systems, with the project management system, everyone is able to
keep track of the firm’s performance. Everyone is able to form an opinion about the
degree to which the firm has created value for customers and to what extent customers’
future needs are being appropriately pre-empted. Moreover, these findings provide
insight into why the interviewees from the software engineering firms believed it is
important to integrate the firm’s tracking and measurement processes. Because they
operate in a dynamic market environment, it is important to use many performance
measures to understand if the firm is creating customer value. For instance, at Firm I it
was not just sufficient to use the management and financial reporting, and project
management systems to track and measure performance, it was also necessary to look at other data about customers. At Firm I, customer complaints were considered a very good way to understand if the firm was performing and satisfying customers. As the CEO at Firm I had explained, Firm I is committed to investigating all complaints because one customer may have identified a problem that a large number of customers had with the software but had been disinclined to contact the firm about.

15.2 Creating Customer Value and Firm Performance

Creating customer value and heterogeneous firm performance: Research Question 1

The interviewees at both the high and low accounting and software engineering firms explained that high performing firms have a greater capacity to create value along multiple dimensions than low performing firms. This includes at the point in time customers are making the decision to purchase the firm’s products and services, when they are being delivered to them, and after they have been delivered and payment for them has been made. This is because managers at high performing firms are better at understanding which products and services attributes contribute to customers’ decision to buy the firm’s products and services, and identifying how customers’ needs can be fulfilled through the firm’s products and services in the short-to-medium term. This includes to what extent the firm can and should help customers achieve their long-term goals and purposes. It is also because they are better at understanding the exact mix of commercial and assurance-based benefits that the firm’s products and services, and mix of relationships which need to be developed with customers to be able to deliver value to them. They also have the ability to identify if more or different configurations of commercial and assurance-based benefits should be made available to all the firm’s customers or just some customers, including high value customers.
The implication of these findings is that high performing firms are more likely to be characterised by a pattern of resource investments which were designed to make it easy to convey to customers that the firm is able to cater to their multidimensional needs. Many of these resource investments are likely to be marketing related but many others are more likely to be related to the development of the firm’s managerial and technical capabilities. For instance, at the accounting firms only those who had the ability to develop a clientele, inspire the firm’s customers and mentor junior staff were invited to become partners. Some partners were developed within the firm while others were invited to join the firm. Partners and other staff members were also remunerated and rewarded for their ability to explain how the firm can deliver on customers’ total value proposition. The high performing accounting firms invested in hiring specialists and new product development, including new service lines. It was also realised that although some staff members were technically adept they might not be very good at communicating with others. As a result, the high performing accounting firms invested heavily in developing people’s communications skills.

At the high performing software engineering firms, on the other hand, although it was important to ensure the firm hired good people and invested in their professional development, it tended to be just as important if not far more important to ensure the firm was able to develop highly functional and application-rich software, keep it up-to-date and able to do everything that customers expected a market-competitive software could do. Similarly, it was well known in the software engineering industry that customers always want to be given evidence that the firm’s software products are high in quality and represent a fair return-on-investment before they buy it. As a result, there was an emphasis on ensuring that all customers were made aware of the fact that the firm uses best practice software development and project management processes. This is
because this indicates that the firm is also committed to consulting extensively with customers during the software development process.

The low performing firms tended to be characterised by resource investments which did not automatically convey to customers that the firm and its people are interested in catering to customers’ multidimensional needs. For instance, at the low performing accounting firms, there was hardly any evidence that the firm invested in resources that helped staff understand how they should convey technical and other facts to customers. This includes when they are negotiating with customers or working with them to finish an assignment. Partners also spent less time working with customers and mentoring staff, which also meant they had fewer opportunities to ensure customers’ expectations were being properly managed. Although the low performing software engineering firms relied on the software development process, it tended to be more difficult for them to invest in its development to the same extent as the high performing software engineering firms. This was usually because they did not have the financial resources or time to do so.

These findings are of particular significance. This is because the same resources at the high performing accounting and software engineering firms were also used to help the firm’s managers understand when it is appropriate to differentiate between the firm’s different customers, including high value customers. This implies that it is in the best interests of managers who are interested in earning high returns for their firms to ensure they invest in resources that allow the firm’s people to convey to customers that the firm can cater to their multidimensional needs. This includes resources that can be used to understand how the firm’s product and service mix can accommodate the multidimensional needs of different customers. It is also in their best interests to develop strategies that allow them to identify how customers differ and whether they
should all be offered the same or standardised products and services.

Likewise, it is important to develop strategies that help everyone to ensure customers always get what they were promised or at least given a reason why they should consider a compromise. This is especially the case for high value customers. Thus, in addition to developing the firm’s managers’ ability to present complex ideas, the firm needs to invest in the development of its people’s negotiation skills and tools that can help them understand when it is appropriate to offer customers non-standard products and services or the option to work with one of the firm’s business associates. In regard to the latter, this includes understanding if customers expect the firm to develop and sell products and services through alliance partners, or which reflect industry best practice and/or whether customers should be invited to become involved in the firm’s R&D efforts.

**Customer learning and heterogeneous firm performance: Research Question 2**

Thus, it follows that a firm is more likely to be high performing if it is able to engage in a diverse number of customer and market learning activities and it has in place processes that allow customer-related information to be seamlessly disseminated across the firm. As was revealed by the interviewees at the high performing accounting firms, the firm’s people usually engage in a diversity of activities and use a large number of processes to learn about customers and the marketplace. This is possible because the firms’ partners understand how important it is to encourage customer learning across the firm. They also promote a culture at the firm which is conducive to customer learning and encourage the development of structures that make the smooth flow of customer-related information across the firm possible. This includes between divisional team members and across divisions, between and across the firm’s quality assurance and account management teams, and to other partners as it is required. These practices
were usually complemented by the business development activities that both partners and lower-level staff regularly engaged in and which usually led to them learning about customers’ values.

The high performing software engineering firms were also characterised by the fact that their people engaged in a diversity of customer learning activities and used a large number of customer learning processes. The senior management teams at the high performing software engineering firms were committed to creating a customer learning culture and ensuring the smooth flow of customer-related information across the firm. The senior management team understood how to use the software development process to integrate all the firm’s customer learning processes. The firm’s people also gathered customer requirements through a variety of methods. They did not rely on just one or two methods, for instance, by just conducting workshops with customers. At the high performing software engineering firms, many of these customer requirements gathering processes were automated through the use of software. The same software could be used to disseminate useful customer-related information across the firm.

In contrast, at the low performing accounting and software engineering firms, it was harder for staff to engage in as diverse a range of customer learning activities. They also were not characterised by highly integrated customer learning processes. At the low performing accounting firms, this could be attributed to a reluctance of the partners to adopt a more modern and flexible partnership model. At the low performing software engineering firms, this could be attributed to their managers’ inexperience or specific resource constraints. According to the interviewees at the low performing software firms, although the firm’s people were familiar with how the software development process should be used, they were unable to identify how it could be used in conjunction with the firm’s other customer-related and knowledge-based processes.
Thus, in addition to engaging in a diverse number of customer and market learning processes, and having processes in place which allow customer-related information to be seamlessly disseminated across the firm, the high performing firms were characterised by the findings that they have a customer learning culture, a senior management team committed to the seamless transfer of customer-related information across the firm, and highly integrated customer learning processes. All these things enhanced and complement the firm’s decision-making processes. The implication of these facts is that in all probability the management team at a high performing firm have been able to develop a good understanding of the processes that can be levered off to promote customer learning and good decision-making. At the high performing accounting firms, the partnership model proved to be used in this way. At the high performing software engineering firms, the senior management team were able to exploit the full potential of the software development process.

**People, processes and heterogeneous firm performance: Research Question 2**

The second research question sought to clarify how managers translate customer learning into processes which allow the firm to deliver value to customers. In this respect, the study focused on how people were organised and the processes which allowed the firm to deliver value to customers. It was found that the high and low performing firms differed because they invested in and developed their resources differently. In regard to the use of people, the high performing accounting and software engineering firms were not only able to recruit and retain many more high quality and technically adept people than the low performing accounting and software engineering firms, they were much better at drawing on the experience and technical knowledge of all of their people. This is regardless of whether decision-making processes and
responsibilities at the firm were top-down or bottom-up/top-down. As the interviewees revealed, the reason they were better at drawing on the experience and technical knowledge of their people than was the case at the low performing firms is because they are able to successfully encourage people to share their customer learnings, and to work cooperatively and constructively.

One of the more important reasons why the experience and technical knowledge of people could be easily be drawn upon at the high performing firms is because their customer learning, strategic planning and operational processes were heavily integrated. They were also understood by everyone and actively used, especially by the firm’s decision-makers and those contributing to the decision-making process. Moreover, these processes had been deliberately integrated. They were also designed to ensure useful customer- and market-related information could be gathered in a timely manner and then used to make good strategic decisions and help realise the firm’s strategies.

At the accounting firms, these processes allowed the firm’s people to learn about the benefits customers needed to have delivered to them by the end of an accounting assignment or engagement. At the software engineering firms, they allowed the firm’s people to learn about what customers’ wanted from the firm’s software, what they wanted to receive at the end of a project and what they wanted from the firm itself.

As Figure 15.5 and Figure 15.6 revealed earlier, the firms in this study use highly linked customer learning and customer value creation processes, including processes that allow the firm to develop the customer value delivery strategy in tandem with the firm’s corporate strategy. These processes allow the firm’s managers to identify how the firm’s resources will be used, including which resources the firm should invest in and develop further. They are also used to identify how the firm’s resources will be used to implement both the firm’s customer value delivery strategy and its corporate strategy. In
regard to both the customer value delivery strategy and the corporate strategy, it is normal practice for the managers at the accounting and software engineering firms to ensure that their effectiveness is reviewed periodically. Although there were some differences between how often the firms did this, it was generally normal practice to develop the firm’s customer value delivery strategy and the corporate strategy on a monthly or annual basis. However, if during a periodic review or during the course of an accounting assignment and/or software project facts emerged which suggested that the firm should slightly or even radically change direction, then processes were put in place to examine the viability of changing direction, and reviewing both the customer value delivery strategy and the corporate strategy.

As Figure 15.7 shows, the low performing firms in this study did not use these processes as well as the high performing firms in this study. The left side of Figure 15.7 describes the customer value learning processes at the high performing firms in this study. These processes were used to review the firm’s customer value delivery strategy, as well as its corporate strategy. They are also indicative of how the firm's decision-making processes are used. As the left side of Figure 15.7 shows, the firm’s decision-makers were able to gain access to most of, if not all of, the information they needed about customers to make informed strategic and operational decisions. This includes information about whether the current strategy was working and whether customers were deriving value from the firm’s products and services, including whether managers believe the firm’s strategy was being implemented in a way that was creating value for customers. It also suggests that senior managers contributed to this process by their ability to create knowledge-based and organisational structures which link strategic and operational forms of customer learning.
The right side of Figure 15.7 describes the customer value learning processes at the low performing firms in this study. It shows that the firm’s decisions-makers tended to be unable to use the firm’s strategic and operational processes to gain access to information about customers and the firm’s ability to create value for them in a streamlined manner. As opposed to the high performing firms, the senior managers at these firms were unable to create knowledge-based and organisational structures that linked these processes. This was either because they were yet to appreciate how they could make it easy for the firm’s decision-makers to gain access to all forms of customer learning or they did not have the time or the resources to invest to make these critical links. As a result, these processes were unable to be linked or were crudely connected at the low performing firms.

In line with the RBV literature, the fact that the managers at the high performing firms were able to create structures that link all strategic and operational forms of customer learning to their decision-making processes, and that this was consciously...
done provides insight into how firms develop dynamic capabilities that can be evolve into a core competency. These findings are also significant because although low performing firms may posses many processes that are dynamic capabilities and which are integrated, they may not have the capacity to evolve them into a core competency. This can explain why these firms were low performing. It also provides insight into how difficult it can be to become a high performing firm and then maintain this status by investing in resources that can create customer value.

**Customer value delivery and heterogeneous firm performance: Research Question 3**

The third research question sought to clarify how the ability to develop processes which allow managers to learn about their customers and create value for them on an ongoing basis affects a firm’s performance. As was established in the preceding sections, the firms operating in non-dynamic and dynamic market environments and which were high and low performing had much in common. Their histories of resource investments in some areas were strikingly similar. Notwithstanding this, the high performing firms can be distinguished by their propensity to invest in the development of a performance tracking and measurement system, with an emphasis on using it to keep pace with the level of dynamism in the marketplace. They also tended to hire more knowledgeable and technically proficient people, people with an existing clientele or an understanding of the industry, and were more able to develop their people’s resource planning, leadership and communication skills than the low performing firms.

Moreover, the high performing firms possessed performance tracking and measurement systems which were more reliable and robust. The tracking and measurement system was also made up of a diversity of tracking and measurement processes. These had evolved at the firm over a considerable period of time to reflect
the firm’s unique context. In other words, the managers at high performing firms were able to confirm through their tracking and measurement systems with some confidence if the firm was creating customer value and through which resource investments. They were also able to identify with some confidence which measures were reliable and worth reinvesting in. Thus, they had established performance feedback loops which gave them fairly accurate feedback about the firm’s ability to create customer value.

The implication of this is that at the high performing firms because the performance feedback loops were established and developed over a fairly long period of time, it is likely that their relevance and resilience had also been tested over a fairly long period of time. At the high performing firms, this was done with the input of all the firm’s managers. This is consistent with the finding that at high performing firms everyone is expected to engage in customer learning activities and that it is considered important to use the firm’s resources and expend time to develop a customer learning culture. It is also consistent with the finding that at the high performing firms it is considered to be very important to develop account management, product development, management reporting, financial reporting and/or practice management systems or variations of them to promote customer learning and ensure the firm’s decision-makers can make strategic and resource allocation decisions which can improve the firm’s financial prospects.

In contrast, the performance tracking and measurement systems at the low performing firms were not as reliable or robust as the systems at the high performing firms. It was found that performance was not tracked on an ongoing basis or if it was tracked then it was tracked in an ad hoc fashion. The managers at the low performing firms in the study were still learning how to assess if the firm was creating value for customers. They also still did not have the means to ascertain whether they were using reliable measures. The management teams at the low performing firms found it difficult
to be confident that they were using metrics and other data that could help them make good decisions or make them consistently.

15.3 Chapter Summary

This chapter summarised the findings from this study and discussed their implications. The common thread that runs through all the sections of this chapter is that in order for a firm to cope with dynamism in the marketplace and to be able to differentiate itself in the marketplace, it is important for managers to invest in resources that allow them to constantly assess the benefits that the firm should deliver to target customers through the firm’s products and services. However, they also need to be able to constantly consider whether the firm has the resources it needs to deliver value and whether there are path dependencies that they need to overcome to be able to use the firm’s resources to their full potential. This includes their own ability as managers to make objective decisions about how best to create customer value. Alternatively, the firm may need to develop and link its customer learning, strategic decision-making, and performance tracking and measurement processes in a more appropriate manner. The implication of this is that managers may be able to improve their firm’s financial performance by integrating all of its customer value learning and customer value delivery processes.

The conclusion that can be drawn from these findings and their implications are discussed in the next and last chapter of this thesis.
CHAPTER 16

CONCLUSION

The first section of this chapter describes the conclusions that can be drawn from the findings of this study. The second section describes the limitations of this study. The final section describes the implications of this study for future research.

16.1 Concluding Arguments and Remarks

Summary of the objectives, processes and findings of the study

Drawing on the RBV, the strategy, resource allocation, decision-making and learning literatures, and, to a lesser extent, the marketing literature this study examined how managers conceptualise customer value and how they use the firm’s resources to both learn about it and create it. This study was designed to answer the following three research questions:

1. How do managers create customer value through the firm’s resource investments?
2. How do managers translate customer learning into processes which allow the firm to deliver value to its customers?
3. How does the ability to develop processes which allow managers to learn about their customers and create value for them on an ongoing basis affect a firm’s performance?

It was found that managers approach customer value as a tri-dimensional construct and that they believe that in order to operationalise it they need to consider:
1. The attributes or benefits that are embedded in or customers can associate with the firm’s products and services,

2. The consequences achieved by customers when using or being provided with the firm’s products and services, and

3. The goals and purposes which need to be achieved after customers use or have been provided with the firm’s products and services.

This had to be done across three corresponding time periods:

1. The point in time when customers make the decision to purchase,

2. The period during which products and services are delivered to customers in some way, and

3. The period after customers have received and paid for the products and services.

The implication of this finding is that if a firm needs to change the way in which it delivers on one of these dimensions then it may need to change the way it delivers on the other two customer value dimensions. This includes how customer value is created over time, including at the point in time when customers are making the decision to purchase, when the firm is physically delivering products and services to customers or customers are using them, and the period after customers have received and paid for the firm’s products and services.

It was also found that managers believe customers use the firm either because they want to improve their businesses commercially and/or the firm has the capacity to provide them with some form of assurance that they are buying competitive products
and services. This outcome was the same regardless of whether the firm in question operated in a non-dynamic market environment or a dynamic market environment. However, there were differences in the nature of the benefits that managers believed customers wanted to have delivered to them at the firms operating non-dynamic and dynamic market environments. At the dynamic firms, it was very important to ensure customers receive software that is competitive and is up-to-date with the latest regulations and/or technologies. However, contrary to the extant RBV, in particular the dynamic capability stream, managers do not believe customers want the firm to expend resources to keep up with the latest in technology unless there is a commercial justification for the firm doing so. They had learned customers were not willing to buy software that had functions that they could not use in the short-to-medium term.

It was also found that the high performing firms had a far greater capacity to create value along multiple dimensions than the low performing firms, including at the point in time customers are making the decision to purchase the firm’s products and services, when they are being delivered to them, and after they have been delivered. Similarly, the interviewees at the high performing firms revealed a greater ability to understand when it is strategically appropriate and profitable to differentiate between different customers groups, especially cater to the specific needs of high value customers. In regard to both of these findings, the high performing firms were characterised by a more pronounced ability to identify the configuration of activities they need to engage in to ensure the firm can deliver benefits through its products and services, and the relationships that were formed with customers. They also displayed a more pronounced ability to understand which mix of dynamic and operational capabilities were required to support these activities.

It was found that regardless of whether a firm is operating in a non-dynamic or
dynamic market environment, managers are able to learn about customers as a result of (1) two or more organisational members sharing or exchanging information, (2) one or more organisational member(s) sharing or exchanging information with a party external to the firm, (3) one or more organisational member(s) using the firm’s internal knowledge-based resources, or (4) one or more organisational member(s) accessing external sources of information about the marketplace and customers. However, when a firm operates in a non-dynamic market environment, its people are allowed to learn about customers in any manner that they see fit, that is, provided they can still do the job they were hired to do properly. Conversely, when a firm operates in a dynamic market environment, its people are required to gather and share information in a much more structured manner. They are also expected to use databases and other repositories of knowledge more regularly. In most cases, this was mandated. Within this context, it was also found that the high performing firms had a far greater capacity to engage in and use a diversity of customer learning activities and processes, and that they had more integrated and/or automated customer learning processes than the low performing firms.

Consistent with the RBV and the resource allocation literature, it was found that the people who know the most about the firm’s customers, its products and services, and who can influence or make resource investment decisions are responsible for developing the firm’s customer value delivery strategy. When a firm operates in a non-dynamic market environment, it is appropriate to use top-down decision-making processes and to use the firm’s strategic planning and budgeting processes to develop the firm’s customer value delivery strategy. However, when a firm operates in a dynamic market environment, it is more usual for it to use a combination of bottom-up/top-down processes, and to use operational processes much more to develop the customer value delivery strategy.
In either case, the extent to which senior managers or lower-level staff need to be involved in decisions about the firm’s customer value delivery strategy depends upon the nature of the decision which needs to be made. If the decision is of strategic nature, such as should a firm be acquired, the firm’s most senior people were required to be heavily involved in the decision. If a decision is of an operational nature, such as which staff members should be involved in a customer assignment or project, divisional managers or technical staff were responsible for making the decision. However, when a firm operates in a dynamic market environment, it is far more likely that non-senior managers and other staff members will need to become involved. It is also more likely that lower-level staff will be required to participate in developing the firm’s customer value delivery strategy.

In line with the strategy literature, it was found that when a firm operates in a non-dynamic market environment, the firm’s strategic planning and budgeting processes are often used to develop the customer value delivery strategy. These processes are often relied on when a firm operates in a dynamic market environment. However, it was generally believed that they should not be used exclusively to develop the customer value delivery strategy. This is because in the case of the software engineering firms, the firm’s product development and project management processes need to be used to learn about customers and develop the firm’s customer value delivery strategy. At firms operating in both non-dynamic and dynamic market environments, it was found that a firm is more likely to be high performing if it can develop organisational structures and processes that link strategic and operational forms of customer learning.

Regardless of whether a firm operates in a non-dynamic or a dynamic market environment, it was found the more integrated are the firm’s customer value learning processes and its resource allocation processes, the more likely the firm will be able to
create customer value. If the firm can establish a customer learning and performance feedback competency, it is more likely to achieve this objective. If it can evolve a performance tracking and measurement system which is idiosyncratic and can give decision-makers insight into the unique combination of resource investments that had allowed their firm to create customer value and positively contribute to the firm’s financial performance, then it is even more likely to be high performing.

Thus, a firm’s ability to sustain high levels of performance is dependent on how well a firm’s managers are able to monitor, continually refine and integrate the individual processes that they use to learn about customers, including the processes they use to understand, validate and measure the extent to which different resources have been able to create customer value and, in turn, value for the firm. Moreover, this study demonstrates that heterogeneous firm performance can be explained by the fact that some firms have a capacity to develop a customer value learning and customer value delivery competency while others do not. It also demonstrates that to be able to sustain high levels of performance it is not sufficient to have built and possess a customer value learning and customer value delivery competency, it is also necessary to ensure its managers understand how it can be used and that they do use it to make commercially sound, customer-centric resource investment decisions on an ongoing basis. For this to be possible, the competency must be adaptable and flexible. It must also have the capacity to be refined and to self-refine. By developing and making full use of such a competency, the firm’s managers can give themselves a powerful means for making consistently superior, customer-centric resource investments.
The operational, strategic and performance implications

As well as providing insight into how managers approach the customer value construct, the findings from this study have a number of very important organisational, strategic and performance implications.

Firstly, the study provides insight into how firms build organisational capabilities, which are a firm’s ability ‘to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result’ (Helfat & Peteraf, 2003: 999). In this case, the study explains how firms build organisational capabilities that allow their managers to create customer value on an ongoing basis. To build such an organisational capability, managers need to consider which benefits can be delivered to customers across three customer value dimensions through the firm’s resources and how this can be facilitated by developing integrated customer learning and decision-making processes. The emphasis here is on processes that are conducive to sound, customer-related decision-making. This an important contribution to knowledge because it is now known that it is important for firms to organise their people and resource investments to enable these important customer value-related learning and decision-making processes.

In respect to creating customer value tri-dimensionally, it was found managers need to think about the assets and the kinds of dynamic capabilities which must be invested in, developed and used at different points in time to create customer value. They also need to identify which sequence of activities is more likely to ensure the firm can deliver on each dimension of customer value and in a manner that is performance-enhancing. Moreover, they need to identify how the firm’s dynamic and operational capabilities should be mapped against these activities to enable, coordinate and support them.

It was also observed that the interviewees at both the accounting and software
engineering firms believed that a firm’s managers’ organisational design capabilities contribute to the ability to deliver on the second dimension of customer value, that is, customers’ desired consequences when using or being provided with the firm’s products and services. Allowing for the fact that this describes the benefits that the firm physically delivers to customers through the firm’s products and services, including when customers are using them by themselves, one can conclude that those benefits customers want delivered to them in a use situation helps managers to determine how the firm should be organised. In addition, by delivering on the second dimension of customer value, the firm is able to implement a large part of the firm’s customer value delivery strategy. In other words, the firm’s organisation and its ability to implement its customer value delivery strategy may depend in part on how well the firm is able to create and deliver benefits that achieve customers’ consequences in a use situation.

In this sense, the firm’s organisation and the resources that are used to deliver on the second dimension of customer value allow the firm to create value for customers successfully. They are ‘linchpins’ in this regard. This is because they have the capacity to hold the various elements of a very complicated customer value delivery structure together. They allow the firm to deliver on what was originally promised customers or advertised to persuade them to buy the firm’s products and services, that is, the first dimension of customer value. They can also act as a platform for delivering on the third dimension of customer value. Unless customers have received or have been provided with the benefits that allow them to achieve their consequences in a use situation, the firm will be unable to deliver on the third dimension of customer value.

Even if the firm’s managers decide it is not always in the firm’s best interests to try to deliver on all of its customers’ goals and purposes, the firm will have a platform of organisational and resource structures it can lever off in the future. This is because the
second dimension of customer value is integral to creating the kinds of linkages that are conducive to delivering on customers’ goals and purposes but also retaining customers and developing a mutually beneficial relationship with them. Thus, this study has been able to shed some light on how managers at different firms invest in resources as a result of learning to approach the customer value construct in a consistent and like-minded manner. It also allows one to understand how the three dimensions of customer value may have influenced managers’ past resource investment decisions and how they are likely to influence them in the future.

In respect to firms’ customer learning and decision-making processes, the study supports the notion that Figure 3.1 is a fair representation of how firms organise to ensure its people can engage in customer learning activities and make strategic and operational decisions. Even if a person has not been hired to make strategic and operational decisions, Figure 3.1 shows that they can still contribute to the firm’s decision-making processes by sharing important facts about customers with others or contributing their ideas about how the firm’s resources could be utilised or be better utilised. This is an important contribution to knowledge because it shows that even if a firm’s strategic decision-making processes are primarily top-down, a firm will benefit if it is able to capture privileged knowledge lower-level staff may have about customers.

As Figures 15.5 and Figure 15.6 show, regardless of whether a firm operates in a non-dynamic or dynamic market environment, the ability to engage with customers in a productive and mutually beneficial manner, and identify in what way the firms can or has been able to create customer value is dependent on the way the firm’s people are able to learn about customers and contribute to the firm’s customer value delivery strategy, the corporate strategy, and the firm’s resource investment (or resource allocation) strategy. Thus, in addition to the fact that the firm’s organisational
capabilities evolve as a result of the need to deliver on the customers’ consequences in a use situation, the firm’s ability to effectively organise its people, processes and other resources also depends on whether or not the firm has built organisational structures that can help it keep pace with the marketplace and respond to customers’ changing needs.

The study also shows that the firm’s decision-makers need to be given the capacity to understand which combination of resources the firm needs to invest in to deliver value to target customers and which will positively affect the firm’s performance. They also need to be able to contribute to the customer value delivery strategy and the corporate strategy in a manner that allows them to lever off strategic and operational forms of learning. This must be done in a manner that allows them to constantly verify if they are meeting customers’ current and changing needs.

These findings are especially important as they can explain how firms achieve a ‘strategic fit’. As described in Chapter 3, the way the firm aligns itself to its environment has always involved some notion of organisational form (Venkatraman & Camillus, 1984), and ‘the configuration of attributes determining an organization’s resource demands’ (Porac & Thomas, 1990: 225). If a firm’s managers are able to identify which resources it needs to invest in to create customer value and create it indefinitely, then they should also be able to define the customer-centric attributes which define how the firm has been able to achieve a ‘strategic fit’ with the external environment from a customer value creation perspective. The implication of this is that regardless of whether a firm is operating in a non-dynamic or a dynamic market environment, the more its customer learning and decision-making structures are designed to allow managers to understand customer value, pre-empt any changes in them, and understand competitors’ customer value offering, then the more capacity the firm will have to achieve a strategic fit, differentiate itself and perform well. This is
another way to explain how a firm’s customer-related resource investments contribute to heterogeneous firm performance.

It is significant that it was found that although a large part of the firm’s customer value delivery strategy can be developed through the firm’s strategic planning processes, a large part of it can be developed outside of the formal strategic planning process. This is because it is possible to develop almost all of it through the firm’s customer learning processes, performance evaluation and a number of operational processes, such as its product development processes. This suggests that the firm’s customer value delivery strategy is a product or learning. It can indeed ‘emerge’ at the firm or, at the other extreme, can be the result of formal strategic planning.

Even when a firm operates in non-dynamic market environments it could be in everyone’s best interests to give everyone at the firm some capacity to contribute to the customer value strategy rather than assume the customer value delivery strategy should be the exclusive domain of senior managers. Likewise, customers and other outside parties, including business partners can contribute. The significance of this is that the more capacity the firm has to verify whether it has created value for customers and, in turn, for the firm, the more capacity it will have to build processes that can help managers objectively identify potentially optimising, resource investment solutions for the firm. In other words, the more managers capacity the firm will have to rationally assess if the firm has created or can create value for customers.

This means that when a firm cannot develop decision-making processes that enable objective and non-politically motivated resource investment decision-making or if the firm has a culture where rational decision-making processes tend not to be used or often bypassed, the more difficult it will be for the firm’s managers to understand if the firm has or can create value for customers using the firm’s resources. The implication of this
is that at some firms managers may find it difficult to reach consensus decisions about customers’ values because they have not learned to appreciate the benefits that objectivity and diversity can bring to the problem solving process. In line with the strategy process literature, it is more likely a firm will be high performing if its managers can understand how different experiences, disciplinary backgrounds and cognitive frames, as well as people external to the firm should be used to identify how the firm can create customer value through its resource investments.

Thus, the framework as described in Figure 3.1 could be used by managers to understand each others’ different objectives and modes of reasoning. This suggests that, in line with the resource allocation literature, the strategic planning process can be driven by the firm’s resource allocation processes, especially when a customer-centric approach is taken. In line with the strategic decision-making literature, the firm is likely to benefit if its managers are able to understand the importance of developing processes that can address their individual, decision-making and cognitive shortcomings, including any propensity they may have to make customer-related resource investment decisions reactively or overly focus on the firm’s most recent performances.

In regard to the performance implications of the findings, the study supports the idea that managers need to be just as interested in how the firm can use its resources to create value as they are interested in how the firm can capture value. The whole management team and not just those involved in marketing have an important role to play in developing the firm’s customer value delivery strategy and implementing it. The implication of this is the more capacity the firm’s people are given to understand how they should respond to customers and the challenges that competitors send their way, the more likely the firm will be high performing.

These findings provide insight into how managers can develop the firm’s learning
processes and build specific learning capabilities to bring about specific outcomes. They support the idea that managers at high performing firms tend to have more capacity to understand when it is appropriate to promote what has been described as single-loop and double-loop learning forms (Argyris (1976). Single-loop learning involves such things as ensuring customers are always consulted about what they value before making a major decision about the firm’s products and services. Double-loop learning involves such things as unlearning out-of-date modes of thinking, such as learning to rely on different customer learning information and data sources instead of using information and data sources that may no longer be reliable. There were two notable examples of double-loop learning in this study. At the high performing accounting firms, it was realised that the traditional partnership model was no longer working. As a result, new methods were introduced at some of the accounting firms in the study to ensure the firm could lever off the experience, skills and knowledge bases of all its people, and not just partners. At all the software engineering firms and especially the high performing software firms, the managers realised that it was no longer appropriate to develop technology just because it is new, as the firm’s performance could be adversely affected. This led to the management teams at the software engineering firms making it clear to everyone that no new technologies would be developed without a business case and without evidence that customers wanted the change.

Managers can also develop the firm’s learning processes and build specific learning capabilities to bring about specific outcomes in more subtle and complex ways. These involve being able to assess how the different feedback and decision support loops are related, and what they can tell the manager about the firm and its ability to create customer value. For instance, it was found that the managers at high performing firms had more capacity to link and integrate operational and strategic forms of learning to
bring about specific performance outcomes. They make it a point to consult with customers and other parties regularly as to how these linkages should be made. Similarly, they tended to be better at appreciating the importance of building customer value learning processes that are adaptive, flexible and continually self-improving.

This suggests that managers at high performing firms have a greater capacity to understand when it is appropriate to promote single-loop and double-loop models of learning but also when it is not, such as when the feedback loops that the firm has been using have started to become unreliable. They had come to appreciate that learning can be the result of more complex modes of learning, including learning which occurs between and among individuals, groups and organisations (Crossan, et al. 1999; Sanchez, 2001b). Moreover, they have come to appreciate that learning can also occur at the interface of these interactions. In other words, that learning can occur between individuals, groups and organisations thinking about the strategic ramifications of any customer-related, resource investment decisions they might make and individuals, groups and organisations thinking about the operational ramifications of any customer-related, resource investment decisions they might make. The implication of this is that the managers at high performing firms tend to be better at understanding if the firm can and should match the pace of the marketplace, whether they were beginning to make decisions reactively or with a degree of prescience, and whether they had begun to set unrealistic value creation targets for the firm or could no longer judge if it was creating customer value profitably.

Lastly, this study shows that the ability to develop a customer learning and customer-centric resource investment competency will be dependent on whether or not a firm’s management team can work together to identify the way individual processes should be linked and integrated, as well as to what extent they should be designed to complement
each other and reflect iterative forms of learning. It will also be dependent on their ability to identify if the firm has customer creation and learning path dependencies it needs to overcome and if its managers have the skills and the firm the dynamic capabilities to overcome them. This is an important contribution to knowledge because it shows that managers need to constantly consider how their firm’s customer value creation and learning processes may need to be reconfigured and redeveloped. It also confirms that research into the RBV would have been the richer if more had been done in the past to study how firms create customer value.

16.2 Limitations of the Study

This study had a number of limitations. These mainly involved the decision not to tape interviews, the final research design, how the firms in this study were selected, the choice of interviewees and the way the theoretical classification schemes from the RBV literature were applied.

A decision was made not to tape interviews because the managers in the pilot study did not believe managers would respond well to being taped and because the notes taken during the pilot study were able to be validated by the interviewees. However, notwithstanding the fact that the interviewees were given the opportunity to review how their responses were interpreted, it is possible that some important details relevant to the study were lost to the study.

Prior to commencing the study, it was determined that by studying at least three high performing accounting firms, three high performing software engineering firms, three low performing accounting firms, and three low performing software engineering firms it might be possible to examine all the different contextual scenarios under which RBV theory could be supported (Yin, 2003). Ultimately, 14 firms were selected to take part in
this study. If one accepts that this is a sufficient enough number of firms and that they are able to be considered proxies for firms operating in non-dynamic and dynamic market environments, then the study’s findings could be generalised to other firms operating in non-dynamic and dynamic market environments. However, this is subject to the proviso that if more firms were subsequently studied, facts might be identified that could suggest that the findings cannot be generalised to other high and low performing accounting and software engineering firms, and especially not to other firms operating in other non-dynamic and dynamic market environments.

To understand the unique contextual conditions that might affect a firm, the study also was limited to firms which were (1) either established in Australia or, if not an Australian firm, the Australian division of a multinational firm, (2) managed by a team of managers rather than owner operated, with a CEO or a MD in charge, and (3) in business for at least three years. Although these conditions provide a basis by which comparison between firms could be made, they may have made it difficult to identify unanticipated facts germane to this study’s objectives, including the possibility that it may have been underperforming not because it had not invested in resources to create customer value but because it invested in resources to achieve another performance objective altogether or to overcome a non-customer related path dependency. This applies especially to the condition that firms participating in this study needed to be in business for at least three years.

A minimum of three people were required to take part in interviews at each firm, as this number would allow one to triangulate the answers provided in a reasonably objective manner. However, some firms made more managers available. These firms were the larger firms in the study. As a result, the responses from the larger firms in the study should be considered to be more reliable than the responses from the smaller
Interviews were also only conducted with managers who had profit centre responsibility or were involved in developing the firm’s strategy. The reason for this is that it is more likely that they can provide insight into the tacit or codified forms of information used at their firm to make strategic, resource investment decisions (Rouse & Daellenbach, 1999). However, since lower-level staff and some customers were encouraged to become involved in R&D and help develop the firm’s strategies, it is likely that the findings would have been more insightful and externally more valid if some of these people had been interviewed.

It was also determined that accounting and software engineering firms had the capacity to represent firms operating in non-dynamic and dynamic market environments. This is on the basis that the dynamic capability stream of the RBV literature defines dynamic markets as those markets which change rapidly and can be characterised by significant year-to-year variations in market revenue (Teece, 1997). Although the accounting and software engineering industries could be characterised in this way, the firms in the study did experience periods of time when they displayed tendencies which were the opposite to what was usually the norm. For instance, when a goods and services tax was introduced to Australia, the market environment for accounting firms became relatively more dynamic. It was also discovered that contrary to the dynamic capability literature, customers do not always want to buy IT products and services which reflect the latest or new technologies. This is because they have only so much capacity to keep up with technological change themselves and they realise that they will have to pay higher prices for the firm’s products and services if the firm is constantly developing new technologies. These facts suggest that accounting and software engineering firms may go through periods when they are not always able to
represent firms operating in non-dynamic and dynamic market environments, respectively. Moreover, the study’s focus on firms operating in non-dynamic and dynamic market environments meant it was not possible to identify whether any insights had been provided into firms which operated in mixed market environments.

Firms were also classified as being high or low performing to enable the last research question to be fully addressed (Rouse & Dallenbach, 1999). Firms were classified as high or low performing by using the interviewees’ views of their firm’s performance and by analysing objective revenue related data, that is, the change in revenue percentages and partner/employee productivity figures. The problem with using managers’ views of their firm’s performance, including their rating of their firm’s performance is that their views are more likely to be subjective than objective. They are also likely to be coloured by the issues and events which have affected the firm contemporarily (Greve, 2003b). The problem with using revenue related data and especially when the dataset includes firms which range from small-in-size to large-in-size is that it is likely that different accounting treatments were used by the different firms in the study. Similarly, in regard to the small and growing firms, a percentage change in revenue may have been dramatic but not so if compared to the other firms in absolute monetary terms. It is also likely that the partner/employee productivity figures used to classify the firm as high or low performing are only comparable in strictly relative terms.

The performance figures were based on a three year period. Although they can provide insight into the kinds of customer-centric resource investments which led to firms operating in the same marketplaces to perform heterogeneously, the fact that they only cover a three year period makes it difficult to understand whether the ability to sustain high levels of performance can be attributed to some customer-centric resource
investments more than others.

A number of tables and figures in this thesis included lists of dynamic and operational capabilities. A review of Tables 7.3 through to 7.8 and Figures 15.2 and 15.3 should show that these lists are made up of specific abilities and skills displayed at the firm, or processes used at the firm. Each of these items was classified as being either a dynamic or operational capability. These classifications were based on the definitions of dynamic and operational capabilities from the extant RBV literature. In retrospect, it may have been more appropriate to use several other people to classify the abilities, skills and processes identified as dynamic or operational capabilities to reflect the literature. The classifications would have been more objective and less likely to reflect my views of how firms operate and develop dynamic and operational capabilities if other people had been used. This is provided a protocol was developed in advance to resolve any differences between the people assisting with the classification process.

In addition, one of the difficulties of this study was that only until I had begun to analyse the data did it become obvious that there were fairly clear differences between firms operating in non-dynamic and dynamic market environments but that there were only often slight differences between the firms that were high and low performing. In regard to the latter and with some difficulty, it was eventually determined that it was not so much that I was unable to discover qualitatively significant differences in their resource investments but that the difference between the high and low performing firms involved the degree to which a resource had been developed or how well individual processes were integrated. In retrospect, more attention should have been given to this general finding and this may be an area appropriate to explore in future studies or if the study is replicated.

Lastly, the study could have been improved if a more thorough comparison of the
thesis findings to other prior research was made, notwithstanding the fact that there are relatively few studies in the strategic management literature that examine how firms create customer value through their resources.

16.3 Implications for Future Research

As described in Chapter 5, this study was designed to be replicable, and, as described in Chapter 6, the questionnaire that was used to conduct this study could be used to study firms operating in other industries, and not just accounting and software engineering firms. This provides scope in the future to study firms operating in other industries. If such a future study were to support the findings from this study, then one can more confidently take the position that the study’s findings should be considered externally valid.

Future studies could also provide more insight into whether firms which operate in a combination of non-dynamic and dynamic market environments had the same tendencies as firms which operate almost exclusively in non-dynamic and dynamic market environments. For instance, as described in Chapter 15 and depicted in Figure 15.4, it may be the case that firms which operate in mixed market environments use a combination of structured/unstructured processes and protocols to help people interact and learn about customers, and some repositories of knowledge more often than others depending upon the kinds of things they need to learn about customers’ values.

The external validity of the findings of this study could also be further supported by conducting a large quantitative study. Such a study could include more accounting and software engineering firms. It could also include a dataset of firms operating in other industries and/or firms at different stages of their development or different sized firms. A large quantitative study could help to clarify how managers at different kinds of firms
integrate processes and which combination of processes are considered most likely to positively affect the firm’s financial performance, including which combinations of customer learning, decision-making, and performance tracking and measurement processes. It is likely that firms which are not accounting or software engineering firms need to deliver different benefits to customers to satisfy them tri-dimensionally, which means they need to invest in and develop different configurations of dynamic capabilities. Thus, a large quantitative study could be used to understand what this involves.

Finally, a large quantitative study could provide insight into whether managers generally believe a firm will benefit if they can use the firm’s resources to build an integrated performance tracking and measurement system and, if so, whether they believe that such a system is more likely to be the product of trial-and-error rather than the product of good planning. The answers to these questions could provide insight into the kinds of resource-related issues they may need to think about before building such a system. They may also provide even more privileged insights into what managers actually do at their firms to ensure the firm can create customer value on an ongoing basis, including to what extent they differentiate their firms by developing and integrating resources that are not ostensibly that different to those of their competitors.
PART VIII

APPENDICES AND BIBLIOGRAPHY
APPENDIX A: FIELD STUDY QUESTIONNAIRE

Introduction

Each interviewee was given a general description of what the research was about before the interview started.

I explained that I am trying to understand:

1. The processes that firms use to understand their customers;

2. How firms apply what they learn about their customers to develop strategies that deliver value to customers through the firm’s products and services; and

3. The resource and capability combinations which managers believe can create optimising amounts of customer value and positively affect a firm’s overall financial performance.

Each interviewee was asked to consider the questions as they relate to their role in the organisation. This meant that if they have a role in the organisation where they generally need to take a divisional perspective then they should answer the question from a divisional point-of-view, unless the question is about how the firm works generally. In regard to the latter, they were asked to provide a response if they believed they could do so. On the other hand, if the interviewee was in senior management, for instance, a CEO or someone who works in a cross-functional role, then they were asked to take an organisation-wide perspective from the outset.
I. Background Questions

A. What is your role in your firm?
B. Please briefly describe what your role involves?

II. Customer Learning

A. How do you learn about what’s happening in the marketplace?
B. How do you learn about your customers?
C. Do you have processes in place that allow your staff to share what they know about customers with staff from other parts of your firm?
   1. If yes, please describe them.

III. Customer Value Hierarchy

A. Why do you think customers buy your products and services?
B. In a “use-situation”, when customers are consuming your product or while they’re being provided with your services, what value do you think they’re deriving from the product/service that they bought from you?
C. In regard to what your customers want to achieve in their own businesses, how do your products/services help your customers achieve these goals?
D. Of the product/service attributes mentioned, what do you believe attracts customers to your firm’s products and services instead of the products and services of your firm’s competitors?
E. What is your firm’s most important customer segment?
   1. In terms of enabling your firm to attract the highest number of customers in your most important segment, which product/service attributes are the most important?
   2. In terms of enabling your firm to retain the highest number of customers in your most important segment, which product/service attributes are the most important?
F. Does your firm have customers that are more valuable than others?
   1. If yes, please describe who these more valuable customers are.
   2. Is there any difference between what your more valuable
customers expect to receive from purchasing your products and services as compared to your less valuable customers?

3. If yes, please provide a brief overview of what this involves.

4. Is there any difference in how you deliver your products and services to these high value customers, as opposed to your less valuable customers?

5. If yes, please provide a brief overview of what this involves.

6. Which product/service attributes are the most important for attracting these high value customers?

7. Which product/service attributes are the most important for retaining these high value customers?

G. Do any of the product/service attributes you’ve discussed so far make it easier for your customers to cope with changes that have occurred in their own market environment?

H. What do you consider are the most important benefits your firm should concentrate on delivering to its customers through its products and services over the next 2 years?

IV. Customer Value Delivery Strategy

A. How do you try to attract customers?

B. How do you decide which products and services your firm will be providing to its customers?

C. How do you decide which customers are the most important?

D. To what extent do you focus on delivering products and services to customers that help your customers achieve their own business objectives?

E. Are there occasions when you deliberately set out to deliver a lower level of product quality or versatility or even a lower level of service to your customers?

1. If yes, why have you done this?

F. What processes do you have in place for determining how your firm can best deliver value to its customers using the firm’s existing resources and capabilities?
V. Business Unit Level

A. Who is responsible in your firm for deciding which products and services will be delivered to customers?
   1. Why is this function in this (person’s) area of the firm?

B. Who is responsible in your firm for deciding how products and services will be delivered to customers?
   1. Why is this function in this (person’s) area of the firm?

VI. Corporate Level

A. Are there occasions when Top management becomes involved in determining which products and services your firm will deliver to customers?
   1. If yes, why?

B. Are there occasions when Top management becomes involved in determining how your firm will deliver its products and services to customers?
   1. If yes, why?

C. Does your firm use outside organisations to deliver products/services to your customers?
   1. If yes, which external organisations do your firm use?
   2. Why do you use these organisations?
   3. How do you manage these organisations?

D. Are there occasions when Top management becomes involved in determining which outside organisations your firm will use to give the firm access to resources and capabilities that it does not have?
   1. If yes, please describe why they become involved.

VII. Translate into Internal Processes and Tangible Output

A. Which resources in your firm make it possible for your firm to produce the products and services that you sell to your customers?
   1. What has driven the development of these resources over time?

B. Which resources in your firm make it possible for your firm to deliver
products and services to your customers?

1. What has driven the development of these resources over time?

C. Which resources in your firm make it possible for your firm to develop new products and services?

1. What has driven the development of these resources over time?

D. Which resources in your firm make it possible for your firm to enter new markets?

1. What has driven the development of these resources over time?

E. Which resources in your firm make it possible for your firm to use outside organisations to deliver value to your customers?

1. What has driven the development of these resources over time?

Which management capabilities are the most important for your firm?

2. What has driven the development of these management capabilities over time?

Which technical capabilities are the most important for your firm?

3. What has driven the development of these technical capabilities over time?

Which marketing capabilities are the most important for your firm?

4. What has driven the development of these marketing capabilities over time?

F. Thinking about all the capabilities that we’ve discussed so far, including your firm’s managerial, technical and marketing capabilities, do you try to integrate (share) any of these capabilities across the organisation, including across business units, across projects, and with outside organisations?

1. If yes, please provide examples focusing on the more important ones.

2. Why have you attempted to develop these capabilities in other parts of the organisation?

3. Why have you attempted to share these capabilities with outside organisations?

G. How has IT been used to integrate capabilities across the organisation, including across business units, across projects and to link your organisation with outside organisations?
1. Please briefly describe what has driven the development of these integrative capabilities over time.

2. Were these drivers always the same at different times in your firm’s life?

3. If no, please elaborate.

VIII. Implementation

A. Who is responsible for delivering value to your customers once your products/services have been made ready for sale?

1. Why is it in this (person’s) area?

IX. Resource Investment Strategies

A. What resource investments has your firm made in the last 3 years that have allowed your firm to produce products and services that your firm’s customers were willing to buy?

1. Please describe in general terms how much time and money your firm has invested in these resources.

B. Was the success of any of these resource investments contingent upon other resource investments, that is, resources that supported or indirectly made it possible for your firm to produce products and services that your firm’s customers were willing to buy?

1. If yes, please describe them.

C. Of the investments mentioned, what has been the most important customer related resource investments that your firm has made in the last 3 years?

1. Will your firm be reinvesting in any of these resources on an ongoing basis?

2. If yes, why?

D. Is your firm planning to make any new major resource investments?

1. Which ones and why?

2. Are they strongly customer related?

3. If yes, explain in which ways are they strongly customer related?

E. What are the most important capabilities that your firm has developed
internally in the last 3 years

1. Are they strongly customer related?

2. Please describe in general terms how much time and money your firm invested in the development of these capabilities.

3. Will your firm be reinvesting in any of these capabilities, that is, investing in their further development on an ongoing basis?

4. If yes, which ones?

5. Why?

F. Is your firm planning to invest in the development of capabilities that are new to your firm?

1. If yes, which ones and why?

2. Are they strongly customer related?

3. Please describe in general terms how much time and money your firm is likely to expend developing these new capabilities.

G. Are there resources that your firm should be reinvesting in that it will not be reinvesting in?

1. If yes, why won’t it be reinvesting in these resources?

H. Are there capabilities that your firm should be reinvesting in that it will not be reinvesting in?

1. If yes, why won’t it be reinvesting in these?

I. Are there resources that your firm does not have that it should acquire that it will not be acquiring?

1. If yes, why won’t it be acquiring these resources?

J. Are there capabilities that your firm does not have that it should invest time and money developing that it will not be investing in?

1. If yes, why won’t it be investing in these?

X. **Track and Measure Performance**

A. How do you measure the performance of each of the major resource investments that your firm makes throughout the year?

B. How do you measure the performance of initiatives to develop or improve the firm’s capabilities?
C. How do you measure the performance of your firm’s strategy?

D. When you measure the performance of your firm’s strategy do you include measures that take into account whether or not the firm’s most important segment of customers have been satisfied?
   1. If yes, please provide an overview of what this involves.

E. When you measure the performance of your firm’s strategy do you include measures that take into account whether the firm’s most valuable customers have been satisfied?
   1. If yes, please provide an overview of what this involves.

F. How do you measure the performance of your business partners?
   1. Over what periods of time do you measure them?

XI. Customer Value Learning-Resource Investment Process

A. What is the relationship between your firm’s customer learning processes and your firm’s resource allocation processes?

B. How does your firm determine or justify how it will apply its funds/use its budget to support ongoing and new customer value creation initiatives?
   1. What principles/investment criteria does it apply?

C. Does your firm expect its managers to document their funding requests by way of a business case, budget submission, business justification, business plan or another such document?
   1. If yes, please describe what customer related information should be included in this documentation to enable the release of funds.
   2. Are there any significant differences between the various forms of documentation that your firm uses to justify funding requests?
   3. If yes, please describe them.

D. How does your firm track the performance of its resource and capability investments?
   1. Is this performance tracking process embedded in your organisation as a formal process?

E. Is it important for your firm to track the performance of its individual resource and capability investments from the perspective of whether they have led to your firm’s most important segment of customers being satisfied?
1. If not, why not.

2. If yes, please provide a short overview of what this involves.

F. Is it important for your firm to track the performance of its individual resource and capability investments from the perspective of whether they have led to your firm’s most valuable customers being fully satisfied?

1. If not, why not.

2. If yes, please provide a short overview of what this involves.

G. Does your firm bring what it learns about customers’ values to its formal strategic planning process?

1. If not, why doesn’t your firm use what it learns about customers’ values to enhance its strategic planning process?

2. Provide an overview of what your firm does instead.

3. If yes, please provide a short overview of what this involves.

XII. Causal Link between Customer Value, Type of Investment and Firm Performance

A. On a scale of 1-10 how successfully has your firm satisfied its customers, with 1 representing “our customers are not at all satisfied and we would be surprised if we retained any of them” and 10 representing “our customers are extremely satisfied and we expect all of our customers to continue to use us”?

| 1 | 10 |

Our customers are not at all satisfied and we would be surprised if we retained any of them

Our customers are extremely satisfied and we expect all of our customers to continue to use us

1. Which resource and capability investments have contributed the most to this result?

B. On a scale of 1-10 how successfully has your firm made it possible for its customers to cope with changes in their own market environment, with 1 representing “we have not been at all successful at providing our customers with products and services that make it possible for them to cope with changes in their own market environment” and 10 representing “we have been very successful at providing our customers with products and services that make it possible for them to cope with changes in their
own market environment”?

We have not been at all successful at providing our customers with products and services that make it possible for them to cope with changes in their own market environment.

We have been very successful at providing our customers with products and services that make it possible for them to cope with changes in their own market environment.

1. Which resource and capability investments have contributed the most to this result?

C. On a scale of 1-10 how profitable has your firm been, with 1 representing “we have not been at all profitable and would describe our firm as one of the least profitable firms in our industry” and 10 representing “we have been extremely profitable and we would describe our firm as one of the most profitable firms in our industry”?

We have not been at all profitable and would describe our firm as one of the least profitable firms in our industry.

We have been extremely profitable and would describe our firm as one of the most profitable firms in our industry.

1. Which resource and capability investments have contributed the most to this result?

2. Which of these resource and capability investments do you believe will contribute to your firm’s profitability in a significant way in the future?

3. Are there any resource or capability investments that your firm has made that you have not mentioned which you believe will eventually contribute to your firm’s profitability in a significant way in the future?
SUPPLEMENTARY DEFINITIONS

During the pilot study, it was determined that some interviewees could find it difficult to answer some questions unless the terminology used in those questions was defined further. As a result, definitions were put together based on the extant literature and in consultation with the pilot study participants. Some examples of these terms were also put together based on the extant literature and in consultation with the pilot study participants.

The definitions and examples were placed in plastic sleeves in a folder, and read out to customers when required during the interview. The interviewees were also allowed to view the definition in the folder, which was printed in large, easy to read print. The interviewees were told that these definitions were made available to help them answer questions but if they preferred to use their own definition, then they should, provided they explained why they preferred their own definition. Any discrepancies between the interviewees’ definitions and the ones provided were highlighted in the interview notes.

Definition of Resources: Resources are the tangible and intangible financial, physical, human, technological and organisational assets that a firm uses to develop, produce, modify, improve and deliver its products and services to its customers.

Examples of Assets:

    Financial Resources: A firm’s cash reserves, a realised capital gain, goodwill that has accrued to the firm and the possession of a low credit-risk rating.

    Physical Resources: A firm’s plant and equipment, its product/service distribution outlets, its physical inventory, its buildings and its geographic location.

    Human Resources: A firm’s people, employees’ training, experience, technical expertise, ability to make sound commercial decisions and/or develop useful or
potentially useful business relationships.

*Technological Resources:* A firm’s technology-driven production or communication infrastructure, and its proprietary knowledge, including its patents, license agreements, blueprints, and manuals.

*Organisational Resources:* A firm’s formal reporting structure, its formal and informal planning, controlling and coordinating systems, as well as formal and informal relations among groups within the firm and with other firms.

**Definition of Capabilities:** Capabilities are the firm’s *capacity* to combine, assemble and deploy its *assets* using pre-determined protocols, activities, routines, processes and the skills of its employees to make products and services that are a source of profits to the firm available to its customers.

**Definition of Management Capabilities:** Management capabilities are those that:

◊ Enable the firm to organise and deploy its resources/assets with the objective of producing products and services that the firm’s customers will buy, and

◊ Enable the firm to develop protocols, routines and processes to:

  * Make the firm more efficient,

  * Use people effectively,

  * Lead to the intelligent evaluation of the firm’s overall performance,

  * Identify the products and services that the firm should be producing in the future, and

  * Set the strategic direction of the firm.
**Definition of Technical Capabilities:** Technical capabilities are those that enable the firm to create, produce and provide products and services that perform for customers in customer “use situations”. That is, they enable the firm to:

- Create, produce and provide products and services that comply to certain standards, and which
- Possess other specifiable characteristics that customers could believe justifies the price paid by them, as signified by the fulfilment or potential fulfilment of the need that prompted the customer to consider purchasing the firm’s products/services in the first place.

**Definition of Marketing Capabilities:** Marketing capabilities are those capabilities that:

- Enable the firm to sell the firm’s products and services to its customers,
- Position the firm’s products and services in relation to those products and services that are offered by the firm’s competitors,
- Promote the firm externally to all the firm’s customers, potential customers and other stakeholders,
- Promote the firm and its products and services internally to all the firm’s employees, and
- Identify suitable channels to market and then manage these channels to market to ensure the effective delivery of products and services to customers.

**Integrative/Dynamic Capabilities:** Integrative or dynamic capabilities are a firm’s processes for developing new products, its ability to use its customer relationship management system effectively and across the whole organisation, develop processes
that promote innovation within the organisation, adapt or design new system processes in response to market change, share knowledge, including effective work practices and other processes across the whole organisation. They allow firms to identify and cope with change in the market environment.

**Definition of Markets:** Markets are defined as the competitive domain in which a particular product or service or a combination of products and services have been made available by prospective transacting parties as a result of prior supplier and customer interactions.

**Entering New Markets:** This includes offering new products & services to existing customers, or offering the firm’s existing or new products & services to customers in segments that are new to the firm, including customers in geographic regions that the firm has not dealt with previously.
# APPENDIX B: Table A

<table>
<thead>
<tr>
<th>Firm</th>
<th>Type of Product/Service:</th>
<th>Defining Characteristics of the Seven Accounting Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Full service, second tier</td>
<td> Small-to-medium sized firms</td>
</tr>
<tr>
<td></td>
<td></td>
<td> Firms that were interested in using the firm’s</td>
</tr>
<tr>
<td></td>
<td></td>
<td>specialist accounting &amp; audit, and IT services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Australia, 15+ years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>650 staff, 5 offices</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td></td>
</tr>
</tbody>
</table>

| B    | Full service, second tier | Government or semi-government, including local councils and universities |
|      |                          | Firms that were interested in using the firm’s specialist accounting & audit services |
|      |                          | Australia, 80+ years                                    |
|      |                          | 550 staff, 30 offices                                    |
|      | Partnership              |                                                       |

| C    | Full service, second tier | Small-to-medium sized firms                            |
|      |                          | Customers who wanted management consulting services    |
|      |                          | Firms in automotive manufacturing and in service industries, including health and retail |
|      |                          | Australia, 100+ years                                    |
|      |                          | 550 staff, 5 offices                                    |
|      | Partnership              |                                                       |

| D    | Full service, second tier | Small-to-medium sized firms                            |
|      |                          | Australia, 10+ years                                    |
|      |                          | 250 staff, 5 offices                                    |
|      | Partnership              |                                                       |

---

11 Staff numbers for all firms in this study were rounded up and down to 50 increments to ensure exact numbers and, thus, identity of firms would remain indeterminate.

12 Figures were rounded up/down for all the firms in this study by increments of 5 to ensure identity remains indeterminate.
### Table A:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Type of Product/Service:</th>
<th>Most Important Customer Group:</th>
<th>Established:</th>
<th>Approximate size of firm 2004, Number of Offices:</th>
<th>Legal Structure:</th>
</tr>
</thead>
</table>
| E    | Full service, global services of a large multinational | - Top ASX 100 listed firms  
- Sydney and Melbourne markets  
- Customers who want assurance services, auditing, taxation and consulting services  
- Customers who need a combination of compliance and non-compliance services  
- Customers in key industries, including telecommunications, financial services, energy, mining and consumer markets | United States, 100+ years, with strong Australian presence for 15+ years | >1,000 staff, 10 offices | Partnership |
| F    | Full service, second tier | - Government  
- Large private and small listed firms  
- Customers who need accounting services  
- In financial services, retirees and large private firms  
- In insolvency, lawyers and referring accountants  
- In management consulting, customers from any business segment requiring management consulting services | Australia, 35 years | 400 staff, 10 offices | Partnership |
| G    | Accounting practice consolidator; full service second tier | - Small-to-medium sized firms  
- Firms that require superannuation and financial services | Australia, 6+ years, although in receivership for 3+ years | 1,200 staff, 70 offices | Incorporated; listed on the Australian Stock Exchange (ASX), delisted after 6 years |

13 Since few firms providing services to Top 500 firms, the identity of this firm has been disguised by not providing an exact number and indicating that the firm has more than 1,000 employees.
### APPENDIX C: Table B

<table>
<thead>
<tr>
<th>Firm</th>
<th>Defining Characteristics of the Seven Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>Type of Product/Service: ASX compliant, stockmarket transaction software products, developer and integrator services&lt;br&gt;Most Important Customer Group: Large stockbroking firms, Institutional investors&lt;br&gt;Established: Australia, 20+ years&lt;br&gt;Approximate size of firm 2004, Number of Offices: 125 employees; 1 principal place of business; sales outlets in other states and New Zealand&lt;br&gt;Legal Structure: At the time of interview this firm was private. Listed on the ASX 2 years after the interviews took place</td>
</tr>
<tr>
<td>I</td>
<td>Type of Product/Service: Business and accounting software developer &amp; distributor&lt;br&gt;Most Important Customer Group: Small-to-medium sized firms, High net worth individuals, Accountants who recommend the software to their own customers&lt;br&gt;Established: Australia, 15+ years&lt;br&gt;Approximate size of firm 2004, Number of Offices: 180 employees; 1 principal place of business; and offices in New Zealand and the United Kingdom&lt;br&gt;Legal Structure: Incorporated; listed on the ASX</td>
</tr>
<tr>
<td>J</td>
<td>Type of Product/Service: Total business enterprise solutions, security software developer and integrator&lt;br&gt;Most Important Customer Group: Government, Customers who have previously bought software solutions and want to build on them, including large organisations in government, finance, education, telecommunications and utilities&lt;br&gt;Established: US, with Australian office serving the whole Asia Pacific region, 20+ years&lt;br&gt;Approximate size of firm 2004, Number of Offices: 4,000 employees worldwide, 330 employees in Australia; 1 office in Australia and branches in the South Pacific&lt;br&gt;Legal Structure: Listed in the United States</td>
</tr>
<tr>
<td>K</td>
<td>Type of Product/Service: Motor racing software game developer&lt;br&gt;Most Important Customer Group: Publishers who commission games, End-users who like racing games&lt;br&gt;Established: Australia, 10+ years&lt;br&gt;Approximate size of firm 2004, Number of Offices: 60 employees, 1 office</td>
</tr>
</tbody>
</table>

---

14 Staff numbers for all the software engineering firms in this study were rounded up and down to 50 increments to ensure exact numbers and, thus, identity of firms would remain indeterminate.

15 Rounded up/down by increments of 5 for all the software engineering firms to ensure identity remains indeterminate.
<table>
<thead>
<tr>
<th>Firm</th>
<th>Defining Characteristics of the Seven Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>L</td>
<td><strong>Legal Structure:</strong> Privately owned, incorporated firm</td>
</tr>
<tr>
<td></td>
<td><strong>Type of Product/Service:</strong> Health sector software developer &amp; medical knowledge service provider</td>
</tr>
<tr>
<td></td>
<td><strong>Most Important Customer Group:</strong></td>
</tr>
<tr>
<td></td>
<td>- Doctors in public practice</td>
</tr>
<tr>
<td></td>
<td>- Governmental organisations, especially hospitals</td>
</tr>
<tr>
<td></td>
<td><strong>Established:</strong> Australia, 10+ years</td>
</tr>
<tr>
<td></td>
<td><strong>Approximate size of firm 2004, Number of Offices:</strong> 153 employees, 1 principal and one customer support office in another state</td>
</tr>
<tr>
<td></td>
<td><strong>Legal Structure:</strong> Incorporated; listed on the ASX</td>
</tr>
<tr>
<td>M</td>
<td><strong>Type of Product/Service:</strong> Website development and design</td>
</tr>
<tr>
<td></td>
<td><strong>Most Important Customer Group:</strong></td>
</tr>
<tr>
<td></td>
<td>- Large enterprise partners who can on-sell the firm’s website products and services</td>
</tr>
<tr>
<td></td>
<td>- Small-to-medium sized end users</td>
</tr>
<tr>
<td></td>
<td><strong>Established:</strong> Australia, 5+ years</td>
</tr>
<tr>
<td></td>
<td><strong>Approximate size of firm 2004, Number of Offices:</strong> 30 employees, 1 office (shared with Firm N) and some staff based in New Zealand</td>
</tr>
<tr>
<td></td>
<td><strong>Legal Structure:</strong> Privately owned incorporated firm</td>
</tr>
<tr>
<td>N</td>
<td><strong>Type of Product/Service:</strong> Dynamic trading portal service provider</td>
</tr>
<tr>
<td></td>
<td><strong>Most Important Customer Group:</strong></td>
</tr>
<tr>
<td></td>
<td>- Firms in the hospitality industry</td>
</tr>
<tr>
<td></td>
<td><strong>Established:</strong> Australia, 5+ years</td>
</tr>
<tr>
<td></td>
<td><strong>Approximate size of firm 2004, Number of Offices:</strong> 8 employees, 1 office (shared with Firm M)</td>
</tr>
<tr>
<td></td>
<td><strong>Legal Structure:</strong> Privately owned incorporated firm</td>
</tr>
</tbody>
</table>
Table C

Dynamic and Operational Managerial Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Dynamic Managerial Capabilities</th>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Service Attributes</td>
<td>Customers’ Desired Use Consequences</td>
<td>Customers’ Goals and Purposes</td>
</tr>
<tr>
<td>Strategic analysis and planning skills</td>
<td>Strategic analysis and planning skills</td>
<td>Disciplined business case evaluation processes</td>
</tr>
<tr>
<td>Resource management processes</td>
<td>Organisational design capabilities</td>
<td>Ability to form functional teams to help solve customers’ more complex problems</td>
</tr>
<tr>
<td>Ability to form cross-functional teams to help solve customers’ more complex problems</td>
<td>Performance management processes which enable goal setting and efficient delivery</td>
<td>Ability to change focus as the market changes</td>
</tr>
</tbody>
</table>
Table C
Dynamic and Operational Managerial Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational Managerial Capabilities</strong></td>
<td><strong>Operational Managerial Capabilities</strong></td>
</tr>
<tr>
<td>Product and Service Attributes</td>
<td>Customers’ Desired Use Consequences</td>
</tr>
<tr>
<td>● Budgeting and financial management skills</td>
<td>● Budgeting and financial management skills</td>
</tr>
<tr>
<td>● Ability to identify how people need to work at the firm to achieve its objectives</td>
<td>● People leadership and team development skills</td>
</tr>
<tr>
<td>● Processes for recruiting and retaining good people</td>
<td>● Ability to communicate effectively with customers</td>
</tr>
<tr>
<td>● Knowledge management and knowledge transfer capabilities</td>
<td>● Ability to communicate effectively internally</td>
</tr>
<tr>
<td>● Performance management processes which can stimulate the development of new products and other innovations</td>
<td>● Resource management processes</td>
</tr>
<tr>
<td>● Formal and informal meeting structures and protocols</td>
<td>● Ability to supervise, develop and mentor junior staff</td>
</tr>
<tr>
<td></td>
<td>● Ability to identify the right person for the job</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table C
Dynamic and Operational Managerial Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Product and Service Attributes</th>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customers’ Desired Use Consequences</td>
<td>Customers’ Goals and Purposes</td>
</tr>
<tr>
<td></td>
<td>Knowledge management and knowledge transfer capabilities</td>
<td>Protocols in place for senior managers to mentor junior staff</td>
</tr>
</tbody>
</table>
Table D
Dynamic and Operational Technical Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dynamic Technical Capabilities</strong></td>
<td><strong>Dynamic Technical Capabilities</strong></td>
</tr>
<tr>
<td>• Ability to understand market trends</td>
<td>• Software development and release processes</td>
</tr>
<tr>
<td>• Ability to understand the implications of regulatory changes</td>
<td>• Processes to gather and manage business requirements</td>
</tr>
<tr>
<td>• Have developed templates and standard methodologies for conducting accounting, auditing or business consultancy assignments</td>
<td>• Ability to effectively price products and services</td>
</tr>
<tr>
<td>• Ability to successfully respond to tenders</td>
<td>• Ability to localise products, and/or understand the local legislative environment</td>
</tr>
<tr>
<td></td>
<td>• Ability to translate research into new products and services</td>
</tr>
<tr>
<td></td>
<td>• Ability to identify suitable business partners and outsource work to outside firms</td>
</tr>
<tr>
<td></td>
<td>• Policies and procedures in place to analyse customers’ needs</td>
</tr>
<tr>
<td></td>
<td>• Have developed templates and standard methodologies for developing software</td>
</tr>
<tr>
<td></td>
<td>• Protocols and processes in place for successfully responding to tenders</td>
</tr>
</tbody>
</table>
## Table D
Dynamic and Operational Technical Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Technical Operational Capabilities</th>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Service Attributes</td>
<td>Customers’ Desired Use Consequences</td>
<td>Customers’ Desired Use Consequences</td>
</tr>
<tr>
<td>Ability to communicate technical information in easy to understand terms</td>
<td>Ability to communicate technical information in easy to understand terms</td>
<td>Ability to communicate technical information in easy to understand terms</td>
</tr>
<tr>
<td>Ability to solve complex business problems</td>
<td>Analytical, technological, financial and risk assessment skills</td>
<td>Ability to develop turnkey, shrink-wrapped packaged or enterprise-wide solutions</td>
</tr>
<tr>
<td>Ability to provide compliance solutions</td>
<td>Ability to develop core or standard products and build on them</td>
<td>Ability to integrate software systems and other business processes</td>
</tr>
<tr>
<td>Ability to develop core or standard products and build on them</td>
<td>Ability to communicate technical information in easy to understand terms</td>
<td>Ability to integrate and improve the firm’s own systems</td>
</tr>
<tr>
<td>Analytical, technological, financial and risk assessment skills</td>
<td>Ability to develop turnkey, shrink-wrapped packaged or enterprise-wide solutions</td>
<td>Analytical skills, including an ability to analyse different kinds of reports</td>
</tr>
<tr>
<td>Ability to integrate and improve the firm’s own systems</td>
<td>Ability to integrate software solutions if required</td>
<td>Analytical and risk assessments skills</td>
</tr>
</tbody>
</table>
Table E
Dynamic and Operational Marketing Capabilities Required to Deliver the
Three Customer Value Dimensions at the Accounting and Software Engineering Firms

<table>
<thead>
<tr>
<th>Dynamic Marketing Capabilities</th>
<th>Accounting Firms</th>
<th>Software Engineering Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Service Attributes</td>
<td>Customers’ Desired Use Consequences</td>
<td>Customers’ Goals and Purposes</td>
</tr>
<tr>
<td>Ability to focus on customers’ needs</td>
<td>Ability to access and use CRM database or an equivalent database</td>
<td>Ability to understand customers and their problems</td>
</tr>
<tr>
<td>Ability to bundle disparate products/services</td>
<td>Brand/product positioning skills</td>
<td>Ability to develop strategies that develop interest in the firm’s products/services and help the firm to acquire new customers</td>
</tr>
<tr>
<td>Customer’s Desired Use Consequences</td>
<td>Marketing Operational Capabilities</td>
<td>Relationship management capabilities</td>
</tr>
<tr>
<td>Ability to access and use CRM database or an equivalent database</td>
<td>Marketing and/or business development skills</td>
<td>Ability to leverage off jobs successfully completed</td>
</tr>
<tr>
<td>Ability to develop strategies that develop interest in the firm’s products/services and help the firm to acquire new customers</td>
<td>Ability to use IT to complement customer interactions</td>
<td>Ability to leverage off jobs successfully completed</td>
</tr>
<tr>
<td>Customer’s Goals and Purposes</td>
<td>Business development skills</td>
<td>Relationship building capabilities</td>
</tr>
<tr>
<td>Ability to access and use CRM database or an equivalent database</td>
<td>Processes established to cross-sell products/services</td>
<td>Relationship building capabilities</td>
</tr>
</tbody>
</table>

424
BIBLIOGRAPHY


integrated view of resource investments and the incremental-choice process. 
38. Brews, P.J. and Hunt, M.R. 1999. Learning to plan and planning to learn: 
Resolving the Planning School/Learning School debate. _Strategic 
Hitt, M.A., Freeman, R.E. and Harrison, J.S., (Eds.) _The Blackwell Handbook 
22(27): 84-85.
42. --- 2002/2003. Top 100 Accounting Firms. 25(27): 66-72
44. Burgelman, R.A. 1983. A process model of internal corporate venturing in the 
diversified major firm. _Administrative Science Quarterly_, 28: 223-244.
45. Burgelman, R. A. 2005. The role of strategy making. In Bower, J.L. and 
Gilbert, C.G. _From Resource Allocation to Strategy_. 38-70. New York: 
Oxford University Press.
strategic advantage. _Organizational Dynamics_, 24(3): 63-78.
48. Campbell-Hunt, C. 2000. What have we learned from generic competitive 


100. Ghoshal, S. and Bartlett, C.A. 1994. Linking organizational context and


134. Johnson, D.R. and Hoopes, D.G. 2003. Managerial cognition, sunk costs, and


15: 85-100.


