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
  2.5 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
  3.4 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
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
ABSTRACT

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

x
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.