

VALUE CAPTURE AND APPROPRIATION: THE CONSTRUCT AND ITS OPERATIONALIZATION

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Abstract

There is no agreement in understanding and defining the value creation and appropriation mechanisms. Moreover, the construct is often analysed in isolation, without looking at its antecedents and outcomes. At the same time, literature calls for researching motives and possibilities of value capturing mechanisms, and particularly for extending the research models with entrepreneurial processes (Fischer 2011), contextual factors and performance (James, et. al. 2013). This paper seeks to address the cognitive gap by focusing on the need of analysing the relations between entrepreneurship as the source of value, value creation and appropriation mechanisms, linking them with organization's results. First, theoretical underpinnings of the value creation and value appropriation processes are presented. Then, basing on the literature review, we offer a list of action-based VCA issues, and provide a proposition of the measurement scale. Some implications for future research concerning the VCA are given, and the model is offered.

Keywords: Value creation, value appropriation, entrepreneurship, performance, questionnaire

Topic Groups: Business strategy, entrepreneurship, research methods

INTRODUCTION

Due to different understanding of the value creation and appropriation or capture (VCA) mechanisms, there is no consensus on how to build the VCA construct. It is typically presented within the resource-based view and the role of resources and dynamic capabilities is stressed. This paper seeks to offer some recent theoretical basis for discussing the value creation and capture mechanisms. Basing on the review, we made a list of VCA most frequent issues, and – with the help of managers – translated them into a short measurement scale. We argue, that the construct of value creation and appropriation cannot be analysed separately.

Thus, we propose to look at the entrepreneurship as the source of value creation, and firm performance, as the measurement of the organisation's ability to capture the value created¹.

THEORETICAL UNDERPINNINGS OF VALUE CREATION AND APPROPRIATION

As the literature suggests, there is no agreement in understanding and defining value creating processes in organizations (Lepak et al. 2007). This derives from the fact, that value represents different concepts for various stakeholders. Organization that attempts to meet its investor and stakeholder expectations functions both as a customer and a supplier, therefore the motives for value creation might be different, often contradictory. Therefore, it is important to apply the more complex perspective to the discussion about value creation and appropriation, and assess what are the expectations of particular groups of stakeholders and what importance it bears for value creating processes as well as for reaching above-average results by the organizations (Afuah 2000).

Value creation is typically analysed within the resource-based view, where the important role of developing or taking over dynamic capabilities is stressed (Peteraf & Barney, 2003, Livengood & Reger, 2010, Blyler & Coff 2003), in relation to higher performance (Helfat 1997) and with contextual factors responsible for strengthening the dynamic capabilities-value creation link (Ethiraj, Kale, Krishnan, Singh 2005). Creating value based on valuable, rare, hard to imitate and non-substitutable resources (Talaja 2012) is defined as a difference between the willingness to pay (the highest value the end user is able to pay) and the cost of opportunity taking (lowest price the supplier sells their resources for, Brandenburger & Stuart 1996). Value creation is also defined as a difference between willingness to pay and the level of use value and exchange value (Bowman, Ambrosini, 2000). Consequently, increase in the use value (e.g. perception of the customer) translates into organization's value creation, and the increase in exchange value influences the value capture by stakeholders with high purchasing power.

Value creation processes from the resource-based view are often described in relation to innovativeness (Balka, Raasch, Herstatt 2014, Cooper 2011, Fischer 2011). Even the most effectively developed innovation will not increase the outcomes, if the entrepreneurial organizations are not able to protect (capture and appropriate) or to increase (take over) significant part of the value created. Recent research points out, that it is enough for organizations to be creative and strategically support the processes of innovativeness and entrepreneurship in order to reach above-average performance (Bilton & Cummings 2010). However, entrepreneurial organizations are not always competitive, as part of their value is captured by other stakeholders or competitors. Therefore, a call for holistic innovations implementation has been made, covering not just new product or service development, but also changes in the business models, strategies, value building for customers, managerial processes, developing rules for rent appropriation from innovation (Venkatraman & Henderson 2008). Optimal level of value creation depends on proper entrepreneurial management, particularly in the context of motivating organization members to take opportunities and reach shared goals (Lindenberg & Foss, 2011). In order to stimulate that

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motivation, value creation and reaching above-average results cannot be a goal communicated itself, since it decreases motivation. Value creation processes and above-average performance are reached naturally, when other goals are communicated as priorities (e.g. entrepreneurial attitude, long-term development, innovativeness, high-level customer service (Foss, Lindenberg 2013).

Value appropriation or capture is a significant construct usually accompanying value creation (Chatain, Zemsky 2011, Priem, Swink 2012; Kivleniece, Quelin 2012, Bowman & Ambrosini 2000). It is defined as a main objective of the competition strategies (Chen & Miller 2015). Value capture depends on the position, purchasing power and dependencies between stakeholders (Skilton 2014). Some enterprises are capable of capturing more value than the others, although they create less value. This led to an interest in extending the resource-based perspective with the assessing the ability of using resources in a way outperforming the stakeholders (Barney & Arian 2001). Consequently, the interest of scholars was focused on researching the ability of top management to proper coordinating, bundling and deploying resources in order to capture most of the created value (Morrow, Sirmon, Hitt, Holcomb 2007, Sirmon, Hitt, Ireland 2007). Empirical data reveals, that for example in the video games and console production sector, the producer captures 20% of the created value, while software developer and publisher takes 40 %, and the distributor and retail seller 10% and 30% respectively (Johns, 2005). Looking at Apple one can say, that the company captures majority of the value created. Components are produced in Asian markets, but due to keeping core functions in-house (design, use value, marketing, software development, product portfolio management, supply chain control) the company has the power of taking over part of the value from its sellers (Kraemer, Linden, Dedrick 2008). The ability to capture a lot of value created depends not only on the purchasing power, stakeholder dependency, supply chain control, but also on the nature of resources possessed or controlled (Stevenson, Jarillo, 1990). Creating value in entrepreneurial processes requires using of intangible resources (Molodchik 2011) as well as complementary resources. Of particular importance are resources required for commercializing innovation such as production feasibility, technology, distribution channels, customer service, brand reputation, expert knowledge (Fischer 2011). Complementary resources constitute appropriation mechanisms that make it possible for organizations to capture the value created. Among other appropriation mechanisms are operations time, patents, open licensing (West 2007), secrecy, lead time, priority on the market (James et al. 2013, Fischer 2011).

There are some attempts made to identify the quantitative models for value creation and value capture in the financial perspective – a recent proposition offers to analyse the relation between stream of revenues and sum of all the payments made to stakeholders as a value captured (Lieberman, Balasubramanian, Garcia-Castro 2013). There are also some recommendations made for developing value increase mechanisms, particularly from the marketing perspective: (a) changing the price setting mechanisms, (b) changing the payer, (c) changing factors increasing the price, (d) assuring future revenue streams. There are no recommendations for using value capture mechanisms depending on the level of organizational entrepreneurship and its dimensions in the context of reaching above-average results.

Recent research results indicate that the level of competition influences the value sharing processes between distributors and buyers in some particular sectors. Among factors making it possible to capture the value created are resources, organizational capabilities, expert

knowledge, specialist knowledge valuable for customers, social capital building, long-term relations with customers, competition between distributors, focusing on end-user needs. Increase in the value created and the level of value captured depends on strategic interactions with other companies (Chatain, 2010). Another research carried out recently in the Spanish banking sector after the financial crisis reveals that difficult economic situation became an opportunity to increase the knowledge management processes, which in turn increased the value creation and value capture (Martelo-Iandroguez, Cepeda-Carrion 2014). Overall, scholars indicate that the choice of value creation and value capture strategy is influenced by: (a) institutional environment (legal regulations, patent law, differences between countries), (b) sector competitive dynamics, (c) company characteristics (scale and scope of R&D, size, ability to manage patent procedures), (d) technology (complexity, implicit knowledge, structure, James et al. 2013, p. 1125).

OPERATIONALIZATION OF THE VALUE CREATION AND APPROPRIATION PROCESSES

Following the literature review presented above, we attempted to carry out content analysis and to identify the most frequent action-based research issues that appear when discussing the value creation and value appropriation processes. The issues we came up with are presented in Table 1.

Table 1: The most frequent issues concerning value creation and appropriation in the literature

Is value in an organization created mainly owing to new ideas, inventions, innovations, R&D, or rather on the basis of key competences, unique organizational plan, business model, workforce selection and training mechanisms?
Is an organization able to determine precisely which operational measures in the value chain, supply chain or industry value chain translate into highest profits (profit margin, rate of return)?
Does an organization obtain value from hidden resources rooted in the organization itself or cooperation networks, that are difficult to identify, or socially complex resources that are difficult to copy by other organizations (e.g. organizational creativity, flexible attitudes, improvisation, informal networks of relationships, politicking)?
Is an organization capable of creating high value in the short term owing to innovativeness, reduced cycle time, first-mover advantage, reduced product life cycle, key competences, or rather as a result of acquiring resources that are rare, valuable or hard to replicate in a given period of time?
Does an organization capture value mainly in the process of following solutions that have been already tested by competitors? Is there a significant competition from other organizations able to copy solutions, innovations, ideas or business model in the short term, thus seizing the organization's market share?
Do external stakeholders, owing to their knowledge of products or their high bargaining power, manage to take over a significant part of the value created (e.g. the know-how, solutions and ideas, part of profits, higher price enforced on further intermediaries)?
Has an organization achieved a high bargaining power with respect to its key stakeholders (competitors, customers, suppliers, recipients), which, in effect, drives alternative costs related to their value capture too high?

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(ABSRC 2015 Milan)
December 10-11, 2015, Milan, Italy**

Do managers elaborate and introduce specific efforts aimed at reducing employee turnover and increasing employee involvement?
Does a considerable part of the value created get retained in an organization thanks to protective measures such as patents and intellectual property rights, non-disclosure and non-compete agreements, growing participant commitment, long-term employment contracts, etc.?
Does an organization have in place strategic control points, that is income protection measures that protect the stream of profits generated by a business model, acting as a counterbalance to actions taken by competitors, customers, employees, recipients, suppliers, etc.?
Does an organization protect its income in at least one way, e.g. through the elaborated standards, super dominant position in many product categories, brand, reputation, product cycle time advantage)?
In the process of implementing its strategy, does an organization turn to effective collaboration, strategic alliances, joint-ventures, outsourcing of non-value adding activities and partnerships in order to obtain specialized complementary assets (e.g. opportunities to commercialize an innovative technology on a large scale) or to obtain larger value from the existing resources?

This list was further sent to 20 top managers from the randomly selected competitive businesses operating in Poland. By means of validity testing, we attempted to figure out which issues are most associated by managers with value creation and value appropriation (capture) mechanisms of their organisations. After a number of rounds, a comprehensive set of seven issues was selected, that all managers indicated and agreed to, as representing the value creation and appropriation processes. We decided to translate these issues into questionnaire statements that will be assessed by top managers on the seven-point Likert scale. The final set of statements is presented in Table 2.

Table 2: Value creation and appropriation measurement tool proposition

Our organization:

1. Possesses high bargaining power in relation to its stakeholders (competitors, customers, suppliers, buyers, etc.) thanks to which it is able to retain the value created.	1	2	3	4	5	6	7
2. Captures the value created through protection mechanisms such as patents, intellectual property rights, secrecy, lead time, security mechanisms, employee involvement, non-compete agreements, long-term work contracts increasing loyalty.	1	2	3	4	5	6	7
3. Appropriates value through observing solutions and good practices tested by competition, together with fast implementation in-house.	1	2	3	4	5	6	7
4. Operates in high-competitive environment, where the competition is able to imitate in relatively short time our solutions, innovations, ideas, business model. Our competitors take large part of our market share.	1	2	3	4	5	6	7
5. Loses significant part of the created value because of high bargaining power of suppliers.	1	2	3	4	5	6	7

6. Loses significant part of the created value because of high bargaining power of buyers.	1	2	3	4	5	6	7
7. Can be characterized by the fact, that our employees capture significant part of the created value.	1	2	3	4	5	6	7

The presented scale is a result of a) collecting the questions and challenges that appear in the literature in relation to value creation and appropriation processes and mechanisms, b) translating these issues into actions, c) reducing these actions into a set of questionnaire statements. Of course the tool is not complete or exhaustive, and will have to be tested in empirical research first, in order to prove its usefulness. However, as we present in the next part of the paper, our research intent is to indicate relations between the entrepreneurship as the source of value creating processes, VCA and performance. As long, as there are available measurement scales and surveys for assessing entrepreneurship (e.g. entrepreneurial orientation, Lumpkin & Dess 1996) and performance (e.g. subjective performance measurement scale, Antoncic & Hisrich 2003), we did not find many tools measuring value creation and capture (see Fischer 2011), which cover the actions we identified in the literature. The offered tool will be a part of larger questionnaire, seeking the relations between indicated constructs.

TOWARDS MORE COMPREHENSIVE MODEL OF VALUE CREATION AND APPROPRIATION

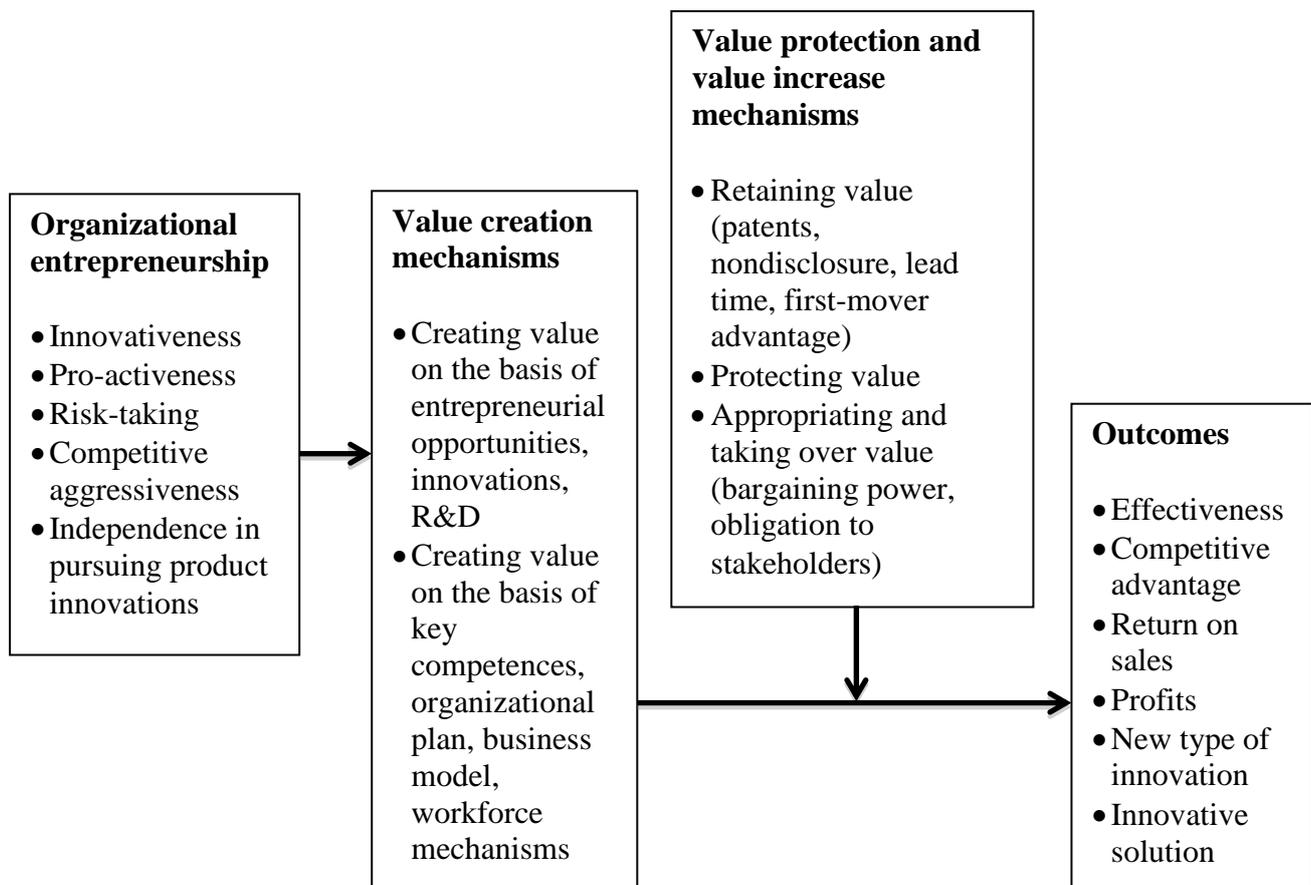
In the management science literature there are models identifying partial relations between constructs. There is a variety of research concerning relations between entrepreneurship and performance (Lumpkin, Dess 1996; Rauch, Wiklund, Lumpkin 2009, Zahra, Jennings, Kuratko 1999), innovativeness and performance (Rass, Dumbach, Danzinger, Bullinger i Möslein 2013), innovativeness and value creation (Cooper 2011), value creation and social entrepreneurship (Agafonow 2013), entrepreneurship and value appropriation (Alvarez & Barney 2004), value creation and value capture (Chatain, Zemsky 2011, Priem, Swink 2012; Kivleniece, Quelin 2012), value creation, competitiveness and effectiveness (MacDonald, Ryall 2004), value creation and strategic relationships (Subramanian, Vincente-Portes, Xia 2013), strategy and value creation (Foss, Lindenberg 2013), complementary assets and value capture (Grimpe, Hussinger 2013), value creation, value capture and destroying value (Bowman, Ambrosini 2000) or value creation while avoiding its destroying (Gauthier 2014). To-date however, there is no comprehensive research offering a comprehensive model taking into consideration complex relations between the presented constructs. Particularly, while the attention is paid to innovativeness as a dimension of entrepreneurship (Miller 1983), and a lot of research focuses on the link between the level of innovativeness and performance (Cooper 2011), not much discussion is going on about the moderating role of value capture mechanisms that influence this relation. It is important to focus not just on the value creation in the process of entrepreneurship, and its relations with performance, but also on the influence of value capture and appropriation mechanism and strategies determining the amount of value that stays in the organization and results in above-average outcomes (high performance, competitive advantage, organization's redesign, new innovations, subjective measures of performance etc., see Antoncic & Hisrich, 2003; Alvarez & Barney, 2004).

The link between entrepreneurship and performance seems natural, particularly from the innovativeness perspective, being one of the entrepreneurship dimensions (Miller, 1983). However, the innovation itself does not create value. It is commercialization of the

innovation, i.e. the processes of strategic entrepreneurship that translate the innovative product into value (Bilton, Cummings, 2010). We assume however, that value is created not just from innovation, but from other entrepreneurial processes present in organizations, that result in innovative organizational design, new business model, new strategic approach, exploiting opportunities, etc. Consequently, organizational entrepreneurship is understood here more extensively, as a set of various entrepreneurial processes that create value.

Some organizations are more entrepreneurial than the others, and employ creative people, who work long hours to prepare innovative ideas. Still, these particular organizations are not effective, not competitive or lose their longevity (Johns, 2005). The problem to be addressed here is to identify the ability of organizations not just to create value but to capture value, take over value, protect it and avoid its destroying. This research proposition seeks to address these issues, by identifying the relations between entrepreneurship, value creation, and performance, with the value capture mechanisms moderating the link between value creation and above-average results. A theoretical model of the relationship between value creation and performance in entrepreneurial organizations moderated by mechanisms of value capture and appropriation is summarized in Figure 1.

Figure 1: Value protection and value increase mechanisms moderating the relationship between organizational entrepreneurship, value creation and performance – a theoretical model.



The empirical research using the presented tool will be carried out according to traditional stream of theory testing and extending, and the methods will reflect this approach. In order to test the concept of value creation and capture in entrepreneurial organizations resulting in above-average results, and consequently to identify some theory-building elements, the following sequence is planned: (a) identifying the precise research model with constructs, relations between them and hypotheses, on the basis of the identified research gap, (b) hypotheses testing with the use of survey and quantitative methods of analysing, (c) data analysis, (d) conclusions, interpretations and theory extension.

DISCUSSION AND IMPLICATIONS FOR FUTURE RESEARCH

The paper aimed to address the issue of how entrepreneurial organizations can achieve above-average results not just by creating value, but essentially by being able to retain a considerable part of the value created, by avoiding to destroy it and by developing a significant bargaining power in order to capture value (in value chain, supply chain, industry value chain). In particular, the future research will aim to identify: a) the relations between organizational entrepreneurship, mostly defined by the entrepreneurial orientation dimensions (innovativeness, risk-taking, pro-activeness, competitive aggressiveness, autonomy), and the ability to create value; b) the relations between the level of value created and the ability to retain, capture and appropriate value; c) the role of the ability to protect and increase value in achieving above-average results of entrepreneurial organizations in terms of effectiveness, competitive advantage and higher level of innovativeness.

The science of management usually examines direct relationships between constructs and their defining dependent and independent variables. There are studies identifying ties between entrepreneurship and performance (Lumpkin, Dess 1996; Rauch, Wiklund, Lumpkin 2009, Zahra, Jennings, Kuratko 1999), or between innovation and performance (Rass, Dumbach, Danzinger, Bullinger i Möslein 2013). However, it is not always so that the relations identified are unambiguous or explicit. Quite frequently the links between dimensions of entrepreneurship and performance turn out to be at best moderate or statistically unimportant (Dyduch 2009). This could be an issue of conducting the examination of the relations between variables in isolation, with no attention paid to mediator variables or latent variables. This paper proposed to add key constructs to the relationship between dimensions of organizational entrepreneurship and performance, presented so far in the literature. First of all, it should be noted that the process of rejuvenating entrepreneurship in organizations, particularly in the area of innovativeness, leads to creating value (Fisher 2011). Secondly, innovativeness alone does not create value (James, Leiblein, Lu 2013), but its commercialization through strategic entrepreneurship processes does (Bilton, Cummings 2010). Further, it is not as important how large the value created by an organization is, as is the part it will manage to retain and capture in the value chain (Brandenburger, Stuart 1996), supply chain (Skilton 2014), or industry value chain (Prem, Swink 2012).

Value creation is most frequently associated with innovativeness (Cooper 2011) and entrepreneurial orientation of an organization (Zahra, Dass 1993), hence the examination of innovativeness in relation to value created or organizational performance seems like a natural research pursuit. However, there are still few studies of whether organizations can create value based on the idea alone or rather in the course of implementing an innovation; solely on the basis of innovations or more broadly with the contribution of key competences, complementary resources, a new business model and other strategic dimensions. It would be

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(ABSRC 2015 Milan)
December 10-11, 2015, Milan, Italy

interesting to determine the relationship between the level of entrepreneurship and value creation mechanisms, as would be to find out if entrepreneurial organizations are able to retain all or majority of the value created. If not, what value dimensions are important for different groups of stakeholders? Do stakeholders capture a part of the value created in proportion to their share of investment, or rather in relation to their bargaining power and organization's dependence on a given group? In conclusion, is there a link between the level of entrepreneurship and an ability to capture value from others (stakeholders, competitors)? Last, but not least, it would be worthwhile to tackle the question if entrepreneurial organizations have mechanisms protecting value against capture or destruction, and what is the relationship between value creation and value capture, as well as between value appropriation mechanisms and performance. It is still not clear how to maximize *ex ante* the value of innovations and new strategic solutions implemented by an organization, and how to retain that value in the long term. The future research will aim to explore the new leads suggested in the to-date literature on the subject (e.g. James et al. 2013) and to bridge, at least as far as possible, the identified research gap.

The lack of agreement on what constitutes the value creation processes (Lepak et al. 2007) stems from the different meanings that value has for different stakeholders. An organization that caters to the expectations of investors as well as other external stakeholders operates both, as a customer and as a recipient; hence different, sometimes contradictory, roles are reflected in its motivation to create value. At the same time, the process of capturing and appropriating the value created depends on the bargaining power and relations as well as interdependencies among stakeholders.

The future research will establish how value creation and capture mechanisms translate into performance, how protecting value from destruction relates to effectiveness and how the ability to appropriate value created by others is also tied to effectiveness. Empirical research will result in identifying normative strategies for creating, retaining and capturing value taking into account the level of entrepreneurial orientation of an organization, in particular with respect to innovativeness.

The future research outcomes should in particular extend the theory of entrepreneurship by indicating the mechanisms of protecting the value created through entrepreneurial processes. In its cognitive aspect, the research will identify the relationship between organizational entrepreneurship and value creation, and determine the mechanisms and processes of increasing the value created that moderate the relations between organizational entrepreneurship and performance. It is expected that the research outcomes, in their applicable part, will enhance the sub-discipline of strategic management by indicating normative strategies for increasing value and gaining competitive advantage depending on the level of entrepreneurship. The research will also attempt to measure the processes of creating and capturing or appropriating value depending on stakeholder expectations, which in effect could shed more light on certain relationships in value chain or supply chain. Finally, the research will make a contribution to the resource-based view with respect to the resources owned or controlled (key, complementary) and the ability to start an innovation and gain value in the process. Introduction of control variables, such as the size or age of an organization, to the processes of value creation may result in highlighting certain differences among organizations, which could direct the attention away from the resource-based focus to the application of ecosystem theory to the analysis of value management processes.

The future research will contribute by focusing the attention on the proper development of value increasing mechanisms. It will attempt to answer the question why hard innovative efforts of organizations and their participants do not necessarily translate into high performance, longevity or long-term competitive advantage. Lack of proper management of the value created may end in its loss, capture and appropriation by others, or even destruction. This is especially important in Poland and, no doubt, in other post-accession economies, where despite a relatively high level of entrepreneurship, substantial labour input, and creative and innovative ideas, organizations do not improve their performance and profitability, do not implement innovations or obtain direct profits from them, and do not survive in the long term. The research should also make a contribution in the economic aspect by formulating recommendations for organizations as to what actions should be taken in order to protect and increase the value created depending on the level of entrepreneurship, all with the aim to attain above-average performance (higher effectiveness, competitive advantage). Transfer of those solutions to the macroeconomic level might result in improved competitiveness of post-accession enterprises, and, in consequence, of the whole economy.

CONCLUSIONS

There is no doubt that organisations differ in the level of value creation and they have different ability to capture the created value. Therefore, it is important to seek the sources of differences. Particularly it is interesting to see how organisations create value, and if entrepreneurship can be the source or stimulator of value creating mechanisms. It would be crucial to assess the ability of organisations to appropriate the value they create as an indicator of their performance. In this paper we attempted to offer some recent insight into the discussion on value creation and appropriation. Basing on the literature review, we presented a set of questions raised by the papers we went through. We translated the identified issues into a short questionnaire that we plan to test and use in the future research. Our research intent is to seek the relations between the level of entrepreneurship, the value creation, value capture and performance, using the framework we presented in this paper.

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