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Value Appropriation within a Business Network

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Abstract

This paper explores the interplay between value creation and appropriation of value by firms within a business network context. These two value processes are inter-linked. Collectively firms create a product of value to an end consumer and a part of that value is appropriated by each firm in the network. Value appropriation is composed of a number of different negotiation processes, value and cost moving between exchange parties and price making and taking spread across time. Value appropriation is a process.

Value appropriation is important to a firm's survival. Firms that appropriate a greater proportion of the value captured by the network, relative to their resource base and costs, will be more profitable. These firms are able to invest in new technologies, resources and business relationships to continually develop their network positions.

Value creation in a business network is a result of individual firm efforts, either independently or in relationships. Equally, firms work alone and in groups to appropriate value. Understanding the dynamics and linkages between value creation and appropriation allows a better understanding of how value is created by business firms and by value nets.

In the final sections of the paper we present propositions for further research and make recommendations for managers.

Key words: value appropriation, value creation, business relationships, network

The ability of a company to create value can be seen as a fundamental raison d'etre of business enterprises in general (Anderson, 1995). In fact the ability of a company to create value for its shareholders via profits has been hailed for centuries as the purpose of companies. But the value created in a company is not only for the shareholders, nor for customers. In order to survive, companies also need to appropriate or claim value for themselves, so as to sustain operations and prepare their future strategy.

Much of the literature on value creation and value appropriation takes the perspective of the firm (cf MacDonald and Ryall, 2004). This follows from economic theory where firms make transactions in efficient markets. In this literature the process of value creation has been viewed as separate and independent from the process of value appropriation (Mizik and Jacobson, 2003). In fact it is often assumed, implicitly or explicitly, that there is a trade off or balance between the two processes (cf Mizik and Jacobson, 2003). Companies and their managers must then decide on the balance between value creation and appropriation. Too much focus on value creation and too little focus on appropriation will make it difficult for a company to make a profit for themselves.

The single firm perspective has also influenced the way value creation and appropriation is discussed in the negotiation literature. In this literature both value creation and claiming, or appropriation, are realized at the time of negotiation. Value appropriation concerns taking possession of the value created in a B2B relationship (Lavie, 2007; Mizik and Jacobson, 2003). This exercise plays out in the negotiation and bargaining encounter between buyer and supplier; in other words in the meeting room. The appropriation of value concerns the exchange agreement under negotiation, and the resulting contract holds formulations that make value claims explicit and formal over the duration of the contract. The claims tend to be quantitative and are most often concerned with the distribution of financial costs for the parties. Issues such as prices, volumes, discounts, and flexibility would be typical topics of such a negotiation. At the end of the contract a new negotiation can distribute claims for the next period. However, firms also create and appropriate value between negotiation episodes. The processes of value creation and appropriation are evidently continuous.

There is also a growing body of literature examining value creation in business relationships (cf Jap, 1999; Ravald and Grönroos, 1996). Equally researchers have also been examining value appropriation, or claiming, within business relationships (Verwaal, Commandeur, and Verbeke, 2009; Walter, Ritter, and Gemünden, 2001). In a further move towards complexity researchers have also discussed value creation and appropriation at the network level, where many firms are collectively focused on producing for a final consumer. These differentiated parts of the firm network, which are focused on a specific class of consumer, have been termed value nets (Moller and Rajala, 2007; Parolini, 1999). Researchers have described value nets as the next level of competitive advantage (Kothandaraman and Wilson, 2001; Normann and Ramirez, 1993), and begun to discuss how they create value and how value is appropriated from final customers (cf Hu and Tsaib, 2007). This paper contributes to this discussion and so informs the firm and relationship literatures on value creation and appropriation.

Mizik and Jacobson (2003) recognize that value creation and value appropriation are linked and so both are of central importance to a company and of major concern and interest to the management. However, the dynamics of value creation and appropriation have not been fully explored. Narayandas and Rangan (2004) and also Eggerta, et al. (2006) discuss the changes in value creation and appropriation as a relationship develops and changes. But the more elaborate linkages between value creation and appropriation over time and across different levels of aggregation (ie. the firm, the relationship and a value net) have not been elaborated.

While many authors assume value creation must come before value appropriation, we suggest that the opposite is also true; value appropriation can create value. However, the processes are not easily separable. Our perspective on value creation and appropriation is that of a firm in a network comprised of business relationships, with each firm having multiple supplying and buying relationships. In this context, value creation and appropriation are on-going, connected, interdependent, and interwoven in an intricate process of continuous value creation over time. Noteworthy in this perspective is that all value created is derived from final customers.

In this paper we consider the dynamics of continuing value creation and appropriation within an interaction and network framework. The paper is organized in the following manner. First, we review the literature on value creation and appropriation. We consider the concepts of value claiming, as applied in the negotiation literature, to be synonymous with the term value appropriation as applied in the marketing and strategy literature. Second, we elaborate the interaction and network framework as it pertains to value creation and appropriation. Next we develop a series of propositions for future study of value creation and appropriation within a network context. Finally, we conclude by commenting on managerial implications.

Value Creation and Appropriation

Value

The concepts of value creation and appropriation rely on an understanding of 'value'. Value refers to the worth of a product, whether good or service. Worth is always an inherently relative matter. That is, value is only determined by relative assessment to alternatives.

Value is often viewed as the difference between the benefits received and the sacrifices made (Zeithaml, 1988). According to Anderson, Jain and Chintagunta (1993, p.5) value is:

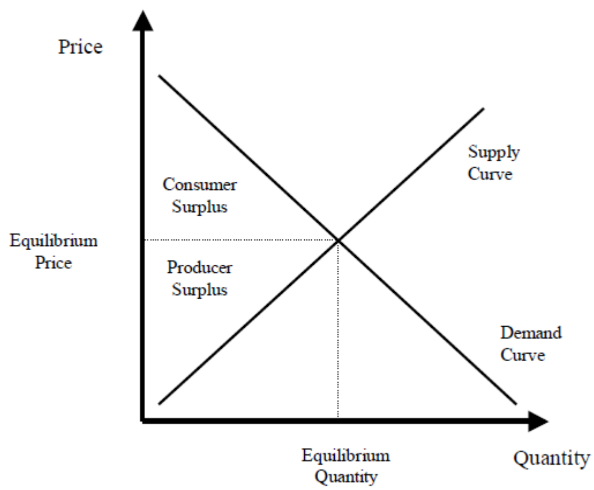
> *"..the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices."*

This definition focuses on value as the balance of benefits and sacrifices to the buyer. The definition emphasizes that value depends on the perceptions of benefits and sacrifices or the costs associated with acquiring and employing a product or service and on the available alternatives (Ulaga and Eggert, 2006a). Moreover, the perceptive nature of value means that different buyers may and frequently do perceive different levels of value for the same product or service. This is different to the concept of a product or service having an inherent value, which is a meaning employed in the literature on added value and value chains (cf Stewart, 1991). However, and worthy of comment is that the above definition relies on value perceived at a point in time, when in fact value is created over time.

Woodall (2003) notes that value for the customer is an overall indication of the worth of a product given four distinct temporal periods (pre-purchase, purchase, consumption and disposition). Across these periods Woodall (2003) notes five perspectives applied by customers in gaining value (balancing benefits and costs, product attributes alone, outcomes valuing, price or sacrifice reduction and rational benefits expressed in units of exchange). This definition notes that consumers gain value from products over periods of time. This implies the efforts to gain value are on a continuum from active to passive.

In the Service-Dominant-Logic (SDL) literature, customers are considered as joint creators of value, along with the firms involved in production (Vargo and Lusch, 2004; Vargo and Lusch, 2008). In the microeconomics literature, total value creation is shown by supply-demand analysis as shared between consumers and producers (McTaggart, Findlay, and Parkin, 2007) (see Figure one).

Figure 1: Consumer and Producer surplus



However, our concern is not with the total value created, but with the value appropriated by firms collectively and available to them to fund strategic initiatives and future production. In discussing value creation and appropriation by firms the focus must be on the total value appropriated from customers and how this is divided between each firm in the production process (Mizik and Jacobson, 2003). This is because not all value gained by customers is appropriated by firms. This point is clear from an economic perpsective.

Value creation

Value creation, in strategic alliances, has been defined as collective processes that create common benefits to all partners (Lavie, 2007). In the negotiations literature, value creation has been referred to as “increasing the pie” (Jap, 1999), with both parties seeking to bring about a solution that holds more value for both – hence creation. However, these definitions of value creation focus only on business relationships. We found no general definition in the literature that accounts for value creation across the different aggregation levels of firm, relationship and network.

We propose the following definition: value creation is any commercial process of resource transformation or an activity that adds worth to an end customer’s value-in-use. This definition encompasses value creation whether by a firm, business unit within a firm, whether by firms in joint activity within a business relationship or a network. Importantly the definition focuses on value from the customer’s perspective, but the commercial processes of value creation are necessarily held within the sphere of firms.

Even under conditions of co-creation of value the definition leaves the question of value-in-use to the final customer. Where the product is a service and co-creation is the norm, or is a co-created good, the matter of value-in-use is a separate issue which the producer can not fully know. This follows from Buber’ (in Smith, 1958) idea that full mutuality between humans is not possible.

Within the commercial sphere the processes of value creation include manufacturing, logistics, innovation, knowledge sharing and any processes where resources are transformed, moved in location and/or time, or are changed within the final customer’s perception. Value creation is about producing a product that meets customer demands. Firms collectively and individually create value. Conversely, final customers gain value in use through the ways they actively or passively integrate a product into their life-style.

Value appropriation

In conventional models of business-to-business exchange, value appropriation takes place during discrete key exchange events, such as a major contract negotiation between the parties (cf Fisher and Ury, 1991; Neale and Bazerman, 1992). Value appropriation is constrained to the brief time period in which these exchange episodes takes place. Value appropriation in this sense is an interactive task, where the parties arrive at certain appropriation agreements, which may be the results of more or less competitive bargaining or pie-sharing rules and principles (Jap, 2001).

Value appropriation has been defined, within the alliance and relationship literature, as the share of rent that a focal firm can capture (Gulati and Wang, 2003). This definition displays the inherent element of ‘value’; namely that worth is always relative. In this case value appropriation is relative to the other firm in the alliance and implicitly to total rent. Rent is defined in the micro-economics literature as the difference between the market price paid and the price required to supply a final product (McTaggart, Findlay, and Parkin, 2007). Thus, the total rent of all firms in a market is shown as the producer surplus in a demand-supply analysis (see figure one earlier). However, this analysis is over a fixed period of time, and value appropriation is a continuous process.

Mizik and Jacobson (2003) suggest that value appropriation is linked to a firm's level of competitive advantage and the period of time over which that advantage persists. Accordingly there are two broad strategies firms can follow to appropriate value (Mizik and Jacobson, 2003). The first is a leading strategy, usually based on a technological advantage, which keeps the firm ahead of competitors in meeting customer needs. The second is a rear guard strategy where the competitive advantage is maintained by increasing barriers to market entry. Evidently firms undertake both strategies to some degree according to the nature of their market. Importantly, we note that the strategies are based on relative positions of firms on a 'progress' time-line and the mechanisms of appropriation are continuous. Also we note that value appropriation is relative to other firms.

In the negotiation literature value appropriation is referred to as a distributive process, or value claiming (Fisher and Ury, 1991; Neale and Bazerman, 1992). In a distributive negotiation, also called a "fixed pie" situation, the value is on the table in the form of a given solution, product or service. The negotiation can be seen as a division of that value between the supplier and the buyer. Hence, the objective is to claim the largest part of the pie. The more benefits and the less sacrifices, such as price, for the buyer the more value is appropriated, and the less value is thus appropriated by the supplier and vice versa.

We found no general definition of value appropriation that explicitly accounts for different aggregation levels of firm, relationship and network. We define value appropriation as a firm's share of total rent as appropriated by *firms* from the final customers over a specific time period. This definition allows for value appropriation by a business unit, an alliance or relationship, or a value net of firms; with the share always going to a firm, the legally accountable entity. While we note that value appropriation mechanisms are continuous, we limit appropriation to a specific time period for the purpose of measurement.

Distinction between value creation and appropriation

In this part we comment on the linkages between value creation and appropriation.

In the alliance literature, the capability to appropriate value has been linked to 'bargaining power' (Lavie, 2007). Bargaining power is associated with the relative degree of interdependence between the firms and the number of alternate suppliers (Bacharach and Lawler, 1984; Lavie, 2007). These concepts are valid in an interaction and network perspective, however, they are also extended as firms in business relationships can act collectively to bargain with another firm. For example, two firms can cooperate to appropriate value from a common supplier by insisting on changes to product features. Equally groups of firms forming a value net can appropriate resources from other firms on the basis of their bargaining power.

Khanna, et al. (1998) note that the disparity between value creation and appropriation is similar to the distinction between collective and private benefits. On this idea Lavie (2007) makes the point that value appropriation does not create new value. Rather, in alliances firms can work together to create value as a collective outcome, while value appropriation leads to the relative sharing of the increase in value (Lavie, 2007). However, this analysis does not fully recognize the role of time in the links between value appropriation and value creation.

The distinctions between firm and collective interests in business relationships are not so clear cut. In the commercial sphere what appears to be undertaken for collective interest always has a self-interest element (Medlin 2006). The opposite is also true, for only firms with past action focused on self-interest can have the resources available to undertake actions with collective outcomes. In other words value appropriation is a part of value creation.

Interaction and Network Framework

Given the intricacies between value creation and appropriation, partly evident above, we seek to extend our understanding by elaborating more clearly the inter-firm context. We choose to elaborate this context through the interaction and network framework, which accounts for multiple relationships between firms and the changes and stability of the network formed by those relationships. We view value creation and appropriation as essential elements of firms positioning themselves within networks. Appropriation provides resources to a firm for strategic initiatives, while value creation makes firms attractive as partners.

The interaction and network framework views firms as part of the larger network formed by the ways each individual firm works with others. The framework accounts for the strength of connections between firms, or the degree of interdependence (Ford and Håkansson, 2006). The framework also highlights change and stability in business relationships and so in firm networks (Håkansson and Snehota, 1995; Halinen, Salmi, and Havila, 1999). As a result the concepts of interaction and networks are bound in time (Halinen, 1998; Medlin, 2004).

An important element of an interaction framework is the two-fold nature of the exchanges between firms. Full mutuality between people is not possible (Buber in Smith, 1958, p.164) and so firms can never have full mutuality. The result is that firm positions in a network and the activities they undertake to hold their position are matters of subjective interpretation and the firms' relative location to each other (Ford and Håkansson, 2006). Ford and Håkansson (2006) identified five elements of interaction; subjective interpretation, jointness, interdependencies, relativity and time.

The context of firms interacting in a network allows an alternate perspective on value appropriation and creation. Our elaboration is divided into three parts: (1) connections and interdependence, (2) time periods and timing, and (3) two fold nature, which includes relativity, subjective interpretation and jointness.

Connections and interdependence

In the network all firms are connected, although the strength and direction of connection vary. Firms can be connected by supplier or buyer relationships to form value nets (Möller and Svahn, 2003; Parolini, 1999). Equally, firms are connected by the way they compete with each other. Thus firms in different value nets are also connected and so influenced by each others competitive and collaborative activities.

Value creation can occur as firms collaborate (Ulaga and Eggert, 2006b), but there is also competition between the firms as each seeks to appropriate value in their self-interest (Mallen, 1963; Zerbini and Castaldo, 2007). Firms collaborate in business relationships to create value and compete to appropriate value. The form of the collaboration can be joint, where two or more parties are active in the collaboration to create value. Alternatively, value creation can be unilateral, or one-sided, where one partner undertakes activities to create value so as to maintain key supplier status.

Equally competition can be a joint effort, where two firms compete against another party; or the form of competition can be independent, where one party extracts value from the other.

The interaction and network perspective provides a view of value creation and appropriation that is based on different boundaries. Value creation occurs within boundaries and the value created is experienced across boundaries; whether of the firm, the relationship or the value net. Value appropriation also occurs within boundaries, but in contrast relies on boundaries to capture value in the self-interest of a party or parties; whether between firms, between a business relationship and a firm, or between a network and a final customer.

Another line of reasoning in conceptualizing value creation and appropriation, which is apparent from the role of a boundary in a network of firms, is that an act of creation must also embody an act of appropriation. However, the source of the value creation and the entity that appropriates value are not necessarily the same. Evidently the balance between creation and appropriation changes according to the nature of the interdependence and so bargaining power between the firm and the other entity.

Since the mechanisms of value creation occur within boundaries of varying levels of analytical aggregation the methods and processes must be qualitatively different. For example, the types of cooperation required to achieve value creation across the firms in a value net must be quite different to those required within a firm or within a specific buyer-supplier relationship.

However, the mechanisms for value appropriation occur through the boundary of a firm and with regard either to another firm, or a customer, or with a business relationship or a value net. This suggests that the methods and processes for value appropriation will be similar, although the change in target must make for some variation.

Finally, connections and interdependencies mean that value creation and appropriation are not only about the present. Both involve actions with future consequences for interaction. For example, firms that appropriate unfair amounts of the value created in a business relationship will be treated more transactionally by potential new partners, with lower levels of trust and commitment.

Time period and timing

Interaction between firms is forward loaded, meaning the purpose and outcomes of firms interacting is always at some point in the future (Medlin and Törnroos, 2007). Value creation and appropriation do not occur instantaneously. Rather the mechanisms of creation and appropriation are prepared and enacted over a period of time and have their affects over a period of time.

Time is also another form of boundary in an interaction and network framework (Medlin, 2004). A series of resource transformations and acts that appear as value creation over a short period, may have more significance for value appropriation over a longer period. In addition, a focus on strong value appropriation over one period allows harnessing of resources for a later period of value creation.

Given these timing variations the two-fold nature of inter-firm interaction creates some interesting issues.

Two-fold nature: relativity, subjectivity and jointness

The two-fold nature of interactions in a network means that even when two firms work closely together there are always variations in perception (cf Bacharach and Lawler, 1980; John and Reve, 1982; Kim, Park, and Kim, 1999) and so different understandings of the impact of firm actions. Every series of value creation acts is also appropriating value differentially to the firms involved. Further, as value creation and appropriation proceed the relative position and subjective view of each actor in the business network leads to a different understanding of the balance between creation and appropriation. These different viewpoints result in changes in behaviour, and so changes in the atmosphere within business relationships and networks. These changes, which will be mediated by degree of closeness between the parties, will influence future interaction.

Action also reduces ambiguity (Luhmann, 1979) and longer periods of time provide more information so that ambiguity is further reduced. However, the time horizon can only be long when a sound relationship has existed for some time and the “shadow of the future” (Axelrod, 1984) continues to draw the parties together into joint action. If there is no trust, but interaction is necessary in the interest of the firm, the form of cooperation becomes limited and the prevailing coordination mechanism between the firms moves to a transactional mode. In this case collection of information concerning the other firm is limited and perceptions on the balance of value creation and appropriation will not change.

Proposition Development

In this section we develop propositions concerning value creation and appropriation when the theoretical context is the interaction and network framework.

Value Appropriation as a Process Unfolding Over Time

In conventional models of business-to-business exchange, value appropriation takes place during discrete key exchange events, such as a major contract negotiation between the parties. However, this understanding of value appropriation can be challenged on a number of grounds. First, one party (or both parties) may perceive the appropriation unsatisfactory or indeed unfair and therefore decide to carry out unilateral balancing activities between the encounters. These processes can take place continuously until a satisfactory level of value has been "back" appropriated.

Second, business-to-business relationships are exposed to a multitude of different types of changes that affect the value appropriation of the parties. These changes mean that continuous balancing is necessary for both parties in order to secure satisfactory value appropriation. Currency fluctuations or changes in raw material prices are examples of changes that have serious ramifications for value appropriation. Some changes may even alter the network structure, for example bringing in a new supplier will lead to a disturbance in the value appropriation balance of a focal dyad.

Time lags will also have an affect on value appropriation. When a supplier is able to reduce the price associated with an offering, the value of the offering is increased. However, this increase in value is not necessarily perceived by the buyer, at least not immediately. Time lags, information asymmetries and differences in perception, all elements of the two-sided nature of interaction, mean value creation extends through time with time lags and catch-ups in perception a natural part of the these processes.

Finally, a range of sacrifices and benefits are characterized by the fact that they cannot be realized immediately, but only in the future. For example, a supplier can offer price discounts in return for promised volumes. The discount is immediate, but the volumes are to be realized in the future and as such are exposed to uncertainty. Hence, one party is in a position to appropriate value immediately while the other can only appropriate value over time. Also, value appropriation can be from an initial contract or from the incremental value added as a project is undertaken. As such, the inter-firm relationship is characterized by a range of delay effects that affect value appropriation. There is always a difference between expected and realized value appropriation.

P1: Value appropriation is made up of processes and mechanisms that take place over time and vary by the nature of the exchange situation (firm - final customer, firm - firm, firm - another relationship, firm - value-net).

Elaboration of Value Appropriation and Creation

Value creation and appropriation have most often been conceptualized as two separate tasks. Contributions from corporate strategy associate each of these with different mechanisms, taking place in different places in the company and often carried out by different decision makers (cf Mizik and Jacobson, 2003). Looking specifically at the B2B marketing literature, the separation of creation and appropriation is also dominant (Zajac and Olsen, 1993). The former is about producing a product that meets customer demands, while the latter is about competing for the generated rents. The later is undertaken by protecting the company from competitors who are trying to extract value from the same market.

The negotiation literature also distinguishes between appropriating and creating. When a supplier and a buyer meet to negotiate a new contract the negotiation can be distributive (value claiming) or integrative (value creating). In a distributive negotiation, also referred to as a "fixed pie" negotiation, the value is on the table in the form of a given solution, product or service from the supplier. The negotiation can be seen as a division of that value between the supplier and the buyer. Hence, the objective is to claim the largest part of the pie. The more benefits and the less sacrifices, such as price, for the buyer the more value is appropriated, and the less value is thus appropriated by the supplier and vice versa.

In integrative negotiations, sometimes referred to as "increasing the pie", both parties seek to bring about a solution that holds more value for both – hence creation.

Various authors have engaged in a discussion of the separability of the two mechanisms. Expanding on the arguments of Wilson (1995), Anderson (1995) argued against value creation and appropriation as separate processes, instead suggesting that value sharing was a part of value creation. This is a sound argument when one notes that value creation only occurs for the final customer; and the firms appropriate some of that value. However, Anderson (1995) did not elaborate this meaning, although the concepts are fully implied. Our earlier definitions are explicit on the matter of value creation.

P2: Value appropriation and value creation cannot be separated – they are simultaneous and interwoven tasks.

Disjoint Value Appropriation

Value creation, including value claiming, is frequently conceptualized as a joint process between two firms. Wilson and Jantrania (1994), referring to Borys and Jemison (1989), simply define value creation as the "*the joint effort that occurs once the relationship is formed*". However, we argue that value creation and appropriation activities may be unilateral, bilateral or multilateral in their processes; and individual, joint or multi-focused in their aim or outcome.

Conventional value creation activities are often controlled and carried out by individual actors separately, based on the firm's knowledge of what their partner requires. For example, Narayandas and Rangan (2004, p.65-66) describe how RCI created value for

GE unilaterally by developing market access, with only a verbal agreement that RCI could sell GE's Carrier air-conditioning systems. On the other hand transfer activities, which concern the exchange of resources, are necessarily jointly controlled and carried out (Håkansson and Johanson, 1992).

P3a: Relational value creation can be the result of joint or individual action.

Similarly, value appropriation can be a joint process or undertaken by an individual firm. Each party can appropriate value at any given time in a B2B exchange relationship; during interactive encounters or in between. The parties may be sharing the pie at the negotiation table. But they can appropriate value for themselves between encounters, for instance by reducing product and process parameters. Equally, firms in a buying situation can enforce a product change on a common supplier and do so without a change in price of exchange conditions, so appropriating value to themselves.

P3b: Relational value appropriation can be the result of joint or individual action.

Value Appropriation and Coordination Mechanisms

The attitudinal, or atmosphere, context between firms is known to influence inter-firm cooperation (cf Joshi and Arnold, 1998; Liu et al., 2008). Firms that gain the trust and commitment of their partners are known to achieve greater levels of cooperation (Morgan and Hunt, 1994), which should enhance value creation opportunities.

On the other hand, where trust between firms is low, the opportunities for joint value creation should be reduced. When trust is low a firm can not easily collect information concerning the other firm and so a change in perception about joint value creation is unlikely. As a result, in these relationships one would expect a greater focus by managers on value appropriation processes than on joint value creation.

P4: The firm focus on value appropriation is stronger than on joint value creation when alliances coordination mechanisms are transactional.

Future Research

While value creation has received increasing interest in the marketing literature and is becoming a major area of inquiry (Ulaga and Eggert, 2006a), the topic of value appropriation has received relatively little interest. This is so even though this process is often perceived to be equally important to the success of industrial firms (Anderson, 1995). Thus, there is a need for making detailed studies of the value appropriation process. The four formulated propositions could form the backbone of such initiatives.

Adopting our suggested view of value appropriation would mean that research procedures should be designed to catch the many instances of appropriation that take place continuously over time in a B2B relationship (P1). Furthermore, P2 implies that value appropriation cannot be studied by simply making inquiries about the bargaining encounters. The appropriation mechanisms effected by each party individually need to be included. Another challenge comes from the two-sided nature of firm interaction. The existence of information asymmetries, different perceptions, and also bounded rationality requires inquiries into the value appropriation decisions of individual decision makers. This approach requires an increase in methodological complexity.

We propose to make use of qualitative methodologies to catch these complexities. Observations of meetings, or instances of bargaining, between buyer and supplier actors, render insights into interactive value appropriation mechanisms. The observations should be combined with interviews with key decision making actors on both sides of the dyad to catch the aspects related to our propositions. The conceptualization of appropriation as a process also warrants a longitudinal research design. These inquiries would mean that research efforts would concentrate on a limited number of cases. Hence, this choice would come at the expense of generalizability. However, given the argued complexity of the process and combined with the limited understanding of this process, qualitative methods are deemed best. These studies would then serve as an ideal foundation for making survey based research at later stages.

Finally, it is worth emphasizing the relational effects of value appropriation as a promising future research area. Appropriation has been studied mainly with regard to the concepts of fairness and justice (cf Cook and Emerson, 1978; Jap, 2001; Ring and Van de Ven, 1994). However, the effects on other aspects of B2B relationships such as trust and commitment remain to be studied at great depth.

Managerial Implications

Value appropriation is an essential element of sound management. Without successful appropriation a firm does not command resources for new projects, for growth or for ensuring survival in times of general business decline.

Value appropriation is achieved in many ways; however there are constraints that must be managed for successful and on-going appropriation. The exchange must appear fair to the other party; too large an appropriation will have the partner firm looking for either a new supply source or a new buyer. Thus value appropriation is about managing perceptions of an equitable price given expectations and comparable products. Further, too large an appropriation can place in jeopardy a partner firm. Such an action can increase the final costs of the appropriating firm as it must undertake search and risk costs in finding and developing a new partner.

To manage perceptions the firm must understand what value they create of interest to the other firm and to the final customer. This means value creation necessarily is embedded in the product and so is a part of final customer value creation, or alternately value creation is a part of easing the exchange between firms or between a firm and the final customer. In the later situation the value creation relies on the firm’s knowledge of the customer needs and the ability of the firm and the customer to negotiate suitable terms for exchange. In the former, where the value is created through easing exchange between firms the value is created by meeting the expectations for the buying and selling firms and creating a compromise of their different needs that most suitably reduces costs.

However, from a firm's perspective value appropriation is slightly more important than value creation. While value creation is absolutely essential to gain revenue from a final customer through the business network, the firm must also appropriate a reasonable level of that value. Without reasonable levels of value appropriation a firm will eventually fold, and that is not necessarily in the interest of the other firms in the network or the final customers. This is somewhat counter to the received wisdom in the marketing literature, which suggests that a focus on the customer is the best way to remain adaptive. The difference in our analysis is the positioning of a firm in a value creating net; the net as a whole must create value for the customer, the firm must add value to either the customer or another firms or firms, but importantly must also appropriate value to survive.

Firms that appropriate a greater proportion of the value captured by the network, relative to their resource base and costs, will be more profitable. These firms are able to invest in new technologies, resources and business relationships and so continually develop their network positions. By continuing to build and develop their network positions, through sound business relationships, these firms are more able to sustain environmental shocks.

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