SUSTAINABLE VALUE PROPOSITIONS: THE ROLE OF MARKET-ORIENTATION AND MARKETING INNOVATION

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Abstract

We extend Slater's (1997) customer value-based theory of the firm by conceptualizing more explicitly and comprehensively the factors explaining sustainable value proposition management. We conclude with seven propositions for further investigation.

Sustainable Value Propositions

Businesses that fall short of developing effective value propositions have difficulties in taking advantage of market opportunities that are characterized by uncompromising market forces such increased competition, shortened product lifecycles and more sophisticated and variable customer demands. It is a disconcerting fact that many, if not most, businesses struggle to develop sustainable, innovative value propositions that help them sustain their market positions. For instance, on the extreme side businesses such as Impulse Airlines in Australia failed to develop and sustain a successful value proposition.

Given the shortcomings in developing sustainable value propositions, we need to understand what development and implementation processes can enhance the effectiveness of value propositions. The objective of this paper is to provide such insights. More specifically, this study aims to enhance our theoretical understanding of the processes driving value propositions and develop sound guidelines for managers to improve their development and implementation competencies in order to enhance the probability of maintaining successful value propositions that facilitate the achievement of organizational objectives. This constitutes a contribution of practical relevance, as the careful adoption of these guidelines may help organizations achieve their stated marketing objectives.

Existing Literature on Value Propositions

There has been an increase in research and theorizing about business performance and some aspects that relate to value propositions in both the marketing and general management literature. For example, Slater (1997) reviewed a number of influential theories providing some insights in the drivers of performance construing a customer value-based theory of the firm. Further, Hoffman (2000) provides an extensive review of the various theories that aim to explain an organization's sustainable competitive advantage concluding with a framework that integrates concepts including market orientation, customer value, and organizational learning. These and similar frameworks have contributed significantly to our understanding of performance and successful value propositions in organizations.
Slater's customer value-based theory of the firm (1997) is based on the following four pillars: market orientation, continuous learning about customers, commitment to innovation and a customer value process-focused organization. He conceptualizes *market orientation* as an underlying driver rather than a reflection of an overarching construct. It is defined as a

component of an organizational culture which aims to deliver superior customer value. While *continuous customer-focused learning* is conceptualized as the integrated learning processes that develop knowledge about customers, the concept of *commitment to innovation* is described rather loosely as an emphasis on business renewal. *Customer value process-focused* organizational structures provide a foundation for developing and implementing the other three pillars. In sum, Slater argues that these four pillars help manage successful value proposition.

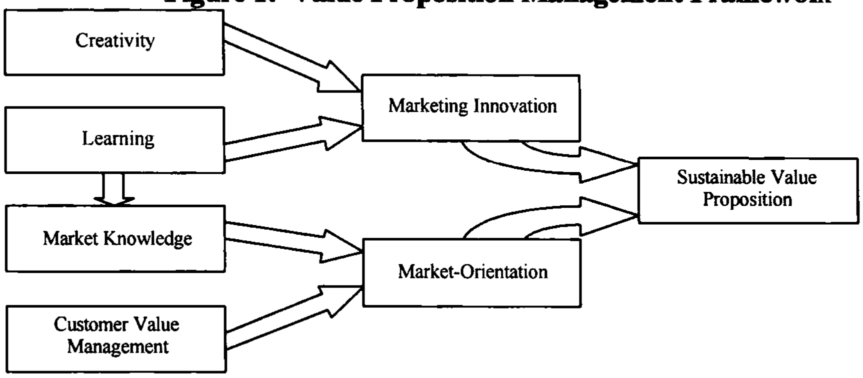
Although Slater's conceptualization clarifies the aspects of the development and implementation of effective value propositions, it falls short of providing a comprehensive explanation of the innovation aspects and related process-focused organizational structures that integrate the innovation and customer-related concepts.

The purpose of this research is to build a theoretical model to extend Slater's customer value-based theory of the firm and to explain more comprehensively the development and implementation of innovative value propositions.

A Model of Value Proposition Management

The basis of the model developed in this paper [Figure 1] is that we identify *Marketing Innovation* and *Market-Orientation* as the two conceptual building blocks that influence the development and implementation of *Sustainable Value Propositions. Marketing Innovation,* in turn, is driven by the *Learning* and *Creativity* processes within the organization. Moreover, *Market-Orientation* is affected by the following two factors: *Market Knowledge* and *Customer Value Management.*

Figure 1: Value Proposition Management Framework



The linkages proposed include direct and mediated effects as well as interactions. It is the latter kind of effects—such as the interaction effect of *Marketing Innovation* and *Market-Orientation*—that demonstrate the need to examine such influences simultaneously. By highlighting such effects in a comprehensive fashion, it is possible to delineate the distinct drivers of the management of *Sustainable Value Propositions.* The aim of this paper is to provide testable propositions according to this new model. To be more specific, the intention is to explore and examine the drivers of *Sustainable Value Propositions* in order to determine the differential extent to which particular factors impact upon the effectiveness of value propositions.

Innovation, Creativity and Learning

Organizational innovation is the process of applying new problem-solving ideas (e.g., Amabile 1988). An innovation is novel to the adopting organization even if it imitates something that exists elsewhere (e.g., Damanpour 1991). More formally, innovation is defined as non-routine, significant, and discontinuous organizational change (Mezias and Glynn 1993) that embodies a new idea that is not consistent with the current concept of the organization's business (Galbraith 1982). There is a wide variety of definitions for organizational innovation and the related constructs of learning and creativity. For example, Thompson's (1965) classic definition of innovation overlaps with organizational learning and creativity as the generation, acceptance and implementation of new ideas, processes, products or services. A similar overlap is evident in Zaltman, Duncan, and Holbek's (1973) definition of innovation as an idea, practice or material artifact perceived as new by the relevant unit of adoption. More recently, we find such an overlap in the definition of innovation as the successful implementation of creative ideas within an organization (Amabile et al. 1996).

A more useful approach is to have distinctive definitions for learning, creativity and innovation. Huber (1991) defines organizational learning as the development of knowledge or insights that influence behaviour. Creativity can be considered to be the process of generating novel ideas, as opposed to innovation as the sifting, refining and most critically the implementation of those ideas. A distinction among the three constructs is implicitly suggested by Mumford and Gustafson (1988), who suggest that organizational innovation is affected by creativity and learning in organizations.

Several researchers have employed creativity as a major explanatory variable in understanding organizations (e.g., Woodman et al 1993). However, there has been limited theoretical work on creativity and innovation at the organizational level. There is some correlational evidence of the relationship between creativity with ratings of overall innovation as provided by Paolillo and Brown (1978) and Abbey and Dickson (1983). We summarize our discussion in the following proposition.

P1: *Greater creativity leads to greater marketing innovation.*

Learning within organizations has been a feature of the theory of the firm since Cyert and March (1963), and learning plays a central role in Teece et al.'s (1984) dynamic capabilities theory of strategic management. The relationship between learning and innovation has increasingly been examined both at a strategic (e.g., Dodgson 1991) and at a tactical management level concerned with new product introduction (e.g., Imai et al. 1985).

According to conceptual (e.g., Stata 1989, Tushman and Nadler 1986), empirical (e.g., Cohen and Levinthal 1990), and simulation research (e.g., Mezias and Glynn 1993), an organization's ability to learn from its own history and experiences enhances organizational innovation. We therefore derive the following proposition.

P2: *Greater learning leads to greater marketing innovation.*

In the preceding discussion we have outlined the inputs to marketing innovation. More specifically, propositions 1 and 2 summarize that both learning and creativity affect marketing innovation.

Market-Orientation, Customer-Value-Management and Market Knowledge

There are numerous interpretations of market orientation. For example, Kohli and Jaworski (1990) define market orientation as the organization-wide usage of market intelligence pertaining to current and future customer needs. Likewise, Narver and Slater's (1990) approach to market orientation suggests that market information processing is critical because one cannot have a customer orientation, competitor orientation, and interfunctional coordination without effective information acquisition and dissemination programs. Moreover, authors such as Day (1994) and Deshpande, Farley, and Webster (1993) view market orientation as an aspect of organizational culture. These perspectives are not identical. The common core of them is accounted for in Baker and Sinkula's definition (1999) in which it market orientation is viewed as the underlying impetus for using and actual application of market knowledge in the strategic process. In this paper we adopt the above view which is consistent with the one expressed by Slater (1997).

We adapt Slater's (1997) perspective of customer value process-focused organization to conceptualize customer value management in our framework. We define customer value management as developing and employing structures and processes that direct an organization's activities towards creating customer value.

Authors such as Kohli and Jaworski (1990), Narver and Slater (1990), Day (1994) and Deshpande, Farley, and Webster (1993) imply but do not explicitly show that customer value management is an input for carrying out an effective marketing oriented strategic process. Hence, we specify the following proposition

P3: *Improving customer value management leads to greater market-orientation.*

Based on Li and Calantone (1998) we define market knowledge as organized and structured information about the market including components of customer- and competitor-related insights. Here, organized means it is the consequence of systematic processing (as opposed to random picking), and structured implies that it is endowed with useful meaning (as opposed to discrete items of irrelevant data).

Similar to the linkage between customer value management and market-orientation, authors such as Kohli and Jaworski (1990), Narver and Slater (1990), Day (1994) and Deshpande, Farley, and Webster (1993) imply but do not explicitly show that market knowledge is an input for carrying out an effective marketing oriented strategic process. Therefore, we outline the following proposition

P4: *More market knowledge leads to greater market-orientation.*

In the previous section we have discussed the inputs to market-orientation. More specifically, propositions 3 and 4 outline that both market knowledge and customer value management influence market-orientation.

Integration of Marketing Innovation and Market-Orientation Aspects

In our framework we view learning as a driver of market knowledge. This perspective is supported by authors such as Sinkula (1994) and Slater and Narver (1995). Consequently, we suggest the following proposition

P5: *Greater learning results in greater market knowledge.*

Finally, we conceptualize marketing innovation and market-orientation as impacting upon the development and implementation of sustainable value propositions. Implicitly, these influences are suggested by authors including Slater (1997), Slater and Narver (1995) and Kohli and Jaworsky (1990) and build upon early writings of Alderson (1957) and Drucker (1973). Propositions 6 and 7 describe these relationships.

P6: *Increasing marketing innovation has a positive impact on the development and implementation of sustainable value propositions.*

P7: *Greater market-orientation has a positive effect on the development and implementation of sustainable value propositions.*

In the last section we have explained the integration of the building blocks proposed in our framework. We have concluded this section with propositions 6 and 7 suggesting that both marketing innovation and market-orientation influence the management of sustainable value propositions.

Conclusions

In this paper we have presented a framework which outlines the factors affecting the development and implementation of sustainable value propositions. Our framework extends Slater's customer value-based theory of the firm (1997) by conceptualizing more explicitly and comprehensively the factors explaining the development and implementation of sustainable value propositions. While the strength of this framework is the parsimonious structure, in this paper we purposefully have not discussed additional antecedent factors of the model inputs. Moreover, given the length of the paper we have neglected discussing any interaction effects of the factors in our model.

The next step is to empirically examine these propositions in a variety of contexts. This is the focus of our continuing work.

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