**Extending value logic thinking to value logic portfolios**

In the strategic management literature, there is an implicitly accepted distinction between product firms (also described as manufacturing firms, the secondary industry sector, goods producers, etc.) and process firms (also described as service firms, the third industry sector). Responding to claims that strategic management theory from one stream does not fit the other stream (e.g. that the value chain model (Porter, 1985) does not fit service firms (Stabell & Fjeldstad, 1998)), different value creation logics have been proposed in order to facilitate better theory development (Stabell & Fjeldstad, 1998). Thus, what started as a generic value chain model for all firms (Porter, 1985) got expanded into three possibilities for a dominant configuration of a firm’s value creation logic (Stabell & Fjeldstad, 1998): the value chain logic, the value shop logic and the value network logic. The idea is that a firm has one dominant value creation logic which constitutes its value configuration. This contribution enriched significantly the strategy literature and has guided further developments in understanding different value configurations (e.g. Andersen & Fjeldstad, 2003; Fjeldstad & Ketels, 2006).

Since the presentation of firm’s value configurations as one of the three value creation logics in 1998, significant changes have taken place challenging the dominant value creation logic and value configuration analysis and their ability to provide for a meaningful framework for strategic analysis:

* The general understanding of business as “islands” has given way to an understanding of value creation in networks. Networks are understood as connected business relationships, and in this understanding coordination of business activities across firm boundaries becomes a relevant capability and a possible value-creating role (e.g. described as “strategic hub firms” by Jarillo (1988)). Hub firms may combine their own value creation with that of others, thus linking their customers to value creation of third parties.
* The establishment of the internet, enabling e-business, has provided new possibilities for mediation and disintermediation of connected value chains. For instance, in an analysis of value creation in e-business, Amit & Zott (2001) concluded that the unbundling and reconfiguration possibilities offered by the digitalization of value-creation and value-appropriation activities gave rise to radical changes in the way firms combine and recombine activities as well as enroll stakeholders in- and outside the firm in order to create wealth. They saw opportunity drivers for value creation in the advent of the Internet, which “disregards traditional boundaries between firms along the value chain…[and] at the same time, new ways of creating value are opened up by the forms of connecting buyers and sellers in existing markets” (Amit & Zott, 2001, p. 495). This poses challenges for the value logic approach: Take as an example knowledge-intensive service which typically is focused on solving a specific customer problem. Underlying the provision of this service is an organization, which in the optic of Stabell & Fjeldstad is seen as a value shop (labor intensive and dominated by professionals and specialists). The advent of the internet has given rise to rule-breaking firms, who combine the value shop logic of a knowledge-intensive service with the value network logic (f.e., Innocentive is an internet-based value network focused on brokering problems with problem solvers, but manned by specialists who can help interpret between the two).
* Beyond networks and the Internet, firms think “out of the conventional box” and reinvent their business models in order to stay competitive. Take the case of Aravind, an Indian eye surgeon, who has used the value chain logic to reengineer a traditional value shop logic in order to reduce the costs of cataract eye surgery tremendously by reorganizing surgery work flows. The resulting business is not a replacement of the traditional value shop with a value chain, but rather a business approach which combines elements from both logics in novel ways. In general, focus on customization and multi-segment strategies produce situations where firms compete with different value logics in different segments. Here, it is hard to identify “a dominant logic” but rather a co-existence of value logics.

Based on these developments, we find an update of the value configuration analysis and its value creation logics necessary. The paper contributes in two ways: First, we extent the Fjelstad & Stabell framework with a fourth value logic, the value system logic. Second, we transform the framework from a dominant logic perspective to a multi logic perspective, i.e. we propose that firm’s value configurations are better understood as portfolios of value creation logics.

The paper is organized as follows: We first present the original value creation logic framework. We then present our argumentation for the fourth value creation logic. Based on the four value creation logics, we discuss firm level value configurations and introduce the notion of portfolios of value creation logics instead of single, dominant logic. Finally, we discuss concurrent value topics in the light of our value portfolio framework.

**FROM VALUE CHAINS TO VALUE CREATION LOGICS**

For more than three centuries the value chain approach to strategy analysis and strategic thinking in general has been extremely influential in the design and planning approaches to strategy (Mintzberg et al., 2008). Notably Porter’s work had an enormous impact on the field (Stonehouse & Snowdon, 2007). Critical voices have been raised from time to time with respect to value chain’s explanatory power as well as to the underlying premises upon which it is built (Barney, 1986; Miller, 1992; Rumelt, 1991). For instance, in a review of different conceptualizations of strategy and underlying notions of competition, Barney (1986) explains that the Porterian framework tend to overlook the uniqueness of firm capabilities that are recognized in other conceptualizations of strategic thought, such as in the resource-based view. Yet, most developments of strategic analysis originate in the value chain logic. One noticeable exception is provided by Stabell & Fjeldstad (1998). Building on previous criticisms of the value chain approach (e.g., Normann & Ramirez, 1993), Stabell & Fjeldstad (1998) offer two alternative value creation logics based on the technology typology developed by Thompson (1967). Hence, they advance strategic analysis by addressing the weakness of one generic model fitting all industries.

Stabell and Fjeldstad (1998) distinguish three value creation logics, also called a firm’s value configuration: value chains, value shops, and value networks. Building on the value chain logic, Stabell and Fjeldstad (1998) offer two alternative, supplementary logics (see Table 1 for an overview). The value creation logic of service providers such as insurance companies, banks and consultancy firms are much easier understood and explained from a different value configuration than the value chain.

Table 1: Overview of value configurations (from Stabell & Fjeldstad, 1998)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Chain | Shop  | Network |
| Value creation logic | Transformation of inputs into outputs | (Re)solving customer needs | Linking customers |
| Primary Technology | Long-linked | Intensive | Mediating |
| Primary activity categories | * Inbound Logistics
* Operations
* Outbound logistics
* Marketing
* Service
 | * Problem-finding and acquisition
* Problem-soling
* Choice
* Execution
* Control/evaluation
 | Network promotion and contract managementService provisioningInfrastructure operation |
| Main interrelation among activities | Sequential | Cyclical | Parallel |
| Structure of value system | Interlinked chains | Referred shops | Layered and interconnected networks |

The three value creation logics can be discussed along two dimensions. The value chain logic reflects a goods dominant understanding of business (Vargo & Lusch, 2004). The transacted outcome of a firm is a good (i.e. a physical object) which is handed over to the customer for further use. In contrast, the value shop configuration reflects a service dominant logic (Vargo & Lusch, 2004) and essentially covers firms which run processes on behalf of their customers. Typically, products and goods are placed opposite from processes and services on the same scale (e.g. Oliva & Kallenberg, 2003). However, as actors can basically offer both products and services, or either alone, it makes more sense to understand these two orientations as two dimensions (Figure 1).

Based on these two dimensions, the value chain configuration and the value shop configuration can be positioned in the appropriate boxes. The original description of the value network configuration entails “linking customers” and “mediating” (Stabell & Fjeldstad, 1998). This value creation logic does not entail exchange of goods nor offering a process but provides value creation through access to a network. Thus, value network configuration is places in the lower, left-hand corner.



Figure 1: The value configuration diagram

Increasingly, firms do not follow a pure product or pure service logic – they combine these logics into highly integrated product-service systems (e.g. Morelli, 2002). Take organ transplantation as an example: while there is a product exchange (the organ), this transaction can only be successful with a service (the operation). Both parts cannot exist separately from each other. As such, it is not a combination of product and service, it is an integration of the two. Thus, we adapt this terminology for the fourth value configuration: value system logic. The value system logic combines a bundle of elements into a systemic solution which integrates goods and processes. As such, goods and services cannot be separated from each other.

Table 2: Value creation logics (italics indicate original descriptions by Stabell & Fjeldstad, 1998)

|  |  |
| --- | --- |
|  | Value creation logics |
|  | Stabell & Fjeldstad (1998) | Additional logic |
|  | Value chains | Value shops | Value networks | Value systems |
| Value creation logic | *Transformation of inputs into products* | Transformation of inputs into processes | *Linking customers* to other actors (customers or supplies) | Transforming inputs into integrated products and services |
| Key success factor | Product quality | Process quality | Critical mass in network participants | Integration |
| Customer experiences | A physical good | A process upon own resources | Access to others | An integrated system of resources and processes |
| Examples | Car manufacturers,Furniture producers | Haircut, Window cleaning | Facebook, Supermarkets, Advertising space | Organ transplantation, Portrait painting, Utility firms |

**VALUE CONFIGURATIONS AS PORTFOLIOS OF VALUE CREATION LOGICS**

Stabell & Fjeldstad (1998) argue that a firm has a dominant value configuration, i.e. each firm can be classified into one configuration which mainly covers its value creation logic. While this was a reasonable assumption at the time, new strategic thinking challenges “one-value-logic” thinking. Firms like Vestas (wind turbines) and GE Healthcare increasingly offer installation, training and maintenance services in addition to their core products. This development has been discussed as “service business orientation” (Antioco et al., 2008), “servitization” (Dachs et al., 2013) and “hybrid offerings” (Ulaga & Reinartz, 2011), amoung others. Likewise, service firms start offering products: wellness products in hotels, IT service firms offer hardware.

Also, “classical” service firms are hard to capture with one value creation logic: Take McDonalds as an example: as a restaurant chain, McDonalds is a service firm and as such be ascribed a value shop logic – yet, the drive-through lanes are more suitably ascribed value chain logic: customers come and exchange goods for money. In general, restaurants are seen as service firms, yet they sell products. As such, restaurants are better understood as a combination of a value chain (the production of food) and a value shop (the production of a process from welcoming to farewell).

Take Sony Playstation as another example: The consumer electronics industry is classified as manufacturing and as such attributed to a (dominant) value chain logic. While this is true for their console business, an important element of the customer value is the online gamer community which allows a player to compete with another player across the globe without personally knowing each other. As such, the attraction of the product from the value chain logic is significantly enhanced by access to the community (a value network logic). In addition, Sony offers online and call center support to customers – which is a value shop logic.

As such, a firm’s value configuration is better understood as a portfolio (a combination) of the four value creation logics. Such understanding is better suited for strategic analysis as it also captures different strategic approaches. Take Sony Playstation and Microsoft Xbox as an example: In contrast to Sony, Microsoft does not manufacture the Xbox consoles themselves and leave much of the development of the actual hardware to external providers. As such, Microsoft offers a similar value proposition to customers based on very different value configurations.

**IMPLICATIONS FOR RESEARCH AND MANAGEMENT**

Understanding a firm’s value creation logics is important for strategy development as it is the basis for understanding the value contribution potential towards customers as well as it defines the relevant key success factors for a firm’s value creation. As pointed out in the paper, singular value logic representation of firms over-simplifies reality and thus potentially leads to sub-optimal strategies. Therefore, an understanding of firms and their market offerings as portfolios of the four value logics offers new insights for strategy development. Therewith, the paper contributes to strategic management research and practice with a revised analytical tool.

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