A SYMMETRICAL SUBJECTIVIST VIEW OF VALUE CREATION IN STRATEGY

We argue that there is much to be gained by considering a symmetrical subjectivist view of value creation. We present an alternative model of value creation that is a generalization of the traditional model and examine how the new model can allow for a broader perspective on the relationship between strategy and value creation.

Introduction

The strategic management field has always borrowed heavily from economic theory (Rumelt, Schendel, and Teece, 1991; Besanko et al., 2007) and has often needed to look back to economics for more detailed clarification of the borrowed concepts. The concepts of value and value creation in particular are very fundamental notions in both the economics and management fields and strategic management scholars have needed to refer back to the economics literature in order to strengthen the foundations by which they adopt these concepts in their own discipline.

This process is evident in recent debates surrounding critiques of the resource-based view (RBV) of the firm by Priem & Butler (2001a) and Foss & Knudsen (2003). The discussions spurred by these critiques further highlighted the centrality of the value creation model in strategy theory (Bowman and Ambrosini, 2001; Priem and Butler, 2001b; Makadok and Coff, 2002; Peteraf and Barney, 2003). The value creation model has also been a topic of scrutiny in the transaction cost literature (Foss and Foss, 2005; Foss, 2003; Madhok and Tallman, 1998; Zajac and Olsen, 1993). This suggests that a model of value creation can enable us to compare and contrast these different frameworks in strategy. The topic naturally remains of high interest to management scholars as evident by the recent dedication of a special topic forum of the Academy of Management Review to the subject of value creation (Lepak, Smith, and Taylor, 2007).

Further contribution to this literature is both necessary and exciting. It is necessary because many ambiguities and inconsistencies surrounding value creation have remained unresolved in the current literature. It is exciting because value creation is such a fundamental concept that theoretical developments on this topic can have far reaching implications. The strategic management literature has made considerable progress on the path of developing its own version of the theory of value which sheds light on the value creation process from different perspectives (Bowman and Ambrosini, 2000; Porter, 1985; Priem, 2007). This paper aims to contribute to these efforts.

After reviewing the conventional value creation model adopted in the strategic management literature, this paper builds on the current literature in several relevant lines of research to construct a

---

1 I would like to thank professors Anoop Madhok and Eileen Fischer, and fellow doctoral students Trisha Ruebottom, Kevin McKague, Hamid Akbari, and Serdar Yavuz for their helpful comments on earlier drafts.
model of value creation. We argue that taking a symmetrical and subjectivist perspective can extend our understanding of the value creation model and how it relates to strategy by giving equal treatment to all agents participating in the value creation process and considering each agent’s subjective perceptions of costs and benefits.

The value creation model serves as a platform on which different theories of strategy may be compared and contrasted. This paper attempts such comparisons on the traditional model in section 2 which also provides a short review of the literature relevant to this model. Section 3 discusses insights from the existing literature that point us towards a new model based on a symmetrical subjectivist view. In section 4 we present such a model. Sections 5 and 6 then attempt to compare different strategies based on the new model and provide a broader perspective on the relationship between strategy and value creation, appropriation, and protection.

The Traditional Value Creation Model

In an attempt to clarify the meaning of competitive advantage, Peteraf & Barney (2003) presented a diagram (see also Besanko et al., 2007) which represents the traditional model of value creation in the strategy literature (figure 1). The three lines labelled on the left of this diagram will be hereafter referred to as the “C line”, “P line” and “B line” accordingly.

Figure 1

The traditional model of value creation

---

2 We consider the entire value creation, appropriation, and protection process as our main focus of analysis. However, for the sake of brevity we often refer to it as simply the value creation process or value creation model throughout the paper.

3 Figure redrawn based on Peteraf & Barney (2003), used with permission.
The model in figure one represents the consensus in the literature about the meaning of value creation. “The economic value created by an enterprise in the course of providing a good or service is the difference between the perceived benefits gained by the purchasers of the good and the economic cost to the enterprise.” (Peteraf and Barney, 2003, p. 314) Economic costs are considered equivalent to total opportunity costs. In this model we have:

\[ C < P < B \]  

Thus raising B and/or lowering C increases created value and gives more latitude to P, which then determines the share of the value appropriated by each actor by its position between B and C.

Proponents of resource-based theory (Barney and Clark, 2007; Conner, 1991) position it as a theory that deals with the entire value created (B-C) as opposed to the Industrial Organization (IO) based theories that are mainly concerned with moving the P line to increase the portion of the value appropriated to the firm (i.e. the firm’s “surplus”), and theories based on new institutional economics or transaction cost economics (TCE) which are concerned with lowering the C line. In contrasting transaction cost theory with the resource based view, Conner (1991) observes that:

Instead of viewing the firm as an “avoider of the negative,” the resource-based literature tends to see the firm as the “creator of a positive,” as creator of unique productive value. (p. 139)

The exclusive focus on cost reduction (lowering the C line) has been central to many criticisms of transaction cost theory (Dyer, 1997; Ghoshal and Moran, 1996; Madhok and Tallman, 1998; Zajac and Olsen, 1993). These authors point out that TCE lacks a theory of raising the B line and does not consider the entire B-C area of value creation. They point out that rather than “transaction costs”, the relevant focus should be “transaction value”.

Nevertheless TCE contributes greatly to our understanding of the value creation process. Its most salient contribution is the recognition of a previously neglected type of costs (i.e. transaction costs) that come into play when value appropriation involves more than one party. Recognizing these costs and their significant variance in different governance structures has important implications for competitive advantage (Williamson, 1991a, 1991b). Minimizing these costs expands the B-C area and thus contributes to value creation. Foss (2003) and Foss & Foss (2005) argue that minimizing transaction costs also creates value by enabling previously infeasible transactions. However, this argument applies to all kinds of costs.

Holding B-C constant, the position of the P line determines how much of the value is appropriated by the firm. Many authors argue that Porter’s IO-based theories (Porter, 1980, 1985) deal with moving the P line to the advantage of the firm (Barney and Clark, 2007; Lepak, Smith, and Taylor, 2007; Peteraf and Barney, 2003). Naturally, many criticisms of these theories have been based on the limitations of this focus. A theory of moving the P line while holding B-C constant is necessarily a win-lose theory (as in a zero-sum game), because one party benefits at the expense of the other.

The refusal to accept a win-lose theory which views the success of firms as detrimental to social welfare was the main thrust behind the Chicago school’s response to Bain-type IO (Demsetz, 1973) which set the foundations for resource-based theory in strategy (Barney, 2002; Conner, 1991; Foss, 2003):

In this perspective, superior firm performance can, in fact, be consistent with maximizing social welfare, since firms with special resources and capabilities are simply using them to
address customer needs efficiently and gain superior performance from doing so. (Barney, 2002, p. 55)

Such a formulation of RBV as a theory of how firms address customer needs (raise the B line) efficiently (lower the C line) and gain superior performance (appropriate a larger portion of the expanded B-C area), covers more of the value creation and appropriation process than both IO and TCE theories. However, it is debatable whether the actual RBV literature has given comprehensive and balanced treatment to the entirety of this scope (Foss, 2003; Priem and Butler, 2001a, 2001b).

Perhaps the hallmark of resource-based theory has not been more coverage of this scope but the expansion of it. With the notion of “sustained” competitive advantage (Barney, 1991; Peteraf, 1993), the RBV brought attention to the importance of isolating mechanisms (Oliver, 1997; Rumelt, 1984) that allow the firm to “protect” its value surplus. Ironically however, the literature’s focus on value protection has resulted in treatments of value creation and appropriation (lowering the C line and raising the B and P lines) being pushed into the background (Foss, 2003).

For example Coff (1999) pointed out that the RBV lacked a comprehensive theory of value appropriation (treatment of the P line) and contributed significantly to filling this gap using bargaining theory. Also, a central theme in Priem & Butler’s criticism of RBV was that demand-side characteristics that determine the value of resources (the B line) were treated as exogenous to resource-based theory (Priem and Butler, 2001a, 2001b). The debate surrounding this criticism revealed disagreements regarding the extent to which RBV needs to provide a theory of the B line (Makadok and Coff, 2002).

In summary, each of the three strategy theories discussed above deals with certain aspects of the value creation, appropriation, and protection process and each in turn has been criticized for not dealing with other aspects of the process (see table 1). As authors have pointed out in many such comparisons, this shows how all three theories can be considered complimentary.

Table 1

The scope of strategy theories based on the value creation model

<table>
<thead>
<tr>
<th></th>
<th>Includes:</th>
<th>Excludes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>IO-based theories</td>
<td>Raising the P line</td>
<td>Raising the B line</td>
</tr>
<tr>
<td></td>
<td>Lowering the C line in the form of supplier’s P line</td>
<td></td>
</tr>
<tr>
<td>Transaction cost theory</td>
<td>Lowering the C line</td>
<td>Raising the P line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Raising the B line</td>
</tr>
<tr>
<td>Resource-based theory</td>
<td>Sustaining B-C</td>
<td>Lowering the C line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Raising the P line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Raising the B line</td>
</tr>
</tbody>
</table>
Table 1 also reveals where all three theories put together are left wanting. None of them provide an adequate treatment of raising the B line. The B line is often simply denoted as “willingness-to-pay” (Helfat, 2007; Peteraf and Barney, 2003) without any consideration of where the willingness comes from. The reason why none of the theories provides a comprehensive treatment of the B line may be attributed to their roots in economics. Perceived benefits are derived from the consumer’s preferences. Economists have traditionally viewed the consumer’s preferences as a given and have considered the examination of how these preferences are formed to be outside the scope of their field. Ludwig von Mises succinctly summarizes this view:

Individuals as consumers value goods exactly so much and no more or less at a given moment because of the operation of the social and the natural forces that determine their lives. The investigation of these determining factors is the task of other sciences, not that of economics (Von Mises, 1933: 2003, p. 178).

Some researchers have argued in favour of including treatment of the B line in strategy. Priem (2007) presents a convincing argument for the significance of the B line and offers the Consumer Benefit Experienced (CBE) perspective as a treatment. Adner & Zemsky (2006) also provide further development of B line theory in strategy.

Any win-win theory of strategy must simultaneously consider value creation and value appropriation (Besanko et al., 2007). The latter without the former is a win-lose strategy and the former without the latter allows for “value slippage” (Lepak, Smith, and Taylor, 2007) which could amount to a lose-win outcome where the creator of the value does not appropriate it (Coff, 1999).

In a common classification, theories that deal with value appropriation without value creation are labelled as “strategizing” and theories that focus on value creation in the form of efficiency (lowering the C line) are labelled as “economizing” theories (Williamson, 1991). Within this framework, IO-based theories are categorized as strategizing and RBV and TCE are categorized as economizing. However, it is argued in the next section that strategizing and economizing may overlap and each may be turned upside down and transformed into the other.

**Insights for an Alternative Model**

While initially imported from economics, the value creation model lies at the core of strategy. Thus it comes as no surprise that strategic management scholars have made their own attempts at developing the theory of value that underlies strategy (Bowman and Ambrosini, 2000; Porter, 1985; Priem, 2007). In this section we discuss two major insights from the literature that lead to relaxed assumptions and allow better correspondence of the theory of value with real-life conditions. Namely, we discuss the merits of a symmetrical view, which in turn allows for simultaneous recognition of both competitive and cooperative processes, and a subjectivist view that considers the subjective perceptions of all agents involved in the value creation process. This section reviews these insights in detail. In the next section we apply these insights to develop a generalization of the value creation model.

**A Symmetrical View**

The traditional perspective considers a “value chain” (Porter, 1985) including suppliers, the focal firm, and its customers. This view has its roots in traditional cost-of-production and labour theories of
value, which hold “that a finished product is laden with value when it reaches an end user” (Priem, 2007, p. 221). However, taking a game theoretical perspective, Brandenburger and Stuart (1996) note that it is conceptually more satisfying to view the value creation process symmetrically. With respect to figure 1, this would mean being able to turn the figure upside down and change the places of the customer and the focal firm. It also means giving the same treatment to suppliers that is given to the other two agents. Figure 2 depicts a reconfiguration of figure 1 to focus on the firm-supplier relationship.

Figure 2

The value creation model reconfigured to show the firm-supplier relationship

As indicated, the new B line in figure 2 corresponds to the P line in figure 1 and the new P line in figure 2 corresponds to the C line in figure 1. This is an important observation because it demonstrates that what are prices from the perspective of one agent, may be costs or benefits from the perspective of another.

The correspondence of the P and C lines is especially interesting for strategy because it highlights the relationship between theories of the P line and theories of the C line. At least two important insights can be gained from this symmetry: (a) Any theory of lowering the C line may have the potential of being turned upside down and used as a theory of raising the corresponding P line and vice versa. (b) Any strategy of raising the P line may potentially be counter-attacked by a strategy of lowering the corresponding C line and vice versa. We discuss each aspect in turn.

For (a), consider transaction cost theory which as we have argued earlier (see table 1), is a theory of lowering the C line. This means that it may have the potential of being turned upside down and used as a theory of raising the P line. In other words, what is known as an economizing theory may be used as a strategizing theory. Such strategizing may include designing transactions in a ways that creates sunk cost commitments and asset specificity for customers. If, in the words of Williamson (1979):

\[ \text{Value Created} = (B-C) \]

\[ \text{Producer Surplus} \]

\[ \text{Supplier Surplus} \]

\[ \text{Supplier's Economic Costs} \]

\[ \text{Producer Benefits (B)} \]

\[ \text{Former P line} \]

\[ \text{Supplier Price (P)} \]

\[ \text{Former C line} \]

\[ \text{Supplier Cost (C)} \]

4 Specifically, those costs that correspond to supplier prices. In the generalized model developed later in the paper, not all costs correspond to supplier prices.
Economizing on transaction costs essentially reduces to economizing on bounded rationality while simultaneously safeguarding the transactions in question against the hazards of opportunism. (pp. 245-246)

Then, turning it upside down, strategizing on transaction costs would mean taking advantage of other's bounded rationality while opportunistically placing traps in the transactions. An example is the infamous “lock-in” strategies utilized by companies such as Microsoft (Shapiro and Varian, 1999).

In fact, it could be argued that transaction cost theory could not only be used to raise the P line, but also to protect the P-C surplus. Thus it also addresses value protection. TCE traditionally discusses isolating mechanisms such as "lock-in" and "asset specificity" from the perspective of the firm threatened by them, while RBV discusses isolating mechanisms (albeit different ones) from the perspective of the firm taking advantage of them. But as we have argued, the isolating mechanisms of TCE can also be used to strategize from the perspective of the firm taking advantage of them.

Moving on to (b), we refer to Foss (2003) and Foss & Foss (2005) who argue that transaction cost theory can be used by customers to devise strategies that counter-attack IO-based monopoly seeking strategies of the producer. Building on Barzel (1994) they describe how using TCE’s C line lowering strategies (such as contractual safeguarding) can act as a counter-strategy to the other side using Porter's P line raising strategies (monopoly creation using methods such as predatory pricing).

Brandenburger & Stuart (1996) attempt to combine figures 1 and 2 in a diagram similar to figure 3 which resembles the conventional economic view.

**Figure 3**

An expanded view of the traditional value creation model

![Figure 3](image)

Figure 3 shows how a strategy of lowering the P1 line which would be a “strategizing” activity from the perspective of figure 2, may be viewed as a C line lowering “economizing” strategy from the perspective of figure 1.

Generally however, we believe that expanding the value creation model in this fashion does not provide us with a truly “symmetrical” viewpoint. The pure symmetry we aim to achieve views customers,
producers, and suppliers all as economic agents. In this view, the value surplus of all agents must have the same generic structure, instead of one being B-P and another being P-C. While the conventional view defines the benefits of consumers as “perceived benefits” and the benefits of firms as “monetary profits”, in a truly symmetrical view the costs and benefits of all agents need to be defined similarly.

Coopetition as a Corollary of the Symmetrical View

Although the value creation model depicted in figures 1-3 helps our understanding, it also hides some important aspects of value creation. For example, the existence of the P line and the way it is viewed as the slice which determines what share each agent receives from the “economic pie” of value implies a competitive relationship between agents. Many authors have argued however, that there may also be a cooperative process involved (Hamel, Doz, and Prahalad, 1989; Jarillo, 1988; Kale, Singh, and Perlmutter, 2000; Lado, Boyd, and Hanlon, 1997). The simultaneous existence of cooperative and competitive processes in a relationship is famously known as “co-opetition” (Brandenburger and Nalebuff, 1996).

We have already argued that theories which expand their focus to include value creation in addition to value appropriation, allow for win-win outcomes. But this does not directly imply cooperation and in fact is not traditionally viewed as doing so. In other words, the focal firm is normally the sole agent of value creation in strategy theories, regardless of whether other agents win or lose.

Ramirez (1999) presents the alternative view that value can be co-produced by multiple agents and investigates the deep intellectual roots and implications of this perspective. As outlined by Ramirez, value co-production adopts a symmetric view of the value creation process where “value chains” are replaced with “value constellations”. This is similar to Brandenburger & Nalebuff’s (1996) “Value Net” concept.

Value co-production follows naturally from a symmetric view of the value creation model. If we are to view all agents as conceptual equals, then why should only one type of agent (firms) create value through “production”, while another type of agent (consumer) is limited to only “perceiving benefits”? In a symmetric model, all agents would be able to simultaneously contribute to value creation and appropriate value through perceived benefits. In the case of a simple consumer product purchase, the consumer can be conceived of as “producing” the money that is used to pay for the product, just like the firm is “producing” the product.

A Subjectivist View

Another limitation of the models depicted in figures 1-3 is that they imply objectivity in every interface5. The cost for the consumer is assumed to be exactly equal to the price set by the producer which in turn is assumed to be exactly equal to the benefits perceived by the producer. A subjectivist position holds that what any one agent perceives as the costs or benefits of a transaction is a function of that agent’s subjective preferences and perceptions and is not perfectly known by other agents.

5 Peteraf & Barney (2003) do allow one of the lines (the B line) to incorporate subjectivism by labelling it “perceived benefits”. We propose that the rest of the lines also need to incorporate subjectivism.
In economics, the subjectivist perspective has roots in Austrian economics (Böhm-Bawerk and Smart, 1891; Hayek, 1948; Lachmann, 1986; Menger, 1981; Von Mises, 1949) and is gradually establishing itself in the strategic management literature (Foss et al., 2008; Yu, 2003; Roberts and Eisenhardt, 2003). Subjectivism is defined as taking account of “the facts that individuals hold different preferences, knowledge, and expectations.” (Foss et al., 2008, p. 74).

While Austrian economics agrees with the “subjective” in subjective utility theory (Savage, 1954), it does not espouse the strict rules of this theory for preference relations and expectation calculations. Indeed, many scholars have pointed out that preferences and expectations can be imperfectly calculable, inconsistent, ambiguous, flexible, changing, etc., and this has been reaffirmed by considerable empirical evidence (Bell, Raiffa, and Tversky, 1988; Gigerenzer and Selten, 2001; Kahneman and Tversky, 2000; Tversky and Shafir, 2004). These imperfections in the mechanisms underlying human decision making are often referred to as “bounded rationality” (Simon, 1982; Klaes and Sent, 2005). Bounded rationality presents both threats and opportunities for value creation, appropriation, and protection.

A Symmetrical Subjectivist Model of Value Creation

Equipped with the insights discussed above, we are now ready to present an alternative and generalized framework for modelling the value creation process. By generalized, we mean that the traditional model can be constructed as a special case. Starting from this special case in the format of the new framework provides a useful demonstration.

In the case of the simple economic exchange, the seller firm has a product that it has developed at cost (C) and is selling at a price (P). The buyer firm pays the price (P) in order to attain the product which has a perceived benefit of (B) for it. We picture this exchange as a transaction to which both agents contribute value and from which both agents appropriate value (see figure 4).

Figure 4

The simple exchange example in a new framework
Here we have:

Value appropriated by buyer firm = \( B - P \)

Value appropriated by seller firm = \( P - C \)

Total value created = \( (B-P) + (P-C) = B - C \)

This calculation is identical to that found in Besanko et al (2007, p. 354). It is traditionally said that value is created as long as \( B > C \) and both firms would willingly engage in the transaction (appropriate a share of the value) as long as \( B > P \) and \( P > C \).

The more general model is depicted in figure 5. In this transaction, each participating firm incurs costs \( (C(X) \) and \( C(Y) \) \) and receives benefits \( (B(X) \) and \( B(Y) \) \). Value is appropriated by each firm by the perceived amount of difference between benefits and costs.

**Figure 5**

**A symmetrical subjectivist model of value creation**

It is also helpful to imagine the center rectangle in Figure 5 as a table. The two parties enter the “transaction room”, each bringing something to the table (their value contribution) and each leave the room with something from the table (their value appropriation). All this is a process in which each agent incurs costs and gains benefits and potentially involves both cooperation and competition.

The total value created equals the sum of the total value appropriated by each agent:

Total value created = \( [B(Y)-C(Y)] + [B(X)-C(X)] \)

Here we have relaxed the assumption that \( C(Y) = P = B(X) \). Value is created as long as total benefits perceived are more than total costs perceived and each agent that expects more benefits than costs and can afford the costs will be willing to engage in the transaction.
It is important to remind ourselves of the complete structure of costs as composed of both explicit opportunity costs (costs recognized in accounting practices) and implicit opportunity costs (costs the agent incurs for not engaging in any other activity he could have engaged instead of the current transaction)\(^6\). While this distinction is often pointed out as an important difference between accounting costs and economic costs (Besanko et al., 2007; Mankiw, 2008), it is often treated lightly in the strategy literature. The traditional model sets the costs of some agents equal to the price they pay to other agents but this is only part of explicit opportunity costs and does not account for implicit opportunity costs and other possible explicit opportunity costs.

In such transactions where a price \(P\) is paid by one agent \(X\) to another agent \(Y\), the structure of costs and benefits in the symmetrical subjectivist model takes the following form:\(^7\):

\[
C(X) = IC(X) + EC(X)                          \tag{2}
\]

Where IC stands for Implicit Costs and EC stands for Explicit Costs.

\[
B(X) = P + NB(X)         \tag{3}
\]

Where NB stands for Non-price Benefits or benefits gained by X in addition to the price received from Y.

\[
C(Y) = IC(Y) + P + NEC(Y)                            \tag{4}
\]

Where NEC stands for Non-price Explicit Costs or the explicit costs that Y incurs in the transaction in addition to the price paid to X.

Inequality (1) in section 2 \((C < P < B)\) formed a basis for the discussion and comparison of various strategies. Thus it is also useful to construct the upper and lower bounds for \(P\) in the new model. This can be accomplished by considering the necessary conditions for each agent to willingly engage in the transaction:

\[
B(X) > C(X)                 \tag{5}
\]

\[
B(Y) > C(Y)                 \tag{6}
\]

Plugging in (2), (3), and (4) into (5) and (6) gives:

\[
P + NB(X) > IC(X) + EC(X)                           \tag{7}
\]

\[
B(Y) > IC(Y) + P + NEC(Y)               \tag{8}
\]

Rearranging the parameters in (7) gives a lower bound for \(P\) and rearranging the parameters in (8) results in an upper bound for \(P\). Combining the two, we have:

\[
IC(X) + EC(X) – NB(X) < P < B(Y) – NEC(Y) – IC(Y)           \tag{9}
\]

---

\(^6\) We view “transaction costs” as defined in transaction cost theory to be a subset of total opportunity costs.

\(^7\) Although this is only a special case in the generalized model, the rest of this paper focuses on this special case to contrast the new model’s perspective with the traditional model.
Viewing Strategy through the Symmetrical Subjectivist Lens

The analysis of inequality (9), can give us a perspective on various strategies for value creation, appropriation, and protection. Since all the parameters on the left of (9) are costs and benefits of the seller (X) and the parameters on the right are costs and benefits of the buyer (Y), we refer to the left side as X’s side and the right side as Y’s side.

Value creation

Decreasing the lower bound and increasing the upper bound on price creates latitude for additional value appropriation, so each agent will want to accomplish both tasks from their own perspective. Decreasing the lower bound and increasing the upper bound means that both agents aim to increase NB(X) and B(Y) (or otherwise induce the perception that they have increased) while decreasing IC(X), EC(X), NEC(Y) and IC(Y) (or otherwise induce the perception that they have decreased). Note however that X and Y each have different perceptions of the value of each parameter.

Value appropriation

An agent will want to raise or lower price (push P to the left or right), depending on whether he is the buyer or the seller. A key element in gaining the ability to move P in your favour is to be able to understand and estimate the values of the parameters on the other agent’s side. Similarly, hiding information from the other side about the values of the parameters on your side is a possible value protection strategy. In other words, the agent seeking to raise the price will want to understand exactly what the maximum upper bound is, and will want to portray a higher-than-actual lower bound. The agent seeking to lower the price will want to understand exactly what the minimum lower bound is, and will want to portray a lower-than-actual upper bound. These tactics are typically accomplished through methods known under various titles such as marketing strategies, the management of information and signalling.

Put in more subjectivist terms, in price competition, X wants to be able to perceive decrease in IC(X) and EC(X) but wants Y to perceive these values higher than they are perceived by X. Similarly, X wants to be able to perceive increase in NB(X) but wants Y to perceive this value lower than it is perceived by X. As for the other side of the inequality, X wants Y to perceive as high a B(Y) and as low a NEC(Y) and IC(Y) as possible. Similar arguments apply to what Y wants to be able to perceive and what Y wants X to perceive.

Value protection

In addition to aiming to change the value of each parameter in their favour, agents want to protect parameter values from changing against their favour. This is commonly referred to as value protection and is usually accomplished through isolating mechanisms (Oliver, 1997; Rumelt, 1984) used to keep agents from reversing their perceived values. For example, if Agent X uses the isolating mechanism of

---

8 Although it may have adverse effects on other parameters.
“inimitability” (Barney, 1991) in the quality of its products, competitors of X are unable to provide the same product with the same quality to customers and thus have a lower chance of being able to provide the same perceived benefits to customers. This keeps the implicit opportunity costs of X’s customers low because they are faced with few alternative ways to gain the benefits of X’s product. However, competitors of X are not only agents that produce similar products, but also agents that produce substitute products because such agents can also increase the implicit opportunity costs of X’s customers. This is why Barney (1991) adds the isolating mechanism of “non-substitutability” to the list of preferable characteristics. But, even if X is able to utilize both inimitability and non-substitutability in product quality, the good news for competitors is that inequality (9) reveals four other parameters which could potentially break X apart from its customers. Namely, IC(X), EC(X), NB(X), and NEC(Y)\(^9\).

**Generic Strategies**

The above discussions point to generic strategies for changing the 7 parameters in inequality (9) in your favour and keeping them from changing against your favour. Examples of these generic strategies are provided in table 2.

An important cautionary note is that these strategies do not work in isolation from each other. Attempting to change one parameter in your favour may result in the change of another parameter to your disadvantage. For example, attempting to hide information from the other agent may result in that agent’s suspicion which could then result in that agent’s perceptions moving in an undesirable direction. In another example, attempting to safeguard against the other agent’s competitive tactics may result in heavy transaction costs. The ideal strategy would move all parameters in the direction favourable to you and provide the isolating mechanisms to protect these values from moving in the reverse direction. In reality however, many strategies have conflicting consequences. Still, as long as the favourable parameter changes and beneficial isolating mechanisms of a strategy outweigh the unfavourable parameter changes and harmful isolating mechanisms it may entail, the strategy is worthwhile.

---

\(^9\) For example, an institutional taboo (Oliver, 1997) may induce customers to perceive additional costs of transacting with X.
Table 2

Generic strategies based on the symmetrical subjectivist model

<table>
<thead>
<tr>
<th>Corresponding parameter</th>
<th>+ IC(X)</th>
<th>+ EC(X)</th>
<th>- NB(X)</th>
<th>&lt; P &lt;</th>
<th>+ B(Y)</th>
<th>- NEC(Y)</th>
<th>- IC(Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implicit costs of X for not engaging in any other activity instead</td>
<td>Explicit costs of this transaction for X</td>
<td>Benefits of this transaction perceived by X other than the price received from Y</td>
<td>The price paid by Y to X</td>
<td>Benefits of this transaction perceived by Y</td>
<td>Explicit costs of this transaction for Y other than the price paid to X</td>
<td>Implicit costs of Y for not engaging in any other activity instead</td>
<td></td>
</tr>
</tbody>
</table>

| Desirable direction for parameter change | ↓ | ↓ | ↑ | ↑ for X ↓ for Y | ↑ | ↓ | ↓ |

| Example strategies for dealing with customers (X’s strategy) | Remove resources from activities if they can be better used in other activities | Increase efficiency (project management methods, process reengineering, etc.) | Make the most out of the relationship (record information on consumer behaviour for later use, etc.) | Understand the other side’s costs and benefits and how they are perceived; influence their perceptions (bargaining, marketing, information management, signalling, etc.) | Create new and better quality products, increase brand prestige, make customer feel special | Reduce unnecessary hassles, make it easier for customers to purchase (e.g. online shopping) | Remove competition, create entry barriers, increase switching costs |

| Example strategies for dealing with suppliers (Y’s Strategy) | Create entry barriers for other customers of this supplier, create asset specificity for supplier (e.g. demand customized products) | Help supplier work more efficiently (for example by sharing relevant best practices) | Provide supplier with bonuses such as insider information and contacts, remind the supplier of the benefits of being affiliated with you. | Make the most out of the relationship (learn from supplier’s relevant best practices, etc.) | Reduce unnecessary contracting costs, use automated supply chain processes | Make sure to choose the best possible supplier |

Similar to the way a symmetrical view was revealed the correspondence between C line lowering and P line raising strategies, table 2 reveals symmetry as well. Some of the same strategies that a firm uses to create, appropriate, and protect value when dealing with customers, can be used to deal with
suppliers and vice versa. Also, some strategies used in our favour can be flipped upside down to work against other agents.

Discussion

In this paper we have introduced a symmetrical subjectivist view of the multi-agent value creation model. An important implication of this model results from its vividness in setting the boundaries on the unit of analysis. This unit of analysis consists of all agents participating in a specific value creating transaction and does not consider other agents that exist outside of this boundary. Therefore, when value is created in a transaction, this does not imply that social welfare has increased because the widening of the gap between costs and benefits in one transaction among a set of agents may result in the narrowing of this gap in other transactions involving other agents. For example, establishing entry barriers for competitors may lower the opportunity costs of the customer but destroys value for competitor agents who fall outside of the unit of analysis.

Another implication of the above example is that in the symmetrical subjectivist view, we need to distinguish between the value created in a transaction, and the overall value created by that transaction for a participating agent. If competitors of X go out of business, the opportunity costs of the customer decrease and value is created in the specific transaction with X, but since the overall value created for the customer involves all agents that the customer can interact with (including X’s competitors), overall value may have been destroyed for the customer. In other words, value that is brought into a specific transaction may result in value destruction outside of that transaction and thus may not be conducive to social welfare. The type of value creation that results in social welfare increases overall value appropriated by each agent in the transaction without reducing value appropriated by agents outside of the transaction.

Conclusion

After an examination of the traditional model underlying discussions of value creation in the strategic management literature, we have argued that there is much to be gained by considering a symmetrical subjectivist perspective. Using insights from various lines of literature, we presented an alternative model of the value creation process that is a generalization of the traditional model.

Based on the new model, we examined the specific case of the traditional exchange relationship. This examination revealed a new construction of upper and lower bounds for price. This construction in turn, allowed for a broader perspective on the relationship between strategy and value creation, appropriation, and protection which lie at the heart of business activity.

The symmetrical subjectivist view sets clear boundaries on the unit of analysis in value creating transactions. Whether or not value creation is compatible with social welfare depends on the type of value creation and its effect on agents outside of the transaction. When value is created in a transaction, and both agents appropriate more value from the transaction, this does not directly imply that both agents are now better off, because their relationships with agents outside of the transaction has not been considered. Thus the relevant unit of analysis for strategy development consists not only of all agents with whom a firm may have value altering interactions, but also the agents with whom those agents have value altering interactions, or in other words, the entire system of agents and transactions in which the firm is part of. This demonstrates the enormous complexity of the strategy development process.
References


London: Free Press.


