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Abstract

Firms allocate their lim lue (i.e., innovating, producing, and delivering products to the market) and appropriating value (i.e., extracting profits in the marketplace). Although both value creation and value appropriation are required for achieving sustained competitive advantage, a firm has significant latitude in deciding the extent to which it emphasizes one over the other. What effect does strategic emphasis (i.e., emphasis on value creation versus value appropriation) have on firm's financial performance? The authors address this issue by examining the effect that shifts in strategic emphasis have on stock return. They find that the stock market reacts favorably when a firm increases its emphasis on value appropriation relative to value creation. This effect, however, is moderated by firm and industry characteristics, in particular, financial performance, the past level of strategic emphasis of the firm, and the technological environment in which the firm operates. These results do not negate the importance of value creation capabilities, but rather highlight the importance of isolating mechanisms that enable the firm to appropriate some of the value it has created.

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