# Entrepreneurship & Management functions (DS3000)

Session 4

https://sites.google.com/a/iiitdm.ac.in/sudhirvs/courses/entrepreneurship-management



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# After industry analysis, what next?

- Industry analysis will tell you about the industry structure and its profitability
- Within an industry some firms are more profitable than others – why?
- It is important to understand what differentiates firms' performance – what are the sources of competitive advantage and why strategy makes a difference

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Sources of Competitive Advantage

Value Chain Analysis

# Sources of Competitive Advantage

### **Positioning Perspective:**

Sources of advantage lie in the unique configuration of value added activities that a firm performs in response to a chosen environment

Proponents of this view:
Michael Porter

**Transaction Costs Theory** 

### **Dynamic Capabilities View:**

Sources of advantage lie in the unique capabilities that a firm accumulates while performing value added activities

Proponents of this view:

David Teece, CK Prahlad

**Resource based theory** 

### **Actors & Strategic Nets:**

Sources of advantage lie in the unique manner in which a set of actors are orchestrated to generate value

Proponents of this view:
Gulati, Madhok, Hamel
Actor Network Theory

# Positioning Perspective: Transaction Cost Theory (TCE)\*\*

- (TCE), is an economic theory that seeks to explain why and how firms exist and make certain economic decisions based on the concept of transaction costs.
- Developed by Nobel laureate Ronald Coase and further expanded by scholars like Oliver Williamson,
- focuses on the costs associated with conducting economic transactions in the marketplace and how these costs influence organizational structures and behavior.
- Used by Firms for decisions on Vertical Integration vs Outsourcing

\*\* Transaction cost Theory also Know as Transaction cost economics (TCE)

# Transaction Cost Theory

### **Transaction Cost**

**Asset Specificity** 

Uncertainty

Opportunism

- Costs associated with exchange of goods and services
- Comprises of Search & Information, Contracting, Monitoring and implementation costs
- Extent to which an asset is dedicated to a particular transaction
- Extent of allocation determines the value of the asset to the original owner
- C
- Degree of risk associated with the transaction
- Degree of uncertainty drives the transaction cost as parties involved need to spend more time and money for risk mitigation
- Tendency of people to act in their own interest at the expense of others
- Causes Trust issues between parties and increases the risk of the transaction being disrupted

# Transaction Cost Theory: Question

Take the example of Apple iPhone:

 While all the Hardware components are being outsourced iOS development is done exclusively by Apple.

Use the Transaction Cost theory to explain the above strategy

# Example of Dynamic Capabilities

Resources and capabilities are the basic building blocks that organizations use to create strategies. These two building blocks are tightly linked—capabilities from using resources over time.

### **Capabilities**

(Ability to build, integrate and reconfigure internal and external competencies to address rapidly changing environments)

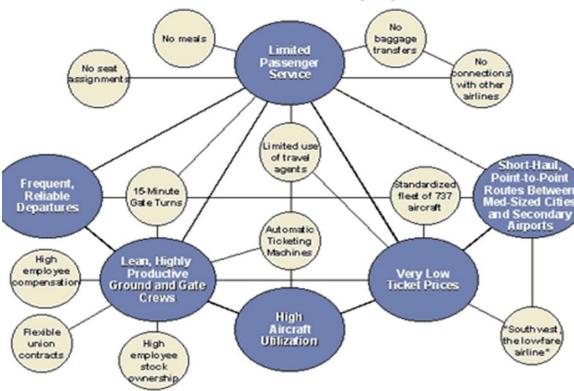
### Competencies

(Processes/Routines that enable effective use of resources)

### Resources

(incl. Technologies)

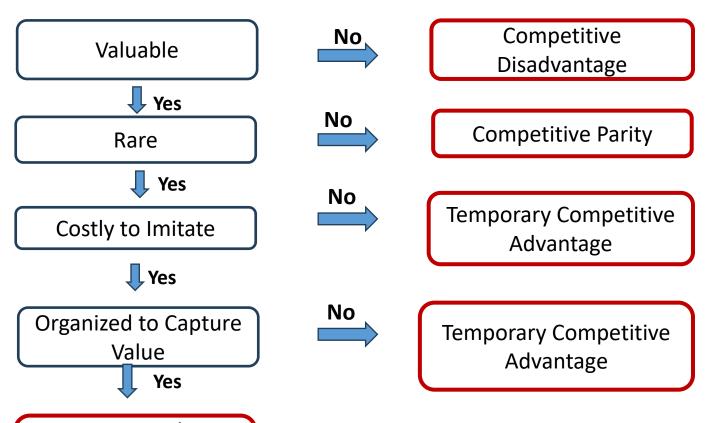
### **Southwest Airlines Activity System**



Source: Public Information

# VRIO Framework: 4 Characteristics of Strategic Resources

The key to using the Resource Based View is to evaluate a firm's resources and capabilities using the VRIO framework decision tree.



V	Valuable
R	Rare
ı	Difficult to Imitate
0	Organized to Capture Value

Sustained Competitive Advantage

Note that the decision tree is used to assess resources and capabilities, NOT a firm's products, services, or the firm itself. The evaluation occurs within the industry of the firm

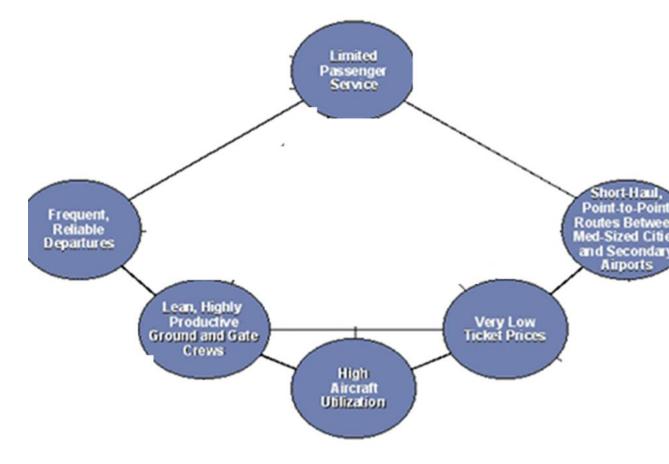
## Exercise 4.1: VRIO Framework for Tesla

Resource/Capability	Value	Rarity	Imitability	Organization
Battery Management system				
Autonomous driving Technology				
Vertical Integration				
Tesla Super Charger (Charging Infrastructure)				

### **EXAMPLE OF A VALUE CONFIGURATION**

- Identifying a set of interrelated activities in the value chain where a company can out perform competitors
- Compare with Deccan Airways

### **Southwest Airlines Activity System**



Source: Public Information

# Actor Network Theory (ANT)

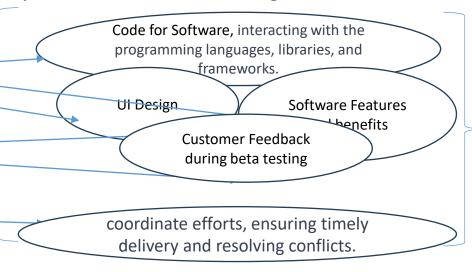
- can help in creating value by providing a framework for understanding the complex and heterogeneous nature of value creation.
- views value as being created through the interactions of a variety of actors, including humans, non-humans, ideas, and objects.
- These actors are linked together in networks of relationships, and the value that is created is the result of these relationships
- ANT can create value by focusing on the following
  - **role of non-humans:** ANT recognizes that non-humans can play a significant role in value creation. For example, a new technology can create value by providing new capabilities or by making existing processes more efficient.
  - **role of networks**: The various actors can be humans, non-humans, ideas, or objects. The value that is created is the result of these interactions.
  - **process of translation**: Translation is a process involves persuading, negotiating, and coercing other actors to join a network and contribute to the creation of value.
  - **role of circulation**: Once actors are enrolled into a network, they become resources that can be used to create value. These resources can then be circulated through the network, to other actors.

# Actor Network Theory (ANT)

Example: Consider a Software Product Company whose Product are being launched on the cloud

### **Human Actors**

- 1. Software Developers
- 2. Designers /UI and Customer experience
- 3. Cloud Service Providers/Third Party SI
- 4. Marketing and Communications
- 5. Customers / Users of the product
- 6. Project Manager

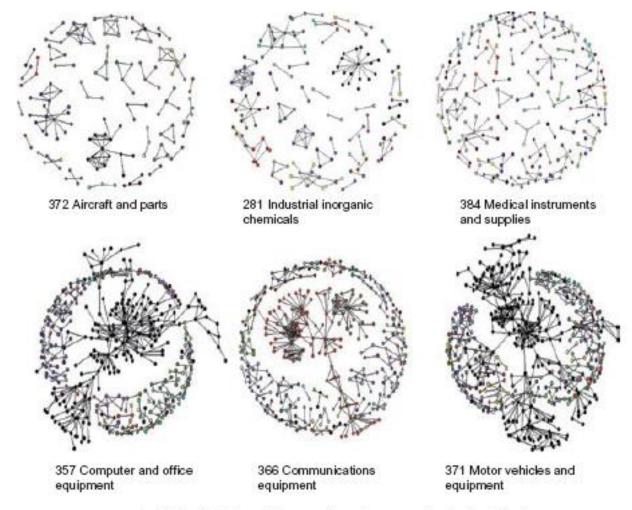


### Non-Human Actors

- 1. Software application (Central actor)
- 2. Cloud Infrastructure/Servers
- 3. User Devices
- 4. User Documentation

# Example of Strategic Networks

Alliance network structure across industries



!. Nine industry alliance networks—graphical visualizations
Source: Rosenkopf & Schilling (2007), Strategic Entrepreneurship Journal, 191-209

# Summary of questions to ask from 3 perspectives

### **Stakeholders & Goals**

- •Who are the key stakeholders?
- •What stakeholders goals are addressed by the current value proposition?
- What is the bargaining power with respect to key stakeholders?
- •Is it possible to lock-in key stakeholders?

### **Value Proposition**

- What are the elements of current value proposition?
- •How distinctive are these elements?
- •What are the key assumptions guiding these?
- •What is the cost involved in delivering this value?
- •Is it possible to configure the elements into a new value proposition?

### **Dynamic Capabilities**

- What capabilities has the organization accumulated over time by delivering certain value proposition?
- How strong and distinctive are these capabilities/assets?
- How well are they aligned to the value elements
- •Is it possible to create new value elements from current capabilities?

### Actors

- How many actors are involved in creating value?
- •Which actors help create, sustain, protect value?
- •Are these internal or external (partners)?
- •Strategic flexibility emerging from the choice of actors?

**Competitive Threat** 

- •Who are the current and potential competitors?
- •Which sources of strategic advantage cannot be easily replicated or diluted or disrupted by competitors?

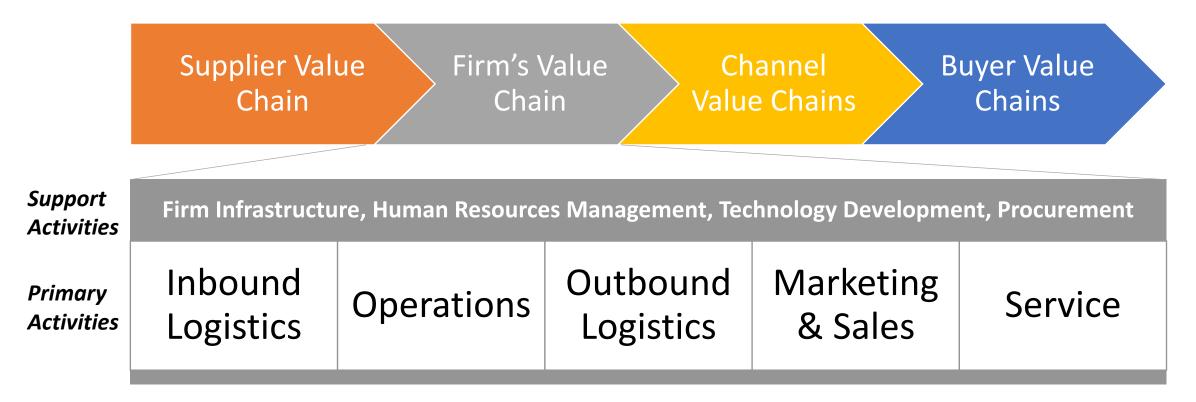
# Management Trends over the decades reflect importance of different parts of the value chain

Finance	Finance / M&A	Shareholder Value	Economic Value Added		
Accounting	Accounting	Measuring Results	Strategic Cost Redn	Extended view of accounting	
Production	Operations	Adding Value	Supply Chain Mgt	Production chain -> Value Chain	
Sales	Sales & Marketing	Sales & Marketing	Customer Value		
Personnel	Human Resource	Managing People	Engaging People	unstructured environment	
Administration	Business Policy	Leadership	Leadership	Creating meaning in an	
1940s	1960s	1980s	2000s		

## Contents

Value Chain Analysis

# Value Chain Analysis: An important Technique in the Positioning Perspective & widely used



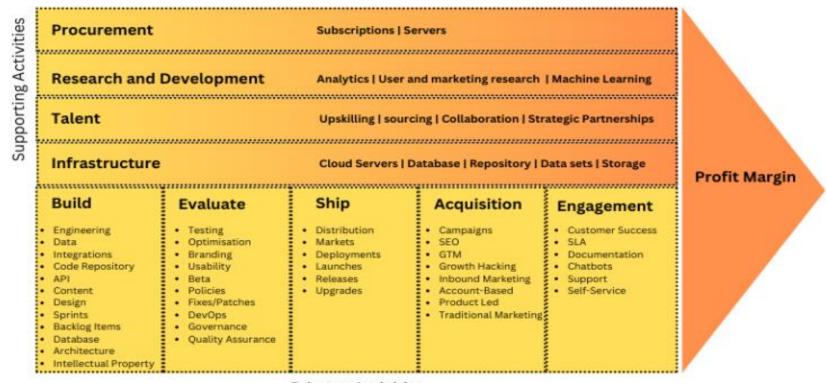
Understanding the Value that the buyers are willing to pay and the Cost of performing each activity – where you can outperform competition

# Value Chain Analysis

- Identify opportunities for improvement
- Conducting a value chain analysis prompts you to consider how each step adds or subtracts value from your final product or service. This, in turn, can help you realize some form of competitive advantage, such as:
  - Cost reduction, by making each activity in the value chain more efficient and, therefore, less expensive
  - Product differentiation, by investing more time and resources into activities like research and development, design, or marketing that can help your product stand out

# Value Chain for Digital Product Companies

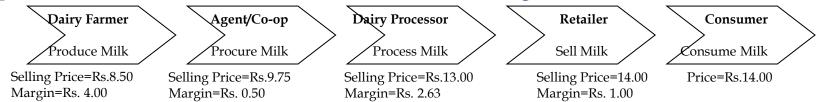
### Value Chain for Digital Product Companies



**Primary Activities** 

https://www.linkedin.com/pulse/porters-value-chain-digital-product-companies-dabo-owen-etela

Example of value chain analysis



### **Key Characteristics & Issues in Dairy Farming**

#### Production:

- Inadequate attention to dairy farming.
- •Poor yield (800-1000 litre p.a. per cow)
- Poor hygiene/quality standards
- Very few large organized farms

### Marketing:

- •Inadequate returns
- •Weak seller power (Agents buy at Rs.6 a litre while organized sector prices vary between Rs. 8-11<sup>(11)</sup>)
- Inadequate access to dairy processors
- •Delayed payments from organized cooperatives/dairy processors

### Key Characteristics & Issues in Dairy Processing

#### Production

- Under-utilization of processing capacity
- •Increased competition & disruption of supply chains
- •Marginal increase in productivity (12).
- •Inadequate attention to quality. Significant traces of pesticides in branded milk (13)

### Marketing:

- •Key differentiators are brand, product variety, price
- •Fortification with vitamins (upto 2000 IU per liter) has been initiated by a few processors (14)

### Key Characteristics & Issues of Consumers

### Availability:

Limited penetration of organized sector

#### Quality:

- Perception of quality 'loose is fresh'
- Concern about adulteration

### Price:

- Price sensitive consumers.
- •Overall consumer spending on milk and milk products increasing at the rate of 11% p.a. (15)

**Economics and Issues of Current Value Chain in Indian Dairy** 

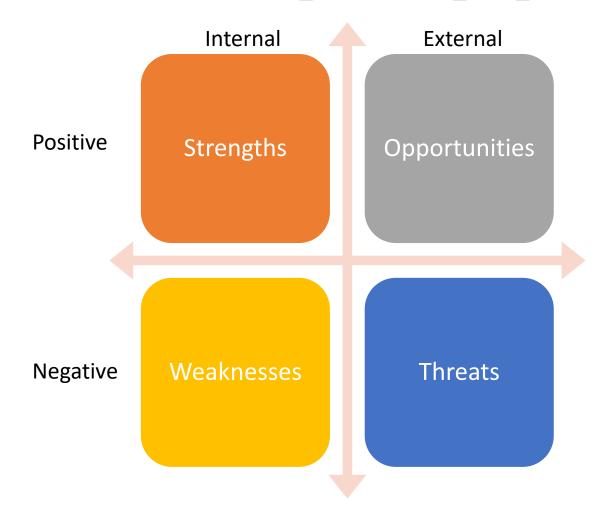
Exercise 4.2: Define your industry & firm value chain and identify your advantages & scope

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# What is strategy?

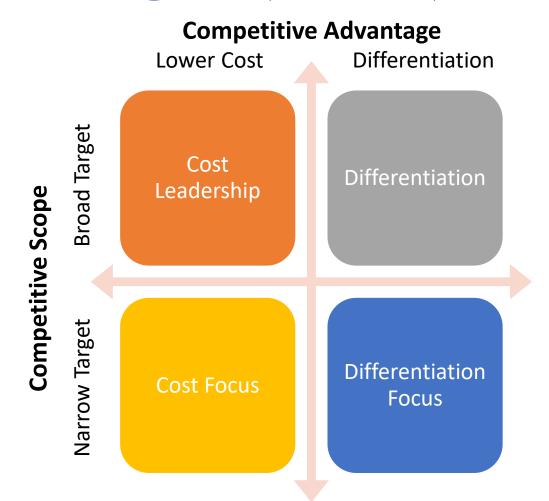
- The most basic idea of strategy is the application of strength (advantage) against the most promising opportunity and mitigate risks due to weaknesses
- Advantages could be due to scale, scope, network effects, reputation, patents, brands and several others
- Strategic choices have a big impact on the firm's future ... it is like 'concept design' in new product development

# SWOT: A simple & popular technique



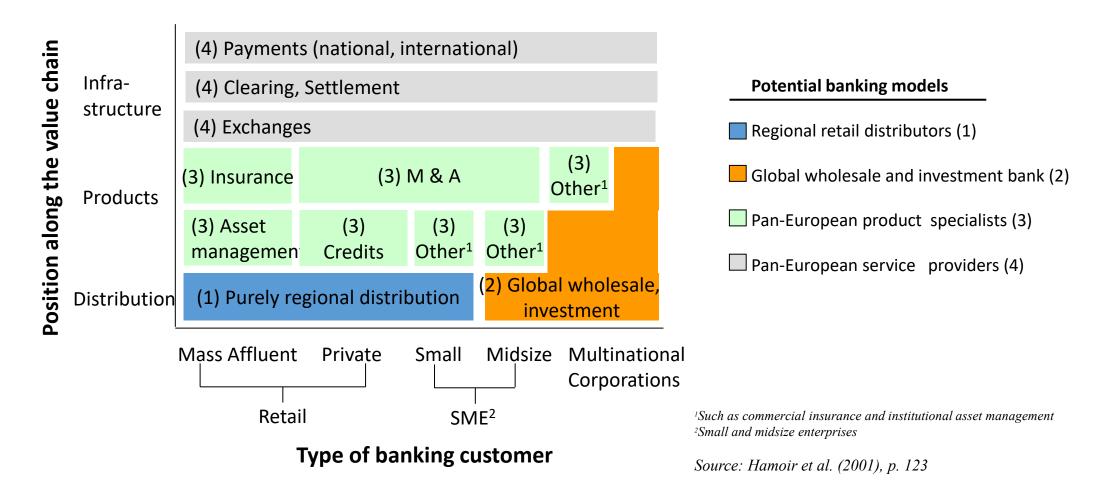
List the key points under each category and make an assessment

# Generic Strategies (Porter)



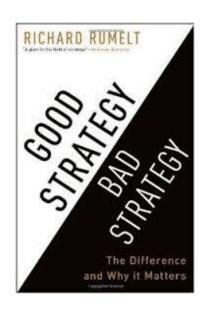
General recommendation: Firms have to make a choice between one or the other. They cannot be in both places

# Financial Industry Value Chain & Banking Models

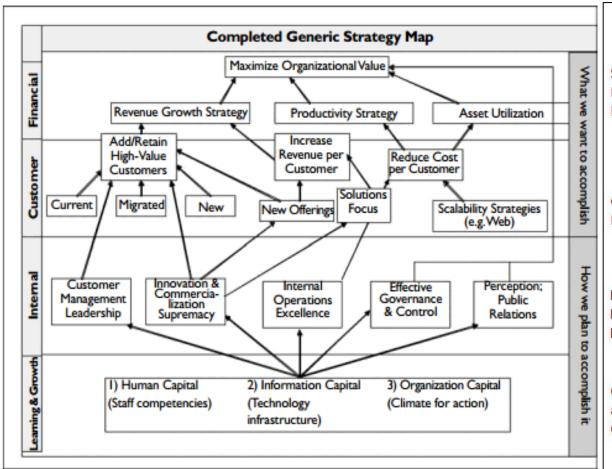


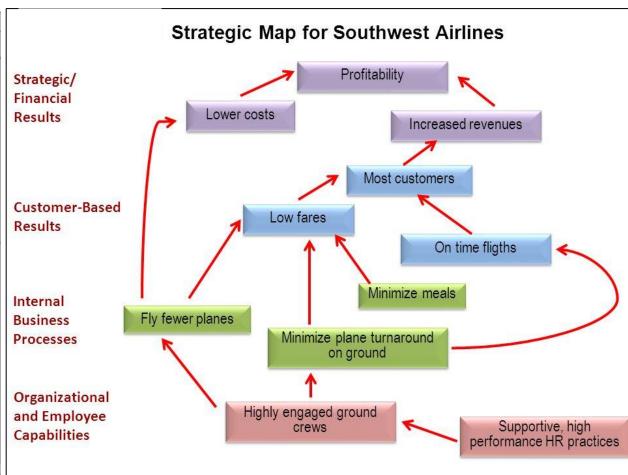
# What is a Good Strategy?

- A good strategy relies on two fundamentally important and natural sources of strength
  - A good strategy doesn't just draw on existing strength; it creates strength through the coherence of its design ... most organizations don't do this... rather they pursue multiple objectives that are unconnected with one another or worse conflict with one another
  - The creation of new strengths through subtle shifts in viewpoint. An insightful framing of a competitive situation can create whole new patterns of advantage and weaknesses. The most powerful strategies arise from such game-changing insights
  - Source: Richard Rumelt (Good Strategy, Bad Strategy)



## Kaplan & Norton's Strategy Map & Balanced Scorecard



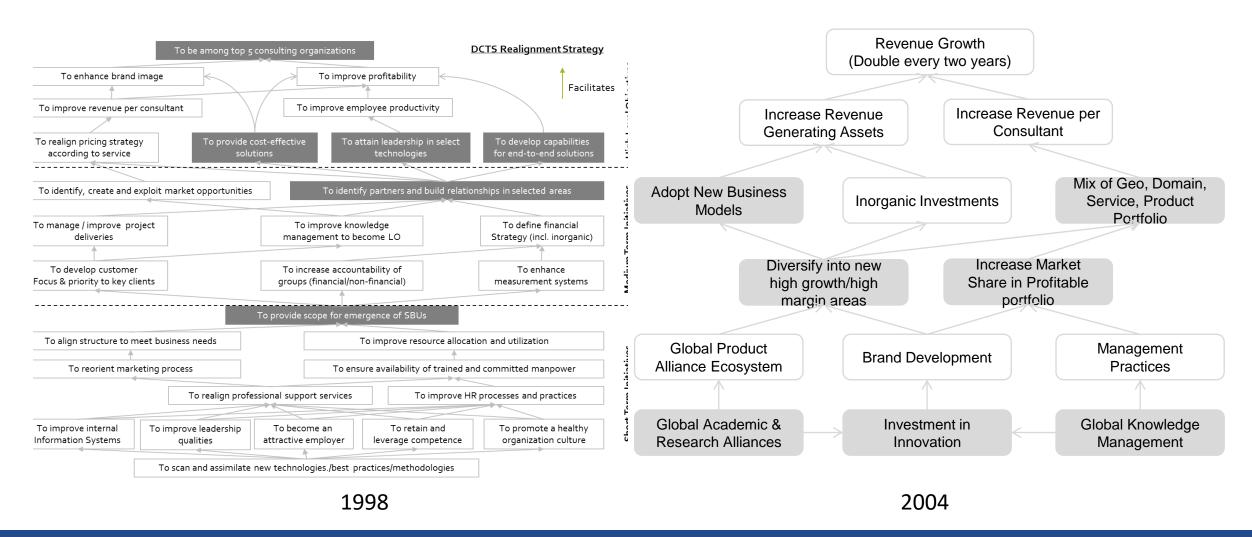


# Signs of Bad Strategy

- Failure to face the challenge ... bad strategy fails to recognize or define the challenge
- Bad strategic objectives ... when they fail to address critical issues or when they are impracticable
- Mistaking goals for strategy ... Many bad strategies are just statements of desire rather than plans for overcoming obstacles. Example, "we want to be a billion dollar company"
- Fluff... use of abstruse and unnecessary words and concepts to create the illusion of high-level thinking. Example:
  - A quote from a major retail bank "Our fundamental strategy is one of <u>customer-centric</u> intermediation"
  - "An elastic execution environment of resources involving multiple stakeholders and providing a metered service at multiple granularities for a specified level of quality of service"

Source: Richard Rumelt

# Paradoxical Challenges & Strategy Formulation





One of the few companies that is successful in dealing with paradoxes

**Singapore Airlines** 

Exercise 4.2: Formulate your business strategy — creative connection between Business-Product-Technology-Science

# Backup

# Managing Firm Resources: Southwest Airlines

Why has Southwest succeeded while many other airlines have failed?

- Southwest flies only one type of aircraft (Boeing 737)
- Potential discounts on large orders and only needing to train staff on one type of aircraft for maintenance.
- gains efficiency by not offering seat assignments in advance, unlike its competitor leading to faster Boarding process.
- Organizational culture- enjoys strong loyalty and teamwork from employees
- Does not follow a Hub and spoke model like its competitors, only direct point to point flights
- Innovative Marketing

