

Competitive Advantage and the Value Network Configuration

Making Decisions at a Swedish Life Insurance Company

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Executives in industries that facilitate transactions within a network of customers, such as financial services and telecommunications, currently face tough challenges. The factors determining success in their industries are changing rapidly and the boundaries of many of their markets are realigning. General analytical tools exist to support decision-making on these issues, but many of these tools have been devised primarily with manufacturing industries in mind. These tools may therefore require modifications in order to accommodate the underlying value creation logic of transaction services, the so called network-industries. We present a case study of a project in a Scandinavian life insurance company where the value network, an alternate value configuration analysis tool to the established value chain, was used to represent the company's activities and identify and evaluate the strategic options facing the company. The value network tool, which closely matched the executives' view of their industry and firm, proved useful in making a significant decision for the company. In particular, value network analysis channelled attention to the composition of the customer set and the mechanisms affecting the composition as being at the heart of the company's competitive position. Transaction service firms link their customers for a wide variety of purposes, such as risk sharing, financial transactions or communication. The composition and the size of the customer set are therefore important drivers of the value of service to individual customers of such firms. The experience of this case study merits further investigation of the use of different types of activity configurations depending on a given industry's underlying value creation logic. It provides insights into the types of situations in which value configuration analysis is most helpful, and gives guidance on how to identify issues for which the value network is the more powerful tool to support decision-making.

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Introduction

Since its introduction by Michael Porter in his book ‘Competitive Advantage’ (1985), the *value chain* has become the most widely used tool for representing and analyzing how companies create value.¹ The choices that a firm makes concerning its activity configuration, together with the resources that these activities leverage, are central elements of a company’s business model.²

The value chain describes the classic manufacturing firm that creates value for its customers by transforming inputs into products where the price the customer is willing to pay (and thus their value received) is higher than the per unit cost of performing the activities. Porter distinguishes between primary activities, i.e. the physical creation of a product as well as its sale, transfer to the customer, and after-sale assistance, and support activities, i.e. the provision of purchased inputs, technology, and human resources to support primary activities as well as other firm-wide functions. But while the value chain has been applied very successfully in manufacturing industries, researchers and practitioners have questioned its appropriateness for understanding firms with different underlying value creation logics.³

The value network models transaction services where firms act as intermediaries creating value by providing services that support exchanges within a network ... of people, organizations or locations.

This article discusses the use of the *value network* configuration, an alternative to the value chain introduced by Fjeldstad and Stabell in response to such concerns about the applicability of the value chain to transaction service structures. The value network configuration has previously been used in the contexts of the telecommunications services industry, e-business, business schools, and in this issue supply management.⁴ The value chain and the value network representations capture different ways in which firm’s activities interact to create value, depending on the underlying value creation logic and economics of enterprises and their associated industries. The value network models transaction services (such as insurance and telecommunications) where firms create value by providing services that support exchange within a network of nodes, which can be people, organizations or physical locations. Insurance companies allow their customers to share risks, banks intermediate payment, liquidity and risks between individuals as well as companies, telecommunication firms facilitate communication between individuals, and transportation firms move physical objects between locations. These firms are not the networks themselves; they are the intermediaries providing the networking services.

The introduction of multiple value configurations, such as the value chain and the value network, reflect the view that firms differ systematically in the way that activities relate to each other according to their underlying value creation logic, that these differences can be captured by different value configurations, and that choice of value creation has implications for the development of business strategy. We investigate these claims in a case study of how the senior executives of a Swedish group insurance company and their consultants used the value network configuration to analyze the company’s situation and develop strategic options for its future.⁵ Their case enables us to shed light on the following two research questions:

- When are value configurations relevant and effective analytical tools in companies’ decision making processes?
- How does the choice of the value network instead of the value chain as a conceptual tool affect the analysis?

With respect to the first question, two main observations stand out. First, value configurations are powerful tools for analyzing companies’ strategic positioning, although they are of relatively

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