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Establishing Effective Governance and Collaboration in Asian Operations

The complexities of Asia present many companies with daunting challenges to effective collaboration and governance. Value Network Analysis (VNA) offers companies a way to gain clarity, pinpoint deficiencies, and realize maximize benefit from an extended network of people and organizations. VNA is gaining traction among researchers and practitioners from a wide range of fields. A brief VNA case study is also presented.

The lure of Asia continues to attract multinational investment. With billions of dollars pouring into the region as firms build up their operations, Asia's share of the world's FDI has increased from 13% to 22% over the past few years. Value chains are extending across the globe, with all of the positive and negative effects of globalization in their wake. Still, as firms chase lower costs and greater market access, the complexity of operations increases dramatically. These challenging levels of complexity often threaten the ability to generate sustainable profitability in the region. Recent research among large Western firms found that while Asia represented 34% of sales potential, it accounted for 14% of sales, 5% of assets, and only 2% of their top 200 people.

The Complexity of Asia

The Asian region encompasses incredible diversity. There are over 2,200 distinct languages spoken in Asia – 415 languages are spoken in India and 235 in China. Indonesia alone has over 300 ethnicities represented among its 220 million people, which are spread over 6,000 inhabited islands and speak over 737 languages. In addition to ethnic diversity, there are significant differences in economic and political development across the region. GDP per capita in Singapore and Hong Kong is approximately US$29,000. GDP per capita in Indonesia is approximately US$1,400; in India, it is US$820. All of these differences contribute to the complexity of operating in Asia.

For most Western companies seeking markets in the region, a local distributor or agent is often assumed to be the obvious low cost, low risk mode of initial investment in Asia. Operations grow organically over time. Distributors are engaged in what are deemed attractive markets, and a regional sales office is eventually established. For firms that are sourcing, manufacturing, and prototyping in the region, these functions add to the complexity of managing operations in Asia. The network of internal and external parties is often extensive and spread across vast geographies, different languages, and distant cultures.

In managing international operations, firms rely on processes and structures that have been successful in optimizing operations and governance structures in home markets. However, in Asia, business practices and industry dynamics may be fundamentally different in ways that are not readily apparent. Without understanding these differences, efforts to optimize operations and governance structures with traditional tools (e.g. processes, procedures and organization charts) are ineffective. As a result, firms miss significant value-creating opportunities in Asia Pacific. Operational practices and governance structures must be adapted for the fundamental differences in business practices and market structures encountered in Asia. Value Network Analysis is an effective methodology that enables firms to uncover these differences and retool their approach to Asian markets.

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Value Network Analysis

Every company delivers value to its customers through a network. The complex web of suppliers, vendors, service providers, outsourcing centers, distributors, agents, and other participants surrounding a firm are resources which create value together through their interaction. The value can be tangible or intangible, public or proprietary. Every organization can be described as a value network, and every organization is part of a value network, whether a government, a hospital, an association, or an industrial enterprise.

Value Network Analysis (VNA) is a methodology that enables firms to visualize and understand how value is created, reveal gaps in collaboration, and develop effective governance capabilities. VNA views the entire system from the top down. It encompasses in its scope the internal and external participants in a value network and captures both tangible transactions and intangible knowledge flows.

In VNA, a model of the existing network (e.g. structured transactions, existing processes, traditional organizations, informal participants, and unstructured knowledge flows) enables each component to be justified for its contribution to the whole, the interaction between components accurately described, and governance structures evaluated.

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The model makes visible what is really happening and uncovers what is not captured in existing processes and structures. Insights from the existing model form the basis for a revised model and a plan for realizing maximum benefit from the overall system.

VNA is complimentary to methodologies and tools such as business process reengineering, UML, six sigma, enterprise architecture, ITIL and CMM. In fact, value networks language is finding its way into a variety of software tools and reference models.

Many Western firms with operations in Asia Pacific struggle with the complexity of operations and face challenges in governing a disparate value network. VNA offers a high level, efficient way to gain clarity and pinpoint deficiencies in operations and governance before committing significant resources to new infrastructure.

The Evolution of Value Networks

The concept of the value network is not new and can be traced back through a variety of ideas, including industrial dynamics, knowledge management, and transaction cost economics. However, recent research has generated greater interest in the application of the concept of value networks.

In 1985, Michael Porter outlined the concept of the value chain. Defined as a sequence of activities that add value to a final output, the value chain includes primary activities such as logistics, production, sales and marketing and service, as well as support activities such as administration, HR, purchasing, and R&D. While foundational, the description is focused on costs and control at the firm level. The value chain concept has since been expanded beyond the individual organization and can refer to an organization and its supply chain and distribution channels.

In 1993, Norman and Ramirez stated that “strategy is no longer a matter of positioning a fixed set of activities along a value chain… but the value creating system itself.” Strategy, then, is viewed as a social innovation where a variety of actors co-produce value. Since a single company rarely produces everything anymore, a company’s principal strategic task is the reconfiguration of its relationships and business systems.

Stabell and Fjelstad, in 1995, positioned the value chain as one of three generic value configurations. Value chains are relevant for sequential and interlinked activities. Value shops, however, are a better description for systems which mobilize resources and activities to resolve customer problems (e.g. educational institutions and hospitals). Value networks create value by facilitating exchanges among their customers (e.g. insurance companies, banks, and telephone companies).

Ehret highlighted the challenges value networks pose for companies that view relationships through traditional lenses such as CRM and buyer-seller arrangements. He reminds us that being customer focused is not the same as being market focused – articulated by Christensen in The Innovator’s Dilemma – as core customers may distract us from emerging opportunities. It is often not well understood what capabilities a company needs in order to manage a variety of relationships well in a value network. Furthermore, when the number and forms of relationships increase, managing those relationships becomes an even more important strategic issue.

Kleinaltenkamp and Ehret differentiate between different types of relationships and provide a framework for making appropriate decisions about investments in relationships. In addition to potential cash flows from specific transactions, the place a firm occupies in the larger value network is important in determining what investments to make in its relationships. The implication is that investments in business-to-business branding or in relationships with low cash flow but significant influence in a value network can be worthwhile investments.

The central questions that the value network concept seeks to address are how to create and deliver value to customers and how to determine the governance structure that will enable maximum value creation for all participants.

Case Study: Structure Corp.

Despite extensive experience in the region, Structure Corp. suffered years of low margins, small market share, and low growth in Asia Pacific. The regional markets for its products were growing rapidly, but other global and local competitors were capturing this growth. Structure had built an extensive distribution network in key markets throughout the region.

The company identified low-priced local competition and unreliable distribution partners as the main causes of its problems. To mitigate these problems and meet growth targets, the company had experimented with a variety of reengineering efforts in its distribution channels and implemented a series of staffing changes. The core problems of low margins and low growth remained. An effort to understand its own value network revealed new solutions that previous efforts did not.

> "Strategy is no longer a matter of positioning a fixed set of activities along a value chain... but the value creating system itself".

VNA revealed that the underlying issue was an approach to marketing and distribution that did not reflect local market realities, but was based instead on practices in Western markets. The Company cultivated relationships with similar buyers as in its other markets. However, there were influencers in the buying process in Asian markets that were being ignored.

As a result of VNA, the company developed new processes and governance structures. These steps enabled the company to better mobilize its resources, focus its efforts on the right influencers and decision makers in the buying process, and build new capabilities for leveraging its value network in Asia Pacific.

Conclusion

The concept of the value network is important for large and small companies, for those firms operating in Asia, and for those who are considering entry into Asian markets.

VNA offers firms a new methodology for efficiently and effectively managing the complexity of operations in Asia, for understanding how to build and manage the relationships which are critical for success in the region.

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Launched by Woodward Partners in 2007, **Woodward Fellows** is a non profit research foundation based in the United States. Woodward Fellows probes strategic management issues in Asia Pacific to better understand the challenges firms face in the region, explore the application of research to these challenges, and contribute to the research field through partnership with leading institutions. In doing so, Fellows seeks to build bridges between scholarship and practice.