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Governance Value Analysis and Marketing Strategy

The authors extend transaction cost analysis into a governance value analysis (GVA) framework to address marketing strategy decisions, especially with regard to strategies grounded in cooperative relationships. The GVA is a four-part model. Heterogeneous resources, positioning, the consequent attributes of exchange, and governance form all interact to determine success in creating and claiming value. The trade-offs among these factors are the core insight offered by the model. The authors illustrate these trade-offs and specify empirically refutable implications. Finally, they sketch directions for future work and a blueprint for managerial decision making.

Transaction cost economics has become the dominant paradigm for analyzing issues in several areas of marketing, including interfirrn relationships, channel structure, foreign market entry, and so on. A large number of empirical studies corroborate the principal refutable predictions that connect transaction attributes such as specific investments, uncertainty, and performance ambiguity to governance forms\(^1\) such as vertical integration and alliances (for a review, see Rindfleisch and Heide 1997). Despite these successes, transaction cost analysis (TCA) has made little headway into the marketing strategy literature (notable exceptions include Day and Klein 1987; Dwyer and Oh 1988). Indeed, some of the sharpest criticism of TCA has emerged from the strategy-oriented work, and it converges on common themes.

One strand contends that TCA is a mere cost-minimization calculus based on exogenous attributes of an exchange, and as such, it provides little insight into strategic marketing choices that are grounded in firm-specific differences. Hence, Hunt and Morgan (1995) charge that TCA essentially predicts that all competing firms in a market will choose identical governance forms (such as vertical integration) because they all face the same level of exogenous attributes implicated in the theory. Plainly, this is unsatisfactory, as casual observation of the sharp differences between competing firms in the same market demonstrates.

Another strand charges that TCA's single-minded focus on cost minimization provides little insight into strategic marketing choices that are undertaken principally to enhance and/or claim value\(^2\) (Zajac and Olsen 1993). According to this view, strategic alternatives that are more effective (in the sense of increasing profits) could be attractive despite concomitant losses in efficiency. A classic example would be expenditures to raise entry barriers even if the additional costs meant that some marginal output had to be sacrificed.

On occasion, these strands are joined to reject any value whatsoever that practicing managers can derive from TCA (e.g., Ghoshal and Moran 1996). When these critiques are juxtaposed against the increasing number of empirical studies that largely corroborate refutable implications from the theory, it suggests that some clarification and expansion of the approach is in order.

We propose a revision and expansion of the basic TCA model to enable it to address marketing strategy decisions more closely. Specifically, we propose and answer questions such as the following:

- **Why do firms in the same industry demonstrate starkly different approaches to bringing their products to market?**
- **How do positioning differences between firms influence the design of their supply chain and end-customer governance forms?** and
- **How do customer brand equity, technology, and channel resource differences between firms influence their supply chain and end-customer governance forms?**

To distinguish our variant, we label it “governance value analysis” (GVA), in the spirit of Zajac and Olsen’s (1993) label, “transaction value analysis.” We emphasize both value maximization and cost minimization; we incorporate heterogeneity from the resource-based view (RBV) of strategy (Peteraf 1993) and accommodate path-dependent influences (Ghemawat 1991). Day and Klein (1987) offer the first step in this direction of integrating strategy and TCA. We build on their foundation and capitalize on recent empirical and conceptual advances (e.g., Nickerson 1997) to support elements of our framework.

Marketing Strategy from a Governance Lens

Theoretical Foundations of TCA

Transaction costs associated with economic exchange include ex ante and ex post costs. Ex ante costs include the
out-of-pocket costs of negotiating contracts ("ink" costs), as well as the opportunity cost of forgone transactions. Ex post costs are the out-of-pocket costs of enforcement agreements and the opportunity cost of not shifting to more profitable activities in the light of new information (Rindfleisch and Heide 1997). At its core, TCA is an elaboration of the implications of minimizing these costs. Although the relevance of cost savings per se is self-evident, its relevance to marketing strategy decisions is not at all clear.

Williamson (1991, p. 76) first argued for the relevance of TCA to strategy by noting that "economy is the best strategy," but the ramifications of this initial statement have been underdeveloped. To address this issue, we turn to his observation that TCA can be summarized compactly as unpacking the ramifications of the Coase theorem (Williamson 1996). According to this theorem, in the absence of transaction costs, parties to an exchange will devise joint value maximizing exchanges, regardless of their power differentials or resource endowments. Wernerfelt (1994) illustrates the wide-ranging utility of this principle in his efficiency approach to designing marketing systems. Of course, transaction costs are never really at zero in the real world, so it is the subsequent implications for nonzero transaction cost worlds that are really of interest.

With positive transaction costs, the core principle of TCA is that parties will strive to align governance forms with exchange attributes to minimize the transaction costs of exchange. Why? Because such an alignment gets them closer to the desired goal of joint value maximization. Notice the logic connecting minimization of transaction costs with the maximization of joint value. In our model, we use this joint value metric as our criterion to judge the value of strategic choices. As we elaborate subsequently, greater joint value aligns itself with greater firm profits when the choice of governance form is made along TCA lines.

**Relationship to Other Strategy Models**

Contemporary strategy models are coalescing around the core processes of value creation and claiming. To discern this, consider a brief overview of prominent models of strategy. In Ghemawat's (1991) model, creation and claiming of value are the two fundamental processes that are necessary and sufficient to understand strategy. Creation of value is achieved through favorable positions\(^3\) that are commitment-intensive, or difficult to reverse, choices that involve lock-in and lock-out effects. Claiming value from these prospectively favorable positions depends on "sticky" factors or resources\(^4\) accessible to the firm. Absent access to such factors, competitors and/or end customers claim the value generated from a prospectively attractive position.

The RBV of strategy (for an overview, see Peteraf 1993) makes a similar argument. It takes a Ricardian view of competition in which greater profit flows to the holders of superior productive factors. Consider a simple stylized example of Ricardian competition. Suppose that n firms compete in a commodity market. Each competitor possesses a different set of assets and skills and thus is able to produce (i.e., create value) at a different cost (including cost of capital). Denote these costs as 1, 2, ... n, from smallest to largest. Game-theoretic analysis reveals a market-clearing price of 2 (the second-lowest cost); thus, Firm 1 enjoys an economic profit equal to the difference between the two lowest costs. Firm 2 will make a return that is just enough to cover its cost of capital. All other firms will be unprofitable.

Observe the differences between RBV and the core role of market power embedded in Porter's (1985) five-forces strategy model. The RBV invokes an efficiency view of strategy: Firm 1's profits derive from its unique skills and assets. All the firms in this stylized commodity market behave fully competitively, yet profit differences occur and persist. If the skill differences between Firm 1 and its nearest competitor erode, prices fall and the created value is not claimed.

This can be extended to more realistic markets with differentiated products with no loss in insight. Ricardian profits in these RBV models flow to firms that possess imperfectly mobile (sticky) resources that are superior to those of their competitors. In marketing, Hunt and Morgan (1995) draw on RBV principles to elaborate their resource advantage theory of competition.

Finally, Porter's (1996) recent strategy model establishes positioning and operational effectiveness as the means by which value is created and claimed. He notes that creating value is not a sufficient basis for strategic analysis if the firm cannot also claim its share of the value. He criticizes the recent trend of single-minded pursuit of operational effectiveness through practices such as benchmarking, outsourcing, and nurturing core competencies as dangerous half-truths. Both creation and claiming must be given equal attention.

The relevance of these contemporary strategy models to our effort is the burden it imposes on TCA as a strategy analysis tool. Unless TCA is capable of disclosing insights into value creation and claiming, it is highly unlikely to become a useful tool for analyzing strategic marketing choices. We therefore examine TCA from the viewpoint of creating and claiming value.

**Value Creation in TCA**

Webster (1992, p. 1) notes that the (re)emergence of cooperation among firms is a "fundamental reshaping of the field [marketing strategy]." Writing to a strategy audience, Brandenburger and Nalebuff (1997) similarly observe that firms rarely create value in isolation, particularly in advanced economies. Instead, they "align themselves with customers, suppliers and many others to develop new markets and expand existing ones" (Brandenburger and Nalebuff 1997, p. 4). Many observers of contemporary phenomena such as supply chains, strategic partnerships, and so forth echo this point. Much of the empirical work in TCA has focused on studying such cooperative interfirm ties. To organize these findings, we begin with a stylized example of value creation in a cooperative setting.

Consider a firm, A, that has a set of resources and is contemplating entering into a supply arrangement for a compo-
ponent with another firm, B, that has its own set of resources. If A desires a standardized component, B can produce it at marginal cost \( c_0 \). Because the component is standardized, neither party is required to make any partner-specific investment.\(^5\) Therefore, the marketplace (through termination of the arrangement) can discipline any inappropriate behavior by either party. Suppose that A's end product (which contains this component) offers gross benefits of \( v_A \) to the end customers, and the joint value (total margins) earned by the two firms is \( \pi_0 \).

Alternatively, B might invest some money that is specifically targeted at this component. For example, it might redesign the component to fit better with A's final product. It also might use different materials so that the weight of A's product is reduced. Broadly speaking, the effects of a partner-specific investment, \( i \), can be broken into two categories. First, such investments might reduce the marginal cost of the component down to \( c_i \). Second, they might enhance the appeal of A's end product in end customers' eyes to a higher level, \( v_i \). Let the total margins earned in the new arrangement equal \( \pi_i \).

Neither firm desires the new exchange, with the added investment cost, unless \( \pi_i \) exceeds \( \pi_0 \). This is fundamental to TCA. The model goes further: If the firms identify several possible \( \pi_i \)'s, they will consider the one with the highest incremental joint value, as per the Coase theorem. This is the often misunderstood efficiency aspect of TCA. It simply means that opportunities to realize further value should be pursued; not doing so is inefficient.

Absent such prospective gain, there is no need to contemplate any special governance form. However, the prospect of gains is not the final story. We also must consider the process by which these parties claim their share of these prospective gains.

**Value Claiming in TCA**

Recall that the prospective increase in joint value (\( \pi_i - \pi_0 \)) is the motivation for devising alternative governance forms. However, firms remain self-interested, so they will implement the activities associated with the larger joint value if and only if their own share of the joint value also exceeds their previous profits. If complex, contingent contracts were feasible, any side payment or sharing rule required to meet this own-profit constraint could be devised and enforced. We do not mean to imply that the contract design problem is trivial. The agency theory and related mechanism design approaches that offer insight into fashioning appropriate contracts to split the gains are quite complex. Nevertheless, alternative governance forms lack significance.

Suppose, however, that there are limits to comprehensive contracting. For example, specific investments become noncontractible when third parties cannot verify them easily because contractual enforcement involves third parties such as courts of law. Organizing a satisfactory split of the gains becomes nontrivial in these circumstances, and alternative governance forms become a significant matter. This is the arena of the standard TCA model.

The theory makes specific assumptions about the parties' behavior with respect to ex post bargaining behavior to split the gains. Although they cooperate to produce the gains, they remain self-interested to the point of opportunism\(^6\) within this ex post bargaining process. As such, neither party will accept less than the profits available from their individual next-best alternative. This minimum is simply their ex post costs. Each party's ex post bargaining strength determines its share of the gains beyond this minimum and is a function of three critical attributes of the transaction: specific investments, adaptation problems, and performance measurement problems. Greater exposure to each of these attributes reduces the ex post bargaining strength of the focal party.

Both parties realize that each will attempt to minimize its ex post disadvantage at the value claiming stage by (1) scaling back investment, (2) adapting less, and (3) forgoing activities that are hazardous from a measurement standpoint. All these steps reduce value creation and thus motivate the search for better governance forms. Put differently, unless governance mechanisms are devised to manage the value claiming problem, value creation is affected negatively. Thus, aligning exchanges with governance forms to maximize net value is the core problem of the standard TCA model. The integral role of value maximization in this alignment process is found most clearly in the incomplete contracting models that formalize this TCA argument (e.g., Bakos and Brynjolfsson 1993; Grossman and Hart 1986). In these models, the governance form offering the greatest joint value from the set of feasible alternatives is the one selected in the alignment process.\(^8\)

**Aligning Exchanges with Governance Forms in TCA**

We have noted that TCA characterizes exchanges along three critical attributes. Likewise, TCA clusters governance forms into three types. Although we could draw up long lists of the elements of each governance form, it is possible to summarize them compactly with reference to value creation and claiming.

*Market governance* describes the rules of arm's-length market exchanges. One variant uses spot contracts. These afford each party considerable autonomy and latitude to form and break ties, thereby keeping incentives aligned with changing circumstances, which enhances the ability to take

\(^5\)A partner-specific investment has significantly lower value in other uses. Sunk costs are the defining characteristics of these investments.

\(^6\)Opportunism is self-interest seeking with guile. There are two distinct varieties of such behavior. First, parties may engage in behavior that reduces their own cost, regardless of its effects on the total profits. An example is shirking behavior. Second, they may engage in behavior that imposes costs on their trading partner to force a more favorable rearrangement of the original terms of trade. Examples include "hold-up" threats and haggling.

\(^7\)Notice that ex post costs do not include sunk costs.

\(^8\)In particular, we focus on Bakos and Brynjolfsson (1993), who provide a numerical illustration of the general model to demonstrate that reducing the number of suppliers improves joint value when suppliers are a more important source of specific investments, and vice versa.
advantage of new opportunities (to create value). Value claiming depends entirely on the threat of loss of future business acting as the safeguard against opportunistic behavior. Another variant of market governance relies on complex contingent contracts to define more specific burdens on the parties. Although this sharpens further the incentives for creating value, it suffers at the value claiming stage because these more precisely defined burdens cannot be verified easily by third parties.

Hierarchical governance describes the rules of internalized or vertically integrated exchange. In contrast to market governance, it suffers from lower-powered incentives for value creation but is not as vulnerable to opportunism at the value claiming stage. It relies on de facto ownership or control over the relevant assets and activities to safeguard the claim to a person's share of the value created.

Relational governance includes a host of diverse forms that combine elements of the previous two types. Examples include franchising, partnering, and alliances. The unique aspect of relational governance is its reliance on mutual partner-specific investments, paired with implicit social norms to safeguard claims to shares of the value created. Although it is difficult to generalize across these diverse relational governance forms, roughly speaking, their incentives for value creation are stronger than hierarchical governance but poorer than the high-powered incentives of market governance. Likewise, their value claiming properties are stronger than the tenuous safeguards afforded by market governance, but they are weaker than the safeguards of hierarchical governance.

Each governance form is best aligned with particular exchange attribute levels. Because the empirical work on the alignment between exchange attributes and governance organizes itself according to the exchange attributes, we review extant findings in this fashion to disclose the utility of the core TCA model, as well its shortcomings for informing marketing strategy decisions. We rely heavily on Rindfleisch and Heide's (1997) recent review for summarizing the thrust of the empirical work.

Securing specific investments. When partner-specific investments offer the prospect of enhancing value creation, this poses a dilemma. On the one hand, there are ex post out-of-pocket costs from opportunistic behavior. On the other hand, scaling back these investments or forgoing the deal altogether involves ex ante opportunity costs.

The parties are motivated to devise governance forms that possess sufficient safeguards to secure these valuable but vulnerable investments in order to get as close as possible to joint value maximization. Although the empirical work on this particular prediction is quite significant and shows consistent support, virtually all the studies rely on a reduced-form version of the prediction; namely, the presence of larger specific investments will be associated with stronger governance safeguards. Tests of this reduced-form prediction are not capable of corroborating the value maximizing argument embedded in the prediction. Indeed, the reduced-form test suppresses the role of value maximization that is inherent in the preceding conceptual argument and invites counterarguments and confusion because the specific investments appear to be exogenous. The very reason for the specific investment is obscured.

This contrast between the theory and the reduced-form test in the empirical studies confuses many readers and, indeed, some of the critics. For example, Zajac and Olsen (1993, p. 132, emphasis added) aver that "transaction cost approach... in neglecting the issue of joint value, can lead... to faulty analysis." Their position is clearly not consistent with the theory reviewed previously.

A more complex alternative explanation is offered by the RBV view of strategy. According to this view (e.g., Collis 1991; Ghoshal and Moran 1996), the robust empirical finding that specialized investments tend to be governed hierarchically (internalized) can be reinterpreted as follows: Internalizing an activity facilitates the deployment of more firm-specific skills, language, and routines against that activity. Therefore, the firm internalizes those activities (or competencies) that contribute to creating superior value. Furthermore, internalization protects them from imitation. Rather than market failure on account of transaction costs, it is the advantage of hierarchical governance forms over market governance in using specific skills for value creation that drives the decision to invest in more specific assets. As a strategic choice, firms expand (internalize) into areas that are adjacent to their existing (internalized) specific assets. Notice that this ignores the TCA emphasis on comparative analysis and does not ask whether such expansion might not be achieved by contractual means, such as licensing, rather than internal expansion. Parenthetically, we note that two recent tests of these competing explanations (Poppo and Zenger 1998; Silverman 1998) support the TCA causal process over the RBV argument.

From a strategic marketing standpoint, TCA offers valuable insight into the sticky factor of specific investments that is also implicated in the strategy models just reviewed. However, the shortcoming of the TCA work is that specific assets are not treated fully endogenously. Studying marketing strategy decisions effectively requires that we endogenize specific investment decisions more explicitly.

Facilitating adaptation to uncertainty. Often, parties to an exchange find that circumstances require them to change previously planned courses of actions and decisions involving existing assets and/or abandon previous investments in favor of striking out in new directions. As before, there is an opportunity cost of value not generated by a failure to adapt, as well as out-of-pocket costs of communication and haggling over revisions in these circumstances.

To the extent that revisions can be foreseen or are small, it suffices to devise contingent contracts (i.e., do A if X occurs, do B if Y occurs), and alternative governance forms lose their significance. However, when these revisions are unforeseeable and expected to be large, contingent contracting is not feasible or is at least incomplete. Given noncon-

9Knowledge-based” and “resource-based” are used interchangeably in the strategy literature.

10We stress that both revisions of effort and obsolescence of investments are at issue.
tractability, governance forms must be devised to align with revision and/or exit needs. Specifically, the likelihood of obsolescence of previous investments calls for governance forms that facilitate faster abandonment, whereas a greater need to revise effort calls for governance forms that facilitate faster revision. Again, observe that the alignment is undertaken to ensure value maximization (accomplished through transaction cost minimization). This argument also is found most clearly in the formalized models that are emerging. For example, Wernerfelt (1997) develops a model in which value is maximized by aligning hierarchical governance forms with exchanges in which frequent or diverse changes are very important.

A large number of empirical studies exist on this matter. They are largely corroborative (see Rindfleisch and Heide 1997), but they all test two reduced-form predictions; that is, faster obsolescence is associated with shorter duration market governance forms, whereas greater revisions of effort are associated with longer duration relational governance forms. These reduced-form tests cannot distinguish the opportunity cost of the forgone value of a failure to adapt from the out-of-pocket costs of haggling. Even those rare studies that attempt to measure transaction costs inevitably track only the out-of-pocket costs (e.g., Noordewier, John, and Nevin 1990). The value creation aspects again are obscured.

From a strategic marketing standpoint, TCA offers insight into effective ways to create and claim value in uncertain environments, but as previously, this is not treated as a fully endogenous choice. Choices about served markets affect the need to revise and exit, yet this choice is never accounted for. This gap is reminiscent of the organizational theory literature linking structure to environmental uncertainty that likewise failed to account for the possibility that firms consciously may choose to avoid or accept uncertainty by selecting their task environment. Thus, the GVA model must endogenize the uncertainty that arises from strategic choices about markets and customers.

Accommodating performance measurement difficulties. It is fundamental to market governance that the parties to an exchange measure value given and received. Absent effective measurement, the high-powered incentives of market governance fail. We define performance measurement difficulty as the degree to which the value of an actor's contribution is not verifiable by ex post inspection of output. Performance measurement difficulties entail a reduction in value creation in two respects. First, there is an opportunity cost of the failure to identify and motivate the right effort (i.e., misdirected effort). Second, there are out-of-pocket costs of shirking (i.e., insufficient effort) associated with monitoring, enforcement, and termination.

In TCA, exchange parties are motivated to devise governance forms that accommodate measurement difficulties commensurate with value creating activities. Absent such governance forms, the parties must either shift to alternative activity sets that generate lower value but are easier to measure or incur large out-of-pocket costs. Notice, however, it is not the pursuit of performance measurement (or the minimization of these costs) per se that matters but the pursuit of value through adequate measurement.

Again, it is the reduced-form prediction that is tested in the empirical work; namely, performance measurement difficulties are associated with more hierarchical governance forms. Rindfleisch and Heide's (1997) review finds strong support; however, such support cannot distinguish the opportunity costs of misdirection from the out-of-pocket costs of shirking. The language in these studies focuses almost exclusively on the costs of monitoring and ignores the opportunity cost of forgone trade and value creation.

From a strategy standpoint, the challenge is clear. Strategic choices about markets and products profoundly affect the level of measurement difficulties. As previously noted, firms do not pursue minimization of performance measurement difficulties per se. They choose a level of performance measurement difficulty that maximizes value, given their strategic choices of markets and products. Thus, to address these matters, the GVA model must link firms' choices to performance measurement difficulties explicitly.

Summary. Three points emerge from our brief review. First, the empirical work lends support to the robustness of the core TCA model. This gives us confidence to use it as a foundation. Second, value maximization is integral to TCA. Unfortunately, the tests of reduced-form predictions draw attention only to the out-of-pocket costs of inefficient exchange (the friction costs), which creates the impression that TCA has a single-minded obsession with cost minimization. This is unfounded. Third and most important, the effects of strategic choices and heterogeneous resources of firms on the alignment of exchange with governance are conspicuously absent in the standard TCA model. Our expanded framework redresses these imbalances.

The Governance Value Analysis Model

Basic Structure

In Figure 1, we show that the GVA model consists of four core constructs. It begins with the familiar constructs from the TCA model reviewed previously (i.e., attributes of exchange and governance form) and incorporates two additional constructs, positioning and resources.

Positioning is defined as the particular bundle of benefits selected by the firm to be created and delivered to the target customer. Popularly called the "value proposition," this benefit-target pair is arguably the most fundamental decision in setting a marketing strategy. Given the plethora of positioning strategies, it is not possible to generate a categorization of generic positioning possibilities. Instead, we use the multiattribute benefit space model, familiar to marketers, to characterize positions. Thus, we talk about high performance (or ease of use) as a position.

Resources are defined as the scarce and imperfectly mobile skills or assets owned by a party to an exchange. Previous research efforts to catalog these resources are remarkably similar in the categories identified. For example, Day and Wensley's (1988) list can be categorized into manufacturing (engineering and design skills, availability of assembly lines, and so on), channel marketing (breadth of
coverage, sales force skills, cooperative linkages within the channel, and so on), and end-customer marketing (branding, level of advertising expenditure, level of service provided) capabilities. Simon and Sullivan (1993) organize them into technological (patents, trademarks, research and development, knowledge), marketing (brand equity, advertising), and industry (market structure, capital intensity) factors. Using these efforts as a basis, we categorize resources into (1) technological, including unique equipment, processes, and patents; (2) end-customer, including brand equity, customer loyalty, switching costs, and market share; and (3) supply chain (channel), derived from extant relationships with trading partners and including trust and goodwill of channel partners. We note that our categorization is by no means definitive but rather provides a useful point of departure for our discussion. For our purposes, it is sufficient that the three resource categories are qualitatively different in their impact on value creation and claiming. Technological resources give the firm access to superior production and quality, which reduces the cost of delivering customer benefits and enables a firm to claim value through uniqueness and scarcity of the product. End-customer resources give the firm access to positions that are more highly desired by end customers and insulate the value of these positions from competitive erosion. Finally, supply chain resources give the firms access to superior partners, which is critical when complementary components come together to create and deliver customer benefits.

Our core thesis is that the four constructs in GVA influence one another mutually. Put differently, the “best” strategic choice is the positioning option that is best matched to the resource position of the firm, the exchange attribute levels, and the governance forms deployed to manage its supply chain and end-customer exchanges. The real value of the model lies in the explication of specific value maximizing matching rules. However, we refrain from articulating an overall global prescription for strategy similar to the one described in Nickerson’s (1997) TCA model of strategy. We do not view the firm as making one giant transaction and matching it to a single governance structure. Instead, GVA is a middle-range model that addresses individual marketing strategy choices in individual product markets. Firms make many such choices at different points in time, but these individual strategy decisions are tied together because the resources of the firm transcend these individual situations. Resources typically operate at the strategic business unit (SBU) or higher (firm) level, whereas positioning operates at the product market level within an SBU. Attributes of the

11We thank an anonymous reviewer for this language.
exchange operate at or even below the level of the product market (e.g., segment level), as does governance form. Consequently, GVA is a mixed-level model.

As we noted previously, positioning, resources, exchange attributes, and governance form are chosen simultaneously and interactively, but this level of analysis is an impossibly complex matter to unpack, so we focus on a subset of the causal links. Although we recognize that positioning and resources influence each other (Figure 1, #1), we organize our discussion into separate sections on positioning and resource effects.

In the positioning section, we illustrate its direct influence on exchange attributes (Figure 1, #2) and governance (Figure 1, #4), as well as on exchange-governance alignment (Figure 1, #5). Likewise, in the resource section, we illustrate its direct influence on exchange attributes (Figure 1, #3) and governance (Figure 1, #6), as well as on exchange-governance alignment (Figure 1, #5). We proceed by illustrating empirically refutable matching rules. When possible, we discuss supply chain and end-customer exchanges separately because their governance form possibilities are markedly different. For example, vertical integration of an end customer by the firm is not a logically feasible option, whereas vertical integration is a fundamental choice in supply chain exchanges.

Positioning Effects

Specific investments by supply chain partners. Suppose that an automobile firm were to position its products as high on reliability and fit/finish attributes. For example, Toyota's cars are often described in magazine reviews as exemplifying unexceptional designs and providing high reliability and excellent fit/finish. Whitney (1992) notes that high reliability and fit/finish require the firm to innovate on assembly processes because reliability depends greatly on the quality of assembly. It is critical to note that innovations in manufacturing processes are much more specific to an assembly line than the components of an automobile, so the transactions between this firm and potential sources of these process innovations will need to be supported by high levels of specific investments.

Another example is the airline marketplace. An airline positioned to offer seamless, end-to-end travel requires a hub-and-spoke operation, which involves making much greater specific investments than an airline that positions itself to compete on a city-pair basis (Nickerson 1997). This occurs because hub assets are far less redeployable than planes and other airline assets.

We reiterate that these positions are endogenous choices. Thus, two firms competing in the same product market may choose different positions with different implications for attributes of their exchanges with supply chain partners. To return to the automobile example, one firm might position itself on reliability, whereas a competing auto firm might select a high-performance position that deemphasizes reliability and fit/finish. A sports car manufacturer might use the latter position, which demands that the firm organize to use the best available technology and components from outside sources. Its component suppliers must be persuaded to build higher performance components that are likely to be customized for the original equipment manufacturer (OEM). This requires specific investments in the OEM-supplier interface. In contrast, because its assembly processes need to be supported by fewer specific investments, the organization of this part of its supply chain will be quite different than the previous firm's.

Whitney (1992) provides empirical evidence about the dramatic differences between General Motors (GM) and Toyota that is consistent with our argument. Toyota is highly vertically integrated into its manufacturing processes, including computer-aided design and manufacturing software and equipment such as machine tools and assembly robots, whereas GM is much less integrated in these aspects. This flows naturally from the need for Toyota's assembly and manufacturing processes to be supported by much higher levels of specific investments. The causal sequence is also consistent with the idea that, even if GM desired to emphasize fit/finish, it would be less successful in realizing such a positioning choice unless its supply chain exchanges for infrastructure items were realigned appropriately.

Specific investments by end customers. The influence of positioning on specific investments extends to the end-customer exchange as well. To illustrate, a key positioning decision in many high-tech markets pertains to compatibility (or lack thereof) with competing products. Basically, firms must choose between a closed or proprietary position at one extreme and an open standard at the other extreme. With a completely proprietary position, a firm designs its product without any concern for interoperability with other competing and/or complementary products. Its interfaces are kept secret or patented. In contrast, strict adherence to an open standard requires firms to design their products in conformance with performance and/or interface specifications that are openly available to everyone.

These compatibility decisions vary across firms in the same market and are based on their respective technology and design choices and their differing ability to convert customers to their proprietary standard. To illustrate, Apple Computer chose to position itself in a proprietary (closed) standard versus the de facto open standard position chosen by IBM and its many subsequent clones (Wilson, Weiss, and John 1990).

12There is a controversy about the mutual influence of resources and positioning: RBV emphasizes the primacy of resources in determining positioning, whereas Porter (1996) emphasizes the discretion in making the positioning choice. We do not join this debate because no new theoretical leverage is afforded from the TCA perspective on this matter.

13Indeed, the absence of specific investments by airlines in the prehub era gave regulators the confidence to deregulate airlines despite highly concentrated city-pair routes. Recent analysis points to the sunk costs of a hub as the principal competitive weapon and entry-deterring device in the contemporary airline marketplace.

14Parenthetically, it is interesting to note that this is a role reversal for these two firms from their better known differences in component purchasing. Here, GM is much more vertically integrated than Toyota's famed subcontractor network (keiretsu).
When a firm chooses a proprietary position, its end customers' expenditures in people, processes, and equipment to support and use the product become vendor-specific investments. Expenditures of the same magnitude are much less vendor-specific when the seller chooses an open standard position. To observe this, compare an end customer's investment in Apple-specific software and peripherals that cannot be used with any other vendor's computers, unlike software and peripherals that can be moved from one vendor's IBM-compatible machine to another.

The familiar TCA safeguarding principle applies with full force here: Proprietary positions require stronger safeguards for customers' investments. For example, stronger commitments by the vendor may be needed to reassure customers that spares and support for peripherals and products will continue even after the particular item is no longer sold. In contrast, these matters can be left to third parties for open standard products. This illustrates an important trade-off. Because the stronger commitments are costlier governance forms, the proprietary position that necessitates them is only worthwhile if the position delivers a much higher level of benefits to customers. Thus, Apple computers must deliver greater levels of desired attributes compared with IBM compatibles to support their more complex and costlier customer governance forms.

To summarize, positions emphasizing process-derived attributes such as reliability and more proprietary locations require greater specific investments by supply chain partners and end customers, respectively (Figure 1, #2). Governance forms must be aligned with these investment needs (Figure 1, #5), or competitive disadvantages will follow predictably.

The second critical exchange attribute in GVA is uncertainty in exit and revision respects. Positioning choices affect the uncertainty attribute of supply chain exchanges, as well as end-customer exchanges (Figure 1, #2). They also influence governance choice directly (Figure 1, #4) and indirectly (Figure 1, #5). We turn to these effects next.

Uncertainty in supply chains. The cola market has been characterized in recent years by greatly increased promotional campaigns by the two market share leaders. Constantly changing advertising campaigns by Coca-Cola and Pepsi that are tightly coordinated with complex promotional calendars stand in contrast to those by smaller firms that have engaged in far fewer campaigns and less complex promotional calendars. In short, Coke and Pepsi are positioned as heavily promoted brands. Although their list prices typically exceed those of the smaller share brands, their promotional efforts ensure that one of the two leaders is available at a promoted price at virtually any given time in a store.

These intense marketing activities have increased the need for the leaders' supply chain exchanges to be prepared to revise coordinated actions often and adapt quickly relative to their smaller competitors. Muris, Scheferman, and Spiller (1992) argue that the ongoing buyout of independent bottlers by the two market share leaders represents a shift in governance form to align better with the shift in positioning. They estimate that the two firms currently own or have an equity interest in bottling operations that account for approximately two-thirds of their volume. The standard TCA prescription of increased hierarchical governance in response to greater adaptation requirements accounts for this shift. Notice that if the smaller share firms also chose to increase their promotional marketing intensity, they too would need to realign their governance forms. However, these smaller firms are disadvantaged because the economies of scale in bottling preclude them from using captive bottlers as a governance form.

An historical anomaly in this market pinpoints the competitive advantage of aligning positioning with appropriate governance forms. Although Coke and Pepsi have virtually identical marketing systems for bottled and canned soft drinks, their systems are quite different in the fountain market. Coke historically has employed a vertically integrated system for fountain sales, whereas Pepsi's independent bottlers have enjoyed perpetual exclusive franchises. If adaptation needs have increased because of the positioning shifts, we would expect that Pepsi increasingly would be disadvantaged in the fountain market because of its reliance on a less well-aligned governance form (independent bottlers). This disadvantage is magnified because fountain customers such as fast-food restaurants often cross bottler territory boundaries, and coordinating multiple bottlers to service such national accounts is difficult.

The market share differences are remarkable. Pepsi has caught up with Coke in the bottled and canned market, but Coke continues to enjoy a huge market share advantage in the fountain market. We conclude this is due to its continuing advantage in governance form.15

To summarize, positioning decisions targeting multisite, national account end customers and emphasizing high-frequency promotional calendars require facilitating higher levels of adaptation (Figure 1, #2) by the partners in the supply chain compared with their competitors. Governance mechanisms must be aligned with these adaptation needs (Figure 1, #5), or competitive disadvantages will follow predictably.

Performance measurement of supply chain partners. The third and final critical exchange attribute in GVA is the performance measurement dimension. The ability of the parties to measure the benefits and cost of each other's contributions varies enormously across different positions (Figure 1, #2). We identify two pervasive measurement issues linked to positioning choices. First, cost reduction efforts in supply chains pose far fewer measurement problems than do benefit enhancement efforts. Second, costs are far more verifiable than benefits, because the latter is often in the eye of the beholder.

For example, Lincoln Electric positions itself as a high-end supplier of welding and related equipment. Many lower-priced providers offer functionally similar equipment. All of these products can perform the minimal task expected of them, and this capability is readily measurable. In contrast, the high-end positioning of Lincoln Electric emphasizes less verifiable attributes such as more reliable operation and better quality. Lincoln transforms these benefits into a cost-

15 Alternative explanations abound for individual case histories. We posed this explanation to a senior Pepsi executive who insisted that the fountain market was not profitable anyway to either firm.
reduction position in the following way: Instead of the simple equipment sales contract normally used in this market, Lincoln uses a complex capitation program called "Guaranteed Cost Reduction." Its field engineers first audit a customer site and develop a target cost for welding operations. Lincoln then offers to install and service the required equipment, with its revenues tied to attaining and beating these targeted costs. Similar performance contracts are emerging in a variety of settings, ranging from management consulting firms to third-party logistics vendors. From a GVA standpoint, such contracts as more valuable to competitors positioned at the high end, as Lincoln Electric is.

Many contemporary procurement practices, such as just-in-time, efficient consumer response, and early supplier involvement, offer business customers the promise of lowering their cost of doing business as well as increasing their revenue stream (value enhancement). We conjecture that the relatively easier task of measuring cost reductions leads the participants in these initiatives to emphasize this aspect, often at the expense of larger but more nebulous value enhancing effects. From a GVA standpoint, large strategic gains are available to marketers that can convert these value enhancement promises creatively into measurable outcomes.

**Performance measurement by end customers.** Sellers position themselves at various locations in multiatribute benefit space. Positions at low levels of the attribute dimensions in such spaces pose fewer measurement problems than high-end positions. Verifiable performance, certification, and standards are all more robust at the low threshold level of an attribute.

End customers' difficulties in measuring benefits received for high-end product positions can be found in the literature spurred by Klein and Leffler's (1981) model. They show that a particular market governance form aligns well with positions that involve substantial levels of nonverifiable product attributes. Briefly, brand expenditures in conjunction with a price premium constitute a market governance form that safeguards buyers against quality debasement by the supplier. From a GVA standpoint, it is crucial to note that the amount of nonverifiable attributes is minimal at some threshold level of the attribute(s) and increases with positions at higher levels. Positioning at the baseline level of such an attribute or close to it does not require as much spending on brands and price premiums to create and deliver value to the customer compared with the crucial role of these costly governance forms for firms positioned far above the baseline. Quantitatively, the cost of the governance form increases dramatically (nonlinearly) as we move away from the verifiable (enforceable) baseline (Klein and Leffler 1981).

The GVA model draws some further implications about this market governance form. One implication is that any given brand is only credible in a certain price range and a corresponding range of the unverifiable attribute. This is consistent with the price bands observed in retail store assortments. Another implication is that multiple brands with-

These details are taken from a 1996 Lincoln Electric marketing brochure titled "Guaranteed Cost Reduction."
strategy in the mainframe market was characterized historically by a strong reliance on leasing. Field upgrades of software and hardware improvements commonly were undertaken across the entire installed leased base. In the 1980s, IBM departed from this strategy, supposedly because of its high cost. This coincided with fewer field upgrades and more difficulty in getting new technology to market, which were attributed by knowledgeable observers to the problem of convincing owners of expensive mainframes to budget for frequent upgrades. Recently, there has been a shift back toward leasing.\(^7\)

To summarize, state-of-the-art technology resource-based positions increase adaptation demands (Figure 1, #3) and subsequently the governance form (Figure 1, #5).

**End-customer resources: Brand equity.** Recall that end-customer resources describe those factors that give a firm access to positions that appeal more highly to customers. Brand equity is such a resource. It increases the appeal of a firm’s product such that customers are willing to pay a higher price for the branded product. Firms in the same market vary in their brand equity, and higher margins earned by one brand compared with other brands in the same category are a good indication of its greater brand equity.

The GVA model argues that brand equity influences governance directly (Figure 1, #6). Specifically, stronger brands are less able to use relational governance forms with suppliers, whereas weaker brands are more capable of using it. Conversely, stronger brands are more able to use market governance, whereas weaker brands are handicapped in using it. We illustrate these principles next.

Suppose that specific investments\(^8\) are required to support the development and manufacture of a component supplied to an OEM. As per standard TCA reasoning, these specific investments must be secured with appropriate governance forms (Figure 1, #5). In many cases, the preferred governance form consists of relational ties. Why is the ability to secure investments with relational governance poorer when the OEM has larger margins in the downstream market?

The downstream appeal of the OEM’s product is a function of the appeal of the focal component, as well as the attractiveness of the rest of the product, including OEM brand equity. When the OEM has greater brand equity and the item is tailored to the OEM, customer appeal is enhanced and there is superior value creation. However, such an OEM is in a more vulnerable position at the value claiming stage. All the margins earned by the downstream product, including those generated by the OEM’s own brand appeal, and unrelated to the activities of the supplier are nevertheless “on the table.” They become subject to the bargaining process in relational governance that determines the value claimed. Notice that in the limit, if the OEM were to earn only competitive returns, the bargaining only would occur over the joint value created in the exchange because there would be no additional margins on the table.

More precisely, the problem is that the incremental value to be split between the parties \((\pi_i - \pi_o)\) should consist ideally of the value generated from the exchange-specific activities. It should not include value generated from other resources such as brand equity. Unfortunately, these are commingled, to the detriment of the party with the greater brand equity. One party cannot appeal to ex ante bargaining power to solve this problem because ex post bargaining power is what matters in TCA. Ex post bargaining power is reduced as brand equity increases, as was shown previously.

As always, if contingent contracts were feasible, the OEM could “seal off” these other unrelated margins. Firm fixed prices are one such means. This is unrealistic because relational governance would not be considered in the first place if such contracts sufficed. In summary, relational governance forms available to weaker brand equity OEMs are unavailable to stronger brand equity OEMs. In effect, the latter firms fear their downstream profits will be siphoned away if they develop close ties with suppliers. Helper and Levine (1992) first drew attention to this trade-off and contended it explained why a firm such as Chrysler, with relatively smaller margins, was quicker to adopt closer, value enhancing keiretsu-like ties with its suppliers compared with stronger brands such as GM and Ford.

As a corollary, OEM buyers with stronger brands profit from using a larger number of competing component suppliers compared with a weaker OEM, all else being equal. Why? Observe that the importance of the suppliers’ partner-specific investments relative to the importance of the OEM brand asset increases with weaker brands, all else being equal. Reducing the number of competing suppliers gives each remaining supplier a better bargaining position with which to secure their investments. Offering such security to induce these investments is more valuable to an OEM buyer with a relatively weak brand. Thus, such firms shrink the number of vendors more aggressively than firms with stronger brand equity.

In contrast to the disabling effect of brand equity on relational governance, GVA contends that it has an enabling effect on market governance. Suppose that end customers need to make vendor-specific investments to use a firm’s products more effectively. For example, a customer might build a library of training videos in a single proprietary format (e.g., the U-Matic video format) that might reduce their training and maintenance costs. In this scenario, the customers’ investments must be secured against lock-in hazards. Otherwise, at the margin, some customers will scale back or forgo such investments, with the familiar consequence that some value creation opportunities are lost and overall sales are reduced.

Previous TCA analysis (e.g., Dutta and John 1995) shows that such customer investments can be secured with a particular market governance form called “second-sourcing.” Here, the focal firm licenses its proprietary format free of royalties (or at nominal cost) to other competing firms.\(^9\) The “invited” competition between the licensor and

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\(^7\)This account is derived from two personal interviews with marketers with long experience in the mainframe industry.

\(^8\)The same argument would hold for adaptation and measurement, the other two drivers, as well.

\(^9\)This is distinguished from the act of licensing out technology or other intellectual property for a revenue stream of license fees.
second-source licensee safeguards the customer’s value creating investments.

This is a mixed blessing. Plainly, such invited competition can wipe out profits to both firms. From a GVA standpoint, the potential value creation from second-sourcing must be balanced with a concern for claiming value with second-source competition. As it turns out, this balancing of tensions favors parties with greater brand equity in the use of this governance form.

Specifically, if the originating firm does not have sufficient brand equity (or other unique technical features) to differentiate itself after compatible products from the second-source have appeared, the value created by second-sourcing will be claimed almost totally by the user community. Xerox in the Ethernet market, IBM in the personal computer market, and AT&T in the UNIX market illustrate this effect. In each case, the additional value created for users was huge, as was evidenced by the enormous size of the markets created (Varian and Shapiro 1998). Nevertheless, little value was claimed by the firms that created the de facto standards (and “invited” competition from clones) to grow these markets. Put differently, strongly differentiated firms are more likely to be able to employ this market governance form profitably.

A related balancing effect between value creation and claiming occurs when the core item per se is valued highly by its customers. Here, lock-in hazards deter only a small number of potential customers. In these circumstances, the focal firm might forgo the additional value created from second-sourcing to claim a larger piece of a slightly smaller-sized value pie. Sony’s experience with the Beta tape format is a good example. This proprietary format succeeded in the professional marketplace because of its highly valued position in these customers’ eyes, despite the insecurity of their investments. In contrast, Beta was overwhelmed in the consumer market by the “clones” adhering to the VHS standard. The intrinsic superiority of the Beta format over VHS was not of sufficient value to casual consumers to offset the ancillary benefit of a greater number of prerecorded movies expected in the de facto standard VHS format.

To summarize, the brand equity of a firm influences the governance form in very direct ways (Figure 1, #6). Stronger brand equity makes it less feasible to exploit value creating opportunities that require relational governance forms but more feasible to exploit value creating opportunities that require securing investments with market governance.

End-customer resources: Market share. The market share of a firm is a prominent source of heterogeneity across competitors in virtually every market, and any model purporting to inform strategic decisions should be capable of analyzing market share effects. The GVA model carries the same burden, and we turn to this task next. Two size-related effects can be isolated that are principally applicable to supply chain exchanges.

Williamson (1989) provides an early TCA treatment of size effects. Assuming some economies of scale in production in an industry, he reasons that larger competitors are more able to use hierarchical governance forms at lower levels of specific investment compared with smaller competitors (Figure 1, #6). His logic is that the larger competitors sacrifice fewer scale efficiencies from internal production, so they are better able to use this safeguard to secure specific investments (or to adapt to uncertainties or better measure performance).

A related effect of size is that hierarchical governance forms are less feasible for smaller firms, on account of setup costs. The classic marketing example is the minimum level of sales needed to support the setup costs of a company sales force. Therefore, smaller-share firms often must rely on independent representatives. Using the GVA model, we conclude that smaller firms that are unable to use the hierarchical governance form should reengineer activities to scale back the specific investments required to realize their selected position. Otherwise, their disadvantages are magnified.

For example, smaller industrial firms might redesign their products to de-emphasize company-specific tooling and parts needed to fix them. Similarly, smaller-share consumer packaged goods firms that rely on independent brokers might use fewer nonprice in-store promotions than their larger competitors with company sales forces. Otherwise, the lower capability of their market governance forms to provide sufficient safeguards will create insufficient investments by their partners and diminish their ability to realize a selected position.

To summarize, smaller market share firms face greater constraints in using hierarchical governance but no special constraints with market and relational governance (Figure 1, #6).

Supply chain resources: Sales force. Selling resources such as a sales force are among the stickiest and least mobile of a firm’s resources because the sales force’s knowledge and ties to customers accrue over time. As such, they are highly path-dependent. A firm’s choices are constrained at one point in time, and in turn, this exerts an influence on its choices in subsequent periods. The principal source of this resource effect lies in the cost of switching from one governance form to another if and when changed conditions warrant a switch (Figure 1, #6). This can be advantageous or disadvantageous.

Many product lines begin at a small volume, and thus, a firm may be forced to use an independent representative force initially. Weiss and Anderson (1992) show that firms sometimes do not switch to company sales forces, even when they believe a company sales force is better aligned with the transaction costs drivers. They continue to use the original representative system because of anticipated switchover costs. Terminated representatives may retaliate by disparaging their new products and spreading the notion the firm is untrustworthy.

In a case study of a leading implantable medical device firm, we found that this firm historically used independent representatives to influence surgeons’ choices. Although surgeons had a strong influence on the purchase, they were not particularly skilled in the electronics and programming aspects of these devices. They relied on these representatives to be their trusted gateway into the firm’s technical

20 Alternatively, smaller firms can turn to relational governance to “simulate” hierarchical governance but without the setup costs.
personnel. This is a high-cost selling approach, with which these representatives earned hundreds of thousands of dollars. In recent years, cost-conscious health plans and hospitals have moved to a committee-oriented approach to buying these products. The surgeons' preferences no longer dictate matters. Multifunctional sales teams are more effective at selling to these buying committees.

However, switching to these sales teams is complicated because the representatives object to the erosion of their influence and can credibly threaten to leave and take a considerable volume of sales with them. Therefore, many of the largest firms have not switched to the more appropriate governance form. This places them at a competitive disadvantage to newer entrants that are not faced with these switchover costs.

Supply chain resources: Vertical control. A firm's ability to control a large number of downstream partners in a supply chain is a valuable resource because it enables the firm to implement systemwide changes rapidly in response to market conditions. Franchise chains can acquire this vertical control resource by offering margins greater than the opportunity cost of capital to their downstream channel partners. For example, Kaufmann and Lafontaine (1994) document substantial (hundreds of thousands of dollars per outlet) ex ante premiums21 earned by McDonald's franchisees. By allowing franchisees to earn and keep ex ante premiums, a franchisor gets the franchisee to cede control. Wealth-constrained franchisees are motivated to cooperate because of the capital loss they would sustain if terminated. These premiums generate the vertical control resource.

In a twist on the usual advantages that accrue to early entrants, maintaining vertical control poses a greater challenge to older franchise chains compared with newer entrants. Older chains face a potential erosion of this resource when their initial franchisees retire and sell to new owners at market value. The new franchisees earn smaller (or no) premiums because they paid a fully capitalized market price for these resources. For example, Kaufmann and Lafontaine (1994) document substantial (hundreds of thousands of dollars per outlet) ex ante premiums earned by McDonald's franchisees. By allowing franchisees to earn and keep ex ante premiums, a franchisor gets the franchisee to cede control. Wealth-constrained franchisees are motivated to cooperate because of the capital loss they would sustain if terminated. These premiums generate the vertical control resource.

To summarize, channel resources impose path-dependent constraints on governance form choices (Figure 1, #6).

21 Note that ex ante premiums are different than the ex post premiums featured in Klein and Leffler's (1981) approach. The former are "real" profits greater than the cost of capital, whereas the latter are follow-up period "quasi" profits greater than capital costs that only make up for early period negative returns.
FIGURE 2
GVA Blueprint for Marketing Strategy Decision Making

Step 0:
Identify activities to implement prospective position

Step 1:
Identify impact of activities on exchange attribute levels

Step 2:
Identify tentative governance form to match exchange attributes

Step 3:
Identify resource constraints on governance form

Step 4:
Modify governance form to match resources

Step 5:
Verify consistency of implemented activities with intended position

models of product positioning. When the few promising positions have been identified, a rigorous assessment of each is undertaken, as follows.

In Step 1, we identify the impact of the prospective position on the three critical exchange attributes (specific investments, uncertainty, and performance measurement difficulties). To do this, the investments and activities required to realize the position must be specified.

In Step 2, we tentatively identify the governance form that aligns with the investments and activities previously
identifying. To do this, we apply the three traditional TCA rules: Are intended investments sufficiently secured? Is necessary adaptation facilitated? Is performance ambiguity accommodated?

In Step 3, we identify the customer, technological, and channel resources of each partner. To do this, we apply the RBV principle that these resources must be sticky, scarce, and appropriable in the context of the governance form at hand.

In Step 4, we modify the tentative choice of governance from Step 2 to arrive at a revised choice of governance form. To do this, we match up the resources identified in Step 3 against the tentative governance choice to assess whether modifications are necessary. Modifications are disclosed by applying the constraints imposed by resource differences on governance form choices (e.g., strong brand equity disables relational forms but facilitates market governance, state-of-the-art technology increases adaptation demands, channel resources impose path-dependent constraints).

In Step 5, we check whether the investments and activities specified in Step 1 to realize the selected position will be implemented, given the modified governance form. To do this, we reapply the three TCA principles used in Step 2 about securing investment, facilitating adaptation, and accommodating performance ambiguity. If the investments and activities are not consistent with the positioning, we iterate back to Step 0.

When all the prospective positions have been evaluated in this fashion, the one with the largest profit is selected. It is important to note that this decision model makes no claims about global optimality. Instead, it is a comparative exercise. The model is equally useful, if not more valuable, in making modest comparative judgments, such as a comparison of the status quo position with a single new position.

We also stress that this process is not a one-time exercise. As circumstances change, the resources of the firm and its partners, the attributes of the exchange, and the governance choice set are likely to change as well. Likewise, proactive changes in positioning may be motivated by customer and competitive changes. At any point in time, the process can be reapplied. Using GVA to revisit previous decisions draws particular attention to the path-dependent constraints that arise from prior strategic choices. We trust that managers will find this blueprint useful.

REFERENCES


