



LEARNING FROM OTHERS: The Critical Issue of Management Readiness

Professor EVAN DOUGLAS

BRISBANE QUT
GRADUATE SCHOOL OF BUSINESS

OVERVIEW

- ◆ **New venture failure risk is relatively high**
- ◆ **Failures are largely due to managers**
- ◆ **Managers need to be ‘management ready’**
- ◆ **This requires management learning**
 - Learning by education, and/or
 - Learning from experience
- ◆ **What needs to be learned?**
 - Unlearn some, learn some
- ◆ **Conclusion**



WHY DO NEW VENTURES FAIL?

- ✦ Technology did not work
- ✦ Could not 'mass produce' it
- ✦ Had no intellectual property protection
- ✦ Customers did not like it
- ✦ Customers not prepared to pay enough
- ✦ Customers didn't know about us
- ✦ Insufficient experience in the industry
- ✦ Insufficient experience in the market
- ✦ Insufficient experience with start-ups
- ✦ Management had insufficient knowledge



COMPONENTS OF NEW VENTURE RISK

- ◆ **Technology risk**
 - Prototype development, IPP, mass production
- ◆ **Market risk**
 - Customer needs, incomes, and alternatives
- ◆ **Management risk**
 - Customer awareness, promotion, marketing
 - Knowledge of the industry (production)
 - Knowledge of the market (consumption)
 - Entrepreneurial Attitudes and Abilities
 - Management Education/Learning



INVESTOR READINESS

- ◆ **‘Readiness’ notion applies to any potential stakeholder**
 - Should I invest my time, my money, my BS&T?
- ◆ **Is the risk associated with the investment tolerable to me?**
 - How risk averse am I?
- ◆ **Components of Investor readiness**
 - Technology readiness
 - Market readiness
 - Management readiness



WHAT DO MANAGERS NEED TO LEARN?

- ✦ That First-mover-advantage may be a trap
- ✦ That strategic competitive advantage (sca) does not necessarily lead to Sustainable Competitive Advantage (SCA)
- ✦ How to identify the causes of Sustainable Competitive Advantage
- ✦ How to nurture and sustain the causes of their SCA
- ✦ They also need to know how much they do not know
 - ◆ And assess their own management readiness frankly



FIRST-MOVER ADVANTAGES

- ✦ Pursuit of these induces new ventures to move (too?) early, before risk is as low as it could be
 - The ‘Ready, Fire! Aim’ mentality
- ✦ What are the FMAs?
 - Technological leadership
 - ◆ Leaning Curve Advantages, Patent and R&D races
 - Pre-emption of scarce assets
 - ◆ Key Inputs, Geographic spaces, Market niches
 - Switching costs and Quality risks
 - ◆ Followers must discount to overcome these



FIRST-MOVER DISADVANTAGES

◆ Free Rider effects

- Followers learn faster, from pioneers example
 - ◆ Technology, production, marketing, management
- Followers inherit educated consumers and workers

◆ Resolution of technical uncertainty

- Industry standard is established

◆ Shifts in Technology & Customer needs

- Pioneer may have headed up the wrong path

◆ Incumbent inertia

- Pioneer may get bogged down in bureaucracy



FIRST TO MARKET, FIRST TO FAIL?

- ✦ **MIT S pioneered home computers in 1975**
 - *Businessweek* (1976) said “(MIT S is) the IBM of home computers... its early lead has made it the *de facto* standard for the industry”
- ✦ **But by 1980 Apple was the market leader, and MIT S was gone**
- ✦ **Then followed IBM, Compaq, and Dell...**
 - **Different business models**
 - ◆ **And better management**



See ‘First to Market, First to Fail?’ Tellis & Golder, *Sloan Management Review*,
Winter 1996

BETTER TECHNOLOGY vs. BETTER MANAGEMENT

- ✦ **Ampex pioneered the VCR in 1956**
 - For Hollywood and the new TV industry
- ✦ **Sony and JVC raced to develop VCRs for the mass market (over 20 years)**
 - Sony Betamax was technically superior
- ✦ **JVC engineers were first to slim tape down to allow 2-hour recordings**
 - Temporary competitive advantage- Sony followed
- ✦ **Then JVC management negotiated an exclusive contract for the best old movies**
 - Thereby gaining Sustainable Competitive Advantage!



WHERE DO SCAs COME FROM?

- ◆ The 'Resource-Based View' says that SCA depends on having exclusive control of a necessary resource
- ◆ Resources may be tangible or intangible:
 - Physical
 - Reputational
 - Organisational
 - Financial
 - Intellectual & Human
 - Technical



RESOURCE DETAILS

- ✦ **Physical**
 - Plant, equipment, location, and local amenities
- ✦ **Reputational**
 - Brand loyalty, corporate image, reputation
- ✦ **Organisational**
 - Efficiency of decision-making & systems, culture
- ✦ **Financial**
 - Cash and the firm's ability to raise capital
- ✦ **Intellectual and Human Resources:**
 - Knowledge, training and experience employees.
- ✦ **Technical:**
 - R&D labs, contracts, licenses, patents & other IPP



THE RHN FACTOR

- ◆ For SCAs, the firm must have at least one resource that is RHN:
 - *Rare*
 - *Hard to copy*
 - *Non-substitutable*
- ◆ The ‘hard’ resources (PFT) are likely to be RHN initially, but are hard to keep RHN as time passes (imitators)
- ◆ The ‘soft’ resources (ROI) are less likely to be RHN initially, but can be built up to RHN as time passes, for SCAs.
 - ◆ FMA gives window of opportunity to build these



WHY ARE RESOURCES RHN?

- ◆ Absolute scarcity of the resource?
- ◆ Monopoly ownership or control of it?
- ◆ Is technical or management knowledge locked up in patents or trade secrets?
- ◆ Too expensive to copy?
- ◆ Take too long to copy?
- ◆ Impossible to substitute using any other technology?
- ◆ Complex human inter-relationships



STRATEGIC ISSUES

- ✦ **Business model for new venture should capitalise on resources held that are RHN**
- ✦ **Three distinct groups of strategies**
 - ◆ **Launch strategy**
 - ◆ **Competitive strategy**
 - ◆ **Defensive strategy**
- ✦ **Intangible resources can be grown from zero, and strategies should be used to do so**
- ✦ **Strategies need to be put in place to protect the firm's exclusive control of the resources**



MANAGEMENT LEARNING

◆ Education

- Informal – self-directed
- Formal – teacher directed

◆ Experience

- Apprenticeships – learn from the master
- Pioneering – learn by discovering

◆ Issues include:

- ◆ Learning map
- ◆ Filter out the chaff
- ◆ Obsolete information, methods
- ◆ Expense - time and money



THE MBA OPTION

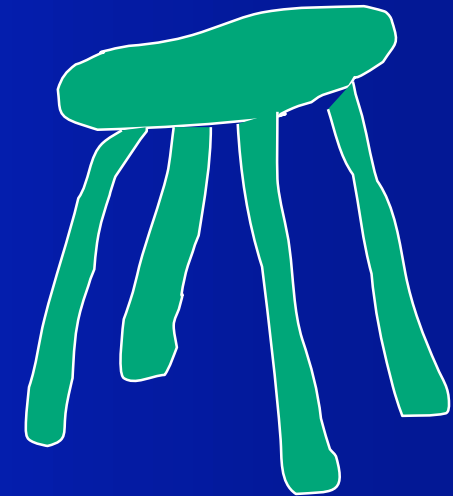
- ◆ Best added to > 2 years work experience to allow learning in a business context
 - ◆ Prior degree in any field, or may not be necessary
- ◆ Part-time MBA allows candidates to learn it on Monday, use it on Tuesday...
- ◆ Managers must be aware that they need to be 'management ready'
 - Need to take a hard look at themselves
 - ◆ 'Muddling through' might no longer be an option
 - Should consider part-time MBA studies
 - ◆ Graduate Certificate in Entrepreneurship
 - ◆ MBA with concentration or major in Entrepreneurship



SUMMARY

- ◆ **A new venture needs 4 things**

- An idea (a new technology)
- A market for that technology
- Management ability
- Sufficient funding



- ◆ **Like the legs on a chair**

- If one leg is too short, it wobbles...or falls over

- ◆ **The weak link may be management's view of its own readiness**

- Consider MBA programs in entrepreneurship



THANK YOU!

**ANY
QUESTIONS?**

