STRATEGY AND SUSTAINABLE ENTERPRISE

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BY

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Course Outcomes (COs)

CO's	Course Outcomes
CO1	Understand as to the Strategic Management Process and various tasks of Strategic Management and to comprehend the procedure for formulating and implementing strategies with case studies.
CO2	Demonstrate the importance of external environmental analysis as well prepare PESTLE Analysis and SWOT model for decision making.
CO3	Integrate and apply knowledge gained in basic courses to the formulation and implementation of strategy from holistic and multi-functional perspectives.
CO4	Demonstrate a clear understanding of the concepts, tools & techniques used by executives in developing and executing strategies and will appreciate its integrative and interdisciplinary nature.
CO5	Understand the corporate level strategy and also describe how related diversified firms create value by sharing or transferring core competencies.
CO6	Explain three primary reasons why firms move from single-and dominant strategies to more diversified strategies.
CO7	Identify the four factors that lead to a basis for international business-level strategies.
CO8	Discuss the environmental trends affecting international strategy, especially of foreignness and regionalization.
CO9	Define organizational structure and controls and discuss the difference between strategic and financial controls.
CO10	Understand the conceptual framework on Redesigning the Organization structure and control, Strategic Leadership and ethical standards in the changing environment

STRATEGIC INPUTS

Introduction to strategic management, strategic management and competitiveness, technology and technology change: vision, mission and objectives, strategic leaders, strategic management process, the external environment: opportunities, threats, competition and competitor analysis, external environmental analysis, segments of the external environment, porters 5 force model, the internal environment: resource, capabilities, competencies and competitive advantages, analyzing internal organization ,building core competencies, value chain analysis, outsourcing.

Introduction-Strategic Management

- Strategic Management can be described as the identification of the purpose of the organisation and the plans and actions to achieve that purpose. It is that set of managerial decisions and actions that determine the long-term performance of a business enterprise.

- Strategic management does not replace the traditional management activities such as planning, organising, leading or controlling. Rather, it integrates them into a broader context taking into account the external environment and internal capabilities and the organisation’s overall purpose and direction.
- In short, strategic management is about envisioning the future and realizing it.

Definition of Strategic Management

- “Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and allocation of resources necessary for carrying out these goals”.

  – ***Alfred Chandler, 1962***

- “Strategic management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives”.

  – ***Glueck and Jauch, 1984***

- “Strategic management is a process of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objective”.

  – Fed R David, 1997

Dimensions of Strategic Management

The characteristics of strategic management are as follows:

1. Top management involvement
2. Requirement of large amounts of resources
3. Affect the firm's long-term prosperity
4. Future-oriented
5. Multi-functional or multi-business consequences
6. Non-self-generative decisions

Need for Strategic Management

An increasing number of firms are using strategic management for the following reasons:

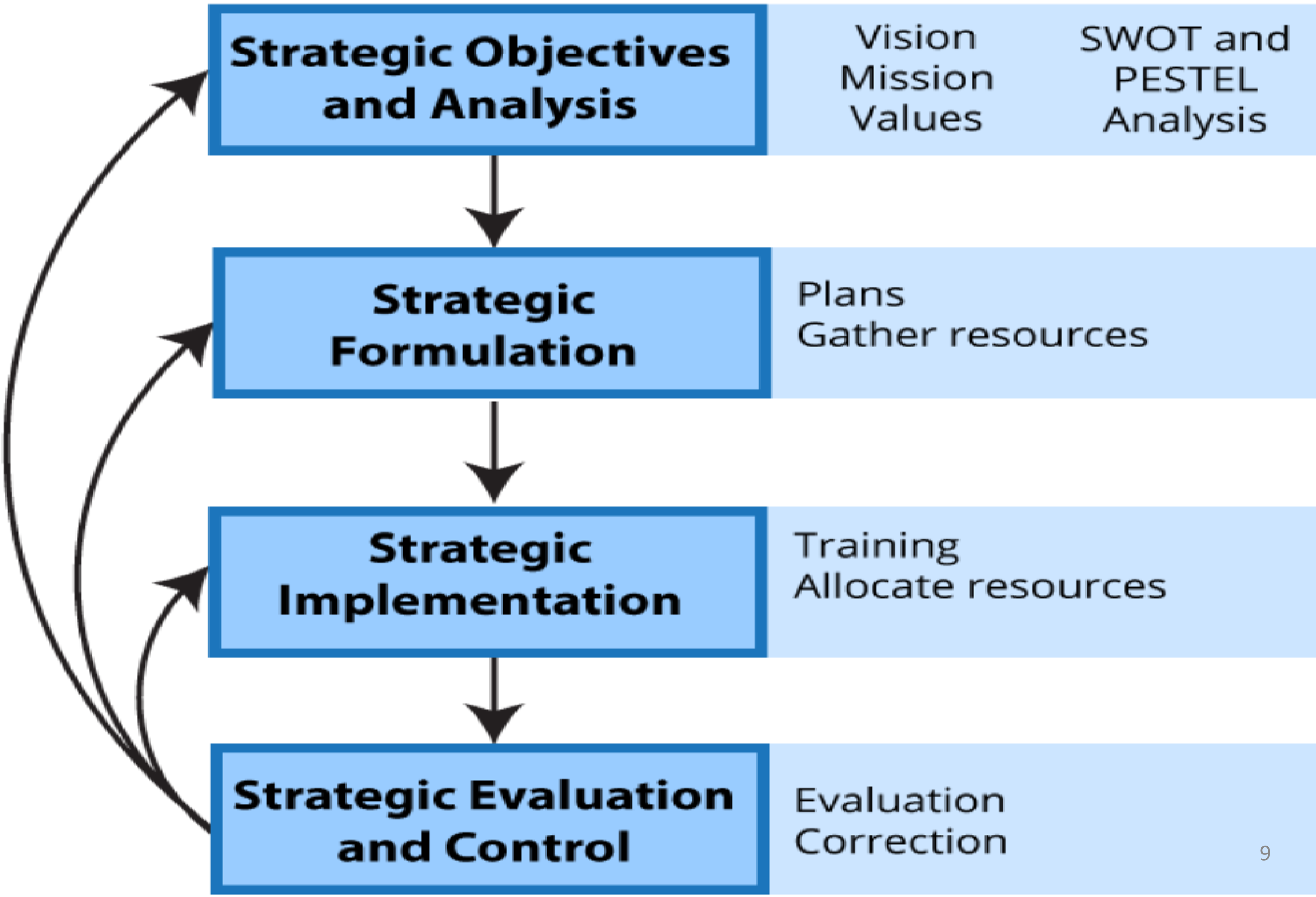
- It helps the firm to be more proactive than reactive in shaping its own future.
- It provides the roadmap for the firm. It helps the firm utilize its resources in the best possible manner.
- It allows the firm to anticipate change and be prepared to manage it.
- It helps the firm to respond to environmental changes in a better way.
- It minimizes the chances of mistakes and unpleasant surprises.
- It provides clear objectives and direction for employees.

Benefits of Strategic Management

A structured approach to strategy planning brings several benefits ***(Smith, 1995; Robbins, 2000)***

- **It reduces uncertainty:** Planning forces managers to look ahead, anticipate change and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.
- **It provides a link between long and short terms:** Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.
- **It facilitates control:** By setting out the organisation's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.
- **It facilitates measurement:** By setting out objectives and standards, planning provides a basis for measuring actual performance.

Strategic Management Process



Vision

***Richard Lynch* defines vision as** *"a challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position."*

E1-Namaki defines it *as* *"a mental perception of the kind of environment that an organisation aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception"*.

- **Examples of Vision Statements:**
- A Coke within arm's reach of everyone on the planet **(Coca Cola)**
- Encircle Caterpillar **(Komatsu)**
- Become the Premier Company in the World **(Motorola)**
- Put a man on the moon by the end of the decade (John F. Kennedy, April 1961)

Characteristics-Vision

- **It must be easily communicable:** Everybody should be able to understand it clearly.
- **It must be graphic:** It must paint a picture of the kind of company the management is trying to create.
- **It must be directional:** It must say something about the company’s journey or destination.
- **It must be feasible:** It must be something which the company can reasonably expect to achieve in due course of time.
- **It must be focused:** It must be specific enough to provide managers with guidance in making decisions.
- **It must be appealing** to the long-term interests of the stakeholders.
- **It must be flexible:** It must allow company’s future path to change as events unfold and circumstances change.

Introduction: Mission

- “A mission statement is an enduring statement of purpose”. A clear mission statement is essential for effectively establishing objectives and formulating strategies.
- As Fred R. David observes, mission statement is also called a creed statement, a statement of purpose, a statement of philosophy etc. It reveals what an organisation wants to be and whom it wants to serve.
- Thompson defines mission as *“The essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business it is in, and the customers it seeks to serve and satisfy”*.

Examples of Mission Statement

- **Ranbaxy Petrochemicals:** To become a research based global company.
- **Reliance Industries:** To become a major player in the global chemicals business and simultaneously grow in other growth industries like infrastructure.
- **ONGC:** To stimulate, continue and accelerate efforts to develop and maximize the contribution of the energy sector to the economy of the country.
- **Cadbury India:** To attain leadership position in the confectionery market and achieve a strong national presence in the food drinks sector.
- **Hindustan Lever:** Our purpose is to meet every day needs of people everywhere – to anticipate the aspirations of our consumers and customers, and to respond creatively and competitively with branded products and services which raise the quality of life.

Importance of Mission Statement

- It helps to ensure unanimity of purpose within the organisation.
- It provides a basis or standard for allocating organisational resources.
- It establishes a general tone or organisational climate.
- It serves as a focal point for individuals to identify with the organisation's purpose and direction.
- It facilitates the translation of objectives into tasks assigned to responsible people within the organisation.
- It specifies organisational purpose and then helps to translate this purpose into objectives in such a way that cost, time and performance parameters can be assessed and controlled.

Characteristics of a Mission Statement

- **Clearly articulated:** It should be easy to understand so that the values, purposes, and goals of the organisation are clear to everybody in the organisation and will be a guide to them.
- **Broad, but not too general:** A mission statement should achieve a fine balance between specificity and generality.
- **Inspiring:** A mission statement should motivate readers to action. Employees should find it worthwhile working for such an organisation.
- **It should arouse positive feelings and emotions** of both employees and outsiders about the organisation.
- **Reflect the firm's worth:** A mission statement should generate the impression that the firm is successful, has direction and is worthy of support and investment.
- **Relevant:** A mission statement should be appropriate to the organisation in terms of its history, culture and shared values.

Objectives

Objectives are the results or outcomes an organisation wants to achieve in pursuing its basic mission. The basic purpose of setting objectives is to convert the strategic vision and mission into specific performance targets. Objectives function as yardsticks for tracking an organisation's performance and progress.

- **Characteristics of Objectives:**
- Well – stated objectives should be:
    - Specific
    - Quantifiable
    - Measurable
    - Clear
    - Consistent
    - Reasonable
    - Challenging

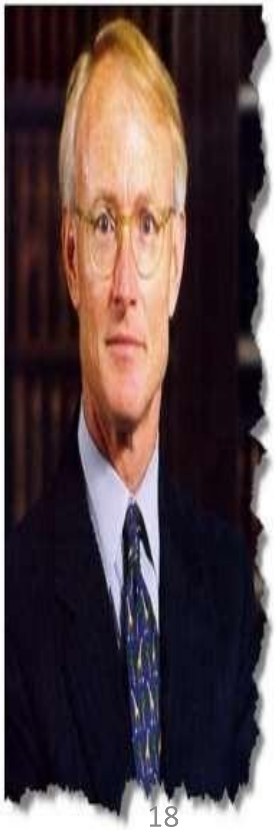
Role of Objectives

Objectives play an important role in strategic management. They are essential for strategy formulation and implementation because:

- They provide legitimacy
- They state direction
- They aid in evaluation
- They create synergy
- They reveal priorities
- They focus coordination
- They provide basis for resource allocation
- They act as benchmarks for monitoring progress

Porter’s Five Force Analysis:

Porter’s Five Forces



- Devised by Michael Porter
- A framework for analysing the nature of competition within an industry

Porter's five forces

http://yourfreetemplates.com

Introduction

- The **Five Forces Model** was developed by **Michael E. Porter** to **help companies assess the nature of an industry's competitiveness and develop corporate strategies accordingly**.
- The strength of the five forces will determine the level of profit within an industry
- that a competitor can expect to make
- Through his model, Porter classifies five main competitive forces that affect any market and all industries. It is these forces that determine how much competition will exist in a market and consequently the profitability and attractiveness of this market for a company. Through sound corporate strategies, a company will aim to shape these forces to its advantage to strengthen the organizations position in the industry.

Cont..

- This model aimed to provide a new way to use effective strategy to identify, analyze and manage **external factors** in an organization's environment.

- Porter's five forces model is an analysis tool that uses five industry forces to determine the **intensity of competition** in an industry and its **profitability level.**

- An attractive market place does not mean that all companies will enjoy similar success levels. Rather, the **unique selling propositions, strategies and processes** will put one company over the other.

- The Five Forces were Porter's conclusions on the reasons for differing levels of competition, and hence profitability, in differing industries. They are empirically derived, i.e. by observation of real companies in real markets, rather than the result of economic analysis.

Competitive Rivalry within an Industry

- This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:

- There are many competitors
- Exit barriers are high
- Industry growth is slow or negative
- Products are not differentiated and can be easily substituted
- Competitors are of equal size
- Low customer loyalty

Competitive Rivalry within an Industry - Example

- McDonald's faces tough competition because the fast food restaurant market is already saturated.
- This element of the Five Forces analysis tackles the effect of competing firms in the industry
- environment. In McDonald's case, the strong force of competitive rivalry is based on the following external factors:

- High number of firms (strong force)
- High aggressiveness of firms (strong force) Low switching costs (strong force)

- The fast food restaurant industry has many firms of various sizes, such as global chains like
- McDonald's, KFC and local fast food restaurants and road side stops (vada pav) . Also, most medium and large firms aggressively market their products. In addition, McDonald's customers experience low switching costs, which means that they can easily transfer to other restaurants. Thus, this
- element of the Five Forces analysis of McDonald's shows that competition is among the most significant external forces on the business.

Bargaining Power of Suppliers

- Strong bargaining power allows suppliers to sell higher priced or low quality raw materials to their buyers. This directly affects the buying firms' profits because it has to pay more for materials. Suppliers have strong bargaining power when:

- There are few suppliers but many buyers
- Suppliers are large and threaten to forward integrate
- Few substitute raw materials exist
- Suppliers hold scarce resources
- Cost of switching raw materials is especially high.

Example of Suppliers also influence the competiveness o industry

- The bargaining power of Toyota's supplier is **Weak**
- Toyota has many suppliers in its automotive manufacturing sector. Resources like metal, raw materials, leather, plastic, computers, cooling system, electrical system, breaking system and fuel supply system are all bought from hundreds of different suppliers and different bargaining prices distributed across the globe.
- One of the competitive advantages of Toyota is its strong relationship with the suppliers and its efficient manner of monitoring supply chain places low bargaining power on the suppliers.
- In addition most vehicle manufactures own many interchangeable suppliers, and also have the ability to produce the components by their own in the short time. Thus, the suppliers do not own the power to change the price.

Bargaining Power of Buyer

- Customers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Lower price means lower revenues for the producer, while higher quality products usually raise production costs. Both scenarios result in lower profits for producers. Customers exert strong bargaining power when:
- Buying in large quantities or control many customer
- Only few customers exist
- Switching costs to other supplier are low
- They threaten to backward integrate
- There are many substitutes
- Customers are price sensitive

Example of Bargaining power of Buyer

- Depends on the marketing channel used for Coca-Cola

  1. Super Markets
  2. Convenience Stores
  3. Soda Shop
  4. Vending Machine
  5. Restaurant and Food stores

- Bargaining power of buyer is high for fountain supermarkets and mass merchandising because of the low profitability and strong negotiation power of retail channels but for vending machine bargaining power is non-existing caused by high profitability.

Threat of New Entrants

- This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants. Threat of new entrants is high when:

- Low amount of capital is required to enter a market
- Existing companies can do little to retaliate
- Existing firms do not possess patents, trademarks or do not have established brand reputation
- There is no government regulation
- There is low customer loyalty
- Products are nearly identical
- Economies of scale can be easily achieved

Example of Threat of New Entrant – Entry of Reliance JIO Telecommunications

1. **Jio has grown at a scorching pace:-**the network, which has been adding 1- 1.2 million subscribers a day, will likely have 25 million 4G customers.
2. **Jio has set off a fierce mobile tariff war in the country:**
3. **Jio is hurting the balance sheets of other telecom companies:** Airtel saw a
   - 4.9% decline in its Q2 profit following the operator slashing data tariffs.
4. **Jio is forcing the other players to join forces:-**Vodafone and Idea Merger
5. **Jio could impact the online content market in India:-**The Jio suite offers more than 300 live streaming TV channels and hundreds of music albums and movies. This forces other incumbents to up their game in the online video streaming space.

Threat of Substitutes

- This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, to switch from coffee to tea doesn't cost anything, unlike switching from car to bicycle.

- Determining Factors :-
- First, if the consumer's switching costs are low
- Second, if the substitute product is cheaper than the industry's product
- Third, if the substitute product is of equal or superior quality compared to the industry's product, the threat of substitutes is high
- Fourth, if the functions, attributes, or performance of the substitute product are
- equal or superior to the industry's product

Example of Threat of substitutes

- EXAMPLE – THE AIRLINE INDUSTRY
- From the point of view of airlines themselves, the flying business is very competitive. There are hundreds of airlines all trying to get a bigger piece of the pie. Global recessions have also meant cost cutting exercises for most airlines in the industry and often less travel in the part of consumers.
- Depending on the nature of the airline's business, the threat of substitutes can range from lower on the scale to mid-range.
- For domestic or regional airlines or routes, there is always the option of taking a car, bus or train. It may take longer but often this consideration is outweighed by the cost advantages of substitute methods
- There is also no switching cost to deal with.
- In the case of international airlines, the threat of substitutes is almost non-existent
- On longer routes, a traveler needs to take a flight with no possible alternates
- Threat here is from competitors who may offer better rewards, better prices or a better
- flying experience
- There is also somewhat of a switching cost

SWOT Analysis

- SWOT stands for strengths, weaknesses, opportunities and threats. SWOT analysis is a widely used framework to summaries a company's situation or current position.
- SWOT analysis stands at the core of strategic management. It is important to note that strengths and weaknesses are intrinsic (potential) value creating skills or assets or the lack thereof, relative to competitive forces.
- Opportunities and threats, however, are external factors that are not created by the company, but emerge as a result of the competitive dynamics caused by 'gaps' or 'crunches' in the market.

Purposes of SWOT analysis

Strengths

- **Strong brand image**
- **High quality products**
- **Latest technology**
- **High intellectual capital**
- **Cordial industrial relations**

Weaknesses

- **Weak distribution network**
- **Narrow product lines**
- **Rising costs**
- **Poor marketing plan**

Opportunities

- **New markets**
- **Profitable new acquisitions**
- **R&D skills in new areas**
- **New businesses**

Threats

- Increase in competition
- Barriers to entry
- Change in consumer tastes
- New or substitute products
- Threat of takeover

Criticisms against SWOT analysis are:

- It generates lengthy lists
- It uses no weights to reflect priorities
- It uses ambiguous words and phrases
- The same factor can be placed in two categories (e.g. an opportunity may also be a threat).
- There is no obligation to verify opinions with data or analysis.
- It is only a simple level of analysis. There is no logical link to strategy implementation.
- SWOT helps only as a starting point. By itself, SWOT analysis rarely helps a firm develop competitive advantage that it can sustain over time.

Value Chain Analysis

Value Chain analysis is a process where a firm identifies its primary and support activities that add value to its final product and then analyse these activities to reduce costs or increase differentiation.

Value chain represents the internal activities a firm engages in when transforming inputs into outputs.

Every organisation consists of a chain of activities that link together to develop the value of the business. They are basically purchasing of raw materials, manufacturing, distribution, and marketing of goods and services.

Essentially, Porter linked two areas together:

- the added value that each part of the organisation contributes to the whole organisation; and
- the contribution that each part makes to the competitive advantage of the whole organisation.

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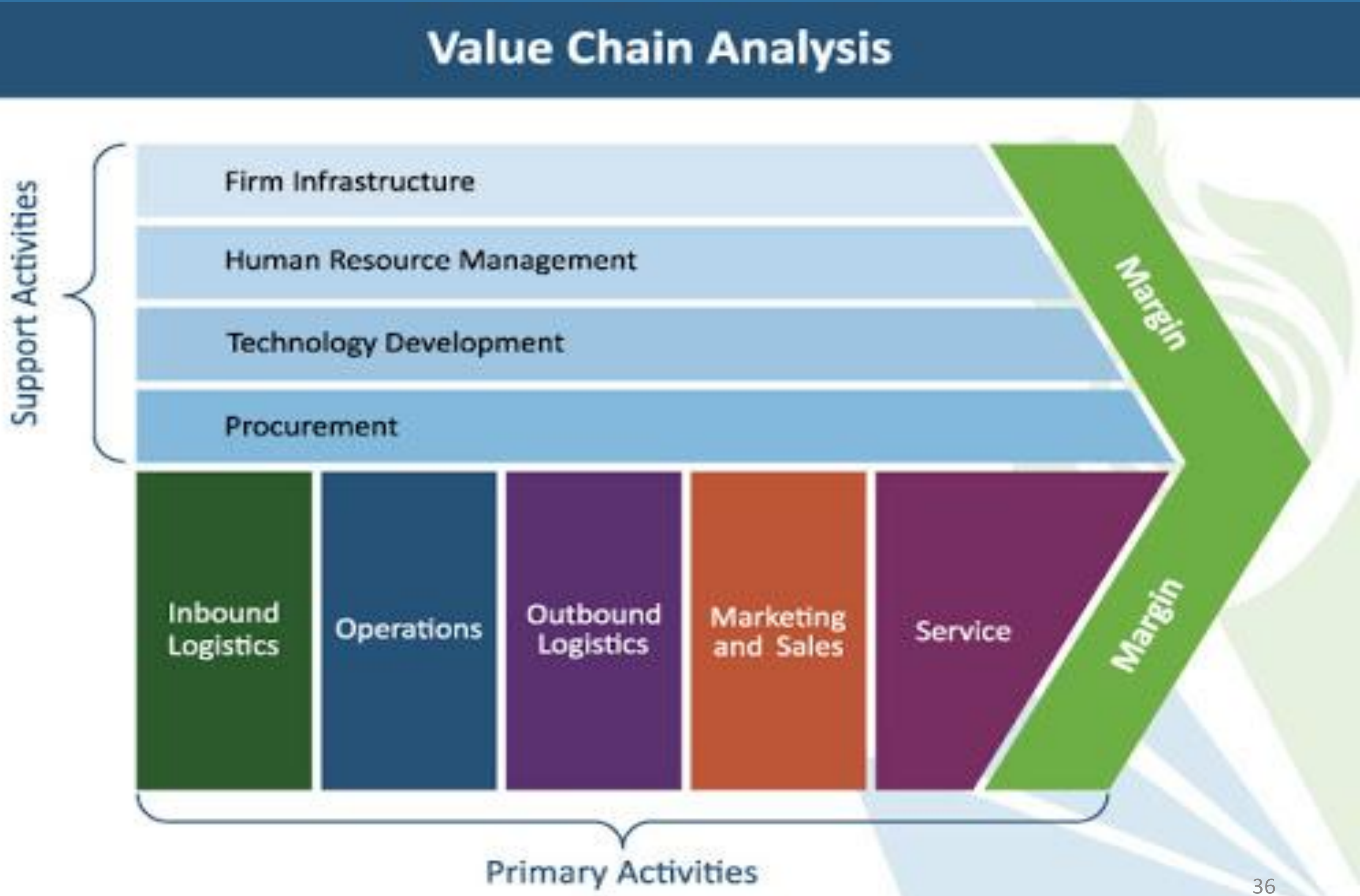


Value Chain Analysis
Support Activities
Firm Infrastructure
Human Resource Management
Technology Development
Procurement
Margin
Inbound Logistics
Operations
Outbound Logistics
Marketing and Sales
Service
Margin
Primary Activities

Cont..,,

- According to Porter, value chain activities are divided into two broad categories, as shown in the figure.

  1. Primary activities
  2. Support activities

- ***Primary activities*** contribute to the physical creation of the product or service, its sale and transfer to the buyer and its service after the sale.
- ***Support activities*** include such activities as procurement, HR etc. which either add value by themselves or add value through primary activities and other support activities.
- Advantage or disadvantage can occur at any one of the five primary and four secondary activities, which together form the value chain for every firm.

Primary Activities

Inbound Logistics

These activities focus on inputs. They include material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers of inputs and raw materials.

Operations

These include all activities associated with transforming inputs into the final product, such as production, machining, packaging, assembly, testing, equipment maintenance etc.

Outbound Logistics

These activities are associated with collecting, storing, physically distributing the finished products to the customers. They include finished goods warehousing, material handling and delivery, vehicle operation, order processing and scheduling.

Primary Activities

Marketing and Sales

These activities are associated with purchase of finished goods by the customers and the inducement used to get them buy the products of the company. They include advertising, promotion, sales force, channel selection, channel relations and pricing.

Services

This includes all activities associated with enhancing and maintaining the value of the product. Installation, repair, training, parts supply and product adjustment are some of the activities that come under services

Support Activities

Procurement:

Activities associated with purchasing and providing raw materials, supplies and other consumable items as well as machinery, laboratory equipment, office equipment etc.

Technology Development

Activities relating to product R&D, process R&D, process design improvements, equipment design, computer software development etc.

Human Resource Management

Activities associated with recruiting, hiring, training, development, compensation, labour relations, development of knowledge-based skills etc.

Firm Infrastructure

Activities relating to general management, organisational structure, strategic planning, financial and quality control systems, management information systems etc.

Examine the Value Chain

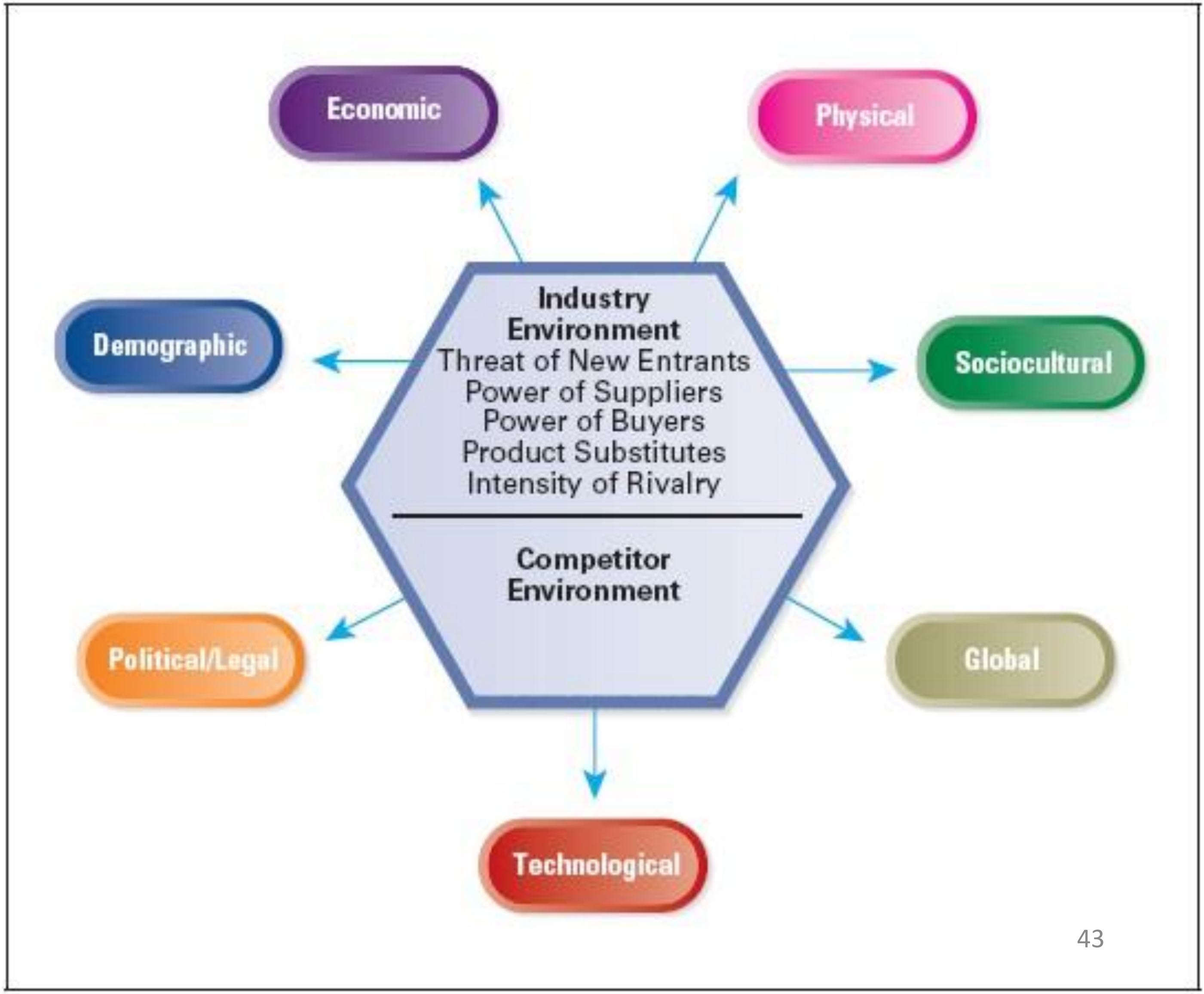
- If the company focuses on low-cost leadership, then managers should keep a strict vigil on costs in each activity. If the company focuses on differentiation, advantage given by each activity must be carefully evaluated.
- The nature of value chain and the relative importance of each activity within it, vary from industry to industry.
- The relative importance of value chain can also vary by a company’s position in a broader value system that includes value chains of upstream suppliers and downstream distributors and retailers.
- The interrelationships among value-creating activities also need to be evaluated.

The External Environment: Opportunities, Threats, Indu Competition and Competitor Analysis

- Overview:
  - General and industry environment
  - External environment analysis process activities
  - General environment segments
  - Porter’s 5 Competitive Forces
  - Strategic groups: Definition and influence
  - Competitor Analysis: Intelligence and ethics

External Environment: General, Industry and Competitor

- Three External Environments include:
  - General
  - Industry
  - Competitor



External Environment:
General, Industry and Competitor (Cont'd)

- The General Environment
  - The broader society dimensions that influence an industry and the firms within it
  - Grouped into 7 dimensions OR 'environmental segments'
- Industry Environment
  - Set of factors directly influencing
    - A firm's competitive actions/responses
    - Relates to Porter's 5 Forces
    - Competitor analysis: gather and interpret competitor information
- Competitor Environment
  - Gives details about
    - A firm's direct and indirect competitors
    - The competitive dynamics expected to impact a firm's efforts to generate above-average returns

External Environment Analysis

- Opportunity
  - General environment condition that, if exploited, helps a company achieve strategic competitiveness
- Threat
  - General environment condition that may hinder a company's efforts to achieve strategic competitiveness
- 4 components of External Environment Analysis
  - Scanning
  - Monitoring
  - Forecasting
  - Assessing

- Industry
  - Definition: Group of firms producing products that are close substitutes
  - Industry environment, in comparison to the general environment, has more direct effect of firm's
    - Strategic competitiveness and
    - Above-average returns
  - Intensity of industry competition and industry's profit potential are a function of 5 forces

Industry Environment Analysis (Cont'd)

- Porter's 5 Forces
  - 1/5: New entrants
    - Can threaten market share of existing competitors
    - May bring additional production capacity
    - Function of two factors
    - – 1: Barriers to entry
      - » Economies of scale
      - » Product differentiation
      - » Capital requirements
      - » Switching costs
      - » Access to distribution channels
      - » Cost disadvantages independent of scale
      - » Gov't policy
    - – 2: Expected retaliation
  - 2/5: Threat of substitute products
    - Goods or services outside of given industry perform same or similar functions at a competitive price (i.e., plastic has replaced steel in many applications)

Industry Environment Analysis (Cont'd)

- Porter's 5 Forces
  - 3/5: Bargaining power of suppliers
    - They are powerful when …
      - 1. Few large companies and more concentrated
      - 2. No substitutes
      - 3. Industry firms not significant customer to supplier
      - 4. Supplier's goods are critical to buyer's success
      - 5. High switching costs due to effectiveness of supplier's products
      - 6. Threat of forward integration
  - 4/5: Bargaining power of buyers
    - They are powerful when …
      - 1. Purchase large portion of industry's total output
      - 2. Product sales accounts for significant seller annual revenue
      - 3. Low switching costs (to other industry product)
      - 4. Industry products are undifferentiated or standardized and threat of backward integration

- Porter’s 5 Forces
  - 5/5: Intensity of Rivalry Among Competitors
    - Numerous or equally balanced competitors
    - Slow industry growth
    - High fixed costs or high storage costs
    - Lack of differentiation or low switching costs
    - High strategic stakes
    - High exit barriers

Strategic Groups

- Strategic Groups
  - Set of firms emphasizing similar strategic dimensions to use a similar strategy
  - Implications
    - Because firms within a group compete (offer similar products) rivalry can be intense – the greater the rivalry the greater the threat to each firm's profitability
    - Strengths of the 5 forces differs across strategic groups
    - The closer the strategic groups, in terms of strategy, the greater the likelihood of rivalry

Competitor Analysis

- Competitor analysis and organization response:
  - What drives competitors
    - Shown by organization's future objectives
  - What the competitor is doing and can do
    - Revealed in organization's current strategy
  - What the competitor believes about the industry
    - Shown in organization's assumptions
  - What the competitor’s capabilities are
    - Shown by organization's strengths and weaknesses

Competitor Analysis Components

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Future Objectives
- How do our goals compare with our competitors' goals?
- Where will emphasis be placed in the future?
- What is the attitude toward risk?

Current Strategy
- How are we currently competing?
- Does their strategy support changes in the competitive structure?

Assumptions
- Do we assume the future will be volatile?
- Are we operating under a status quo?
- What assumptions do our competitors hold about the industry and themselves?

Capabilities
- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

Response
- What will our competitors do in the future?
- Where do we hold an advantage over our competitors?
- How will this change our relationship with our competitors?

Competitor Analysis (Cont'd)

- Competitor intelligence
  - Set of data and information the firm gathers to better understand and anticipate competitors' objectives, strategies, assumptions, and capabilities
- Follow ethical practices when gathering competitor intelligence
  - Obtain public information
  - Attend trade fairs and shows and collect brochures, view exhibits, listen to their discussions
- Some practices may be legal, but unethical
- Unethical tactics can include
  - Blackmail
  - Trespassing
  - Eavesdropping
  - Stealing drawings, samples or documents

The Internal Organization: Resources, Capabilities, Core Competencies and Competitive Advantages

- Overview:
  - Importance of understanding internal organization
  - Value: Definition and importance
  - Tangible vs intangible resources
  - Capabilities: Definition and development
  - Core competencies: Criteria
  - Value Chain Analysis
  - Outsourcing: Definition and “why?”
  - Internal organization assessment and strategic decisions

Analyzing the Internal Organization (IO) (Cont’d)

- Context of Internal Analysis
  - ‘Global mind-set’
    - Ability to study an internal environment in ways that do not depend on the
    - assumptions of a single country, culture, or context
  - Analyze firm’s portfolio of resources and bundle heterogeneous resources and capabilities
    - Understand how to leverage these bundles
  - An organization's *core competencies* creates and sustains its competitive advantage
- Creating Value
  - Develop core competencies that lead to competitive advantage
  - Value: measured by a product's performance characteristics and
  - by its attributes for which customers are willing to pay

Analyzing the Internal Organization (IO)

- The Challenge of Analyzing the IO
  - Strategic decisions are non-routine, have ethical implications and influence the organization's above-average returns
    - Involves identifying, developing, deploying and protecting firms' resources, capabilities and core competencies
  - Managers face uncertainty on many fronts --
    - Proprietary technologies
    - Changes in economic and political trends, societal values and shifts in customer demands
    - Environment – increases complexity
  - Intraorganizational conflict
    - Due to decisions about core competencies and how to nurture them

Components of Internal Analysis Leading to Competitive Advantage and Strategic Competitiveness

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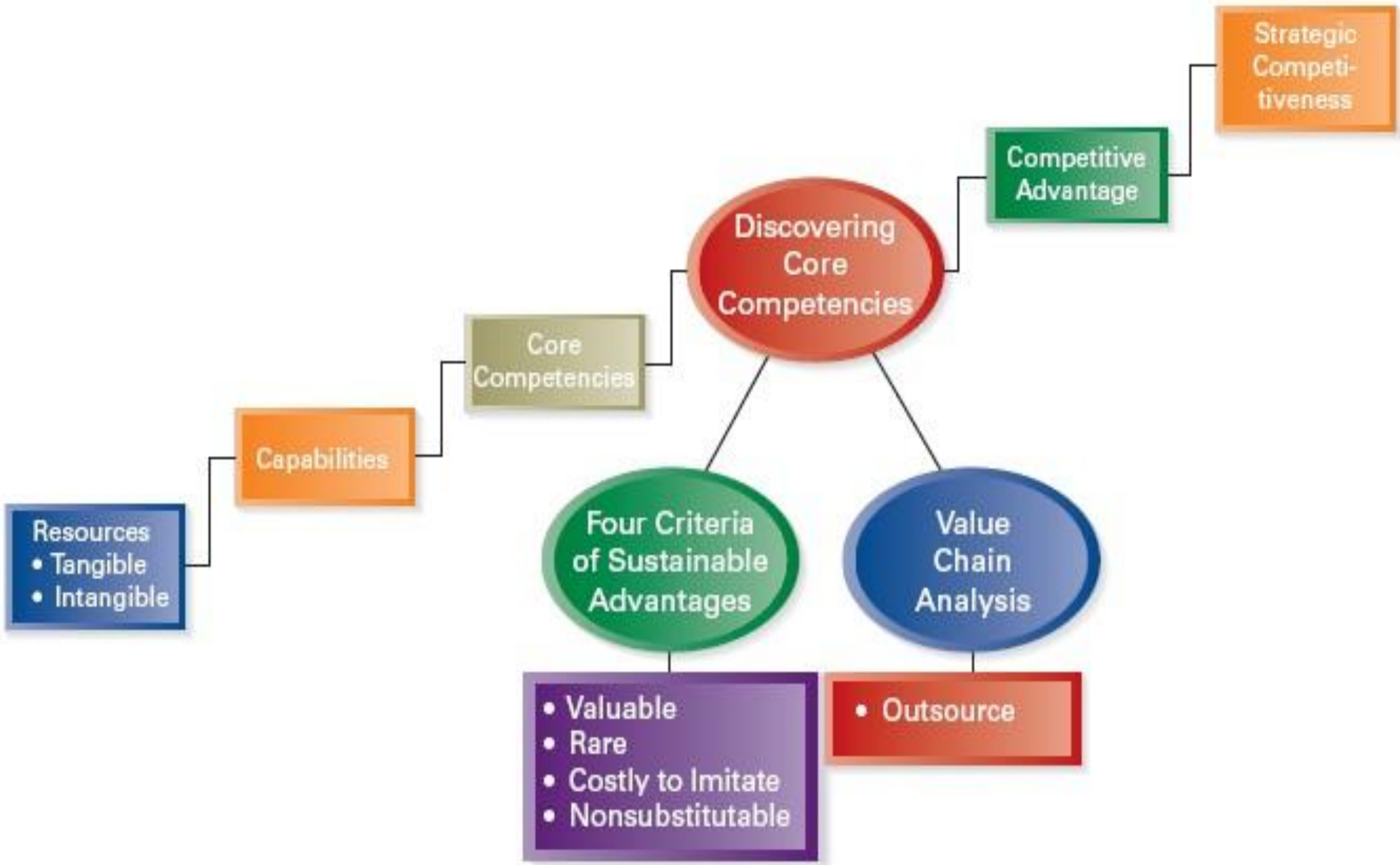

Conditions Affecting Managerial Decisions About Resources, Capabilities, and Core Competencies

Condition → **Uncertainty**
regarding characteristics of the general and the industry environments, competitors' actions, and customers' preferences

Condition → **Complexity**
regarding the interrelated causes shaping a firm's environments *and* perceptions of the environments

Condition → **Intraorganizational Conflicts**
among people making managerial decisions *and* those affected by them

Resources, Capabilities and Core Competencies

- Competitive Advantage (CA) foundation includes
  - Resources
    - Bundled to create organizational capabilities
    - Tangible and intangible (As seen in Figure 3.1)
  - Capabilities
    - Source of a firm's core competencies and basis for CA
    - Purposely integrated to achieve a specific task/set of tasks
  - Core Competencies
    - Capabilities that serve as a source of CA for a firm over its rivals
    - Distinguish a company from its competitors – the personality

Resources, Capabilities and Core Competencies

- Tangible Resources
  - Assets that can be seen, touched and quantified
  - Examples include equipment, facilities, distribution centers, formal reporting structures
  - Four specific types
- Intangible Resources
  - Assets rooted deeply in the firm’s history, accumulated over time
  - In comparison to ‘tangible’ resources, usually can’t be seen or touched
  - Examples include knowledge, trusts, organizational routines, capabilities, innovation, brand name, reputation
  - Three specific types

Building Core Competencies: Criteria and Value Chain Analysis

- Two tools firms use to identify and build on their core competencies
  - Four specific criteria of Sustainable CA
  - Value Chain Analysis

  The activities associated with this part of the **value chain** are providing service to enhance or maintain the **value** of the product after it has been sold and delivered.

  Examples: installation, repair, training, parts **supply** and product adjustment

Building Core Competencies: Criteria and Value Chain Analysis

- Four specific criteria of sustainable competitive advantage – capabilities that are:
  - Valuable
  - Rare
  - Costly-to-imitate
  - Non substitutable capabilities
- Competitive consequences:
  - Focus on capabilities that yield competitive parity and either temporary or sustainable competitive advantage
- Performance implications include:
  - Parity = average returns
  - Temporary advantage = avg. to above avg. returns
  - Sustainable advantage = above average returns

Building Core Competencies: Criteria and Value Chain Analysis

- Value Chain Analysis
  - Primary activities
    - Involved with product's physical creation, sales and distribution to buyers, and service after the sale
  - Support activities
    - Provide assistance necessary for the primary activities to take place

Building Core Competencies: Criteria and Value Chain Analysis

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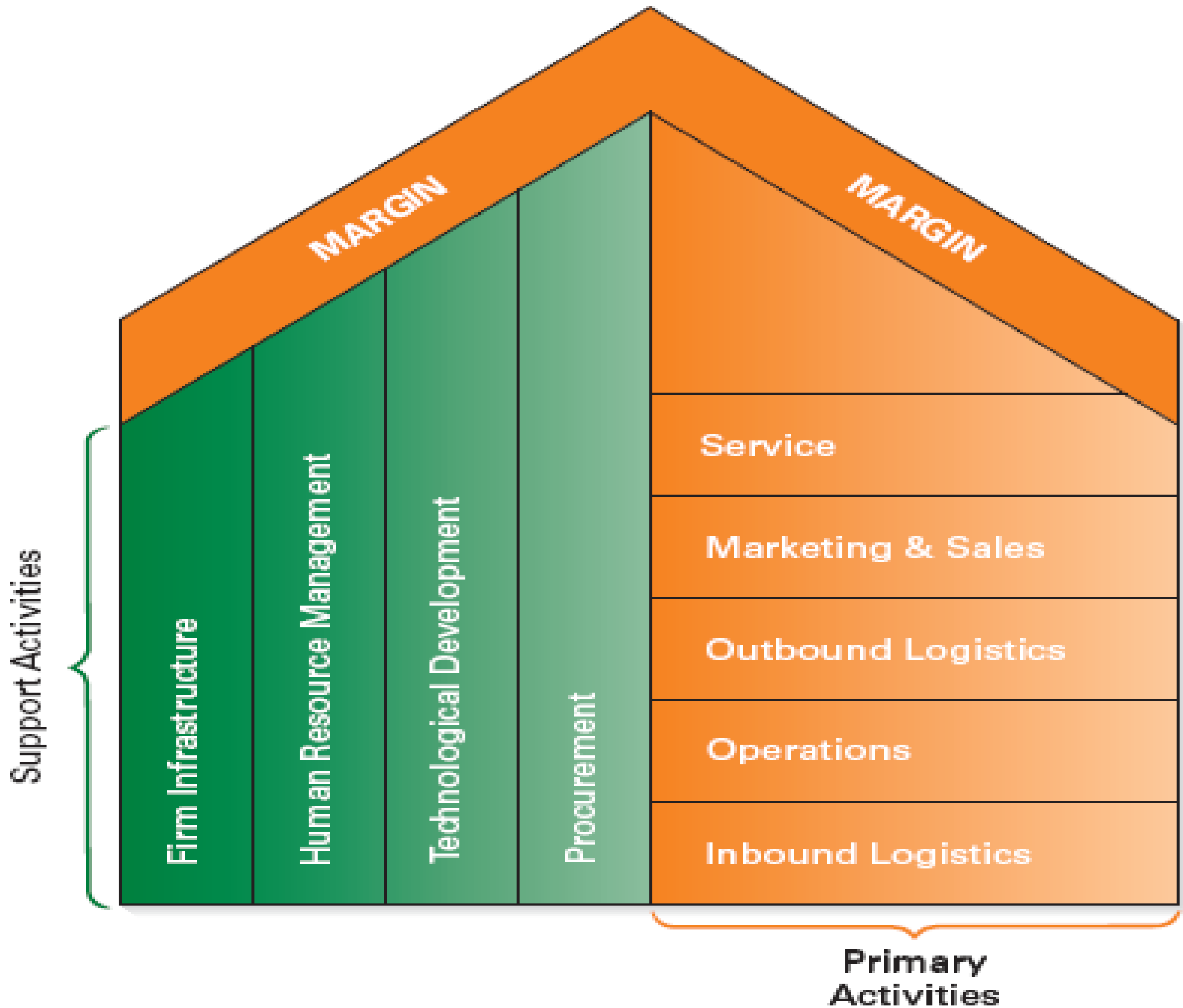


Outsourcing

- Definition: Purchase of a value-creating activity from an external supplier
  - Effective execution includes an increase in flexibility, risk mitigation and capital investment reduction
  - Trend continues at a rapid pace
  - Firms must outsource activities where they cannot create value or are at a substantial disadvantage compared to competitors
- Can cause concerns
  - Usually revolves around innovative ability and loss of jobs

- Firms must identify their strengths and weaknesses
- Appropriate resources and capabilities needed to develop desired strategy and create value for customers/other stakeholders
- Tools (i.e., outsourcing) can help a firm focus on core competencies as the source for CA
- Core competencies have potential to become core rigidities
  - – Competencies emphasized when no longer competitively relevant can become a weakness
- External environmental conditions and events impact a firm's core competencies

FORMULATION OF STRATEGIC ACTIONS: BUSINESS LEVEL STRATEGY

Effectively managing relationships with customers, the purpose of business strategy, competitive rivalry and dynamics, a model of competitive rivalry, competitor analysis, drivers of competitive actions and responses, competitive rivalry and dynamics.

COMPETITORS:

" firms operating in the same market, offering similar products, and targeting similar customers"

EXAMPLES:

- Southwest, Delta, United, Continental, and JetBlue
- PepsiCo and Coca-Cola Company
- Apple's family of products (Macs, iPads, iPods, and iPhones) compete in the video game market with standalone and mobile game platforms from Sony, Microsoft, and Nintendo

COMPETITIVE RIVALRY COMPETITIVE BEHAVIOR

COMPETITIVE RIVALRY: the ongoing set of competitive actions and competitive responses that occur among firms as they maneuver for an advantageous market position

COMPETITIVE BEHAVIOR: the set of competitive actions and responses the firm takes to build or defend its competitive advantages and to improve its market position.

Competitive rivalry often increases during recession

- Customers change buying behavior
- Look for ways to escape daily negative environment
- Movie ticket sales increase
- Candy consumption increases

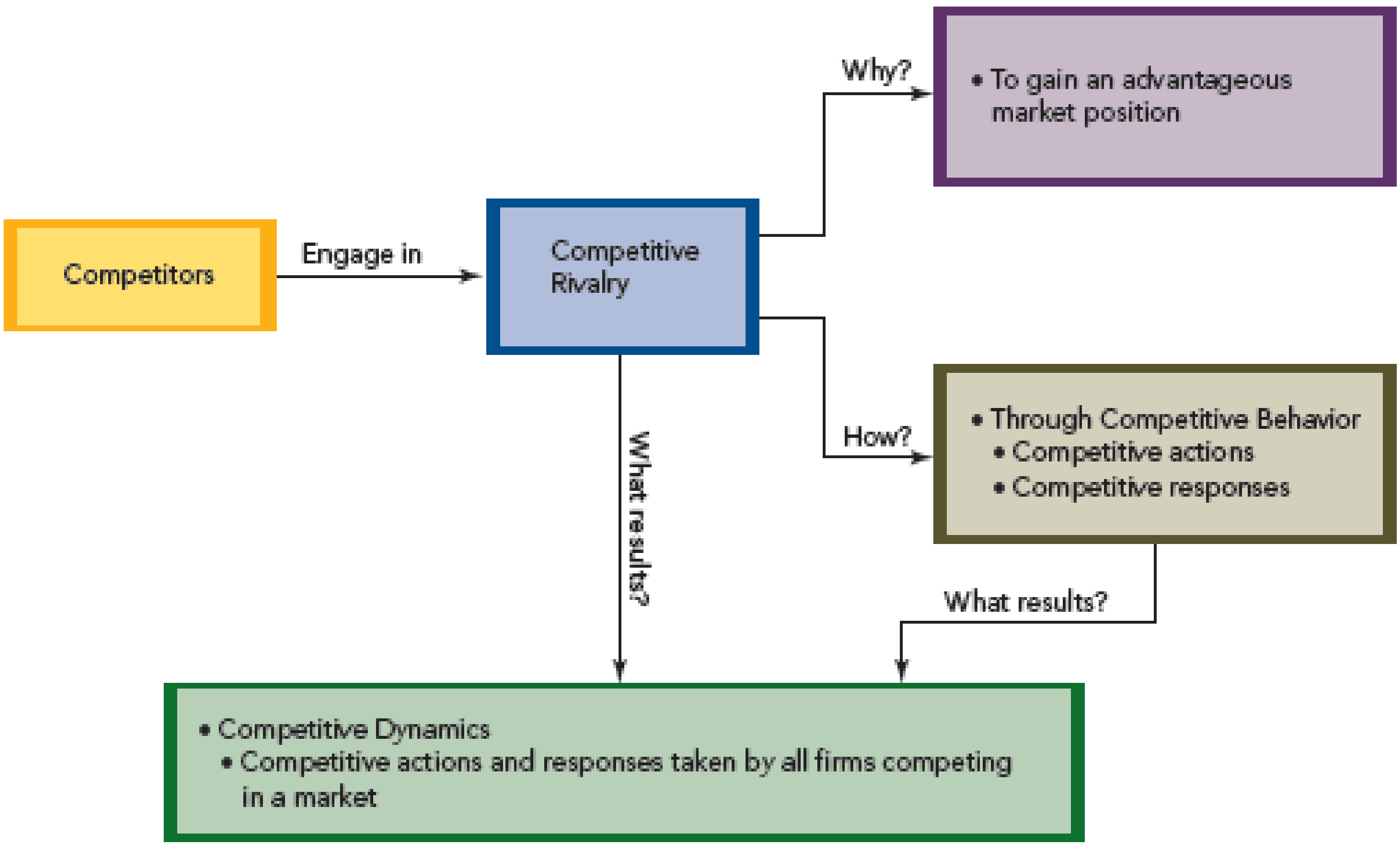
Bottled water sales declined two percent in 2008

- Bottled water distributors introduced new products
- Address plastic bottle concerns
- Competition from tap water filter manufacturers

Multimarket Competition Competitive Dynamics

- **MULTIMARKET COMPETITION:** firms competing against each other in several product or geographic markets.
- **COMPETITIVE DYNAMICS:** all competitive behavior, that is, the total set of actions and responses taken by all firms competing within a market.

COMPETITORS TO COMPETITIVE DYNAMICS



Source: Adapted from M. J. Chen, 1996, Competitor analysis and interfirm rivalry: Toward a theoretical integration, *Academy of Management Review*, 21: 100–134.

Competitive Dynamics Versus Rivalry

COMPETITIVE DYNAMICS VERSUS RIVALRY

COMPETITIVE DYNAMICS

- Ongoing actions and responses taking place among all firms competing within a market for advantageous positions

COMPETITIVE RIVALRY

- Ongoing actions and responses taking place between an individual firm and its competitors for advantageous market position

COMPETITIVE RIVALRY'S EFFECT ON STRATEGY

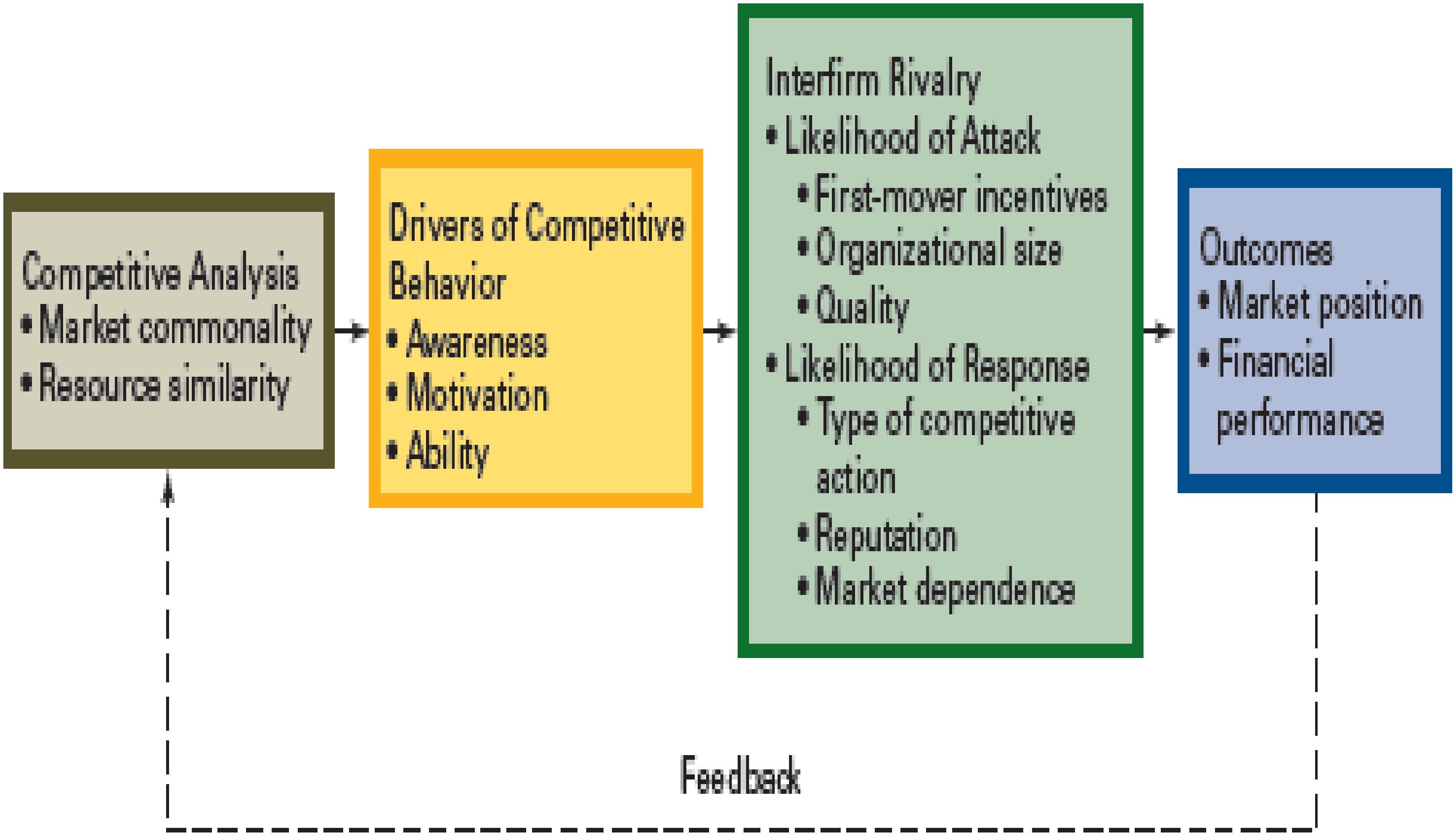
- **Success of a strategy is determined by:**
  - The firm's initial competitive actions
  - How well it anticipates competitors' responses to them
  - How well the firm anticipates and responds to its competitors' initial actions

- **Competitive rivalry:**
  - Affects all types of strategies
  - Has the strongest influence on the firm's business-level strategy or strategies

A Model Of Competitive Rivalry

- **Firms are mutually interdependent**
  - A firm’s competitive actions have noticeable effects on competitors
  - A firm’s competitive actions elicit competitive responses from competitors
  - Firms are affected by each other’s actions and responses
  - Over time firms take competitive actions and reactions
  - Firm level rivalry is usually dynamic and complex
  - Foundation for successfully building and using capabilities and core competencies to gain an advantageous market position
  - Marketplace success is a function of both individual strategies and the consequences of their use

A Model Of Competitive Rivalry



Competitor Analysis

- Competitor analysis is used to help a firm understand its competitors.
- The firm studies competitors' future objectives, current strategies, assumptions, and capabilities.
- With the analysis, a firm is better able to predict competitors' behaviors when forming its competitive actions and responses.
- Firms with high market commonality and highly similar resources are "clearly direct and mutually acknowledged competitors"
- However ,being direct competitors does not necessarily mean that rivalry between the firms will be intense.
- The drivers of competitive behaviour –as well as factors influencing the likelihood that a competitor will initiate competitive actions and will respond to its competitors competitive actions-influence the intensity of rivalry ,even for direct competitors.

Competitor Analysis

- Market commonality and Resource similarity :
  - **Two components to assess:**
  - **MARKET COMMONALITY** and **RESOURCE SIMILARITY**
  - The question: To what extent are firms competitors?
  - ● Competitor: high **market commonality** & high **resource similarity**

    EXAMPLE: Dell and HP are direct competitors

● Combination of market commonality & resource similarity indicate a firm's direct competitors

DIRECT COMPETITION DOES NOT ALWAYS IMPLY INTENSE RIVALRY

Competitor Analysis

Market Commonality:

- Market commonality is concerned with:
  - The number of markets with which a firm and a competitor are jointly involved
  - The degree of importance of the individual markets to each competitor
- Firms competing against one another in several or many markets engage in multimarket competition

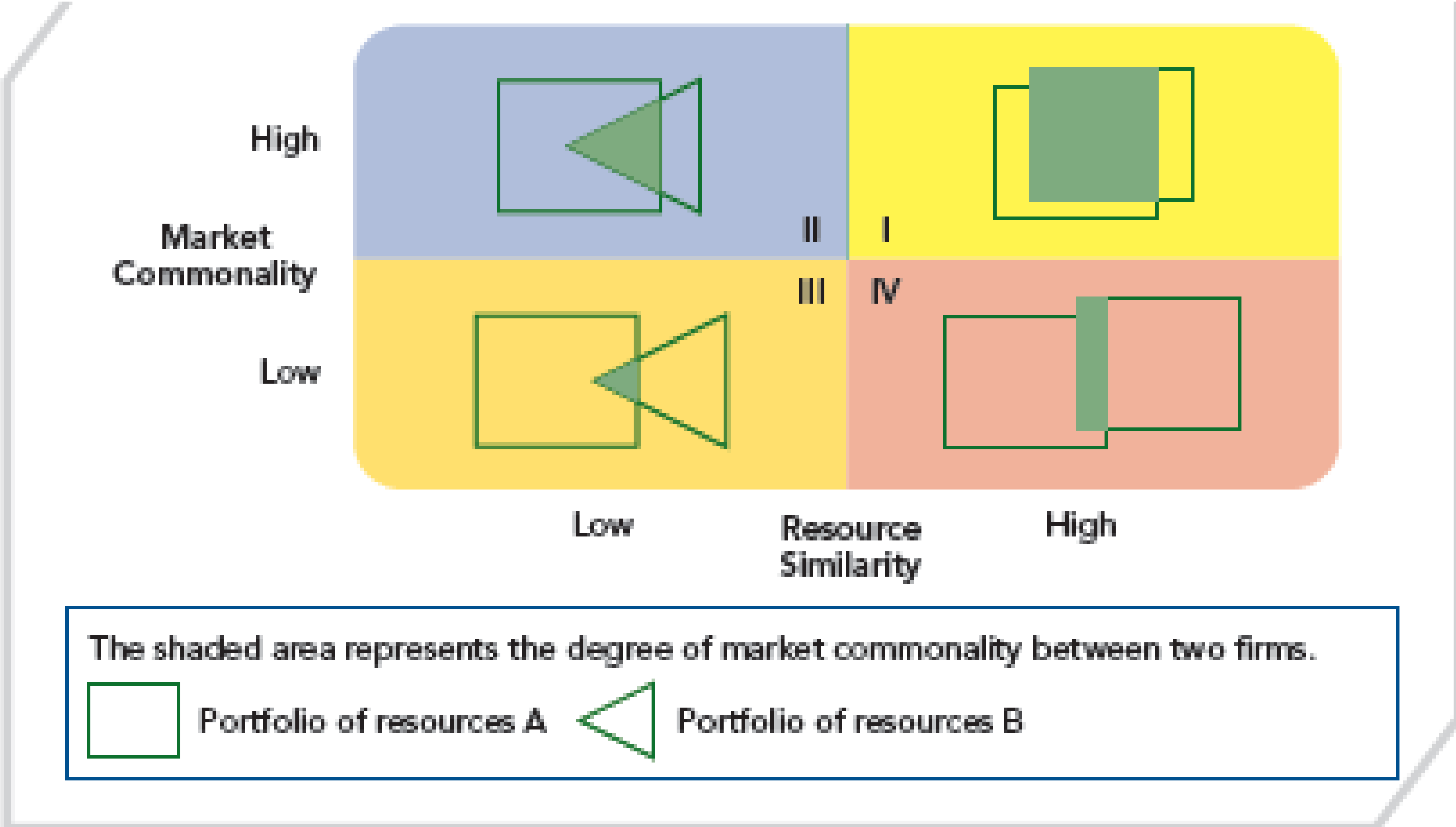
A firm with greater multimarket contact is less likely to initiate an attack, but more likely to respond aggressively when attacked

Competitor Analysis

- Resource Similarity:
- Resource Similarity
  - How comparable the firm's tangible and intangible resources are to a competitor's in terms of both types and amounts
- Firms with similar types and amounts of resources are likely to:
  - Have similar strengths and weaknesses
  - Use similar strategies

Assessing resource similarity can be difficult if critical resources are intangible rather than tangible

A Framework of Competitor Analysis



Source: Adapted from M. J. Chen, 1996, Competitor analysis and interfirm rivalry: Toward a theoretical integration, *Academy of Management Review*, 21: 100–134.

Drivers Of Competitive Actions And Responses

- **Awareness** is
  - the extent to which competitors recognize the degree of their mutual interdependence that results from:
    - Market commonality
    - Resource similarity
- **Motivation** concerns
  - the firm's incentive to take action
  - or to respond to a competitor's attack
  - and relates to perceived gains and losses
- **Resource similarity:**
- The greater the resource imbalance between the acting firm and competitors or potential responders, the greater will be the delay in response by the firm with a resource disadvantage.
- When facing competitors with greater resources or more attractive market positions, firms should eventually respond, no matter how challenging the response.

Drivers of Competitive Actions And Responses

- **Ability:**
- Ability relates to
  - each firm's resources
  - the flexibility these resources provide
- Without available resources the firm lacks the ability to
  - attack a competitor
  - respond to the competitor's actions

Market Commonality:

- A firm is more likely to attack the rival with whom it has low market commonality than the one with whom it competes in multiple markets.
- Given the strong competition under market commonality, it is likely that the attacked firm will respond to its competitor's action in an effort to protect its position in one or more markets.

Competitive Rivalry

- The ongoing competitive action/response sequence between a firm and a competitor affects the performance of both firms.
- Understanding a competitor's awareness, motivation, and ability helps the firm predict the likelihood of an attack and response to actions initiated by the firm or other competitors.
- The predictions drawn from studying competitors in terms of awareness, motivation, and ability are grounded in market commonality and resource similarity.

Competitive Rivalry

- **STRATEGIC AND TACTICAL ACTIONS**
- **Competitive Action**
  - A strategic or tactical action the firm takes to build or defend its competitive advantages or improve its market position
- **Competitive Response**
  - A strategic or tactical action the firm takes to counter the effects of a competitor's competitive action
- **Strategic Action (or Response)**
  - A market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse
- **Tactical Action (or Response)**
  - A market-based move that is taken to fine-tune a strategy
    - Usually involves fewer resources
    - Is relatively easy to implement and reverse

Likelihood of Attack

In addition to:

- Market commonality
- Resource similarity
- Awareness
- Motivation
- Ability

Other factors also affect the likelihood that a competitor will use strategic and tactical actions to attack its competitors:

- First-mover incentives
- Organizational size
- Quality

Likelihood of Attack

- First –mover incentives: **First Mover** A firm that takes an initial competitive action in order to build or defend its competitive advantages or to improve its market position.
- **First movers allocate funds for:**
  - Product innovation and development
  - Aggressive advertising
  - Advanced research and development
- **First movers can gain:**
  - The loyalty of customers who may become committed to the firm's goods or services
  - Market share that can be difficult for competitors to take during future competitive rivalry

Likelihood of Attack

- First mover incentives:
- **First movers:**
  - Often build on a strategic foundation of superior research and development skills
  - Tend to be aggressive and willing to experiment with innovation
  - Tend to take higher, yet reasonable, risks
  - Need to have liquid resources (slack) that can be quickly allocated to support actions
  - Benefits can be substantial, but beware of the learning curve!

Likelihood of Attack

- **Second Mover:**
  - Second mover responds to first mover, typically through imitation
  - Is more cautious than first movers
  - Tends to study customer reactions to product innovations
  - Tends to learn from the mistakes of first movers, reducing its risks
  - Takes advantage of time to develop processes and technologies that are more efficient than first movers, reducing its costs
  - Can avoid both the mistakes and the huge spending of the first movers
  - Will not benefit from first mover advantages, lowering potential returns

Likelihood of Attack

- **Late Mover:**
- Late mover responds to a competitive action only after considerable time has elapsed since first and second movers have taken action
- Any success achieved will be slow in coming and much less than that achieved by first and second movers
- Late mover’s competitive action allows it to earn only average returns and delays its understanding of how to create value for customers
- Has substantially reduced risks and returns

likelihood of attack

- **Organisational small –size:**
- Small firms are more likely:
  - To launch competitive actions
  - To be quicker
  - To be nimble and flexible competitors
  - To rely on speed and surprise to defend their competitive advantage
  - To have flexibility needed to launch a greater variety of competitive actions

likelihood of attack

- **Quality product:**
- Quality exists when the firm's goods or services meet or exceed customers' expectations
- Product quality dimensions include

➢ **Performance**	➢ **Conformance**
➢ **Features**	➢ **Service ability**
➢ **Flexibility**	➢ **Aesthetics**
➢ **Durability**	➢ **Perceived quality**

Product Quality Dimensions

Table 5.1 Quality Dimensions of Goods and Services

Product Quality Dimensions
1. *Performance*—Operating characteristics
2. *Features*—Important special characteristics
3. *Flexibility*—Meeting operating specifications over some period of time
4. *Durability*—Amount of use before performance deteriorates
5. *Conformance*—Match with preestablished standards
6. *Serviceability*—Ease and speed of repair
7. *Aesthetics*—How a product looks and feels
8. *Perceived quality*—Subjective assessment of characteristics (Product image)
Service Quality Dimensions
1. *Timeliness*—Performed in the promised period of time
2. *Courtesy*—Performed cheerfully
3. *Consistency*—Giving all customers similar experiences each time
4. *Convenience*—Accessibility to customers
5. *Completeness*—Fully serviced, as required
6. *Accuracy*—Performed correctly each time

Source: Adapted from J. Evans, 2008, *Managing for Quality and Performance*, 7th ed., Mason, OH: Thomson Publishing.

Likelihood of Attack

- .

First-Mover Incentives

Second Mover

Late Mover

Organizational Size

Quality (Service)

Service quality dimensions include:

- Timeliness
- Courtesy
- Consistency
- Convenience
- Completeness
- Accuracy

Quality

- Customer perception that the firm's goods or services perform in ways that are important to customers, meeting or exceeding their expectations.
- From a strategic perspective, quality is the outcome of how a firm completes its primary and support activities.
- Quality is a universal theme in the global economy and is a necessary but insufficient condition for competitive success.
- Quality is possible only when top-level managers support it and when its importance is institutionalized throughout the entire organization and its value chain.

Likelihood Of Response

- In addition to market commonality, resource similarity, awareness, motivation, and ability, firms evaluate the following three factors to predict how a competitor is likely to respond to competitive actions:

  - **1. Type of Competitive Action**
  - **2. Actor’s Reputation**
  - **3. Dependence on the Market**

  - A firm is likely to respond when the action significantly strengthens or inaction weakens the firm's competitive position.

Likelihood Of Response (Cont'd)

-

Type of Competitive Action

The success of a firm's competitive action is affected by the likelihood that a competitor will respond to it as well as by the type (strategic or tactical) and effectiveness of that response.

Strategic actions receive strategic responses

- Strategic actions elicit fewer total competitive responses due to the significant resources required and their irreversibility
- The time needed to implement and assess a strategic action delays competitor's responses

Tactical responses are taken to counter the effects of tactical actions

- A competitor likely will respond quickly to a tactical action

Likelihood Of Response (Cont'd)

Type of Competitive Action

Actor's Reputation

- An **actor** is the firm taking an action or response
- **Reputation** is the positive or negative attribute ascribed by one rival to another based on past competitive behavior
- The firm studies responses that a competitor has taken previously when attacked to predict likely responses.

Likelihood of Response (Cont'd)

- Type of Competitive Action
- Actor's Reputation
- Dependence on the Market

- **Market dependence** is the extent to which a firm's revenues or profits are derived from a particular market
- In general, firms can predict that competitors with high market dependence are likely to respond strongly to attacks threatening their market position

Competitive Dynamics

- Competitive rivalry concerns the ongoing actions and responses between a firm and its DIRECT COMPETITORS for an advantageous market position.
- Competitive dynamics concern the ongoing actions and responses AMONG ALL FIRMS competing within a market for advantageous positions.
- Building and sustaining competitive advantages are at the core of competitive rivalry, in that advantages are the key to creating value for shareholder.
- Competitive behaviors differ across market types.
- Competitive dynamics differ in slow-cycle, fast-cycle, and standard-cycle markets.
- The sustainability of the firm's competitive advantages differs across the three market types.
- The degree of sustainability differs by market type and is affected by how quickly competitive advantages can be imitated and how costly it is to do so.

Competitive Dynamics Versus Rivalry

COMPETITIVE RIVALRY (Individual firms)	COMPETITIVE DYNAMICS (All firms)
• Market commonality and resource similarity • Awareness, motivation, and ability • First mover incentives, size, and quality	• Market speed (slow-cycle, fast-cycle, and standard-cycle • Effects of market speed on actions and responses of all competitors in the market

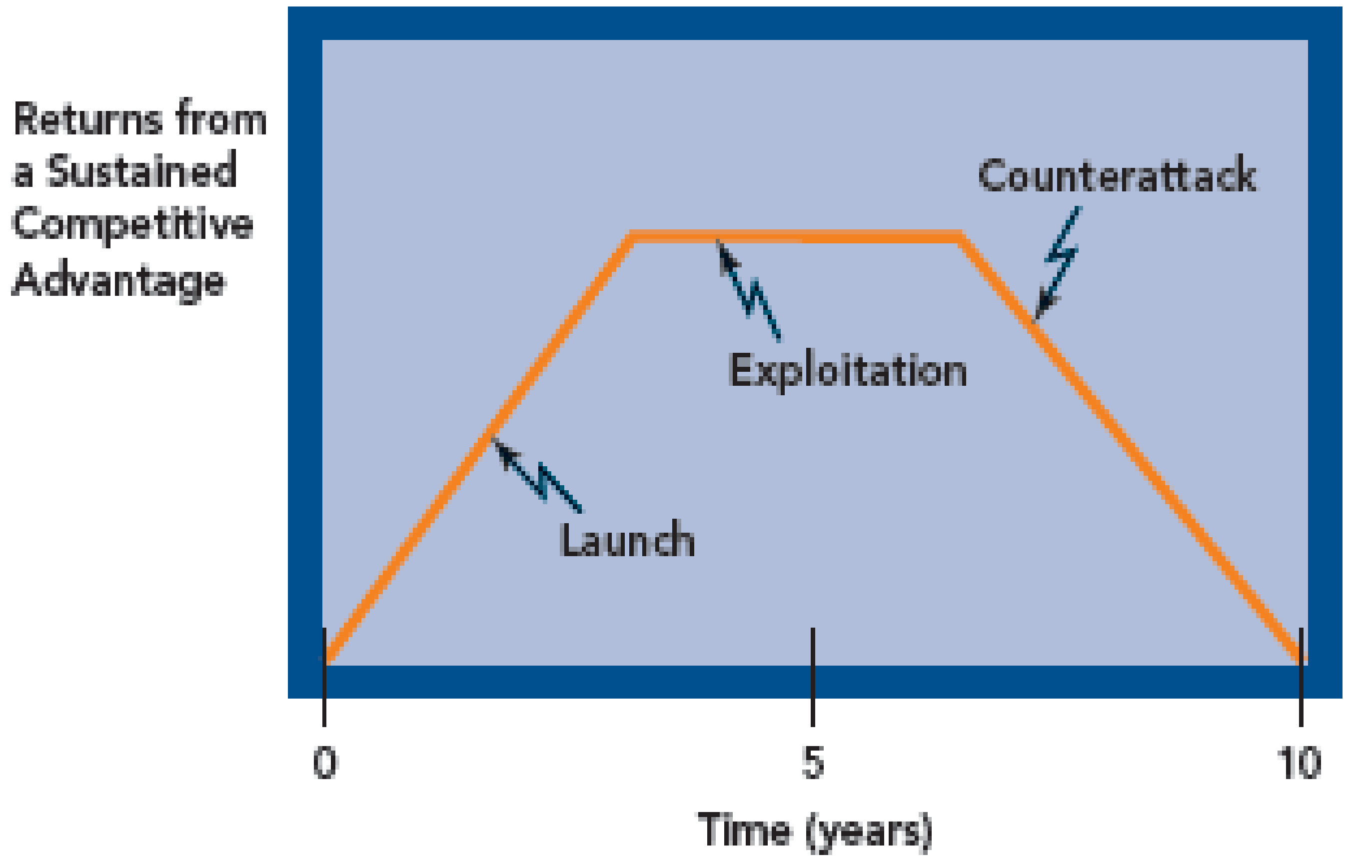
Competitive Dynamics

- Slow-Cycle Markets

- Competitive advantages are shielded from imitation for long periods of time and imitation is costly.
- Competitive advantages are sustainable in slow-cycle markets.
- Build a unique and proprietary capability that yields competitive advantage, creating sustainability (i.e., proprietary and difficult for competitors to imitate).
- Once a proprietary advantage is developed, competitive behavior should be oriented to protecting, maintaining, and extending that advantage.
- Organizational structure should be used to effectively support strategic efforts.

Competitive Dynamics

Figure 5.4 Gradual Erosion of a Sustained Competitive Advantage



Source: Adapted from I. C. MacMillan, 1988, Controlling competitive dynamics by taking strategic initiative, Academy of Management Executive, II(2): 111–118.

Competitive Dynamics

- Slow-Cycle Markets
- Fast-Cycle Markets
  - The firm's competitive advantages are not shielded from imitation.
  - Technology is non-proprietary.
  - Imitation is rapid and inexpensive.
  - Competitive advantages are not sustainable.
  - Reverse engineering.
  - Market volatility.
  - Focus: Learning how to rapidly and continuously develop new competitive advantages that are superior to those they replace (creating innovation).

Competitive Dynamics

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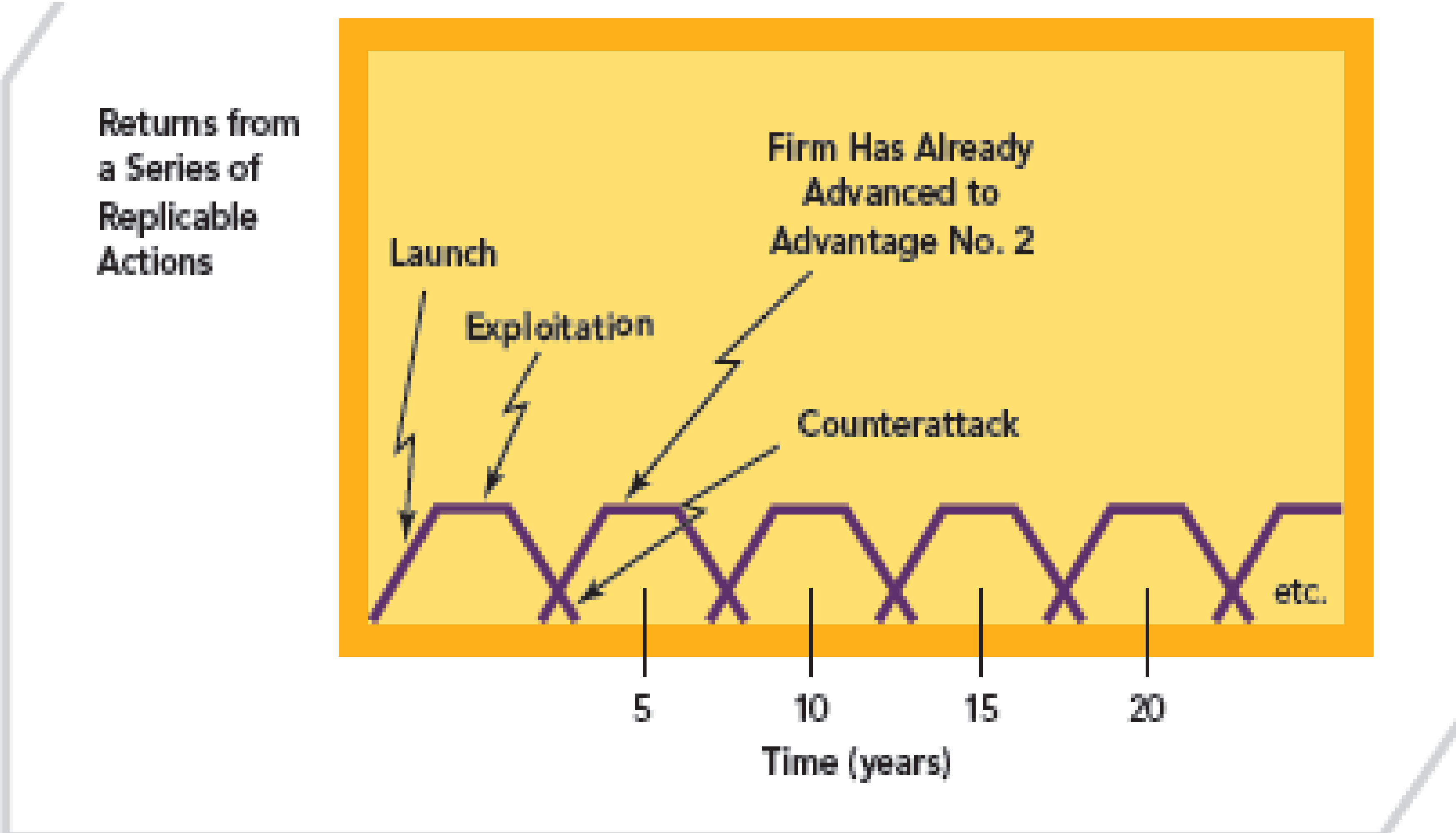
- Slow-Cycle Markets
- Fast-Cycle Markets

- Avoid loyalty to any one product, possibly cannibalizing on own current products to launch new ones before competitors learn how to do so through successful imitation.
- Continually try to move on to another temporary competitive advantage before competitors can respond to the previous one.

Competitive Dynamics

- Developing Temporary Advantages to Create Sustained Advantage



Source: Adapted from I. C. MacMillan, 1988, Controlling competitive dynamics by taking strategic initiative, Academy of Management Executive, II(2): 111–118.

Competitive Dynamics

- Slow-Cycle Markets
- Fast-Cycle Markets
- Standard-Cycle Markets

- Firm’s competitive advantages are moderately shielded from imitation
- Imitation is moderately costly
- Competitive advantages partially sustainable if quality is continuously upgraded
- Firms
  - Seek large market shares; mass markets
  - Develop economies of scale
  - Gain customer loyalty through brand names
  - Carefully control operations
  - Manage a consistent experience for the customer

Competitive Dynamics

•

	IMITATION	COMPETITIVE ADVANTAGE
Slow-Cycle Markets	Slow and Costly Proprietary rights A costly-to-imitate resource/capability usually results from unique historical conditions, causal ambiguity, and/or social complexity	Sustained competitive advantage is most achievable in this market
Fast-Cycle Markets	Rapid and Inexpensive	Not sustainable Reverse engineering
Standard-Cycle Markets	Faster and less costly than in slow-cycle markets; and slower and more expensive than in fast-cycle markets	Partially sustainable

CORPORATE LEVEL STRATEGY

Levels of diversifications and reasons, value creating diversifications, strategic acquisitions a restructuring. Popularity of mergers and acquisitions strategies, problems in achieving acquisition success and restructuring.

Corporate-Level Strategy

- Overview: Seven content areas
  - Define and discuss corporate-level strategy
  - Different levels of diversification
  - Three primary reasons firms diversify
  - Value creation: related diversification strategy
  - Value creation: unrelated diversification strategy
  - Incentives and resources encouraging value-neutral diversification
  - Management motives encouraging firm overdiversification

Corporate-Level Strategy-Introduction

- **Corporate-level strategy:** Specifies actions a firm takes to gain a competitive advantage by selecting and managing *a group of different businesses* competing in *different product markets*
  - Expected to help firm earn above-average returns
  - Value ultimately determined by degree to which “the businesses in the portfolio are worth more under the management of the company then they would be under any other ownership
    - **Product diversification (PD):** primary form of corporate-level strategy

Cont....,,

GE	Rolls-Royce PLC
• 1^{st} in aircraft-engine industry • Involved in hundreds of businesses: manufacturing light bulb, medical devices; operating self-storage facilities; broadcasting (it owns NBC) • Less than 10% of its revenue coming from aircraft engine	• 2^{nd} in aircraft-engine industry • No longer makes luxury cars; operation was parceled off to BMW and Volkswagen in 1998. • 72% of its revenue coming from aircraft engine
Business-level: Within industry Both face the same competitive pressures: how to compete against Pratt & Whitney (3^{rd} largest)	
Corporate-level GE faces strategic issues that are less relevant to Roll-Royce, in terms of managing the portfolio of business	

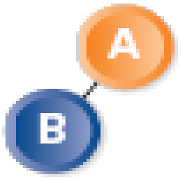
Levels of Diversification

- 1. Low Levels
  - Single Business Strategy: firm generates 95% or more of its sales revenue from its core business area
  - Dominant Business Diversification Strategy: firm generates 70-95% of total sales revenue within a single business area
- 2. Moderate to High Levels
  - Related Constrained Diversification Strategy
    - Less than 70% of revenue comes from the dominant business
    - Direct links between the firm's businesses
  - Related Linked Diversification Strategy (Mixed related and unrelated)
    - Less than 70% of revenue comes from the dominant business
    - Mixed: Linked firms sharing fewer resources and assets among their businesses (compared with related constrained, above), concentrating on the transfer of knowledge and competencies among the businesses
- 3. Very High Levels: Unrelated
    - Less than 70% of revenue comes from dominant business
    - No relationships between businesses

Low Levels of Diversification

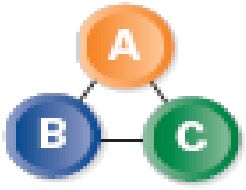
Single business: 95% or more of revenue comes from a single business.

Dominant business: Between 70% and 95% of revenue comes from a single business.

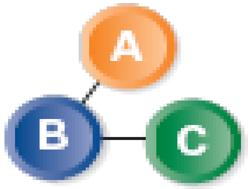


Moderate to High Levels of Diversification

Related constrained: Less than 70% of revenue comes from the dominant business, and all businesses share product, technological, and distribution linkages.

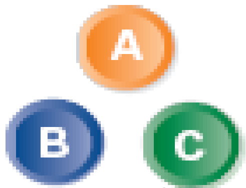


Related linked (mixed related and unrelated): Less than 70% of revenue comes from the dominant business, and there are only limited links between businesses.



Very High Levels of Diversification

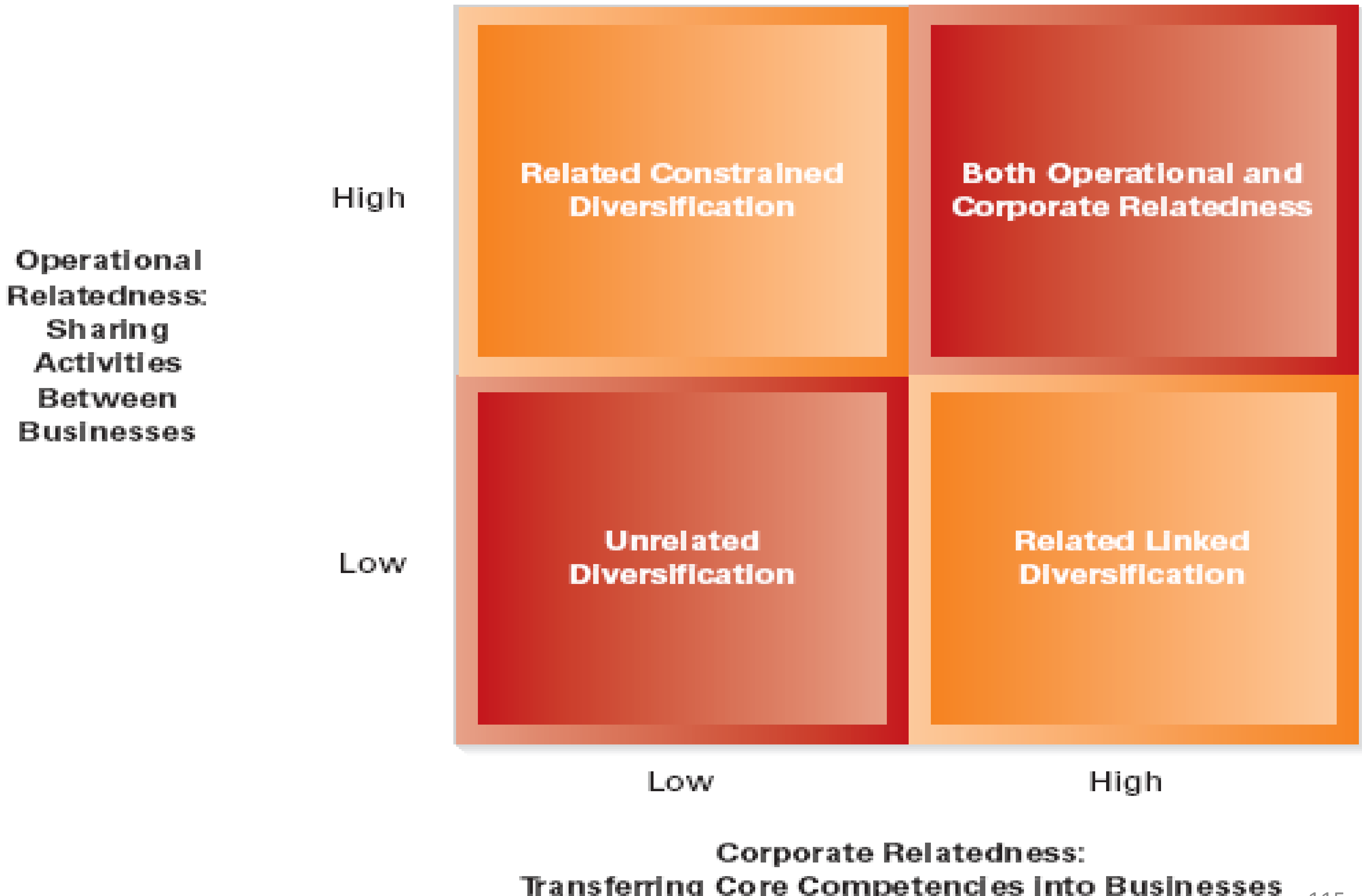
Unrelated: Less than 70% of revenue comes from the dominant business, and there are no common links between businesses.



Reasons for Diversification

- A number of reasons exist for diversification:
  - **Value-creating**
  - **Value-neutral**
  - **Value-reducing**

Value-Creating Diversification Strategies: Operational and Corporate Relatedness



Value-Creating Diversification (VCD): Related Strategies

- Purpose:Gain **market power** relative to competitors
- Related diversification wants to develop and exploit economies of scope between its businesses
  - – **Economies of scope:** Cost savings firm creates by successfully sharing some of its resources and capabilities or transferring one or more corporate-level core competencies that were developed in one of its businesses to another of its businesses
- VCD: Composed of ‘related’ diversification strategies including Operational and Corporate relatedness

- 1. **Operational Relatedness:** Sharing activities
  - Can gain economies of scope
  - Share primary or support activities (in value chain)
  - Related constrained share activities in order to create value
  - Not easy, often synergies not realized as planned

- 2. **Corporate Relatedness:** Core competency transfer
  - Complex sets of resources and capabilities linking different businesses through managerial and technological knowledge, experience and expertise
  - Two sources of value creation
    - Expense incurred in first business and knowledge transfer reduces resource allocation for second business
    - Intangible resources difficult for competitors to understand and imitate
  - Use related-linked diversification strategy

Value-Creating Diversification (VCD): Related Strategies

- Market Power
  - Exists when a firm is able to sell its products above the existing competitive level, to reduce costs of primary and support activities below the competitive level, or both.
  - Multimarket (or Multipoint) Competition
    - Exists when 2 or more diversified firms simultaneously compete in the same product or geographic markets.
  - Related diversification strategy may include
    - Vertical Integration
    - Virtual integration

Value-Creating Diversification (VCD): Unrelated Strategies

- Creates value through two types of **financial economies**
  - Cost savings realized through improved allocations of financial resources based on investments inside or outside firm
    - Efficient internal capital market allocation
  - Restructuring of acquired assets
    - Firm A buys firm B and restructures assets so it can operate more profitably, then A sells B for a profit in the external market

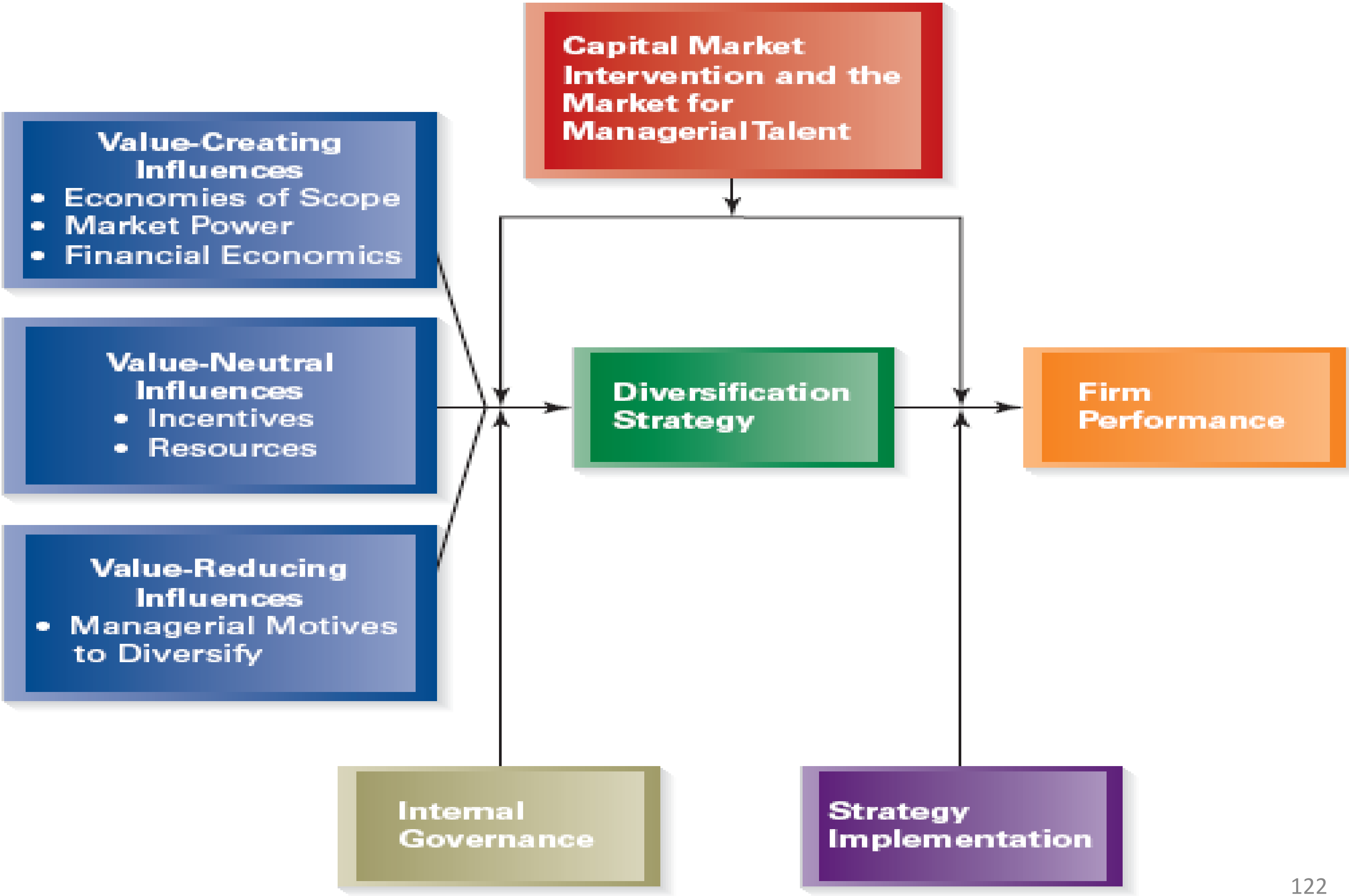
Value-Neutral Diversification: Incentives and Resources

- Incentives to Diversify
  - Antitrust Regulation and Tax Laws
  - Low Performance
  - Uncertain Future Cash Flows
  - Synergy and Firm Risk Reduction
  - Resources and Diversification

Value-Reducing Diversification: Managerial Motives to Diversify

- Top-level executives may diversify in order to diversity their own employment risk, as long as profitability does not suffer excessively
  - Diversification adds benefits to top-level managers but not shareholders
  - This strategy may be held in check by governance mechanisms or concerns for one's reputation

Summary Model of the Relationship Between Diversification and Firm Performance



Acquisition and Restructuring Strategies

- Overview:Six content areas
  - Popularity of acquisition strategies for firms competing in the global economy
  - Why firms use acquisition strategies
  - Seven problems working against developing a competitive advantage using an acquisition strategy
  - Attributes of effective acquisitions
  - Restructuring strategy vs. common forms
  - Short & long-term outcomes of different restructuring strategies

Introduction: Popularity of M&A Strategies

- Popular strategy among U.S. firms for many years
- Can be used because of uncertainty in the competitive landscape
  - Increase market power because of competitive threat
  - Spread risk due to uncertain environment
  - Shift core business into different markets
    - Due to industry or regularity changes
- **Intent:** increase firm's strategic competitiveness and value
- The reality, however, is returns are close to zero

Introduction: Merger, Acquisition, and Takeover

- Merger
  - Two firms agree to integrate their operations on a relatively co-equal basis
- Acquisition
  - One firm buys a controlling, 100 percent interest in another firm with the intent of making the acquired firm a subsidiary business within its portfolio.
- Takeover
  - Special type of acquisition strategy wherein the target firm did not solicit the acquiring firm's bid
    - **Hostile Takeover:** Unfriendly takeover that is unexpected and undesired by the target firm

Reasons for Acquisitions

- Increased market power
- Overcoming entry barriers
- Cost of new product development and increased speed to market
- Lower risk compared to developing new products
- Increased diversification
- Reshaping firm’s competitive advantage
- Learning and developing new capabilities

Reasons for Acquisitions and Problems in Achieving Suc

Reasons for Acquisitions

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Problems in Achieving Success

- Integration difficulties
- Inadequate evaluation of target
- Large or extraordinary debt
- Inability to achieve synergy
- Too much diversification
- Managers overly focused on acquisitions
- Too large

Problems in Achieving Acquisition Success

1. Integration difficulties
2. Inadequate evaluation of target
3. Large or extraordinary debt
4. Inability to achieve synergy

   – **Synergy:** Value created by units exceeds value of units working independently

   – **Private synergy:** Occurs when the combination and integration of acquiring and acquired firms' assets yields capabilities and core competencies that could not be developed by combining and integrating the assets with any other company

Problems in Achieving Acquisition Success

5. Too much diversification
6. Managers overly focused on acquisitions
7. Too large
    - –Additional costs may exceed the benefits of the economies of scale and additional market power
    - –Larger size may lead to more bureaucratic controls
    - –Formalized controls often lead to relatively rigid and standardized managerial behavior
- –Firm may produce less innovation

Effective Acquisitions

- Complementary assets or resources
- Friendly acquisitions facilitate integration of firms
- Effective due-diligence process (assessment of target firm by acquirer, such as books, culture, etc.)
- Financial slack
- Low debt position
  - High debt can…
    - Increase the likelihood of bankruptcy
    - Lead to a downgrade in the firm's credit rating
    - Preclude needed investment in activities that contribute to the firm's long-term success
- Innovation
- Flexibility and adaptability

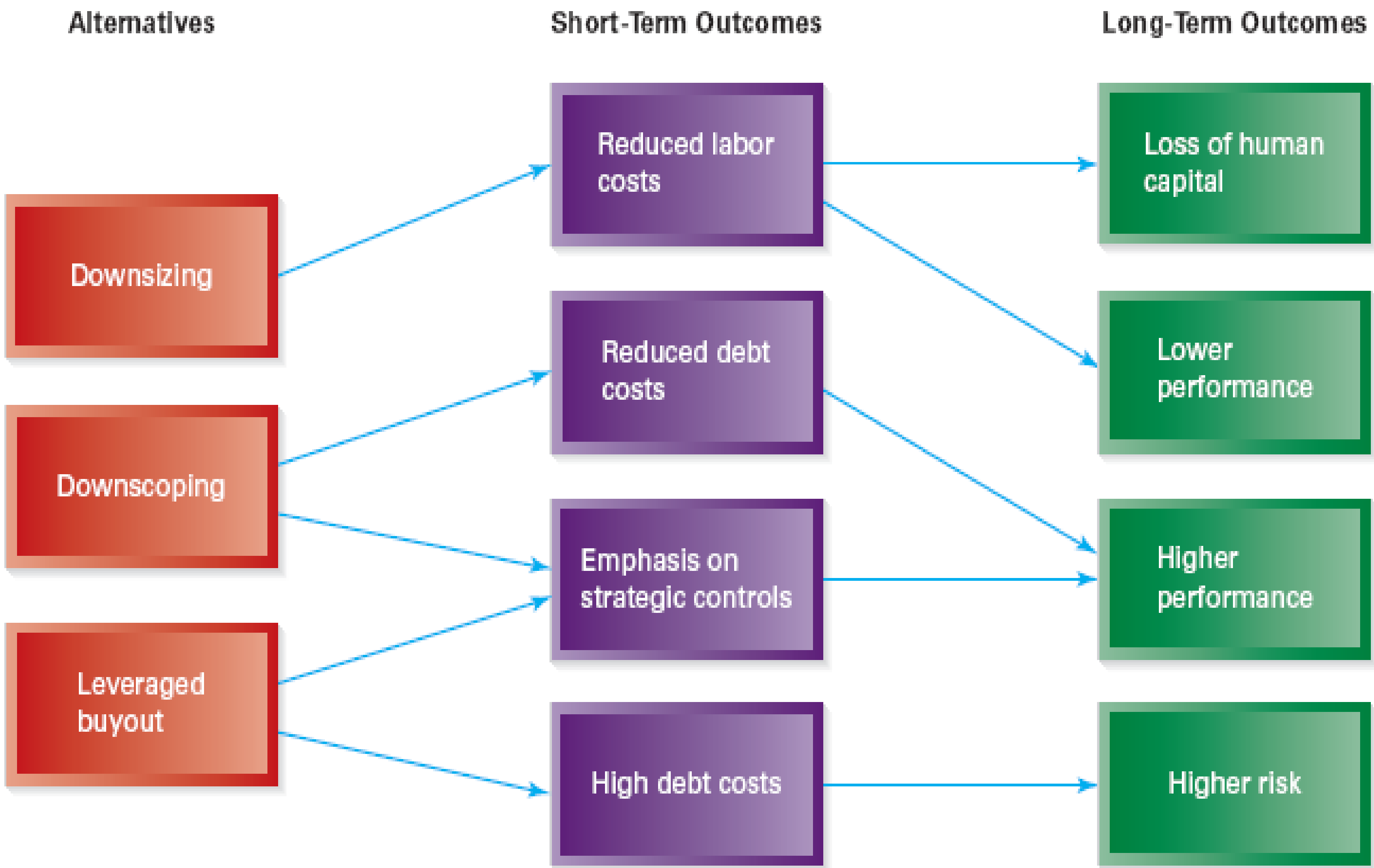
Restructuring: Firm changes set of businesses or financial structure

- 1. Downsizing: Reduction in number of firms' employees (and possibly number of operating units) that may or may not change the composition of businesses in the company's portfolio
- 2. Down scoping: Eliminating businesses unrelated to firms' core businesses through divesture, spin-off, or some other means
- 3. Leveraged buyouts (LBOs) –
  - One party buys all of a firm's assets in order to take the firm private (or no longer trade the firm's shares publicly)
  - Private equity firm: Firm that facilitates or engages in taking a public firm private

Why LBOs?

- Protection against a capricious financial market
- Allows owners to focus on developing innovations/bring them to market
- A form of firm rebirth to facilitate entrepreneurial efforts

Restructuring and Outcomes



GLOBAL STRATEGY

Identifying international opportunities and international strategies, strategic competitive outcomes and risk in an international environment, corporate implications for strategy, strategic alliances, corporate level cooperative strategy and competitive risk with cooperative strategies.

International Strategy (IS)

Overview: Eight content areas

- Traditional vs. emerging motives
- Four major benefits of International Strategies (IS)
- Four factors as basis for international business strategy
- Three international corporate-level strategies
- Environmental trends affecting IS
- Five alternative modes for entering international markets
- Effects of international diversification on returns & innovation
- Two major risks of international diversification

Introduction

- Many firms choose direct investment in assets over indirect investment
  - – Provides better protection forassets

Identifying International Opportunities: Incentives to Use an International Strategy (IS)

- **International Strategy (IS):** firm sells its goods or services outside the domestic market
- Reasons for an IS
  - International markets yield potential new opportunities
  - International diversification: innovation occurs in home-country market, especially in an advanced economy, and demand for product develops in other countries, so exports provided by domestic organization
  - Multinational strategy: Secure need resources
  - Other motives exist (i.e., pressure for global integration, borderless demand for globally branded products)

Identifying International Opportunities: Incentives to Use an International Strategy (IS)

(Cont'd)

- Four primary reasons
  - 1. Increased market size
    - Domestic market may lack the size to support efficient scale
    - manufacturing facilities
  - 2. Return on Investment (ROI)
    - Large investment projects may require global markets to justify the capital outlays
    - Weak patent protection in some countries implies that firms should expand overseas rapidly in order to preempt imitators

Identifying International Opportunities: Incentives to Use an International Strategy (IS)

(Cont'd)

- Four primary reasons (Cont'd)
  - 3. Economies of Scale and Learning
    - Expanding size or scope of markets helps to achieve economies of scale in manufacturing as well as marketing, R&D, or distribution
    - Costs are spread over a larger sales base
    - Profit per unit is increased
  - 4. Location advantages: Low cost markets may…
    - … aid in developing competitive advantage
    - … achieve better access to critical resources:
      - – i.e., raw materials, lower cost labor, key customers, energy

International Strategies (IS)

- Firms choose one or both of two basic type of IS: Business level and/or corporate level

- International business-level strategy
  - Follows generic strategies of cost-leadership, differentiation, focused or broad

- International corporate-level strategy
  - Home country usually most important source of competitive advantage
    - Resources and capabilities frequently allow firm to pursue markets in other countries
    - The determinants of national advantage includes 4 factors

Determinants of National Advantage

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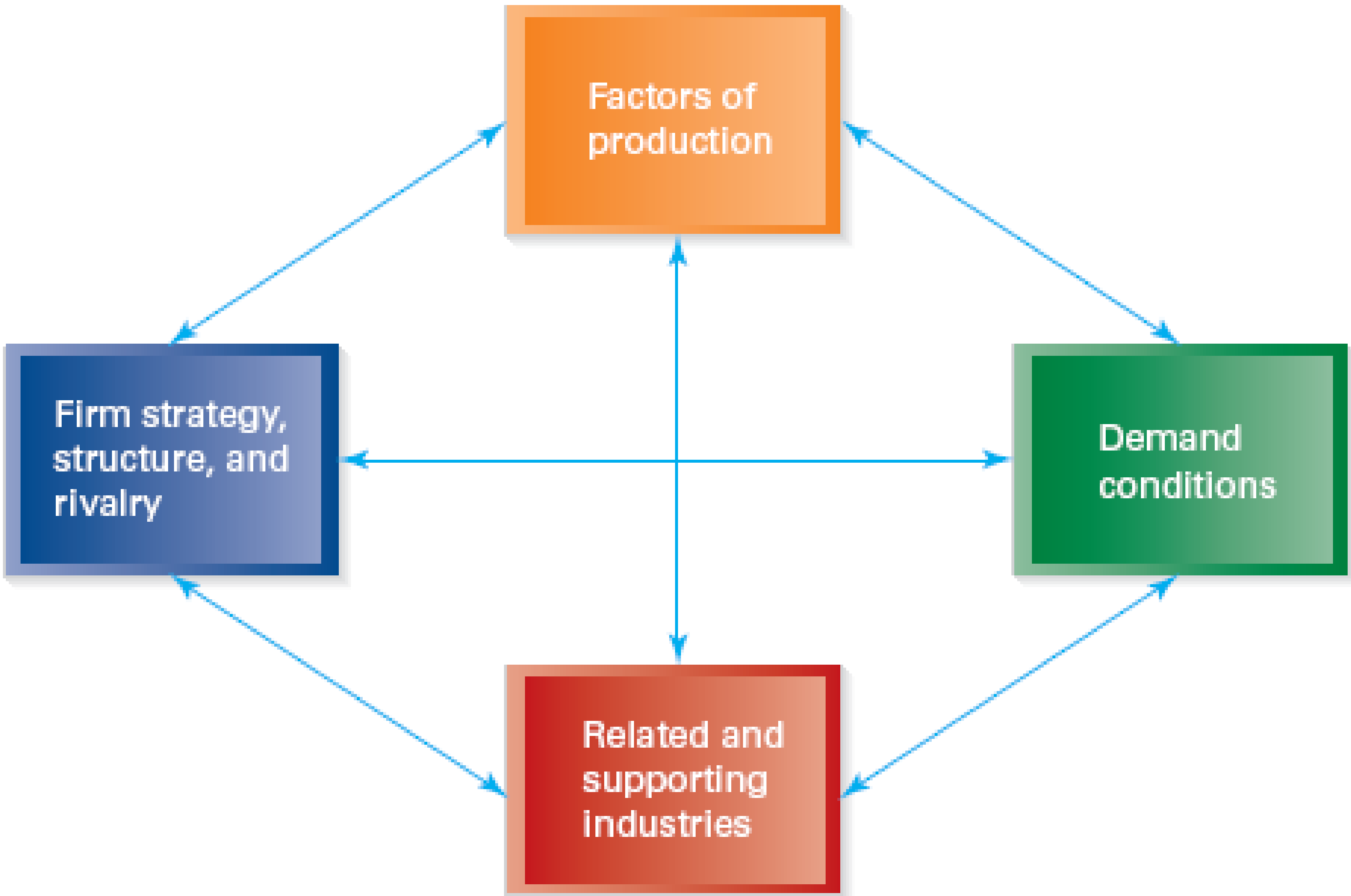

International Corporate-Level Strategies

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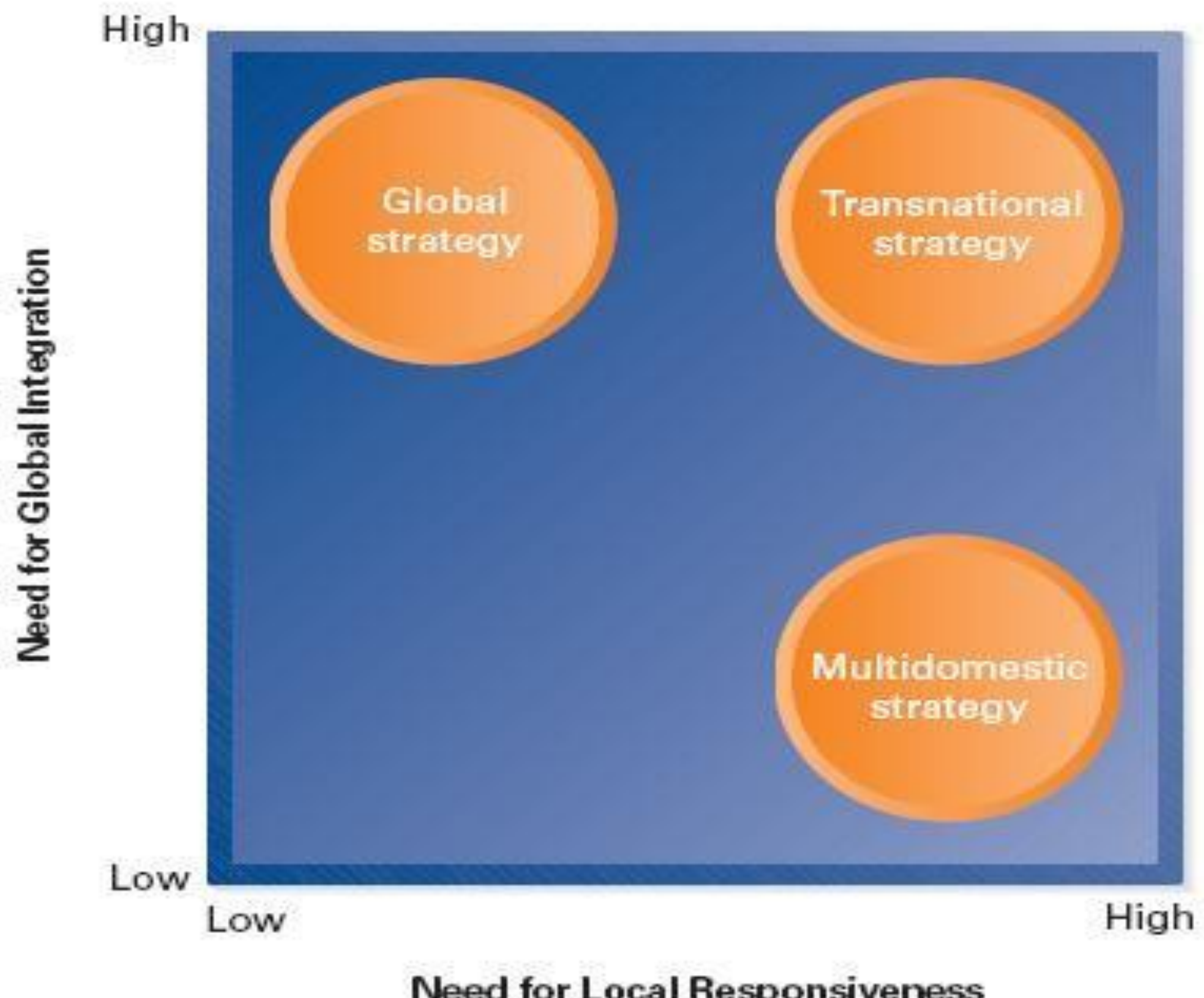


International Strategies (IS) (Cont'd)

- International corporate-level strategies (Cont'd)
- 1. Multidomestic
  - Decentralized strategic & operating decisions by strategic business-unit (SBU) in each country allows units to tailor products to local markets
  - Focuses on variations of competition within each country
  - Customized products to meet local customers' specific needs and preferences
  - Takes steps to isolate the firm from global competitive forces
    - Establish protected market positions
    - Compete in industry segments most affected by differences
    - among local countries
  - Deals with uncertainty from differences across markets

International Strategies (IS) (Cont'd)

- 2. Global
  - Offers standardized products across country markets, with the competitive strategy being dictated by the home office
  - Emphasizes economies of scale
  - Facilitated by improved global reporting standards (i.e., accounting and financial)
  - Strategic & operating decisions centralized at home office
  - Involves interdependent SBUs operating in each country
  - Home office attempts to achieve integration across SBUs, adding management complexity
  - Produces lower risk
  - Is less responsive to local market opportunities
  - Offers less effective learning processes (pressure to conform and standardize)

International Strategies (IS) (Cont'd)

- 3. Transnational
  - Seeks to achieve both global efficiency and local responsiveness – these are competing goals!
  - Requires both global coordination and local flexibility with this strategy/structure combination
    - Flexible Coordination: Building a shared vision and individual commitment through an integrated network
  - Challenging, but becoming increasingly necessary to compete in international markets
  - Growing number of global competitors heightens need to keep costs down while greater information flow and desire for specialized products pressures firms to differentiate and even customize products – nonetheless,
  - Increasingly used as a strategy

Environmental Trends

- Transnational strategy hard to implement
- Two new trends
- 1. Liability of foreignness
  - Increased after terrorists' attacks and Iraq War
  - Global strategies not as prevalent today, still difficult to implement even with Internet-based strategies
  - Regional focus allows firms to marshal resources to compete effectively in regional markets
- 2. Regionalization
  - Focus to a particular region of the world
    - Increases understanding of market
    - Achieve some economies
    - Trade agreements (i.e., EU, OAS, NAFTA) promote flow of trade across country boundaries with their respective regions

International Entry Modes

- Follows the selection of an IS
- Five main entry modes
- 1. Exporting
- 2. Licensing
- 3. Strategic Alliances
- 4. Acquisitions
- 5. New Wholly-Owned Subsidiary

International Entry Modes (Cont'd)

- 1. Exporting
  - Involves low expense to establish operations in host country
  - Often involves contractual agreements
  - Involves high transportation costs
  - May have some tariffs imposed
  - Offers low control over marketing and distribution

International Entry Modes (Cont'd)

- 2. Licensing
  - Involves low cost to expand internationally
  - Allows licensee to absorb risks
  - Has low control over manufacturing and marketing
  - Offers lower potential returns (shared with licensee)
  - Involves risk of licensee imitating technology and product for own use
  - May have inflexible ownership arrangement

International Entry Modes (Cont'd)

- 3. Strategic Alliances
  - Involve shared risks and resources
  - Facilitate development of core competencies
  - Involve fewer resources and costs required for entry
  - May involve possible incompatibility, conflict, or lack of trust with partner
  - Are difficult to manage

International Entry Modes (Cont'd)

- 4. Acquisitions
  - Allow for quick access to market
  - Involve possible integration difficulties
  - Are costly
  - Have complex negotiations and transaction requirements

International Entry Modes (Cont'd)

- 5. New Wholly-Owned Subsidiary
  - Is costly
  - Involves complex processes
  - Allows for maximum control
  - Has the highest potential returns
  - Carries high risk
  - Greenfield venture:Establish entirely new subsidiary

International Entry Modes (Cont'd)

- Dynamics of Mode of Entry: Use the best suited to the situation at hand; affected by several factors
  - Export, licensing and strategic alliance: good tactics for early market development
  - Strategic alliance: used in more uncertain situations
  - Wholly-owned subsidiary may be preferred if
    - IP rights in emerging economy not well protected
    - Number of firms in industry is growing fast
    - Need for global integration is high
  - Acquisitions or greenfield ventures:secure a stronger presence in international markets

Strategic Competitive Outcomes

- **International diversification:** firm expands sales of its goods or services across the borders of global regions and countries into different geographic locations or markets

- Implementation follows selection of international strategy and mode of entry

- 1. International diversification and returns
- 2. International diversification and innovation
- 3. Complexity of managing multinational firms

Strategic Competitive Outcomes (Cont'd)

- 1. International diversification and returns
  - As international diversification increases, firms' returns initially decrease, but then increase quickly as the firm learns to manage international expansion
- 2. International diversification and innovation
  - Exposure to new products and markets
  - Opportunity to integrate new knowledge into operations
  - Generation of resources to sustain innovation efforts
- 3. Complexity of managing multinational firms
  - Geographic dispersion
  - Costs of coordination
  - Logistical costs
  - Trade barriers
  - Cultural diversity
  - Host government

Risk in the International Environment

- Political Risks
  - War in Iraq and Afghanistan following the September 11, 2001, terrorist attacks
  - Continual warfare between the Palestinians and Israel
  - Potential of war between Pakistan and India
  - The challenge of integrating former Eastern European Block countries into the European Union and the Soviet reaction
  - Protectionist political trends as the economic downturn worsens
- Economic Risks
  - Failure of countries to pay debt obligations and the devaluation of their currencies in the economic downturn
  - Challenges for China in implementing the World Trade Organization agreements
  - The proposed constitution as well as entry of new countries into the European Union strengthening the euro currency and uniting Europe more tightly with existing and new partner countries
  - Success and failure of privatization and firm restructuring among Eastern European countries
  - The increased trend of counterfeit products and the lack of global policing of these products

Risks in International Environment (Cont'd)

- 1. Political risks
  - Government instability
  - Conflict or war
  - Government regulations
  - Conflicting and diverse legal authorities
  - Potential nationalization of private assets
  - Government corruption
  - Changes in government policies

Risks in International Environment (Cont'd)

- 2. Economic risks
  - Differences and fluctuations in currency values
  - Investment losses due to political risks
- Limits to international expansions: management problems
  - Geographic dispersion
  - Trade barriers
  - Logistical costs
  - Cultural diversity
  - Other differences by country
  - Relationship between organization and host country

- Overview: Seven content areas
  - Cooperative strategies and why firms use them
  - Three types of strategic alliances
  - Business-level cooperative strategies & their use
  - Corporate-level strategies in diversified firms
  - Cross-border strategic alliances' importance as an international cooperative strategy
  - Competitive risks with cooperative strategies
  - Two approaches to manage cooperative strategies

Introduction

- Cooperative strategy is a strategy in which firms work together to achieve a shared objective.
- The increasing importance of cooperative strategies are formed by firms competing against one another based on by the number of alliances between rivals in the auto industry.
- This means that effective competition in the 21st century landscape results when the firm learns how to cooperate with as well as compete against competitors.
  - – Firms worktogether for cooperative strategy.

Primary Type of Cooperative Strategy: Strategic Alliance

- Introduction: Strategic Alliance
- A strategic alliance is a cooperative strategy in which firms combine some of their resources and capabilities to create a competitive advantage.
  - A competitive advantage developed through a cooperative strategy often is called a collaborative or relational advantage.
  - Competitive advantage s significantly influence the firm market place success.
  - Rapid technological changes and global economy are examples of factors challenging firms to constantly upgrade current competitive advantages while they develop new ones to maintain strategic competitiveness.

Strategic Alliances as a primary type of cooperative strat

- Three types of strategic alliances

1. Joint venture

   - It is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capacities to develop a competitive advantage.

2. Equity strategic alliance

   - It is an alliance which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage.

3. Nonequity strategic alliance

   - it is an alliance in which two or more firms develop a contractual relationship to share some of their unique resources and capabilities to create a competitive advantage.

Strategic Alliances as a primary type of cooperative strat

- Licensing agree
- Distribution agree
- Supply contracts
- Outsourcing –is the purchase of value –creating primary or support activity from another firm.

Primary Type of Cooperative Strategy: Strategic Alliance

- 1. Joint venture
  - Two or more firms company to sha
  - a competitive

- 2. Equity strategic alliance
  - Two or more firms venture they have

- 3. Nonequity strategic alliance
  - Two or more firms share some of their unique resources and capabilities to crate a competitive advantage.

- Why firms might develop strategic alliances
  - Most firms lack needed to reach
  - Cooperative behavior that they could not
  - Aligning stakeholder
  - of the organization) uncertainty
  - Alliances can …
    - provide a new so
    - be a vehicle for
    - enhance the speed technological change
    - allow firms to gain increase competition

Primary Type of Cooperative Strategy: Strategic Alliance

- In summary, strategic alliances …
  - …can reduce co competitive cap
  - …create avenue
  - …allows firm to strategic flexibility

Reasons for Strategic Alliances by Market Type

Market	Reason
Slow-Cycle	• Gain access to restricted market • Establish a franchise in a new market • Maintain market stability (e.g., establishing standard)
Fast-Cycle	• Speed up development of new goods or services • Speed up new market entry • Maintain market leadership • Form an industry technology standard • Share risky R&D expenses • Overcome uncertainty
Standard-Cycle	• Gain market power (reduce industry overcapacity) • Gain access to complementary resources • Establish better economies of scales • Overcome trade barriers • Meet competitive challenges from other competitors

Business-Level Cooperative Strategy

- **Business level cooperative strategies**
- to grow and imp individual product
- Achieved through Alliances (CSA)
- Complementary Strategic Alliances (CSA)
  - Firms share some complementary advantages
  - Partners may have
    - Learning rates
    - Capabilities to
    - Marketplace reputations
    - types of actions
  - Some firms are
  - and deriving benefits
  - Two forms include

Business-Level Cooperative Strategy (Cont'd)

- 2 Types of CSA:
  - 1. Vertical CSA
    - – partnering fir different stages advantage.
  - 2. Horizontal
    - –partnering fir same stage advantage
    - –commonly used distribution
- Competition response strategy
  - Competitors
    - initiate competition
    - launch competition
  - Strategic alliances
    - can be used at attacks
    - primarily formed
    - can be difficult

Business-Level Cooperative Strategy

- Uncertainty-reducing strategy
  - For example, entering economies and unknown areas
  - respective indu reduced
  - Uncertainty redu capabilities

STRUCTURE AND CONTROLS WITH ORGANIZATIONS

Organizational structure and controls, evolutionary patterns of strategy and organizational structure, leadership implications for strategy, entrepreneurial implications for strategy.

Introduction

- All firms use at least one business-level strategy
- Once selected, strategies are NOT implemented in a vacuum!
- Organizational structure and controls provide framework within which strategies are used

- Organizational Structure (OS)
  - Specifies firm's formal reporting relationships, procedures, controls, authority & decision-making processes (i.e., work to be done and how to do it!)
  - Effective use of firm's strategies facilitated when structure is properly aligned
    - **Structural stability:** Capacity firm requires to consistently and predictably manage its daily work routines
    - **Structural flexibility:** Opportunity to explore competitive advantages firm will need to be successful in the future
  - Pioneer Alfred Chandler found organizations change their structures when inefficiencies force them to do so

Cont..

- Organizational Controls (OC)
  - Guide the use of strategy, indicate how to compare actual results with expected results, and suggest corrective actions to take when the difference is unacceptable
  - Two types include strategic and financial

- Organizational Controls (OC)

  1. **Strategic controls:** largely subjective criteria intended to verify that the firm is using appropriate strategies for the conditions in the external environment and the company's competitive advantages.

     - Concerned with what firm might do vs. what it can do
     - Used to evaluate degree to which firm focuses on the requirement to implement strategies (i.e., SUB: primary and support activities; corporate level: knowledge, markets & technologies across businesses)
     - Focus on the content of strategic actions
     - Encourage decisions that incorporate moderate and acceptable
     - levels of risk

- Organizational Controls (OC) (Cont'd)

  2. **Financial controls**

     - Objective criteria used to measure firm's performance against previously established quantitative standards (used for unrelated diversification)
     - Focus on short-term financial outcomes
     - Produce risk-averse managerial decisions

- Both strategic and financial controls are important aspects of each organisational structure, and any structure effectiveness is determined by using a combination of strategic and financial controls.

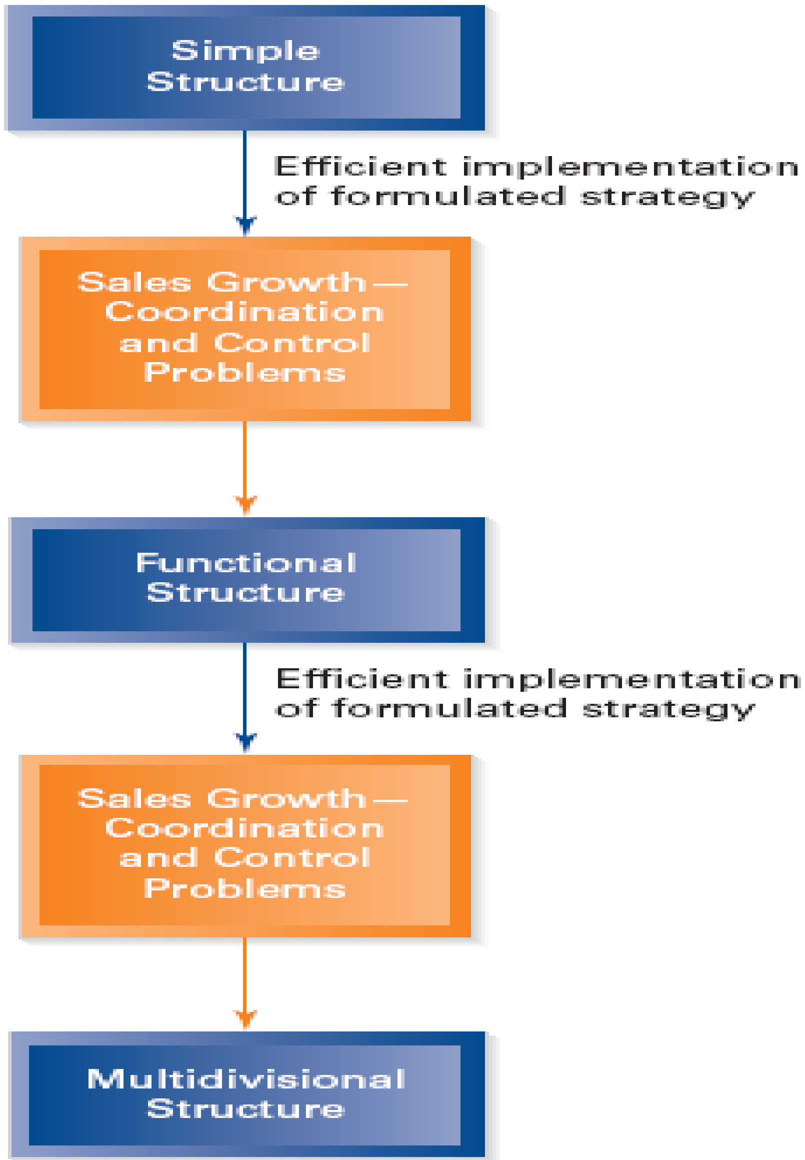
Relationship between strategy and structure

- Strategy and structure have reciprocal relationship.
- The relationship highlights the interconnectedness between strategy formulation and strategy implementation.
- Regardless of the strength of the reciprocal relationships between strategy and structure, those choosing the firms' strategy and structure should be committed to matching each strategy with a structure that provides the stability needed to use current competitive advantages as well as the flexibility required to develop future advantages.

Evolutionary patterns of strategy and organisational structure

- Research suggests that most firms experience a certain pattern of relationships between strategy and structure.
- *Chandler* found that that firms tended to grow in somewhat predictable patterns. "first by volume ,then by geography, then integration (vertical, horizontal) and finally through product/business diversification.
- The below figure explains that sales growth creates coordination and control problems that the existing organisational structure can't efficiently handle.
- Organisational growth creates the opportunity for the firm to change its strategy to try to become even more become successful.

Strategy and structure growth pattern



Strategy vs. Structure: Evolutionary Patterns

(Cont'd)

- Three main structures
  - 1. Simple
    - Owner-manager makes all major decisions and monitors all activities, staff acts as extension of manager's supervisory authority
    - Few rules, limited task specialization, unsophisticated technology system
    - As firm grows more complex, need to add layers and controls

Strategy vs. Structure: Evolutionary Patterns
(Cont'd)

- Three main structures (Cont'd)
  - 2. Functional
    - CEO and a limited corporate staff make all decisions, with functional line managers in dominant organizational areas
    - Allows functional specialization resulting in active knowledge sharing in each functional area
    - Can negatively affect communication and coordination among those representing different organizational functions
    - When changing from a simple to functional structure need to
    - focus on value-destroying bureaucratic procedures

Strategy vs. Structure: Evolutionary Patterns
(Cont'd)

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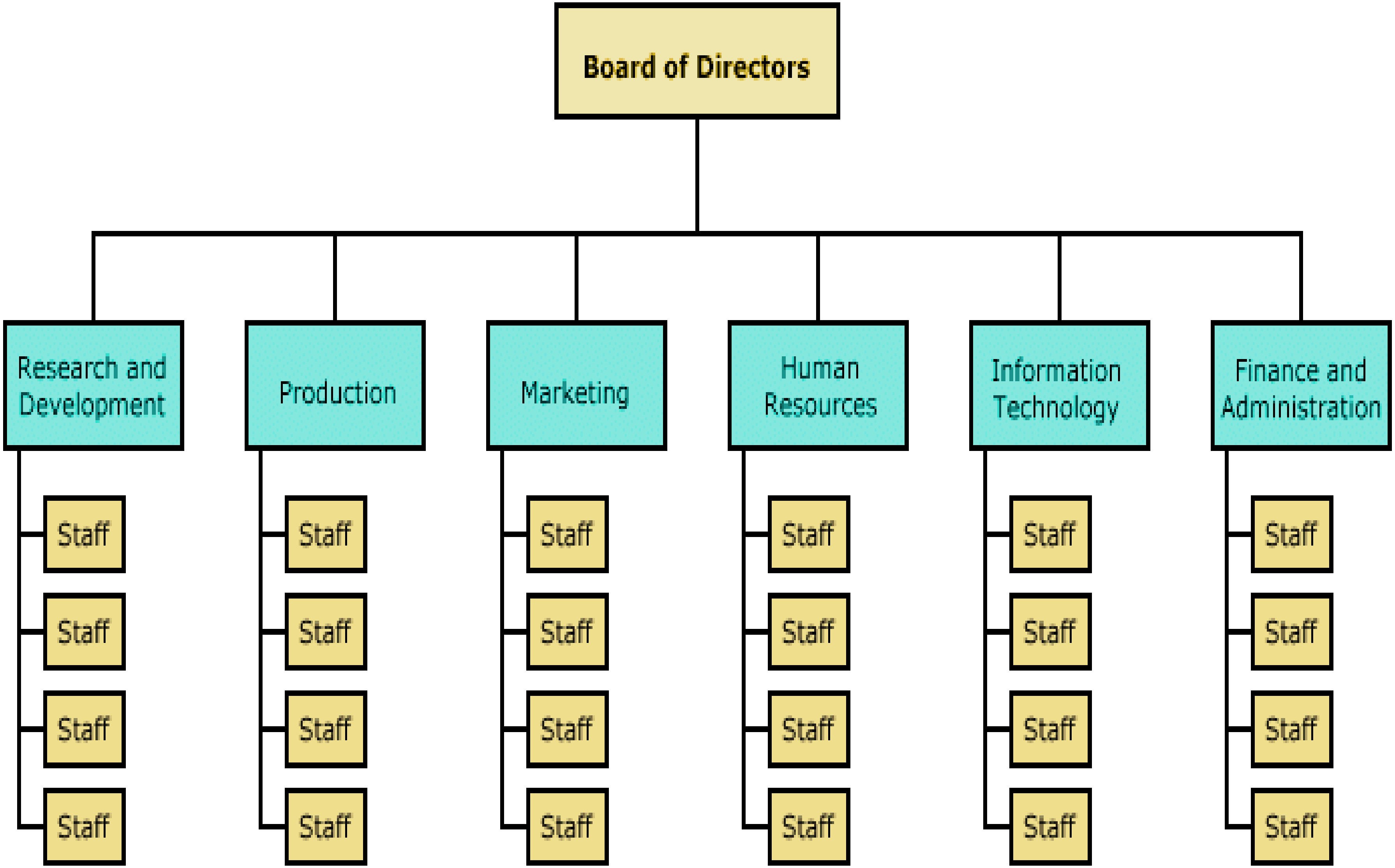

- Three main structures (Cont'd)
  - 3. Multidivisional (M-form) structure
    - Each division represents a separate business or profit center in which corporate officers delegate responsibilities for day-to-day operations and business-unit strategies to division managers
    - Enables corporate officers to more accurately monitor the performance of each business -->simplifies the problem of control
    - Facilitates comparisons between divisions --> improves resource allocation process
    - Stimulates managers of poorly performing divisions to look for ways of improving performance

Strategy vs. Structure: Evolutionary Patterns
(Cont'd)

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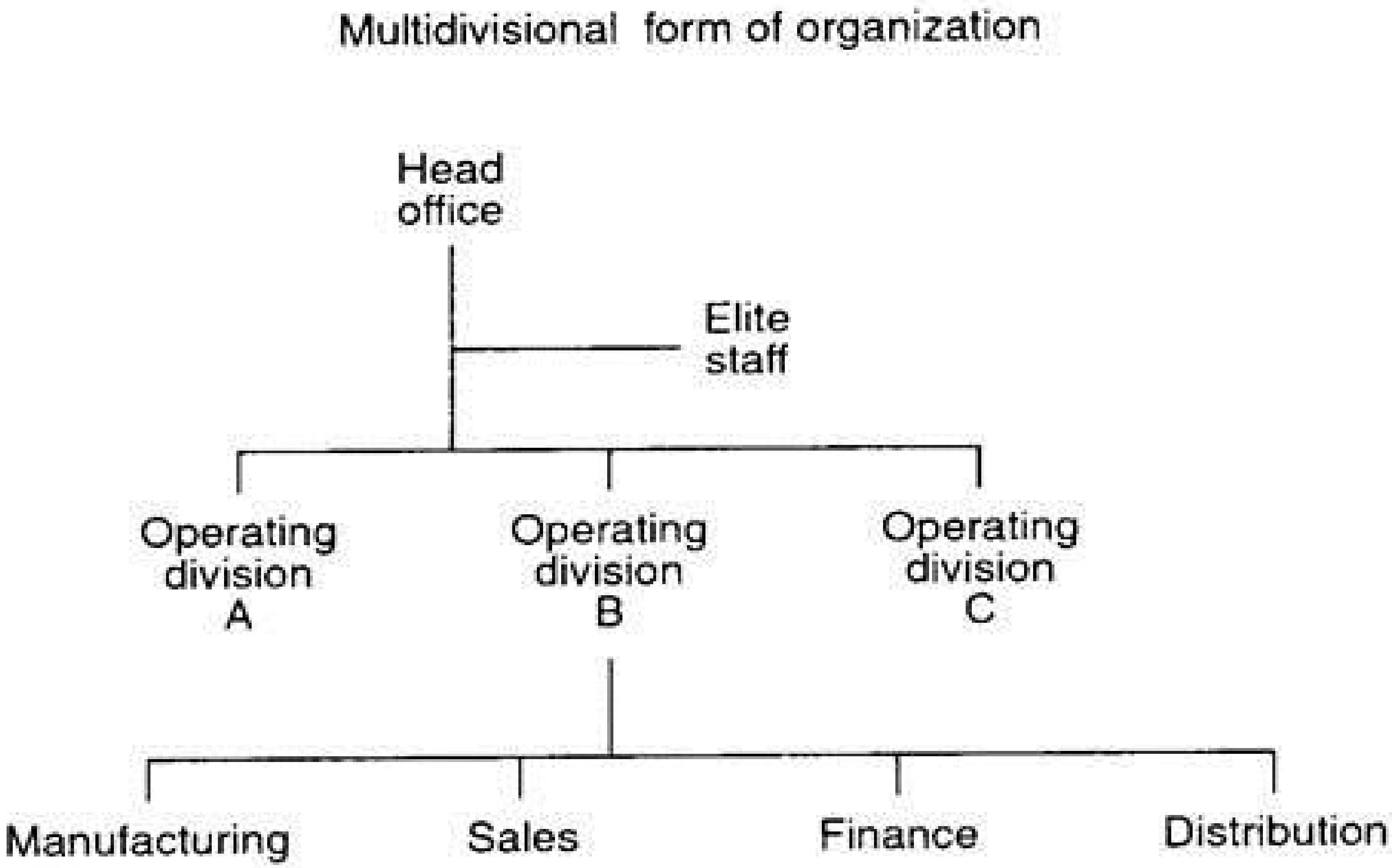


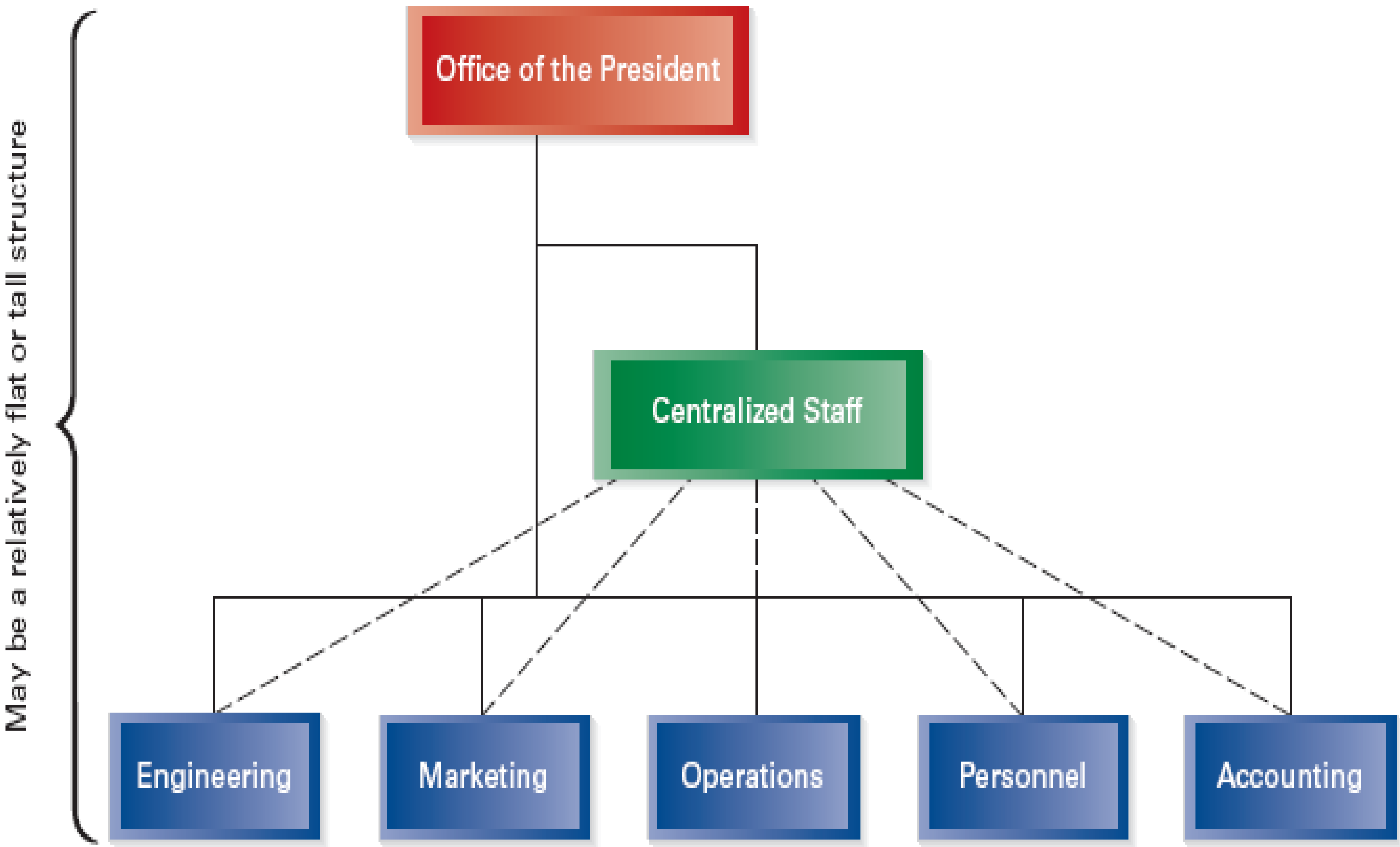
Strategy vs. Structure: Evolutionary Patterns

(Cont'd)

- No one structure (simple, functional or multidivisional) is superior to the others

- Structural characteristics drive different forms of organizational structures
  - 1. Specialization
    - Type and number of jobs required to do work
  - 2. Centralization
    - Degree to which decision-making authority is retained at higher managerial levels
  - 3. Formalization
    - Degree to which formal rules and procedures govern work

Functional Structure for Implementing a Cost Leadership Strategy



Strategy vs. Structure: Evolutionary Patterns

(Cont'

- Matches between business-level strategies and functional structure to implement them:
  - 1. Cost leadership and the functional structure
    - Simple reporting relationships
    - Few decision-making and authority layers
    - Centralized corporate staff
    - Strong operational focus on process improvements
    - Low-cost culture
    - Centralized staff decision-making authority
    - Jobs specialization
    - Highly formalized rules and procedures

Functional Structure for Implementing a Differentiation Strategy

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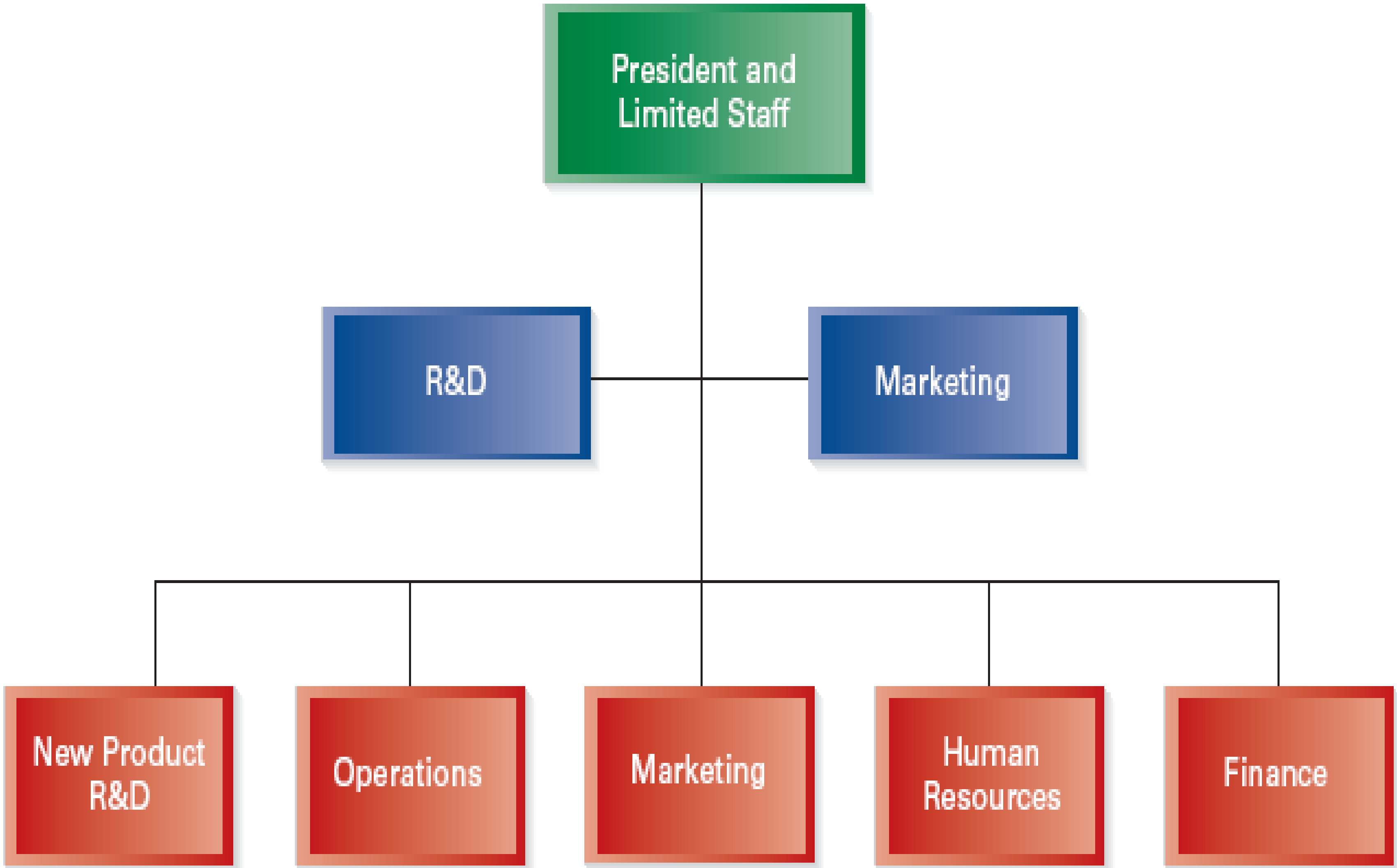


Strategy vs. Structure: Evolutionary Patterns

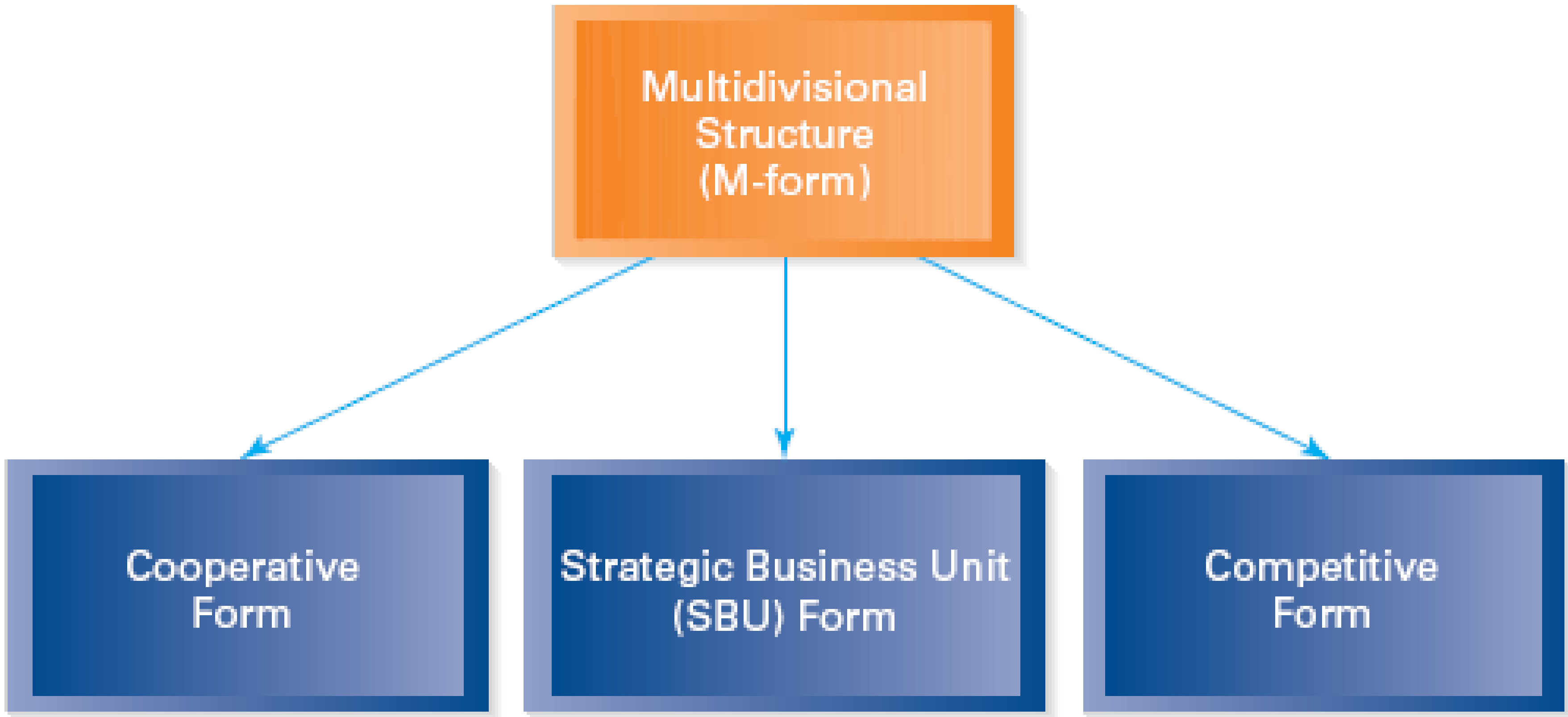
(Cont'd)

- Matches between business-level strategies and functional structure to implement them :
  - 2. Differentiation and functional structure
    - Complex and flexible reporting relationships
    - Cross-functional product development teams
    - Strong focus on marketing and product R&D
    - Development-oriented culture
    - Decentralized decision making
    - Broad job descriptions
    - Informal rules and procedures

- Matches between business-level strategies and functional structure to implement them :
  - 3. Integrated cost leadership/differentiation strategy
    - These firms may sell products that create value because of relatively low price and reasonable sources of differentiation
    - Difficult to implement, but frequently used in the global economy
    - Challenge due to primary/support activities
    - Need to successfully combine specialization, formalization and centralization

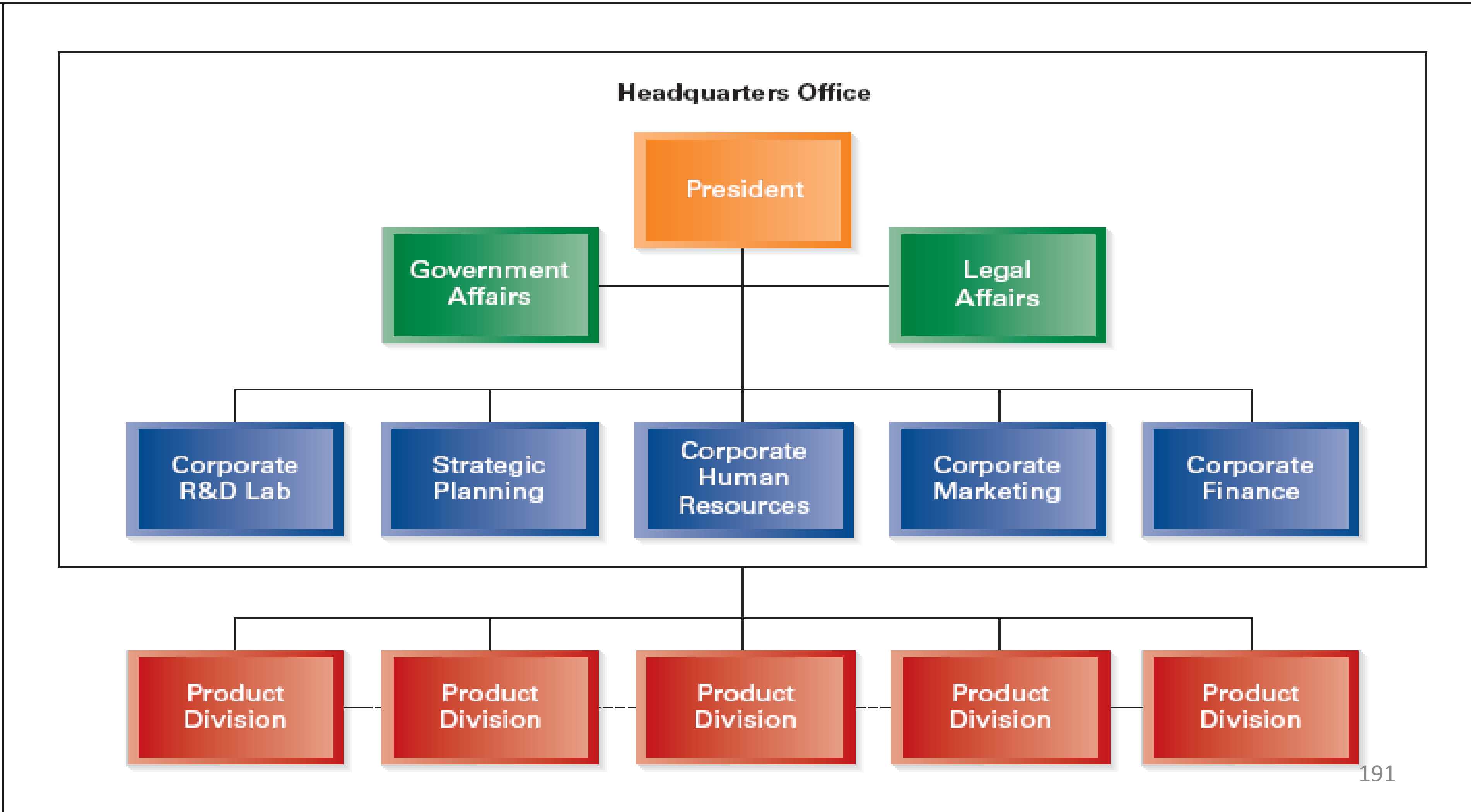
Strategy vs. Structure: Evolutionary Patterns
(Cont'd)

- Matches between corporate-level strategies and multidivisional structure
  - – 3forms



Cont..

- Cooperative Form of the Multidivisional Structure for Implementing a Related Constrained Strategy.



Strategy vs. Structure: Evolutionary Patterns

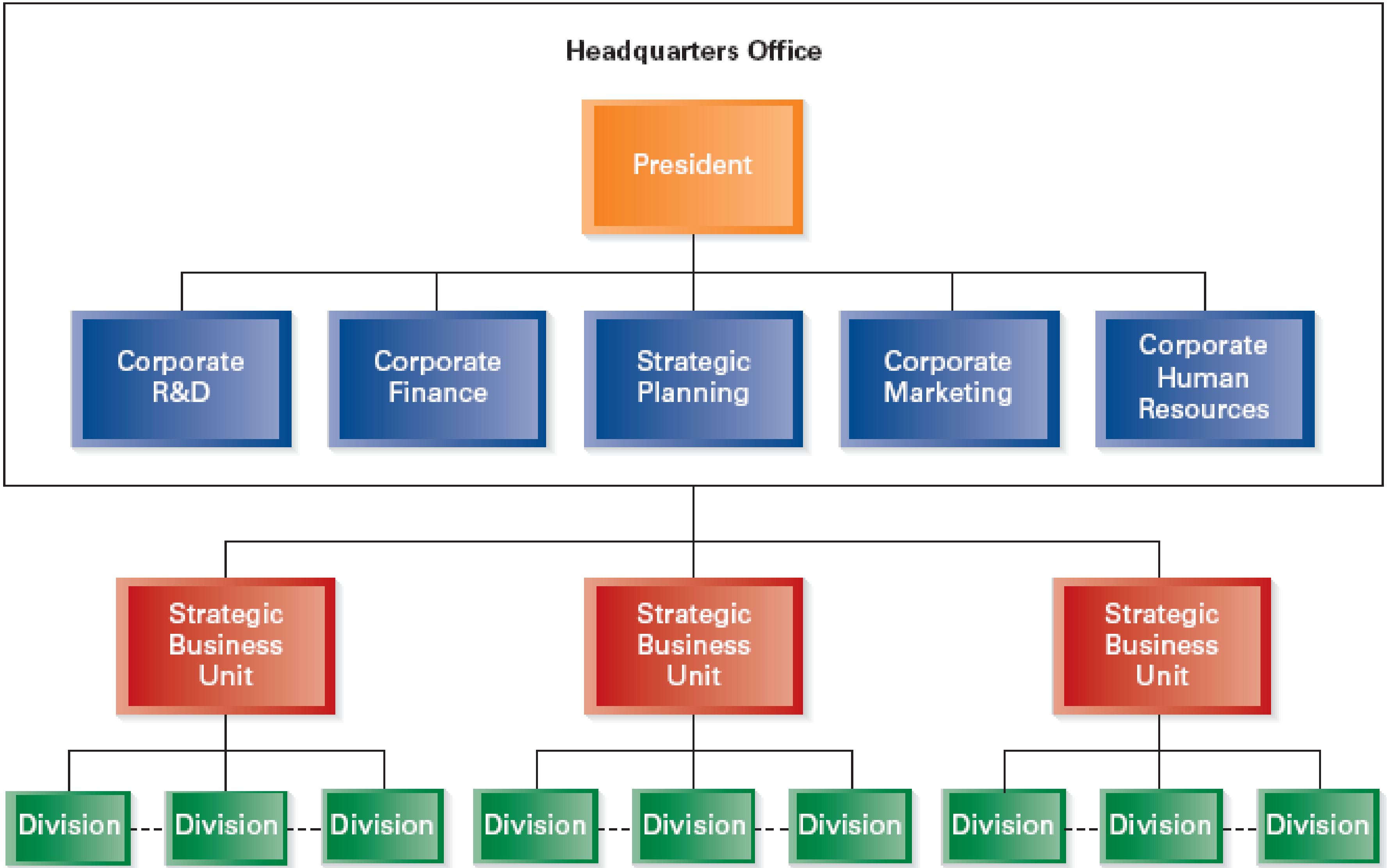
- Matches between corporate-level strategies & multidivisional structure: Cooperative form/related constrained strategy
  - Cooperative form: organizational structure using horizontal integration to bring about interdivisional cooperation
  - Divisions formed around products, markets or both
  - All of the divisions share one or more corporate strengths
  - Interdivisional sharing depends on cooperation
  - Links resulting from effective integration mechanisms support sharing of both tangible and intangible resources
  - Centralization is one integrating mechanism that can be used to link activities among divisions, allowing firms to exploit common strengths and share competencies

Strategy vs. Structure: Evolutionary Patterns

(Cont'd)

- Matches between corporate-level strategies & multidivisional structure: Cooperative form/related constrained strategy (cont'd)
  - Success influenced by how well information is processed among divisions
  - Success can be influenced by managerial commitment levels and the response to some lost managerial autonomy
  - Matrix organization may evolve
    - organizational structure in which a dual structure combines both functional specialization and business product or project specialization

SBU Form of the Multidivisional Structure for Implementing a Related Linked Strategy



Strategy vs. Structure: Evolutionary Patterns

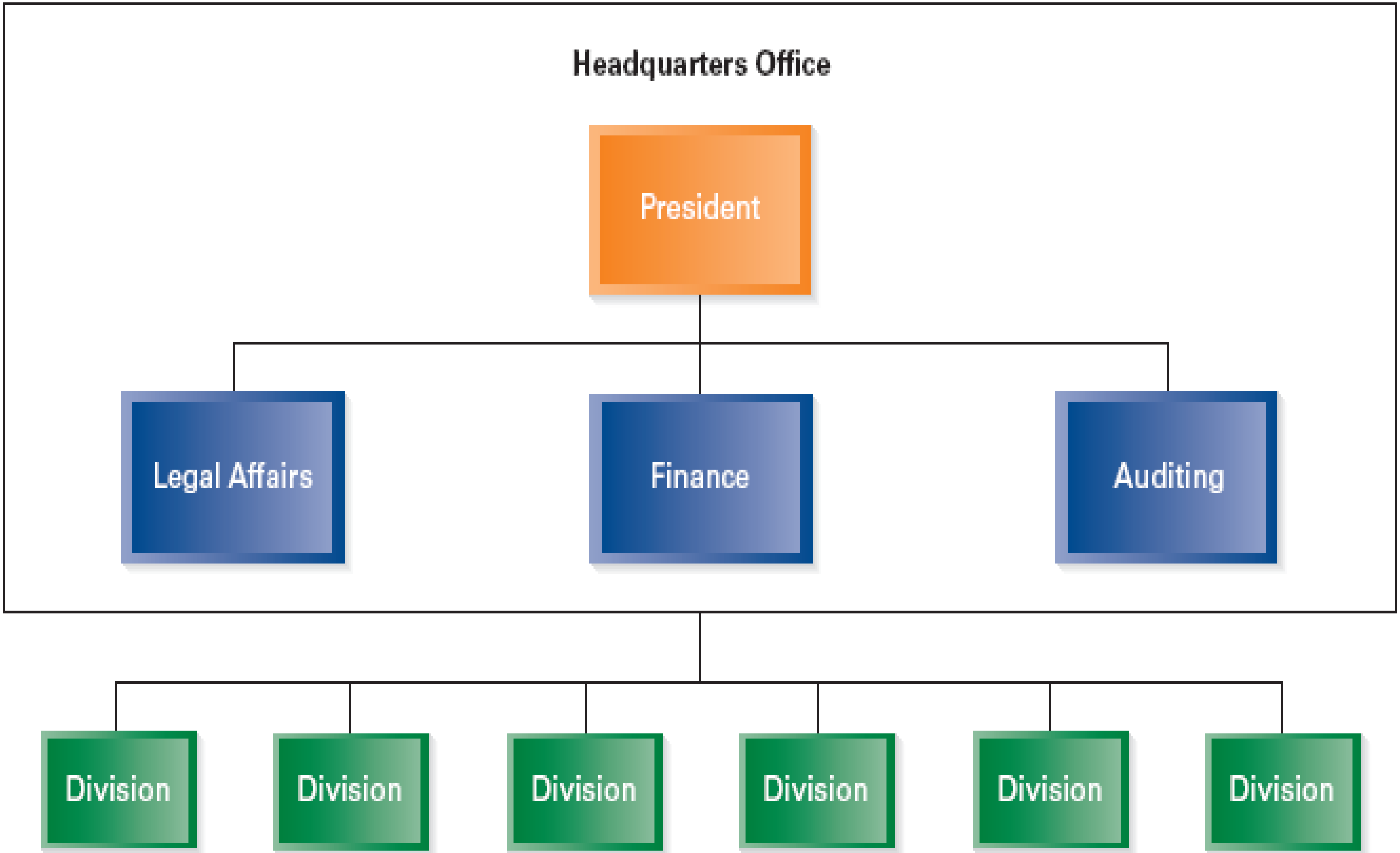
(Cont'd)

- Matches between corporate-level strategies & multidivisional structure: SBU form/related linked strategy
  - **Related linked :** Firms that share fewer resources and assets among their businesses, concentrating on the transfer of knowledge and competencies among the businesses
  - **Strategic Business-Unit (SBU) Form:** multidivisional organization structure with three levels to support the implementation diversification strategy
    - 1. Corporate headquarters
    - 2. Strategic Business Units (SBUs)
    - 3. SBU division

Strategy vs. Structure: Evolutionary Patterns
(Cont’d)

- Matches between corporate-level strategies & multidivisional structure: SBU form/related linked strategy
  - SBU Form (Cont’d)
    - Divisions within each SBU are related in terms of shared products and/or markets
    - Divisions of one SBU have little in common with divisions of other SBUs
    - Divisions within each SBU share product or market competencies to develop economies of scope
    - Integrations used in cooperative form are equally effective for the SBU form
    - Each SBU is a profit center
    - Financial controls are more vital for evaluating performance

Competitive Form of the Multidivisional Structure for Impleme an Unrelated Strategy



Strategy vs. Structure: Evolutionary Patterns

(Cont'd)

- Matches between corporate-level strategies & multidivisional structure: Competitive form/unrelated diversification
  - Competitive form defined: organizational structure in which the firm's divisions are completely independent
  - Divisions do not share common corporate strengths
  - Integration devices not developed to coordinate activities across divisions
  - Efficient capital markets in unrelated strategies require organizational arrangements that emphasize divisional competition rather than cooperation
  - Specific performance expectations and accountability for independent divisions stimulate internal competition for future resources

Strategy vs. Structure: Evolutionary Patterns

(Cont'd)

- Matches between corporate-level strategies and multidivisional structure:Competitive form/unrelated diversification (Cont'd)
  - Headquarters maintains a distant relationship to avoid intervention in divisional affairs
  - Strategic controls are used to monitor performance relative to targeted returns
  - Headquarters remains responsible for cash flow allocation, performance appraisal, resource allocation, and the legal aspects related to acquisitions

Worldwide Geographic Area Structure for Implementing a Multidomestic Strategy

- Three Primary International Strategies:
- 1. Worldwide geographic area structure to implement the Multidomestic Strategy
  - Multidomestic Strategy: international strategy in which strategic and operating decisions are decentralized to the strategic business-unit (SBU) in each country to allow the units to tailor products to local markets
  - Worldwide Geographic Area Structure: organizational structure emphasizing national interests and facilitates efforts to satisfy local or cultural differences (used to implement the multidomestic strategy)
  - Focuses on variations of competition within each country

International Strategy and Worldwide Structure (Cont’d)

- Three Primary International Strategies:
- 1. Worldwide geographic area structure to implement the Multidomestic Strategy (Cont’d)
  - Customizes products to meet specific needs and preferences of local customers
  - Decentralizes the firm's strategic and operating decisions to business units in each country
  - Takes steps to isolate the firm from global competitive forces
    - Establish protected market positions
    - Compete in industry segments most affected by differences among local countries
  - Deals with uncertainty due to differences across markets

Worldwide Product Divisional Structure for Implementing Global Strategy

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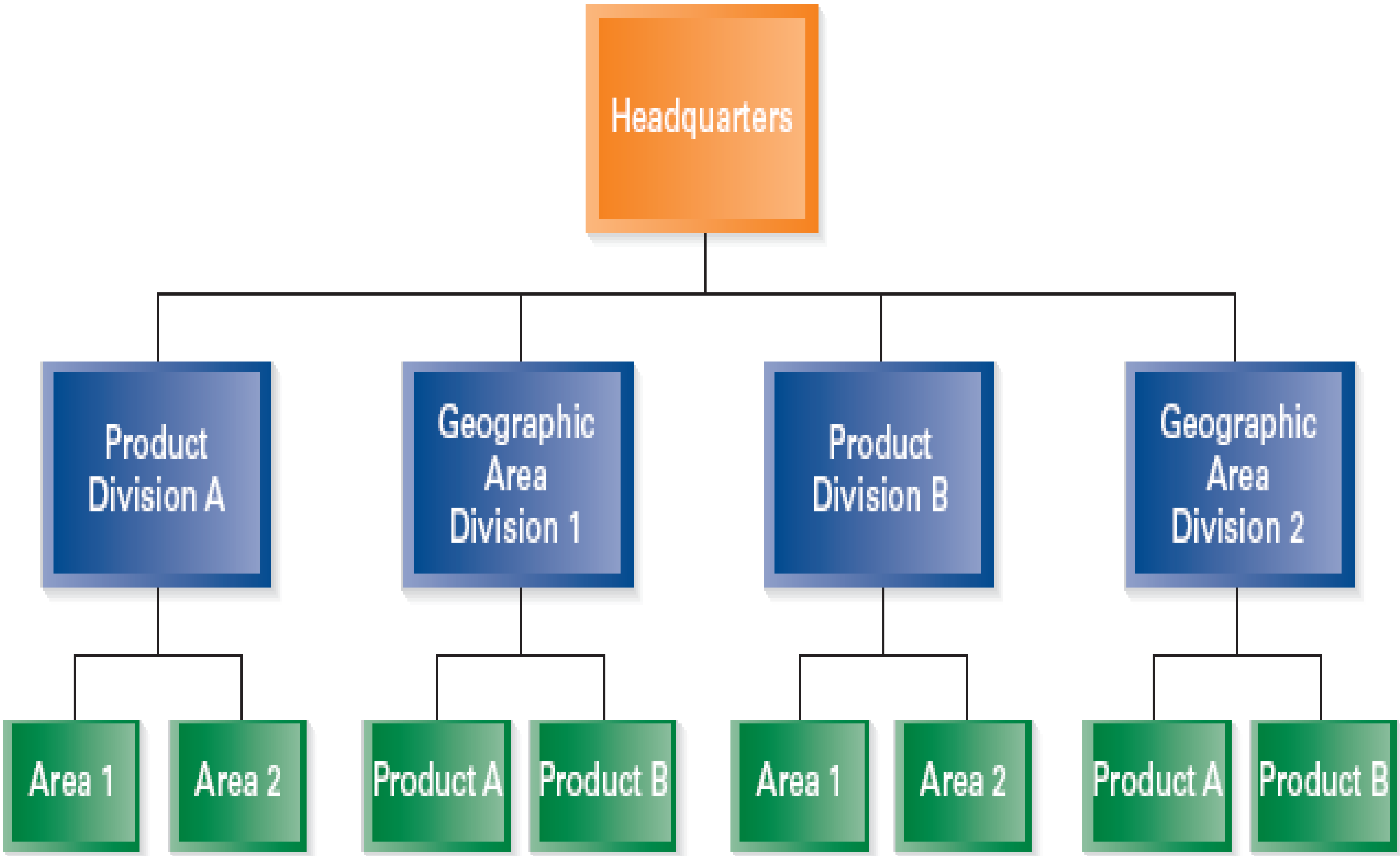
International Strategy and Worldwide Structure (Cont'd)

- Three Primary International Strategies:
- 2. Worldwide product divisional structure to implement Global Strategy
  - Global Strategy: International strategy whereby firm offers standardized products across country markets, with the competitive strategy being dictated by the home office
  - Worldwide Product Divisional Structure: Organizational structure with centralized decision-making authority in the WW division headquarters to coordinate and integrate decisions and actions among divisional business units (used to implement the global strategy)
  - Facilitated by improved global accounting and financial reporting standards

- Three Primary International Strategies:
- 2. Worldwide product divisional structure to implement Global Strategy (Cont'd)
  - Emphasizes economies of scale
  - Centralizes the firm's strategic and operating decisions at the home office
  - Involves SBUs operating in each country that are interdependent
  - Home office attempts to achieve integration across SBUs, adding management complexity
  - Produces lower risk
  - Is less responsive to local market opportunities
  - Offers less effective learning processes due to the pressure to conform and standardize

Hybrid Form of the Combination Structure for Implementing a Transnational Strategy

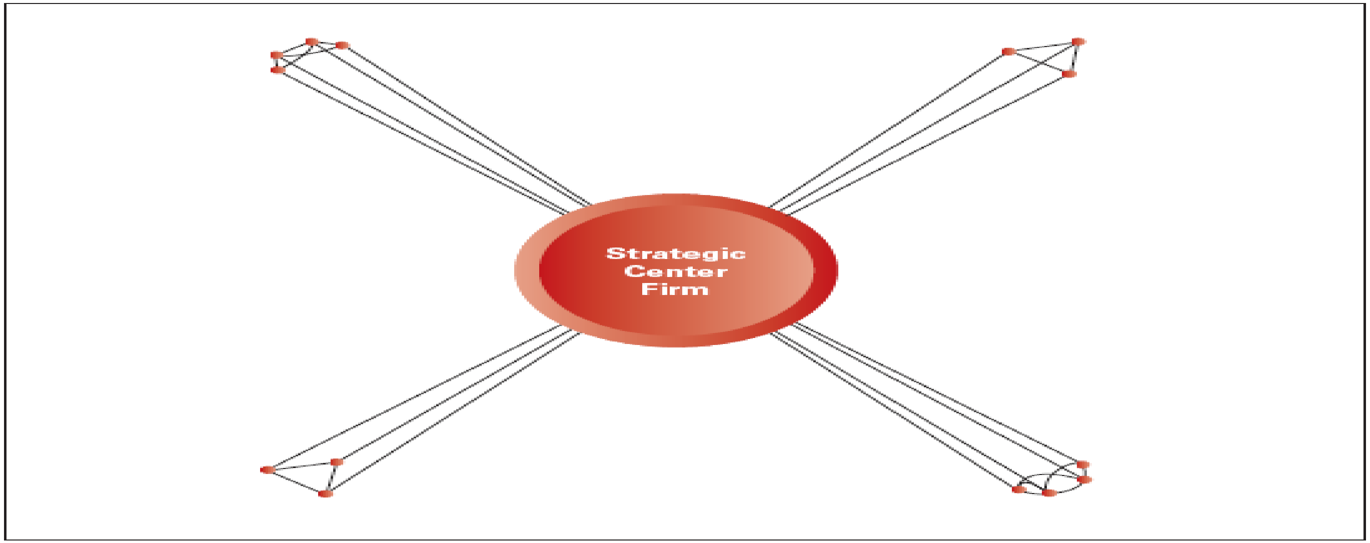


- Three Primary International Strategies:
- 3. Combination structure to implement the Transnational Strategy
  - **Transnational Strategy:** usually implemented through global matrix structure and hybrid global design
  - **Flexible Coordination:** Building a shared vision and individual commitment through an integrated network
  - **Combination Structure:** Organizational structure in which characteristics and mechanisms are drawn from both the worldwide geographic area structure and the worldwide product divisional structure (used to implement transnational strategy)

- Three Primary International Strategies:
- 3. Combination structure to implement the Transnational Strategy (Cont'd)
  - Assets and operations may be centralized/decentralized
  - Functions may be integrated/nonintegrated
  - Relationships may be formal/informal
  - Coordination mechanisms may leverage efficiency/flexibility
  - Mandates to subsidiaries may be global/specialized-contribution/ localized-implementation
  - There are competing objectives when a worldwide combination structure is used to implement a transnational strategy

A Strategic Network

- Matches between cooperative strategies and network structures
  - Network strategy: Partners form several alliances in order to improve the performance of the alliance network itself through cooperative endeavors
  - Strategic network: Group of firms that form around the core to create value to participating in multiple cooperative arrangements
    - At core: Strategic Center Firm which has 4 primary tasks



Strategic Network (Cont'd)

- Strategic Center Firm's primary tasks
  - 1. Strategic outsourcing
  - 2. Competencies
  - 3. Technology
  - 4. Race to learn

Implementing Business-level Cooperative Strategies

- Business-level complementary alliances

  - **Vertical:** partnering firms share their resources and capabilities from different stages of the value chain to create a competitive advantage.

  - **Horizontal:** partnering firms share resources and capabilities from the same stage of the value chain to create a competitive advantage - commonly used for long-term product development and distribution opportunities

Implementing Corporate-level Cooperative Strategies

- Used to facilitate product & market diversification
  - **Franchising:** contractual relationship to describe and control the sharing of its resources and capabilities with partners
    - Allows firms to use its competencies to extend or diversity product or market reach, without completing a merger or acquisition
  - Knowledge embedded in corporate-level cooperative strategies facilitates synergy

A Distributed Strategic Network

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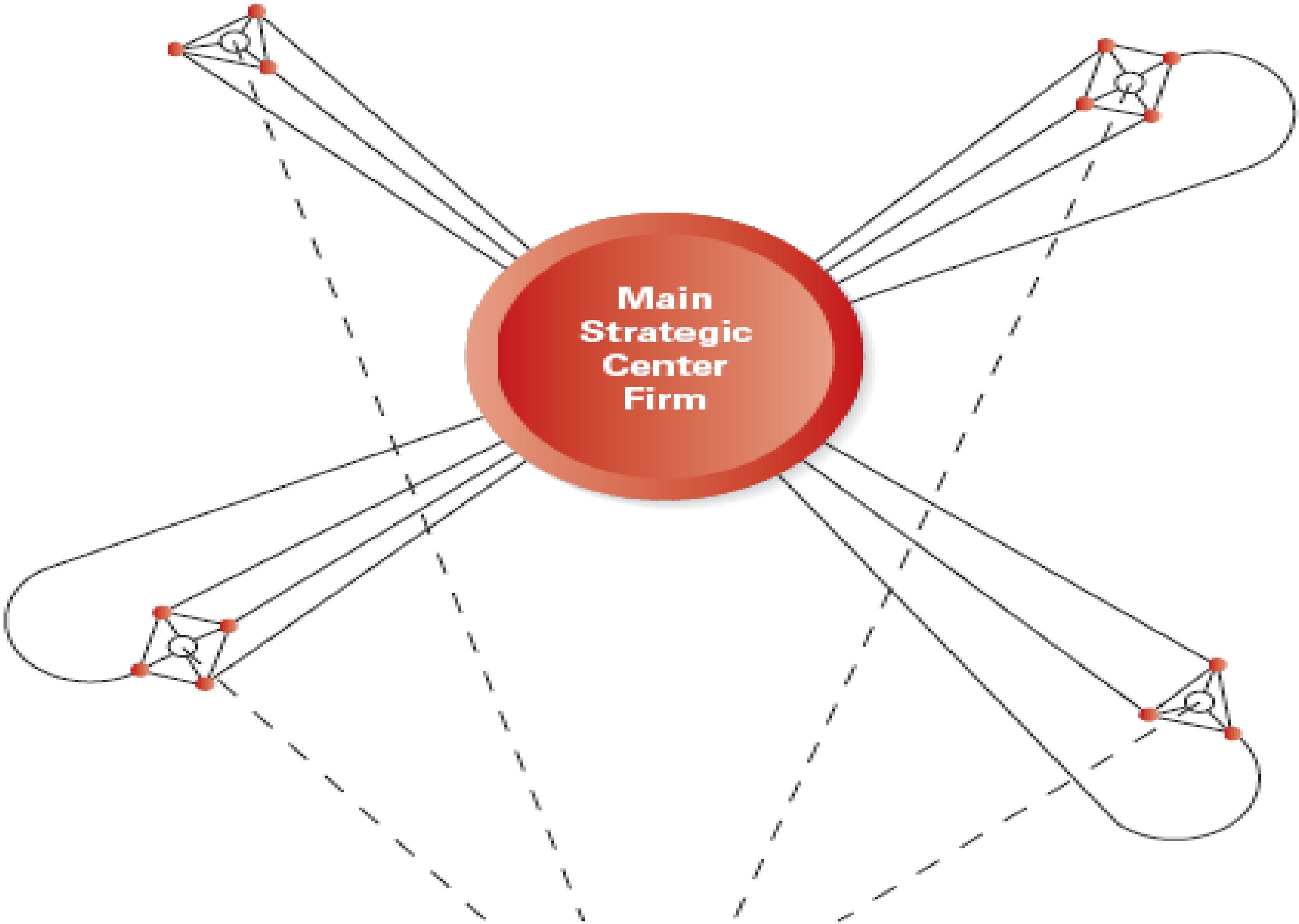

Distributed Strategic Center Firms

Implementing International Cooperative Strategies

- Strategic networks formed to implement cooperative strategies resulting in firm competing in several different countries
  - Distributed strategic networks:
    Organizational structure used to manage international cooperative strategies
    - Several regional strategic center firms are included in the distributed network to manage partner firms' multiple cooperative arrangements

Strategic Leadership (SL)

- Overview: Eight content areas
  - Strategic leadership and top-level managers' importance
  - Top management teams and effects on firm performance
  - Managerial succession process using internal/external labor markets
  - Value of SL in determining firm's strategic direction
  - Importance of strategic leaders in managing firm's resources
  - Organizational culture and actions to sustain it
  - Ethical practices: establishment and emphasis
  - Importance and use of organizational controls

Introduction

- Regardless on time in position leaders can make a major difference in how a firm performs

- Effective strategic leadership is the foundation for successfully using the strategic management process

- Strategic leaders facilitate the development of appropriate strategic actions and determine how to implement them – these actions are the path to strategic competitiveness and above-average returns

Strategic Leadership (SL) and Style

- **Strategic leadership:** the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary
- Multifunctional task
  - Managing through others
  - Managing an entire enterprise rather than a functional subunit
  - Coping with change which is increasing in the global economy
  - Most critical skill: attracting and managing human (includes intellectual) capital

Strategic Leadership and the Strategic Management Pro

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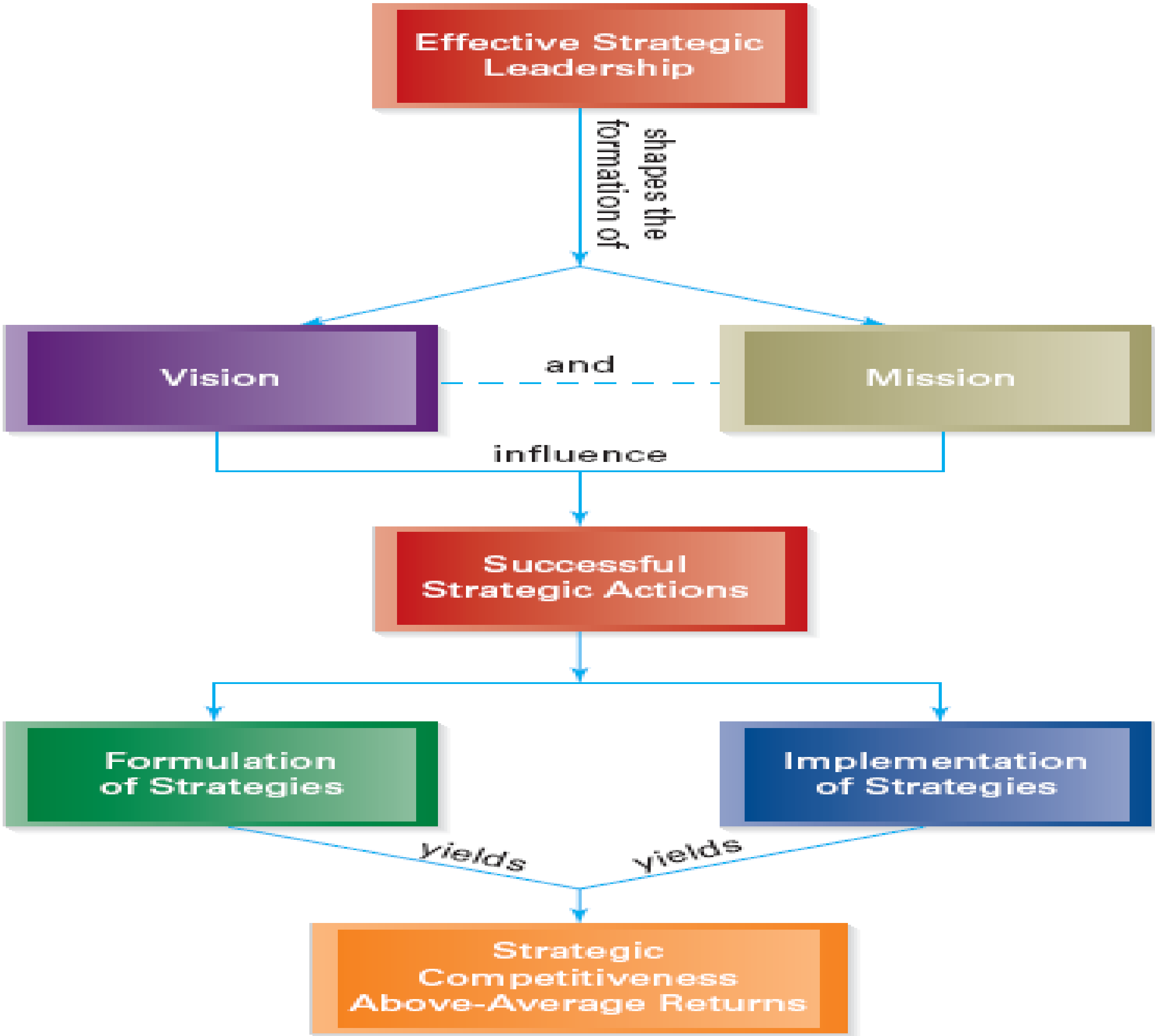
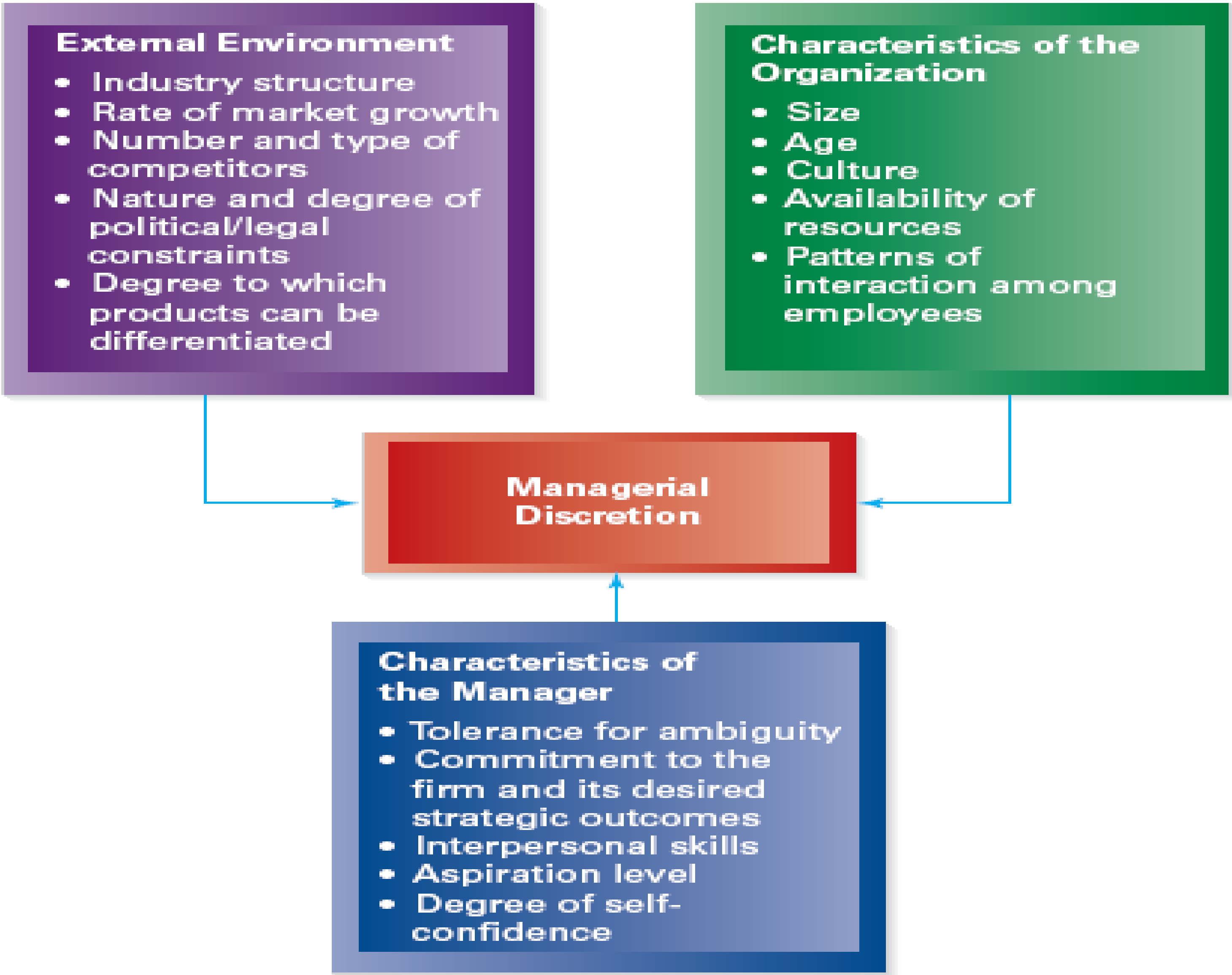


The Role of Top-Level Managers

- Managers use their discretion when making strategic decisions
- Primary factors that determines amount of manager's decision-making discretion
  - External environmental sources
  - Organization's characteristics
  - Manager's characteristics

Factors Affecting Managerial Discretion



The Role of Top-Level Managers

- Top Management Teams
  - Helps avoid potential problem of CEO making decisions alone: that of managerial hubris
    - Hubris: excessive pride leading to a feeling of invincibility
    - Hubris can magnify the effects of decision-making biases

  - Composed of key individuals who are responsible for selecting and implementing firm's strategies; usually
  - includes officers of the corporation (VP and above) and BOD

The Role of Top-Level Managers (Cont'd)

- Top Management Teams: Firm performance and strategic change
  - **A heterogeneous team:** consists of individuals with varied functional backgrounds, experiences & education
  - Team members come with a variety of strengths, capabilities & knowledge and provide effective strategic leadership when faced with complex environmental forces and multiple stakeholder relationships to manage
    - Introduces a variety of perspectives
    - Has a greater propensity for strong competitive action
    - Tends to "think outside of the box," leading to more creative decision making, innovation, and strategic change
    - Offers various areas of expertise to identify environmental opportunities, threats, or the need for change
    - Promotes debate

The Role of Top-Level Managers (Cont'd)

- Top Management Teams: CEO and top management team power
  - Top management team characteristics give the CEO's team the power relative to the board of directors (BOD) and can influence the amount of strategic leadership the board provides
  - CEO Duality – CEO serves as CEO and BOD
    - More common in the United States
    - Occurs most often in the largest firms
    - Increased shareholder activism recently brought the practice under scrutiny
    - Criticized for causing poor performance & slow response to change

Managerial Succession

- Defined: Preselect and shape skills of tomorrow's leaders
  - **Internal Managerial Labor Market** – opportunities for managerial positions to be filled from within the firm
  - **External Managerial Labor Market** – opportunities for managerial positions to be filled by candidates from outside of the firm
- This decision impacts company performance and the ability to embrace change in today's competitive landscape
- Succession, top management team composition and strategy are intimately related

Effects of CEO Succession and Top Management Team Composition on Strategy

Managerial Labor Market: CEO Succession

Top Management Team Composition		Internal CEO succession	External CEO succession
	Homogeneous	Stable strategy	Ambiguous: possible change in top management team and strategy
	Heterogeneous	Stable strategy with innovation	Strategic change

Managerial Succession

- Benefits of Internal Managerial Labor Market
  - Continuity
  - Continued commitment
  - Familiarity
  - Reduced turnover
  - Retention of “private knowledge”
  - Favored when the firm is performing well
- Benefits of External Managerial Labor Market
  - Long tenure with the same firm is thought to reduce innovation
  - Outsiders bring diverse knowledge bases and social networks, which offer the potential for synergy and new competitive advantage

Key Strategic Leadership Actions

- Certain actions characterize effective strategic leadership
  - These actions interact with each other
  - The most effective strategic leaders create options as the foundation for making effective decisions
- Determining Strategic Direction
  - Definition:A firm's image and character over time, framed within the context of the conditions in which the company operates

Exercise of Effective Strategic Leadership

Key Strategic Leadership Actions (Cont'd)

- Effectively managing firm's resource portfolio
  - Resources defined as financial, human, social and organizational capital
  - Exploiting and maintaining core competencies
    - Related to firm's functional skills (i.e., manufacturing, finance, marketing and R&D)
      - Developing Human (HC) and Social Capital (SC)
  - HC: Knowledge and skills of a firm's entire workforce
    - SC: Relationships inside and outside the firm that help it accomplish tasks and create value for customers and shareholders
- Sustaining an effective organizational culture
  - **Organizational culture:** complex set of ideologies, symbols, and core values shared throughout the firm
  - Influences the way business is conducted
  - Helps to regulate and control employees' behavior

- Sustaining an effective organizational culture
  - Entrepreneurial mind-set
    - Source of growth and innovation
    - May be encouraged and promoted by strategic leaders
    - 5 dimensions of an entrepreneurial mindset
      - 1. Autonomy (Free of firm constraints)
      - 2. Innovativeness (Firms' tendency to support new ideas)
      - 3. Risk Taking
      - 4. Proactiveness (Being a market leader vs. follower)
      - 5. Competitive aggressiveness (Firms' propensity to take actions in order to outperform rivals)

Key Strategic Leadership Actions (Cont'd)

- Sustaining an effective organizational culture (Cont'd)
  - Changing the organizational culture and restructuring
- More difficult to change culture than maintain it
- Sometimes change must occur
  - Requires effective communication and problem solving
  - Selecting the right people
  - Engaging in effective performance appraisals
  - Measuring individual performance toward goals that fit with new values
  - Appropriate reward systems

Key Strategic Leadership Actions (Cont'd)

- Emphasizing ethical practices: Actions such as…
  - Establish and communicate ethics-related goals
  - Revise, update and disseminate code of conduct
  - Develop and implement methods & procedures to use in achieving firm's ethical standards
  - Create/use specific reward systems that recognize acts of courage
  - Create a working environment where all are treated with dignity

Key Strategic Leadership Actions (Cont'd)

- Establishing balanced organizational controls
  - Controls: Formal, information-based procedures used by managers to maintain or alter patterns in organizational activities
    - Financial Controls
      - Focus on short-term financial outcomes
      - Produce risk-averse managerial decisions
    - Strategic Controls
      - Focus on the content of strategic actions
      - Encourage decisions that incorporate moderate and acceptable levels of risk
  - The Balanced Scorecard
    - Framework that allows strategic leaders to verify that they have established both financial and strategic controls to assess firm performance

Strategic Controls and Financial Controls in a Balanced Scoreca Framework

Perspectives	Criteria
Financial	• Cash flow • Return on equity • Return on assets
Customer	• Assessment of ability to anticipate customers' needs • Effectiveness of customer service practices • Percentage of repeat business • Quality of communications with customers
Internal Business Processes	• Asset utilization improvements • Improvements in employee morale • Changes in turnover rates
Learning and Growth	• Improvements in innovation ability • Number of new products compared to competitors • Increases in employees' skills

Strategic Entrepreneurship

- Overview: Nine content areas
  - Strategic and corporate entrepreneurship
  - Entrepreneurship, opportunities and importance
  - Invention, innovation and imitation
  - Entrepreneurs and their mind-set
  - International entrepreneurship and its importance
  - Internal development of innovations
  - Using cooperative strategies to innovate
  - Using acquisitions as a means of innovation
  - Creating value through strategic entrepreneurship

- **Organizational culture:** Complex set of ideologies, symbols and core values shared throughout the firm and that influence how the firm conducts business
  - Social energy that drives - or fails to drive - the organization

- **Strategic entrepreneurship**
  - Entrepreneurial actions (exploiting found opportunities in the external environment) through a strategic perspective (innovation efforts)

- **Corporate Entrepreneurship**
  - Use or application of entrepreneurship within an established firm

- Entrepreneurship
  - Process by which individuals or groups identify and pursue entrepreneurial opportunities without the immediate constraint of the resources they currently control
  - *Entrepreneurial opportunities:* Opportunities others do not see or for which they do not recognize the commercial potential
  - As a process, this results in the 'creative destruction' of existing products (good or services) or methods of producing them, and replaces them with new products/production methods

Cont..

- Entrepreneurial Opportunities
  - Conditions in which new products or services can satisfy a need in the market
    - Exist due to competitive market imperfections and unevenly distributed information
  - Studied at the level of the individual firm
  - May be the economic engine driving many nations' economies in the global competitive landscape

Innovation

- Innovation
  - It is the “specific function of entrepreneurship” (Drucker)
    - And “means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth” (Drucker)
  - Source of competitive success, especially in turbulent and highly competitive environments

- Innovation activities (Schumpeter):
  - 1. Invention
    - Act of creating or developing a new product or process
    - Brings something new into being—technical criteria determine its success
  - 2. Innovation
    - Process of creating a commercial product from an invention
    - Brings something new into use—commercial criteria determine its success
  - 3. Imitation
    - Adoption of an innovation by similar firms
    - Results of Imitation
      - Product or process standardization
      - Products made with fewer features
      - Products offered at lower prices

- Entrepreneurs
  - Individuals, acting independently or as part of an organization, who see an entrepreneurial opportunity and then take risks to develop an innovation to exploit it
  - Characteristics include highly motivated, wiling to take responsibility for their projects and self-confidence; be passionate and emotional about the value and importance of their innovation-based ideas
- Entrepreneurial Mind-set
  - Values uncertainty in the marketplace and seeks to continuously identify opportunities with the potential to lead to important innovations

- Firms creatively discover and exploit opportunities outside of their domestic markets in order to develop a competitive advantage
- Entrepreneurship has become a global phenomenon as general internationalization leads to improved firm performance.
- Risks include:
  - Unstable foreign currencies
  - Inefficient markets
  - Insufficient infrastructures to support businesses
  - Limitations on market size and growth

International Entrepreneurship (Cont'd)

- At the top of public policy agendas in many nations throughout the world due to the benefits it offers a nation
- Rates of entrepreneurship across countries
- Impact of national culture
  - Entrepreneurship declines as collectivism increases
  - Exceptionally high levels of individualism can be dysfunctional for entrepreneurship
  - Balance between individual initiative and cooperative spirit versus group ownership of innovation is required
- Level of investment outside of the home country made by new ventures
- Top executives with international experience

Internal Innovation

- Firms take deliberate efforts to develop inventions and innovations within the organization, selecting from several types of innovation and the specific processes through which each type is produced

- Most innovation due to research & development (R&D)
  - Investments are uncertain
  - Often not achieved in the short term
  - Firms innovate in three ways
    - 1. Incremental and radical innovation
    - 2. Autonomous strategic behavior
    - 3. Induced strategic behavior

Internal Innovation (Cont'd)

- Firm innovation
  - 1. Incremental and radical innovation
    - Incremental: Induced strategic behavior, builds on existing knowledge bases and provides small improvements in current product lines
    - Radical: Autonomous strategic behavior
    - Radical Innovation: Generating significant technological breakthroughs and creating new knowledge
      - Strong potential to lead to significant growth in revenues and profits
      - Rare – due to difficulty and risk involved in development
      - Results from deliberate efforts
    - Internal Corporate Venturing refers to the set of activities firms use to develop internal inventions and innovations

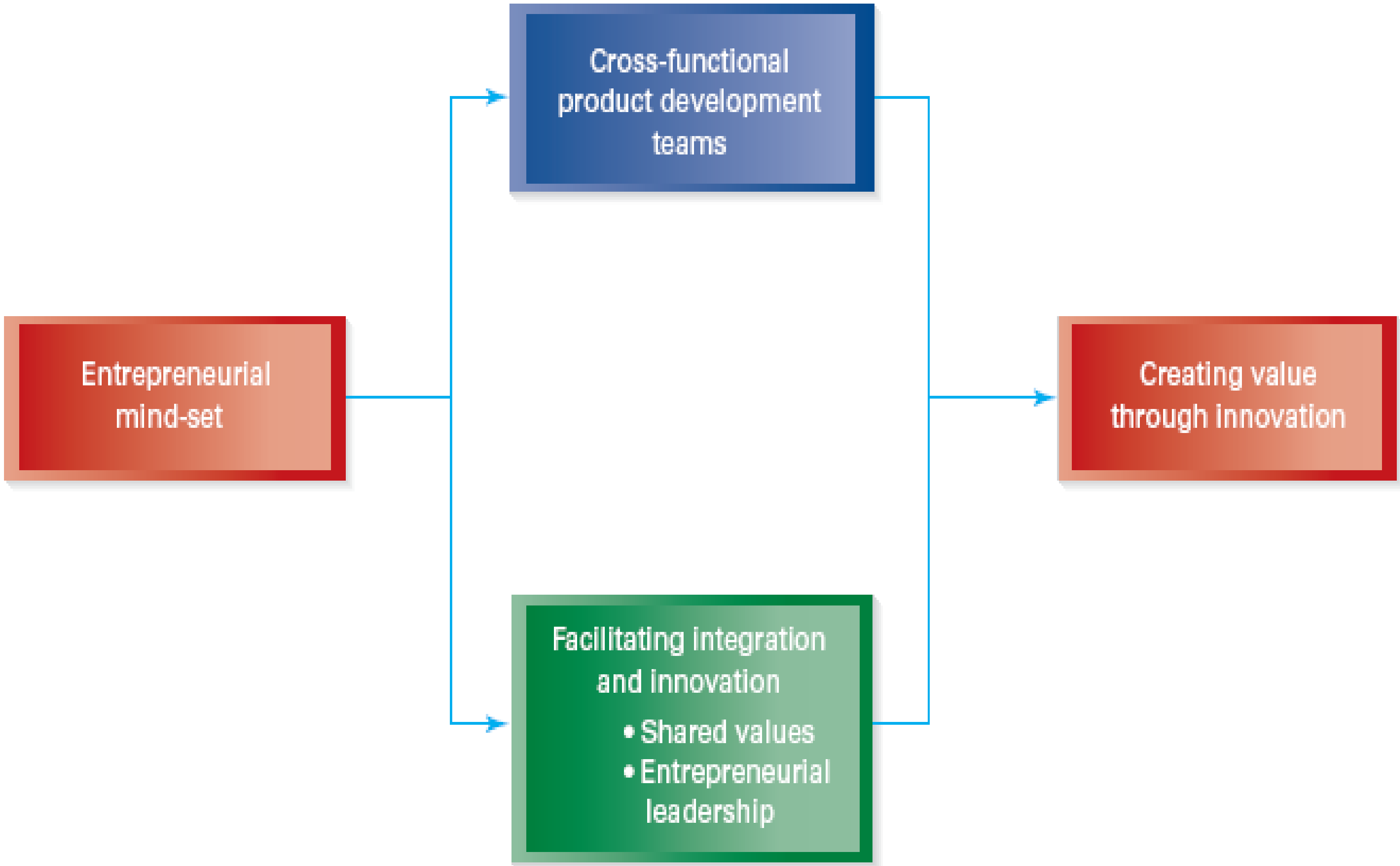
Internal Innovation (Cont'd)

- Firm innovation
  - 2. Autonomous strategic behavior
    - Bottom-up process in which product champions pursue new ideas, often through a political process, to develop and coordinate the commercialization of a new good or service
      - *Product Champion:* individual with an entrepreneurial vision of a new good or service who seeks to create support in the organization for its commercialization
    - Autonomous strategic behavior focused on firm's knowledge
    - and resources
      - Knowledge must be continuously diffused throughout the firm
  - 3. Induced strategic behavior
    - Top-down process whereby the firm's current strategy and structure foster product innovations that are closely associated with that strategy and structure

Implementing Internal Innovations

- Entrepreneurial Mind-set: required for internal corporate ventures
  - Viewpoint that values uncertainty in the marketplace and seeks to continuously identify opportunities with the potential to lead to important innovations
- Value creation through internal innovation processes
  - 1. Cross-functional product development teams
  - 2. Facilitating integration and innovation
  - 3. Creating value from internal innovation

Creating Value Through Internal Innovation Processes



Implementing Internal Innovations (Cont'd

- Value creation through internal innovation processes
- (Cont'd)
  - 1. Cross-functional product development teams
    - Efforts to integrate and coordinate activities, and apply knowledge from different functional activities associated with different functional areas (i.e., design, manufacturing, and marketing), to maximize innovation
    - Horizontal structures support use of cross-functional teams
    - Two primary barriers to success:
      - Independent frames of reference of members with distinct specializations
      - Organizational politics that create competition for resources and inter-unit conflict

Implementing Internal Innovations (Cont'd)

- Value creation through internal innovation processes (Cont'd)
  - 2. Facilitating integration and innovation
    - Shared values, effective leadership and effective communication are important to successfully innovate and facilitate cross-functional integration
  - 3. Creating value from internal innovation
    - Entrepreneurial mindset is necessary
    - Manager support
    - Cross-functional teams
    - Effective leadership and shared values

Innovation Through Cooperative Strategies

- To successfully commercialize inventions, firms may need to cooperate and integrate knowledge and resources
  - Entrepreneurial new venture firms may need investment capital and distribution capabilities
  - More established companies may need new technological knowledge possessed by newer entrepreneurial firms

- To innovate via cooperative relationships, firms must share their knowledge and skills – strategic alliances and joint ventures allow this to occur

Innovation Through Acquisitions

- Acquisitions
  - Rapidly extend the product line
  - Increase the firm's revenues
  - Key risk: a firm may substitute ability to buy innovations for ability to produce innovations internally
  - Firm may …
    - intensify R&D efforts
    - lose ability to produce patents

Creating Value Through Strategic Entrepreneurship

- Entrepreneurial ventures
  - Produce more radical innovations
  - Possess strategic flexibility and willingness to take risks
  - Do more opportunity seeking
- Larger, well-established firms
  - Produce more incremental innovations
  - Possess more resources and capabilities to exploit identified opportunities


Thank you