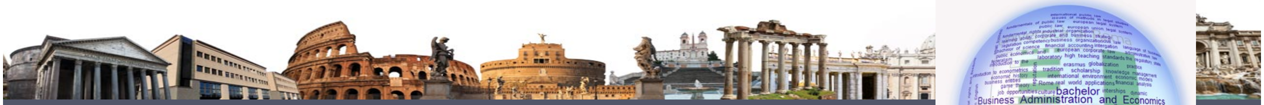

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AY 2018/2019

Corporate and Business Strategy

Chapter 1
Strategic Management and Strategic Competitiveness

H. Volberda, R. Morgan, P. Reinmoller, R. Ireland, R. Hoskisson,
Strategic Management. Competitiveness and Globalization. Concepts and Cases,
Cengage Learning, 2011

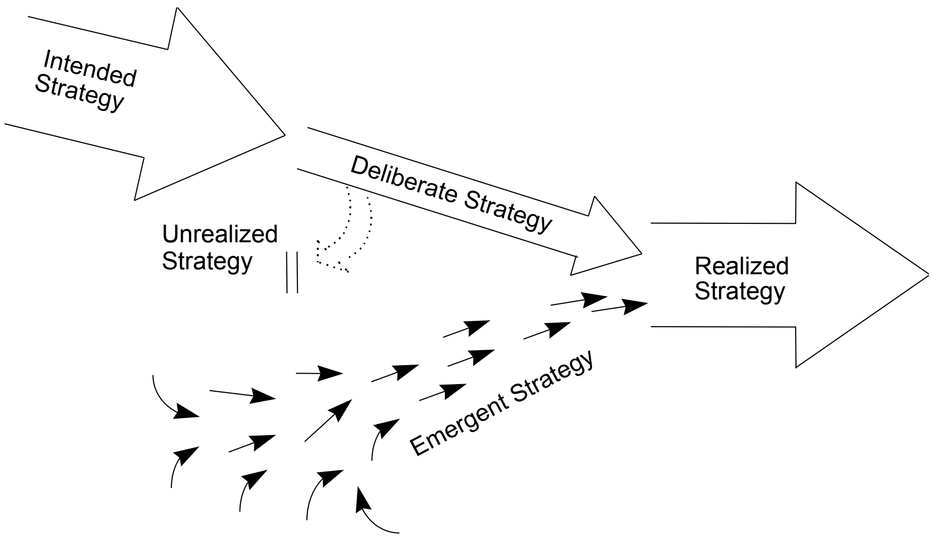
KNOWLEDGE OBJECTIVES

- Explain the **strategic management process**
- Describe the **competitive landscape** and its changes
- Use models to explain **above average-returns**
- Describe **mission** and **vision**
- Define **stakeholders**
- Describe the work of **strategic leaders**

Key Terms

- A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.
- Strategic competitiveness is achieved when a firm successfully formulates and implements a value-creating strategy.
- A firm has a competitive advantage when it implements a strategy competitors are unable to duplicate or find too costly to try to imitate.

Strategy: deliberate vs. emergent



Source: Mintzberg – The rise and fall of strategic planning

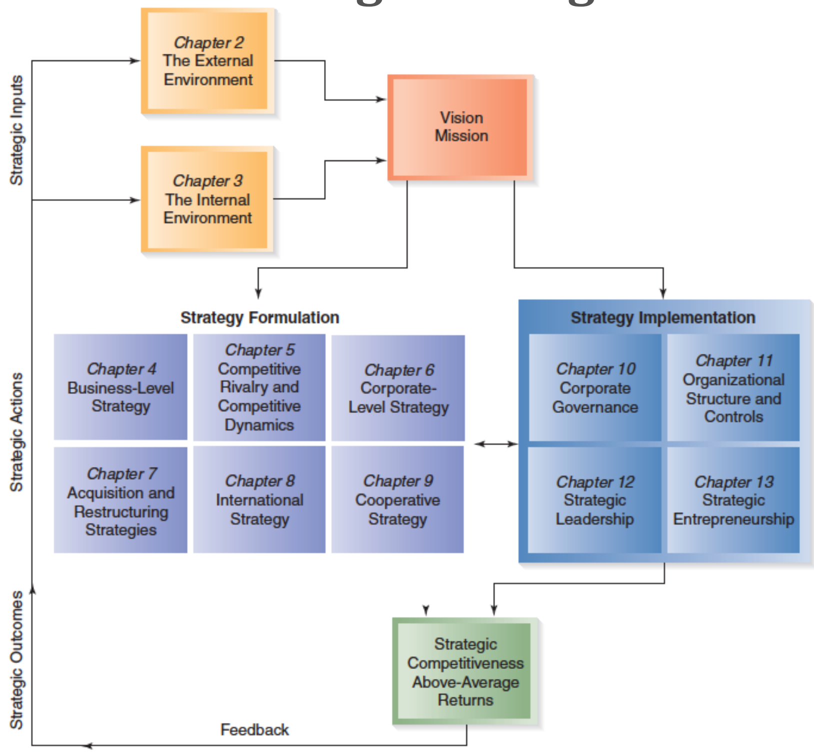
Key Terms

- Above-average returns are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.
- Risk is an investor's uncertainty about the economic gains or losses that will result from a particular investment.
- Average returns are returns equal to those an investor expects to earn from other investments with a similar amount of risk.

Key Terms

- The strategic management process is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns.
- Strategic inputs – Strategic actions – Strategic outcomes
- Effective strategic actions that take place in the context of carefully integrated strategy formulation and implementation actions result in desired strategic outcomes.

FIGURE 1.1 The Strategic Management Process



The 21st-Century Competitive Landscape

The nature of competition is changing. For example, economies of scale and huge advertising budgets are not as effective as they once were.

- markets are ***volatile***,
- industry boundaries are ***difficult*** to determine - firms establish partnerships and expand.

How to capture the realities of the 21st-century competitive landscape

- Hypercompetition: assumptions of market stability are replaced by notions of inherent instability and change.

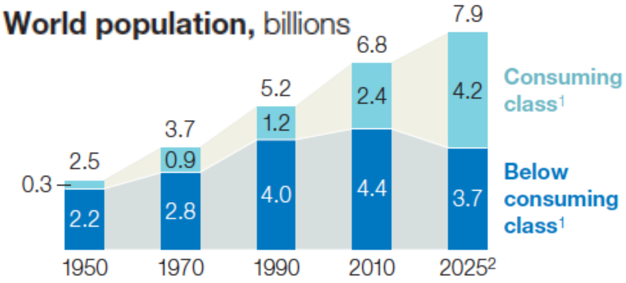
- Main drivers of hypercompetitive environments:
  - global economy
  - technology
  - increased knowledge intensity

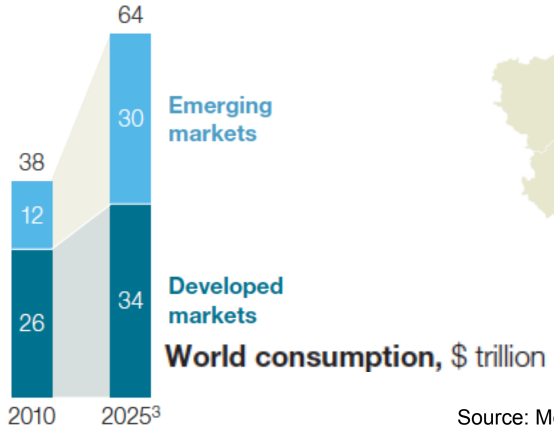
Global Economy

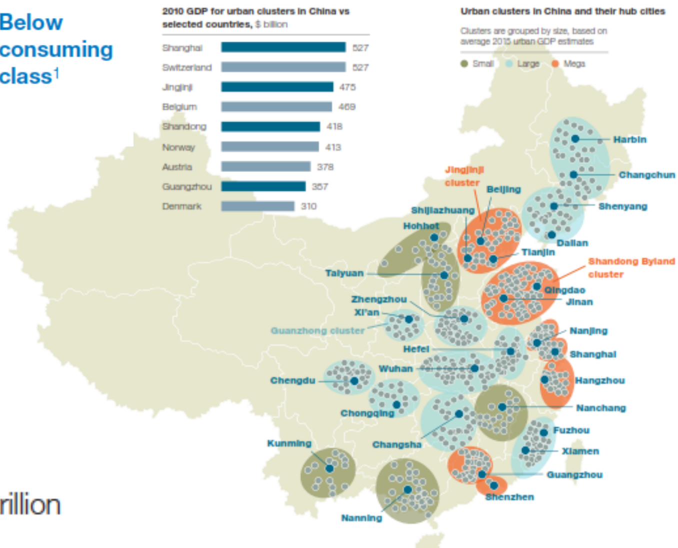
- A **global economy** is one in which goods, services, people, skills, and ideas move freely across geographic borders.

- Globalization is the increasing economic interdependence among countries and their organizations as reflected in the flow of goods and services, financial and knowledge across country borders.

Global Economy: Emerging markets







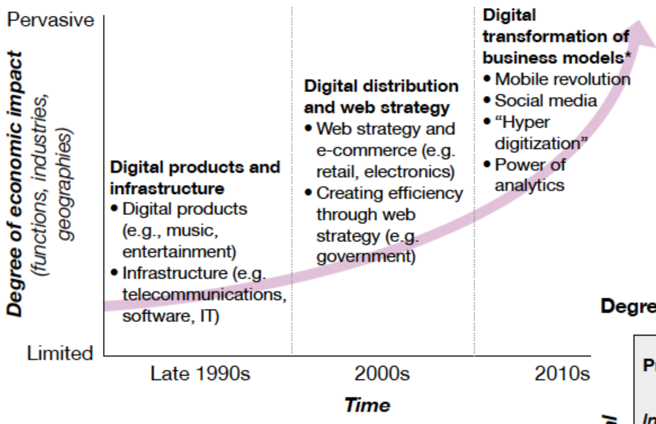
Source: McKinsey Quarterly "Winning the $30 trillion decathlon" Aug. 2012

Technology and Technological Changes

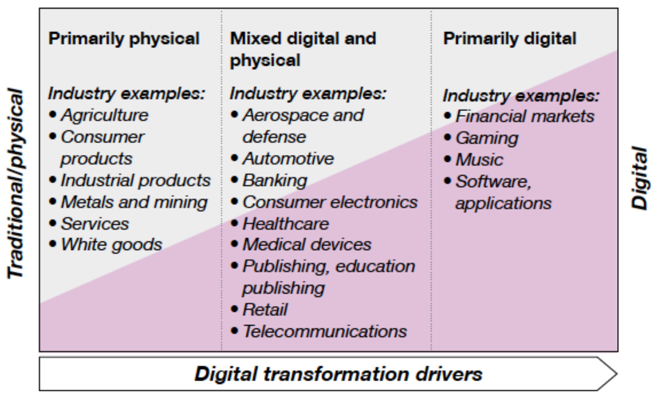
- **Technology diffusion** is the rate at which new technologies become available and are used.
- **Perpetual innovation** describes how rapidly and constantly new information-intensive technologies replace older ones.
- **Disruptive innovation** can destroy the value of existing technology and create new markets.

Technology and digital transformation

Evolution of digital transformation

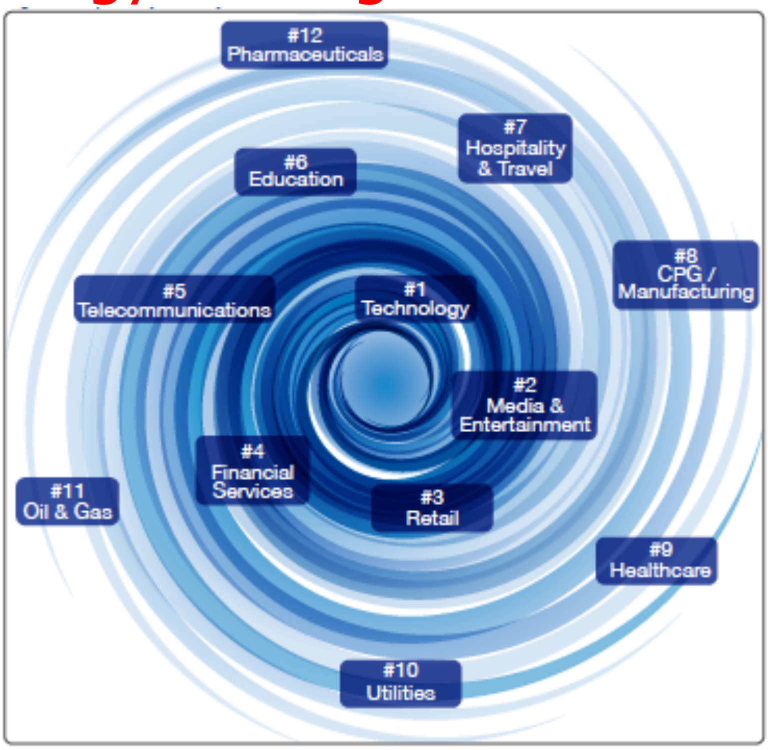


Degree of product and service digitization



Source: IBM Institute for Business Value "Digital Transformation'

Technology and digital transformation



Source: Global Center for Digital Business Transformation, 2015

Strategic focus on Amazon

Girotra and Netessine, Four path to business model innovation, HBR 2014

Amazon's Path

Founded in 1994 with the U.S. book market in mind, Amazon has adopted many of the strategies in our framework over the years.

1996

PASS THE DECISION RISK TO THE PARTY THAT CAN BEST MANAGE THE CONSEQUENCES

Cash-strapped, the company gets distributors and publishers to carry slow-moving inventory, rather than stocking the books itself.

1997

INTEGRATE THE INCENTIVES

Partners can't keep up with Amazon's growth and quick shipping promise, so the company reverses course and builds its own warehouses.

1998

SEARCH FOR COMMONALITIES ACROSS PRODUCTS

Success with books leads to expansion into music, video, and games—where the company's logistics competencies can be applied.

2001

PASS THE DECISION RISK TO THE PARTY THAT CAN BEST MANAGE THE CONSEQUENCES

Amazon hosts the websites of Toys"R"Us, Borders, and Target and performs most site development, order fulfillment, and customer service.

2005

CHANGE THE REVENUE STREAM

Per-item shipping costs deter many customers, so Amazon offers Amazon Prime: Customers buy a shipping subscription rather than paying for individual shipments. This also encourages impulse purchases.

POSTPONE THE DECISION

The acquisition of BookSurge (on-demand book publishing) and CreateSpace (self-publishing of books, CDs, DVDs, and video) allows Amazon to delay publication decisions until customer tastes are known.

2006

APPOINT A BETTER-INFORMED DECISION MAKER

Amazon takes over retailers' A-to-Z fulfillment function—a logical extension of its third-party services.

CREATE A HEDGED PORTFOLIO

Amazon expands into computing services including storage, simple queue service (SQS), cloud computing, and electronic data systems.

2008–2010

FOCUS NARROWLY

Amazon realizes efficiencies by acquiring focused verticals: Diapers.com (baby consumables) and Zappos (shoes). Acquired retailers operate independently to maintain these efficiencies.

Increasing Knowledge Intensity

- **Knowledge** (information, intelligence, and expertise) is the basis of technology and its application - **intangible resource**.
- **Strategic flexibility** is a set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.
- Organizational change is becoming normality!

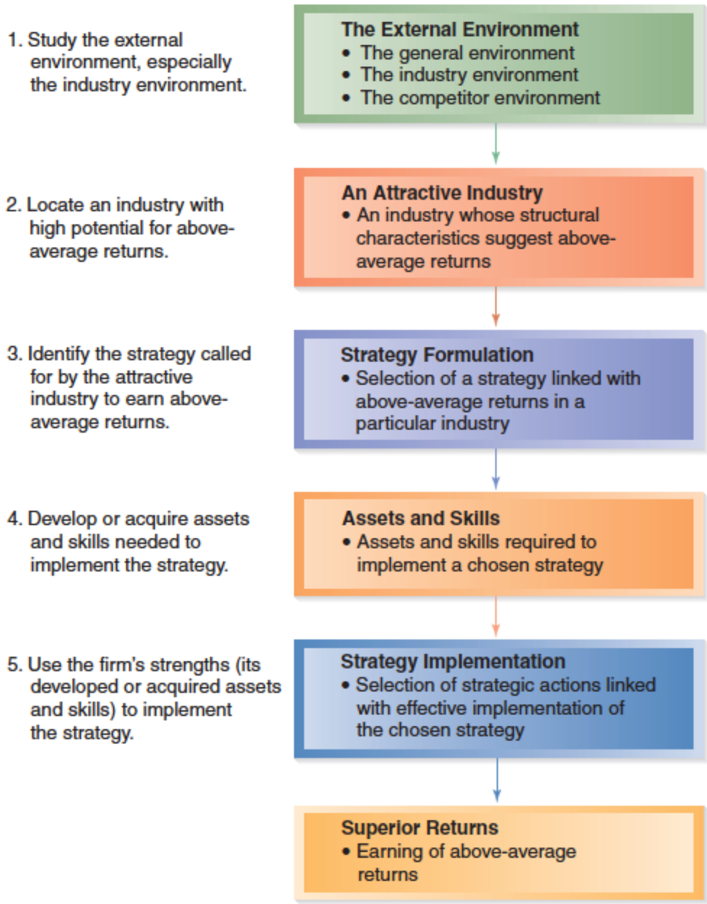
Models for achieving Above-Average Returns

- Industry Organization (I/O) model focusing on environment's dominant influence
- The Resource-Based View (RBV) model focusing on internal competences and capabilities
- … external and internal perspectives need to be integrated

The I/O Model of Above-Average Returns

- The Industry Organization (I/O) model explains the environment's dominant influence of firms strategic actions.
- Four underlying assumptions:
  - external pressures and constraints determine strategy,
  - most firms in industry control similar resources and pursue similar strategies,
  - resources are highly mobile across firms,
  - managers are rational and profit-maximizing

FIGURE 1.2
The I/O Model of Above-Average Returns

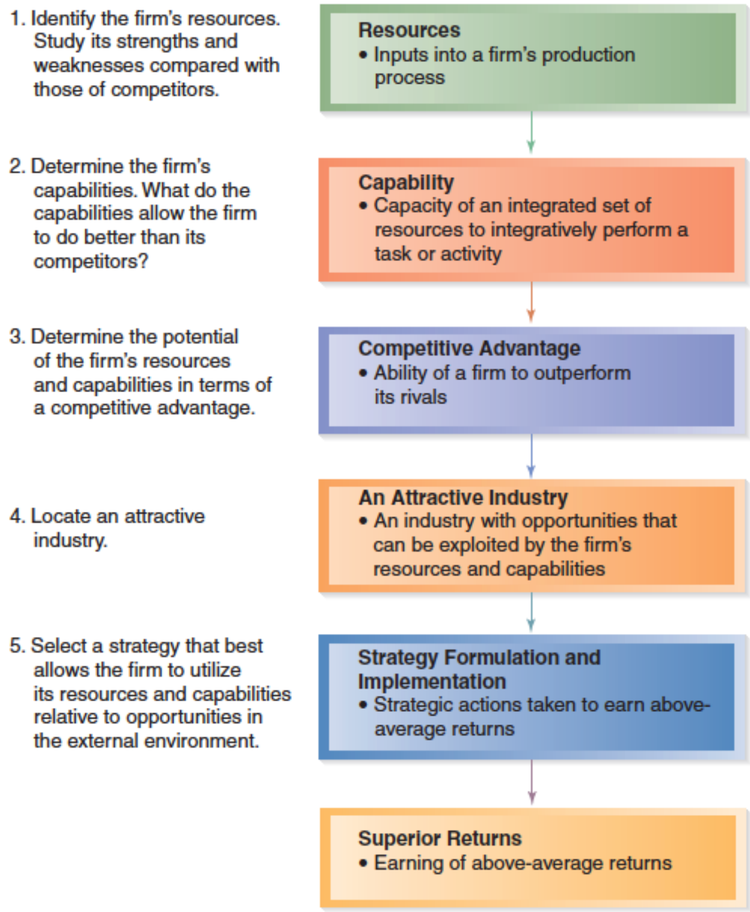


The Resource-Based Model of Above-Average Returns

- Each organization is a collection of unique resources and capabilities. The uniqueness of its resources and capabilities is the basis for a firm’s strategy.

- Resources are inputs into a firm’s production process, such as capital equipment, the skills of individual employees, patents, finances, and talented managers.
- Capability is the capacity for a set of resources to perform a task or an activity in an integrative manner.
- Core competencies are capabilities that serve as a source of competitive advantage for a firm over its rivals.

FIGURE 1.3 The Resource-Based Model of Above-Average Returns



Vision

- Vision is a picture of what the firm wants to be, and in broad terms, what it wants to ultimately achieve.

  - Our vision is to be the world's best quick service restaurant (McDonald's)
  - To make the automobile accessible to every American (Ford Motor Company's vision when established by Henry Ford)

Mission

Mission specifies the business in which the firm intends to compete and the customers it intends to serve:

- ”Give people the power to share and make the world more open and connected" (Facebook)
- "Our mission is to be the benchmark in modern retailing in each of our markets”, enabling as many people as possible to purchase consumer goods, in accordance with principles of fair trade and sustainable development (Carrefour).

Strategic intent

“Companies that have risen to global leadership over the past 20 years invariably began with ambitions that were out of all proportion to their resources and capabilities. But they created an obsession with winning at all levels of the organization and then sustained that obsession over the 10- to 20-year quest for global leadership.
We term this obsession "**strategic intent**.”
(Hamel and Prahalad, Strategic Intent, HBR, 1989)

Strategic intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress.

- Komatsu set out to "Encircle Caterpillar"
- Canon sought to "Beat Xerox"
- Honda strove to become a second Ford, a pioneer.

Strategic intent

Strategic intent encompasses an active management of the strategy process:

- focusing the organization's attention on the essence of winning
- keeping the direction stable
- motivating people by communicating the value of the target
- leaving room for individual and team contributions
- sustaining enthusiasm by providing new operational definitions as circumstances change
- using intent consistently to guide resource allocations

Strategic intent

For a strategic intent to be effective, individuals and teams in the organization must understand it and see its implications for their own jobs … and therefore top management need to:

- Create a sense of urgency, or quasi crisis, by amplifying weak signals in the environment that point up the need to improve
- Develop a competitor focus at every level where every employee should be able to benchmark his or her activity
- Provide employees with the skills they need to work
- Give the organization time to digest one challenge before launching another
- Establish clear milestones and review mechanisms to track progress and ensure that internal recognition and rewards reinforce desired behavior.

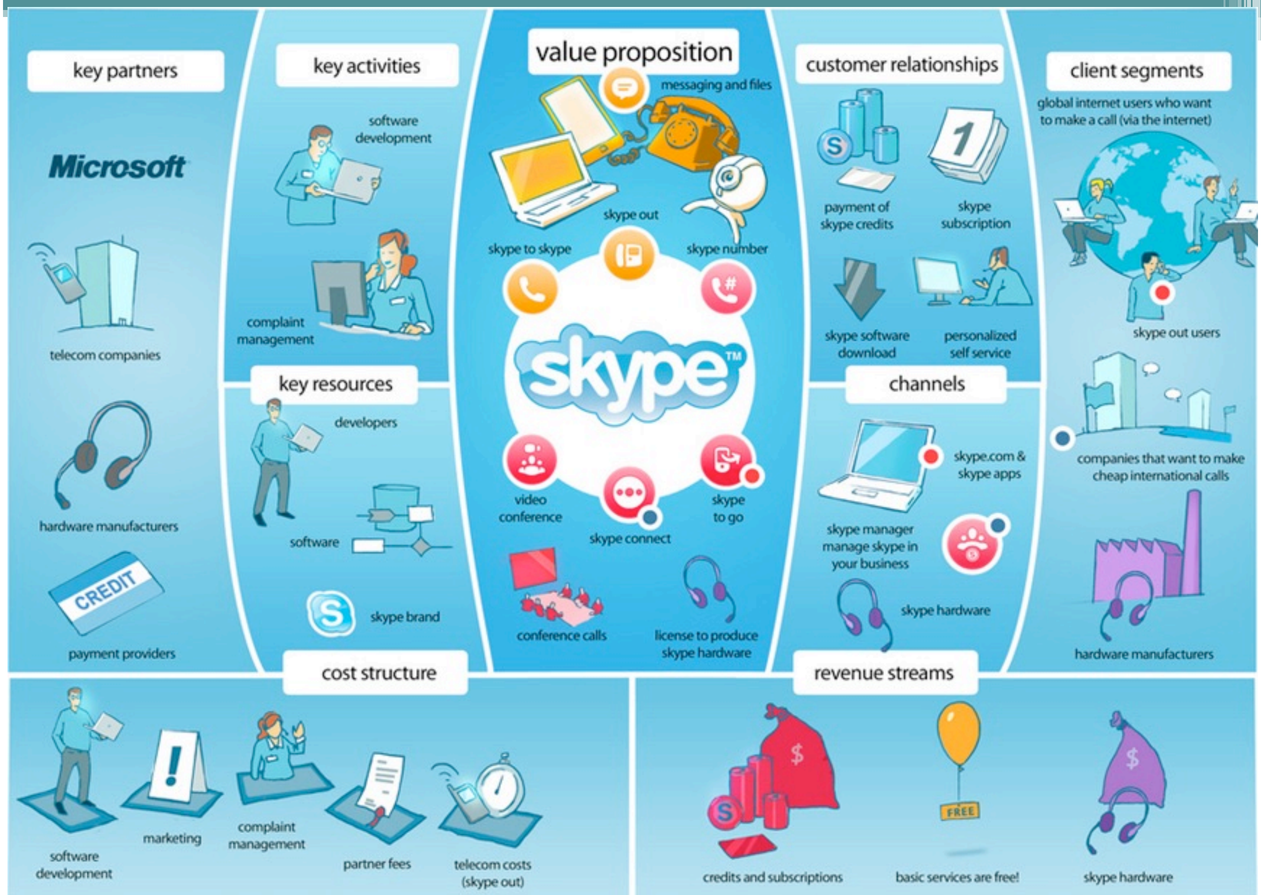
Business Model

- A business model describes the rationale of how an organization creates, delivers, and captures value

  (Osterwalder, 2010)

- New business models innovate going beyond existing processes & products:
  - adding a service components to the offering
  - redesigning the revenue stream, in particular the pricing model as in the case of "freemium"
  - redefining the cost structure, making it more flexible, as in the case of cloud applications

- It can be described through the Business Model Canvas



Stakeholders

- Stakeholders are the individuals and groups who can affect, and are affected by, the strategic outcomes achieved and who have enforceable claims on a firm's performance.

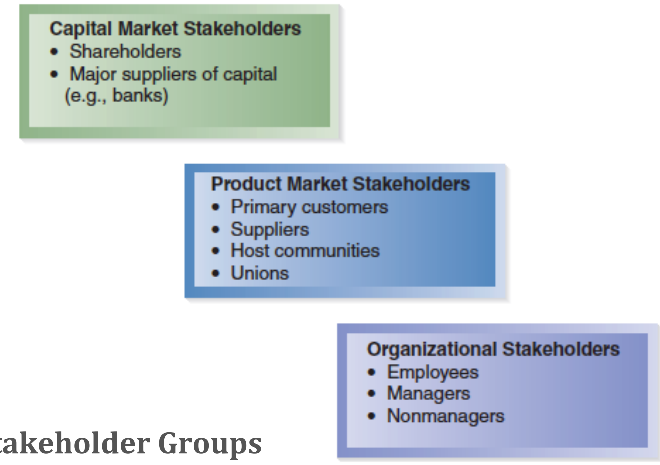


FIGURE 1.4
The Three Stakeholder Groups

Stakeholders

- Capital market stakeholders expect a firm to preserve and enhance the wealth that they entrusted to it.

- Product market stakeholders include customers, suppliers, host communities and unions are satisfied when a firm's profit margin reflects a balance between the returns to capital market stakeholders and their own returns (quality/price, local employment ...). They have divergent interests.

- Organizational stakeholders include employees and managers. They expect the firm to provide a dynamic, stimulating and rewarding work environment.

Strategic leaders

- Strategic leaders are people located in different parts of the firm using the strategic management process to help the firm reach its vision and mission.
  - CEO,
  - Top Management Teams,
  - those „closest to the action”.

Strategic leaders' actions

- **Organizational culture** refers to the complex set of ideologies, symbols, and core values that are shared throughout the firm and that influence how the firm conducts business.
- **Profit pools** entail the total profits earned in an industry at all points along the value chain:
  - define the pool's boundaries,
  - estimate the pool's overall size,
  - estimate the size of the value-chain activity in the pool,
  - reconcile the calculations.