

Lecture 2

Strategic analysis

Integrating external and internal analysis

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3. Integrating external and internal analysis

Learning objectives

1. Explain why firms *need* to bring the external organization to bear on the environment.
2. Explain different ways of *how* firms may bring important aspects of the environment inside the organization.
3. Describe *open innovation*.
4. Explain different *approaches* to integration.
5. Discuss the importance and practicality of *internalizing* external resources.

NEXT DISCUSSION

- ❖ Watch „The Story of Linux” on [youtube.com](https://www.youtube.com)
 - ❖ look for existing operating systems
 - ❖ identify why Linux is exemplary of open innovation
- ❖ Read „Facebook’s most important acquisitions” on [investopedia.com](https://www.investopedia.com)
 - ❖ identify how does each acquisition add to Facebook core business

Opening case

- ❖ **MUJI** - designing with markets:
 - ❖ consumer commodities,
 - ❖ prices 20-30% lower than competitors'
 - ❖ sales exceed 1bn euro
 - ❖ co-design with customers
 - ❖ the firm manages the process of extra-mural idea generation, collection, selection and product introduction
 - ❖ 500.000 members pre-evaluate designs
 - ❖ internal design team provides specs, costs and other pricing inputs

External resources 1/2

- ❖ *External resources* are assets, knowledge, and skills that lie outside the boundaries of corporations and are often owned by other market players.
- ❖ *Lead users* are often intrinsically motivated individuals and communities, who experiment to invent, improve and adapt existing products.
- ❖ *Sensing* customers needs is a critical capability.

External resources 2/2

- ❖ *Consumer ethnography* is an approach that seeks to understand consumers and their behavior by employing fieldwork and other ethnographic tools.
- ❖ *Fieldwork* is the methodological approach to generate data and insight in ethnography.
- ❖ *Core rigidities* appear when companies lose the ability to learn and end trapped with what mattered in the past (NOKIA - thick data)

Resource integration 1/3

- ❖ Resource *integration* is the mutually beneficial combination of external and internal resources.
- ❖ *Turnaround* is the rare managerial accomplishment of organizational change that may follow dramatic performance decline (NISSAN).

Resource integration 2/3

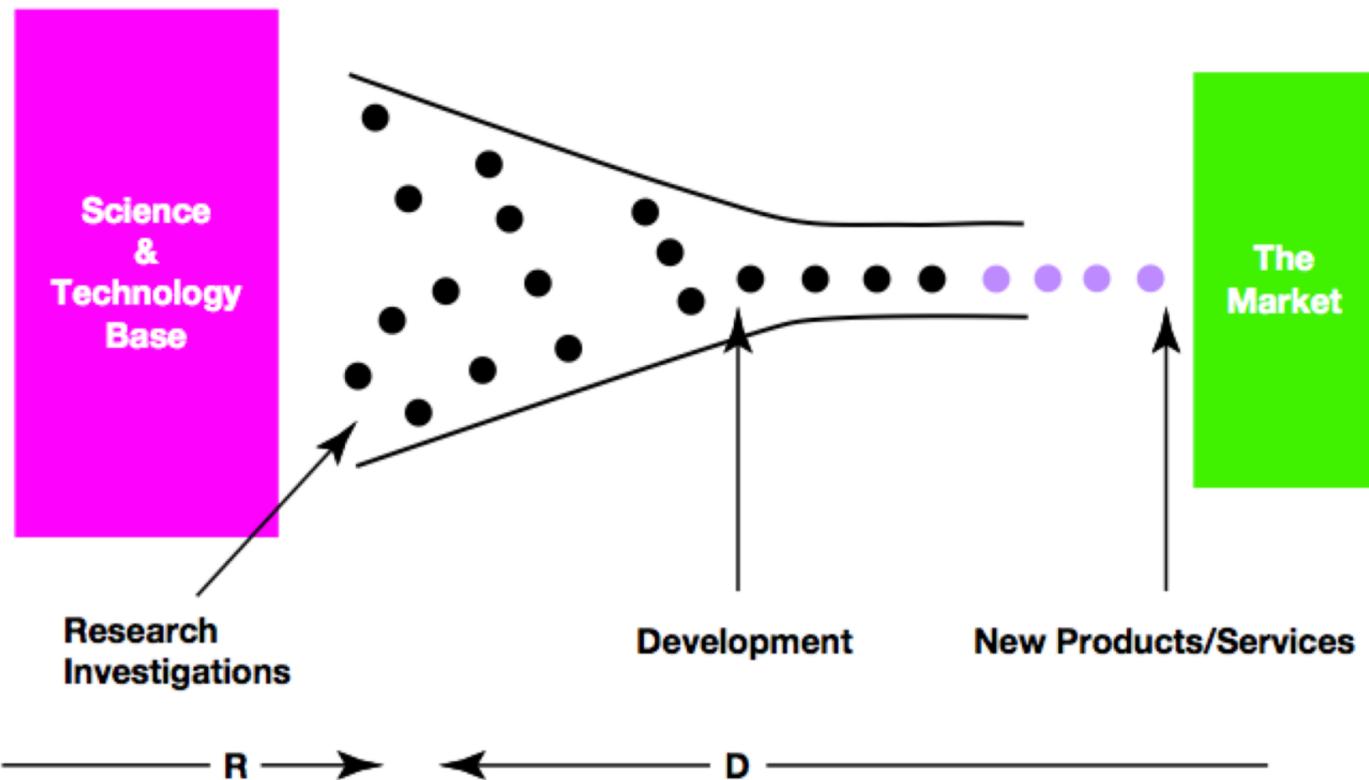
- ❖ Creating value by exploiting internal resources can generate a competitive advantage but does not always *maximize value creation*.
- ❖ *Coopetition* is the value creating constellations in which market players cooperate or develop complementary products and simultaneously compete when it comes to value capture (SONY PLAY STATION)

Resource integration 3/3

- ❖ Resource integration helps avoid:
 - ❖ competence trap
 - ❖ lock-in effect

Open innovation 1/4

FIGURE 4.1 The current paradigm: a closed innovation system



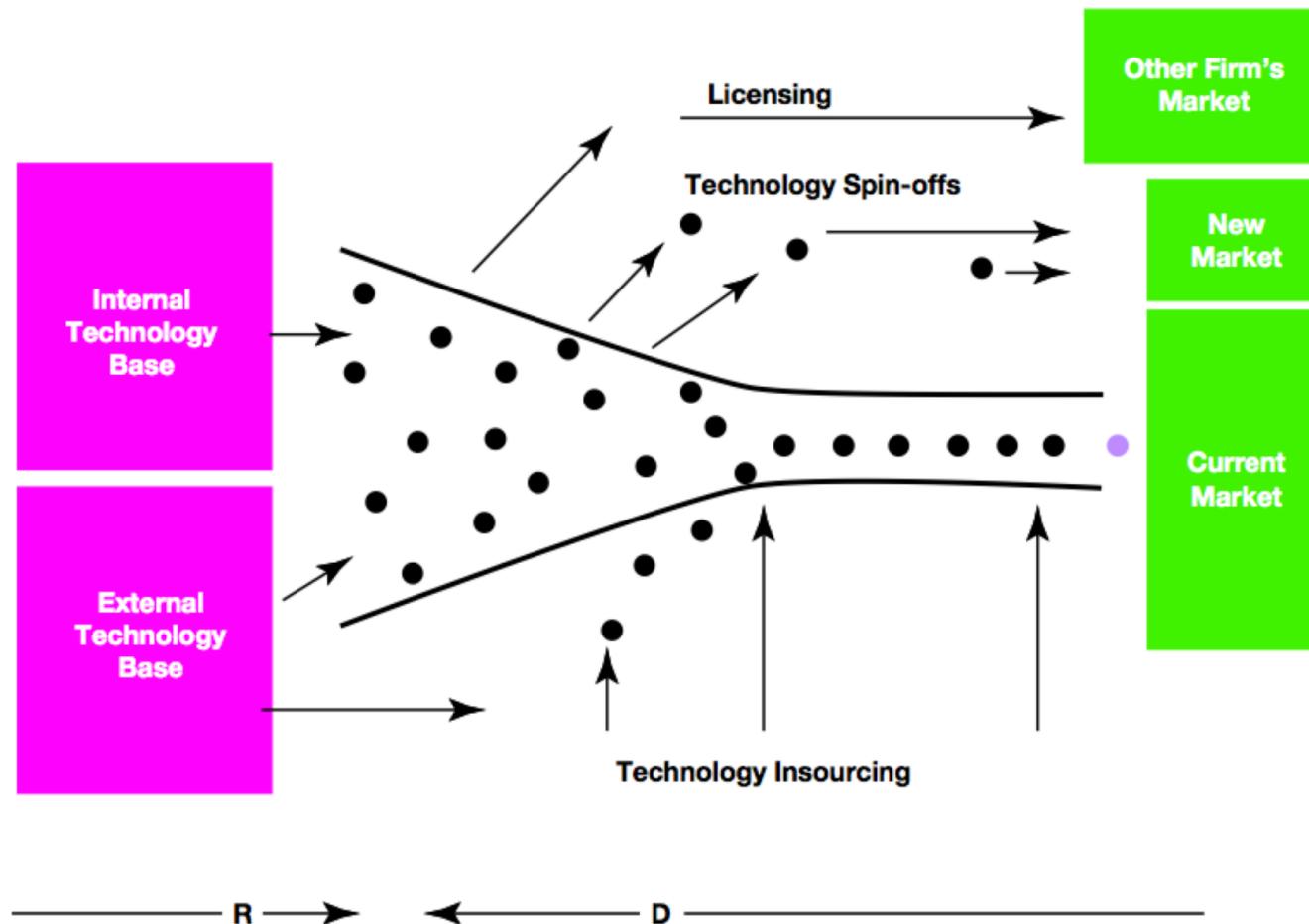
Source: J. West, W. Vanhaverbeke and H. Chesbrough, 2006, "Open innovation: A research agenda", in *Open Innovation: Researching a New Paradigm*, H. Chesbrough, W. Vanhaverbeke and J. West (eds.), 285–307. Oxford: Oxford University Press. Adapted with permission.

Open innovation 2/4

- ❖ Contrary to closed innovation, open innovation involves *commercializing* external ideas by deploying outside as well as inside pathways to the market.
- ❖ *Knowledge processes* are the ways organizations create, absorb, transfer and transform knowledge (GM with LYFT).

Open innovation 3/4

FIGURE 4.2 The open innovation paradigm



Source: J. West, W. Vanhaverbeke and H. Chesbrough, 2006 'Open innovation: A research agenda', in *Open Innovation: Researching a New Paradigm*, H. Chesbrough, W. Vanhaverbeke and J. West (eds.), 285–307. Oxford: Oxford University Press. Adapted with permission.

Open innovation 4/4

Table 4.1 Contrasting “closed innovation” principles and “open innovation” principles

Closed innovation principles	Open innovation principles
i The smart people in our field work for us.	Not all of the smart people work for us so we must find and tap into the knowledge and expertise of bright individuals outside our company.
ii To profit from R&D, we must discover, develop, produce and ship it ourselves.	External R&D can create significant value; internal R&D is needed to claim some portion of that value.
iii If we discover it ourselves, we will get it to market first.	We don't have to originate the research in order to profit from it.
iv If we are the first to commercialize an innovation, we will win.	Building a better business model is better than getting to market first.
v If we create the most and best ideas in the industry, we will win.	If we make the best use of internal and external ideas, we will win.
vi We should control our intellectual property (IP) so that our competitors do not profit from our ideas.	We should profit from others' use of our IP, and we should buy others' IP whenever it advances our own business model.

Challenge of being open and close 1/3

- ❖ Taks of:
 - ❖ identifying,
 - ❖ developing,
 - ❖ deploying,
 - ❖ protecting resources

becomes challenging because they can be found around the world.

Challenge of being open and close 2/3

- ❖ Managerial decisions concerning external resources are characterized by three *conditions*: uncertainty, complexity and inter organizational dynamics.
- ❖ *Peripheral* vision allows to see movement without focusing on what moves.

Challenge of being open and close 3/3

- ❖ *Clusters* are regionally defined agglomerations of competing and cooperating firms and those with complementary products in the same and related industries.

Challenge of absorbing knowledge 1/3

- ❖ The *ability to learn* depends on the ability to value new external knowledge i.e. prior knowledge and experience.
- ❖ The firm's *absorptive capacity* influences performance, innovativeness and flexibility.

Challenge of absorbing knowledge 2/3

- ❖ *Assimilation* means placing new knowledge into existing frames of reference.
- ❖ *Disruptive* innovations make the change of existing frames of reference necessary (DIGITAL PHOTOGRAPHY).

Challenge of absorbing knowledge 3/3

- ❖ Owning technology may be preferred but *privileged access* is often enough to gain a competitive advantage.
- ❖ *Alliances* are agreements between two or more firms to pursue shared interest and protect common goals.
- ❖ Acquisitions are instances of corporate development when one firm internalizes another entity.

Challenge of developing new routines 1/3

- ❖ *Not Invented Here* (NIH) syndrome refers to the closedness of organizations, or within organizations to external ideas.
- ❖ Toyota is very transparent in terms of how to operate a production system, yet competitors have not been able to emulate.

Challenge of developing new routines 2/3

- ❖ Adaptive resistance (humour, anticipation) is related to habitual reluctance and the lack of incentives, and it is constructive as compared to maladaptive.

Challenge of developing new routines 3/3

- ❖ Models of integration:
 - ❖ *stable* integration is selecting new resources without changing the combination,
 - ❖ *modular* integration is selecting external resources that are better to substitute internal ones in the value chain,
 - ❖ *dynamic* integration changes the structure and is more of a process.

Summary 1/2

- ❖ Internal resources can create a competitive advantage which is less often *sustainable* in hypercompetition.
- ❖ Firms need to see *complementarities* between internal and external resources.
- ❖ Open innovation increases the *range* of resources available for value creation.
- ❖ An important source of external resources are loyal and committed *customers*.

Summary 2/2

- ❖ The most needed strategic resources are often owned by *others*.
- ❖ Firms create value by innovatively *bundling* resources.
- ❖ *Management innovation* (such as open innovation) is as much important as technological innovation.
- ❖ Firms have different *absorptive capacities*.
- ❖ Integrating new knowledge is a *challenging* process.