

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/watch?v=8mXz3311Kb4)
 - ❖ 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/articles/tech/2018/07/facebook-acquisitions.php)
 - ❖ 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

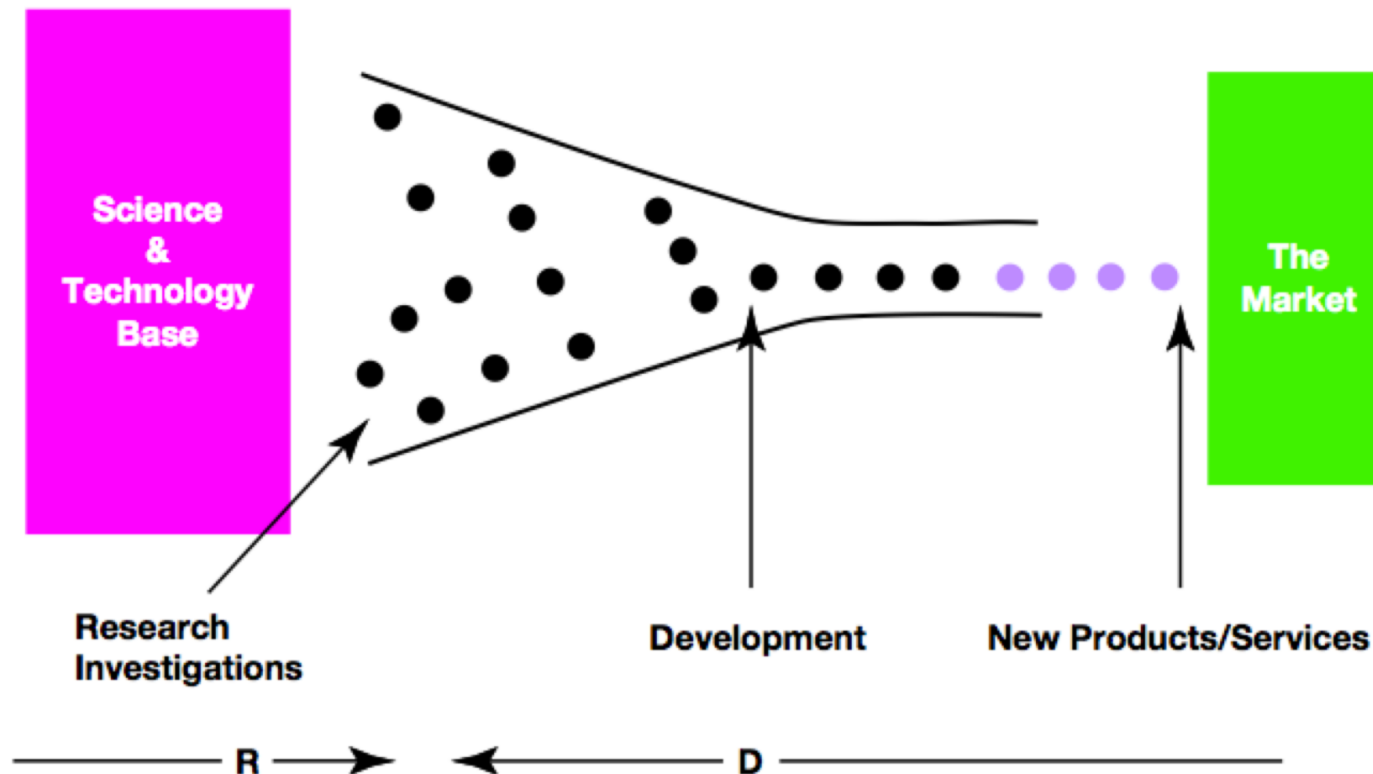
- ❖ Creating value by exploiting internal resources can generate a competitive advantage but does not always *maximize value creation*.
- ❖ *Coopetition* is the value creating constellations in which market players cooperate or develop complementary products and simultaneously compete when it comes to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



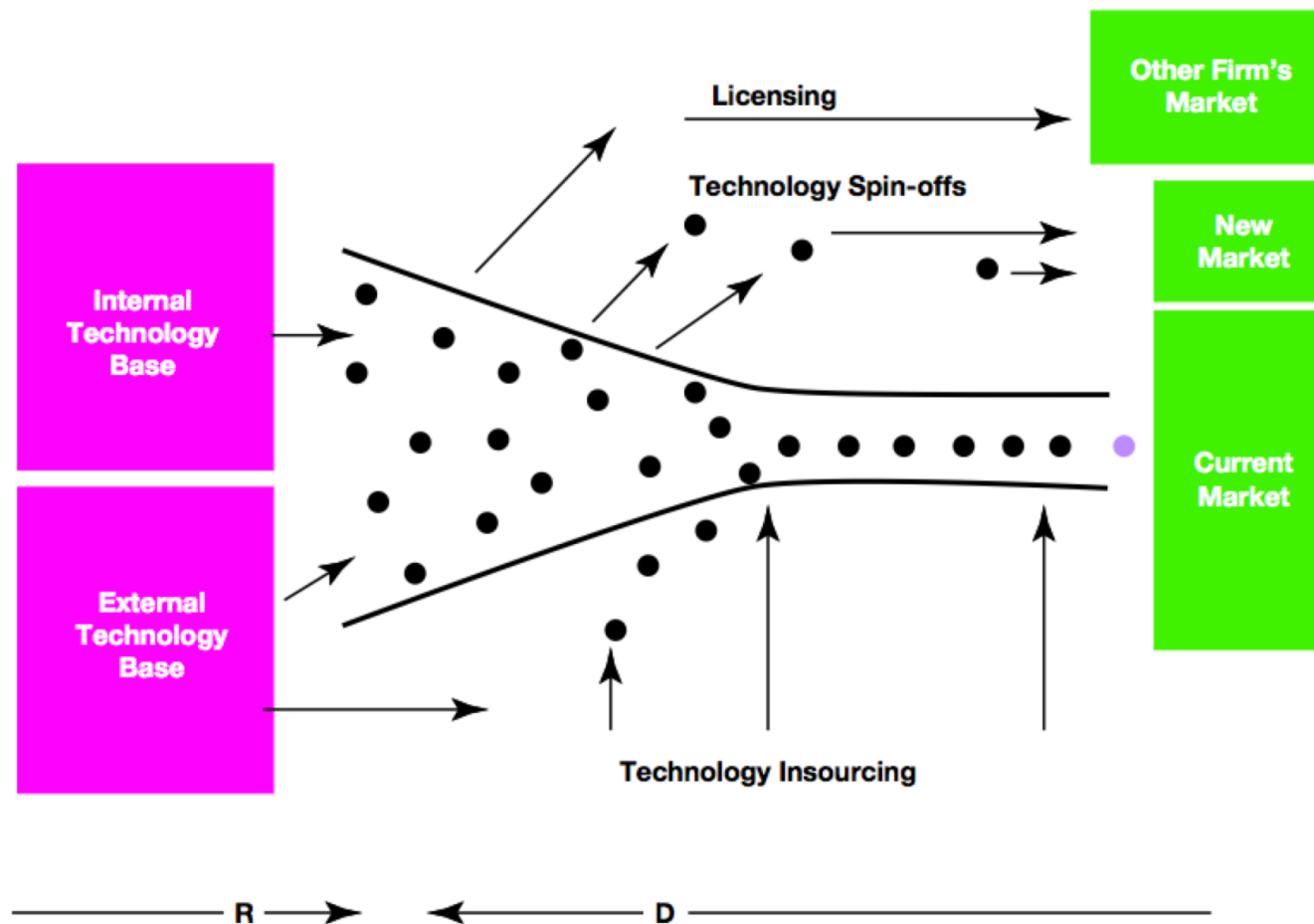
Source: J. West, W. Vanhaverbeke and H. Chesbrough, 2006, "Open innovation: A research agenda", in *Open Innovation: Researching a New Paradigm*, H. Chesbrough, W. Vanhaverbeke and J. West (eds.), 285–307. Oxford: Oxford University Press. Adapted with permission.

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

- ❖ Tasks 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.