

Business Strategy

Topic 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, 2016.

"For some organizations, near-term survival is the only agenda item. Others are peering through the fog of uncertainty, thinking about how to position themselves once the crisis has passed and things return to normal. The question is, 'What will normal look like?' While no one can say how long the crisis will last, what we find on the other side will not look like the normal of recent years."

Ian Davis – McKinsey Managing Partner – Financial Crisis 2008



KNOWLEDGE OBJECTIVES

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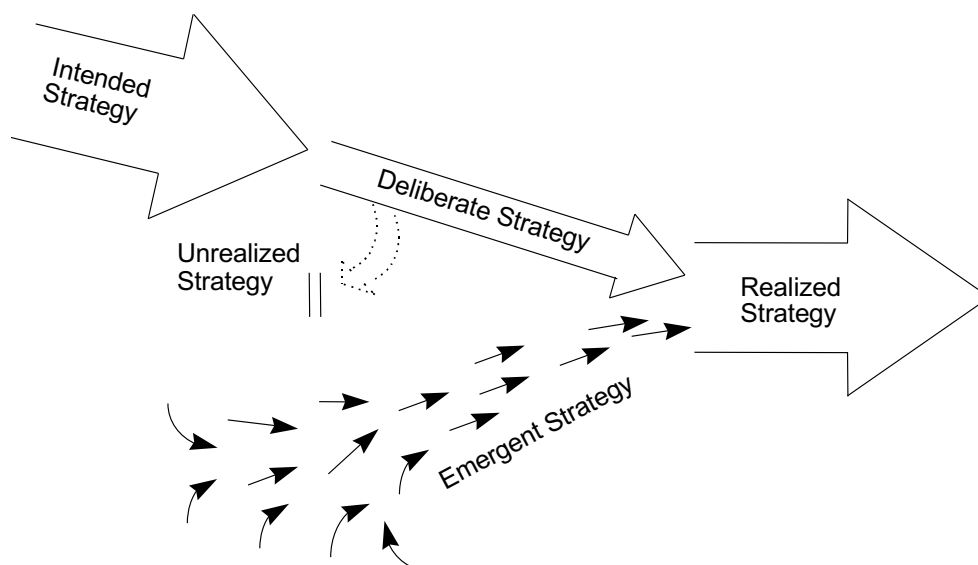
Key Terms

- 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.

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.

Strategy: deliberate vs. emergent



Source: Mintzberg – The rise and fall of strategic planning

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.

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
- digital technologies have a pervasive impact.

COVID-19 and the Russia-Ukraine war are changing the overall scenario adding new big challenges!



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.



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.



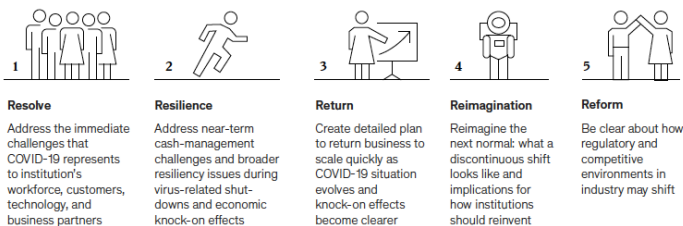
Increasing Knowledge Intensity

- **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!

COVID-19 as a strategic challenge

- **COVID-19 is, first and foremost, a global humanitarian challenge!** [McKinsey, 2020]
- ... However its business implications are huge and will last long calling for a strategic response from the companies

The five horizons



COVID-19 RESPONSE

BIG DECISIONS FOR CEOs RIGHT NOW—AND URGENT QUESTIONS ABOUT THE TIME AFTER

BCG

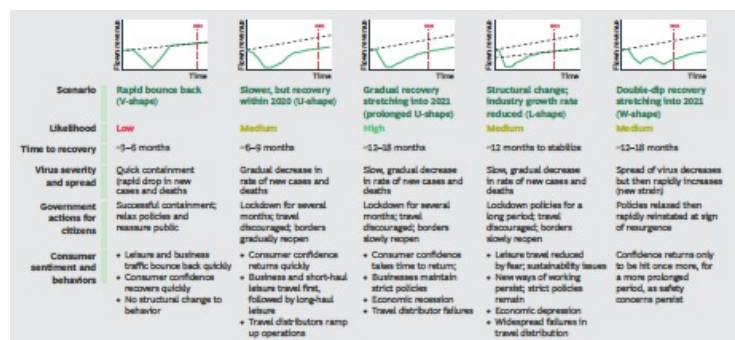
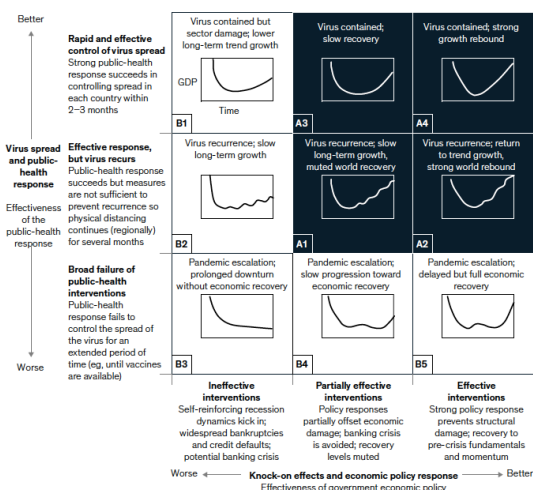
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COVID-19 alternative scenarios

- Companies in different industries will face different challenges and might provide different strategic responses

GDP impact of COVID-19 spread, public-health response, and economic policies

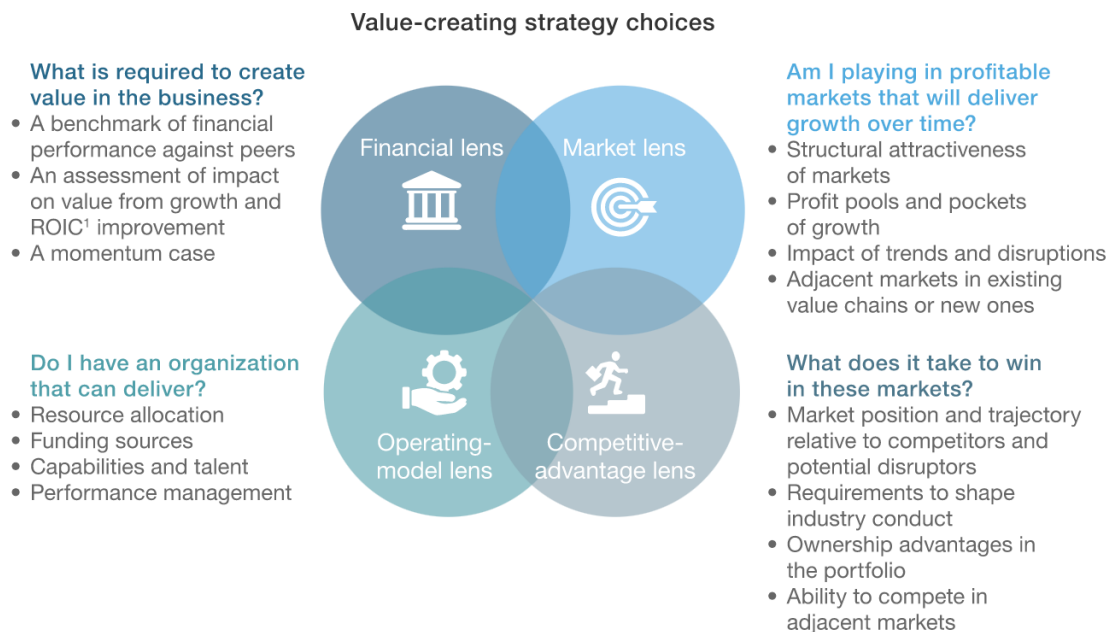


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Four lenses to look at strategy



¹Return on invested capital.

www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/seeing-your-way-to-better-strategy

Strategy and above-average returns

- 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**.
- 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.



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

The I/O Model of Above-Average Returns

1. Study the external environment, especially the industry environment.

The External Environment

- The general environment
- The industry environment
- The competitor environment

2. Locate an industry with high potential for above-average returns.

An Attractive Industry

- An industry whose structural characteristics suggest above-average returns

3. Identify the strategy called for by the attractive industry to earn above-average returns.

Strategy Formulation

- Selection of a strategy linked with above-average returns in a particular industry

4. Develop or acquire assets and skills needed to implement the strategy.

Assets and Skills

- Assets and skills required to implement a chosen strategy

5. Use the firm's strengths (its developed or acquired assets and skills) to implement the strategy.

Strategy Implementation

- Selection of strategic actions linked with effective implementation of the chosen strategy

Superior Returns

- Earning 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.

The Resource-Based Model of Above-Average Returns

1. Identify the firm's resources. Study its strengths and weaknesses compared with those of competitors.
2. Determine the firm's capabilities. What do the capabilities allow the firm to do better than its competitors?
3. Determine the potential of the firm's resources and capabilities in terms of a competitive advantage.
4. Locate an attractive industry.
5. Select a strategy that best allows the firm to utilize its resources and capabilities relative to opportunities in the external environment.



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.



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

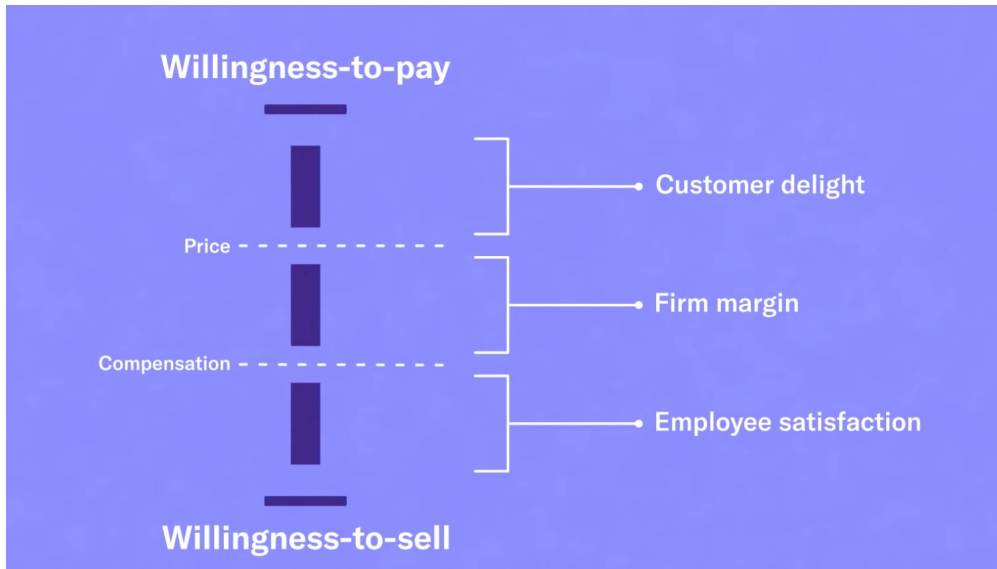
- **Strategic leaders** are people located in different parts of the firm using the strategic management process to help the firm reach its vision and mission.
 - CEO, Top Management Teams ...
- They have an impact on the **Organizational culture**, meaning the complex set of ideologies, symbols, and core values that are shared throughout the firm and that influence how the firm conducts business.

**Leaders Should Be Humans First,
Especially In Times Of Crisis**

- <https://www.forbes.com/sites/grantfreeland/2020/03/23/leaders-should-be-humans-first-especially-in-times-of-crisis/?linkId=84888931#5ec3a69a5fd3>

What is strategy about?

- Strategy is a “plan” to create value ... the difference between willingness-to-pay and willingness-to-sell

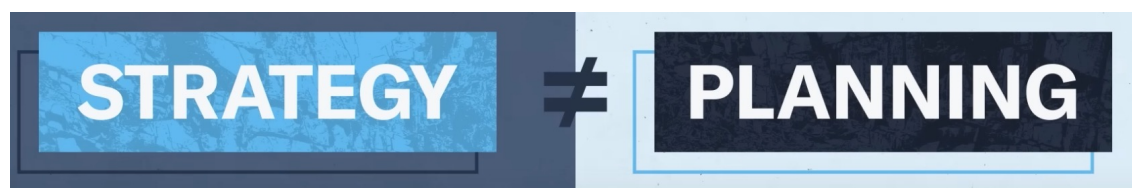


HBR – What is strategy?

<https://www.youtube.com/watch?v=o7Ik1OB4TaE&t=1s>

What is not a strategy?

- Strategy is not a plan



strat·e·gy

noun

An integrative set of choices that positions you on a playing field of your choice in a way that you win.

HBR – A plan is not a strategy

<https://www.youtube.com/watch?v=iuYIGRnC7J8&t=66s>