Strategic Management

Undergraduate course in Management

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Eight content areas

Nature of Competition

The Competitive Landscape

I/O Model of Above-Average Returns (AAR)

Resource-Based Model of AAR

Vision and Mission

Stakeholders

Strategic Leaders

The Strategic Management Process

Nature of competition: basic concepts

Strategy

- Integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage

Strategic competitiveness

- Achieved when a firm formulates & implements a value-creating strategy

Competitive advantage (CA)

- Implemented strategy that competitors are unable to duplicate or find too costly to imitate

Above average returns (AAR)

- Returns in excess of what investor expects in comparison to other investments with similar risk

Basic concepts (cont'd)

Risk

- Investor's uncertainty about economic gains/losses resulting from a particular investment

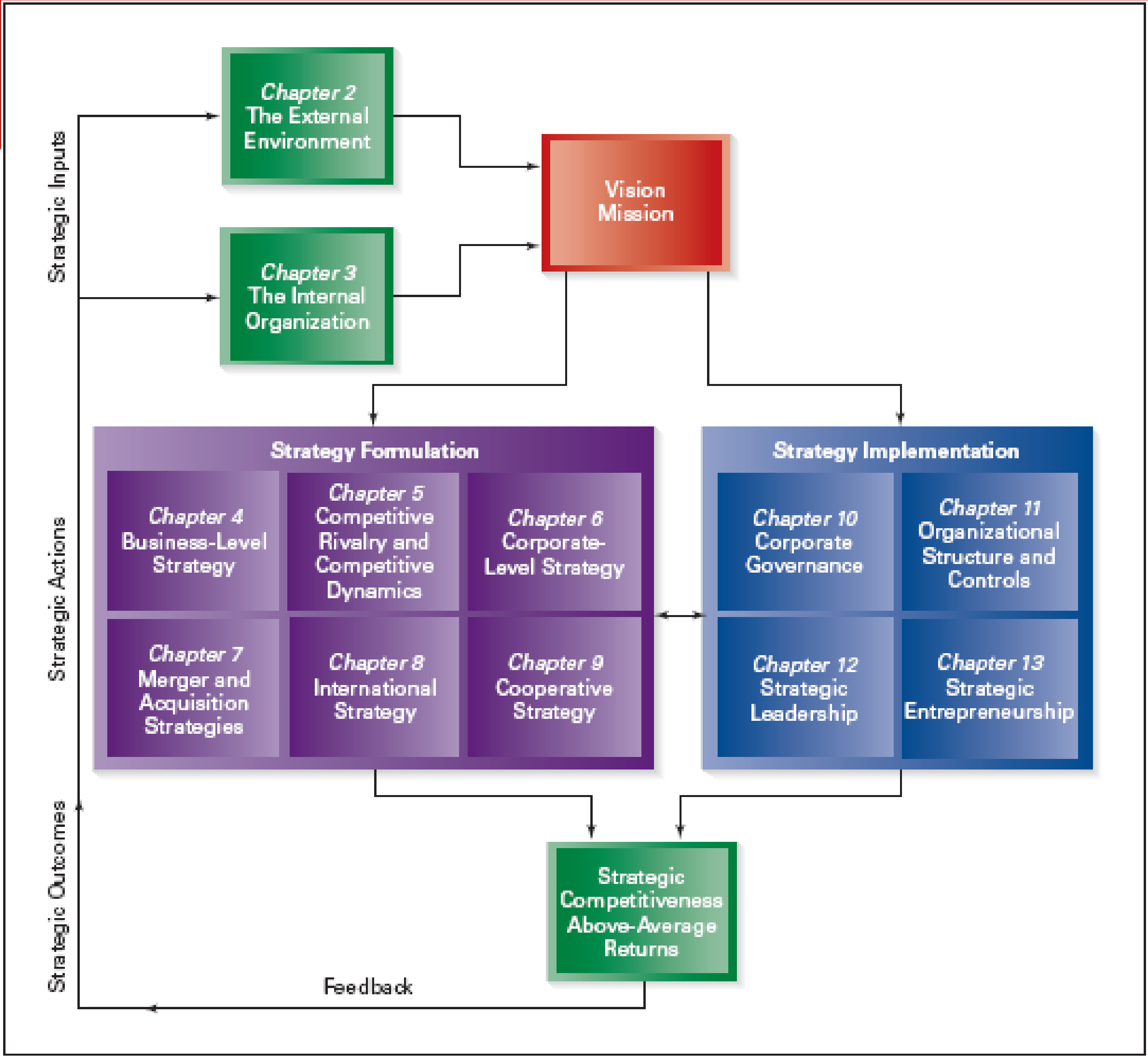
Average returns

- Returns equal to what investor expects in comparison to other investments with similar risk

Strategic Management Process (SMP)

- Full set of commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns

The Strategic Management Process



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The competitive landscape (CL)

- Pace of change is rapid
- Industry boundaries are blurring
- Financial capital is more scarce and markets are increasingly volatile
- Other CL characteristics: a) economies of scale, b) advertising budgets not as effective as before, c) change in managerial mind-set from “traditional” to more flexible and innovative
- Hypercompetition – extremely intense rivalry among competing firms, characterized by: a) escalating & increasingly aggressive competitive moves; and b) assumptions of market stability replaced with notion of instability and change
- Two (plus one) primary drivers of the competitive landscape: a) the global economy; b) technology; and c) the economic and financial crisis

The global economy

- Goods, services, people, skills and ideas move freely across geographic borders
- Europe, through the European Union (EU) is the world's largest single market (EU vs U.S. GDP: 35% higher)
- Emerging major competitive forces: BRIC
- In summary: globalization increased economic interdependence among countries as reflected in the flow of goods and services, financial capital, and knowledge across country borders

Technology and technological changes

1) Technology diffusion:

i) Perpetual innovation: describes how new information-intensive technologies are replacing older forms

ii) Speed to market may be primary competitive advantage

iii) 12-18 month timeframe to gather info regarding competitors' R&D

2) Disruptive technologies are technologies that: a) destroy value of existing technology; and b) create new markets

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Technology and technological changes (cont'd)

3) The information age:
   - i) Dramatic changes over last several years
   - ii) Major technological developments affect how information is used and disseminated
   - iii) Internet provides infrastructure for information anytime, anywhere

4) Increasing knowledge intensity:
   - i) Defined as information, intelligence & expertise and is the basis of technology and its application
   - ii) Gained through experience, observations and inferences
   - iii) Strategic flexibility – set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment

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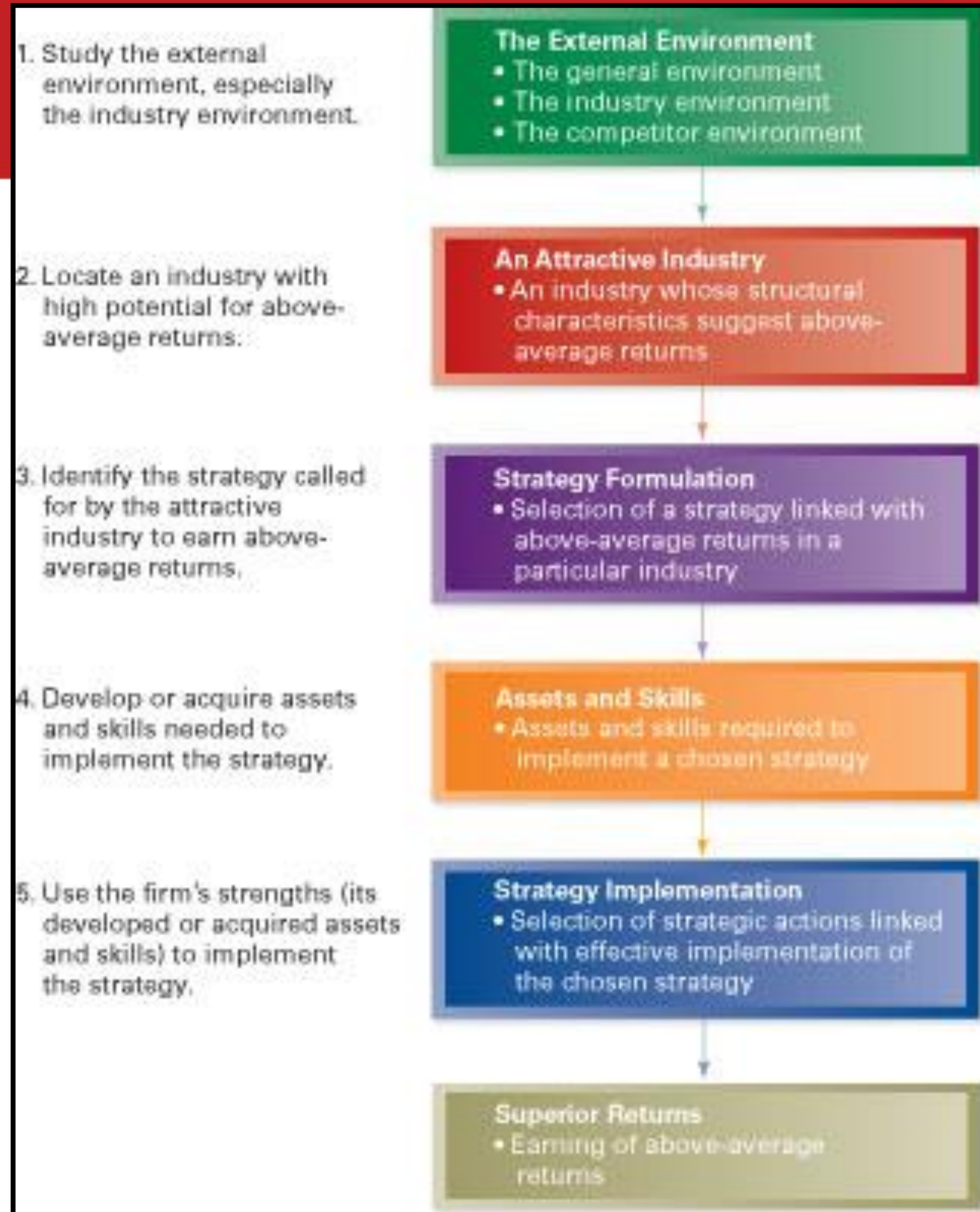
Industrial Organizational (I/O) Model of Above-Average Returns (AAR)

Basic Premise – to explain the dominant influence of the external environment on a firm's strategic actions and performance



Industrial Organizational (I/O) Model of Above-Average Returns (AAR)

Underlying assumptions:

- External environment imposes pressures and constraints that determine the strategies resulting in AAR
- Most firms compete within a particular industry/segment: a) control similar strategically relevant resources; b) pursue similar strategies in light of those resources
- Resources for implementing strategies are highly mobile across firms, therefore any resource differences between firms will be short-lived
- Organizational decision makers are rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors

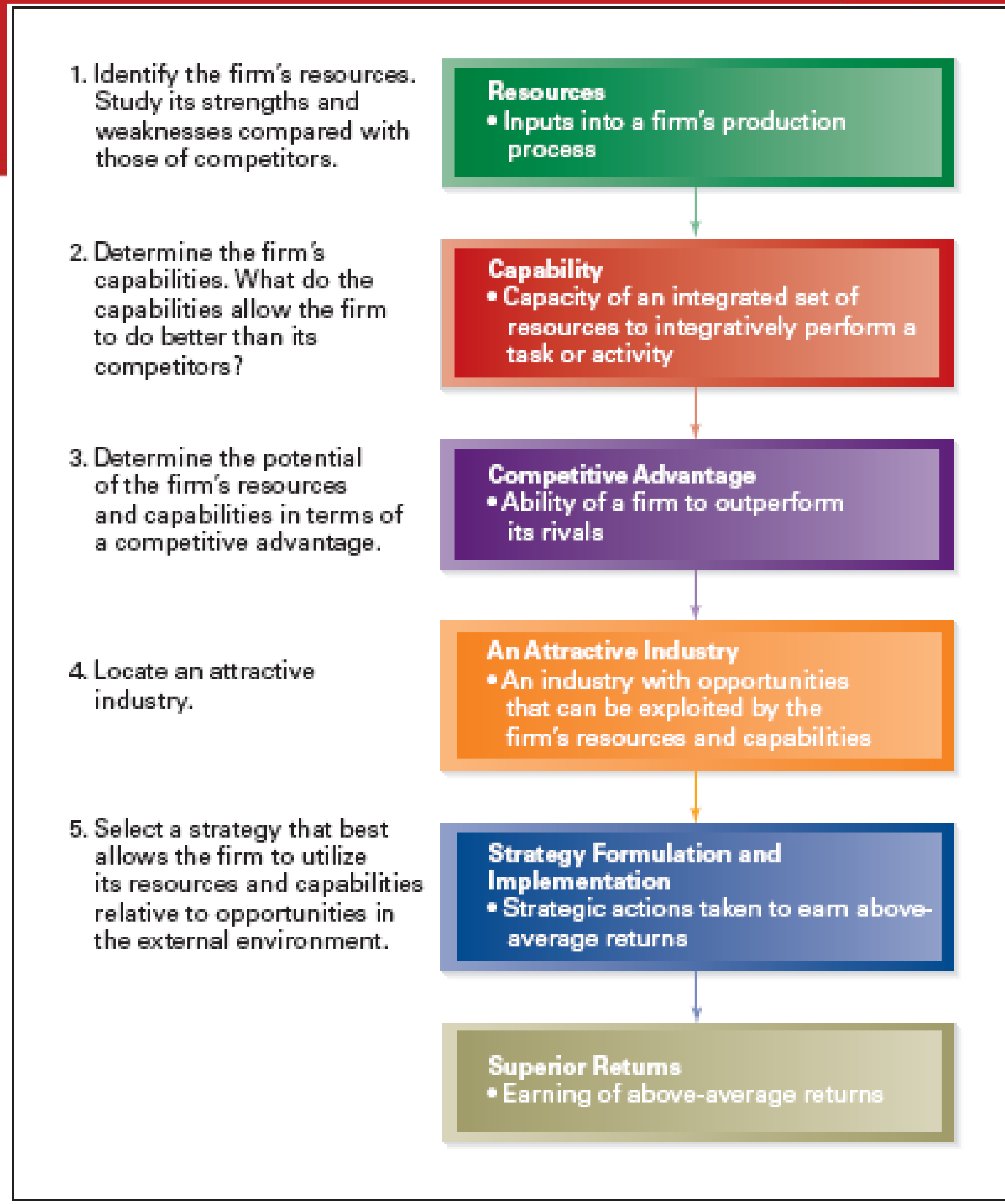
Industrial Organizational (I/O) Model of Above-Average Returns (AAR)

A key-model: *Five-Forces Model (Michael Porter)*

- The 5 Forces includes: suppliers, buyers, competitive rivalry, product substitutes and potential entrants
- Reinforces the importance of economic theory
- Analytical tool previously lacking in the field of strategy
- Determines the nature/level of competition and profit potential in an industry (suggests an industry's profitability is an interaction between these 5 forces)

The Resource-Based Model of AAR

Basic Premise – a firm's unique [internal] resources & capabilities, in combination, are the basis for firm strategy and AAR



The Resource-Based Model of AAR

Underlying assumptions and concepts:

- Firm's performance is historically determined (vs industry's structural characteristics)
- Combined resources' uniqueness should define the firms' strategic actions
- Resources are tangible and intangible. They are inputs into a firm's production process, and include: capital equipment, employee skills, patents, high-quality managers, financial condition, etc.
- Basis for competitive advantage: when resources are valuable, rare, costly to imitate and nonsubstitutable
- Internal/firm-specific resources are classified into 3 categories:

  i) Physical: things you can touch/feel = tangible
  ii) Human: people / employees
  iii) Organizational capital: relative to the firm itself

The Resource-Based Model of AAR

Underlying assumptions and concepts:

- Capability: capacity for a set of resources to perform a task or activity in an integrative manner
- Core Competency: a firm's resources and capabilities that serve as sources of competitive advantage over its rival

Summary

A firm has superior performance because of unique resources and capabilities, and the combination makes them different, and better, than their competition – driving the competitive advantage

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Vision and Mission

Vision

- Picture of what the firm wants to be and, in broad terms, what it ultimately wants to achieve
- An effective vision statement is the responsibility of the leader who should work with others to form it
- Foundation for the mission

Mission

- Specifics business(es) in which firm intends to compete and customers it intends to serve
- More concrete than the vision

Examples

Vision

To create a better everyday life for the many people

"It takes a dream to create a successful business idea; it takes people to make dreams a reality"

Mission

- THE BUSINESS IDEA: We shall offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.
- THE HUMAN RESOURCE IDEA: To give down-to-earth, straight-forward people the possibility to grow, both as individuals and in their professional roles, so that together we are strongly committed to creating a better everyday life for ourselves and our customers

Examples

ZARA

Vision

To attain market leadership through unmatched quality, a diverse and unique product mix, empowered employees, world-class systems, and the highest ethical and professional standards

Mission

- ZARA Textile is devoted to achieve consistent improvement in the system of providing products & services to the customers through On Time Delivery & Enhancing Customers Satisfaction by means of Quality and Value.

Stakeholders

Basic Premise – a firm can effectively manage stakeholder relationships to create a competitive advantage and outperform its competitors

- Stakeholders are both individuals and groups (they can affect, and are affected by, the strategic outcomes/ performance a firm achieves)
- Firms are not equally dependent on all stakeholders
- Classifications of stakeholders:
  - Capital Market (expect returns commiserate with risk accepted by investments; higher the dependency relationship, the more direct and significant firm's response)
  - Product Market (customers, suppliers, host communities, unions)
  - Organizational (the employees)

Stakeholders → People who are affected by a firm's performance and who have claims on its performance

Capital Market Stakeholders
- Shareholders
- Major suppliers of capital (e.g., banks)

Product Market Stakeholders
- Primary customers
- Suppliers
- Host communities
- Unions

Organizational Stakeholders
- Employees
- Managers
- Nonmanagers

The three stakeholders groups

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Strategic leaders

- ✓ People located in different parts of the firm using the strategic management process to help the firm reach its vision and mission
- ✓ Decisive and committed to nurturing those around them
- ✓ Organizational culture emerges from & sustained by leaders
  - i) Complex set of ideologies, symbols and core values shared throughout the firm
  - ii) Affects leaders/their work which in-turn shapes culture
  - iii) Influences how the firm conducts business
- ✓ The work of effective strategic leaders:
  - i) Hard work, thorough analysis, desire for accomplishment, tenacity
  - ii) Must be able to “think seriously and deeply…about the purposes of the organizations they head or functions they perform, about strategies, tactics,.....and people…and about the important questions … they need to ask.”

Strategic management process

- ✓ Rational approach used by firms to achieve strategic competitiveness and earn AAR
- ✓ Figure 1.1 (Diagram of chapter relationships)
  - i) Part 1: Strategic Mgmt Inputs
  - ii) Part 2: Strategic Actions: Strategy Formulation
  - iii) Part 3: Strategic Actions: Strategy Implementation
  - iv) Part 4: Cases