Competitiveness Of The National Economies

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Lecture № 9

Strategic Management and Strategic Competitiveness

Outline

1. Introduction: Important Definitions
2. The Competitive Landscape and Global Economy
3. Technology and Technological Changes
4. Five Forces Model of Competition
5. Vision and Mission

Goal of this lecture:

- *Define strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process.*
- *Describe the 21st-century competitive landscape and explain how globalization and technological changes shape it.*
- *Use the industrial organization (I/O) model to explain how firms can earn above-average returns.*
- *Use the resource-based model to explain how firms can earn above-average returns.*
- *Describe vision and mission and discuss their value.*
- *Define stakeholders and describe their ability to influence organizations.*
- *Describe the work of strategic leaders.*
- *Explain the strategic management process.*

Important Definitions

Strategic Competitiveness

- When a firm successfully formulates and implements a value-creating strategy.

Strategy

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

Competitive Advantage

- When a firm implements a strategy that its competitors are unable to duplicate or find too costly to try to imitate.

Important Definitions (cont’d)

Risk

- An investor’s uncertainty about the economic gains or losses that will result from a particular investment.

Average Returns

- Returns equal to those an investor expects to earn from other investments with a similar amount of risk.

Above-average Returns

- Returns in excess of what an investor expects to earn from other investments with a similar amount of risk.

Important Definitions (cont’d)

Strategic Management Process

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

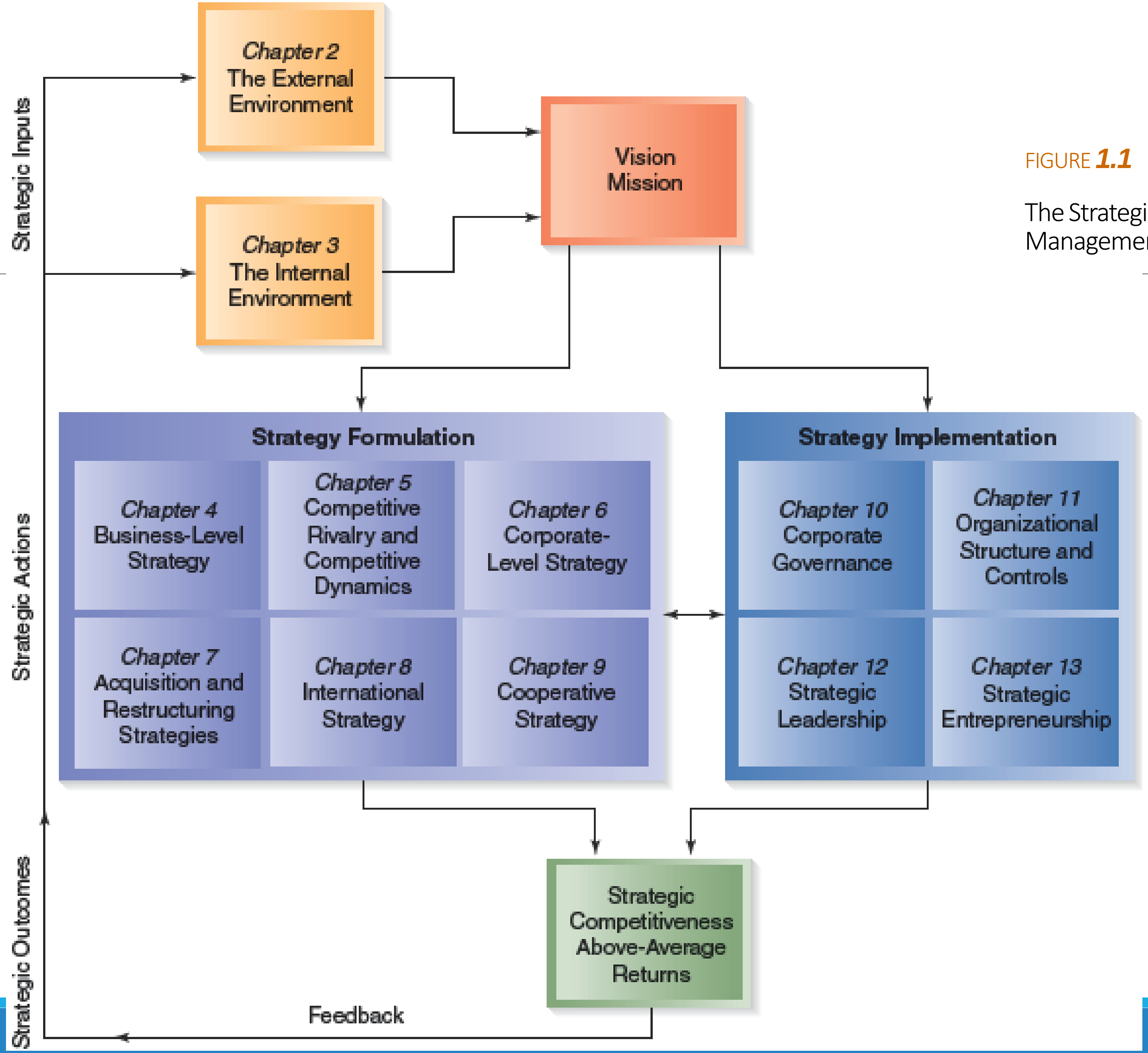


FIGURE **1.1**

The Strategic Management Process

The 21st-Century Competitive Landscape

A Perilous Business World

- Rapid changes in industry boundaries and markets
- Conventional sources of competitive advantage losing effectiveness
- Enormous investments required to compete globally
- Severe consequences for failure

Developing and Implementing Strategy

- Allows for planned actions rather than reactions
- Helps coordinate business unit strategies

The Competitive Landscape

Hypercompetition

A condition of rapidly escalating competition based on:

- Price-quality positioning
- Competition to create new know-how and establish first-mover advantage
- Competition to protect or invade established product or geographic markets

Global Economy

The Global Economy

- Goods, people, skills, and ideas move freely across geographic borders.
- Movement is relatively unfettered by artificial constraints.
- Expansion into global arena complicates a firm’s competitive environment.
  - Short-term: Where is the fastest growth likely to occur?
  - Long-term: Where will sustainable growth occur?

Global Economy (cont'd)

The March of Globalization

- Increased economic interdependence among countries—the flow of goods and services, financial capital, and knowledge across country borders
  - Higher performance levels—quality, cost, productivity, product introduction time, and operational efficiency
- Increased range of opportunities for companies competing in the 21st-century competitive landscape
  - Liability of foreignness—the risks of participating outside of a firm's domestic country in the global economy
  - The amount of time required for firms to learn how to compete in markets that are new to them.

Technology and Technological Changes

Technology Diffusion

- The speed at which new technologies become available

Disruptive Technologies

- Technologies that destroy the value of existing technology and create new markets

Perpetual Innovation

- The rapidity and consistency with which new, information-intensive technologies replace older ones

Technological Changes

The Information Age

- The ability to effectively and efficiently access and use information has become an important source of competitive advantage.
- Technology includes personal computers, cellular phones, artificial intelligence, virtual reality, massive databases, electronic networks, internet trade.

Technological Changes (cont'd)

Increasing Knowledge Intensity

- Knowledge as a critical organizational resource for creating an intangible competitive advantage
- **Strategic flexibility:** the set of capabilities used to respond to various demands and opportunities in dynamic and uncertain competitive environments
- **Organizational slack:** slack resources that allow the firm flexibility to respond to environmental changes
- Organizational capacity to learn

I/O Model of Above-Average Returns

Dominance of the External Environment

- The industry in which a firm competes has a stronger influence on the firm's performance than do the choices managers make inside their organizations.

Industry Properties Determining Performance

- Economies of scale
- Barriers to market entry
- Diversification
- Product differentiation
- Degree of concentration of firms in the industry

Four Assumptions of the I/O Model

1. External environment imposes pressures and constraints that determine strategies leading to above-average returns.

2. Most firms competing in an industry control similar strategically relevant resources and pursue similar strategies.

3. Resources used to implement strategies are highly mobile across firms.

4. Organizational decision makers are assumed to be rational and committed to acting in the firm's best interests (profit-maximizing).

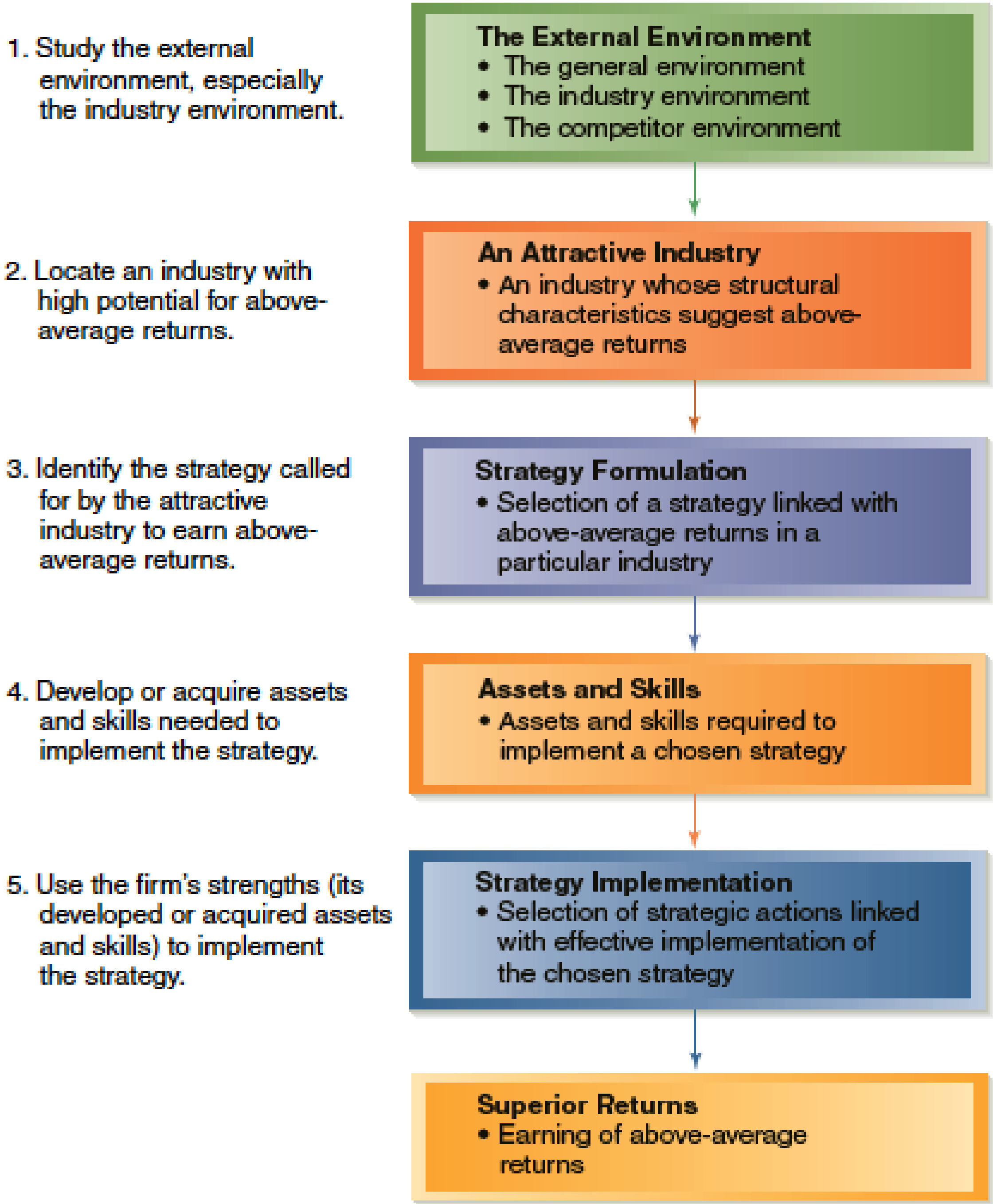
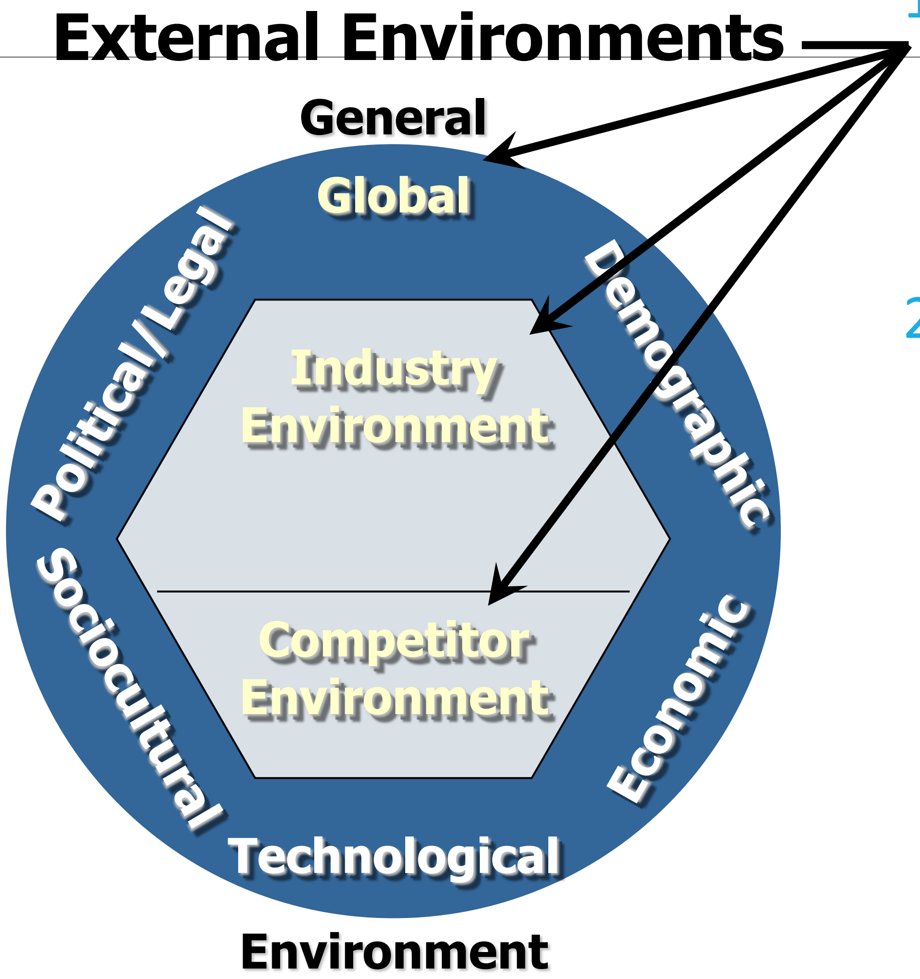


FIGURE **1.2**

The I/O Model of Above-Average Returns

I/O Model of Above-Average Returns



1. Strategy is dictated by the external environment of the firm—*what opportunities exist in these environments?*
2. Firm develops internal skills required by external environment—*what can the firm do about the opportunities?*

Industrial Organization Model

The External Environment

1. Study the external environment, especially the industry environment:
   - Economies of scale
   - Barriers to market entry
   - Diversification
   - Product differentiation
   - Degree of concentration of firms in the industry

Industrial Organization Model

The External Environment

Attractive Industry

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

Attractive industry:
One whose structural characteristics suggest above-average returns.

Industrial Organization Model

The External Environment

Attractive Industry

Strategy Formulation

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.

Industrial Organization Model

- **The External Environment**
- **Attractive Industry**
- **Strategy Formulation**
- **Assets and Skills**

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

Assets and skills: those assets and skills required to implement a chosen strategy.

Industrial Organization Model

- **The External Environment**
- **Attractive Industry**
- **Strategy Formulation**
- **Assets and Skills**
- **Strategy Implementation**

Strategy implementation: select strategic actions linked with effective implementation of the chosen strategy.

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

Industrial Organization (I/O) Model

The External Environment

Attractive Industry

Strategy Formulation

Assets and Skills

Strategy Implementation

Superior Returns

Superior returns: earning above-average returns

Five Forces Model of Competition

Industry Profitability

- The industry’s rate of return on invested capital relative to its cost of capital

An industry’s profitability results from interaction among:

- Suppliers
- Buyers
- Competitive rivalry among firms currently in the industry
- Product substitutes
- Potential entrants to the industry

Five Forces Model of Competition (cont'd)

Firms earn above-average returns by:

- Cost leadership
  - Producing standardized products or services
- Differentiation
  - Manufacturing differentiated products for which customers are willing to pay a price premium

The Resource-Based Model of Above-Average Returns

Model Assumptions

- Each organization is a collection of unique resources and capabilities that provides the basis for its strategy and that is the primary source of its returns.
- Capabilities evolve and must be managed dynamically.
- Differences in firms' performances are due primarily to their unique resources and capabilities rather than structural characteristics of the industry.
- Firms acquire different resources and develop unique capabilities.

FIGURE **1.3**

The Resource-Based Model of Above-Average Returns

1. Identify the firm's resources. Study its strengths and weaknesses compared with those of competitors.

Resources
- Inputs into a firm's production process

2. Determine the firm's capabilities. What do the capabilities allow the firm to do better than its competitors?

Capability
- Capacity of an integrated set of resources to integratively perform a task or activity

3. Determine the potential of the firm's resources and capabilities in terms of a competitive advantage.

Competitive Advantage
- Ability of a firm to outperform its rivals

4. Locate an attractive industry.

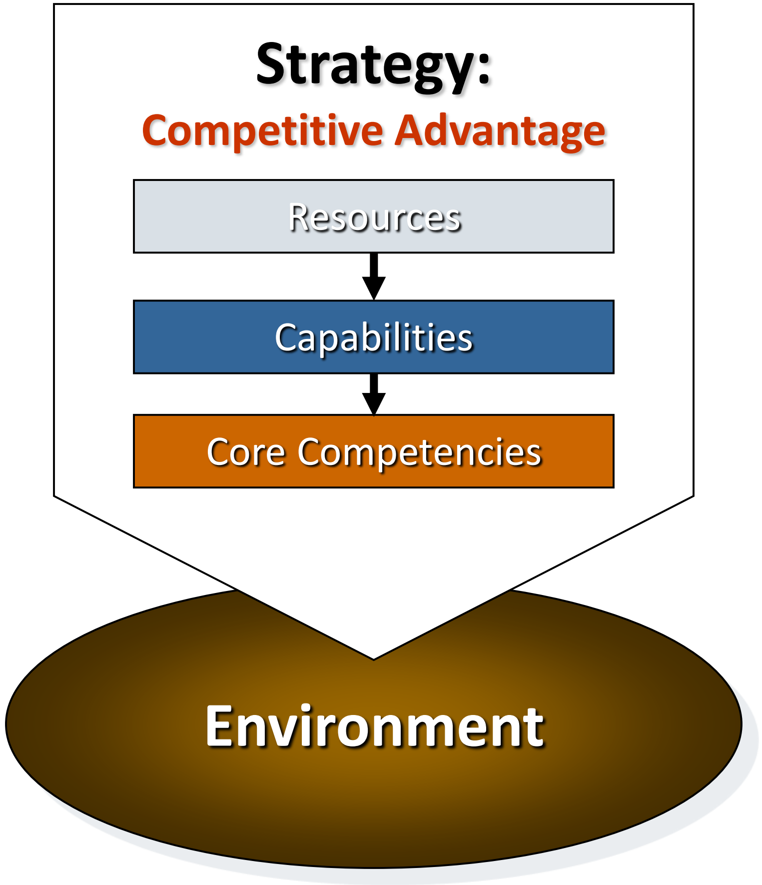
An Attractive Industry
- An industry with opportunities that can be exploited by the firm's resources and capabilities

5. Select a strategy that best allows the firm to utilize its resources and capabilities relative to opportunities in the external environment.

Strategy Formulation and Implementation
- Strategic actions taken to earn above-average returns

Superior Returns
- Earning of above-average returns

Resource-Based Model of Above-Average Returns (cont'd)



1. Strategy is dictated by the firm's unique resources and capabilities.
2. Find an environment in which to exploit these assets (where are the best opportunities?)

Resources and Capabilities

Resources

- Inputs into a firm's production process:
  - **Capital equipment**
  - **Skills of individual employees**
  - **Patents**
  - **Finances**
  - **Talented managers**

Capabilities

- Capacity of a set of resources to perform in an integrative manner
- A capability should *not* be:
  - **So simple that it is highly imitable.**
  - **So complex that it defies internal steering and control.**

Resource-Based Model (cont'd)

Resources

Resources: inputs into a firm's production process

1. Identify the firm's resources—strengths and weaknesses compared with competitors

Resource-Based Model (cont'd)

Resources

Capability

Capability: capacity of an integrated set of resources to integratively perform a task or activity.

2. Determine the firm's capabilities—what it can do better than its competitors.

Resource-Based Model (cont'd)

Resources

Capability

Competitive Advantage

Competitive advantage: ability of a firm to outperform its rivals.

3. Determine the potential of the firm's resources and capabilities in terms of a competitive advantage.

Resource-Based Model (cont'd)

Resources

Capability

Competitive Advantage

Attractive Industry

4. Locate an attractive industry.

Attractive industry: an industry with opportunities that can be exploited by the firm's resources and capabilities.

Resource-Based Model (cont'd)

Resources

Capability

Competitive Advantage

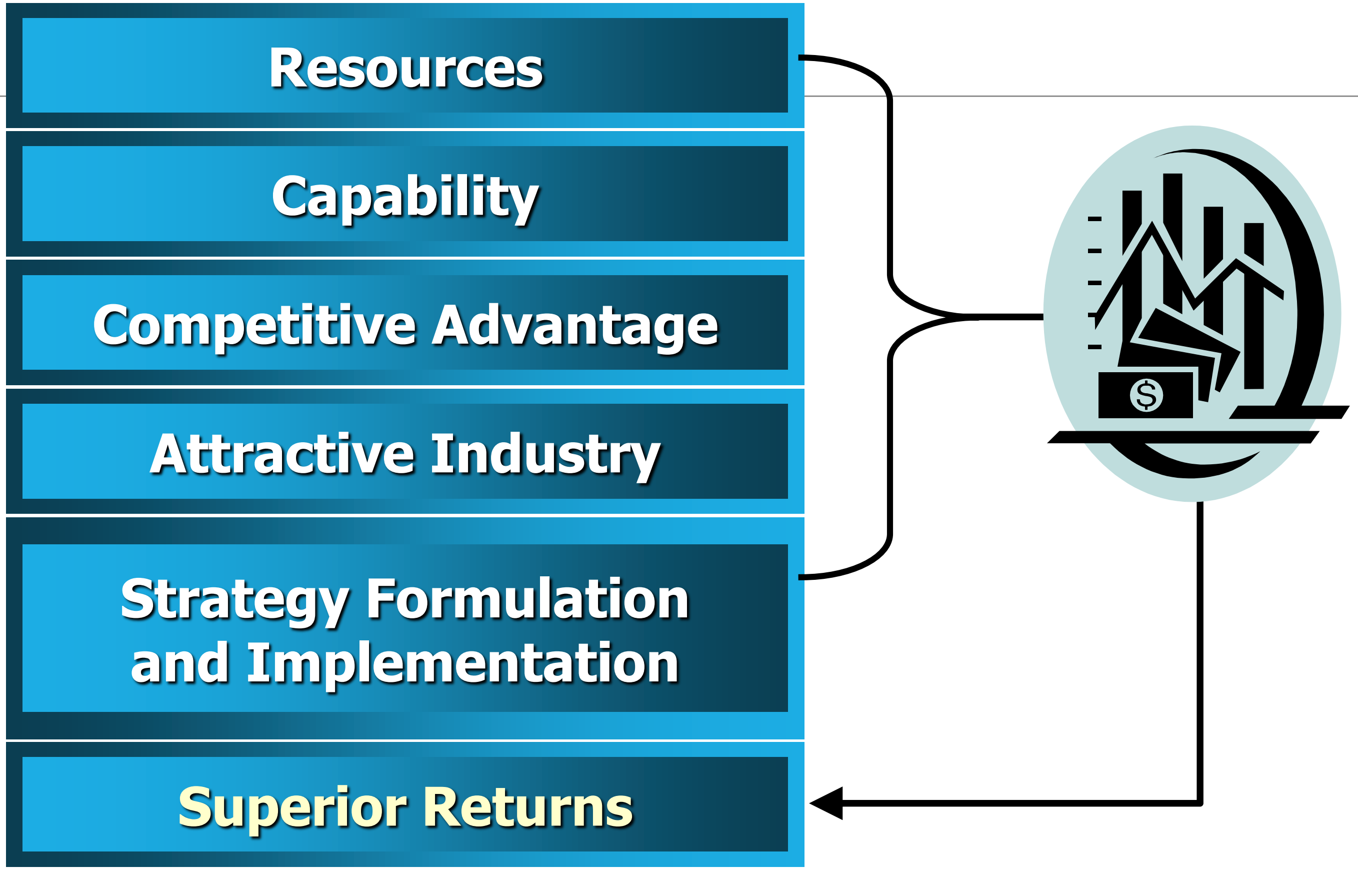
Attractive Industry

Strategy Formulation and Implementation

Strategy formulation and implementation: strategic actions taken to earn above average returns.

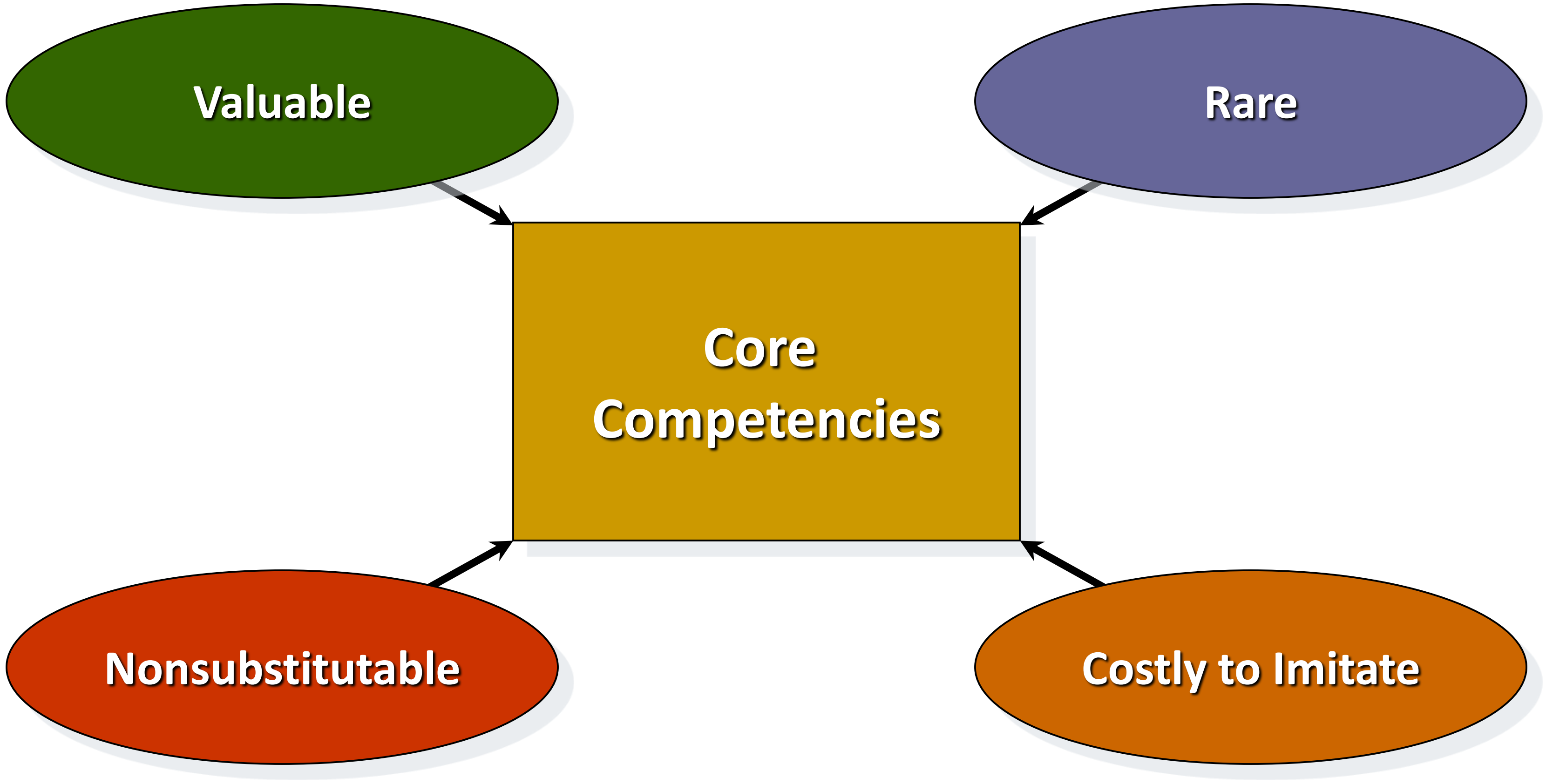
5. Select a strategy that best allows the firm to utilize its resources and capabilities relative to opportunities in the external environment.

Resource-Based Model (cont'd)



Superior returns: earning above-average returns

Criteria for Resources and Capabilities That Become Core Competencies



How Resources and Capabilities Provide Competitive Advantage

Valuable	Allow the firm to exploit opportunities or neutralize threats in its external environment
Rare	Possessed by few, if any, current and potential competitors
Costly to imitate	When other firms cannot obtain them or must obtain them at a much higher cost
Nonsubstitutable	The firm is organized appropriately to obtain the full benefits of the resources in order to realize a competitive advantage

Core Competencies

When the four key criteria of resources and capabilities are met, they become core competencies.

Managerial competencies are especially important.

Core competencies serve as a source of competitive advantage, create value, and provide the opportunity for above-average returns.

Why Two Models?

Industrial Organization (I/O) Model

- Focuses on the environment outside the firm.

Resource-Based Model

- Focuses on the inside of the firm

Successful strategy formulation and implementation actions result only when the firm properly uses both models.

Vision and Mission

Vision

- A enduring picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve.
  - Stretches and challenges people and evokes emotions and dreams.

Effective vision statements are:

- Developed by a host of people from across the organization.
- Clearly tied to external and internal environmental conditions.
- Consistent with strategic leaders’ decisions and actions.

Vision and Mission (cont'd)

Mission

- Specifies the business or businesses in which the firm intends to compete and the customers it intends to serve.
- Is more concrete than the firm's vision.
- Is more effective when it fosters strong ethical standards.

Above-average returns are the fruits of the firm's efforts to achieve its vision and mission.

Stakeholders

Individuals and groups who can affect, and are affected by, the strategic outcomes achieved and who have enforceable claims on a firm’s performance.

- Claims on the firm’s performance are enforced by the stakeholder’s ability to withhold participation essential to the firm’s survival.
- The more critical and valued a stakeholder’s participation, the greater a firm’s dependency on it.
- Managers must find ways to either accommodate or insulate the organization from the demands of stakeholders controlling critical resources.

Stakeholder Involvement

Two issues affect the extent of stakeholder involvement in the firm:

- How to divide returns to keep stakeholders involved?
- How to increase returns so everyone has more to share?

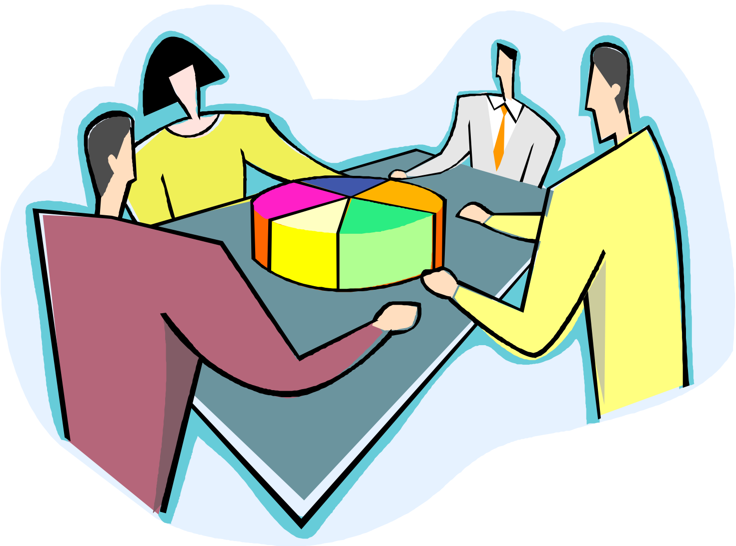


FIGURE **1.4** The Three Stakeholder Groups

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

Stakeholders

Capital Market Stakeholders

Capital Market Stakeholders

Shareholders
Major suppliers of capital

- Banks
- Private lenders
- Venture capitalists

Capital Market Stakeholders

Shareholders and lenders expect the firm to preserve and enhance the wealth they have entrusted to it.

- Want the return on their investment (and, hence, their wealth) to be maximized.
- Expect returns to be commensurate with the degree of risk to the shareholder.

Management must balance the interests of shareholders and lenders with its concerns for the firm's future competitive ability.

Stakeholders (cont'd)

Capital Market Stakeholders

Product Market Stakeholders

Product Market Stakeholders

- Customers
- Suppliers
- Host communities
- Unions

Product Market Stakeholders

Customers

- Demand reliable products at low prices

Suppliers

- Seek loyal customers willing to pay highest sustainable prices for goods and services

Host communities

- Want companies willing to be long-term employers and providers of tax revenues while minimizing demands on public support services

Union officials

- Want secure jobs and desirable working conditions

Stakeholders (cont'd)

Capital Market Stakeholders

Product Market Stakeholders

Organizational Stakeholders

Organizational Stakeholders

- Employees
- Managers
- Nonmanagers

Organizational Stakeholders

Employees

- Expect a dynamic, stimulating and rewarding work environment.
- Are satisfied by a company that is growing and actively developing their skills.

Strategic Leaders

Strategic Leaders

- People located in different parts of the firm who are using the strategic management process to help the firm reach its vision and mission.

Prerequisites for Effective Strategic Leadership

- Hard work
- Thorough analyses
- Honesty
- Desire for accomplishment
- Common sense

Strategic Leaders (cont’d)

Organizational Culture

- The complex set of ideologies, symbols, and core values that are shared throughout the firm and that influence how the firm conducts business.

The Value of a Functional Organizational Culture

- Supports effective delegation of strategic responsibilities
- Provides support for strategic leaders
- Encourages social energy
- Fosters of respect for others

Predicting Outcomes of Strategic Decisions: Profit Pools

Profit Pool

- The total profits earned in an industry at all points along the value chain

Identifying the components of a profit pool:

- Define the pool's boundaries.
- Estimate the pool's overall size.
- Estimate size of each value-chain activity in the pool.
- Reconcile the calculations—which activity provides the most profit potential?

Strategic Management Process

Study the external and internal environments.

Identify marketplace opportunities and threats.

Determine how to use core competencies.

Use strategic intent to leverage resources, capabilities and core competencies and win competitive battles.

Integrate formulation and implementation of strategies.

Seek feedback to improve strategies.


Thank you