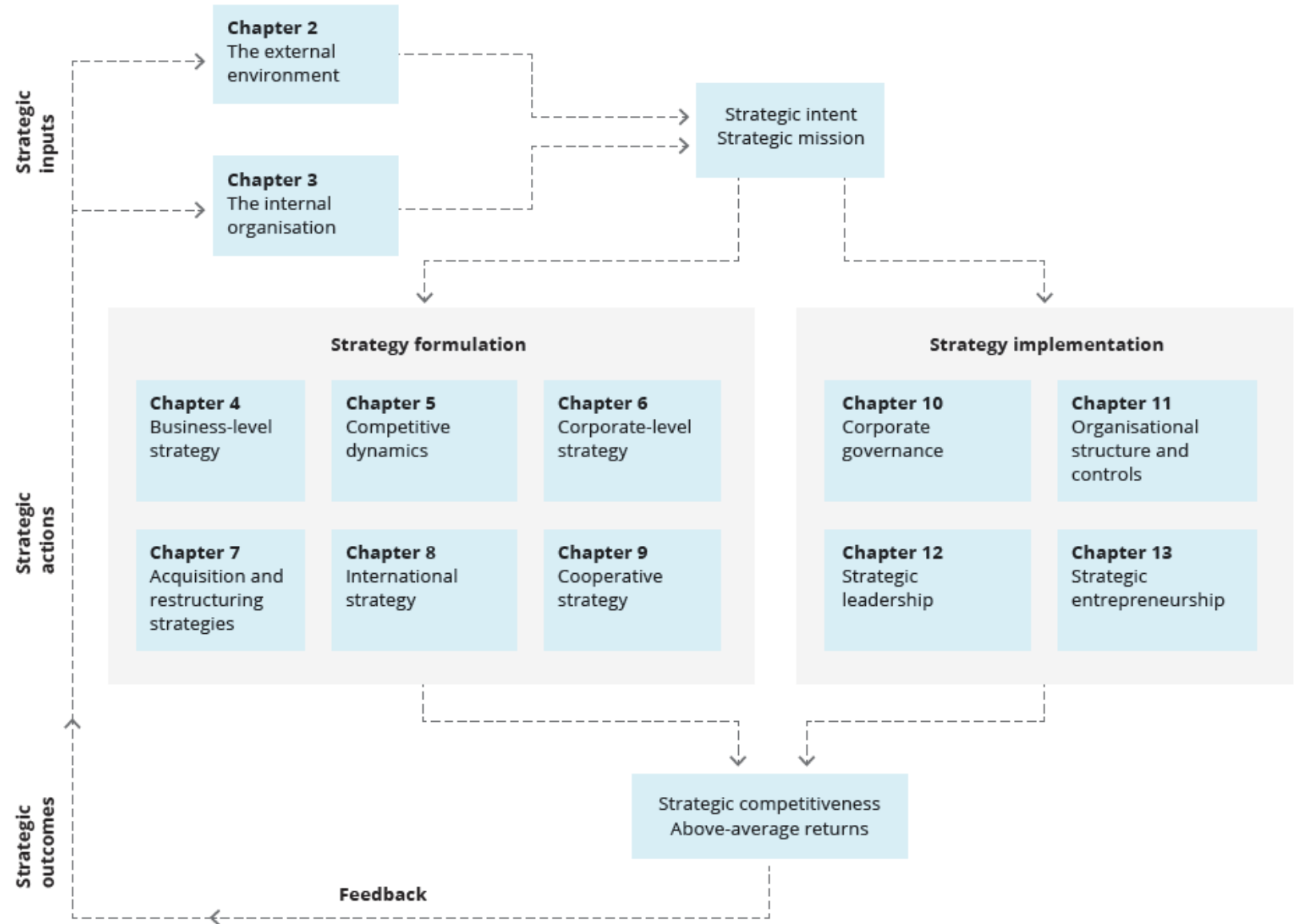


Week 2: Chapter 1

Strategic Management Process and Strategic Competitiveness

Chapter 1 Strategic Management and Strategic Competitiveness



Important Definitions

- **Strategic competitiveness** is achieved when a firm successfully formulates and implements a value-creating strategy.
- **Strategy** is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.
- **Competitive advantage** occurs when a firm implements a strategy that creates superior value for customers – competitors are unable to duplicate it or find too costly to imitate.
- **‘Hypercompetition’** is a term often used to describe conditions where market stability is replaced by inherent instability and change. Hypercompetition results from the dynamics of strategic manoeuvring among global and innovative combatants.

Important Definitions

- **Risk** refers to an investor's uncertainty about the economic gains or losses that will result from a particular investment.
- **Above-average returns** are returns in excess of what an investor expects to earn from other investments with a similar amount of risk.
- **Average returns** are returns equal to those an investor expects to earn from other investments with a similar amount of risk.
- **Global economy** is one in which goods, services, people, skills and ideas move freely across geographic borders. Relatively unfettered by artificial constraints, such as tariffs, the global economy significantly expands and complicates an organisation's competitive environment.
- **Globalisation** is the increasing economic interdependence among countries and their organisations as reflected in the flow of goods and services, financial capital and knowledge across country borders.

Important Definitions

- **Strategic flexibility** is a set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.
- **Core competencies** are resources and capabilities that serve as a source of competitive advantage.
- **Organisational culture** refers to the complex set of ideologies, symbols and core values that are shared throughout the organisation and that influence how the organisation conducts business.
- **Corporate Social Responsibility** is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.
- **A profit pool** is the total profits earned in an industry at all points along the value chain.

THE STRATEGIC MANAGEMENT PROCESS



THE STRATEGIC MANAGEMENT PROCESS

- **Dynamic Process**

- Ever-changing markets and competition need to be coordinated with a firm's evolving inputs.

- **Rational Approach**

- Used to achieve strategic competitiveness and earn above-average returns.

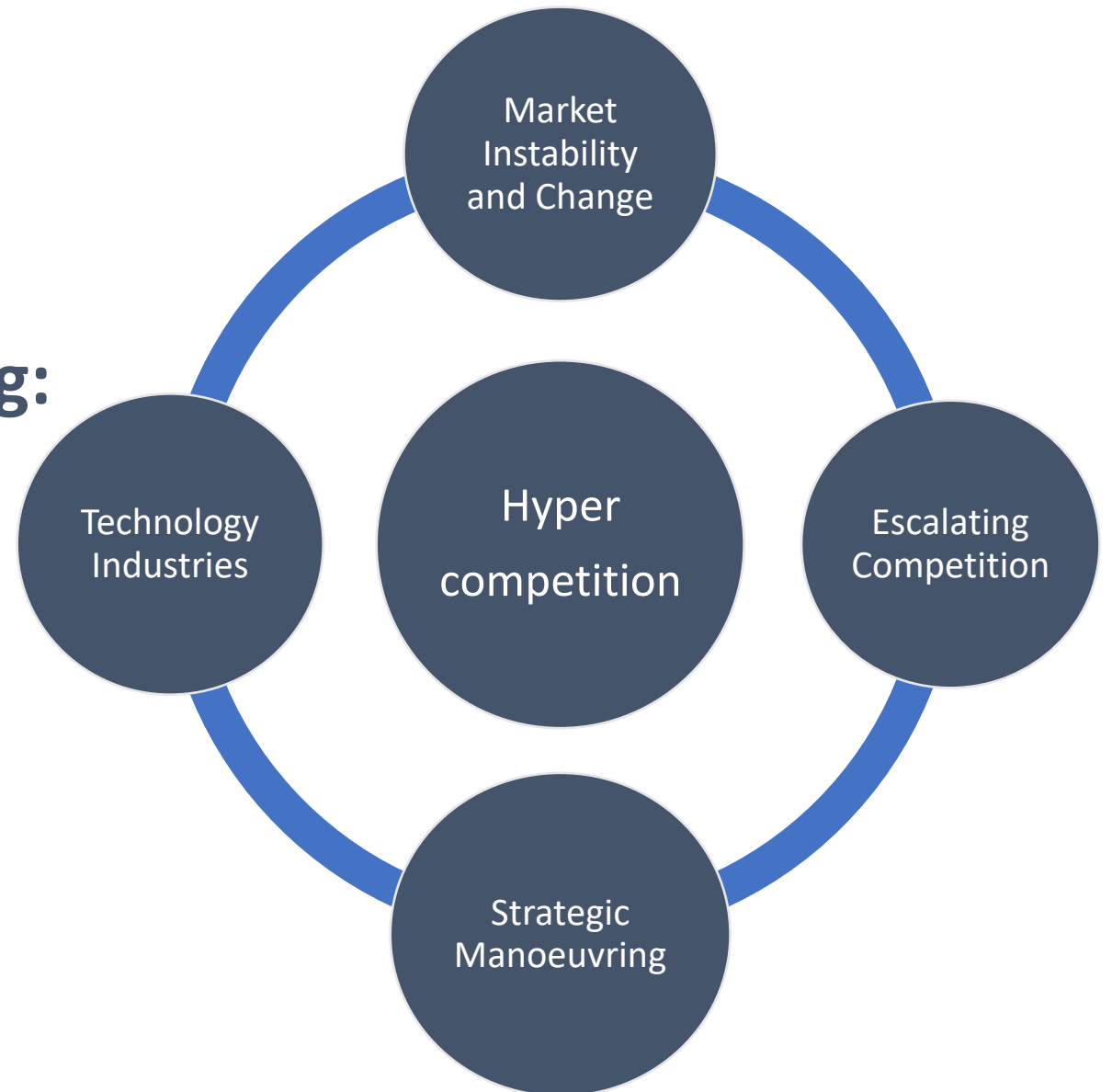
- **Formulation and implementation**

- Must be simultaneously integrated to successfully employ the strategic management process.

THE COMPETITIVE LANDSCAPE

■ Fundamental Changes Occurring:

- Globalisation
- Technology
- Industry boundaries blurring
 - e.g.: Entertainment industry
- Traditional sources of competitive advantage
- New managerial mindset needed



THE COMPETITIVE LANDSCAPE

■ **The Global Economy:**

- **Goods, services, people, skills and ideas move freely across geographic borders.**
- **New opportunities and challenges emerge**
e.g.: Regional markets such as the European Union; emerging economies such as China
- **Competitive environments are broader and increasingly more complex.**

THE COMPETITIVE LANDSCAPE

■ The Strategic Focus:

■ Starbucks

- Strategy focused on international expansion
- Customisation of stores and product ranges for local markets
- Product innovation and strategic action key to international strategy

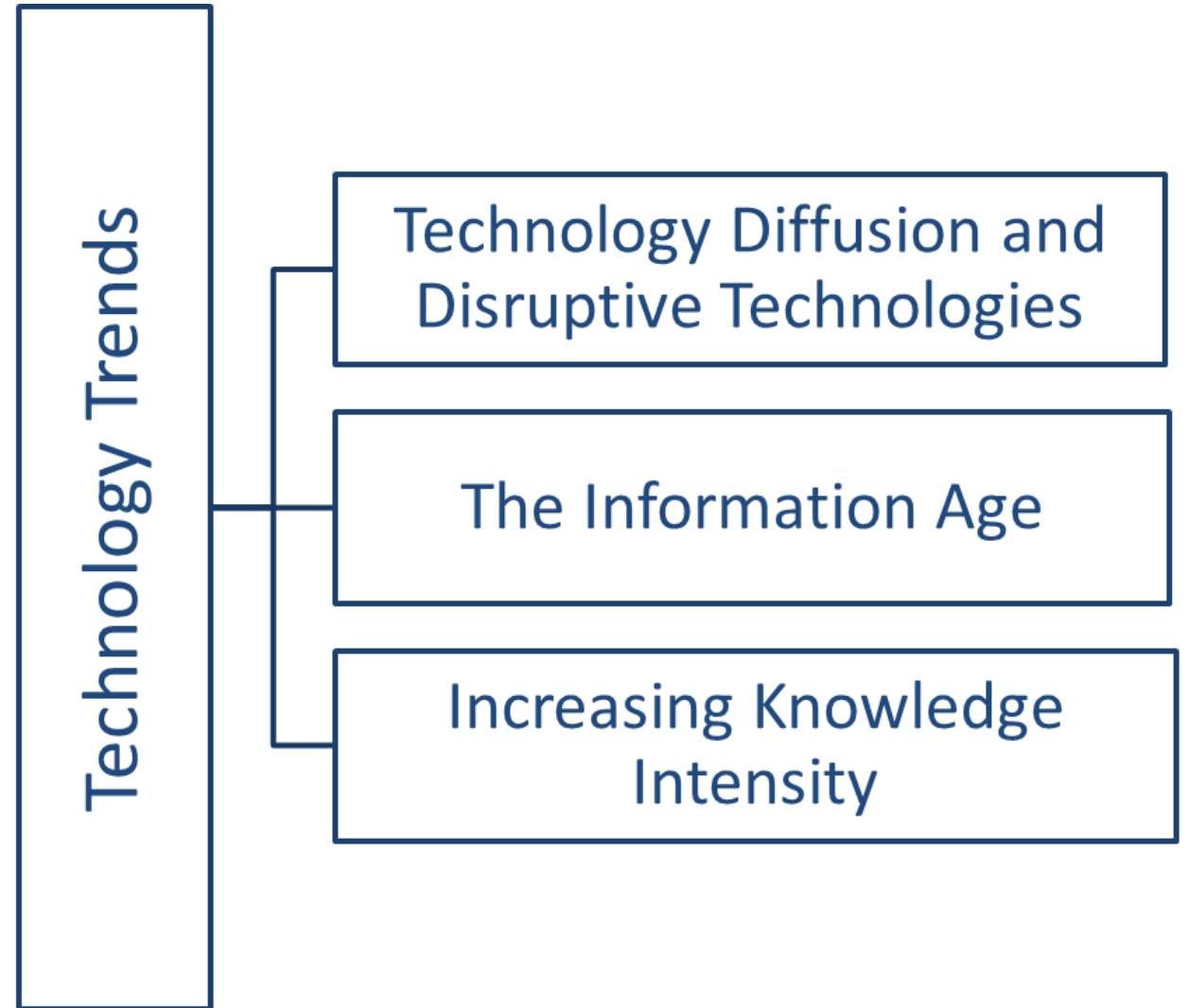
THE COMPETITIVE LANDSCAPE

■ The march of globalisation:

- **Globalisation: Increasing economic interdependence among countries and their organisations**
 - **Strategic Implications:**
 - **Increases range of opportunities**
 - **Need for cultural sensitivity**
 - **Higher performance standards required**
 - **Risks: Liability of foreignness**

THE COMPETITIVE LANDSCAPE

■ TECHNOLOGY AND TECHNOLOGICAL CHANGES



TWO MODELS OF STRATEGIC DECISION MAKING

- Firms use two major models to help develop their vision and mission and then choose one or more strategies in pursuit of strategic competitiveness and above-average returns.

External

Industrial
Organisational (I/O)
Model

Internal

Resource-Based
Model

THE I/O MODEL OF ABOVE-AVERAGE RETURNS

- Grounded in economics, the I/O model has four underlying assumptions:
 1. The external environment is assumed to **impose pressures and constraints** that determine strategies that will result in above-average returns.
 2. Most firms competing within an industry or a segment of that industry are assumed to **control similar strategically relevant resources and to pursue similar strategies** in light of those resources.
 3. Resources used to implement strategies are assumed to be **highly mobile across firms**, so any resource differences that might develop between firms will be short lived.
 4. Organisational decision makers are assumed to be **rational and committed to acting in the firm's best interests**, as shown by their profit-maximising behaviour.

THE I/O MODEL OF ABOVE-AVERAGE RETURNS

- The Five Forces Model
 - An analytical tool used to help firms find the industry that is the most attractive as measured by its **profitability potential**
- Suggests that an industry's profitability is a function of interactions among the five forces
 - Suppliers, buyers, rivalry, product substitutes and potential entrants to the industry.

THE I/O MODEL OF ABOVE-AVERAGE RETURNS: Strategy

- Under the I/O model, firms can earn above-average returns with the following strategies:
 - **cost leadership strategy**, which produces standardised goods or services at costs below those of competitors
 - **differentiation strategy**, which produces differentiated goods or services for which customers are willing to pay a price premium
- **Above-average returns** are earned when firms are able to effectively study the external environment as the foundation for identifying an attractive industry and implementing the appropriate strategy

Figure 1.2 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 organisation's strength (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 MODEL OF ABOVE-AVERAGE RETURNS

- Key Assumptions:
 - That each organisation is a **collection of unique resources and capabilities**
 - The **uniqueness of its resources and capabilities is the basis of a firm's strategy** and its ability to earn above-average returns
 - Core assumption: that a firm's unique resources, capabilities and core competencies have **more influence** on selecting and using strategies than does the firm's external environment

THE RESOURCE MODEL OF ABOVE-AVERAGE RETURNS

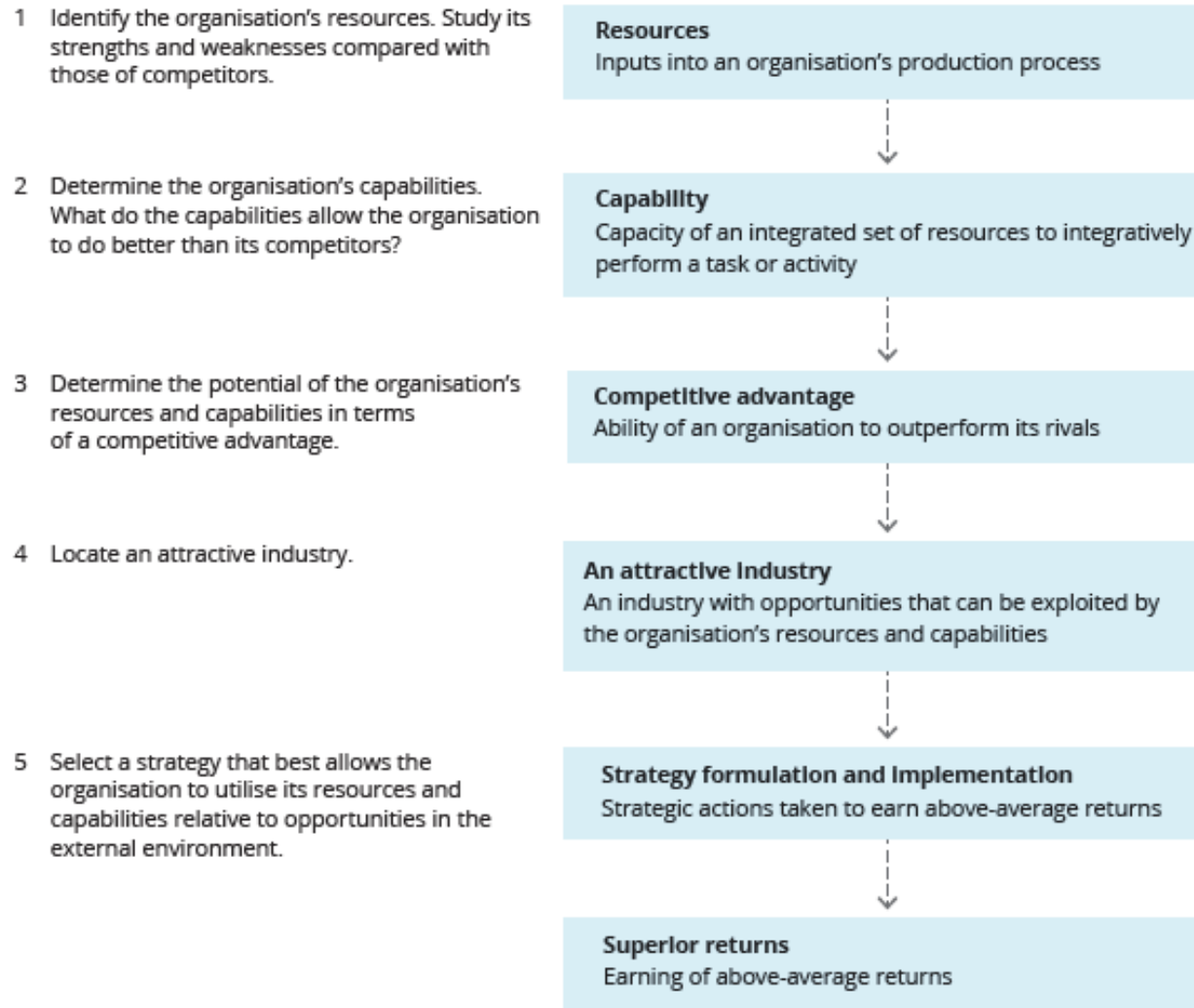
- A **capability** is the capacity for a set of resources to perform a task or an activity in an **integrative** manner.
 - Evolve over time
 - Must be managed dynamically
- **Core competencies** are resources and capabilities that serve as a source of competitive advantage.

THE RESOURCE MODEL OF ABOVE-AVERAGE RETURNS

When these four criteria are met, resources and capabilities become core competencies:



Figure 1.3 The resource-based model of above average returns



TWO MODELS OF STRATEGIC DECISION MAKING

- Evidence indicates that both models yield insights that are linked to successfully selecting and using strategies.

External

Industrial
Organisational (I/O)
Model

Internal

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Model

TWO MODELS OF STRATEGIC DECISION MAKING

- Research findings support the I/O model in that approximately **20 per cent** of an organisation's profitability is explained by the industry in which it chooses to compete.
- Research also indicates **36 per cent** of the variance in organisation profitability can be attributed to the organisation's characteristics and actions.
- These findings suggest that the **mix of both the external and internal environment** (the organisation's resources, capabilities, core competencies and competitive advantages) influence its ability to achieve strategic competitiveness and earn above-average returns.

VISION

- A **vision** is a picture of what a firm wants to be and, in broad terms, what it wants ultimately to achieve.
 - An effective vision:
 - Stretches and challenges the organisation
 - Reflects a firm's values and aspirations
 - Is enduring, despite changing environmental conditions
- Strategies are formulated consistent with this vision

VISION STATEMENT

- **A vision statement:**

- Articulates the ideal description of the organisation
- Gives shape to its intended future
- Is short and concise, making it easy to remember

- **Examples:**

- Our vision is to be the world's best quick service restaurant: McDonald's
- Qantas is the airline of choice for customers with specific needs, providing a travel experience that is comfortable and hassle free, while ensuring the safety of Qantas staff and achieving the company's commercial objectives.

MISSION

- The vision is the foundation for a firm's mission.
 - A firm's mission is more concrete than its vision
- A mission:
 - Specifies the business or businesses in which the firm intends to compete and the customers it intends to serve
 - Example
 - 'Be the best employer for our people in each community around the world and deliver operational excellence to our customers in each of our restaurants.' – McDonald's

STAKEHOLDERS

■ Stakeholders:

- Are individuals, groups and organisations that have a stake in the organisation
- Can affect a firm's vision and mission
- Are affected by the strategic outcomes achieved
- Have enforceable claims on a firm's performance

- **Competitive advantage:** Firms effectively managing stakeholder relationships outperform those that do not.

STAKEHOLDERS

Organisations are not equally dependent on all stakeholders, so not every stakeholder has the same level of influence

- The more critical and valued a stakeholder's participation, the greater a firm's dependence on it
- Managers must find ways to accommodate or insulate the organisation from the demands of stakeholders

Figure 1.4 The four stakeholder groups

Stakeholders -----> People who are affected by an organisation'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

Organisational stakeholders

- Employees
- Managers
- Non-managers

The natural world

- Natural resources
- Climate
- Governments and environmental groups

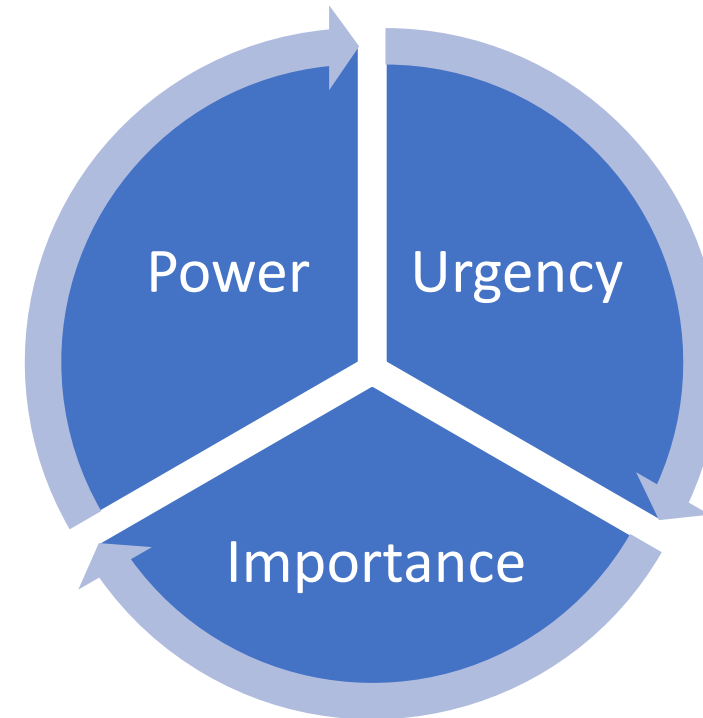
STAKEHOLDER CLASSIFICATION AND MANAGING CONFLICT

- Trade-offs must be made in situations where the objectives of various stakeholder groups differ or conflict.

- For example:

- Shareholders vs Consumers
- High returns to customers might come at the expense of lower returns for capital market stakeholders and vice-versa.

- Stakeholder priorities



PRODUCT MARKET STAKEHOLDERS

Though all product market stakeholders are important, the other product market stakeholders are of little value if there are no customers.

- **Customers** demand reliable products at the lowest possible prices.
- **Host communities** want companies that are willing to be long-term employers and providers of tax revenue but that do not place excessive demands on public support services.

PRODUCT MARKET STAKEHOLDERS

Product market stakeholders are generally satisfied when a firm's profit margin reflects at least a balance between the returns to capital market stakeholders and goals of product market stakeholders.

- **Suppliers** seek loyal customers who are willing to pay the highest sustainable prices for the goods and services they receive.
- **Union officials** are interested in secure jobs, under highly desirable working conditions, for the employees they represent.

ORGANISATIONAL STAKEHOLDERS

Employees expect a firm to provide a dynamic, stimulating and rewarding work environment and are usually satisfied working for a company that is:

- Growing
- Actively developing their skills
- Meeting or exceeding global work standards

CORPORATE SOCIAL RESPONSIBILITY (CSR)

- The natural world is increasingly important as a stakeholder because of the vital issue of the depletion of nature because of human actions
- The United Nations Sustainable Development Goals (SDGs) set out community responsibilities toward society and the environment on a governmental and corporate level in governance and best practice
- Organisations increasingly take responsibility as to their impact on the environment in realisation of commercial efficiency and their community standing on a global, national and local level

STRATEGIC LEADERS

- Strategic leaders are people located in different areas and levels of a firm who use the strategic management process to select strategic actions that help the firm achieve its vision and mission
- Successful strategic leaders are:
 - Decisive
 - Committed to nurturing those around them
 - Committed to helping the firm create value for all stakeholder groups

STRATEGIC LEADERS: THE PROFIT POOL

- Mapping an industry's **profit pool** helps leaders anticipate outcomes of decisions
- A profit pool is the **total profits earned in an industry at all points along the value chain**
- Four steps toward identifying a profit pool:

