Strategic Management

Contemporary strategic analysis

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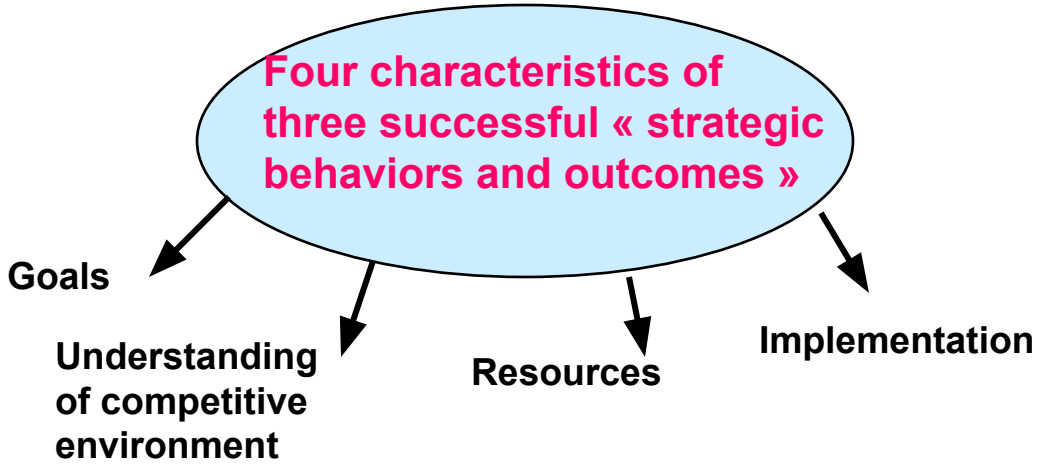
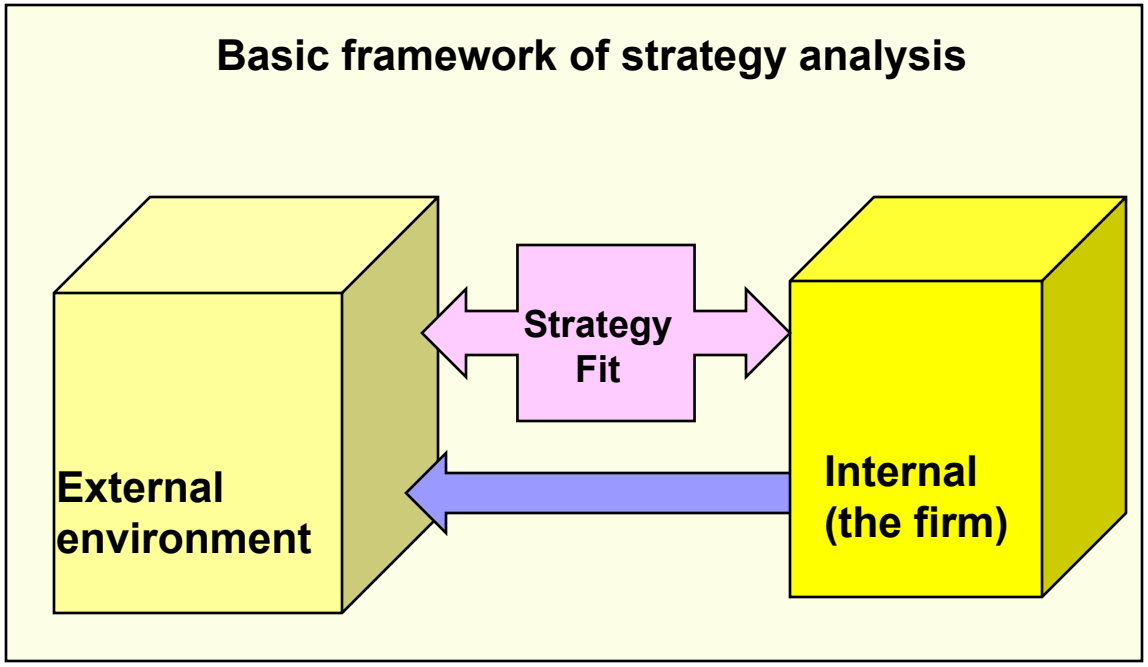
Slides prepared by Daniel Degravel

Ch.01

The concept of strategy

Ch.1 Concept of Strategy





Ch.1 Concept of Strategy (Ctd.)

Definitions Box

Strategy (14, 17)
Strategic principles (25)
Corporate strategy (19)
Busines strategy (19)
Tactic (14)

Strategic fit (13)

RBV (16)

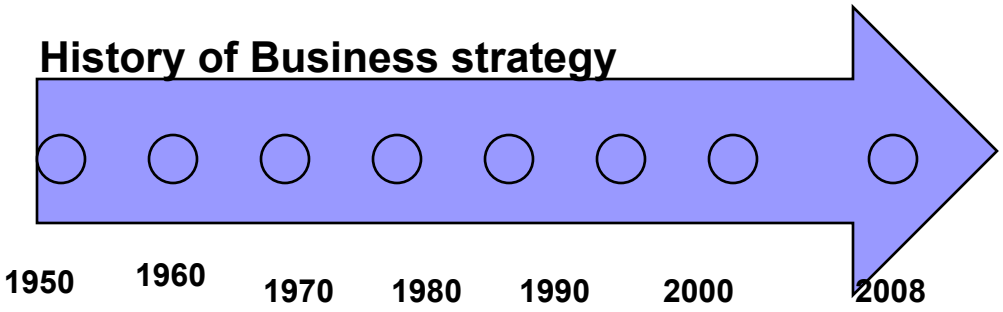
Vision (21)
Mission (21)
Business model (21)
Strategic plan (21)

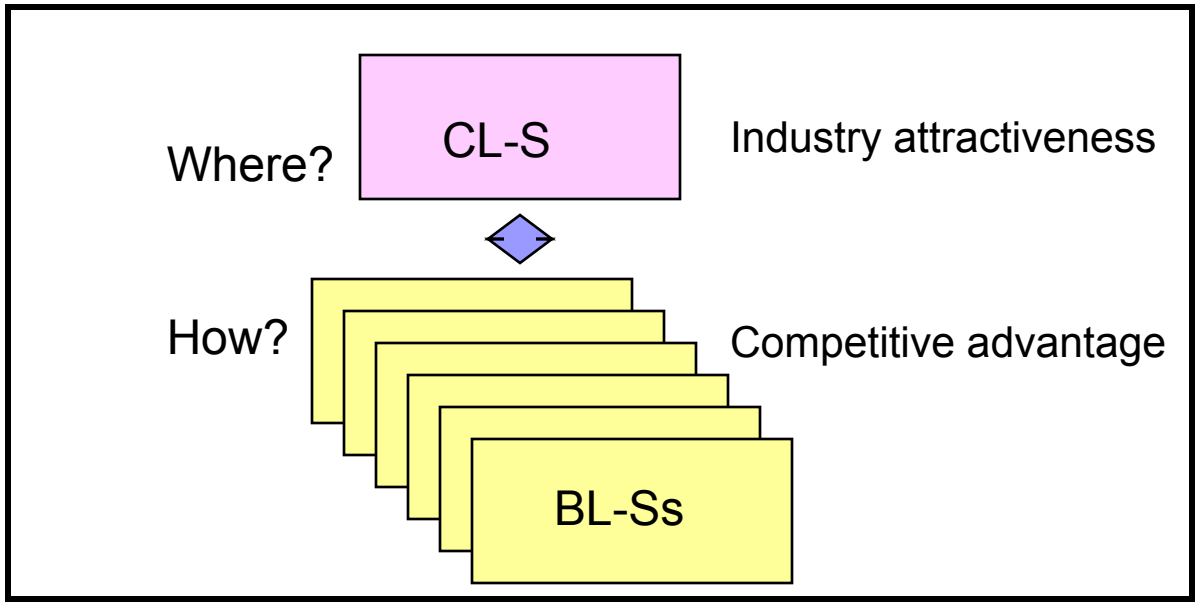
Intended strategy (22)
Realized strategy (22)
Emergent strategy (23)

Long Range Planning (25)
Corporate Planning (25)

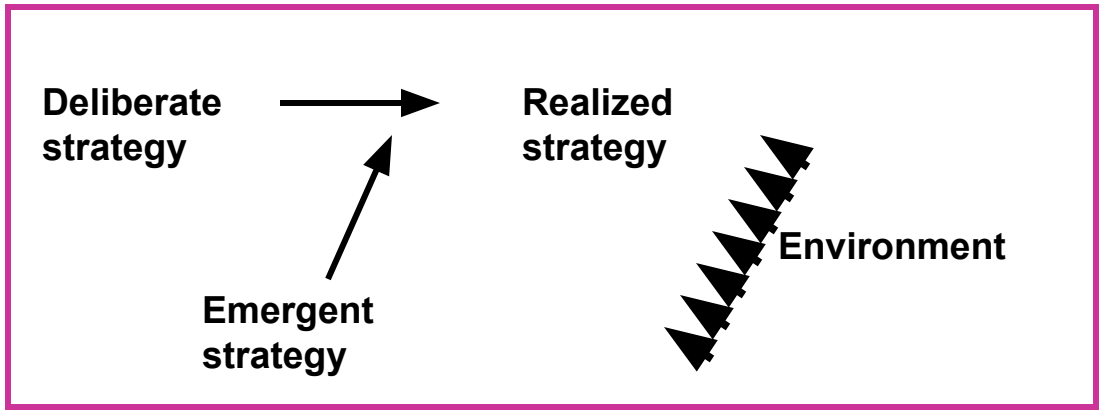
Bounded rationality (26)

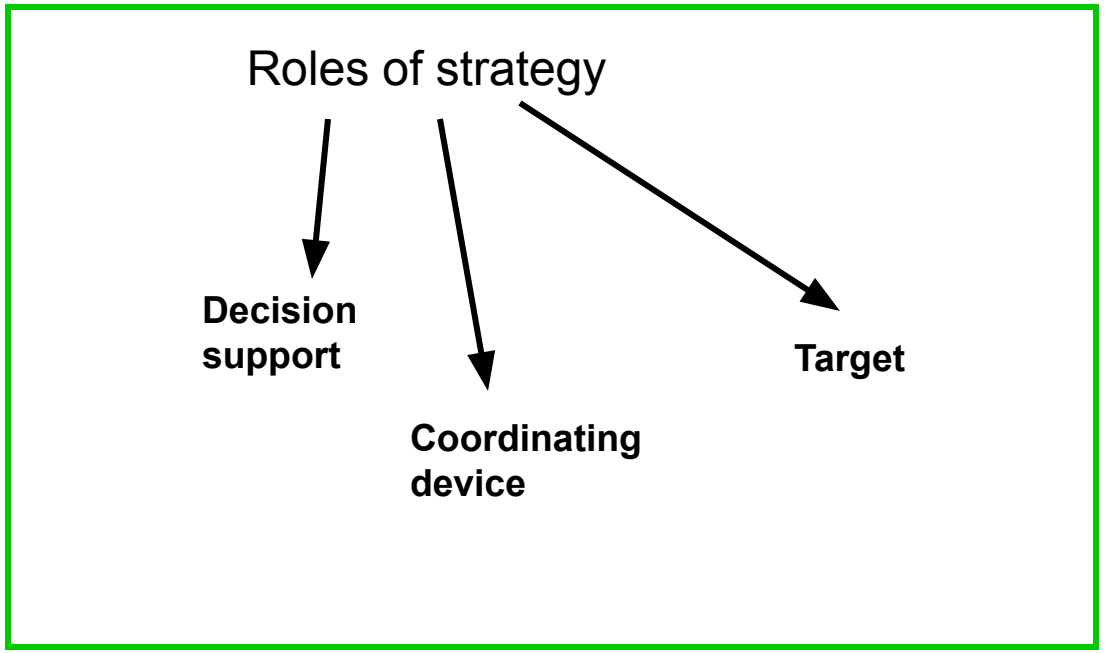
Characteristics of strategic analysis:
Analytical; Soft; No Algorithm; Frameworks; Start guide; Flexibility (27)





Ch.1 Concept of Strategy (Ctd.)





Ch.02

Goals, values and performance

Ch.2 Goals, values and performance

Definition Box

Value (for customers and profit) (p35)
Value-added (p35)

Profit (p37-38)
Accounting profit (p37)
Economic profit (economic rent)(p38)
EVA (p38)

Free Cash Flow (p40)

Discounted Cash Flow DCF (p39)

Real options (p42)

ROIC, ROE, ROCE, ROA (p47)

Ch.2 Goals, values and performance

To avoid ethical and societal issues, simplifying assumption:
Goal = *interest of owners through long term profit maximization*
Reasons: competition; market for corporate control; convergence of STOs' interests and simplicity

PROFIT
Nature?
Questions

- **Accounting profit: Normal return to capital**
- **Economic profit: surplus available after all inputs have been paid for**

Linking profit to shareholders value

Linking profit to firm value

Use of DCF method to value strategic options (p41)

Stock market value

SMV = net value of firm
Emphasis on Max [Firm value] rather than Max [STo value] because convenience and strategic view
In practice, they mean the same for strategy

DCF

Max [Profit] = Max [NPV of profits over life-time of firm]
Therefore, use of DCF method where NPV of CF Max [Profit} translates to Max [Firm value]
Difference DCF and Discounting profits is treatment of K consumed

Ch.2 Goals, values and performance (Ctd.)

Real options

In a world of uncertainty, **flexibility** is invaluable
Option value arises from potential to amend the project during development or abandon it
Phases and Gates approach and Scalability

It can create STo value because increase in flexibility equates increase in value

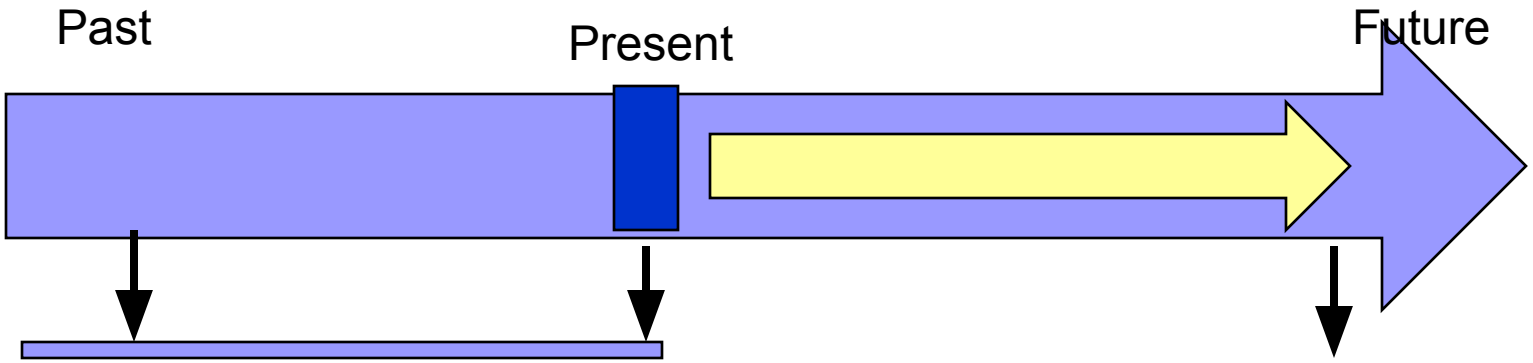
Comparison Flex cost vs. Value Flex value

Creating option value means for complete strategy that large array of opportunities is possible

Strategies:

- -Platform investments
- -Strategic alliances
- -Joint ventures
- -Organizational capabilities

Ch.2 Goals, values and performance (Ctd.)



Backward-looking performance

DCF function of 3 variables
-Return on K
-Weighted average cost of K
-Growth of operating profit

Result of the past

ROIC, ROCE, ROA, ROE

? Present

Balanced Scorecard
1) Financial evaluation
2) Customer evaluation
3) Internal perspective (processes)
4) Innovation and learning

Linking overall value maximization to strategic and operational targets to balance ST-LT

Forward-looking performance

Characteristics of desirable goals (consistent with long-term objectives; linked to strategy, meaningful to managers)

Ch.2 Goals, values and performance (Ctd.)

Simplifying assumption
Fundamental goal = LT profit

Paradox of profit
Success seems to be inked with objectives other than profit
Great entrepreneurs and B H A G
Sony; Microsoft; Boeing; Ford

-obsession and blinding
-motivation of members

CSR Debate
Friedman vs. Handy; Goshal …
Property conception vs. Social entity conception

But convergence in the LT

Values and Principles
Pursuit of profit constrained by values and principles
-Values as external image management
-Values as guide
-Values as motivator

Ch.03

Industry analysis: the fundamentals

Ch.3 Industry analysis: the fundamentals

CL-S

Which industry ?
How to allocate resources between businesses?

Attractiveness of industries in terms of potential profit

BL-S

Which competitive advantage?
How to compete in industry?

Customer needs and KSF
Sources of Competitive advantage

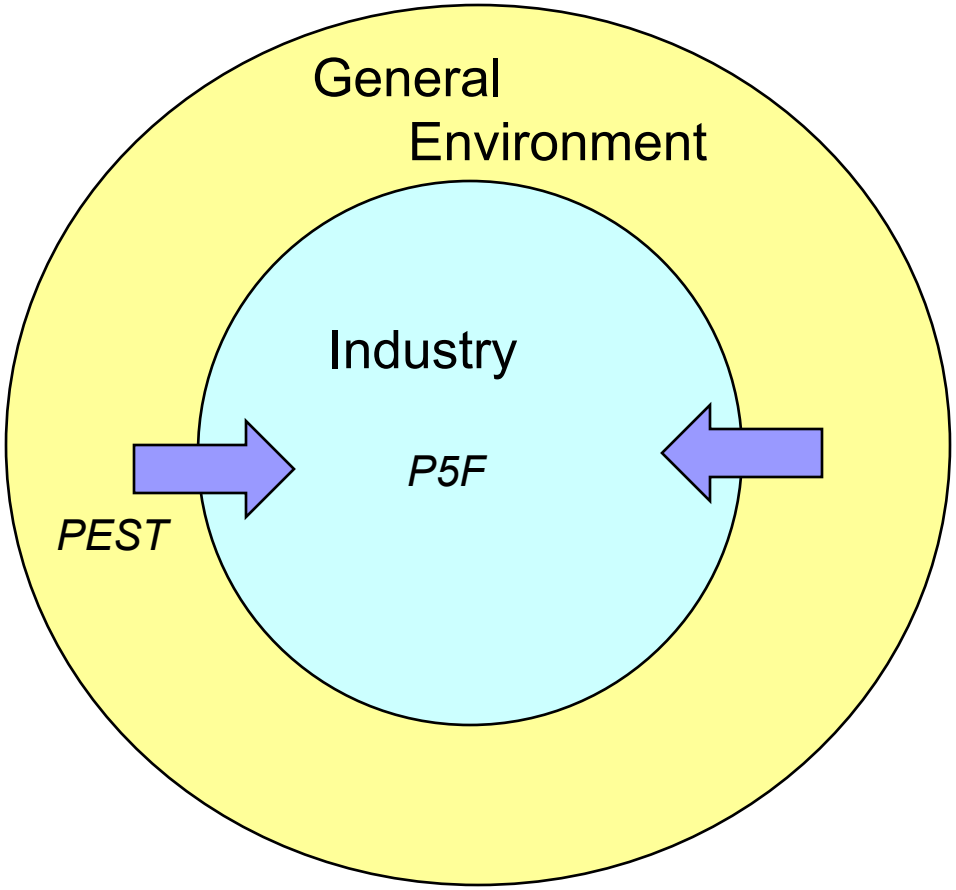
Profit

Sources of profit?

Program

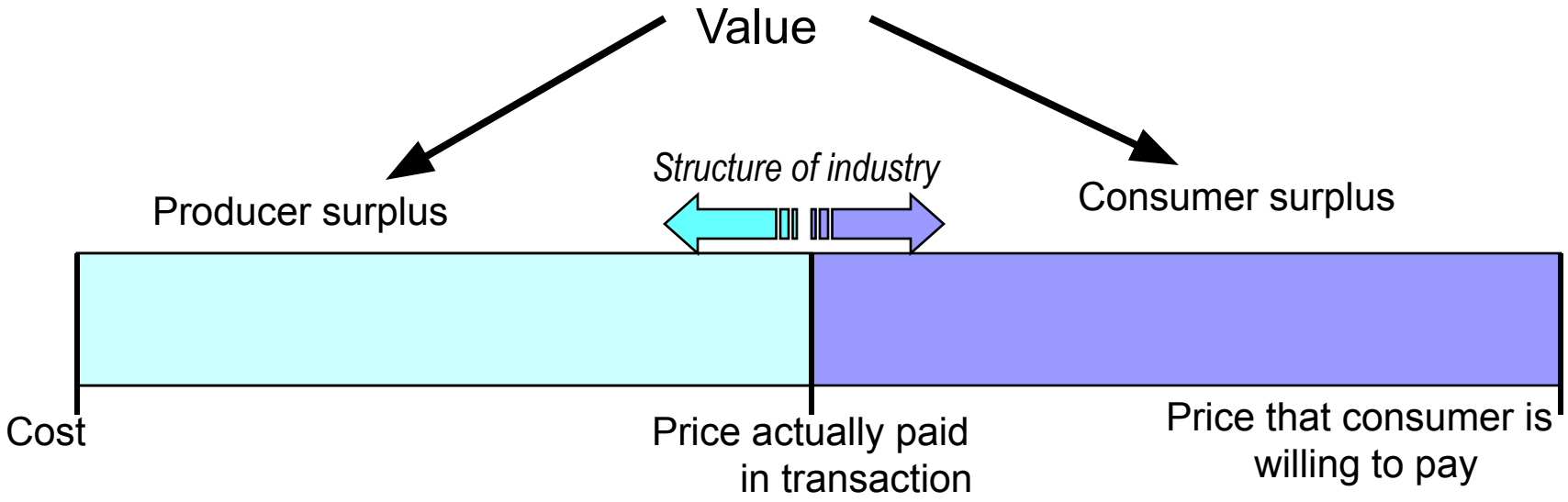
1- Structure of industry features that impact competition and profitability
2- Explain differences in competition intensity and profitability
3- Forecast changes in competition and profitability
4- Influence industry structure
5- Identify KSF

Ch.3 Industry analysis: the fundamentals (Ctd.)



Ch.3 Industry analysis: the fundamentals (Ctd.)

Value = price that customer is willing to pay minus cost incurred by firm



Profit

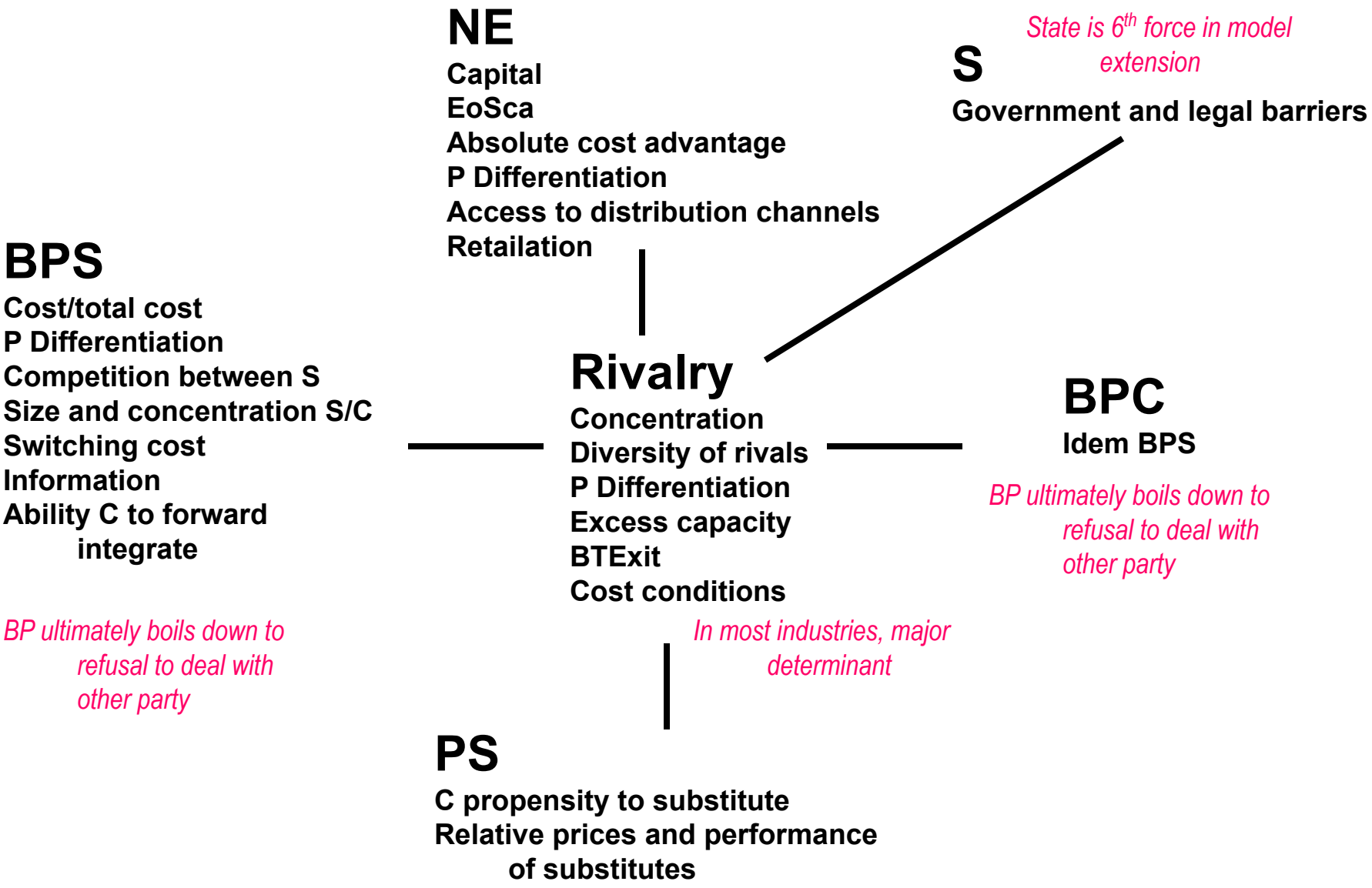
Determined by:

1- Value of products to consumers

2- Intensity of competition

3- Relative bargaining power of industry players

Ch.3 Industry analysis: the fundamentals (Ctd.)



Ch.3 Industry analysis: the fundamentals (Ctd.)

Description of industry

Structure
Complex value-chain and vertical integration
Industry boundaries

Industry vs. Market
Geography
Micro-level approach
Substituability on D and S sides

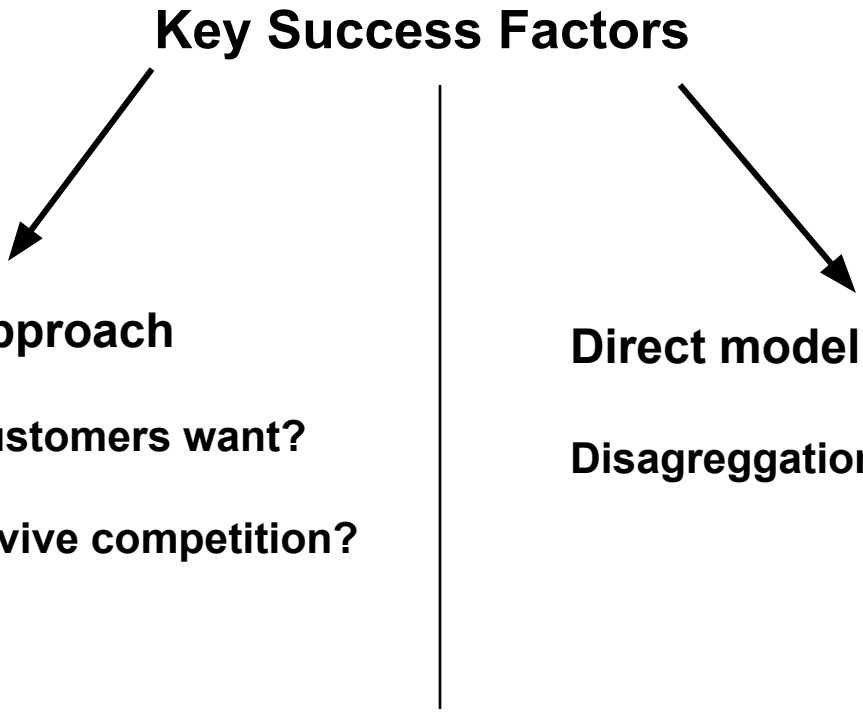
Forecasting profitability

1-Present effect of existing industry structure
2-Identification of trends
3-Impact of trends on structure and profitability

Altering industry structure

1-Key structural features
2-Which features amenable to change?

Ch.3 Industry analysis: the fundamentals (Ctd.)



No generic strategy guarantees success
R&C and strategy and KSF

Ch.3 Industry analysis: the fundamentals (Ctd.)

Definition Box

Consumer surplus (p67)
Producer surplus (economic rent) (p67)

Monopoly (p69)
Perfect competition (p69)
Oligopoly (p69)
Contestable market (p74)

Barrier to entry (BTE) (p74)
Barrier to exit (BTExit) (p76)

Industry (p85)
Market (p85)

KSF (p88)

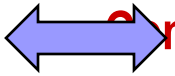
Ch.04

Further topics in industry and competitive analysis

Ch.4 Industry and competitive analysis: further

Themes of chapter

1-What about « complementary » relationship between products?

2-Stability of industry
Which direction? Industry  mpetition

3-Impact of other players
Game theory

4-Competitor analysis

5-Level of analysis
Segmentation of industry

Ch.4 Industry and competitive analysis: further (Ctd.)

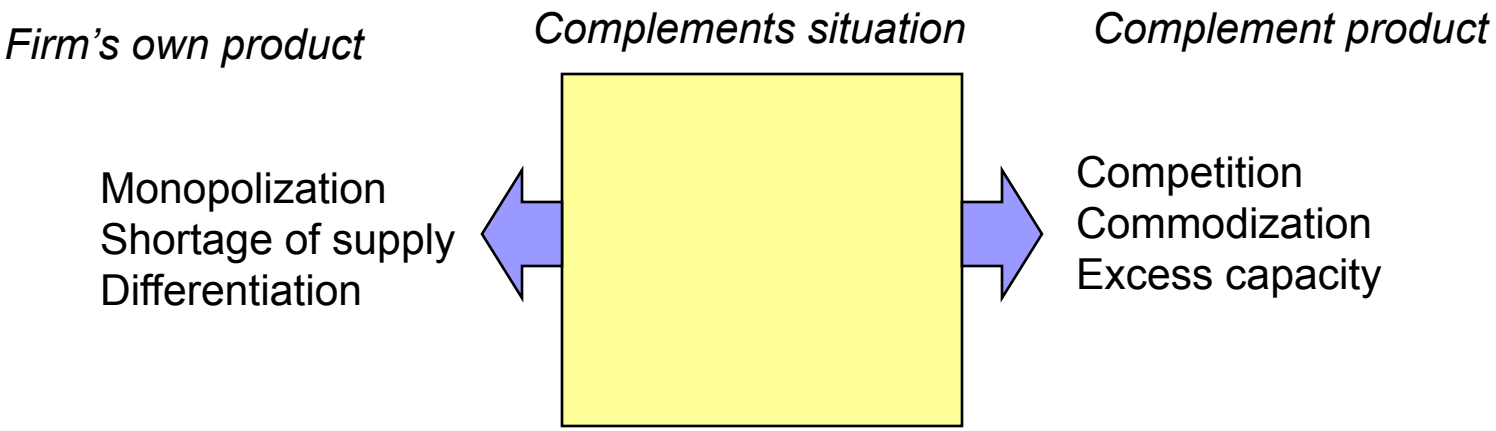
1-What about « complementary » relationship between products?

Research shows that industry specificities account for minority of differences in profitability

Razor – razor blade effect

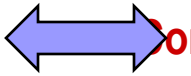
Substitutes decrease value whereas Complements increase value, because customers value the whole system

A missing force in P5F model?



Ch.4 Industry and competitive analysis: further (Ctd.)

2-Stability of industry

Which direction? Industry  **ompetition**

Creative destruction (p.100)

Competition is a dynamic process of rivalry that constantly reformulates industry structure (Austrian school of Economics, J. Schumpeter)

Therefore, structure can be seen as outcome of competitive behavior

Speed of change is key

Debate about reality of increase of creative destruction

Schumpeterian industry (p.101)

Hypercompetition (p.101)

Ch.4 Industry and competitive analysis: further (Ctd.)

3-Impact of other players: Game theory

Necessity to take into account interaction among players and fact that decision of player depends on actual and anticipated decisions of other players

1-Framing of strategic decisions
2-Predicts outcome of competitive situations and identifies optimal strategic choices

Prisoner dilemma

1-Cooperation
2-Deterrence (p.102)
3-Commitment
4-Signaling (p.105)
Nash equilibrium (p.103)
Bertrand model (p.121)
Cournot model (p.121)

Emphasis in strategy formulation is less in influencing behavior of rivals than transforming competitive games through building positions of unilateral competitive advantage, through exploiting uniqueness

Ch.4 Industry and competitive analysis: further (Ctd.)

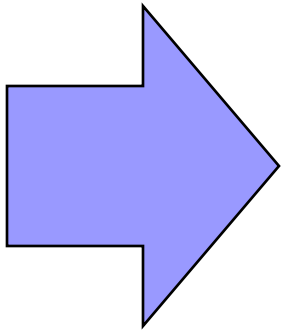
4-Competitor analysis

Competitor intelligence (p.107)

1-Forecast
2-Predict
3-Influence

Framework

1-Strategy
2-Objectives
3-Assumptions
4-Resources and capabilities



Predict

Ch.4 Industry and competitive analysis: further (Ctd.)

5-Level of analysis: Segmentation of industry

Segmentation (p.110)
Stages of segmentation
1-Identify key segmentation variables and categories
2-Construct segmentation matrix
3-Analyze segment attarctiveness
4-Identify segment's KSF
5-Select segment scope
Barriers to mobility (p.113)

Profit pool mapping (p.117) Four steps for analysis […]

Strategic groups (p.117)
Dimensions: product range; geography; distribution channels; quality; technology; VI; etc.

Ch.05

Analyzing Resources and Capabilities

Ch.5 Analyzing Resources and Capabilities

Themes of chapter

1-R&C and strategy

2-R&C: nature and attributes

3-Appraising R&C

4-R&C Management: a framework

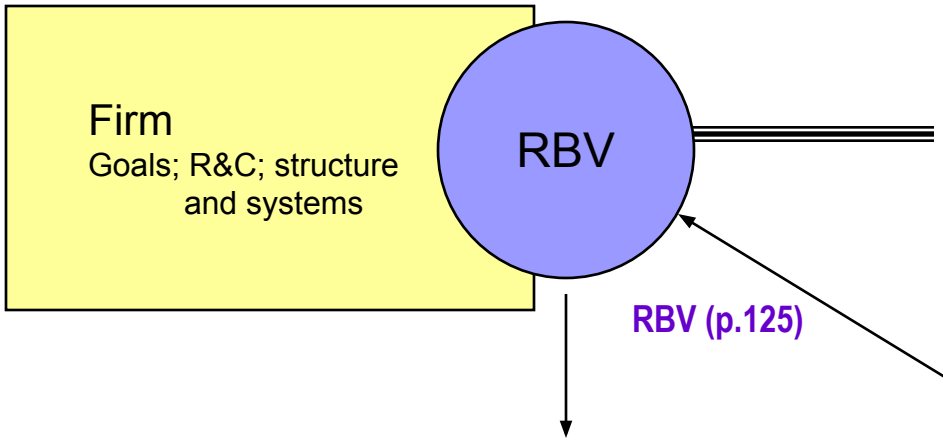
5-Developing R&C

6-KM and KBV

Ch.5 Analyzing Resources and Capabilities (Ctd.)

1-R&C and strategy

Monopoly rents (market power) (p.128)
Ricardian rents (superior R&C) (p.128)



Why?
1- Instability of environment
2- Competitive advantage main source of profitability; industry factors explain little

What?
1- Source of new products
2- Foundation for strategy

Link with strategy
Uniqueness of each firm is key. Profitability results from exploitation of differences and uniqueness of R&C portfolio

Strategic use of R&C
1- Exploit strengths
2- Change existing situation by filling gap between actual and required R&C

Honda 126
Canon 126
3M 127
Motorola 127
Olivetti 127
Remington 128
Kodak 128
Mariah Carey 129
Walt Disney 129, 130
Toyota 129
Microsoft 129
Johnson & Johnson 129
British Petroleum 129

Ch.5 Analyzing Resources and Capabilities (Ctd.)

2-R&C: Nature and attributes

Resource = productive asset owned by the firm (p.130)

Capability = what the firm can do (p.130-131)

Three categories:

1-Tangible resources

How to create additional value from them?

a) Economizing on their use — Disney 131

b) Employing assets more profitably — British Airways 131

2-Intangible resources

More valuable; largely invisible

a) Reputational assets — Philip Morris 132, Harley-Davidson 132

b) Technology — Johnson & Johnson 132, Coca-Cola 132, Google 132

c) Intellectual property — UPS 132, 3M 132, Texas Instruments 133, Qualcomm 133, IBM 133

3-Human resources

Expertise, knowledge and efforts

People are not owned

Attitude, motivation, learning capacity and potential for collaboration

Competency modelling 133

Emotional intelligence 134

Organizational culture 134

Ch.5 Analyzing Resources and Capabilities (Ctd.)

2-R&C: Nature and attributes

Capability = what the firm can do (p.130-131)
Capability = firm's capacity to deploy resources for a desired end result (p.135) (Helfat and Liberman, 2002)
Capability = competence (p.135)

Distinctive competence = capability that can provide a basis for competitive advantage (p.135) (Selznick, 1957)
Core competence = something that an organization does particularly well relative to its competitors (p.135) (Hamel and Prahalad, 1990) (disproportionate contribution to ultimate customer value or efficiency; basis for entering new markets)

Two bases for classification:
1-Functional analysis
2-Value-chain analysis

Ch.5 Analyzing Resources and Capabilities (Ctd.)

2-R&C: Nature and attributes

Organizational routine = regular and predictable pattern of activity made up of a sequence of coordinated actions by individuals (p.137) (Nelson and Winter, 1982)

Routines are basis for capabilities

Routines develop through learning by doing

Trade-off between efficiency and flexibility

Capabilities can be disaggregated into more specialist capabilities

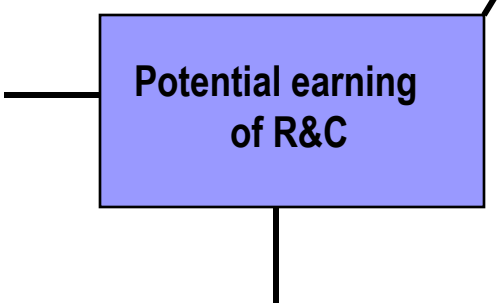
Sony 135
RCA 135
GE 135
Thomson 135
3M 137
Wal*Mart 137
Toyota, Ford and GM 137
McDonald's 137
Hospital 137
Toyota, Honda, Nissan 138-139

Telecom equipment manufacturer 138
-cross functional capabilities
-broad functional capabilities
-activity-related capabilities
-specialized capabilities
-single-task capabilities

Ch.5 Analyzing Resources and Capabilities (Ctd.)

3-Appraising R&C

What is the potential of R&C to to earn profits?



Establishing competitive advantage
1-Scarcity
2-Relevance

Oil and gas exploration 139
British coal mines 140
Retail banking 140

Sustaining competitive advantage
1-Durability
2-Transferability
-geography
-imperfect information
-complementarity between R
-integration
3-Replicability
Asset mass efficiencies
Time compression diseconomies

Heinz, Kelloggs, Campbell, Hoover 140
IBM, Lenovo 141
Investment banking and M&A 141
Financial services, retailing 141
Federal Express 142
Nucor 141
PPR, Gucci 142

Appropriating returns to competitive advantage
Ownership of R&C not always clear-cut
a) Degree of definition of property rights in R&C
b) Embeddedness of individual skills and knowledge within routines
c) Identifiability of employee's contribution to profitability
d) Mobility of employee
e) Employee offers similar productivity to other firms

Ch.5 Analyzing Resources and Capabilities (Ctd.)

4-R&C Management R&CM: a framework

A practical guide to manage R&C

1-Identifying key R&C
KSF; R&C and value-chain

Volkswagen 143

2-Appraising R&C
1-Assessing importance of R&C
2-Assessing relative strengths
3-Bring together Importance and Strengths
Success= recognize what you can do well and base your strategy on these strengths
Benchmarking 144

Volkswagen 143, 146-147
Cutlery producers of Shieffeld 144
Steel in US 144
Federal Express 144
BMW 144
McDonalds 144
General Electric 144

For benchmarking: Xerox, L.L. Bean, GM, Toyota, Bank of America, Royal Bank of Canada 145

3-Developing strategy implications
1-Strategy so that these R&C are deployed to the greatest effect
2-Managing key weaknesses (upgrade; outsource)
3-Superfluous strengths (Lower investment; turn them into valuable R&C)

Volkswagen 147
Toyota, Hyundai, Peugeot 148
Ford, Nike, Harley Davidson, Yamaha, Honda, BMW 148
Retail bank 148
Edward Jones 148
Georgetown University McDonough School Business 149

Ch.5 Analyzing Resources and Capabilities (Ctd.)

5-Developing capabilities

Gap identification and filling orientation; little use because expensive and complexity lead to limited returns

Relationship between R and C
We know little
Resource base is not main factor but ability to leverage resources

Concentrating R on goals; targeting on activities with high impact on customers
Accumulating R, mining experience, learning, borrowing
Complementing R; linking; blending
Conserving R; recycling; co-opting through collaborative arrangements

Replicating C
Internal replication
Systematization of knowledge that underlies C and formulation of procedure

European soccer, basket-ball 149
GM, Honda, Pixar, Aardman Animations, Walt Disney, Lucent, Nortel Networks, Alcatel 149
Starbucks, McDonalds, Ikea, eBay, mandarin Oriental Hotels, Intel 150

Developing new C
High level of difficulty
Sketchy understanding of how people, machine, technology and culture fit

Path dependence (result of history that constraints future; importance of initial conditions)
Core rigidities 152
Dynamic capabilities = ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments (Teece et al., 1997; Eisenhardt and Martin, 2000; Zollo and Winter, 2002) 152
Advantage to new comer?

Approaches to C development
1-Acquiring C M&A. C exists already but risk
2-Accessing C **strategic alliance 153**
More targeted and cost effective
3-Creating C
Routine; role of manager; learning-by-doing
Types of C; search; experimentation; problem-solving; pushing (**dynamic resource fit 154**)
Culture; Integration 153

Tiger Woods, Dell, Electronic Arts 151
Wal*Mart, oil and gas majors Exxon, Royal Dutch Shell 151-152
TV manufacturing, PC, wireless telephony 152
Cisco, Microsoft 153
HP, Canon, Pixar, Disney, GM, Toyota, NUMMI, Matsushita 153-154
Lockheed, IBM, Egg, Xerox, HP, Microsoft, Apple, Sun Microsystems, Saturn 155
Hyundai 15

Ch.5 Analyzing Resources and Capabilities (Ctd.)

6-KM and KBV

Know-how 160
Knowing about 160

Knowledge Management KM = processes and pracxtices through which organizations generate value from knowledge 159
Knowledge-Based View KBV = perspective considering the firm as a set of knowledge assets with the purpose of deploying these assets to create value (Kogut and Zander, 1992; Grant, 1996) 159

KM influences performance
Extension of RBV
K is important productive R (scarce, difficult transfer and relicate)
Valuable tool for creating, developing, maintaining, replicating C

Types of knowledge: tacit vs explicit
Types of processes: generation vs application 160
Sub-processes [8..] 161

Ch.5 Analyzing Resources and Capabilities (Ctd.)

6-KM and KBV

Saatchi & Saatchi 159
Coca-cola 160
US Army 161
Consulting firms 162
Skandia, Dow Chemicals 162
Booz Allen and Hamilton, Accenture, AMS 162
Ford 163
McDonalds, Marriott Hotels, Andersen Consulting, Starbucks 164
McKinsey 165

Ch.06

Organization structure and management systems

Ch.6 Organization structure and management systems

Themes of chapter

1-Evolution of structure

2-Organizational problem: Specialization with Coordination

3-Hierarchy

4-Application of organizational design principles

5-Alternative structural forms

6-Management systems for coordination and control

Great strategy, loosy implementation? Formulation vs. Implementation?

Spanish armada 170
Daimler-Benz and Chrysler 172
Benetton 170
Amway 170

Ch.6 Organization structure and management systems (Ctd.)

1-Evolution of structure

Ancient form
Networks of self-employed, home-based workers

Transaction costs 172 ——— Market

Administrative costs 172 ——— Firm

Staff-and-line
Functional form 173

Divisional form 173

Roman Catholic church, National armies 171
Dutch East India Co, Hudson bay Co, United Africa Co 171
English woolen industry 171
US railroad, Shell, DuPont, Sears Roebuck, Standard Oil, Mitsui,
British South Africa Co 173
GM 173

Holding form 173

Matrix form 174
Delayering of hierarchies 174
Shared services organization 174
Alliances, networks and outsourcing partnerships 174

Modern corporation
Legal entities distinct from the owners

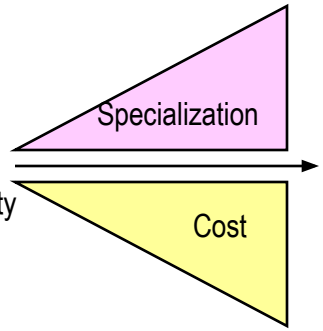
Ch.6 Organization structure and management systems (Ctd.)

2-Organizational problem: Specialization with Coordination

Structure = ways in which labor is divided between distinct tasks and coordination is achieved among these tasks 175

Two fundamental opposing requirements

Specialization 175
Division of labor 175
Specialization has a cost
Specialization cost increases with degree of division, volatility and in
stability of environment



Coordination of tasks 175
Mechanisms:
1-Price; transfer price 176
2-Rules and directives 176
3-Mutual adjustment 176
4-Routines 176
Type of coordination mechanism depends on activity and degree of coordination required

Pin manufacturer, Ford 175
Soccer team, Wal*mart, Cirque du Soleil, Berlin Philarmonic Orchestra 176
Starbucks, heart by-pass operation, systems integration project 177

Cooperation = overcoming goal conflicts 177
Agency relationship 177
Mechanisms:
1-Control mechanisms through managerial supervision
2-Financial incentives
3-Shared values

Enron, World Com 177
Wal*Mart, Four Season Hotels, Amway, Shell, Apple 178

Ch.6 Organization structure and management systems (Ctd.)

3-Hierarchy

Hierarchy = system composed of interrelated sub-systems 179

Fundamental to all organizations; present in virtually all complex systems

Two key advantages →

Economizing on coordination
(Fewer connections; communication through standard interfaces within a standardized architecture)

Adaptability
Evolve more rapidly
Decomposability
Loosely coupled 180

Bureaucracy 180
Principles:
-specialization
-hierarchical structure
-coordination and control
-standardized employment rules and norms
-separation ownership and management
-separation job and people
-rational-legal authority
-formalization in writing of administrative acts, decisions and rules

Mechanistic; Machine bureaucracy 182

Organic 182

Human body, planets and cosmos, social systems, book 179
Five programmers designing software 179
Automobile, GE 180
Ch'in Dynasty China 180
Beverage can, blood test, army hair cut, McDonalds 182
BP, GE 183

Span of control
Ratio managerial/operational
Speed of decision-making
Degree of control

Stability of environment

Critical issue: how to reorganize hierarchies to increase responsiveness to environment

Accountability 183

Structural modulation 183 to achieve balance between centralization and decentralization

Ch.6 Organization structure and management systems (Ctd.)

4-Application of organizational structure design principles

Basic design is hierarchy
Essence of hierarchy is to create specialized units coordinated and controlled by a superior unit

Basis?
-tasks
-products
-geography
-process

→ Organizing on basis of coordination intensity →

Principle of hierarchical decomposition 185

Three levels of interdependence:
1-Pooled interdependence 185
2-Sequential interdependence 185
3-Reciprocal interdependence 185

Pepsico, Wal*Mart, Roman Catholic church 182
ANC 184
British Airways, General Electric, 3M, Sony, Siemens, Unilever 185

Other factors of influence:
1-Economies of scale
2-Economies of utilization
3-Learning
Architectural learning 186
4-Standardization of control systems

Ch.6 Organization structure and management systems (Ctd.)

5-Alternative structural forms

Functional F 186-187
Functional lines

Divisional D 188
Key advantage: potential for decentralized decision-making
Development of top management leadership
Three levels: corporate, divisions, business units

Matrix M 189
Complexity, large head office staff, slow decision-making, diffused authority, dulling entrepreneurial spirit
Focus on one dimension

DuPont, Apple, GM, ITT, BP 187-189
GE 189
Shell 189
Phillips, Nestle, Unilever, ABB 190

Adhocracy Ad 191
Flexible, spontaneous coordination and collaboration around problem solving and other non routine activities
New product development, jazz band, consulting 191

Team-based and project-based organization T 191
Construction, consulting, oil exploration, engineering services 191

Network N 191
Network of small independent firms
Clothing industry Prato, Italy, Hollywood movie making, Microelectronics in Silicon Valley, Benetton, Toyota 191
AES 192

Characteristics in common:
1-Focus on coordination rather than control
2-Coordination by mutual adjustment
3-Individuals in multiple organizational roles

Ch.6 Organization structure and management systems (Ctd.)

6-Management systems

1-Information systems

5-Corporate culture
Corporate culture 197

2-Strategic planning systems
Vehicle to achieve coordination, consistency, commitment
Varies
Stages:
a-Goals
b-Assumptions or forecasts
c-change of shape of business
d-specific action steps
e-financial projections

MCI Communication, BP 193
Large oil majors 194
Starbucks, Shell, Nintendo, Google, Salomon Brothers, BBC, LAPD 197

3-Financial planning and Control systems
Capital expenditure budget
Operating budget

4-Human Resources management systems
Incentive and performance
Types of incentives

Ch.07

The nature and source of competitive advantage

Ch.7 Nature and source of competitive advantage

Themes of chapter

1-Emergence of competitive advantage

2-Sustaining competitive advantage

3-Competitive advantage in different market settings

4-Types of competitive advantage: Cost and Differentiation

Ch.7 Nature and source of competitive advantage (Ctd.)

1-Emergence of competitive advantage

Competitive advantage = when one firm possesses a competitive advantage over rivals when it earns (or has the potential to earn) a persistently higher rate of profit 205
Competitive advantage emerges when disequilibrium between competing firms, then when change occurs
But firm may forgo current profit in favor of investments in MK share, technology, customer loyalty, HR, etc.

1-External sources of change
Customer demand
Prices
Technology

2-Internal sources of change

Dell, Wal*Mart, Toyota 205
Toyota, GM 205
Tobacco industry, toy industry 206

Ch.7 Nature and source of competitive advantage (Ctd.)

1-Emergence of competitive advantage

1-External sources of change

2-Internal sources of change

A-Magnitude of change
B-Degree of impact of change on firm because of resource heterogeneity

C-Effectiveness and speed of adaptation

D-Creativity and innovation capabilities

Entrepreneurship 206
Time-based competition 207
Innovation 207 (technical and managerial with new business models)

Wal*Mart, Kmart 206
Nokia 206
Monsanto 206
Coca-cola 206
Dell 207
Zara 207
Fast Company 207

Toys-R-Us, Home Depot, Norstrom, Sephora 208
Nucor 208
Southwest airlines 208
Nike 208
Apple 209

How to create competitive advantage?

1-New game strategy 209: reconfiguring the value chain to change the rules of the game

McKinsey 209

2-Unprecedented customer satisfaction through combining performance dimensions previously seen as conflicting

Baden and Fuller 209
Toyota, Richardson 209

3-New industry or recreating existing industry (Blue ocean strategy 209)

Apple, Cirque du Soleil 209

4-Innovation in technology and in management

Procter & Gamble, GE, Toyota 209

Ch.7 Nature and source of competitive advantage (Ctd.)

2-Sustaining competitive advantage

Once established, competitive advantage is subject to erosion by competition

Speed of erosion depends on ability of rivals to challenge by imitation or by innovation

Barriers to imitation exist

Isolating mechanisms = barriers that limit the ex-post equilibration of rents among individual firms 209 (Rumelt, 1984)

Over decades, inter-firm profit differentials tend to persist with little change in leaders and laggards

Process of competitive imitation

1-identification

2-Incentive to imitate

3-Diagnosis features of rival's strategy that give rise to competitive advantage

4-Resource acquisition (transfer or acquisition)

1-Obscure superior performance
Theory of limit pricing 211

2-Deterrence 212 : persuade rivals that it will be unprofitable (signaling, commitment, reputation)
Preemption 212: occupying existing and potential strategic niches to reduce opportunities for rivals (patent, product proliferation, production capacity)
Two imperfections: small market in regards to MES and existence of FMA

3-Diagnosis of competitive advantage
Causal ambiguity 213
Uncertain imitability 213
features of rival's strategy that give rise to competitive advantage

4-Resource acquisition (transfer or acquisition)
Transferability of resources across firms; extent of FMA (patent, scare resources)
Internal creation takes time

Xerox, Savin 210
Mars 211
Nutrasweet, Holland Sweetener Co 212
Breakfast cereals 212
Monsanto 212
Xerox, IBM 212
Wal*mart, Kmart 212
GM, Toyota, Filofax, Financial services 213
Starbucks 214

Ch.7 Nature and source of competitive advantage (Ctd.)

3-Competitive advantage in different market settings

For the competitive advantage to exit, there must be some **imperfection** of competition
To understand these imperfections, we have to understand the **types** of resources and capabilities necessary to compete and the circumstances of their **availability**

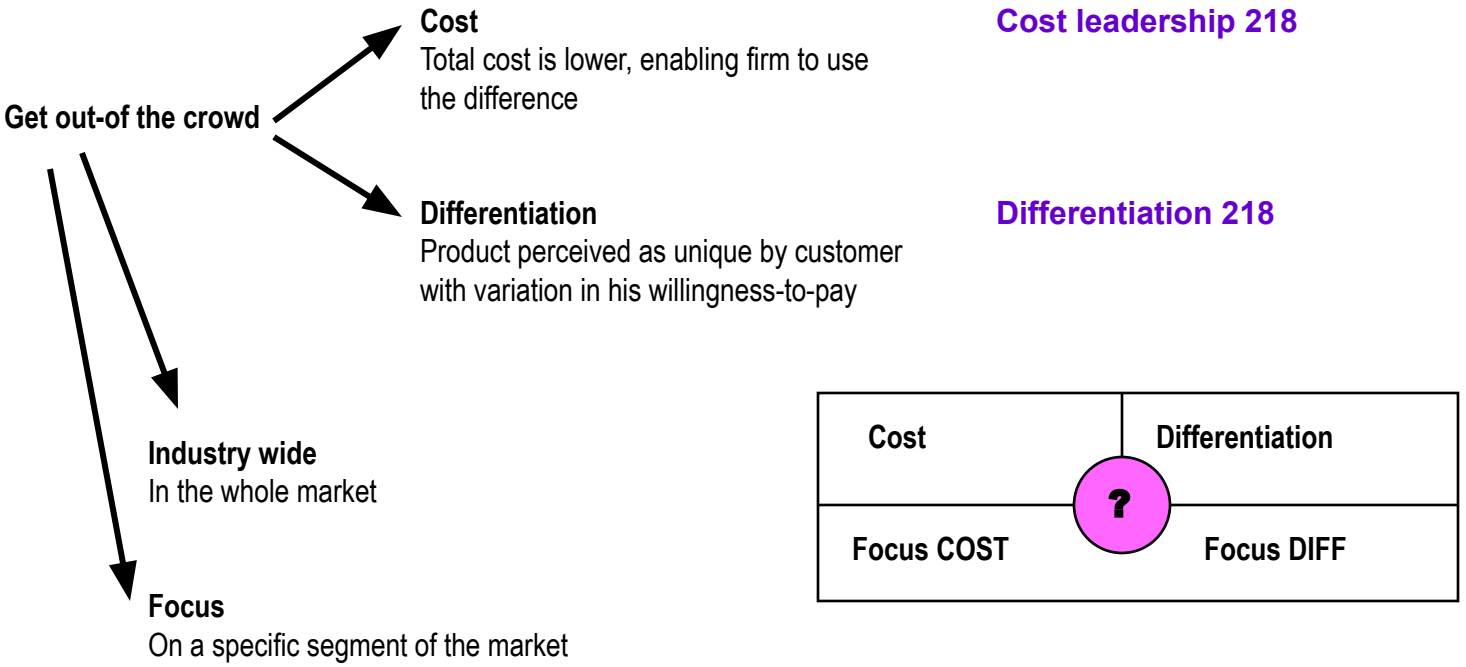
Efficient market 215 = Prices reflect all available information and adjust instantaneously to newly available information, no market trader can expect to earn more than any other. Difference in ex-post returns reflect either different levels of risk or purely random factors (luck). You can't beat the market; competitive advantage is absent

Two types of markets:

1-Trading markets	*Finance widely available information, easily transferable at low cost*	Information availability (short duration) Transaction costs Behavioral trends ("market psychology") Overshooting (contrarian strategy can bring competitive advantage)	**Securities, foreign exchange, grain futures, mutual funds 215**
2-Production markets	*Complex combination of differentiated R&C* *Greater heterogeneity of R&C, the greater potential for competitive advantage* *When homogeneity of R&C, imitation is very likely*	Market deterrence Number and diversity of sources of change in industry Characteristics of industry: information complexity, opportunities for deterrence and preemption, resource acquisition	**European airlines 216** **Canon – Xerox, Online discount brokers – Merrill Lynch and Charles Schwab 217** **Wireless telecommunication 217** **Paramount, Columbia, Universal, Fox, Disney 217** **Bicycle messenger, Securities underwriting business 217**

Ch.7 Nature and source of competitive advantage (Ctd.)

4-Types of competitive advantage: Cost and Differentitation



Ikea 219
Southwest 219
VW Bettle 219
Toyota, Dell, Canon 219
Oil refining 220
Car rental 220
Cars, motorcycles, consumer electronics, musical instruments 220
Honda, Toyota, Sony, Canon 220

Ch.08

Cost advantage

Ch.8 Cost advantage

Themes of chapter

1-Strategy and cost advantage

2-Sources of cost advantage

3-Analysis of cost: value chain

Ch.8 Cost advantage (Ctd.)

1-Strategy and cost advantage

First preoccupation was cost

Large corporations

Search for EoSca, EoSco, mass production and distribution

Experience curve 225

Law of experience 225

Penetration pricing 225

Full cost pricing 225

Sears 223

Airlines, telecommunications, banking, electrical power generation 224

Automobile, steel, textiles, shipbuilding, manufacturing industries 225

British motorcycles 225

Skype, Vonage 226

Clothing, petrochemicals, semiconductors, Severstal, Nucor 227

Recently, change

Innovation through outsourcing, Business Process Reengineering, Organization delayering

Ch.8 Cost advantage (Ctd.)

2-Sources of competitive advantage

Cost drivers 227
Variations

1) **Position firm / rivals and diagnosis of sources of inefficiency**
2) **Recommendations to improve cost efficiency**

1-EoSca 228 → Technical input – output relationship
MEPS 228 Indivisibilities
Specialization
Scale and concentration
Limits to EoSca (3 factors)

2-Economies of learning

3-Process technology and process design
(Input/Output; **BPR 231**)

4-Product design

5-Capacity utilization
Cyclical, structural 234

6-Input Cost → Locational difference in input price
Ownership of low cost source of supply
Non union labor
Bargaining power
Organizational slack 235

Toyota 228
Daihatsu 229
Investment banking, consulting, design engineering 229
Packaged consumer goods 229
Sony 229
VW, Skoda, Seat, Rolls Royce, Ford, Jaguar, Mazda, Land Rover, Volvo 229
Passenger aircraft 230
Peugeot, Renault, BMW 230
Convair 230
IBM, Sharp, Samsung 230
Dell, Pilkington, Ford, GM, Toyota, Nucor, Dell, McDonalds, Wal*Mart, Harley Davidson 231
VW, Skoda, Seat, IBM 232
Motel 6 233
Airlines, theme parks, Boeing online brokerage, semi conductor, construction, hotels, railroad, automobile, gasoline retail, hospital 234
Austek, Aramco, airlines, Wal*Mart, Asda 234
Renault, Nissan 234
Wal*Mart 235

Ch.8 Cost advantage (Ctd.)

3-Analysis of cost: value chain

Value chain disaggregation of firm's activities
Identification of cost drivers

1- Disaggregation of firm into activities

2- Relative importance of activities to total cost

3- Compare costs by activity (benchmark)

4- Identify cost drivers

5- Identify linkages

6- Identify opportunities for reducing costs

Auto plant 236
Xerox 236
Caterpillar 236

Ch.09

Differentiation advantage

Ch.9 Differentiation advantage

Themes of chapter

1-Nature of Differentiation advantage

2-Analysis: Demand side

3-Analysis: Supply side

4-Analysis: Value chain

Ch.9 Differentiation advantage (Ctd.)

0-Introduction

Differentiation = providing something unique that is valuable to consumers beyond simply offering a low price (Porter, 1985) 241
Commodity 241

Differentiation is not simply offering different features but it is about understanding every possible interaction between the firm and its customers and asking how these interactions can be enhanced or changed in order to deliver additional value to the customer 241

Requires looking at demand and supply sides

What customers want, how they choose and what motivates them

Cement, wheat, memory chips 241
Dell 241
Shell 241

Ch.9 Differentiation advantage (Ctd.)

1-Nature of Differentiation advantage

Differentiation can exist in every aspect of the way in which a company relates to its customers

Tangible Differentiation 243
Intangible Differentiation 243

Differentiation is concerned with "HOW" a firm competes and uniqueness (consistency, reliability, status, quality, innovation)
Segmentation is concerned with "WHERE" a firm competes

Differentiation is a strategic choice and is linked to the choice over the segment

Differentiation offers more potential for competitive advantage than low cost strategy

Socks, bricks, corkscrew, nail, spark plug, thermometer, airplane, automobile, vacation, wine, toy, shampoo, toilet paper, bottled water 242
Starbucks 242, Dell 242
Cosmetics, medical services, education 243
McDonalds, American Express, Federal Express, BMW, Sony 243
Ameritrade, E-Trade, TD Waterhouse 243
Toyota, McDonalds, Amazon, Starbucks 243
BMW, VW 244, Beer 244
Ford, Honda, Indesit, Matsushita 244
US integrated iron and steel, discount brokers, internet telephony 244
Colgate, Palmolive, Microsoft, Anheuser-Busch, Yum Brands, Kellogg's, Procter & Gamble, 3M, Wyeth 244

Ch.9 Differentiation advantage (Ctd.)

2-Demand side

Which product characteristics have potential to create value for customers, customers' willingness to pay and firm's optimal positioning in terms of differentiation variables

Understand customer: why does customer buy a product; what are his needs and requirements

Analysis of multiple attributes Techniques →

- Multidimensional scaling
- Conjoint analysis
- Hedonic price analysis
- Value curve analysis Value curve 247

Sociological and psychological factors
Status and conformity; self-identity, social affiliation
Demographic, socioeconomic, psychographic: what customers want and how they behave
Observe and understand their lives and use of the product

Japanese home appliance firm and the coffee percolator 245
PC, windsurfing 246
Marriott Courtyard 246
European automatic washing machines 247
PC 247
Book retailing 247
Coca-Cola 247
Harley Davidson 247
Japanese firms approach to marketing 248

Ch.9 Differentiation advantage (Ctd.)

3-Supply side

Differentiation depends on firm's ability to offer differentiation

Drivers of uniqueness →

- Product features and performance
- Complementary services
- Intensity of MK activities
- Technology embodied in design and manufacture
- Quality of inputs
- Procedures to conduct activities
- Skills and experience of employees
- Location
- Degree of vertical integration

Typology: Product Differentiation and Ancillary services Differentiation 249

		Support Software
Product Hardware		

Product Integrity = consistency of firm's differentiation 250

Simultaneous internal and external integrity; especially important for products whose differentiation based on customers' social and psychological needs

Service stations 249, financial services, European tour operators, Beck (beer), auto industry 250
Harley Davidson, MTV 251
Body Shop Capsule 251-252

Ch.9 Differentiation advantage (Ctd.)

3-Supply side

Differentiation effective only if communication to customers

Search good 252
Experience good 252

For experience good, situation is analogous to prisoner's dilemma when quality cannot be detected: equilibrium with low quality and low price

Ways of signaling →
- Brand name
- Warranty
- Expensive packaging
- Sponsorship of sport and cultural events
- Advertising
- Combination of pricing and advertising
- Sunk costs and total investment

Brands
Signal of quality and consistency and acts as disincentives to provide poor quality

Differentiation has a cost:
- **Direct**
- **Indirect**

Postpone differentiation at later stage, modular design, new manufacturing technologies

Perfume, financial services 253
Mountaineering equipment, socks 254
Ecommerce, Coca-cola, Harley Davidson, Mercedes, Gucci, Virgin, American Express, Auto 254
Auto, motorcycle, domestic appliances, internet communications, Capital One, Adidas 255

Ch.9 Differentiation advantage (Ctd.)

4-Analysis: value chain

Process:
1-Construct value chain
2-Identify drivers of uniqueness in each activity
3-Select most promising differentiation variables for the firm (linkages among activities; ease of differentiating)
4-Locate linkages between value chain of firm and that of customer

Value chain analysis of consumer goods 258

Steel 255
Airline 256
Procter & Gamble 256
Metal container 257
Japanese producers of automobiles, consumer electronics, domestic appliances 258
Harley Davidson 258
Frozen TV dinner 258

Ch.10

Industry evolution and strategic change

Ch.10 Industry evolution and strategic change

Themes of chapter

1-Introduction

2-Industry life cycle

3-Structure, competition and success factors over life cycle

4-Organizational adaptation and change

5-Wrap-up

Ch.10 Industry evolution and strategic change (Ctd.)

1-Introduction

Change is the "constant"

Greatest challenge is match between environmental change and firm adaptation

Change is mix of result of external competitive forces and firm's strategy

Understand
Predict
Manage Change

Change is disruptive, uncomfortable and costly
Inertia is strong

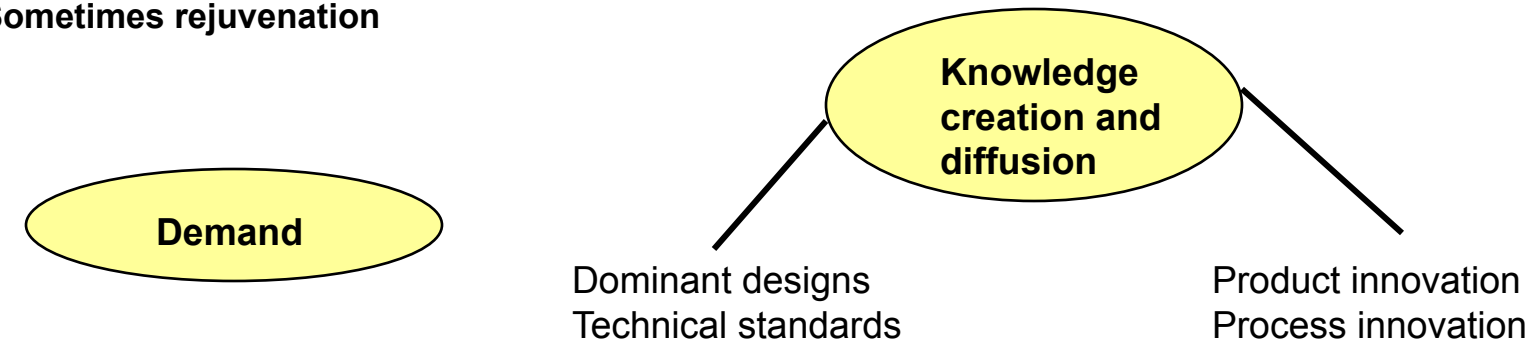
Telecommunications and digital technology 262
Food processing, aircraft production and funeral services 262

Ch.10 Industry evolution and strategic change (Ctd.)

2-Industry life cycle

Product life cycle 263
Industry life cycle 263
Introduction; Growth; Maturity; Decline

Life cycle pattern varies with industry, and country
General trend is compression
Sometimes rejuvenation



Sony 263
Steam ships, home computer 266
IBM, Leica, McDonalds, Boeing, Grocery delivery, retailing air travel American Express, Expedia, Travelocity 267

Capsule Automobile industry 268-269

US railroad, US automobile, PC, Digital audio players, Consumer electronics, communication, pharmaceuticals, e-commerce, online gambling, B2B online auctions, online travel services, residential construction, food processing, clothing, motorcycle industry 269
TV receivers, retailing 270

Ch.10 Industry evolution and strategic change (Ctd.)

3-Structure, competition and success factors over life cycle

Changes in demand and technology over cycle have implications on:

- **Industry structure**
- **Competition**
- **Sources of competitive advantage (KSF)**

Table 10.1 p271 Synthesis of different variables over life cycle

Product differentiation

PC, credit card, securities broking, internet access 272

Organizational demographics

Organizational ecology (Darwinian process of natural selection within firms of an industry)

Different evolutionary paths depending on industry

US automobile, TV receiver, US tire, US brewing, TV broadcasting, frozen food, plain paper copier, world petroleum, world steel 272

Location and international trade

International migration of production

Consumer electronics 273

Nature and intensity of competition

Shift from non-price to price competition

Narrowing margins

Intensity of competition depends on capacity/demand balance and extent of international competition

Food retail, airlines, motor vehicles, metals, insurance, household detergents, breakfast cereal, cosmetics, investment banking 273

KSF and industry evolution

Product innovation and financial resources

Product development and manufacturing, marketing and distribution

Adaptation, administrative and strategic skills

Ch.10 Industry evolution and strategic change (Ctd.)

4-Organizational adaptation and change

Evolutionary theory Variation Selection Retention VSR

Organizational ecology

Industry level
Inertia 273
Selection mechanism 273

Evolutionary theory

Organizational routine
Organizational routine 275

Change is **painful** and **difficult**
Change **upsets** patterns of social interaction and requires **coordinated action** among several individuals

Barriers to change

1-Capabilities and routine
Competency trap 276

2-Social and political structures

3-Conformity
Institutional isomorphism 276

4-Complementarities between strategy, structure and systems
Punctuated equilibrium 276

5-Limited search and blinkered perceptions
Bounded rationality 277
Satisficing 277
Exploitation vs. exploration 277

Ch.10 Industry evolution and strategic change (Ctd.)

4-Organizational adaptation and change

Empirical evidence shows changes in industries with the disappearing of well-established firms
Evolutionary change less threatening than radical technological change

Different stages of life cycle requires different capabilities that established forms may struggle to develop

New technology may enhance existing capabilities or destroy them
Is technological impact at architectural or component level?

Disruptive technology 278
De novo entrants 279
De alio entrants 279

Siemens, Exxon Mobil, Royal Dutch Shell, GM, GE 277
Apple, Commodore, Xerox, Dell, Lenovo, Acer, HP 278
McCaw communication, Cingular, Verizon 278
E-commerce grocery and banking, typesetter, Clayton Christensen, Sony 279
Nucor, Cisco Systems, Juniper Networks, Lucent Technologies, Alcatel, US automobile, US TV manufacturing, Akron tire, semi-conductor, Intel, Shockley Semiconductor Laboratories 279

Ch.10 Industry evolution and strategic change (Ctd.)

4-Organizational adaptation and change

Managing change

Recognition by managers of sources of inertia

Creation of new organizational unit for capacity to pursue simultaneously multiple strategies
Ability of new business model to access and deploy firm's existing R&C
Dual planning system

Bottom-up process of decentralized change
Manage conditions that foster process of change
Strategic inflection point 280

British Airways, Continental, United 279
GE, Intel 280
Oil and gas majors, Rand Corp, Hudson Institute, Shell 281

Top-down process
Orchestration from top

Scenarios
Scenario analysis 281
Scenario 281
Most important is less result than process and bringing together ideas and insights, surfacing deeply held beliefs

Capsule Royal Dutch Shell Scenarios 282

Nokia, BP, Microsoft 283

Shaping future
Non linear world
Revolution instead of evolution

Enron, Vivendi, (GEC) Marconi, ICI, Skandia 284

Ch.10 Industry evolution and strategic change (Ctd.)

5-WRAP-UP

Change is the "constant"

Adaptation firm and environmental change is central challenge for managers

Change is result of competitive forces and firm's strategy and impacts the industry structure, its competition and its KSF

Different theories describe organizational change (Organizational ecology; Evolutionary theory)

Change is generally painful and surrounded by barriers to change

Patterns of industry state can be captured with the industry life cycle; different stages require different capabilities

Prescriptive material exists for managers to successful in handling organizational change

Ch.11

Technology-based industries and the management of innovation

Ch.11 Technology-based industries and the management of innovation

Themes of chapter

1-Introduction

2-Competitive advantage in technology-intensive industries

3-Exploit innovation: how and when to enter

4-Competing for standards

5-Creating conditions for innovations

6- Wrap-up

Ch.11 Technology-based industries and the management of innovation (Ctd.)

1-Introduction

In industries where innovation is key, fascinating environment

AT&T, NTT, BT 289
China Mobile, Vodafone, AT&T 289

AT&T, Alcatel, NEC, Siemens, GTE 289
Cisco Systems, Nokia, Qualcomm 289

Innovation is responsible for creation of new industries
Innovation can change the course of the industry cycle
Innovation can impact industry structure and competitive advantage

Fixed-line telecommunication, cable operators, internet telecom providers 289

Pharmaceuticals, chemicals, telecomm, electronics 289

Food processing, fashion goods, domestic appliances, financial services 289

How does the firm use technology and innovation to establish competitive advantage and earn AAR?

Ch.11 Technology-based industries and the management of innovation (Ctd.)

2-Competitive advantage in technology-intensive industries

Innovation process
Invention 290
Innovation 290

Profitability
Depends on value created by innovation and share of that value that innovator is able to appropriate, because value is distributed among different parties (customers, suppliers, innovator, innovator)

Innovation is not guarantee of fame and fortune

Regime of appropriability 293

Morse's telegraph 290

Chemicals and pharmaceuticals, automobile 291
Anti-tamper package 291

Xerography, Xerox, IBM, Kodak, Ricoh, Canon 291
Comer, Boeing 291
Mathematics of fuzzy logic 292
MP3 292

PC, IBM, Dell, Compaq, Acer, Toshiba 292
Intel, Seagate technology, Quantum Corp., Sharp, Microsoft 292
Nutrasweet (Searle), Monsanto, Pfizer, Pilkington, VoIP

Ch.11 Technology-based industries and the management of innovation (Ctd.)

2-Competitive advantage in technology-intensive industries

Property rights
Patent 292
Copyright 292
Trademark 292
Trade secret 292
Effectiveness of legal instruments depends on type of innovation

Netflix, Amazon 293
RCA, IBM, AT&T, Texas Instruments 294

Tacitness and complexity of technology
Codifiable knowledge 294
Complexity 294

Coca-cola, Intel, Sharp, New toys, Airbus 294

Lead time 294
Lead time 294

Complementary resources 295
Require R&C needed to finance, produce, and market innovation
Division of value depends on relative power of providers of these resources
Complementary resource 295
Specialized resource 295

Microsoft, Intel, Cisco Systems, DeHavilland, EMI, Clive Sinclair 294

Xerox, Searle, Monsanto, world automobile, Adobe 295
Linux, Intel 296

Protection effectiveness
Patent protection is limited
Cross-licensing agreement 296; Freedom to design 297

Semi-conductors and electronics 296

Ch.11 Technology-based industries and the management of innovation (Ctd.)

3-Exploit innovation: when and where to enter?

Fig.11.4 p298

Alternative actions
1-Licensing
2-Outsourcing functions
3-Strategic alliance
4-Joint Venture
5-Internal commercialization

Choice

Characteristics of innovation
Clear property rights

Firm's R&C
Difference large vs. small firms
Most invention result of individual creativity

Pharmaceuticals, biotechnology, Dolby Laboratories, Apple 297

Ericsson, Dolby Labs, Qualcomm, Microsoft, Flextronics, Ballard, DaimlerChrysler, Psion, Symbian, Ericsson, Nokia, Motorola, Google 298

Capsule Dyson Vacuum and Benecol Margarine 299
Amway, Hoover, Maytag, Johnson & Johnson, Unilever 299

Biotechnologies, Electronics, Sony, GE, Siemens, Hitachi, IBM, video game software, Electronic Arts, Sega 300

Ch.11 Technology-based industries and the management of innovation (Ctd.)

3-Exploit innovation: when and where to enter?

Timing Innovation: to lead or to follow?
Both can lead to success or failure

Factors impacting choice

1-Extent to which innovation can be protected by property rights or lead time advantages
If efficient protection, advantage of early mover

2-Importance of complementary resources
If great importance, great risk and cost for pioneering
Pioneer must organize and orchestrate functions; follower benefits from fact that specialty firms emerge

Clive Sinclair, GM 300
Unilever, IBM, Microsoft 301

3-Potential to establish standard
Greater importance of technical standard, advantage early mover
Once standard established, moving very difficult

Apple, IBM 302
Netscape, Microsoft 302
GE, EMI 302

Optimal timing depends on R&C available
Firms have strategic windows (opportunities aligned with R&C) 301
Active waiting 302

Ch.11 Technology-based industries and the management of innovation (Ctd.)

3-Exploit innovation: when and where to enter?

Managing risks

Sources of uncertainty

1-Technological uncertainty 302 (unpredictability of technical evolution)

2-Market uncertainty 302 (size and growth rates for new products)

Useful actions

1-Cooperation with lead users
2-Limiting risk exposure
3-Flexibility and response to signals

Xerox, Apple, Sony 302
Computer software, Nike, Communications, Space 303
Honda, Microsoft 303

Ch.11 Technology-based industries and the management of innovation (Ctd.)

4-Competing for standards

Standard 304
Format, interface or system that allows for interoperability

- Public (Open) vs. Private (Proprietary)
- Mandatory vs. De Facto

Network externalities 306
Value of product depends on number of users
Network externalities require products' compatibility

Sources of network externalities
1-Users linked to a network
2-Availability of complementary PS
3-Economizing on switching costs

Network externalities produce
1-Positive feed-back 307
2-Tipping phenomenon 307
3-Winner-takes-all situation 307

Linux, Microsoft, Qualcomm, automobile safety, TV broadcasting, railroad gauge, wireless telecom, quadraphonic 305
Telephone, Glenlivet, Armani, wireless telephone, AT&T, Nextel, T-Mobile, railroads 306
Telephones, railroad systems, email messaging, software, social identification 306
Apple, Ford, Microsoft, typewriter 307

Ch.11 Technology-based industries and the management of innovation (Ctd.)

4-Competing for standards

Winning standard wars
In markets subjects to network externalities, control over standards is the basis of competitive advantage

Market will converge around a simple technical standard
Role of positive feed-back: technology that can establish early leadership will attract new adopters

Actions:
1-Assemble allies
2-Preempt the market
3-Manage expectations
4-Create value and share with other parties, involve broad alliances
5-Achieve compatibility with existing products (evolutionary strategy, revolutionary strategy 308)
6-Control over an installed base of customers
7-Own intellectual property in the new technology
8-Innovate to extend and adapt the initial technological advance
9-FMA
10-Strengths in complements
11-Reputation and brand name

Apple, IBM, Microsoft, Netscape, WordPerfect 307
Sony, Toshiba, Windows, Sega, Nintendo 308
Capsule VCRs and PCs 309-310
Intel, Microsoft, Adobe 310

Ch.11 Technology-based industries and the management of innovation (Ctd.)

5-Creating conditions for innovation

Creativity is key for innovation
Creativity is resistant to planning
Productivity of R&D depends on organizational conditions that foster innovation
How does the firm create conditions conducive to innovation?

Invention relies upon **creativity**
Innovation relies upon **cooperation, interaction and collaboration**

Conditions for creativity:
Knowledge and imagination
Typically an individual act that establishes a meaningful relationship between concepts or objects that had not previously be related; triggered by accidents
Creativity associated with personality traits; creativity stimulated by human interaction; catalyst of interaction is “play”
Experimentation needs to be managed
Innovation can be accelerated through conflict, criticism and debate
Creative abrasion 311
No cloning
“Whole brain teams” 312
Balancing creative freedom and direction and integration; link with market needs
Open innovation 312
Creation nets 312

Management systems and incentives
Egalitarian culture, space, resources, spontaneous, experience
freedom, fun, praise, recognition, education and professional growth

Isaac Newton, James Watt, Amgen, Microsoft, Florentine, Venetian schools 311
Body Shop, Disney, HBO, steam engine, Xerox 312

Ch.11 Technology-based industries and the management of innovation (Ctd.)

5-Creating conditions for innovation

Cross-functional integration
Linking creativity and technological expertise with capabilities in production, marketing, finance, distribution and customer support

Reconcile requirements for innovation and operation

Differentiation vs. Integration 313

Actions:
1-Cross-functional product development teams
2-Product champions
3-Buying innovation
4-Incubators

US naval establishment 313
Automobile, electronics, construction equipment, 3M, Microsoft, Cisco Systems, Ford Consumer Connect, British Telecom Brightstar

Capsule Innovation at 3M 315-316

Ch.11 Technology-based industries and the management of innovation (Ctd.)

6-WRAP-UP

Central concepts: Invention and innovation

How does invention/innovation create value and constitute a competitive advantage?
What it does
How is value shared?

How can the firm protect its innovation-based competitive advantage?
Four means for protection

How can the firm exploit innovation?
Five alternative choices
How does the firm choose among these alternative choices?

When should the firm enter? Leading vs. Following
Four factors impacting choice
Two determinants of risk and three related actions

How can the firm fight for the industry standards?
How does it work?
What to do? Eleven actions

How can the firm create the conditions for innovation?
What are the conditions?
Actions regarding management and incentive systems, and structure

Ch.12

Competitive advantage in mature industries

Ch.12 Competitive advantages in mature industries

Themes of chapter

1-Introduction

2-Competitive advantage in mature industries

3-Strategy implementation in mature industries

4-Strategies for declining industries

5- Wrap-up

Ch.12 Competitive advantages in mature industries (Ctd.)

1-Introduction

What are the characteristics of mature industries and the way to take advantage of a competitive advantage in these mature industries?

McDonalds 320
Food, energy, construction, vehicles, financial services, restaurant 321
Massage parlor, steel 321
Heens & Mauritz, Ryanair, Starbucks, Nucor, Coca-cola, Exxon Mobil, GE 321

Ch.12 Competitive advantages in mature industries (Ctd.)

2-Competitive advantage in mature industries

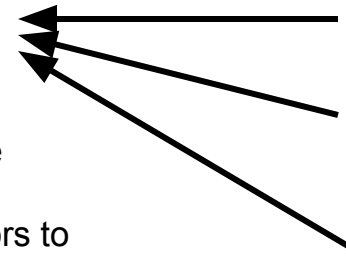
Maturity implies:

1-Reduction in number of opportunities

2-To establish competitive advantage, shift from differentiation-based factors to cost-based factors

3-Deterioration of profitability

From “franchise” to “business” 322



Increased buyer knowledge, product standardization, less product innovation

Diffusion of process technology
Cost advantage (superior process, advanced method) more difficult to obtain and sustain

Attack of specific niches easier (industry infrastructure more developed, presence of powerful distributors)

Capsule Media sector and Warren Buffett 322

Ch.12 Competitive advantages in mature industries (Ctd.)

2-Competitive advantage in mature industries

Drivers of Cost Advantage
1-Economies of scale
Standardization

2-Low-cost inputs

3-Low overheads

Actions
Cost inefficiencies tend to be institutionalized in mature industries, drastic intervention
Corporate restructuring 323
1-Asset and cost surgery
2-Selective product and market pruning
3-Piecemeal productivity moves (adjustments to current market positions)

Valero Energy Corp 323
Retailers, hotels, hospital groups, chemical firms 323
Wal*Mart, Exxon, EMAP, Media News Group 323
British firms (sharpbender) 324

Segment and customer selection
Decrease in profitability. Then unattractive industries may offer **attractive niche segments** with strong growth, few competitors and potential for differentiation
The more focus on mass market, more likely existence of niches
Further disaggregation of markets
CRM 324

Wal*Mart, automobile, Las Vegas casinos, banks, supermarkets, credit card firms, hotels, Capital One 324

Target attractive customers and transform less valuable customer to more valuable
Value exchange 324

Ch.12 Competitive advantages in mature industries (Ctd.)

2-Competitive advantage in mature industries

Quest for differentiation

Commoditization narrows scope for differentiation and reduces customer's WTP a premium for differentiation
Standardization does not eliminate opportunities for differentiation
Differentiation of complementary services

Tires, domestic appliances, airlines 325
Consumer goods, cola, cigarettes 325
Toys-R-Us, JC Penney, Circuit City 325
J. Sainsbury, Mothercare, Kingfisher 325
Royal Ahold 325
Target, Lowe's, TJX, Bed, Bath and Beyond 325
Zara-Inditex 325
Heens & Mauritz, Ikea 325

Innovation

Low technical change
But mature industries are as innovative as emerging industries in terms of patents
Innovation in other areas
Third phase of innovation **Strategic innovation 326**

Reconciliation of multiple performance goals

-maturity is state of mind
-the firm matters, not the industry
-strategic innovation is basis for competitive advantage
-selection in choosing markets (limitation by R&C)
-Entrepreneurial organization with freedom and learning

Honda, Toyota, Courtaulds, Benetton 327

Redefining markets

-embracing new customer groups
-adding PS that perform new but related functions
Experience economy 327

Steel, textile, food processing, insurance, hotels, tires 325
Brassieres, fishing rods, Harley Davidson, Sony, Jehovah's witnesses in Russia, Amway Christian Fellowship in America 327
Arco, Barnes and Noble, Hard Rock Café, Planet Hollywood 327

Ch.12 Competitive advantages in mature industries (Ctd.)

2-Competitive advantage in mature industries

Rejuvenation and Managerial and Organizational Cognition MOC

Change is hard

Propensity for managers to be trapped within industry conventional thinking about KSF and business practices

Industry-wide systems of beliefs **Industry recipes 327**

Cognitive maps 327

Why do some firms adapt better than others? Ability of managers to change their learning in the form of changing their mental models is critical

Contrarian thinking

Strategic revolution

-reorganizing strategic management process

-breaking top management monopoly over strategy formulation

-bringing in younger people from further down the organization

-involving those on the periphery of organization

Railroad firms 328

Edward Jones 328

Rent-A-Car, Hertz, Avis 328

Ch.12 Competitive advantages in mature industries (Ctd.)

3-Strategy implementation in mature industries: structure, systems, style

Reconcile operational efficiency and innovation and customer responsiveness

Efficiency through bureaucracy

Machine bureaucracy 329

Standardized routines, division labor, management control, highly detailed rules and procedures

Beyond bureaucracy

Bureaucracy not popular anymore ←

-environmental turbulence
-emphasis on innovation
-new process technology
-alienation and conflict

↓

-role of business managers in strategic decision processes
-shrinking corporate staff
-emphasis on customer requirement and greater flexibility
-teamwork
-profit incentive to motivate and control

Government departments, McDonalds, DaimlerChrysler, ExxonMobil, HSBC 329

GM, Chrysler, Sunbeam 330

GE, Nissan and Renault, Marks & Spencer, BP, Citigroup 331

However, still primary emphasis on cost efficiency
Tension with turbulent environment (static efficiency requirements different from dynamic efficiency ones)

Ch.12 Competitive advantages in mature industries (Ctd.)

4-Strategies for declining industries

Declining industry because:
-technological substitution
-changes in consumers preferences
-demographic shifts
-foreign competition

Declining industry characterized by:
-excess capacity
-lack technological change
-declining number rivals but some entry
-high average age of resources
-aggressive price competition
-company failures and instability

Declining industry a blood-bath? Two factors determine:
1-Balance capacity and output
2-Nature of demand for PS

Balance capacity/output:
If smooth adjustment, stability
If not, destructive competition
-predictability of decline
-BTE (assets, cost of plant closure, managerial commitment)
-strategies of surviving firms

Demand for PS:
General pattern of decline may hide existence of pockets of demand comparatively resilient and price inelastic

Strategies:
Divest or harvest imply industry not profitable

-leadership
-niche
-harvest
-divest

Assess industry profit potential and competitive position of firm
Four questions
Matrix for strategy p.334

Typewriter, railroad. Men's suits, babyware in Italy, cutlery in Sheffield, electronic vacuum tubes, cigars, leather tanning, baby food, rayon and meat processing 331,
Bakery, gold mining, long-haul bus transportation, traditional photography, steel, European gasoline retailing 332
GTE Sylvania, GE, fountain pen Mont Blanc, Cross, quality cigars 333

Ch.12 Competitive advantages in mature industries (Ctd.)

5- Wrap-up

Declining industries are characterized by classic features

Classically, competitive advantage built on cost advantage or differentiation were implemented through hierarchical organizations

But conditions of cost efficiency have changed because of dynamism of environment

New sources of competitive advantage: innovation and differentiation
Flexibility, exploited new technologies, employee commitment and cost efficiency (beyond bureaucracy)

Even in mature industries, potential for profit exists
-cost advantage
-market selection
-differentiation
-innovation

Even in declining industries, potential for profit exists
Understand first the factors explaining decline and strength of competition
-leadership
-niche
-divest
-harvest

Ch.13

Vertical Integration and the scope of the firm

Ch.13 Vertical integration and scope of firm

Themes of chapter

1-Introduction and goals

2-Scope of firm and transaction costs

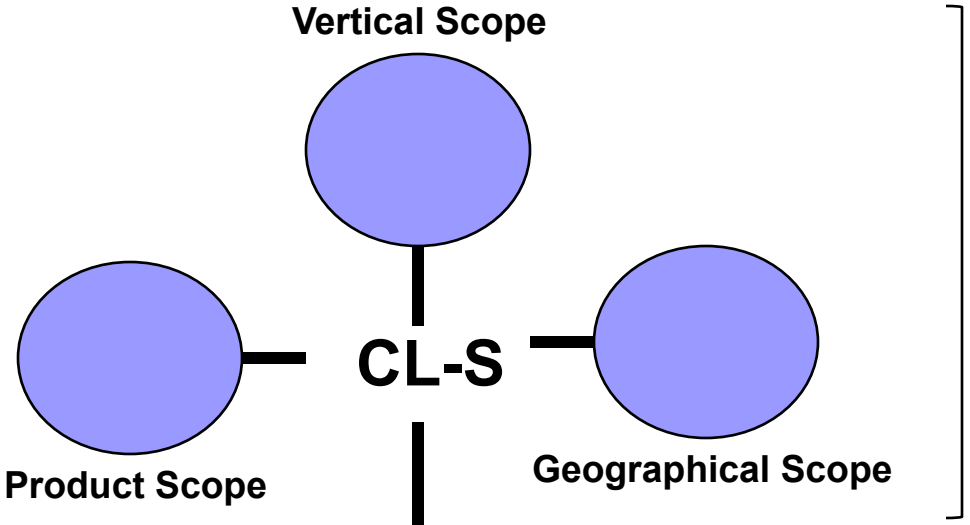
3-Costs and benefits of VI

•4-Designing vertical relationships

Ch.13 Vertical integration and scope of firm (Ctd.)

1-Introduction and goals

WHERE?



Key concepts:
-EoSco
-Transaction costs
-Costs of corporate complexity

HOW?

BL-S

SAB Miller, Gap, Swiss Re, GE, Samsung, Bertelsmann 340
Clyde's, Popeye's Chicken and Biscuits, McDonalds 340
Walt Disney, Nike 340

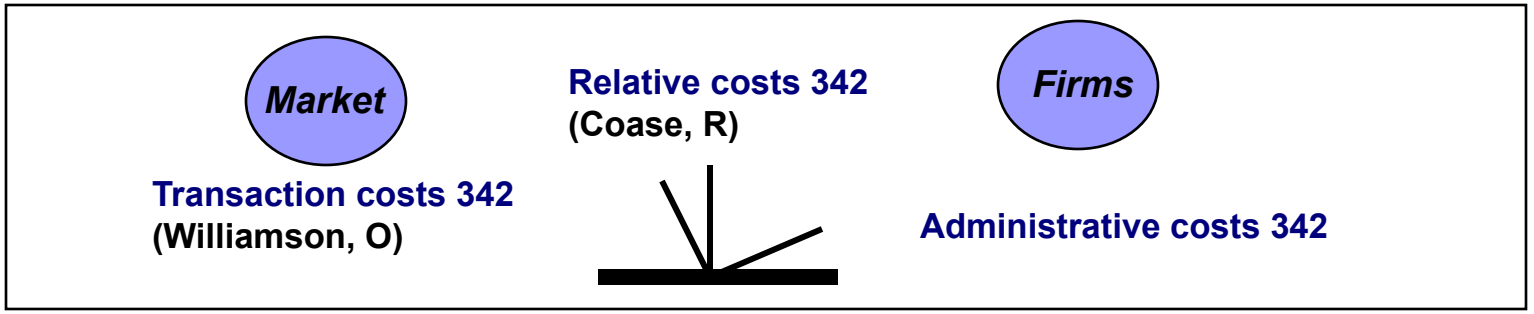
Ch.13 Vertical integration and scope of firm (Ctd.)

2-Scope of firm and transaction costs

Firm exists because they are most efficient in organizing production that markets contracts between independent workers

Market mechanism = individuals make independent decisions that are guided and coordinated by market prices 341
Administrative mechanism = decisions over production, supply, and purchase of inputs are made by managers and imposed through hierarchies 341

"Invisible Hand" (Adam Smith)
"Visible Hand" (Alfred Chandler)



Technology
Management techniques
↓
Growth in size and scope

⇒

Turbulence of environment and instability
↓
Downsizing; refocusing

Ch.13 Vertical integration and scope of firm (Ctd.)

3-Costs and benefits of VI

Vertical integration VI = firm's ownership of vertically related activities 344
Backward VI 344
Forward VI 344
Full VI 345
Partial VI 345

Which factors determine whether VI enhances performance

Media industry 343
Content and distribution 345
Liberty media, Viacom, Comcast 345
AOL Time Warner 346
Compagnie Generale des Eaux and Vivendi
Universal 346
Oil and gas majors 346

Ch.13 Vertical integration and scope of firm (Ctd.)

3-Costs and benefits of VI

Technical economies from physical integration of processes
Sources of transaction costs in vertical exchanges

*Existence of **technical economies***
Necessity to invest in integrated facilities
Market becomes series of bilateral monopolies

*Supplier-buyer relationship based on relative **bargaining power** and not on price equilibrium*
*Mechanism based upon bargaining power is costly because mutual dependency is likely to increase **opportunism and misrepresentation***
*Existence of **transaction-specific investment** (once made, little value without the existence of the partner's investment). Each partner is **tied to the other** and opportunity to "hold up" the other*

*VI allows avoids transaction costs by bringing partners into a **single administrative structure***
Writing contract impossible because uncertainty about future makes contracts incomplete

Steel and cans 346-347
Crown Holdings, Ball Corp. 347

Jewelry 347
Flour-milling 347
Pulp and paper production 346
Oil refining and petrochemical production 346
Automobile 348
Aerospace 348
Semi-conductor 348

Ch.13 Vertical integration and scope of firm (Ctd.)

3-Costs and benefits of VI

Differences in optimal scales between different stages of production

Development of distinctive capabilities
Assumption that independence between vertical activities

Managing vertically related businesses that are strategically very different
Strategic dissimilarities are incentive to de-integrate

Competitive effects of VI

Extension of monopolistic position (no more possible extension; negative perception from buyers)

Flexibility
a-responsiveness to uncertain demand
b-response to new product development
c-system-wide flexibility

Compounding risk

Incentive problem
High-powered incentive 349
Low-powered incentive 349
Shared-service organization 350

Pros and Cons of VI
Which factors are key?
Different firms can be successful with different levels of VI in same industry
Different R&C and strategies

Ch.13 Vertical integration and scope of firm (Ctd.)

3-Costs and benefits of VI

Federal Express 348
Ford 348
Anchor Brewing, Adnams 348
Anheuser Busch, SAB-Miller 349

Xerox, Kodak, Philips, IBM, Accenture 349
GM 349
Wal*mart 349
FedEx, Zara, Gucci, Wal*Mart, Gap, Carrefour 349
Marriott Hotels 349
Whitbread, Scottish & Newcastle 349

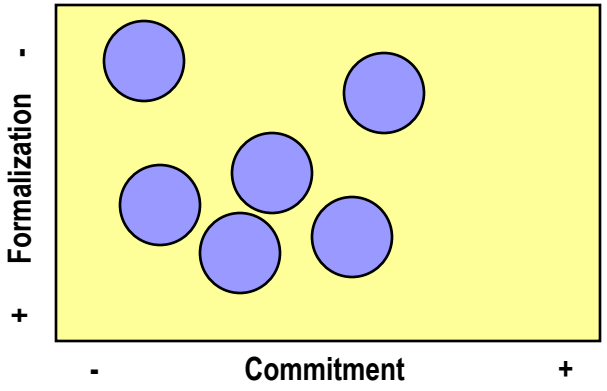
Standard Oil, Disney, ABC 350
Construction industry 350
Apple, Microsoft, Dell 350
American Apparel 350
Zara 350-352
GM 353

Shell 350

Zara 353
Hennes & Mauritz 353
Gap 353
Armani 353
Donna Karan 353

Ch.13 Vertical integration and scope of firm (Ctd.)

4-Designing VI



Allocation of risk
Incentive structure

Long-term contract
Vendor partnerships
Franchising

Spot contract 355
Long-term contract 355
Relational contract 355
Franchise 355

Characteristics of vertical relationship	Implication 354

Recent trends

Diversity of hybrid vertical relationships
Long term collaboration
Exploiting international cost differences
Mutual dependence and vulnerability
Reduction of transaction costs through internet
Refocusing
Outsourcing and greater potential for erosion of core competences
System integrator and risk of hollow organization

Virtual corporation 357
Architectural capabilities 358
Component capabilities 358

Ch.13 Vertical integration and scope of firm (Ctd.)

4-Designing VI

IT outsourcing 355
McDonalds, Century 21, Hilton hotels, seven-Eleven 357
Starbucks 356
IBM, EDS, Capital One 356

Oil exploration, construction, passenger rail service, local refuse collection, Toyota, Maks and Spencer 356

Silicon valley, Japanese supplier network 357
Industrial district of Northern Italy (textiles, packaging, motorcycles) 357
Commonwealth Bank of Australia, EDS Australia, pharmaceutical firms 357
Hon Hai Precision Industry Co 357
Aero engine manufacturers 358

Ch.14

Global strategies and the Multinational Corporation

Ch.14 Global strategies and the Mutinational Corporation

Themes of chapter

1-Introduction and goals

2-Implication of international competition for industry analysis

3-Competitive advantage in international context

4-Framework: international location of production

5-Framework: Foreign entry strategies

6-Multinational strategies: Globalization vs. National differentiation

7-Strategy and organization within the multinational corporation

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

1-Introduction and goals

Globalization is reshaping competitive environment
New competitors
New business opportunities
Flows of international transactions

Reasons for Globalization
Quest for new opportunities abroad
Quest for exploit business opportunities (cost and global efficiency)

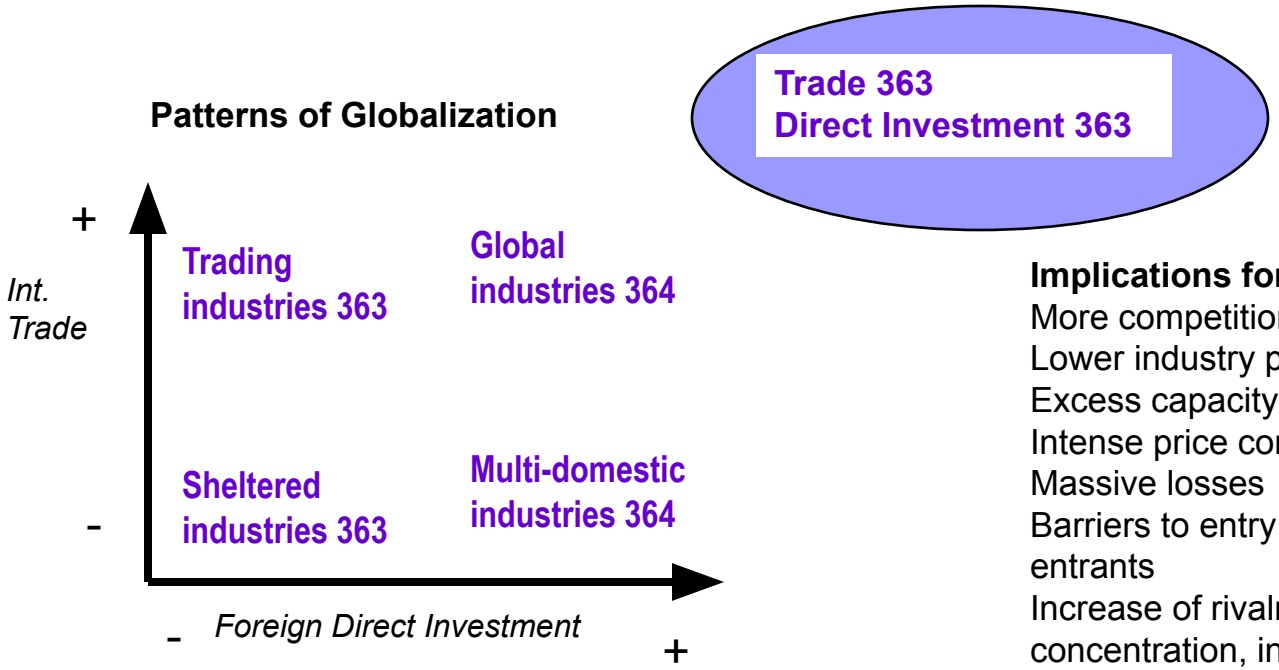
Forms of Globalization
Trade
Direct Investment

L'Oreal, UBS, HSBC, McKinsey, Saatchi & Saatchi, Daewoo, Marks & Spencer 362

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

2-Implication of international competition for industry analysis

Patterns of Globalization



Implications for competition:
More competition
Lower industry profitability
Excess capacity
Intense price competition
Massive losses
Barriers to entry have fallen so more new entrants
Increase of rivalry because lower seller concentration, increasing diversity of rivals, and excess capacity, increase of BPC

Dry cleaning, hairdressing, auto repair, funeral services, handicrafts, homebuilding, fresh milk, bread, four-poster beds, garden sheds) 363

Commercial aircrafts, shipbuilding, defense equipment 364; diamond, caviar 364

Banking, consulting, hotel, frozen dinner, recorded music 364
Automobiles, consumer electronics, semi-conductors, pharmaceuticals, beer 364

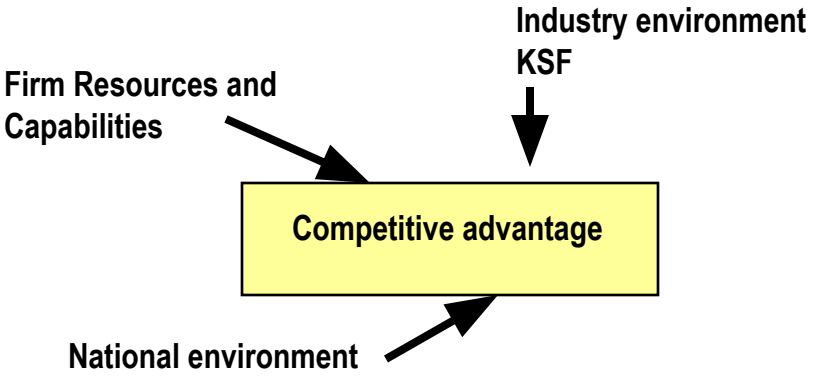
Marriott, Starbucks, Goldman Sachs 364

GM, Chrysler, Ford 365
US auto, European motor scooter, paper, telecommunications, oil, airlines, aluminum 365

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

3-Competitive advantage in international context

Fundamental model



Theory of comparative advantage 367

Relative efficiencies of producing different products which translate into comparative advantages (US and Bangladesh)

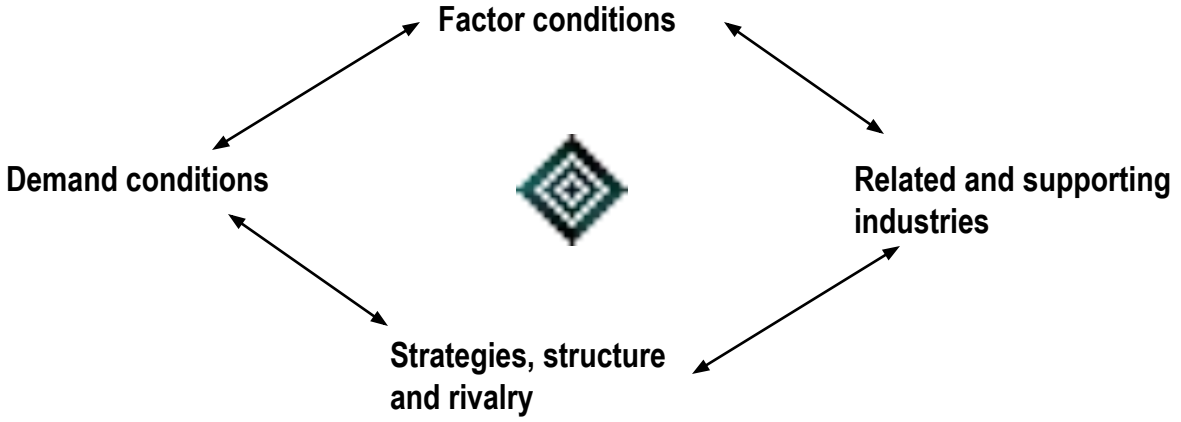
Emphasis on natural resource endowments, labor supply and capital

Role of knowledge and resources to commercialize knowledge

Congruence between strategy and the pattern of the country's comparative advantage

Relationship between organizational capabilities and national culture and social structure

Porter's National Diamond of competition



Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

3-Competitive advantage in international context

US Steel, Mittal Steel 366
IBM, Apple, Dell, HP, Lenovo, Acer 366
Deutsche Bank, Bank of Tokyo, UBS, HSBC 366

Hollywood in film production 368
Semi conductors, computers, software, chemicals, synthetic dyes, textiles, textile machinery 368

Swiss watches, Japanese cameras, world automobile, Japanese auto, cameras, consumer electronic products, office machinery 369

Audio equipment: Dussun and Skyworth, Bose, Bang & Olufsen, Sony, Matsushita 369

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

4-Framework: international location of production

WHERE?

Important reason for globalization is **access to R&C** available in other countries
Production and distribution can be separated

Motorola 370

To determine **geographical location**:
1-National resource availability
2-Firm-specific competitive advantages
3-Tradability

Oil, Nike, Reebok 370
Semi conductor, computer, Wal*Mart, Toyota, Goldman Sachs, hairdressing, medicine 371

Location and **value-chain**
Local advantages different according to stage of value chain

Textile, apparel, consumer electronics, Nike 371

Analysis at each stage of value chain
Off-shoring 371

Accel Partners, Chips, software, IT, eTelecare 372

Model to determine location of activity X 373
-Activity X considered independently
-Activity X considered in connection with other activities

Auto in Mexico 373
Zara, Dell 373

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

5-Framework: Foreign entry strategies

Range of options exists to enter a foreign market; correspond to alternatives to exploiting innovations

Trade
Direct Investment

Five issues for **choice mode entry**
1-Competitive advantage based on firm-specific or country-specific resources
2-Tradable product and barriers to trade
3-Does firm possess full range of R&C to establish a competitive advantage abroad
4-Can firm directly appropriate returns
5-What transaction costs (fundamental criterion to decide mode of entry)

Toyota, Hyundai 374

Fuji-Xerox, Caterpillar-Mitsubishi 375

Chemicals, pharmaceuticals, software, computer, Cadbury-Schweppes, Hershey 375

Starbucks, McDonalds 375

Representation of modes of entry 374
Criterion: degree of commitment

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

5-Framework: Foreign entry strategies

International alliances and Joint ventures

Goals
Multinational firm wants to access the market knowledge and distribution resources of the local firm, whereas the local firm wants to access the technology, brand and product development of the international company

Sometimes, local **regulation** obliging to have a partner

Success of international alliances or JV is mixed
Disagreement, contributions and returns are source of friction

Key factors for **success**:
1-strategic intent of partners
2-appropriability of contribution
3-receptivity of company (assimilation of knowledge and experience)

Gazprom, ENI, CNPC, Eon, PDVSA, MOL, Petrocanada, Sonatrach 376
GM 376
Western banks in China for credit card market 376

Computers, semi conductors, telecommunication equipment, pharmaceuticals, aerospace, energy 377

Sony-Ericsson 377
Renault-Nissan 377
HP-Canon 377
BT – AT&T 377
GM – FIAT 377
Swissair 377

Xerox – Fuji 377

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

6-Multinational strategies: Globalization vs. National differentiation

Firms that operate on an International basis may gain competitive advantage over nationally focused firms

Two assumptions:
1- Globalization of customer preferences
2-Scale economies

Benefits
1- Scale and replication (product development is the most important). Economies in replication of knowledge-based assets, including competences. Creation is expensive but replication is cheap

2-Exploiting efficiencies of national resources (labor, raw material)

3-Serving global customers

4-Learning
Accessing, creating and transferring knowledge from multiple sources

5-Competing strategically
Using resources of MNC to compete
Cross-subsidization 379
Predatory pricing 379

Corona, Adidas, McDonalds 378
Pharmaceuticals, Consumer electronics, Investment banking 378
Disney 378
Semi conductor 379
Investment banking, audit, advertising 379
Romans vs. Gauls and Goths 379
Kodak and Fuji 379
Daimler Benz Chrysler, Mitsubishi, Ford, GM 380

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

6-Multinational strategies: Globalization vs. National differentiation

Need for national differentiation
Global customer: myth?

Factors encouraging **national differentiation**:
1- Laws and regulations
2-Distribution channels
3-Presence of lead countries
4-National cultures
Culture 381

Reconciliation of needs: Global and Differentiated
Reconciling is challenge
"Global Localization"

Auto 380
Domestic appliances Electrolux, Whirlpool 380
Banking US Bancorp, Bank of China, National Bank of Kuwait, Anglo Irish Bank 380
Financial services, pharmaceuticals and health services, alcoholic beverages, telecommunications 380
Procter & Gamble 380
Consumer electronics Japan 380
Computer hardware and software US 380
Financial services US 380
Auto technology and design Europe 380
Mobile communications South Korea 380
Wal*Mart, Disney, Marks & Spencer 380
Funeral services, hairdressing 382
Telecommunication equipment, military hardware 383
Honda, McDonalds 383
Capital One, MBNA, UBS 384

National culture differences (Hofstede 382)
McDonalds goes Glocal 383-384

Ch.14 Global strategies and the Mutinational Corporation (Ctd.)

7-Strategy and organization within the multinational corporation

Inertia
Existence of organizational inertia
MNC captive of its own history; change is slow, difficult and costly
Structure constraints ability to build new strategic capabilities

Three eras
1-European Multinationals
2-US Multinationals
3-Japanese Multinationals
Characteristics and traits at foundation still influence them

Transnational corporation
Shift from national subsidiaries divisions to worldwide product divisions

New approach for reconciliation:
-global strategies with global product platforms
-greater decentralization
-centralization of R&D; creativity and innovation nurturing
-new internal management (**Transnational organization 387-388 […], Center of excellence 389**)

Unilever, Shell, ICI, Philips 385
GM, Fordd, IBM, Cocal cola, Caterpillar, Gillette, Procter & Gamble 386
Honda, Toyota, Matsushita, NEC, YKK 386
Shell, Philips, Ford, P&G, Nomura, Hitachi, NEC 386
HP 386
P&G, Philips, Unilever, Siemens, Toyota, Matsushita, Citigroup, IBM, Philips, Nexans, HSBC, Tetra Pak 388

Ch.15

Diversification strategy

Ch.15 Diversification strategy

Themes of chapter

1-Introduction and goals

2-Trends

3-Motives

4-Competitive advantage

5-Diversification and performance

Ch.15 Diversification strategy (Ctd.)

1-Introduction and goals

Value

Diversification can be the best or the worst for a firm's strategy
Diversification helps to survive hard times because of the diversity of industries in a firm's portfolio
Specialization (Concentration) restricts operations to a single industry and condemns the firm to the fortunes of this industry

Shell, McDonalds, Caterpillar 394

How

Two questions:
1-How attractive is the industry to be entered? Superior profit potential
2-Can the firm establish a competitive advantage within the new industry? Ability of firms to create competitive advantage in new industry
Attractiveness Assets frame **(AA)** is OK for decision

RJR Nabisco, Reynolds American, ITT, Hanson, Gulf & Western, Cendant, Tyco 394

Under which conditions does operating a multi business assist a firm in gaining a competitive advantage in each?

Microsoft, Nokia, PepsiCo, Cocal cola 394

Synergy 395

Ch.15 Diversification strategy (Ctd.)

2-Trends

Diversification 1950-1980
Multiple, unrelated acquisitions and constitution of **conglomerates** 395
No need for industry-specific knowledge; financial techniques for financial and strategic management are enough

ITT, Textron, Allied-Signal 395 Hanson, Slater-Walker, BTR 395

Refocusing 1980-2006
Divestment of Non core businesses
Leveraged buyouts

Emphasis on shareholders' value, and from growth to profitability
Turbulent environment increased stress, inefficiency and delay; external factor markets (especially capital market) has become increasingly efficient

Kohlberg, Kravis Roberts KKR, RJR Nabisco 396

In developing countries, large conglomerates dominate their national economies

Tata, Reliance (India), Charoen Pokhand (Thailand), Astra (Indonesia), Sime Darby (Malaysia), Grupo Alfa, Grupo Carso (Mexico) 397

Strategic management more selective about conditions for diversification: ability to share R&C more efficiently than alternative institutional arrangements and still outweigh the additional cost of exploiting them

Diversification and evolution of management thinking Fig 15.1 p398

Ch.15 Diversification strategy (Ctd.)

3-Motives

Growth

Quest for growth and profitability possible together

Managers have incentives to pursue growth rather than profitability

3M, Canon 399
Tobacco, oil 399
Philip Morris, 7-Up, Miller, Clark, Kraft, General Foods, Exxon 399

Risk reduction

"Spreading risk" so long cash flows of businesses are imperfectly correlated

Does it create value for shareholders? Investor holds a diversified portfolio. Transaction cost to diversify through acquisition is higher than through portfolio diversification (banks, adviser costs; acquisition premium)

Exxon Mobil, BP 400

Capital Asset Pricing Model CAPM 399 Systematic and unsystematic risks

Studies show generally no shareholder benefit of diversification that simply combines independent businesses

But may benefits employees (transferability between businesses)

May benefits lenders (**coinsurance effect 400**)

Profitability

Three tests:

1-Attractiveness test

2-Cost-of-entry test

3-Better-off test

Pharmaceuticals, management consulting, investment banking 401
Procter & Gamble, Gillette, Wal*Mart 401
Allianz, Dresdner Bank 401

Ch.15 Diversification strategy (Ctd.)

4-Competitive advantage

Economies of Scope EoSco

Economies of scope 402, Note 412 Increasing output across several products

Economies of Scale EoSca 402 Increasing output for a single product

Shared service organization 402

Tangible resources
Intangible resources
Organizational capabilities

General management capabilities 403

Cable TV, telephone 402
British Gas 402
Boeing, United technologies 402
General Electric 402
Starbucks
LVMH 402
Sharp 403
3M 403

Economies from internalizing transactions

EoSco in R&C by selling or licensing use of R&C to another firm
Relative efficiency determines if diversification more interesting vs. external market contracts: comparison of transaction costs and administrative costs.
Depends on characteristics of R&C

Starbucks, PepsiCo 403
Dreyers, Walt Disney 403
Airport and railroad station operators 403
Walt Disney 404
3M, Apple, Virgin 404

Ch.15 Diversification strategy (Ctd.)

4-Competitive advantage

Diversified firm as an internal market

EoSco alone are not enough; they must be backed by transaction costs
However, transaction costs can offer diversification efficiency gains even if there is no EoSco

1-Internal capital market
Cash using and generating business portfolio
Better access to information
But politicized process of resource allocation

Makron associates, GE, Bershire Hathaway, Hutchison Wampoa, Bouygues, Lagardere, Westfarmers, ITC, Carso 405

2-Internal labor market
Transferring employees inside
Attraction of high caliber employees

Canon, GE, Unilever, nestle 405

Ch.15 Diversification strategy (Ctd.)

5-Diversification and performance

Performance and diversification
No consistent and systematic relationship
Curvilinear relationship between diversification and profitability because beyond a certain point, deteriorating profitability

ITT, Hanson, oil and tobacco firms, Daimler-Benz 406

Timing is key
Association vs. causation
Depends on the mode of diversification

Related and unrelated diversification
Related diversification more profitable than unrelated
But other explanations or rival explanation […] 407

3M, GE, LVMH 407

Meaning of relatedness
No unambiguous criteria to determine, but depends on the firm undertaking the diversification (operational and strategic relatedness)

Berkshire Hathaway, Virgin, Allegis Corp, General Mills 408 Exxon, Vivendi, AT&T, NCR, HP, IBM, 3M, Canon, Samsung, Dupont 409

Determinants of strategic relatedness:
1-Resource allocation
2-Strategy formulation
3-Performance management and control

Dominant logic 408 Managers' cognition of the rationale that links their businesses

Diversification and market power (Appendix 411)

Ch.16

Managing the multibusiness corporation

Ch.16 Managing the multibusiness corporation

Themes of chapter

1-Introduction and goals

2-Structure of multibusiness company

3-Role of corporate management

4-Managing corporate portfolio

5- managing individual businesses

6-Managing internal linkage

7-Leading change

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1-Introduction and goals

How should a firm be structured and managed to exploit these sources of value? Critical issue to be addressed in Ch.16.

Generally a Divisional form exists (called Multidivisional) and coordinated by corporate HQ

Roles of corporate HQ and links between the businesses and the corporate center

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2-Structure of multibusiness company

Common repartition of roles
Corporate strategy: corporate management
Business strategy: divisional management

Theory of M-Form (Multi-divisional)
Four key advantages:
1-Adaptation to “bounded rationality”, allows decision-making to be dispersed
2-Allocation of decision-making: level according to frequency of decision types
3-Coordination costs: Minimizes because eases information and decision-making burden to top management
4-Goal conflict: avoids such conflicts between divisions

Contribution to resolution of two critical problems:
1-Allocation of resources
Politicization in purely hierarchical systems; internal capital market; standardized approval and appraisal
2-Agency problem
Corporate management is interface between owners and divisional managers and can enforce adherence to profit goals; agent of owners to monitor performance
Staffing advantage
Resource allocation advantage

Problems of M-Form (Multi-divisional)
1-Constraints on decentralization
Fiefdoms and divisional high power
2-Standardization of divisional management
Powerful forces to standardize which could be obstacle for each division to perform well

Viacom, Alcoa, SAB Miller 416

GE, Emerson Electric, BP 418

Occidental Petroleum, Hughes Corp., Enron, Tyco, Vivendi Universal 418
Exxon 419

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3-Role of corporate management

Administrative and leadership
Implementing corporate strategy
Participating into business level strategies formulation
Coordination of divisions
Cohesion, identity and direction

Three main activities
1-Management of corporate portfolio
2-Guidance and control over businesses
3-Management of linkages between businesses

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4-Managing corporate portfolio

Corporate strategy: composition and balance of portfolio

1-Extension
2-Deletion
3-Change in balance (resource allocation)

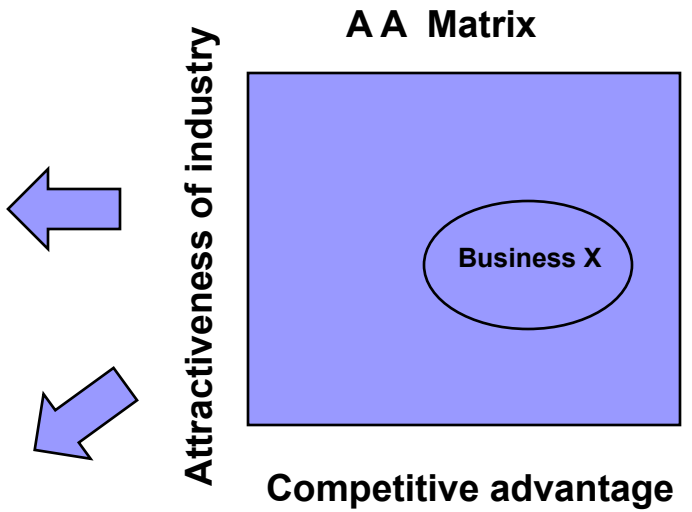
Innovations:

1-Portfolio planning models 420 (two-dimension)
2-SBU 420
3-PIMS database 420

GE/McKinsey Matrix
-allocation of resources
-formulation of SBU strategy
-analysis of portfolio balance
-performance target setting

Detail of the two dimensions

BCG Matrix
Very simple
Detail of the two dimensions
Easy and fast; allows sifting huge amount of information; versatile; useful point of departure
But weaknesses



Time Warner 422
BMW, Disney 423

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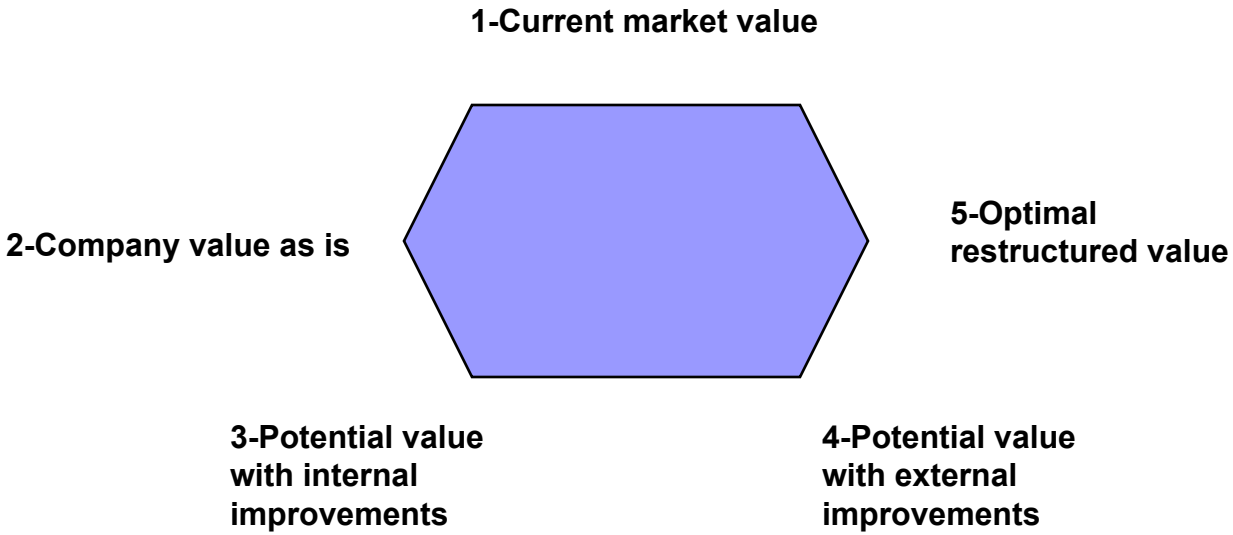
4-Managing corporate portfolio

Restructuring pentagon (Mc Kinsey)

Whether the market value of firm is greater with a particular business or without it?
Systematic framework to increase market value of multi-business companies through a five-step sequence:



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5-Managing individual businesses

Standalone influence = corporate parent influence on businesses through a range of means […] 425
Two primary means:
1-Input control (decisions)
2-Output (performance target)
Unavoidable trade-off between the two

GE, Exxon, Samsung, Unilever 426
Microsoft, Boeing, Textron 426
Capsule Exxon 427-428

Strategic planning system
Distinction CL-S and BL-S more complex
BL-S formulated jointly by corporate and divisional managers

Need to create a strategy-making process that reconciles the decentralized decision making to fostering flexibility and responsiveness and sense of ownership at divisional level with ability of corporate level to bring knowledge, vision and responsibility

Strategic planning systems do not make strategy
Weak strategy execution
(**Milestone** 426)
Balance scorecard
Strategy maps
Office of management strategy

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5-Managing individual businesses

Performance and budgeting systems
Performance targets (financial, strategic, operational)

Incentives
Corporate culture
Linking personal incentives to company performance goals not so easy (weaknesses)

Strategic planning 430
Strategic control 430

Using PIMS database
Developed by GE and SRI
5,000 SBU used to estimate impact of strategy and market structure on business-level profitability
1-Setting performance target
2-Formulate business strategy
3-Allocate resources between businesses

ITT, PepsiCo, BP 429
BP, BOC, Cadburry Schweppes, Lex Group, STC, United Biscuits 430
Hanson, BTR, GE, Ferranti, Tarmac 431

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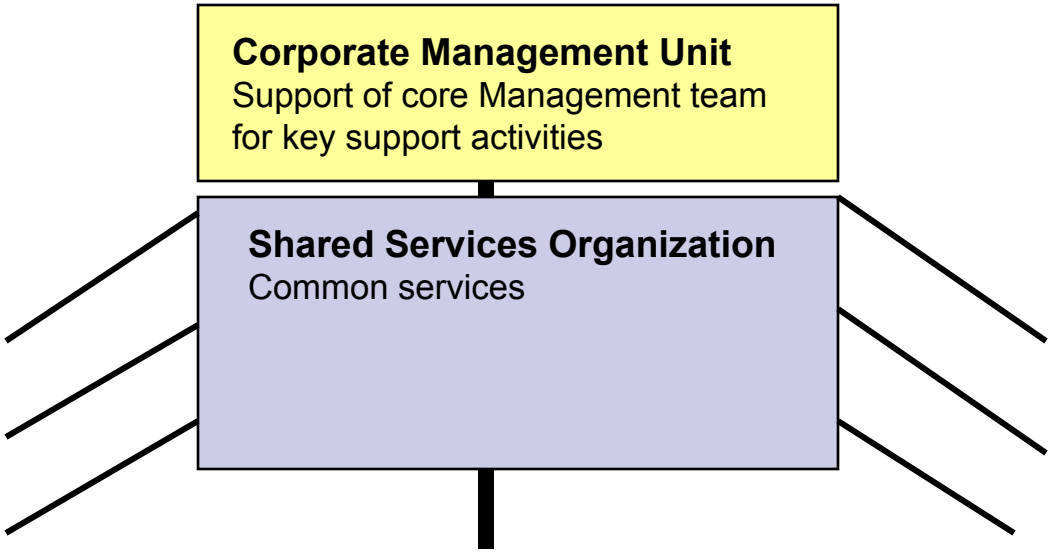
6-Managing internal linkages

Common corporate services

Strategic planning
Financial control
Cash and risk management
Audit
Taxation
Government relations
Shareholder relations
Research
Engineering
HRM
Legal services
Management development
Administrative service subject to EoSca or learning

Little incentive to HQ to satisfy needs of divisions, but tendency to grow under their own momentum

AB 433
Koor Industries, Berkshire Hathaway 433
Tomkins, Tyco, Textron 433
Carlyle, KKR, Blackstone, Texas Pacific, Alchemy, Candover 434
LVMH, Sharp 433
IBM, Procter & Gamble, American Express, Alcoa 433
Berkshire Hathaway, HP, Pfzizer, Corning, Dow, Virgin, GE, paper companies, financial services 435



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6-Managing internal linkages

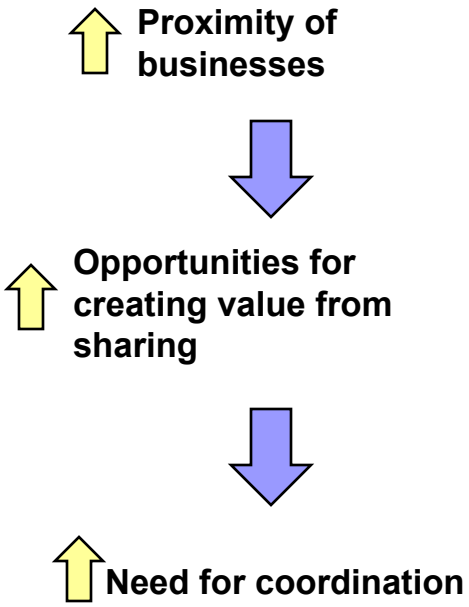
Management of linkages between businesses: four types

1-Portfolio management
Autonomous businesses linked only by efficient internal capital market
Holding 433

2-Restructuring
Acquiring poorly managed businesses, appoint new management, dispose underperforming businesses, restructure liabilities, cut costs

3-Transferring skills
Sharing skills, personnel, and best practices

4- Sharing activities
EoSco
Coordinating role of corporate management
Vehicles for cross business cooperation: corporate identity, mission that integrates business level strategies, incentive for cooperation, inter-business task-forces



Value added corporate parenting 435
Cross-divisional task forces 435
Dominant logic 435 is key (how do top management understands the commonalities between businesses

Exploiting links implies costs

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7-Leading change

Management of multi-business corporation

Shift to value creation, to decentralization, informal coordination, more informal role for HQ (service center, guide for future, knowledge hub)

Change is about involving lower levels of organization

General Electric Capsule 436-437
1-Delayering
2-Changing strategic planning system
3-Role of HQ
4-Role of coordination of corporate

Management of contradictions and dilemmas
1-Efficiency but innovation and entrepreneurial spirit
2-Exploit existing and develop new
3-Autonomy and integration
Multiple roles simultaneously
Decentralized flexibility and initiative AND centralized purpose and integration
Flexible integration necessary
Strategic inflexion point 438

Beyond strategic and operational relatedness, toward a cultural glue

Differentiation and Integration
Three central management processes:
1-Entrepreneurial process 439
2-Integration process 439
3-Renewal process 439
At three levels of firm: corporate, middle, SBU

Intel, Microsoft, Siemens, Samsung, IBM, McDonalds, De Beers, LVMH 438
ITT, Allegis 440

Ch.17

Current trends in strategic management

Ch.17 Current trends in strategic management

Themes of chapter

1-Introduction

2-External environment

3-Strategic thinking

4-Redesigning organization

5-Leadership

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1-Introduction

What happened?

Volatility and unpredictability of environments
Ability to be flexible and responsive

New thinking about nature of strategies, responsibilities of firms and role of management

Specific strategy responses from firms are required

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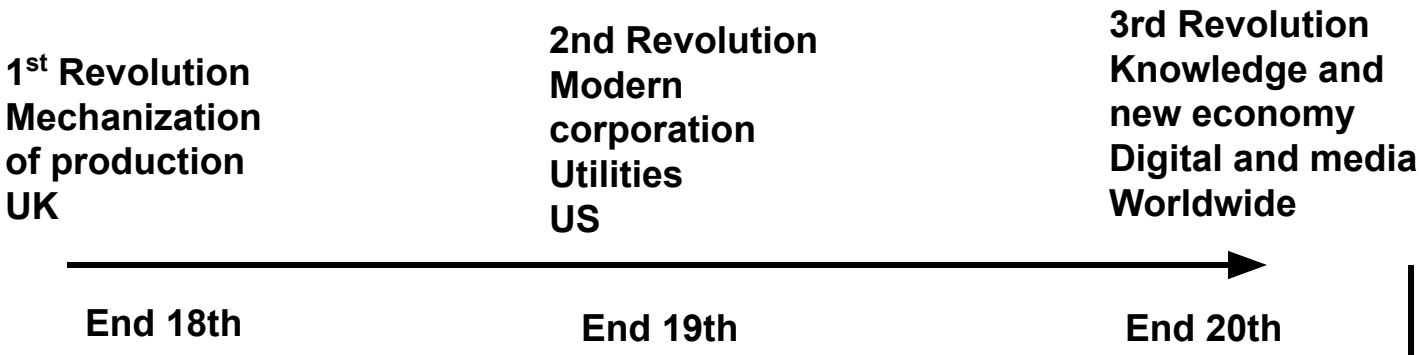
2-External environment



Kazaa, Skype VoIP, Sony, Microsoft 446
Telecom operators, internet provider, cable TV, Nokia, RIM, Nintendo, Apple 446
GE, Exxon, Home Depot 446
Wal*Mart, News, Walt Disney, Marks & Spencer, IBM 447
Blackstone Group, KKR, HCA, Equity Office Properties, Philips, Aligent, Freescale semiconductor, Enron, Worldcom, Parmalat, Royal Ahold, Vivendi 447
Gap, Texas Pacific Group 448

Economics of replication, network effects and complementarities between types of knowledge create increasing returns
Digitally driven knowledge; internet
"Casino of technology"
Intensification of competition

Economic and social fit of strategy; **social legitimacy** 416
Corporate scandals
Executive compensation
Environmental concerns

→ **Societal pressures**

Mergers
Reversion to private status (often because buy out by private equity firm)

→ **Decline of public corporation**

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3-Strategic thinking

What happened?

Gains from cost cutting and restructuring have been picked
Quest for shareholder value had negative consequences (short-termism)

Back-to-basics
Refocus on fundamental sources of profitability

Skepticism about New economy and new business models
Profitability from deploying R&C to exploit external opportunities
Unique and customizes strategy that exploit idiosyncratic advantages
Strategic fit
Complementarity among different management practices of a firm
Retreat from generalization and rules in favor of particularism
Management choices tend to converge to a limited number of configurations

Accessing more complex and difficult-to-reach sources of competitive advantage

Lafarge, Holcim, Cemex, Heidelberg, Alcoa, Rusal, Alcan, Norsk Hydro, Pechiney 448

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3-Strategic thinking

Cisco 451
Yahoo, Intel, GE, BP Disney 452
Consumer electronics, packaging, investment banking, Scottish island, North Sea oilfield, petrochemical plant, consumer goods 452

Accessing more complex and difficult-to-reach sources of competitive advantage

Only sustainable competitive advantage is ability to create new sources of competitive advantage
Dynamic capabilities 449

Quest for a new model of corporation
From mechanistic equilibrium To Change, uncertainty, evolutionary model
Longevity and financial conservatism and sensitivity to external environment and cohesion
Learning organization 450

Real options
Valuation of real option values
Initially individual investment projects
Analysis relies heavily upon cash flow
More volatility and unpredictability mean greater importance of option values
Industry attractiveness depends on option value
Attractive resource is one that offers opportunities for development

Complexity theory
Complex systems 450
Unpredictability; self-organization; Inertia and chaos
Fitness landscape 451
Challenge for managers is to design organizational systems that allow self-organization the best chance of highest performance
Recommendations
Simple rules, conditions for incremental and radical change, accelerate evolution through flexible organizational structure, adaptive tension to position at edge of chaos
Boundary rules 451, **How-to rules, Priority rules, patching** 452

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4-Redesigning organization

Higher performance with broader repertoire of capabilities
Managing dilemmas: how to reconcile these conflicts

Capability-based structure
Outstanding capabilities and then coordination

Beyond unitary structure
Exploration vs. Exploration 455
Parallel learning structures 455
Communities of practice 455

Team, Project, Process-based structures
Flexible
We know little about dynamics of team interaction

Organizing for adaptability
Simple structure to allow individuals to self-organize
Ambidextrous organization 457

Identity 457
Modularity
Networks

3M, GE, Royal Dutch Shell 455
HP, World bank 456
Construction firms, consulting firms, Oticon A/S, Volvo 456
GE, IBM, Microsoft 457
Italian clothing, Italian motorcycle, Aprilia, Italjet, Ducati, Cisco Systems 458
Auto, Fashion clothing, Aerospace, Machine tools, Telecom equipment 458

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5-Leadership

Change-masters
Highly visible, individualistic, hard-driven management styles

Strategic decision makers, direction of firm

More creation and maintenance of organizational environment rather than decision making per se

Clarify and communicate identity

Role of values and purpose: CEO leader of culture, climate, identity and processes for clarifying vision, aligning…

Emotional intelligence 459
Self-awareness, self-management, social awareness, social skills

Social intelligence 460
Level 5 leadership [6…]

Chrysler, BP, Disney, News Corp. 458
BP 459
Philip Morris, Nucor, Kimberly-Clark 460
AES, Sun Microsystems, Kao Corp, Yahoo, Oticon 461