Strategic Management

Strategic Management and Competitiveness

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Module Learning Objectives

After the completion of this module learners will be able to:

- Define Strategy, Competitive advantage, Strategic Management Process
- Describe vision and mission.
- Describe Resources and Capabilities, and stakeholders
- Define core competencies.
- Describe Strategically valuable resources.
- Define Strategic Management, Strategic Management Process, Objectives, Policies.

Strategy

- Strategy is an integrated and coordinated set of commitments and actions designed to exploit *core competencies* and gain *competitive advantage*.
- When choosing a strategy, firms make choices among competing alternatives as the pathway for deciding how they will pursue strategic competitiveness.
- In this sense, the chosen strategy indicates *what the firm will do* as well as *what the firm will not do*.

Example

- Bharti Airtel focused on single business: telecommunications, that too in the mobile telephony segment using GSM technology, but with reinforcing presence in basic, broadband, internet service, and international telecom businesses.
- Bharti's strategic leaders also decided that the firm would pursue continuous innovation to stay ahead of its competitors, and that it would not diversify into any unrelated business, a principle it ha followed to this day.

- A firms strategy also demonstrates how it differs from its competitors.
- Idea cellular is solely in the GSM mobiles business.
- Each player tries to gain competitive advantage by playing the game differently.
- A firm must also demonstrate how its game is different.

Competitive Advantage

- A firm has a *competitive advantage* when it implements a strategy competitors are unable to duplicate or find too costly to try to imitate.
- An organization can be confident that its strategy has resulted in one or more useful competitive advantages only after competitors efforts to duplicate its strategy have ceased or failed.
- A firm should also understand that no competitive advantage is permanent.

Resources

- Resources are inputs into a firms production process, such as capital equipment, the skills of individual employees, patents, finances, and talented managers.
- In general, a firms resources are classified into three categories: physical, human, and organizational capital.
- Resources are either tangible or intangible.

Resources

- Tangible resources are assets that can be observed and quantified.
- Example: Production equipment, manufacturing facilities, hardware, software, server rooms, IT facilities and formal reporting structures are tangible resources.

- Intangible resources are assets that are rooted deeply in the firms history and have accumulated over time.
- Examples: Knowledge, trust between managers and employees, managerial capabilities, organizational routines, scientific capabilities, brand name, firms reputation for services, how it interacts with people.

Tangible Resources – 4 Types

Financial Resources	• The firms borrowing capacity • The firms ability to generate internal funds
Organizational Resources	• The firms formal reporting structure and its formal planning, controlling, an coordinating systems.
Physical Resources	• Sophistication and location of a firms plant and equipment • Access to raw materials
Technological Resources	• Stock of technology, such as patents, trademarks, copyrights, and trade secrets.

Source: Adapted from J.Barney, 1991, Firm resources and sustained competitive advantage, Journal of Management, 17, 101.

Intangible Resources

Human Resources	• Knowledge • Trust • Managerial Capabilities • Organizational Routines
Innovation Resources	• Ideas • Scientific capabilities • Capacity to innovate
Reputational Resources	• Reputation with customers • Brand Name • Perceptions of product quality, durability and reliability • Reputation with suppliers • For efficient, effective, supportive and mutually beneficial interactions and relationships

Adapted from R.Hall, 1992, The strategic analysis of intangible resources, Strategic Management Journal, 13, 139.

Capabilities

- A capability is the capacity for a set of resources to perform a task or an activity in an integrative manner.
- Capabilities evolve overtime and must be managed dynamically managed in pursuit of above average returns.
- Capabilities are often developed in specific functional areas (manufacturing, services, R&D, marketing)

Example of firms capabilities

Functional Area	Capabilities	Examples of Firms
Human Resources	Motivating, empowering, and retaining employees	Microsoft, Infosys
Management Information Systems	Effective and efficient control of inventories through point of purchase data collection methods	Wal-Mart, HUL, ITC
Management	Ability to envision the future of clothing Effective organizational structure	Hugo Boss PepsiCo
Manufacturing	Product Design and quality	Tata Motors
Research and Development	Development of sophisticated elevator control systems	Otis Elevator Co.

Core competencies

- Core competencies are resources and capabilities that serve as a source of competitive advantage for a firm over its rivals.
- Core competencies are often visible in the form of organizational functions.

- Example: Innovation is a core competence at Apple.

- Not all of a firms resources and capabilities have the potential to be the foundation for a competitive advantage.
- This potential is realized when resources and capabilities are valuable, rare, costly to imitate and non-substitutable.

Stakeholders

- Stakeholders are the individuals and groups who can effect the firms vision and mission, are affected by the strategic outcomes achieved, and have enforceable claims on the firms performance.
- Claims on a firms performance are enforced through the stakeholders ability to withhold participation essential to the organisations survival, competitiveness and profitability.
- Stakeholder can be separated into three groups:
  - Capital Market stakeholders
  - Product Market stakeholders
  - Organizational stakeholders

Organizational Culture

- Organizational culture refers to the complex set of ideologies, symbols, and core values that are shared throughout the firm and that influence how the firm conducts business.
- It is the social energy that drives – or fails to drive – the organization.

Example:

- Southwest airlines is known for having a unique and valuable culture. Its culture encourages employees to work hard but also to have fun while doing so.
- The firm also places a premium on service, as suggested by its commitment to provide POS (Positively outrageous service) to each customer.

Vision

- Vision is a picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve.
- Vision is "big picture" thinking with passion that helps people feel what they are supposed to be doing in the organization.
- Vision statements reflects a firms values and aspirations and are intended to capture the heart and mind of each employee and hopefully many of its other stakeholders.

Example vision:

- To be globally respected corporation that provides best of breed business solutions, leveraging technology delivered by best-in-class people (Infosys)

Mission

- The vision is the foundation for the firms mission.
- A mission specifies the business or businesses in which the firm intends to compete and the customers it intends to serve.

- Example (Infosys): To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large.
- Example (TCS): To help customers achieve their business objectives by providing innovative, best-in-class consulting, IT solutions and services. Make it a joy for all stakeholders to work with us.
- Example (HCL): "We will be the employer of choice and the partner of choice by focusing on our stated values of Employees First, Trust, Transparency, Flexibility and Value Centricity."
- A firms vision tends to be enduring while its mission can change in light of changing environmental conditions.

Strategically Valuable Resources

A resource is strategically valuable if:

- **It is hard to copy**: Rivals cannot copy resources if they are physically unique, for example, a desirable real estate location.
- **It depreciates slowly**: Disney's powerful brand name survived almost two decades of benign neglect between Walt Disney's death in 1966 and the installation of Michel Eisner n 1984.
- **Your company, no employees , suppliers or customers – controls its value**: For example, your company does not lose critical knowledge when a key employee resigns.
- **It cannot be easily substituted**: Because of easy substitution, the steel industry lost a major market in beer cans to aluminum makers.
- **It is better than competitors similar resources**: A maker of medical diagnositics test equipment designed an easy interface between its machines and people. This design enabled it to expand into doctors offices, where office personnel could operate its equipment.

Strategic Management

- Strategic Management is defined as the art and science of formulating, implementing and evaluating cross functional decisions that enable an organization to achieve its objectives – *Strategic Management by Fred R.David, Pearson Education*.

- As this definition implies, strategic management focuses on integrating management, marketing, finance, production/operations, research and development, and computer information systems to achieve organizational success.

Strategic Management Process

- Is the full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above average returns.
- This firms first step is to understand the external environment and internal organization to determine its resources, capabilities, and core competencies – the sources of is “strategic inputs”.
- With this information the firm develops its vision and mission and formulates one or more strategies. To implement its strategies, the firm takes actions toward achieving strategic competitiveness and above average returns.

Long Term Objectives

- Objectives can be defined as specific results that an organization seeks to achieve in pursuing its basic mission.
- Long term objectives means more than one year.
- Objectives are essential for organizational success because they state direction; aid in evaluation; create synergy; reveal priorities; focus coordination; and provide a basis for effective planning, organizing, motivating, and controlling activities.
- In a multidimensional organization, objectives should be established for the overall company and for each division.

Strategies

- Strategies are the means by which long-term objectives will be achieved.
- Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures.

Strategies in Action (Example from 2004)

- Krispy Kreme's revenues have skyrocketed in USA as its number of stores has grown from 144 in 2001 to 276 in 2003.
- Now the doughnut company is expanding into Great Britain with plans to open 25 shops there in next five years.
- But Dunkin Donuts, a major competitor failed in the 1990s in its attempt to establish stores in Britain.
- Krispy Kreme believes that it can tailor its doughnuts to British culture, as it has in South Korea where it offers fix, mango, and red-bean paste doughnuts.

Annual Objectives

- Annual objectives are short term milestones that organizations must achieve to reach long-term objectives.
- Like long term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized.
- They should be established at the corporate, divisional, and functional levels in a large organization.
- Annual objectives are especially important in strategy implementation, where long – term objectives are particularly important in strategy formulation.
- Annual objectives represent the basis for allocating resources.

Policies

- Policies are means by which annual objectives will be achieved.
- Policies include guidelines, rules, and procedures established to support efforts to achieve stated objectives.
- Policies are guides to decision making and address repetitive or recurring situations.
- Policies can be established at the corporate level and apply to an entire organization at the divisional level and apply to a single division, or at the functional level and apply to particular operational activities or departments.

Policies - Examples

- The head office should authorize every purchase activity.
- The annual performance review of every employee should be undertaken on the individuals date of joining.
- Employees are prohibited from smoking inside the office premises.

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