**Theme 2 – competitive environment of organisations – ghemawat**

**Historical background:**

* Applying strategy to determine profitability
* Applying competitive thinking to business strategy
* Individual firms lacked the potetential to have influence on competitive outcomes
* Mass markets encouraged large scale investment to exploit economics of scale
* M formed companies managed to alter the competitive environment within their industries
* 1930s chester barnard argued managers should pay attention to strategic factors.
* Learning curve- direct labor costs tended to decrease by a constant percentage as cumulative quantity of output doubled
* By using formal planning a company could exert some positive control over market forces

**Acedemic underpinnings**

* Harvard business school – business policy – broader perspective
* 1950 harvard lecturer keneth Andrews – every company ought to have a cleary defined set of purposes or goals to which it works towards
* 1960s SWOT analysis major step forward in strategy
* Distinctive competence undefined – need to know if enduring and unchaning over long period of time, whats was more responsive and pressures of other environmental factores
* Company had to ‘gamble’ to achive their targets, arguments that firms were taking unnecessary risks by investing in products that mite not fit companys distinctive competence

**Rise of strategy consultants:**

* boston consulting group –‘need meaningful quantitative relationships not based on intuition or tradition’
* conceptual thinking is the skeleton or framework on which all other choices are sorted out
* experience curve- explains price and competitive behaviour in fast growing segments of industries
* claim –‘ for each cumulative doubling of experience *total* costs would decline by roughly 20-30% due to economies of scale, organiszaional learning and technonlogy innovatoion..
* experience curve – should be predictable –market share
* ideally have large % of mature business (cash coe) and some new developments(stars) and sell of old business(dogs), older business will have lower costs and greatest profits.
* Designed profit impact of market strategies(PIMS) containded data on 620 sbu’s from 57 coperations.
* 1970 – every consulting firm used a portfolio analysis to generate strategy recommendations.
* Portfolio analysis questioned with recession, increased enery and oil costs, weaker business sold of or died
* Attacks that traditional structures were maintained and only slightly tuned leaving companies open to attack from weaker opposition
* Attack- Harvard 1980 encourages preference for analytic detachment rather than insight from hands on expericnce, and short term cost reduction rather than long term commitment of resources
* End of portfolio analysis focus on industry attractiveness and competitive position

**Unbundling industry attractiveness:**

* 3 barriers of entry into industry: absolute cost advantage of established firm, degree of product differentiation and economics of scale.
* Industrial organistaion IO focused on public policy rather than maximising profits, using a limited list of structuralvariables to explain industry profitability shortchanged the richness of modern industrial competition
* Porters five forces framework for the average competiton noted trade-offs rather than statistical models
* Emphasis on extended competition rather than just comp between existing rivals, 5 forces became widely popular easy to implement
* Argued that framework made 3 assumptions: industry consists of set of unrelated buyer sellers subs and competitors, second source of value is structural advantage third uncertainty is sufficiently low that u can accurately predict participants behaviour and choose strategy accordingly

**Unbounding competitive position:**

* Diffences in average profitability of industries can be large, difference in profitability within industries can be larger, competitive position important
* Used cost analysis as basis for assessing comp position
* Disaggreaged business to find and spread costs, enriched their menu of cost drivers to include more than just experience
* Disaggregated business entire cost structure but idea diffused quick, template for activity analysis became prominent
* Created field maps, matrices of shared cost within smaller structures and individual influences of richness were considered seperatly as they were all influenced differently
* Customer analaysis- increased attention to customers in the process of analysing comp position
* Reconsider idea of lower cost in production and lower cost to consumer, possibility of higher costs by improving customers performance or reducing their other costs.
* Either low cost or else premium product with higher price
* Putting consumer and cost analysis together was promoted by desaggregating businesses into activities but also splitting customers into segments. Some case 20% of customers made up 80% of profits

**Competitive dynamics and history:**

* Early value based work focused on the spread between a company or divisions rate of return and its cost of captical as the basis for solving the problem of resource allocation across business
* Red queen effect- idea as organistations struggled to adapt to competitive pressures they became stronger competitors sending overall level of competition spriling up and eliminatednd morst of competitive advantages.
* Focus on future needs of customer rather than current needs to get ahead of competition
* Strategy is and always has been a moving target
* GAME THEORY- mathematical study of interactions vetween players whos payoffs depend on each others choices(one players gain equal to other players loss)
* Resource based view of firm- idea of looking at companies in terms of their resource endowments is an old age, resources are hard to control or gain acess to and in some cases may only be available through historical relations
* *DYNAMIC CAPABILITIES:* 1990s capabilities are to be developed rather than taken as given routines important- management manufacturing human resources,
* COMIMITMENT-constraints imposed by past choices on present ones
* Commitments to durable , firm specific resources and capablilities that are hard to come by (bought or sold) account for the persistence observed in most startegies
* Current decisions affect current and then future decisions and future profits

**Markets for ideas at the millennium:**

* All business different follow different strategies, strategies changing rapidly
* Re engingeering encouraged, consulatants became busier until people realised re engineering was just downscaling
* Large turnover of ideas, companies are unsure what value of strategy is to them until it is implemented
* Managers choice which strategy to take and weather he will hide inside the herd or take responsibility for his actioas