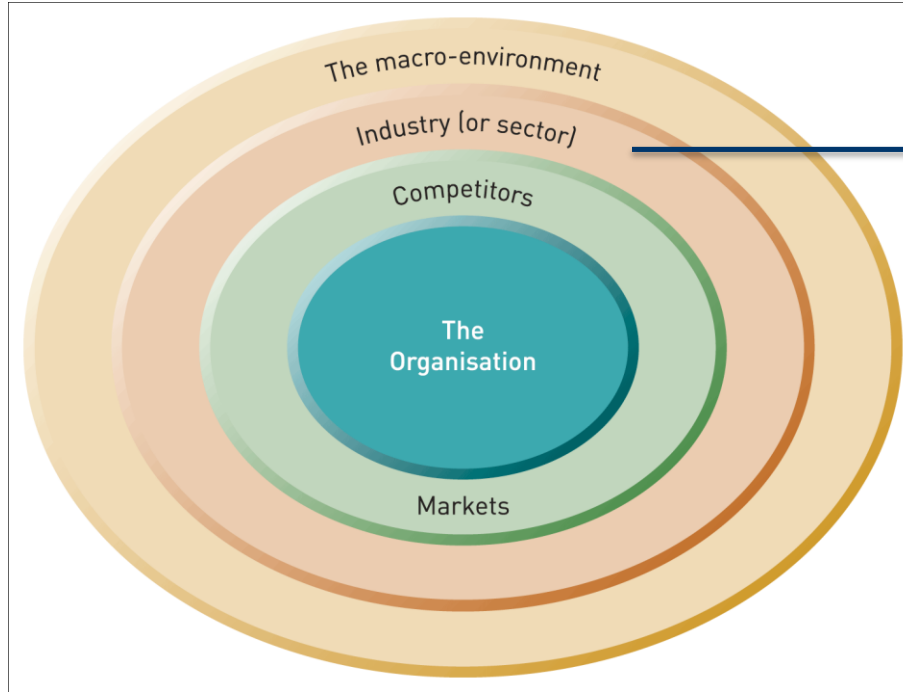


# EXC3505 – STRATEGY

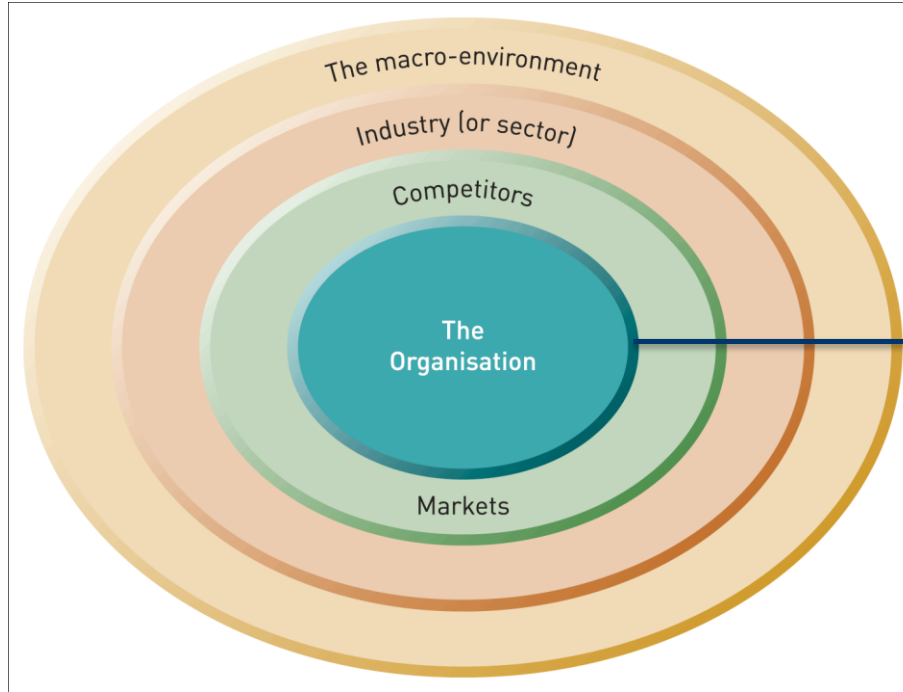
## Week 3

# Last week



External environment is important in explaining firms' profitability

# Question



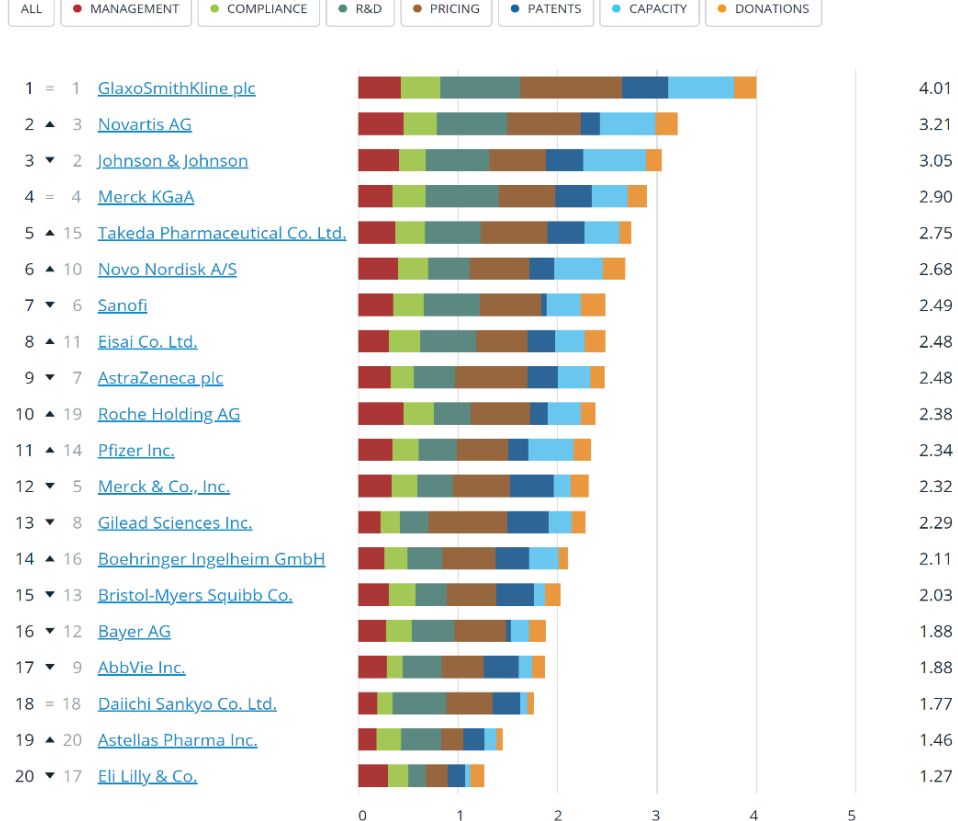
Do firms have same external environment  
have same performance too? Any example?

# Pharma Ranking

1. GlaxoSmithKline

...

16. Bayer



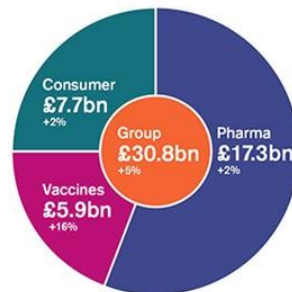
The ranking above shows the position and score of each company in the 2018 Index and how their position changed from the 2016 Index. Click on each company name to view the individual report cards.

# Pharma Ranking

## GSK FY 2018 results

All at constant exchange rates (CER)

GSK delivers sales, earnings and cash flow growth in 2018



Numbers do not add to the total because they have been rounded to the nearest £0.1bn.

See [press release](https://www.gsk.com) on [www.gsk.com](https://www.gsk.com) for full details on FY 2018.

Please read the cautionary statement regarding **forward-looking statements** and the definitions and reconciliations for non-IFRS measures on page 4-5 and 44-45 of the press release.

CER% represents growth at constant exchange rates.  
For a full explanation please see page 44 of the press release.

Total Group operating margin  
**17.8%**  
+5.0%pts

Adjusted Group operating margin  
**28.4%**  
+0.5%pts

Total EPS  
**73.7p**  
+>100%

Adjusted EPS  
**119.4p**  
+12%

Free cash flow  
**£5.7bn**  
2017: £3.5bn

2018 dividend  
**80p**

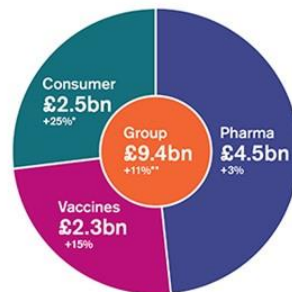


Immune system T-cells attacking a cancer cell

# Pharma Ranking

## GSK Q3 2019 results

GSK delivers sales growth across all three businesses  
All % at constant exchange rates (CER)



See [press release](http://www.gsk.com) on [www.gsk.com](http://www.gsk.com) for full details on Q3 2019.  
Please read the cautionary statement regarding the definitions and reconciliations for non-IFRS measures and the **forward-looking statements** on pages 9 and 59 of the press release.  
CER% represents growth at constant exchange rates.  
For a full explanation please see page 56 of the press release.  
\*Pro-forma growth +3%  
\*\*Pro-forma growth +6%

Total Group operating margin  
**22.9%**

Adjusted Group operating margin  
**29.7%**

Total EPS  
**31.4p**  
-1%

Adjusted EPS  
**38.6p**  
+1%



# Pharma Ranking

BBC

Sign in

News

Sport

Reel

Worklife

Travel

Future

W

## NEWS

Home

Video

World

UK

Business

Tech

Science

Stories

Entertainment & Arts

Business

Market Data

Global Trade

Companies

Entrepreneurship

Technology of Bus

### Bayer to cut 12,000 jobs and sell brands

© 29 November 2018



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NORWEGIAN  
BUSINESS SCHOOL



# Question

- Why do Glaxo and Bayer perform so differently?



# Today's class

## Internal analysis

- Resource-based view (RBV)
  - Diagnosing resources and capabilities
  - Dynamic capabilities
- 
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic management journal*, 5(2), 171-180.
  - Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.

# Resource-based View

- Resource---what firms have
  - Imagine a pharmaceutical firm, what resources can you think of?

# Resource-based View

- Resource---what firms have
  - Let's imagine a pharmaceutical firm, what resources can you think of?
- Will two firms always perform very similarly, if
  - They have the same external environment
  - They have the same resources

# Resource-based View

- Resource---what we have
- Capability---how we deploy resources

# Resource-based View

- Resource---what we have
- Capability---how we deploy resources
  - Any example about how firms misuse their valuable resources?

# Resource-based View

- Capability---how we deploy resources
  - Machines need to be operated
    - (lab explosions are common!)
  - Talented people can resign
    - Nike example
  - Good brand image needs to be maintained
    - Nike example



## Nike president Trevor Edwards resigns as company alludes to workplace issues



Darren Rovell  
ESPN Senior Writer

Mar 16, 2018

Nike president Trevor Edwards has resigned and will retire in August, the brand announced Thursday, moments after Nike sent out a company-wide email to its employees alluding to workplace behavior issues.

"Over the past few weeks, we've become aware of reports occurring within our organization that do not reflect our core values of inclusivity, respect and empowerment at a time when we are accelerating our transition to the next stage of growth and advance of our culture," Nike CEO and chairman Mark

# Types of resources and capabilities



Garbage outside a factory



Garbage inside a factory



Garbage inside a factory



Shelves overfilled and disorganized

- Threshold resources & capabilities
  - Satisfy customer's min requirement to *survive*
    - Can be surprisingly low sometimes
  - (Usually) increase over-time

Bloom, N., Eifert, B., Mahajan, A., McKenzie, D., & Roberts, J. (2013). Does management matter? Evidence from India. *The Quarterly Journal of Economics*, 128(1), 1-51.

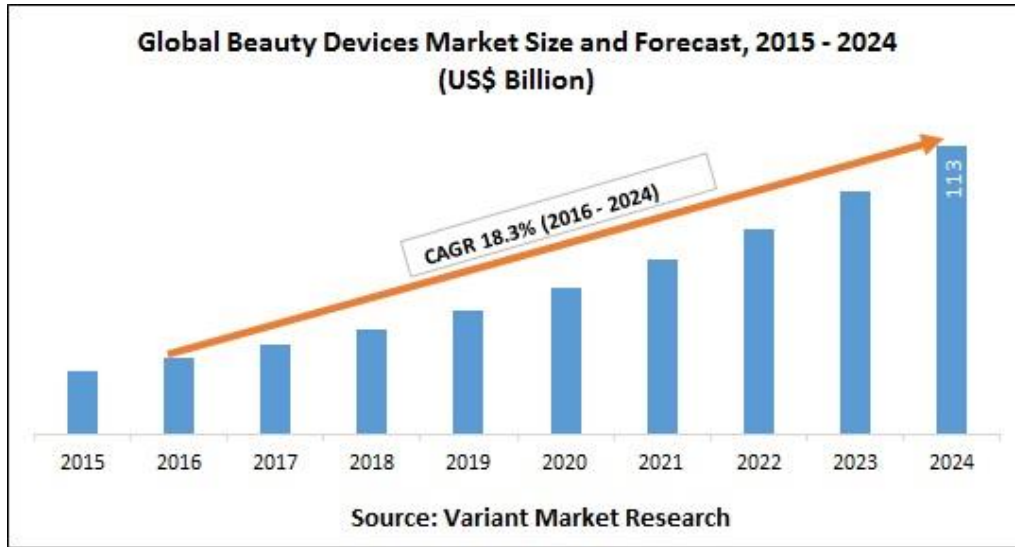
# Types of resources and capabilities

- Distinctive resources and capabilities
  - The basis for competitive advantage
  - VRIO
    - Valuable
    - Rare
    - Inimitable
    - Organization supportable



# Distinctive Resources and Capabilities

- Valuable resource and capabilities



dyson



Dyson Supersonic™ hair dryer Fuchsia/Iron

# Distinctive resources and capabilities

- Valuable resources and capabilities
  - Capture opportunities/neutralize threats
  - Valued by customers
  - Affordable

# Distinctive Resources and Capabilities

- **Rare**
  - What if everybody in the market has your resource/capability?

# Distinctive Resources and Capabilities

- **Inimitable**

- What if your rivals could easily imitate your resource/capability?

# Distinctive Resources and Capabilities

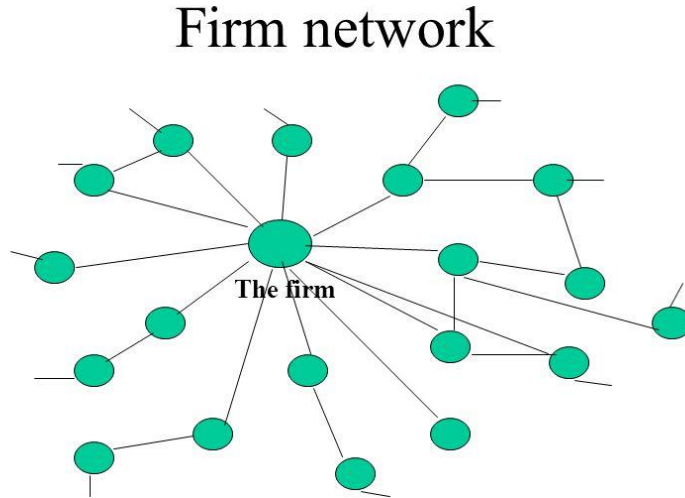
- **Inimitable**

- What if your rivals could easily imitate your resource/capability?
- What kind of resource and capabilities are hard to imitate?



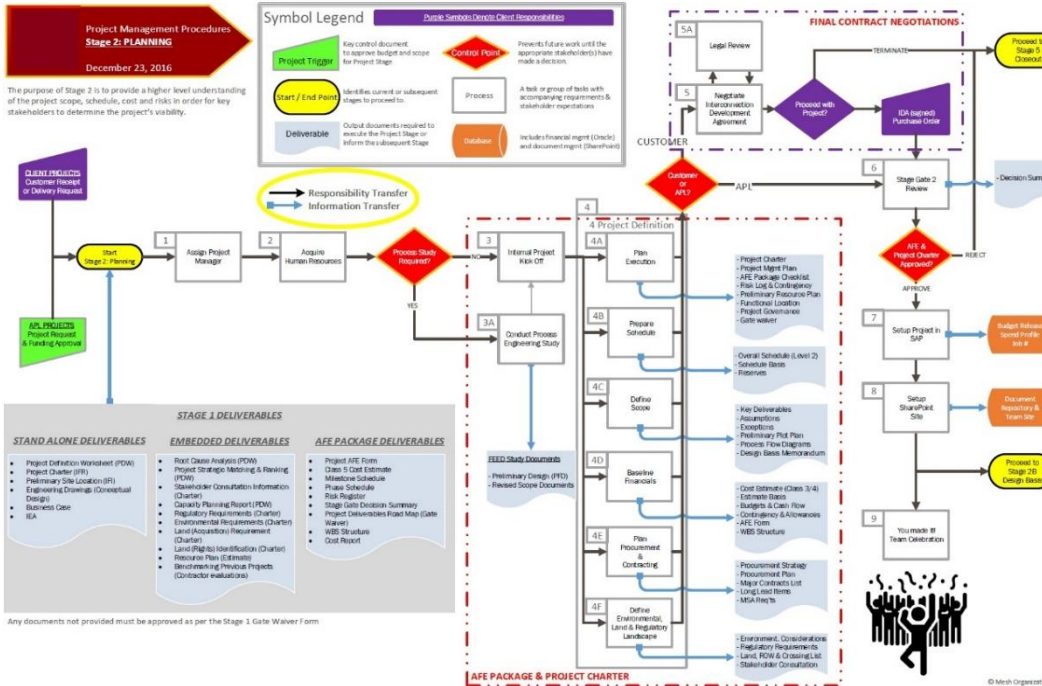
# Distinctive Resources and Capabilities

## Part III



- **Inimitable resource and capabilities**
  - Complex internal and external linkages
  - Causal ambiguous
  - Culture and history related

## Distinctive Resources and Capabilities



- **Inimitable resource and capabilities**
  - Complex internal and external linkages
  - Causal ambiguous
  - Culture and history related



# Distinctive Resources and Capabilities

56,923 views | Mar 19, 2012, 04:09pm

## Why Half of All M&A Deals Fail, and What You Can Do About It



Forbes Leadership Forum Contributor

Leadership

News, Commentary, and Advice About Leadership

- f** This article is by Robert Sher, the founding principal of *CEO to CEO*, a firm that advises chief executives of mid-market companies who are navigating major shifts in their business or marketplace. He is the
- t**

- **Inimitable resource and capabilities**

- Complex internal and external linkages
- Causal ambiguous
- Culture and history related
  - Start-up vs. incumbent
  - M&A example

# Distinctive Resources and Capabilities

- **Organizational support**
  - Kodak had the most patents on digital camera technology
  - Spinoffs

## Graceful Exits and Missed Opportunities: Xerox's Management of its Technology Spin-off Organizations

Henry Chesbrough • Published 2002 • DOI: [10.2307/4127710](https://doi.org/10.2307/4127710)

The Xerox Corporation has devised several strategies for managing the numerous spin-off firms that independently commercialized many of its technologies. From 1979 to 1998, thirty-five technology-based organizations emerged from Xerox's research centers. Contradicting the common perception that Xerox "fumbled the future" by letting its technology walk out the door, in fact the company set in motion a series of deliberate initiatives to manage its spin-off organizations. After initially adopting... [CONTINUE](#)

[READING](#)



# Diagnosing Resources and Capabilities

- **Tools to Analyse Resources and Capabilities**
  - VRIO analysis
  - Value chain and value system
  - Benchmarking
  - SWOT

# Diagnosing Resources and Capabilities

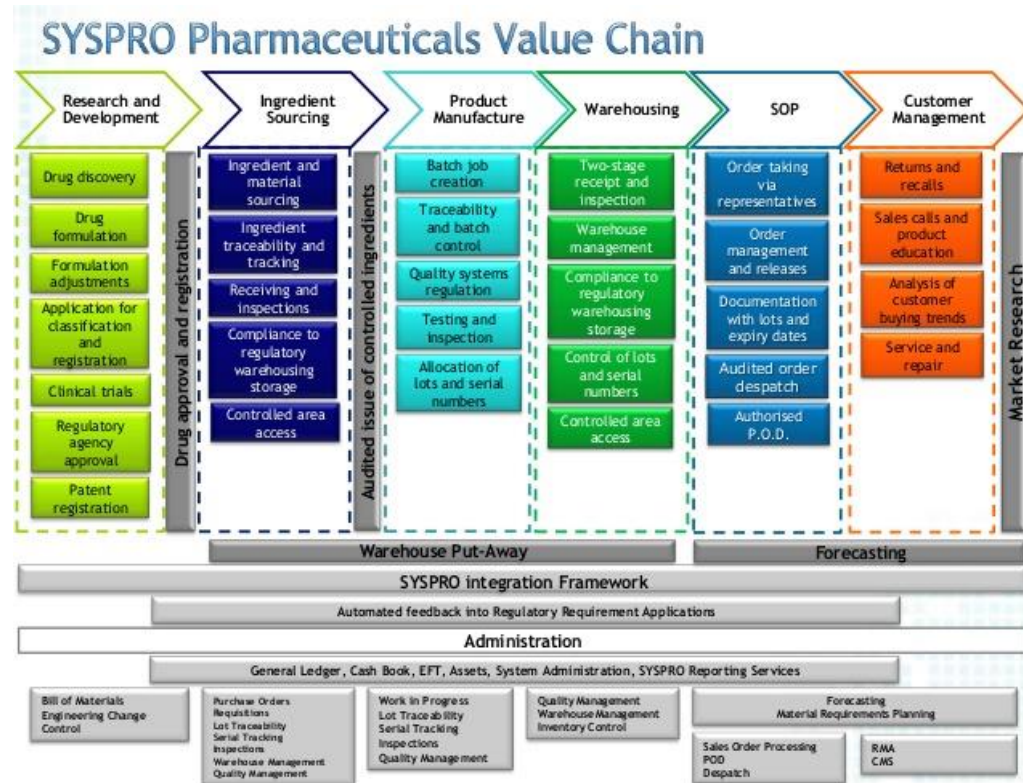
- VRIO analysis

	V VALUABLE	R RARE	I INIMITABLE	O ORGANIZED	
NO					COMPETITIVE DISADVANTAGE
YES		NO			COMPETITIVE PARITY
YES		YES	NO		TEMPORARY COMPETITIVE ADVANTAGE
YES		YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES		YES	YES	YES	SUSTAINABLE COMPETITIVE ADVANTAGE

# Diagnosing Resources and Capabilities

## • Value chain

- List your value chain
  - Differentiate value vs. non-value activities
- Do *make-or-buy* decision on each identified activity
  - Transaction cost economics
  - Make: produce in firm
  - Buy: buy from the market
  - Make if cost of make is lower; vice versa



# Diagnosing Resources and Capabilities

- What are costs to make?

# Diagnosing Resources and Capabilities

- **What are costs to make?**
  - Employees wage
  - Equipments, machines, office spaces
  - The time and energy to manage this extra activity
  - Bureaucracy
  - Etc.

# Diagnosing Resources and Capabilities

- What are costs to buy?



# Diagnosing Resources and Capabilities

- **What are costs to buy?**

- The cost of searching for the seller
- The cost to negotiate with the seller
- The price you pay the seller
- The cost to monitor the seller post-transaction
- Even if you do your best to monitor the seller, he could still act against you
- Transaction breakdown
- Etc

# Diagnosing Resources and Capabilities

- **General comment from TCE: *make if***
  - Transaction is frequent
  - Too much opportunism is involved
    - Individual's behaviour to seek self-interest with guile
  - Specific assets are involved from the seller's side
    - Specific asset creates value in one particular exchange relationship but have no value in any other exchange relationship
    - Sellers are not willing to invest in specific assets (why?)

# Mini Case Discussion



In a VC office on Sand Hill Road, a start-up with 3 founders came to pitch their business idea. All of the 3 founders are around 50 years old, and have lots of experiences working as top level managers at Fortune 500 companies.

Their business idea is to set up a software that allows hotels to provide better customer service, e.g., sight seeing suggestions, making restaurant reservations, booking tickets etc.

As none of the 3 founders know code writings, they hired a company to write the codes, which are expected to be delivered by the end of this year. They have also discussed with several hotels, including Hilton and Marriot, about collaboration. All 3 founders thought these hotels showed great interest.

# Mini Case Discussion



Q1: Doe this start-up buy or make codings for the software?

Q2: Do you think buying codings is a good idea for this business?

- Frequency
- Opportunism
- Specific asset

Q3: If you are the VC, will you invest in them?

# Diagnosing Resources and Capabilities

- **Benchmarking**

- Industry benchmarking
- Best-in-class benchmarking
  - six sigma quality control
  - 1% vs. 0.0001% defect rate

- **Limitations**

- Surface comparison
- Achieve competitive parity



motorola



# Diagnosing Resources and Capabilities

## SWOT Analyses

- A summary of external and internal analyses
- Thorough internal and external analyses first!



# Diagnosing Resources and Capabilities

## SWOT Analyses

- Generate strategic options

		Internal factors	
		Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	<b>SO Strategic options</b> Generate options here that use strengths to take advantage of opportunities	<b>WO Strategic options</b> Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	<b>ST Strategic options</b> Generate options here that use strengths to avoid threats	<b>WT Strategic options</b> Generate options here that minimise weaknesses and avoid threats

# Dynamic Capabilities

- Internal & external environment should be matched to achieve superior performance
- But external environment is changing constantly...
- So your internal environment should change accordingly
  - **Dynamic capabilities!**



# Dynamic Capabilities



## **Step 1: Sense opportunities and threats**

- How often do firms sense wrong?

## **Step 2: Seize identified opportunities and overcome threats**

- How easy is it to do so?

## **Step 3: Reconfigure your resources and capabilities**

- How likely are firms able to reconfigure accordingly?

# Dynamic Capabilities

## Innovation: key to dynamic capabilities

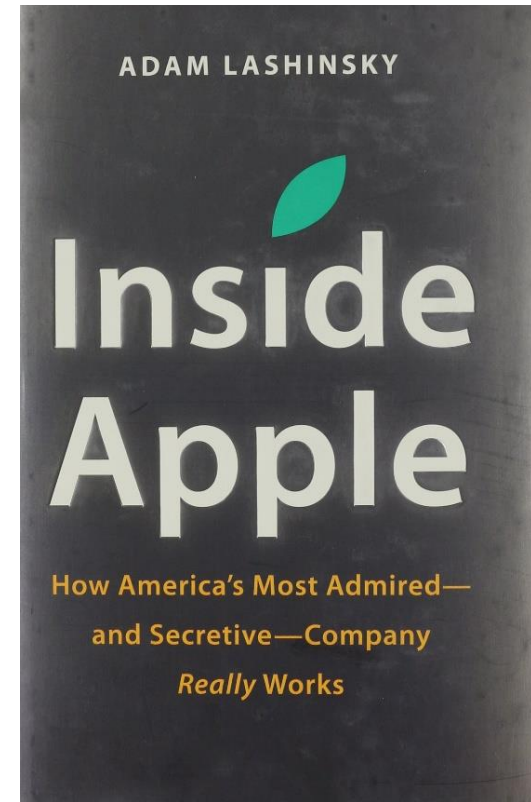


- **Keep track of external environmental trends**
  - Sense the right opportunities and threats
- **Have ability to assess opportunity candidates**
  - Seize the right opportunities
- **Modify processes and routines step by step**

# Dynamic Capabilities

## Innovation Idea Source

- **Technology push**
  - Listen to, support, and work with experts
  - Balance basic research and commercial value
- **Market pull**
  - Users as idea inputs



# Dynamic Capabilities

**Process innovation is  
equally important**

- Ford mass production
- Mass produce drugs
- ...



# Dynamic Capabilities

## Open vs. closed innovation

- **Closed innovation**

- Traditional model
- Every innovation activity occur in-house
- BUT, modern innovation needs more knowledge you can develop by yourself

- **Open innovation**

- Increasingly important innovation model
  - E.g., widespread in bio-pharma
- Platform leadership may be required (pg 104)



# Next Week

- Johnson et al. Chapter 5