Strategic Management Notes - Lecture notes, lectures 1 - 20

Strategic Management (University of Leeds)

STRATEGIC MANAGEMENT EXAM

Strategy *is defined as:*

- the **direction** and **scope** of an organisation
- over the **long term**
- which achieves **advantage**
- in a changing **environment**
- through the configuration of **resources & competences**
- with the aim to fulfil **stakeholder expectations**

(Johnson, Scholes and Whittington 2008)

Competitive advantage** occurs when a firm implements a **value creating strategy not simultaneously** being **implemented** by any current or potential **competitors (Barney, 1991).

***Sustained competitive advantage** occurs when a firm implements a **value creating strategy** not **simultaneously** being **implemented** by any current or potential **competitors**, and when these other firms are **unable to duplicate** the **benefits** of this strategy (Barney, 1991).*

SECTION A

- 70%
- Answer 2 of 5 questions

Context (2 questions on)

- The environment **where** the organisation operates
- Evaluate external environment
- Positioning
- Use different tools to identify unique positions for a firm to gain competitive advantage

- The Environment is **DYNAMIC**:
  - Speed of change
  - Predictability of change

- The Environment is **COMPLEX**:

- Heterogeneous
- Imperfect information
- Compete on Price, Product, Promotion, & Place (4Ps)

MACRO, EXTERNAL ANALYSIS

- ***PESTEL*** – *Factors that **influence an organisations environment**, affecting strategy, but **organisations cannot influence** them, they must just **react** to them*
    - ***Political***
        - State can have direct impacts as a customer, supplier, or business owner
        - Political campaigns
        - Food companies pressured by fair trade, labour rights and health campaigners
    - ***Economic***
        - Exchange rates
            - Important for exporters or firms importing raw materials
        - Business cycles
        - Different economic growth rates round the world
    - ***Socio-cultural***
        - Changing cultures and demographics
        - Ageing populations create opportunities and threats in many Western societies for both public and private sectors
    - ***Technological***
        - New technologies create opportunities for some firms (e.g. Amazon) and threats for others (e.g. traditional stores)
    - ***Environmental***

- Regulations can impose additional costs for firms
- Pollution costs
- Opportunities for phone recycling businesses

- ***Legal***
  - Legal regulations can restrict mergers and acquisitions
  - Taxes on profits
  - Opportunities through changes on trade regulations or liberalisation of FDI in India

- Identify which are the key drivers for change in certain industries

- **Why Simply Mapping the Macro Environment is not enough?** *(Schoemaker, 1995)*
  - **<u>Environment Mapping:</u>**
    - provides a **distorted** representation (at one point in time)
    - ignores variable **elements**
    - ignores how various elements might **interact** under certain conditions

  vs.

  - **<u>Scenario Planning:</u>** *(Scenario planning might not be in exam)*
    - explores the **joint impact of various uncertainties**
    - changes several variables at a time without keeping the others constant
    - provides not just the output of a simulation but interpret the output by identifying patterns and clusters among the different outputs generated (narratives)

- **<u>MICRO, EXTERNAL ANALYSIS</u>**

- An **industry** is a **group of firms** producing products and services that are essentially the same (e.g. automobile industry and airline industry).

- A **market** is a **group of customers** for specific products or services that are essentially the same (e.g. the market for luxury cars in Germany).

- To understand the industry environment, first the **boundary** of the industry should be defined; The boundary is used to define the **nature** of this industry

- ***<u>Porter's 5 forces (Porter, 2008)</u>*** *– Helps identify **attractiveness of entry** into industry, in terms of **profit potential***
- ***Threat of substitutes***
    - ***Substitutes*** *are products or services that offer a similar benefit to an industry's products or services, but by a different process… (e.g. trains are substitute for cars)*
    - Improving mobile phone cameras harming camera companies like Kodak as Apple and Samsung improve camera phones
    - *Substitutes take different forms:*
        - *New products which are better, cheaper...*
        - *Changing needs which means the product is no longer needed.*
        - *Competitors' product is NOT necessarily a substitute*
    - *Customers will switch to substitute products if:*
        - *The price/performance ratio of the substitute is superior (e.g. aluminium maybe more expensive than steel but it is more cost efficient for some car parts)*
        - *The substitute benefits from an innovation that improves satisfaction*

- ***Threat of new entrants***
    - *Profitable / growing markets that yield high returns will attract new firms. This results in **many new entrants**, which eventually will decrease profitability for all firms in the industry.*
    - *The **threat of entry** depends on the **Barriers** of Entry; the threat of entry is low when the barriers to entry are high and vice versa.*

- *Underlying Causes for high BE*:
    - *Economies of scale*
    - *Capital requirements / high fixed costs (e.g. airline industry)*
    - *High switching costs (e.g. windows vs. mac)*
    - *Experience and learning*
    - *Access to supply and distribution channels*
    - *Differentiation and market penetration costs (e.g. brand loyalty)*
    - *Government restrictions (e.g. licensing)*
    - *Retaliation from organisations already in the market*

- ***Bargaining power of customers***
  - ***Bargaining Power of Buyers / Customers*** *is the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes.*
  - *Underlying Causes for high CP*:
    - *Buyers purchase a large part of suppliers' output (big customer)*
      - Supermarkets buying produce off farmers drive price down
    - *Buyers are concentrated*
      - Few large customers, and purchase will make up high percentage of buyers total purchases, therefore likely to 'shop around'
    - *Buyers have low switching costs*
    - *Buyers can supply their own inputs (backward vertical integration)*

- ***Bargaining power of suppliers***

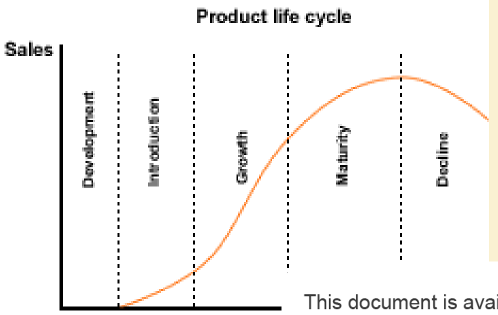
- ***Suppliers** are those who supply what organisations need to produce the product or service (raw materials, components, labour, and services (i.e. expertise). Powerful suppliers can eat into an organisation's profits…*
- *<u>Underlying Causes for high SP</u>:*
    - *Suppliers are concentrated (few of them).*
    - *Suppliers provide a specialist or rare input.*
    - *Switching costs are high (it is disruptive or expensive to change suppliers).*
    - *Suppliers can integrate forwards (e.g. low cost airlines have cut out the use of travel agents)*

- ***Competitive rivalry***
    - **Competitive rivals** are organisations with <u>similar</u> products and services aimed at the <u>same customer group</u> and are <u>direct competitors</u> in the same industry/market (not substitutes).
    - High in UK supermarket industry
    - <u>Underlying Causes for high Rivalry</u>:
        - Competitors are of roughly equal size
        - Competitors are aggressive in seeking leadership
        - The market is mature or declining as any growth will be at the expense of a rival
        - There are high fixed costs
            - Firms look to spread costs by increasing volumes and lowering price
        - The exit barriers are high
        - There is a low level of differentiation

- Can create unique offerings depending on where a firm sits in relation to forces
- Strength of forces depend on stage of life-cycle the industry is in

- Rivalrous industries tend to be in maturity or decline stage because for a company to improve their position they must take market share from a competitor (zero-sum competition).
- Threat of entry is highest during growth as it is harder to enter at later stages due to economies of scale etc.

- ***<u>Implications of 5 forces analysis</u>***
  - Which industries to enter or leave:
    - Industries are attractive when forces are weak
    - Low barriers to entry can encourage some entrepreneurs to invest, however, unless barriers will quickly rise, this is the wrong reason to enter
  - What influence can be exerted:
    - Industry structures are not necessarily fixed and can be influenced by strategy
    - Firms can build barriers to entry by increasing advertising spending to increase customer loyalty
    - Can buy up competitors to reduce rivalry and increase power of buyers and suppliers
  - Not all competitors are affected equally:
    - If barriers rise due to increased R&D or advertising spending, smaller firms might be squeezed out of the industry
    - Growing buyer power is likely to hurt smaller firms most



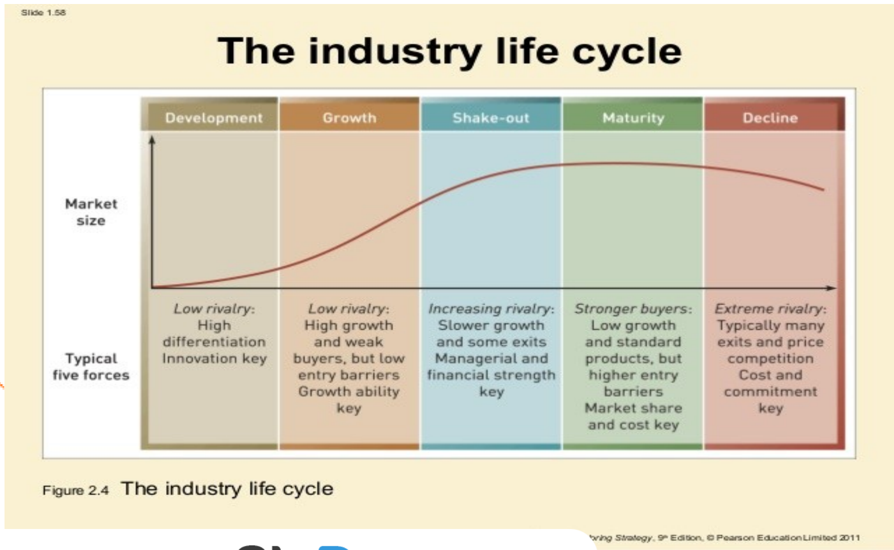


Figure 2.4 The industry life cycle

- **Critique:**
  - 5 forces framework must be used carefully, and is not necessarily complete.
  - *Co-operation critique:*
    - Assumes a competitive environment where a company can only succeed at the expense of others
      - Some companies that are rivals can collaborate:
        - Samsung providing components for iPhone for Apple.
      - Porter says if firms are in the same industry they are always competing (can use diagram to illustrate market positioning, price on y-axis, quality on x-axis).
        - Car industry example:
          - KIA – low quality, low price
          - Bentley – high quality, high price
          - KIA and Bentley are not in direct competition even though they are in the same industry.
          - Ford – many markets, moderate price
          - Morgan – only UK market, high price
        - Can look at factors:
          - Location of production and sales.
          - Performance
          - Price
          - Quality
  - *Dynamism critique:*
    - Use static analysis of the industry and ignores trends.
      - Changing industry structure changes power of forces
    - Converging industries

- Industries begin to overlap, especially in high-tech arenas, in terms of activities, technologies, products and customers
- Camera company Kodak was driven to bankruptcy by phone companies Apple and Samsung due to their high quality cameras

- *Complexity critique (Barney, 1991):*
  - Industries may not be homogeneous (Porter suggests resources are homogenous and perfectly mobile)
    - All firms could therefore conceive and implement the same strategy,
    - Improving efficiency and effectiveness in the same way and to the same extent
    - Therefore, not possible for firms to enjoy sustained competitive advantage
    - First mover advantage would not exist as first movers have insight (information is the resource that is unique to the FM) about opportunities associated with implementing a certain strategy that other firms don't have (Lieberman & Montgomery, 1988)
    - Market entry barriers wouldn't exist as entry barriers occur when firms are unable to enter an industry as it requires resources they do not possess, and those within the industry do (heterogeneous resources)
    - Perfect mobility of resources wouldn't allow entry barrier to exist as perfectly mobile resources allows any strategy, using certain resources, implemented by one firm to protect entry to be implemented by another firm attempting to gain entry to the industry or group, as they have access to the same resources.
    - Resources must be heterogeneous and immobile to allow firms to achieve sustained competitive advantage
    - Customer heterogeneity is ignored

- Idea that to compete companies just need to find a unique position, assumes all companies see unique positions in the same was as everyone else and all firms have the same resources and capabilities (NOT VALID ASSUMPTION).
  - Firms have different resources and capabilities in reality.

- Overcoming limitations:

- **Strategic groups** are organisations within an industry or sector with similar strategic characteristics (McGee & Thomas, 1986).
    - These characteristics are different from those in other strategic groups in the same industry or sector.
    - Strategic groups are defined by firms operating **similar strategies** or competing on similar bases.
    - Competition is stronger **within** groups than between groups.
    - **Mobility barriers** prevent organization from moving from one group to other (e.g. economies of scale and R&D).
    - Strategic groups modify the industry analysis: strategic groups can be mapped on to two dimensional charts – maps.

    - Understanding immediate - **direct competition**.
    - Analysis of **mobility barriers** which can be used to increase the profitability of an industry.
    - Analysis of **strategic opportunities** – attractive 'strategic spaces' within an industry.
    - *White spaces* (under-occupied) vs. *black holes* (impossible to exploit)

INTERNAL ANALYSIS

- **Resources (Barney, 1991):**
    - Discrete tangible or intangible assets firms possess.
    - Tangible resources:
        - **Financial** e.g. borrowing capacity, cash reserves
        - **Physical** e.g. location, equipment, access to raw materials
        - **Human** e.g. employee skills, adaptability, loyalty
    - Intangible Resources
        - **Intellectual** e.g. patents, copyrights, trade secrets, R&D
        - **Reputation** e.g. brands, trademarks
        - **Relationships** e.g. with customers, government, suppliers

- **<u>Capabilities:</u>**

  - Cluster of attributes or configuration of resources and processes allowing firms to be competitive – what firms can do with what they have.
  - *The capacity of a set of resources to integratively perform a task or activity" (Grant, 1991)*
  - *"The attributes that firms require to be able to compete in the marketplace*." (Henry, 2008)

  - <u>Generic or Threshold capabilities</u>
    - Basic capabilities just needed to compete in a certain market and satisfy basic customer needs
    - Without these a firm could not survive
    - Efficiency
    - Baseline of quality
    - Can change as environment changes
    - Retailers demand that their suppliers must possess highly sophisticated IT infrastructure
  - <u>Core or Distinctive capabilities</u>
    - Needed to be successful.
    - Capabilities allowing firms to out compete rivals
    - Create value which competitors find hard to replicate, underpinning competitive advantage
    - Often remain unique as they can be a bundle of skills, resources and technologies, containing tacit knowledge, rather than a single skill or process *(Hamel & Prahalad, 1990)*
    - Apple – design
    - Toyota – production system

  - ***<u>Resource-based view (Barney, 1991)</u>***

- ***Competitive advantage** and superior performance of an organisation is explained by possession of **distinctive capabilities***

- Performance variations are due to individual firms **possessing distinctive capabilities**

- Different capabilities depend on ***differences in the factors of production ("resources")*** available to different firms.

- ***'Costs Advantage'*** and ***'Benefit Advantage'*** depend on different ***capabilities*** to produce a low cost product or high value product.

- Resources and capabilities alone don't ensure a firm can achieve sustained competitive advantage.

- A competitive advantage is sustainable when it persists despite efforts by competitors or potential entrants to duplicate or neutralise it.

- For this to occur, there must be ***persistent asymmetries*** among firms.

- Top performing firms must possess different resources and capabilities that are difficult for underperforming firms to obtain.

- It is an extension of environmental models of strategic positioning, such as Porter's, which assumes homogeneity between company's abilities and focusses on firm-internal resources and capabilities as the source of competitive advantage

- Presented as in the VRIN framework

  - Define in exam

  - Provide examples

- Gives tangible framework to identify what a firm is good at and sources of competitive advantage

- **<u>Critique:</u>**

  - Only focuses on firm internal view and doesn't give full view of industry

  - (*Priem & Butler, 2001)*

- Better to use as complementary and integrated tool in assessing external environment at the same times as the internal, in order to gain other, demand-orientated (Porter's 5 forces, PESTEL)
- <u>Lack of dynamics</u>
    - May only hold in relatively stable conditions
    - Breaks down in dynamic context/environment with high rates of change
    - In unpredictable environments the value of resources can easily and quickly diminish
    - To keep up with dynamic environments, resources must change, but the RBV doesn't explain the origins of resources that provide competitive advantage
- <u>Risk of tautology</u>
    - Underlying explanation of RBV is that the resource or capability characteristics that lead to competitive advantage are those that are valuable and rare
    - Priem and Butler argue that saying a business holds a competitive advantage due to superior resources or being better at some things is not helpful unless it is possible to be specific about what resources are important, why and how they can be managed
    - Doesn't say what value, rarity, imitability and non-substitutability are worth, rather just using the same words to define them
    - Too vague with terms such as 'routines to learn routines'
- <u>Lack of specificity</u>
    - Resources are not specified
    - Definitions of resources are overly inclusive and include nearly any asset of a firm
    - Priem and Butler suggest this is to do with the importance of tacit knowledge bestowed in competitive advantage

- ***<u>VRIN (Barney, 1986, 2001; Dierickx & Cool, 1989)</u>*** – *[references relevant for all components]*
    - Analysis to explore value of strategic resources and capabilities as they do not all have the same value when providing basis for competitive advantage

- 4 key criteria to assess resources and capabilities in terms of providing the basis for sustained competitive advantage:

- ***Value***

    - Strategic capabilities are valuable when they create a product or service that is of value to customers and generate higher revenues or lower costs or both

    - 3 components to value:

    - *Taking advantage of opportunities and neutralising threats*

        - Address opportunities and threats that arise in a firms' environment
        - IKEA's cost conscious culture, sizer and intricate configuration of interlinked activities lower its costs compared to competitors and addresses opportunities of low-priced furniture that competitors don't attend to

    - *Value to customers*

        - Having capabilities that are different from other firms is not, in itself, a basis of competitive advantage, it must provide value to consumers

    - *Cost*

        - Good or service must be provided at a cost that allows profit to be made
        - The cost of developing or acquiring capabilities that provide value to consumers, must not outweigh the price consumers pay

- ***Rarity***

    - Capabilities that are valuable, but common among competitors are unlikely to be a source of competitive advantage

    - If competitors have similar capabilities, they can respond quickly to the strategic initiative of a rival

        - Happened in competition between car manufacturers as they sought to add more accessories and gadgets to cars
        - Becomes evident these features are valued by customers and they are introduced widely by competitors who have access to the same technology

- Capabilities possessed uniquely by one firm, or by few others
    - Firm may have patented products
    - Supremely talented employees
    - Prime store location
    - Powerful brand
- Rarity can be temporary
    - Patents can expire
    - Key individuals leave firm
    - Brands devalued by adverse publicity
    - Therefore, still necessary to consider other capabilities that can provide a basis for sustainable competitive advantage

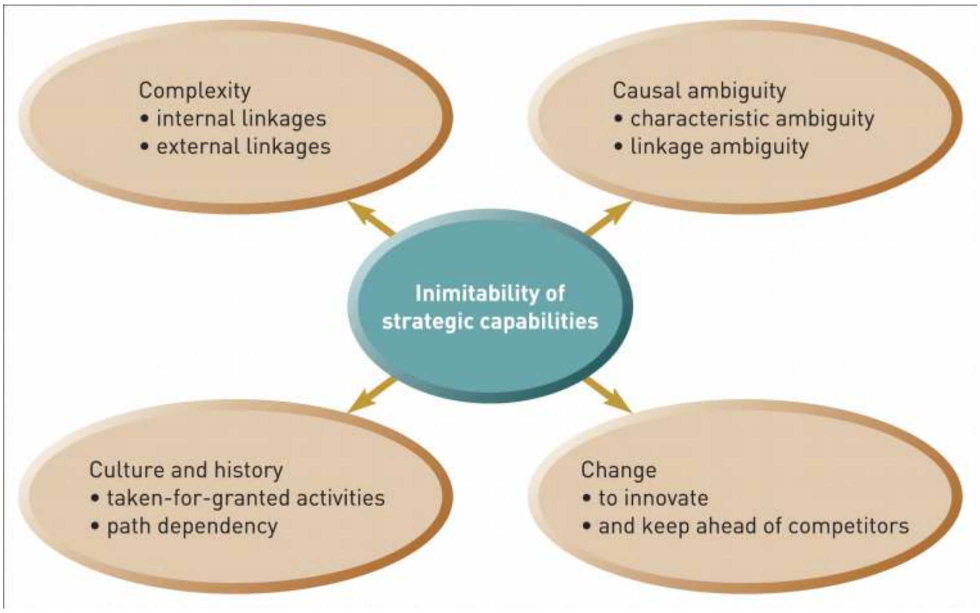
- ***Inimitability***
    - Capabilities that competitors find difficult and costly to imitate, obtain
    - If a firm has a competitive advantage due to particular marketing and sales skills, it can only sustain this if competitors cannot imitate, obtain it, or if the costs of doing so would eliminate gains made
    - Barriers to imitation often lie deep in linkages between activities, skills and people in an organisation
    - Tangible resources can often be acquired or imitated, so competitive advantage is more likely to be determined by the way in which resources are deployed and managed in terms of a firms' activities
    - Unlikely that IT system can provide sustainable competitive advantage as competitors can buy similar in the open market
    - However, competencies in managing, developing and deploying such a system to the benefit of customers may be more costly and difficult to imitate
    - Compared to physical assets and patents, these competencies involve more intangible barriers to imitation
    - Mutually compatible linkages in skills, knowledge and people both inside and outside the firm create capabilities that are difficult for competitors to imitate due to 3 reasons:

- *Complexity:*
    - Inimitability can occur due to complex capabilities involving interlinkages
    - *Internal linkages* in activities and processes that provide customer value, built up over time, specific to the organisation
        - IKEA and Ryanair still enjoy competitive advantage, even though there are many case studies and articles reporting their success
    - *External interconnectedness* arises through developing activities together with customers and partners such that they become dependent on them, sometimes call *co-specialisation*
        - Industrial lubricants business moved away from selling its products to customers by coming to an agreement to manage the applications of lubricants within the customers' sites against agreed targets on cost savings.
        - A more efficient use of lubricants, benefitting both parties

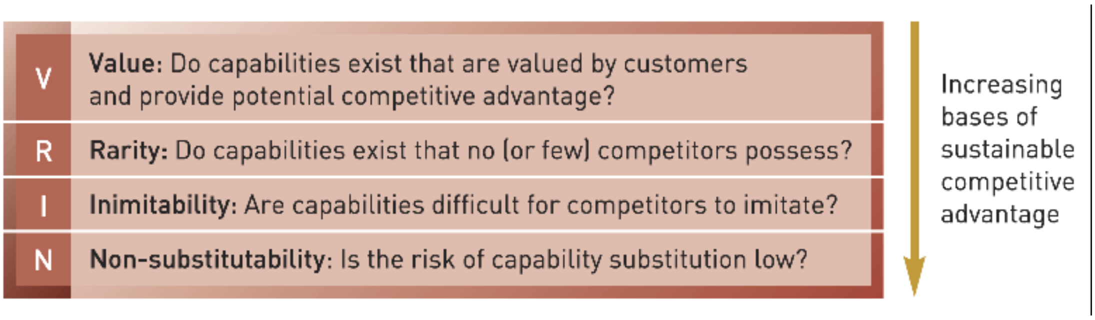
- *Causal ambiguity (Lippman & Rumelt, 1982)*
    - Hard to underpin causes of competitive advantage
    - *Characteristic ambiguity* can be when capabilities are based on tacit knowledge or rooted in organisational culture
        - Know-how of buyers in a successful fashion retailer may be evident in the sales achieved for the ranges they buy every year, but difficult to comprehend what the know-how is so hard to imitate
    - *Linkage ambiguity* is where competitors can't discern which activities and processes are dependent on which others to form linkages that create distinctive capabilities
    - Some managers don't fully comprehend the linkages throughout their firm that create customer value, making t even more difficult for competitors to
        - Expertise of fashion buyers is unlikely to be lodged in one individual or function, instead can be affected also by the network of

suppliers, intelligence and networks to understand the market and links with designers

- *Culture and history*
    - Competencies and capabilities can become embedded in an organisation's culture
    - Often take for granted
    - Capabilities will have developed over time and in a particular way
    - Can become rigid and difficult to change

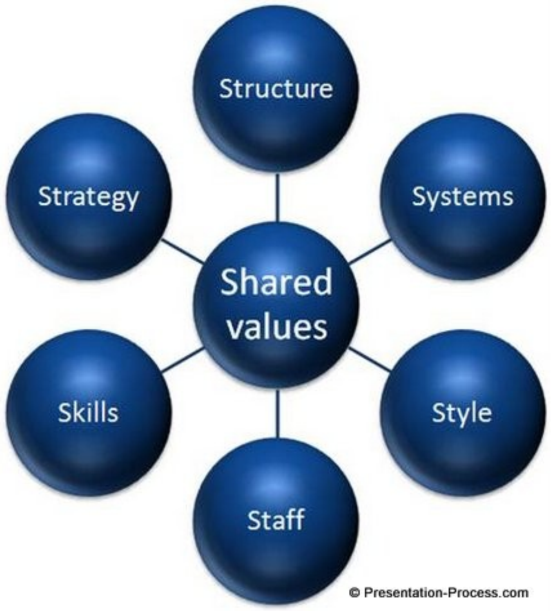


- ***<u>Non-substitutability</u>***
    - Low threat of substitution
    - If competitors are able to counter a firm's value-creating strategy with a substitute, prices are driven down, reducing benefit
    - Product/service substitution can occur from a different industry/market
        - Postal services partly substituted by e-mail
        - CDs substituted by MP3s
    - Resource and capability substitution
        - Skill substituted by expert systems or IT solutions



- Each characteristic is mutually reinforcing, such that the criticality of said resource or capability increases as they satisfy each characteristic in turn
- Critique:
    - Are the lifecycles of these characteristics infinite?
    - Do they degrade?
    - How is the lifecycle effected in dynamic environments?
- **<u>Critique</u>**
    - Each component of the VRIN framework is individually necessary, but not sufficient for sustain competitive advantage (*Dierickx & Cool, 1989; Priem & Butler, 2001)*
    - Difficult to find resources that satisfies all of Barney's VRIN criteria
    - Not simply the possession of certain resources to provide competitive advantage, they must be deployed effectively (Peteraf, 1993; Priem & Butler, 2001)

- ***<u>Mckinsey 7S (Waterman, Peters & Phillips, 1980)</u>***



- Tool for analysing the internal landscape of a company
- Assesses the degree to which the various elements of an organisation's design fit together in a mutually supporting manner
- Relative importance of each component depends on context
- Highlights importance of strategic fit between strategy, structure, systems, staff, style, skill and shared values/goals

- ***Strategy***
    - What is the strategy?
    - How does the company intend to achieve its objectives?
    - How does the company deal with competitive pressure?
    - How are changes in customer demands dealt with?
    - How is strategy adjusted for environmental issues?

- ***Structure***
    - Defining formal roles, responsibilities and lines of reporting

- Spans of control
- How the company is divided up?
- Hierarchy?
- Coordination between departments
- Centralised or decentralised decision making?

- ***Systems***
  - Supporting and controlling people within an organisation
  - Support control over strategy implementation
  - More complex in larger firms
  - Internal rules and processes
  - Main systems running organisation? Financial? HR? Communications? Marketing?

- ***Staff***
  - What kinds of people and how are they developed?
  - Significance of key staff
  - Turnover
  - Gaps
  - People must match strategy to ensure feasibility
  - Structural change cannot occur without the right people to head new departments
  - What positions or specializations are represented within the company?
  - What positions need to be filled?

    - Are there gaps in required competencies?

- ***Style***
    - Style should fit other aspects of framework
    - How participative is the management/leadership style?
    - Formality of interactions
    - How effective is that leadership?
    - Do employees/team members tend to be competitive or cooperative?
    - Are there real teams functioning within the organization or are they just nominal groups?

- ***Skills***
    - Related to staff but refers more broadly to capabilities in general
    - Involves how staff skills are embedded and captured in the organisation as a whole
    - Do training schemes, IT and reward systems transform talents of staff into organisational capabilities required by for strategy implementation?
    - What are the strongest skills represented within the company/team?
    - Are there any skills gaps?
    - What is the company/team known for doing well?
    - Do the current employees/team members have the ability to do the job?
    - How are skills monitored and assessed?

- ***Shared values/goals***
    - Goals and purpose of firm as a whole

        - Mission, vision, organisational objectives
        - Placed at the centre and all other components should support these
        - What are the core values?
        - What is the corporate/team culture?
        - How strong are the values?
        - What are the fundamental values that the company/team was built on?

- Are there gaps and inconsistencies between elements?
    - Start with Shared Values: Are they consistent with the structure, strategy, and systems? If not, what needs to change?
    - Then look at the hard elements (e.g. systems, structures). How well does each one support the others? Identify where changes need to be made.
    - Next look at the other soft elements (e.g. style, skills). Do they support the desired hard elements? Do they support one another? If not, what needs to change?

- McKinsey 7S framework highlights 3 aspects of organising:
    1) Organising involves more than just getting structure right
    2) All elements must fit together
    3) If managers change one element, all elements must be adjusted to ensure they are appropriately aligned
        - Changing one element in isolation will make things worse before overall fit is restored

    - **<u>Critique</u>**
        - Consistency of framework can make business behaviour predictable, allowing competitors to develop aggressive strategies to anticipate and beat firms using the framework (D'Aveni, 1994)
        - A complex model to apply, and changes cannot be made in isolation
        - Still possible to miss areas where strategy conception or execution could arise

- Still difficult to fully assess the degree of fit

- ***Dynamic capabilities (Teece, Pisano & Shuen, 1997)***

  - ***Dynamic capabilities** are abilities possessed by firms in maintaining and **adapting capabilities** that are the basis of its **competitive advantage** (Teece, Pisano & Shuen, 1997).*
  - Firms with limited dynamic capabilities fail to nurture and adapt the sources of their advantage over time, causing other firms to become more competitive.
  - Firms with strong dynamic capabilities adapt their resources and capabilities over time and take advantage of new market opportunities to create new sources of competitive advantage, especially as technology develops which can be competency enhancing or destroying

  - Defined as the firm's ability to integrate, build and reconfigure internal resources and strategic capabilities to address a rapidly changing environment.
  - Reflect a firm's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions
  - Necessary for efficient operations
  - Enable firms to change their knowledge base through the process of adaption or exploration
  - Firms must innovate and develop capabilities (e.g. new product development)
  - Faster rate of change in industry = need for faster renewal of capabilities
  - 'Ordinary capabilities' allow companies to be successful and earn a living by producing and selling a similar product or service to similar customers over time, but are not likely to provide long term survival and competitive advantage in the future.
  - Teece acknowledges the danger that capabilities that were the basis of competitive advantage can over time be imitated by competitors, become common practice in an industry or become redundant as the environment changes
  - Change in technology can either be competence enhancing or competence destroying
    - If competencies are destroyed by technological changes then resources and capabilities need to be changed
  - KODAK case study
    - Failed to develop capabilities in digital revolution.

- Teece suggests the following 3 types of dynamic capabilities:
    - Sensing:
        - Firms must constantly scan, search and explore opportunities across various markets and technologies
        - R&D and investigating customer need are typical sensing activities
        - Microsoft have sensed opportunities and threats from tablets and smart phones and developed new product offerings
    - Seizing:
        - Once an opportunity is sensed it must be seized and addressed through new products or services, processes, activities etc.
        - Microsoft seized opportunities by developing its own tablet device and software and acquired Nokia
    - Reconfigure:
        - To seize an opportunity may require renewal and reconfiguration of organisational capabilities and investments in technologies, manufacturing, markets etc.
        - Microsoft's inroads into tablets and smart phones requires major changes in its current strategic capabilities, discarding some old capabilities, acquiring and building new owns and recombining them
- The presence of dynamic capabilities in certain firms can be a result of:
    - Behaviour within the firm
    - Decision making
    - Entrepreneurial and intuitive skills
    - Social relationships
    - Experience in capability management
- Trade-off between operational and dynamic capabilities

- Dynamic capabilities are focused on finding solutions beyond and outside current operational capabilities
- Operational capabilities must not be neglected
- Hard to achieve balance between them within a firm and decide where to dedicate limited resources

- **<u>Critique (Eisenhardt & Martin, 2000)</u>**
  - Eisenhardt & Martin (2000) challenge the concept through some of the basic RBV assumptions
    - Although idiosyncratic (unique) to a firm, they are said to exhibit commonalities across firms
      - Therefore, allowing developing 'best practice' recommendations as to how to imitate and diffuse them, contradicting the resource-based view assumption that there is persistent heterogeneity across firms (Rumelt, 1991)
      - In other words, there are more and less effective ways to execute particular DC, such as strategic decision making, or product design, and the effective processes are popular across firms, contradicting the RBV assumption of heterogeneity
      - Successful acquisition processes are characterised by preacquisition routines assessing cultural similarity and consistency of vision, which can be a DC common across firms (Larrson & Finkelstein, 1999)
      - Commonalities suggest capabilities cannot be a source of sustainable competitive advantage according to RBV and VRIN
        - DC are substitutable as the need to have key features in common to be effective, but can be different in terms of many details, therefore can be a source of CA, but not sustainable
    - Dynamic capabilities are necessary, but not sufficient to achieve sustained competitive advantage, which lies rather in the resource configurations built through the use of dynamic capabilities
    - Despite being path dependent in their evolution, the same DC can be developed by different firms from different points and along different paths, as 'best practices' are sought after by competing firms
    - Long-term, sustained competitive advantage is said not to be frequent in dynamic markets (high velocity markets), in which

competition evolves around a series of temporary advantages, therefore, in markets where Teece, Pisano and Shuen claim dynamic capabilities are most needed, long term competitive advantage is rarely achieved

Content (2 questions on)

- **What** strategy will be adopted
- ***BUSINESS LEVEL STRATEGY*** – *How a firm will **compete** in certain **product or market domain**. Competitive orientation.*
  - Virgin Atlantic strategy is not to diversify
  - **Porter's Generic Strategies** (MIGHT BE A QUESTION ON WHAT GENERIC STRATEGIES ARE)

    *Competitive strategy is concerned with how a **strategic business unit (SBU)** achieves **competitive advantage** in its **domain of activity.***

    *Can involve issues such as **costs, product features** and **branding**.*

    - ***Cost leadership***
      - Involves becoming **lowest cost firm** in a **domain of activity**
        - Common in maturity stage of PLC as there is less scope for innovation and differentiation, so can only compete on price
        - Can use value chain analysis to show:
          - the relative importance of each activity with respect to total cost;
          - the cost drivers for each activity and comparative efficiency with which the SBU performs each activity;
          - how costs in one activity influences costs in another;

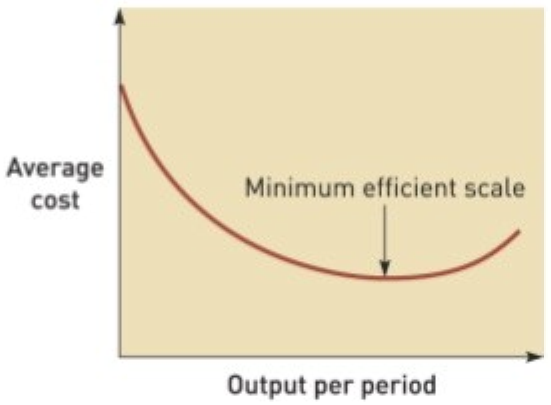
- which activities should be undertaken within the firm and which activities should be outsourced.

▪ 4 cost drivers to deliver CL:

1) *Lower input costs*

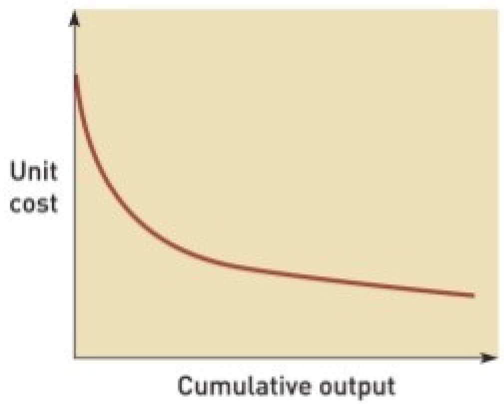
- Labour, raw materials
- Can be through locating labour-intensive operations in countries with low labour costs
- Call centres in India
- Manufacturing in China
- Location next to raw materials (Brazilian steel producer)

2) *Economies of scale*



- *Increasing volume of production resulting in falling average costs over a period of time*
- Important where fixed costs are high
  - Manufacturing firm
- Important to reach output level equivalent to minimum efficient scale and not achieve diseconomies of scale (diagram)
  - Overtime payments, managerial, neglect of equipment

3) *Economies of learning*



- Key source of cost efficiency
- Experience curve suggests unit costs decrease as cumulative output increases
- The more experience an organisation has at an activity, the more efficient it gets at doing it
- Can be gains in labour productivity as staff improve and learn to do things cheaper
- Can be through more efficient designs as experience shows what works best
- Benefits early entrants into a market as first movers will gain more experience than late comers, creating a cost advantage

- Important to gain and hold market share, as firms with more market share have more 'cumulative experience' due to greater production volumes

- Although gains are greatest at the start, shown by the steepness of the curve, improvements continue over time, unlike diseconomies of scale concept

4) *<u>Production techniques and design</u>*

- Efficiency can be 'designed in' at the outset

- Engineers can choose to build a product from cheap standard components, rather than expensive specialised ones

- Firms can choose to interact with customers through cheap web-based methods, rather than via telephone or stores

- Firms can tailor offerings to meet the demand of the most important customers, saving money by ignoring others

- Designing product or service recognising whole life costs, rather than just purchase price, such as maintenance

    - Canon eroded Xerox's competitive advantage (built on service and support network) by designing a phot copier that needed far less servicing

- Porter's 2 requirements:

    1) Must be very lowest cost to ensure no competitors have a competitive advantage of producing at an even lower cost, as even being the second lowest cost producer isn't good enough

    2) Low cost should not be pursued in total disregard of quality, as a cost leader still needs to meet market standards

        - Cheap Chinese cars exporting to Western markets still need to meet standards in terms of style and reliability

        - *Parity* allows cost-leaders to produce products valued by customers, but with lower unit costs that competitors, therefore making more profit that competitors, whilst charging the same price

            - Brazilian steel producer, CSN, benefiting from cheap iron ore sources

        - *Proximity* allows cost-leaders to produce products sufficiently close to competitors in terms of features, that customers are willing to sacrifice quality for a lower price

            - Chinese cars in Western markets

  - **Critique (Murray, 1988):**
    - ***Cost Leadership (CL)***
      - *Price sensitivity is not sufficient to justify adoption of a CL strategy*
      - *A CL strategy is ONLY viable if cost structures vary across competitors within an industry.*
      - ***Economies of Scale not sufficient**: Only **ONE** competitor can enjoy a competitive advantage and only if they own a dominant market share*
      - *A durable basis for a CL strategy can only be based on:*
        - *access to raw materials (dependable to the industry structure of suppliers)*
        - *production process due to technological breakthroughs*
        - *preferential access to distribution channels*

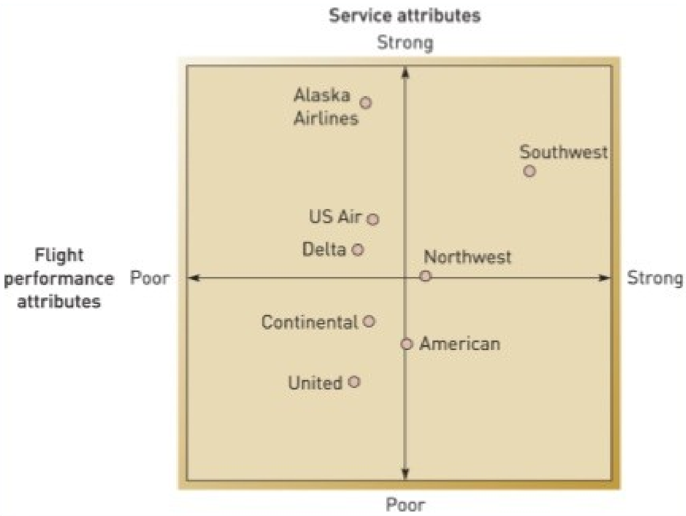
- ***Differentiation (Sharp & Dawes, 2001)***
  - **Differentiation** involves **uniqueness** along some **dimension** that is sufficiently **valued by customers** to allow a **price premium**
    - When providing something unique that is valuable beyond simply offering a low price
    - Tangible differentiation (size, colour, material, performance, packaging, complementary services).
    - Intangible differentiation (image, style, identity, excellence).
    - Innovation.
    - Differentiation is not just about the product/service, it embraces the whole relationship between suppliers and customers and can be on various dimensions
    - Common at growth stage of PLC as there is a large scope for innovation at this stage
    - When there are many alternative dimensions valued by customers, it is possible to implement many different types of differentiation strategy
    - Can use value chain analysis to identify activities where value can be added
    - Clothing retail competitors differentiate on

- Store size
- Store location
- Fashion

■ Car manufacturers

- BMW has a sportier image
- Mercedes promote more conservative values

■ Can be mapped on axis as shown by US Airline industry



- Most larger airlines bunched together
- Southwest differentiated in terms of flight delays and service
- These attributes were most highly valued by customers allowing Southwest to become most profitable

■ Differentiation strategies require clarity regarding 2 factors:

- *The strategic customer*
  - Customer whose needs differentiation is based on
  - Find distinctive means of prioritising customers can be a valuable source of differentiation
  - Newspaper business could be readers (paying for paper), or advertisers (paying for advert space)
- *Key competitors*

- Boundaries for comparison must not be drawn too tightly, concentrating on a particular niche
- Must be something competitors cannot easily compete with

- Differentiation allows higher prices but costs more
  - Creating value can require R&D, branding or improved staff quality
  - Differentiator must ensure additional costs don't exceed the gains in price
  - Just as cost leaders shouldn't neglect quality, differentiators shouldn't neglect costs, especially in areas irrelevant to their differentiation
  - Rolls-Royce and Bentley built a reputation of quality, but at a high cost and struggled to compete on price with Mercedes, another high quality competitor, but with tighter cost control
- **Critique (Murray, 1988):**
  - ***Product Differentiation (PD)***
    - *Price sensitivity is important to product differentiation.*
    - *A PD strategy is viable if customers give weight to product attributes other than price.*
    - ***Sustainable product differentiation** can be achieved through building and sustain noticeable differences in product offerings or in brand image, packaging, pre and post sales, service and financing arrangements.*
    - ***Innovation** is a prerequisite for differentiation but not long-term sufficient; as industries mature, companies within provide products with similar properties.*
    - ***Quality, Reliability** and **Service** are most important for differentiation.*

- ***Focus***
  - Targets a **narrow segment** of domain of an activity and **tailors its products or services** to the needs of that **specific segment** to the **exclusion of others**
  - 2 types of focus strategy:
    - *Cost-focus strategy*

        - Identifies areas where brad coat-based strategies fail because of added costs of trying to satisfy a wide range of needs
        - Iceland in frozen and chilled foods, not adding costs by selling fresh produce like Aldi
        - Followed by Ryanair, targeting price-conscious travellers with no need for connecting flights
    - *Differentiation focus strategy*
        - Looks for specific needs that broad differentiators don't serve well
        - Focus on one particular need helps build specialist knowledge and technology
        - Increased commitment to service can increase brand recognition and customer loyalty
        - ARM Holdings dominates the world market for phone chips, despite only being a fraction of the size of leading microchip manufacturers, AMD and Intel, who also make chips for a wide range of computers
- Focus strategies depend on at least one of 3 key factors:
    - *Distinct segment needs*
        - If distinctness or niche market erodes it is harder to defend against broader competitors
        - Easier for Apple to compete with Blackberry in business phone segment as boundaries have eroded
    - *Distinct segment value chains*
        - Strengthen when specific value chains are hard for competitors to construct due to complicated production processes and distribution channels
        - Procter & Gamble cannot replicate Ecover's products as it would involve transforming its purchasing and production processes
    - *Viable segment economics*
        - Segments must not become too small to serve economically as demand or supply conditions change
        - Changing economies of scale and greater competition has put local shops, newsagents and DIY shops out of business as more large stores can supply a wider range of products with greater ease, at lower cost, under one roof
- **Critique (Murray, 1988):**

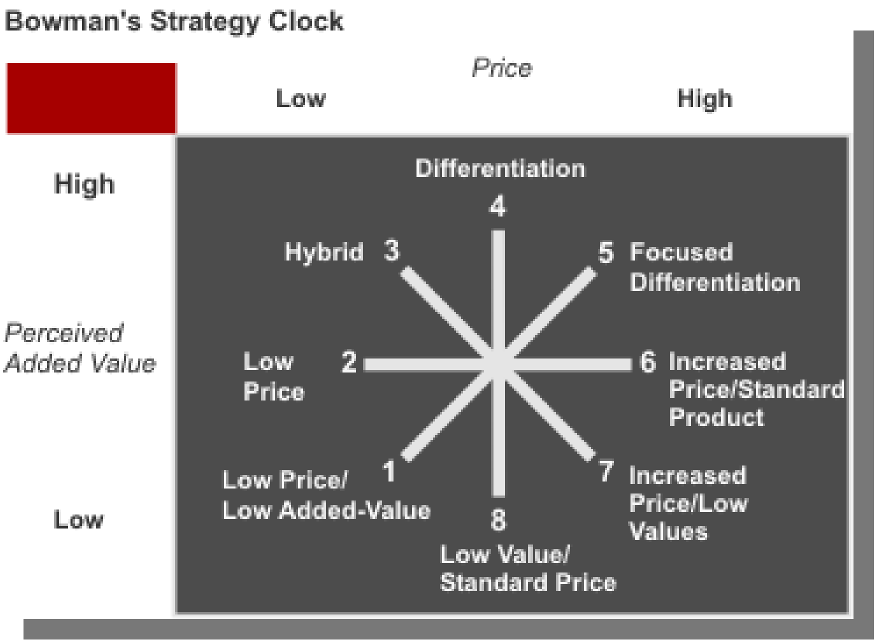
- ***Focus Strategy***
  - *Focused strategies can be confused with Product Differentiation ones.*
  - *Focused strategies are those that are offered to **specific segments** of the market / customers.*
  - ***ONLY** when these segments depict different requirements can a focused strategy be successfully adopted →**HETEROGENEITY** of customers*
  - *Precondition for a viable Focused Strategy → Synergies between segments are low or negative*

- <u>**'Stuck in the middle'**</u>
  - Porter's argues:
    - It is best to choose which generic strategy to adopt and then **stick rigorously** to it.
    - Failure to do this leads to a danger of being 'stuck in the middle' i.e. doing no strategy well
    - Not following one strictly can jeopardise the competitive advantage a firm wants to achieve
    - Leaving specific segment can mean attempting to sell to inappropriate market segment
      - Blackberry failed trying to appeal to broader segment with range of new apps, disregarding needs of core business customers
    - Airlines example:
      - BA offering extra services, harming no frills as they still have high costs from providing high quality service
    - The argument for <u>pure generic strategies is controversial</u>.
      - Even Porter acknowledges that the strategies can be combined… (e.g. if being unique, costs nothing).
      - Singapore airlines combines low cost and high quality service, a combination Western airlines struggle with

- <u>**Hybrid**</u>

- Combination between low price and differentiation strategy
- Higher benefits than lower price strategies
- Often used to make aggressive bids for increased market share
- Effective in entering new markets (e.g. overseas)
- Can be a strategy of innovation with high benefits, initially charging a low price in order to gain experience curve efficiencies
- IKEA:
    - CL and differentiation.
    - Economies of scale allowing low prices
    - Differentiated through wide range of high quality, Swedish design products, with ability to drive home with in car.

- **<u>Non-competitive strategies</u>**
    - Unfeasible economics with low benefits and high prices
    - Business occupying this zone have exceptional strategic lock-in, and high customer switching costs, otherwise customers would reject these combinations
    - 6-8 on strategy clock



- Discuss product/industry life-cycle
    - Differentiation high during growth
    - Cost leadership more likely to be in maturity

Interactive strategies

Interactive strategies focus on the way businesses interact with their competitors.

- **Hypercompetitive strategies (D'Aveni, 1994)**
    - About changing strategy according to changing environment
    - Hypercompetition describes markets with continuous disequilibrium and change (e.g. popular music or consumer electronics)
    - In these environments it is not possible to plan for sustainable positions of competitive advantage
    - Planning for long term sustainability may actually destroy competitive advantage by slowing down response
    - Managers have to be able to react faster than their competitors
    - Successful hypercompetitive strategies rely on sped and initiative, D'Aveni (1994) highlights 4 principles:
        1) *Cannibalise bases of success*
            - Sustaining old CA distracts from developing new ones
            - Intel, traditionally a supplier of microchips for computers, had to jeopardise this market by pushing hard in the smart phone and tablet market
        2) *Series of small moves rather than big ones*
            - Create more flexibility allowing a series of temporary advantages
            - Make it harder for competitors to detect overall strategic direction
            - Apple make incremental improvements to products between releases of major innovations, such as iPhone in 2007 to iPad in 2010
        3) *Be unpredictable*

        - If competitors can see a pattern it is easier to predict competitive moves and imitate or outflank rivals
        - Apple likes to keep people guessing about their next move by revealing little about products or release dates. Many thought they were going to enter the TV market when they released the iPad

    4) *Mislead the opposition*

        - Draws on lessons from game theory as firms might signal particular moves, then do something else (talk about alliance, then make an acquisition)

  - Change in strategy according to what competitor might do (game theory):

    - Supermarket example:

        - Morrison's change strategy (from CL) to differentiation to charge a higher price, but competitors lower price and Morrison's lose market share.
        - Morrison's would change back to CL in reaction.

- <u>**Non-competitive strategies**</u>

  - High switching costs

- ***CORPORATE LEVEL STRATEGY (SEE CHAPTERS 7 & 8)*** *– about the product, industry or market domain a firm aims to be in. Affects the overall direction of the organisation.*

- Virgin – grow through diversification

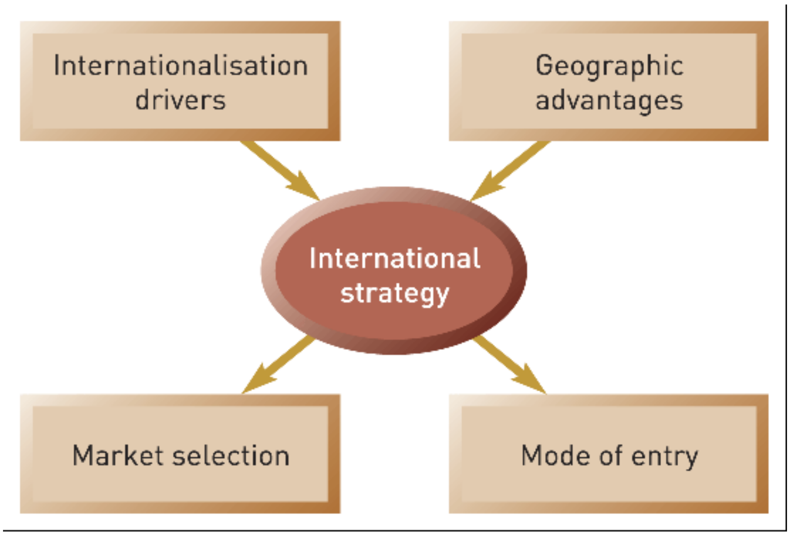
- **Internationalisation (see Econ. of Bus. and Corp. Strat. notes)**

Internationalisation *is the process of increasing involvement of* ***enterprises in international markets***

- Different internationalisation strategies to pursue.
- Is there need for a degree of localisation?
  - If local responsiveness is high, localisation is needed.
  - If local responsiveness is low, standardisation can work.
- Need for degree of integration?
  - In terms of business units
  - Is integration needed to operate effectively and efficiently or autonomy work.
- If both weak, firms can just export.

- Localisation strong, integration weak, multi-domestic strategy.
    - Each business unit is autonomous with high degree of control over its own operations but operate in different global areas.
- High localisation, high integration, transnational strategy
    - Operate in many different global areas in a highly integrated fashion.
- Low Localisation, high integration, global strategy.
    - Can standardise but high need for integration.

- <u>Key considerations when choosing strategy **(VERY IMPORTANT FOR EXAM, READ CHAPTER 8)**</u>



- **<u>Internationalisation Drivers</u>**

Internationalisation *is the process of increasing involvement of* ***enterprises in international markets*** *as* ***firm-level activity crosses international borders*** *(Wright & Ricks, 1994)*

Internationalisation is complex, and international strategy should be underpinned by careful assessments of trends in each particular market

To achieve the benefits of globalization, the managers of a worldwide business need to recognize when industry conditions provide the opportunity to use global strategy levers. These industry conditions can be grouped in four categories of globalization drivers: market, cost, government, and competitive. Each key industry globalization driver affects the potential use of global strategy levers (global market participation, global products and services, global location of activities, global marketing, and global competitive moves)

Yip's (1989) globalisation framework (above) sees international strategy potential as determined by market drivers, cost drivers, government drivers and competitive drivers

- *Market drivers*
    - Critical facilitator is standardisation of market characteristics
        - Presence of similar customer needs and tastes
            - Easy access to credit cards has resulted in worldwide spread of credit card companies such Visa
            - Ability to standardise across markets
        - Presence of global customers
            - Car components companies have become more international as their customers, such as Toyota and Ford, have internationalised and require standardised components in all their factories around the world
        - Transferable marketing
            - Promotes globalisation of brands such as Coca-Cola who are market in a similar way all over the world
            - Can transfer marketing capabilities if needs are similar.
- *Cost drivers*
    - Ability to reduce costs by internationalisation.
    - Scale economies
        - Production and purchasing if supplies
        - Particularly important in industries with high product development costs, as in the aircraft industry, where initial costs need to be spread over the large volumes of international markets

    - Country specific differences
        - Different skills available in certain countries.
        - Silicon Valley, California for technology
        - Clothes production in China or Bangladesh where labour is cheap, but might keep design in New York, Paris, Milan or London where fashion expertise is concentrated
    - Favourable logistics
        - Access to raw materials
        - Central to distribution can help depending on the cost of moving products or services across borders relative to their final value
        - Microchips are easy to source internationally, while bulkier items such as assembled furniture is harder
- *Government drivers*
    - Incentives attracting investment
    - Trade policies/barriers
        - Reduction of barriers to trade and investment has accelerated internationalisation
        - Reduced restriction on flows of goods and capital
        - WTO has helped as well as regional economic integration partnerships such as the EU
    - Favourable tax incentives for TNCs
    - Liberalisation and adoption of free markets has encouraged international trade and investments
        - China
    - Technology standardisation

        - Compatible technological standards make it easier for companies to access different markets as they can enter many markets with the same product or service without adapting to local, unique standards

- *Competitive drivers*
    - Interdependence between county operations increases the pressure for global coordination
        - Product or service dependent
        - US oil company needing business unit in Middle East where oil is to keep business running smoothly.
        - A business with a plant in Mexico serving both the US and the Japanese markets has to coordinate carefully between three locations, as surging sales I one country, or collapse in another will have significant knock on effects on the other countries
    - Keep competitive with globalised competitors
        - Increases pressure to adopt international strategy as international competitors might use profits from one country to cross-subsidise their operations in another
        - A company with loosely coordinated international strategy is vulnerable to globalised competitors, because it is unable to support country subsidiaries under attack from targeted, subsidised competition
        - This can mean there is a danger of partial or complete withdrawal from countries under attack, and the gradual undermining of any overall economies of scale that the international player may have started with (Hamel & Prahalad, 1985)

- Advantages of Yip's framework:
    - It allows identification of those drivers that are global and those that are local, so that the attributes of transnational strategy can be tailored to match the drivers.
    - It can be used to analyze both industry and market
    - It can be mapped onto Porter's five forces
    - Changes in the drivers can be indicated by macroeconomic analysis.
    - It assists in the identification of the critical success factors of a global industry and market

- The key insight from Yip's drivers framework is that the internationalisation potential of industries is variable
- Many different factors that can support it, as shown above, and others can inhibit it
- For example, customer needs and tastes for many food products inhibit internationalisation of them and local governments often impose tariff barriers, ownership restrictions and local content requirements on foreign entrants
- All these drivers can change however change over time, especially in fast moving industries
- Other factors can also have an influence
- An important step in determining internationalisation strategy is a realistic assessment of the true scope for internationalisation in a particular industry
- Industry globalization drivers relate to, but are different from, the industry competitive forces identified by Michael E. Porter; threat of entry, rivalry among existing firms, pressure from substitute products or services, bargaining power of suppliers, and bargaining power of buyers.[i]
    - In most cases, but not always, increases in industry globalization will increase the strength of competitive forces. Particularly for the threat of new entrants and rivalry among existing firms, increased industry globalization heightens competition by widening its geographic scope.
    - The specific effects on these two competitive forces vary in interesting ways depending on the specific industry globalization driver, and so will be addressed shortly for each of the drivers.
    - Increased industry globalization also increases the pressure from substitutes by increasing the geographic scope of where these substitutes might come from
    - Last, the effects of industry globalization on the power of suppliers and the power of buyers can be positive in some cases and negative in others. In particular, the globalization of customers themselves (the global customer driver) increases their bargaining power relative to industry competitors, while the globalization of competitors the (the competitors globalizer driver) reduces the bargaining power of customers. Similar effects apply the bargaining power of suppliers.
- Globalization can also change the fundamental strategy required for managing competitive forces.
    - Porter (1980) recommends that companies seek to compete in markets with weak competitors and weak customers

- Porter argues instead for participating in national markets with the strongest rivals and most demanding customers, in order to build international competitiveness.[ii]

- The difference between his two positions is explainable by the difference between a closed, domestic industry, and an open, globalized industry.

    - In a closed, domestic industry, a company accustomed to weak competitors and undemanding customers has little to fear-there is no source of new competitors that might grow strong in more demanding competitive arenas.

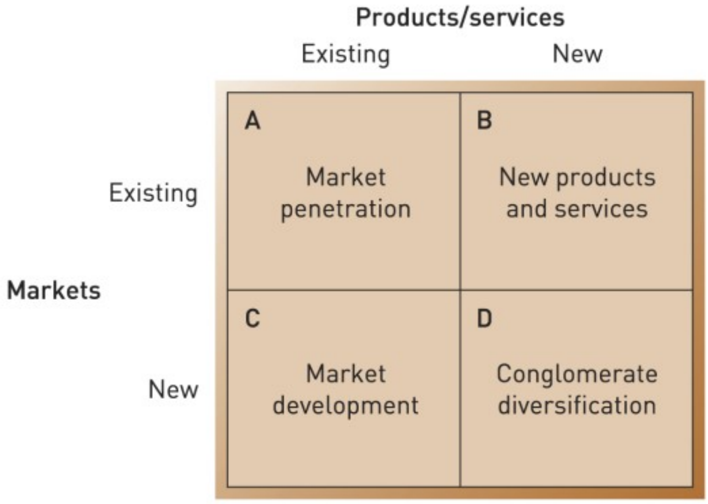
    - In an open, globalized industry, such newly strong competitors are abundant. *That is why it is important to understand how industry globalization drivers affect the threat of entry and rivalry among existing competitors.*

- **<u>Diversification strategy (Ch.7) (see Econ. of Bus. and Corp. Strat. notes)</u>**

Diversification *involves* ***increasing the range*** *of* ***products*** *or* ***markets served*** *by an organisation.*

Related diversification *involves expanding into* ***products*** *or* ***services*** *with* ***relationships to the existing business****. (zones B and C)*

Conglomerate (unrelated) diversification *involves diversifying into* ***products*** *or* ***services*** *with* ***no relationships to existing businesses.*** *(zone D)*



- **<u>Ansoff's (1988) matrix</u>**

- Corporate strategy framework for generating four strategic directions for organisational growth

- ***Market Penetration***

    - Implies increasing share of current markets with the current product range

    - Builds on established strategic capabilities and doesn't require venturing into uncharted territory

    - Greater market share can be achieved, increasing power with customers and suppliers (Porter's 5 forces)

    - Can increase economies of scale and result in experience curve benefits

    - Market penetrating firms face 2 constraints:

        1) *Retaliation from competitors*

            - In terms of 5 forces, increasing market penetration can increase competitive rivalry as competitors defend their market share

            - Increased rivalry can cause price wars or expensive marketing battles that may be more costly that the market-share gains are worth

            - The dangers of provoking retaliation are worst in low growth markets as it harms competitors more, which can mean acquisitions are more effective in gaining market share

            - Firms must have strategic capabilities that give clear competitive advantage

        2) *Legal constraints*

            - High levels of market penetration can raise concerns with competition authorities concerning excessive market power

    - Market penetration may also not be an option when economic constraints are severe, which can be during a market downturn

- ***Product Development***

    - Where firms deliver modified or new products (or services) to new markets

    - Can involve varying degrees of diversification along the horizontal axis

- Apple
    - Product development from iPod to iPhone to iPad involved little diversification, although technologies differed
    - Targeting same customers using similar production processes and distribution channels
- Despite benefits from relatedness, product development can be an expensive and high-risk strategy for 2 reasons:
    1) *New strategic capabilities*
        - Strategy involves mastering new processes and technologies, unfamiliar to the firm
        - Success is likely to depend on willingness to acquire new technological capabilities, to engage in organisational restructuring and new marketing capabilities to manage customer perceptions
        - Therefore, involves heavy investment with high risk of project failure
    2) *Project management risk*
        - Risk of delays and increased costs due to project complexity and changing project specifications over time

- ***Market Development***
    - Involves offering existing products to new markets
    - Can be more attractive than product development by being cheaper and quicker to execute
    - Degree of diversification varies along the vertical axis
    - Can still require minor product development such as changed packaging
    - Takes 2 basic forms:
        - *New users*
            - Original users of aluminium were packaging and cutlery manufacturers, but now aerospace and automobiles are also users
        - *New geographies*

- Internationalisation or the spread of a small retailer into new towns

- Market development strategies must still meet needs of new market

- Might require investment in extra strategic capabilities, such as the appropriate marketing skills to be successful with new customers

- Requires managerial coordination between different users and geographies, which might all have different needs

- ***Conglomerate diversification***

  - Takes organisation beyond both existing markets and existing products

  - Benefits:

    - Massively increases organisation's scope
    - Create value as firms benefit from being part of a larger group
    - Allows consumers to have greater confidence in the business unit's products and services than before
    - Larger size can reduce finance costs
    - Cross-subsidisation

  - Drawbacks:

    - No obvious way the business can work together to generate additional value, over and above the businesses remaining on their own
    - Additional bureaucratic cost of the managers at headquarters who control the conglomerate
    - Share prices can suffer – 'conglomerate discount'
    - Risk of unknown
    - See p230

- ***Diversification Drivers***

  - Value-creating drivers

    - *Exploiting economies of scope*

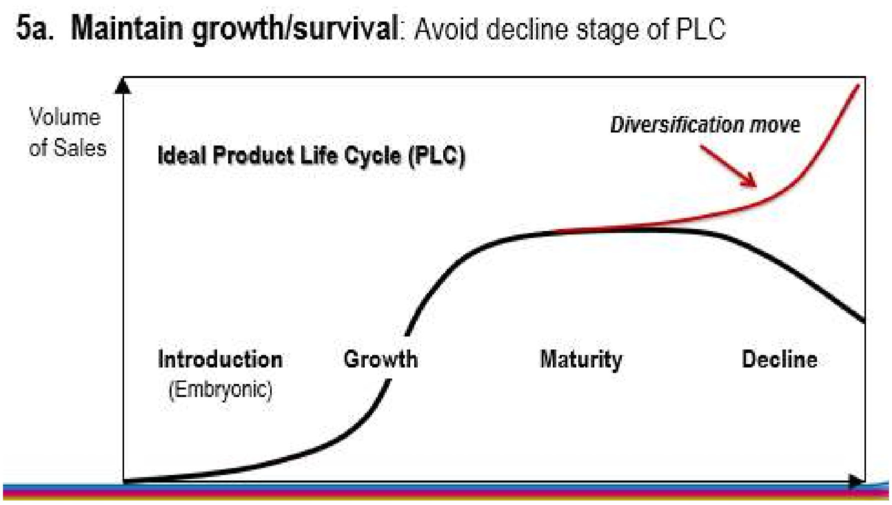
    - Refers to efficiency gains through applying a firm's existing resources and capabilities to new markets or services
    - It is efficient to apply under-utilised resources and capabilities to new activities through diversification
    - Universities renting our halls of residence over summer
    - Can be tangible or intangible (staff skills or brand)
  - *Stretching corporate management competencies ('dominant logic')*
    - Special case of economies of scope where the skills of talented corporate-level managers are applied to new businesses
  - *Exploiting superior internal processes*
    - Internal processes within a diversified corporation can be more efficient than external processes in the open market
    - Especially the case where external capital and labour markets don't work well, common in developing economies
  - *Increasing market power*
    - Competitors are less likely to make aggressive moves due to the ability a diversified firm has to react over a wide portfolio of businesses
    - Increases power to cross-subsidise one business with profits from the other
      - Supports aggressive bids to drive competitors out of the market
      - Makes competitors reluctant to attack
      - Although can harm profitable businesses and keep inefficient one's going, knowing they can be bailed out
  - Successful diversification creates is called ***synergy,*** which refers to the benefits gained where activities or assets complement each other so that their **combined effect is greater than the sum** of the parts (2+2=5)
- Value-destroying (non-strategic) drivers (*negative synergies*)
  - *Responding to market decline*
    - Finance theory suggests poor driver
    - Doubtful driver

- Kodak invested billions on a wide variety of businesses when their main product's market declined, however it was not successful and they still went bankrupt

- *Spreading risk*
  - Finance theory suggests poor driver
  - Shareholders have the ability to spread the risk themselves, and don't want companies doing it for them
  - Offers security for managers

- *Managerial ambition*
  - Inappropriate driver
  - Managers who lack the foresight and imagination to grow their core business are unlikely to have the foresight and imagination to grow acquired businesses
  - May give managers short term benefits in terms of bonuses and prestige, but going beyond level of expertise can cause failure
  - British bank managers of RBS and HBOS promoted excessive, short-term, growth and diversification into new markets, which resulted in financial disaster and the nationalisation of RBS and takeover of HBOS by Lloyds

- ***Diversification and Performance***
  - Diversify during decline stage of PLC to extend companies longevity.



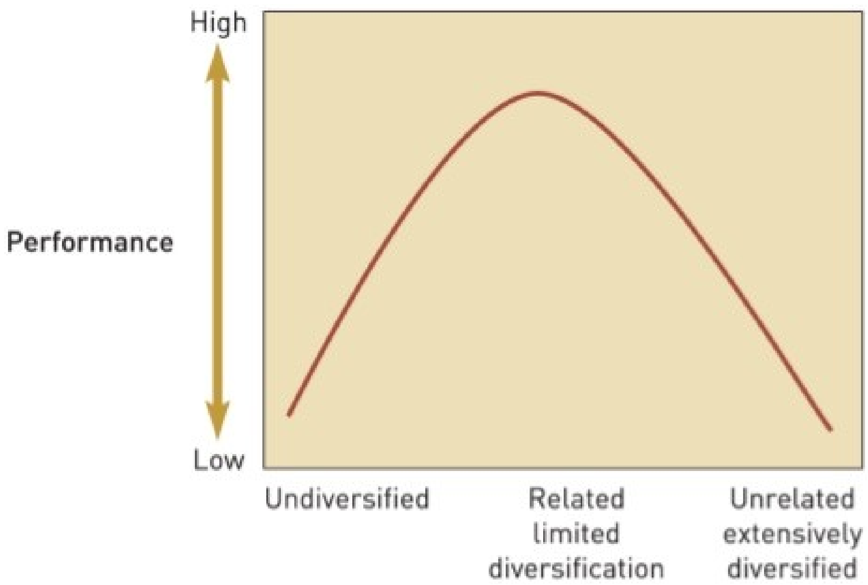
  - Related or limited diversifiers often outperform those that stay specialised or conglomerate/unrelated diversifiers *(Palich et al., 2000)*
  - Use diversity and performance graph below

- Companies adopting **related diversification** or limited diversification tend to outperform both firms that remain specialised and those which adopt unrelated diversification

- Diminishing returns as diversification becomes more unrelated

- Performance reduces with as diversification becomes more diversified.

- Graph shows average results as individual performance can vary from case to case, depending on circumstances, so any diversification needs rigorous research, planning and questioning on its merits



- <u>**Process (2 questions on) (Mintzberg & Walters, 1985)**</u>

- Process strategy is the **pattern of decisions** made in **managing organisational activities and processes** with the **aim of achieving competitive advantage**.

- Two schools of thought:
  - **Deliberate** process of strategy development (***Rational***)
  - **Emergent** process of strategy development *(**Behavioural**)*

- <u>**Deliberate strategy**</u>

*Deliberate strategy involves **intentional formulation or planning***

This intentionality can take various forms due to, strategic leadership, strategic planning or external imposition

1) ***Strategic Leadership***

- An organisations strategy can be **influenced by strategic leaders** (individuals or a small group of individuals) whose personality, position or reputation makes them **central to the strategy development process**

- Could be the owner or founder of the business, normally the case in small business but can still occur in large firms such as Richard Branson with Virgin or the Tata Corporation (Ratan Tata)

- Could be CEO or individual who has played a central role in organisational strategy, such as Mark Zuckerberg with Facebook and Michael O'Leary with Ryanair

- Founders and CEOs play different roles (Souder et al., 2012):

  - Research has shown founders are more successful in achieving rapid growth in fast growing markets, most likely by applying what they have learnt from their previous experiences

  - CEOs need more time to build their knowledge and influence but have more success in complex market conditions

- Deliberate strategy through strategic leadership can manifest itself in different ways:

  - *As Command*

    - Strategy might be dictated by an individual in direct control of all activities

    - Popular in small owner-managed firms

    - Benefits from fast strategy adaptation with sharp, innovative, unorthodox strategies that can be difficult for other companies to imitate (Miller & Le Breton-Miller, 2005)

    - However, the downside can be hubris, excessive risk taking, quirky, irrelevant strategies (Miller & Le Breton-Miller, 2005)

  - *As Vision*

    - Leader determines overall vision, mission or strategic intent

    - Can motivate others, helping create shared beliefs within which people can work together effectively, guiding a more detailed strategy developed by others within the firm

    - Ingvar Kamprad's vision for IKEA 'to create a better everyday life for the many' helped motivate and guide subsequent generations of IKEA managers and staff

  - *As Decision Making*

- Ability to weigh up different views, interpret data and have the confidence to make timely decisions to invest in key resources or markets and the authority to get others to buy into those decisions

- *As the Embodiment of Strategy*
  - Representative of the strategy
  - Richard Branson no longer runs Virgin on a day to day basis but is the face of the brand

2) *Strategic Planning*

- Systematic **analysis and exploration** to develop an organisation's strategy
- Grant (2003) noted following stages of planning cycle:
  - *Initial Guidelines*
    - Starting point is usually a set of guidelines or assumptions about external environment (e.g. price levels and supply and demand conditions) and the overall priorities, guidelines and expectations of the corporate centre
  - *Business-Level Planning*
    - Business unites then draw up strategic plans to present to the corporate centre, which are then discussed and revised accordingly
  - *Corporate-Level Planning*
    - Resulting from the aggregation of the business plans
  - *Financial and Strategic Targets*
    - Extracted to provide basis for performance monitoring of business and key strategic priorities on the basis of the plan
- Grant (2003) found some companies were more formal and systematic than others
- Strategic planning may take several roles:
  - *Formulating Strategy*
    - Establishing objectives and encouraging use of analytical tools
  - *Learning*
    - Managers can benefit from planning if they see it as a means of learning, rather than a means of 'getting the right answers'
    - Emphasis on the need for questioning and challenging information rather than taking it for granted
  - *Integration*

        - Strategic planning systems can coordinate business-level strategy with corporate-level strategy

    - *Communication*

        - Can provide clarity throughout organisation on intended purpose and objectives to be achieved and how performance can be reviewed

- Mintzberg (1994) suggested 5 dangers with strategic planning:

    1) *Confusing managing strategy with planning*

    - Managers may see themselves as managing strategy when they are actually just going through the process of planning (which are not the same things)
    - Strategy is the long term direction that the organisation follows – the realised strategy
    - Can be confusion between the budgetary process and strategic planning process
    - If the two become being seen as the same thing, then strategic planning gets reduced to the production of financial forecasts rather than thinking through the issues that need to be

    2) *Detachment from reality*

    - Implementation of strategy is often the responsibility of line mangers who can be busy, which means responsibility for strategic issues may be passed on to specialists or consultants
    - However, these individuals rarely have power in the organisation to make things happen
    - This means strategic planning becomes removed from the reality of operations and the experience and knowledge of operating managers
    - If formal planning systems are to be useful, those responsible for them need to draw on such experience and involve people throughout the organisation
    - Without this involvement there is a danger that the resulting strategy is not owned widely in the organisation

    3) *Paralysis by analysis*

    - When strategic planning becomes over detailed and complicated in its approach, concentrating on extensive analysis that might miss the major strategic issues facing the firm
    - Information overload with no clear outcome

    4) *Over-complex planning process*

    - Can take too long and become too complex when individuals and groups contribute different parts, distorting the overall picture

- Result can be realised strategy at one level, such as business-level, which does not correspond to the intended strategy at corporate level

- Particularly problematic in large multi-business firms

5) *Dampening by innovation*

- Highly formalised, rigid systems of planning can contribute to an inflexible, hierarchical organisation with a resultant stifling of ideas and dampening of innovative capacity

- This is why new venture units, who do not have to follow formal planning systems, are often set up in large firms

- To be beneficial, strategic planning must be designed to work in conjunction with bottom-up emergent processes of strategy development, creating a process of 'planned emergence' of strategy (Brews & Hunt, 1999)

- It may also be beneficial in dynamic environments, where decentralised authority for strategic decisions is required, but where there is a need for coordination of strategies arising from such decentralisation (Anderson, 2004)

- Good for coordination of strategy emerging from below, rather than top-down

3) ***External Imposition***

- Manager may face what they see as imposition of strategy by powerful stakeholders

- Strategies imposed like this may have been determined elsewhere, perhaps through systematic strategic planning, or in more of an emergent fashion

- For managers, having a strategy imposed on them, it is experienced as a top-down deliberate strategy

- Governments may dictate particular strategic direction as in the public sector, or impose regulations on industries

- In the UK this has occurred in schools and hospitals that have been under-performing, with specialist managers being sent in to impose a new strategic direction

- Governments can also deregulate or privatise sectors

- Some multinationals might only be able to enter some countries as part of a joint venture or alliance (McDonalds in Japan)

o <u>Emergent strategy</u>

Emergent strategy is strategy emerging on the basis of a ***series of decisions****, which a* ***pattern become clear over time***

This explains strategy not as a 'grand plan' rather as a developing 'pattern in a stream of decisions' where top managers draw together emerging themes of strategy from lower down in the firm, rather than a direct strategy from the top

The pattern that emerges may subsequently be more formally described, for example in annual reports and strategic plans, and be seen as the deliberate strategy of the organisation

It will not, however, have been the plan that developed the strategy; it will be the emerging strategy that informed the plan

There are four explanations for emergent strategy which can be ranked on how deliberate the processes in developing the strategy are:

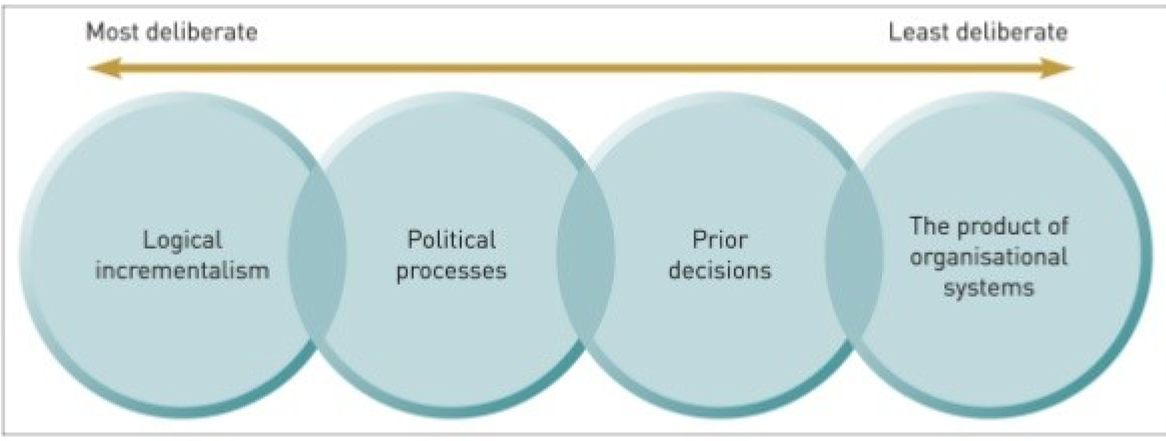


Figure 12.2 A continuum of emergent strategy development processes

1) *Logical Incrementalism*

- The development of strategy by experimentation and learning (Quinn, 1980)
- Bridges deliberate and emergent processes in that it explains how management may deliberately cultivate a bottom-up, experimental basis for strategies to emerge
- Strategies emerge from "organisational subsystems" (such as SBUs, cross-functional teams) activities and are initiated from the bottom-up
- 3 main characteristics of strategy development in this way:

  i. *Environmental Uncertainty*

  - Managers realise they cannot just rely on analysis of historical data due to operating in a changing environment
  - Be sensitive to environmental signals by encouraging constant environmental scanning throughout the organisation

  ii. *General Goals*

  - Reluctance to specify precise objectives early on to avoid stifling ideas and preventing innovation and experimentation
  - More general rather than specific goals are preferred

  iii. *Experimentation*

        - Managers seek to develop a strong, secure, but flexible, core business, using experience gained to inform decisions both about its development and experimentation with 'side-bet' ventures

        - These experimental ventures are carried out by 'subsystems' rather than top management and can involve product development, product positioning, diversification etc.

- Despite its emergent nature, Quinn argued logical incrementalism can be a 'conscious, purposeful, proactive, executive practice' to improve information available for decisions and build peoples psychological identification with the development of strategy

- Can allow deliberate strategy development, whilst relying on organisational subsystems to sense what's happening in the external environment and experiment

- Benefits:

    - Improved quality of information for decision making

    - Since change will be gradual, the ability to create and develop commitment to change throughout the firm is increased

    - As the subsystems are in a state of interplay, managers from each can learn from each other about the feasibility of a course of action

    - Smaller changes are less likely to suffer resistance

    - Implications of the strategy are constantly tested out in a dynamic environment

    - Strategy development corresponding with a 'learning organisation' – an organisation that is capable of continual regeneration from the variety of knowledge, experience and skills within a culture that encourages questioning and challenge

2) *Political Processes*

- Strategy that develops as the outcome of bargaining and negotiation among powerful interest groups or stakeholders

- Objectives may reflect the ambitions of powerful people

- Information used in strategic debate is not always politically neutral

- A manager or coalition may exercise power over another because they control important sources of information

- Powerful individuals and groups may also strongly influence which issues get prioritised

- In these situations, it is bargaining and negotiation that gives rise to strategy, rather than careful analysis and deliberate intent

- In approaching strategic problems, people are likely to be influence by:

    i. *Personal Experience*

        - From roles within the firm

    ii. *Competition for Resources and Influence*

        - Between different subsystems within the firm and people within them who look to preserve or enhance their position

    iii. *The Relative Influence of Stakeholders*

        - For example, a financial department may be especially sensitive to the influence of financial institutions, whilst a sales or marketing department will be strongly influenced by customers

    iv. *Different Access to Information*

        - Given roles and functional affiliations

- Strategy development might build gradually on current strategy as different views prevail and different parties exercise their political muscle, and compromise becomes inevitable
- In the pursuit of current strategy, power may be gained by those wield it, and significant changes could threaten their power, meaning compromise is required to accommodate different power bases
- Benefits:
    - The conflict and tensions arising from political activities can be a source of new ideas, or challenge the old ways of doing things (Regner, 2003)
    - Without such conflict innovation might not exist

3) ***Prior Decisions***

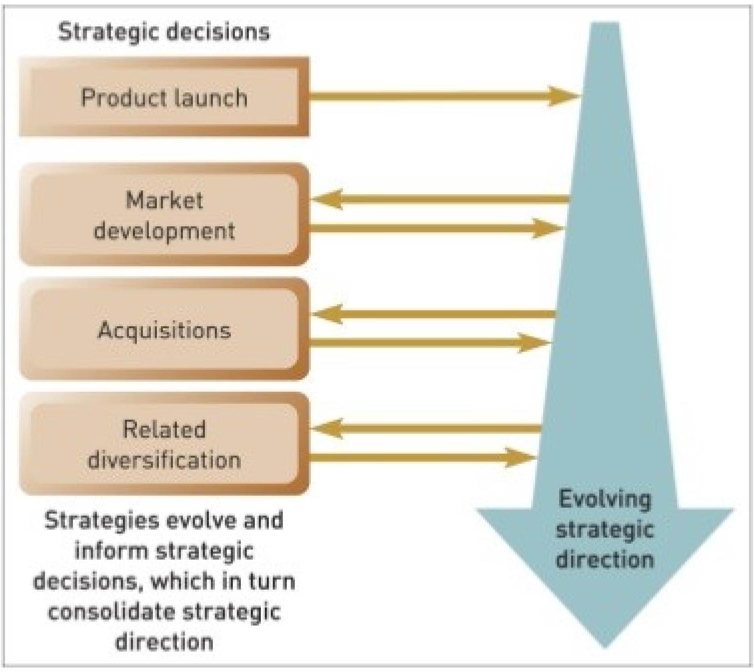


Figure 12.3 Strategic direction from prior decisions

- A product of established ways of do things, or prior decisions which inform or constrain strategy development
- Managers seek to maintain continuity of strategy
- Explanations suggest such continuity however may be less deliberate; that it could be the outcome of path dependency or organisational culture:

    i. *Emergent Strategy as Managed Continuity*

    - Strategy developed on the basis of a series of strategic moves each of which makes sense in terms of previous moves
    - A business may start with a new product idea and its initial success may give rise to product development and product extensions and investment in resources to support and develop the growing business may follow

    ii. *Path-Dependant Strategy Development*

    - Less deliberate explanation of such continuity
    - Where early events and decisions establish 'policy paths' that have lasting effects on subsequent events and decisions (Arthur, 1989)
    - Can still hold even if opening move is not successful:
        - A firm may develop a new product based on technology to which it is wedded and on the basis of which there is some initial success in the market
        - However, if initial success doesn't continue, further product development and extensions may take place, perhaps because the company has invested large amount of capital in the technology

- Experience in these sorts of acquisitions and strategies may give managers confidence to make further investments in these areas or more diversified projects

- Firms then become more diversified when originally they only launched one new product

iii. *Organisational Culture and Strategy Development*

- Emphasis on strategy development as the outcome of the taken-for-granted assumptions, routines and behaviours in organisations

- This guides how people view the firm and its environment, and can influence behaviour and decisions on future strategy, ensuring they stay within the bounds of organisational culture

4) *Organisational Systems*

- Strategy development as the outcome of managers at much lower levels making sense of and dealing with problems and opportunities by applying established ways of doing things, rather than top-down directive plan

- Similar to logical incrementalism, but less emphasis on deliberate experimentation, and more emphasis on the influence of the systems and routines with which managers are familiar and which guide and constrain their decisions

- This can occur through a resource allocation process at the micro-level, which is how INTEL became a microprocessor company in the 1980s (p418)

- There are 2 main insights that this explanation of strategy offers, shown below graphically:

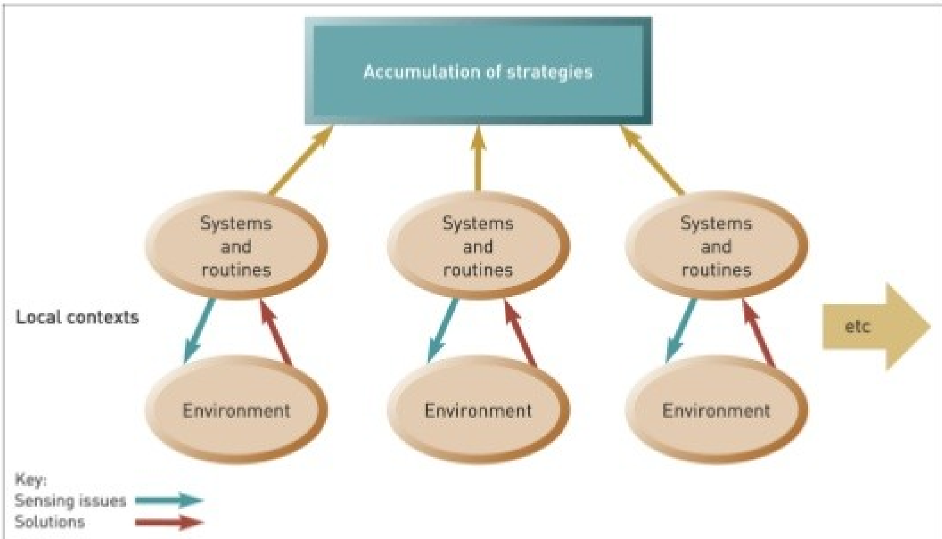


Figure 12.4 Strategy development as the product of structures, systems and routines

i. *Organisational Systems as a Basis for Making Sense of Issues*

- Managers are likely to make sense of issues on the basis of the systems and routines that are familiar to them and which directly affect them

- Finance directors will be primarily concerned with the financial systems of an organisation

- Reward systems for managers can encourage a focus on short-term rather than long-term strategy
- Overhead allocation routines can exaggerate the profitability of some products or services and therefore encourage their perceived significance and development at the expense of others
- Vertical reporting relationships in hierarchies will focus managers' attention on issues within their part of the organisation s distinct from cooperating on wider issues across the wider organisation
- Managers in a business unit, close to a market, may pay attention to routines and systems to do with competitors and customers, whereas senior corporate executives may be concerned with balancing resource allocation across businesses, with systems relating to financial markets and government regulation
- Whereas top-down explanations of strategy development assume that managers' focus of attention will readily cohere around clearly identified overarching 'strategic issues', this explanation emphasises that:
    - It may not be analysis of an organisation's overall strategic position so much as local systems that surface issues that get attended to; and
    - Such issues are likely to be locally defined

ii. *Organisational Systems provide bases of Solutions to Strategic Issues*

- Systems and routines also provide solutions that managers can draw on when faced with problems
- Responses may differ depending on the context managers are in, and the associated systems and routines
    - Marketing managers may respond to a market downturn by finding solutions relating to sales promotion and advertising
    - Whereas R&D managers may see it as a need for more product innovation
    - Each drawing on the context in which they find themselves the associated systems and routines for dealing with such problems

The emergent explanation of strategy development doesn't exclude other explanations. For example, it can help explain why strategy development is likely to be a political process since it recognises that there will be different perceptions of strategic issues and different views on solutions.

This explanation does, however, de-emphasise top-down strategic planning and suggests it is an accumulation of local decisions strongly influenced by local context that accounts for strategy development.

It may be, however, that such local decisions are then post-rationalised into an apparently coherent strategy in the form of a strategic plan.

There is also evidence that the sponsors of successful exploratory and innovatory local initiatives tend to employ rational justification and draw on formal authority in local support of initiatives (Lechner & Floyd, 2012)

Implications for Managing Strategy Development

- **Different explanations for strategy are not discrete, nor mutually exclusive**
  - Multiple processes are likely to be evident (Hart, 1992)
  - For example, planning systems exist in most large organisations, but there will always be some political activity; indeed, the planning system might be used for negotiation purposes
  - There will also be history of prior strategic decisions and established systems and procedures which will affect future decisions
- **Strategy development will be seen as different by different people**
  - Senior executives tend to see strategy development in terms of deliberate, rational, analytic planned processes, whereas middle managers see strategy development more as the result of cultural and political processes
  - Managers in public sector organisations tend to see strategy as externally imposed more than managers in commercial businesses, largely because their organisations are answerable to government bodies
  - People who work in family run businesses tend to see more evidence of the influence of powerful individuals, who may be the owners of the business

Strategy Development in Different Contexts

- Firms differ in size, form and complexity
- Environments faced by firms differ also, therefore different strategy development processes are relevant for different circumstances
- **Static Conditions (more deliberate)**
  - Relatively straightforward to understand and slow rate of change
  - Lack of organisational complexity (e.g. operating in a single market with narrow product portfolio)
  - Examples:
    - Raw materials suppliers
    - Some mass-manufacturing companies

- If environmental change does occur, it is often predictable, meaning firms can analyse the environment extensively on a historical basis as a means of trying to forecast future conditions
- In situations of low complexity, it may also be possible to identify some predictors of environmental influences
    - Birth rates can be used to determine required provision of schooling, healthcare and social services
- Systematic, strategic planning is possible, with central planners taking the lead
- Past experience and prior decisions will be a significant influence since little is changing
- A potential problem is that conditions change as the environment can become more dynamic and the established processes may not be suited to such conditions

▪ **Dynamic Conditions (more emergent)**

- Managers must consider the future environment, not just the past
- Degree of uncertainty is high
- High rate of change
- Might employ structured ways of making sense of the future through scenario planning
- Firms might also rely on encouragement of active sensing of environmental changes lower down in the organisation where people are operating closer to the changes that are taking place, supporting the bottom-up approach of emergent strategy development
- Firms can do this in various ways, such as through strategy workshops and more open strategy making involving much wider participation in strategy development or by seeking to create organisational conditions that encourage individuals and groups to be sensitive to signals from the changing environment, forward thinking and challenging
- This can be part of a logical incrementalism and organisational learning strategy development process

▪ **Complex Conditions/Organisations**

- Difficult to comprehend
- Multinational firms can be complex due to their diversity
- Firms may seek structural solutions:
    - Subdivide organisations into units where managers have particular expertise and responsibility for strategic decision making within those units

- Such organisations often also face dynamic conditions and therefore a combination of complexity and uncertainty
- As technology continues to progress rapidly more firms move towards this situation
- Under these circumstances it is not feasible for top management to understand all influence on future strategy so there will be even greater need to transfer/delegate strategy thinking and influence within the organisation to a lower level
- Encouraging more emergent strategies

- **<u>Implications of developing strategy in different contexts</u>**
  - *Top Management Role in Strategy Development*
    - Top managers might see themselves as detailed planners of strategy throughout the organisation
      - Setting broad strategic direction and cultivating managers below them who can develop more detailed strategies
    - Managers could alternatively see themselves as developing their own strategic capabilities to detect and build upon strategies and strategic ideas as they emerge from lower down the hierarchy
  - *Different Strategy Development Roles at Different Organisational Levels*
    - Business units/subsidiaries often play more of an experimental role
      - Highly reliant on informal contacts with their markets
    - Managers' decisions are made largely on the basis of their experience
    - Executives at the centre are more concerned with the search for order throughout the business and therefore on planning, building on existing resources and refining existing strategy
  - *Roles of Strategic Planning*
    - Strategic planning has different roles to play
    - The simpler the conditions faced by the organisation, the more it may be possible for planning to direct the strategy

- The more the strategy is delegated throughout the firm, the more likely it is that there will be a problem of coordination of the overall strategy for an organisation
  - In this circumstance strategic planning might also play a role, but as a coordinating and communication mechanism
  - This can help with a formal explanation of the strategy for stakeholders
  - The danger, however, is that planning does little more than pull together 'received wisdom' such that it merely post-rationalises where the organisation has come from
  - Therefore, if strategic planning systems are to be useful, then it is important they encourage the challenge of received wisdom and ways of doing things

- *Strategic Inflection Points*
  - Burgleman and Grove (2007) argue that all firms face 'strategic inflection points' where there are shifts in fundamental industry dynamics which management need to recognise and act upon
  - In such circumstances it may well be that the symptoms are recognised by managers close to such changes who may then press for changes in strategy
  - An issue may be that other, perhaps top, management may be busily working to maximise their competitive advantage and returns in the prevailing industry structure
  - This result could be a build-up of 'dissonance' within the organisation, which top managers need to learn when to take seriously

<u>Managing Deliberate and Emergent Strategy</u>

<u>Unrealised Strategy</u>

- Some aspects of deliberate strategy might not some to be realised in practice due to:
  - Plans prove to be unworkable or unacceptable in practice
  - Emergent strategy comes to dominate
  - There is a danger managers may adopt a deliberate strategic planning process, but the firm may be following a different strategy in reality
    - For example, firms claiming they offer excellent customer service but operate call centres that frustrate customers and fail to solve problems

    - Top managers however, may not always be close enough to customers to understand the extent of the difference between what is intended as the strategy and what is actually happening

    - Managers need to take steps to check if the deliberate strategy is actually being realised

- **Managing Emergent Strategy**

  - The process of strategy development that gives rise to emergent strategy may be rooted in organisational routines and culture, but they're not unmanageable

  - This is as much about managing strategy as is strategic planning

  - Resource allocation processes can be changed

  - Political processes can be analysed and managed

  - Challenge to the norms and routines of organisational culture can be encouraged

  - A clear mission or vision can help direct the bottom-up strategy development and strategic planning systems can help coordinate the outcomes of such processes

- **The Challenge of Strategic Drift**

  - A major strategic challenge facing managers is the risk of strategic drift

    - The tendency for strategies to develop incrementally on the basis of historical and cultural influences, but fail to keep pace with a changing environment

    - Such a pattern may be the natural outcome of the influence of prior decisions, organisational culture and political processes

    - This further highlights that strategy development processes in organisations need to encourage people to have the capacity and willingness to challenge and change their core assumptions and ways of doing things

EXAM

- ***Process Question***

- Explain different types of process that exist.

- Engage in argument that discusses how likely a purely deliberate or purely emergent strategy is and which is more appropriate to what industry,

  - Not likely

        - Strategy will deviate due to dynamic environment (Purely deliberate unlikely)
        - Managers/CEO will have an idea of what markets etc. they want to go into (Purely emergent unlikely)
        - Results in positions in the middle
        - Talk about PLC
        - Industry dynamism
- Deliberate
    - Static industries
    - Commodities market
    - Dynamic markets reduce ability to be deliberate depending on stage of PLC.
        - Mature/decline = deliberate, low scope for innovation
- Emergent
    - Better for high-tech industries
    - Growth stage of PLC due to
        - greatest rate of change in environment (dyanamic)
        - more uncertainty
        - more scope for innovation occurs during growth

- ***__Resource/Capabilities Question__***
- Define RBV
- Critique?
- Identify resources with McKinsey 7S
- Discuss value of resources with VRIN
- Discuss how VRIN breaks down in dynamic environment
- Changes in environment/technology can be competency enhancing or competency destroying, especially if capabilities are rigid

- Discuss dynamic capabilities

SECTION B

- 30%
- 1 compulsory case study question to answer
- Case studies:
    - Apple
    - Vodafone
    - IKEA
    - Virgin
- Topics covered:
    - PESTEL
    - Porter's 5 forces
    - VRIN/McKinsey 7S
    - Porter's Generic Strategies
- Can apply topics not used for certain CS in seminar
- Example:
    - *Conduct an external analysis of the … case study using appropriate analytical tools to assess the opportunities and threats to …*
        - Macro level opportunities and threats using PESTEL
        - Micro level opportunities and threats using Porter's 5 forces
        - Apply tools to generate results
        - Assess opportunities and threats – provide summary of their potential impact

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