BUS 495 – Term 103

http://www.psu101.info

Final Exam

- **Chapter 1:**
  - What is strategic Management
  - The Strategic Management Process
  - Ensuring Coherence in the Strategic Direction.

- **Chapter 2:**
  - Creating the Environmentally Aware Organization.

- **Chapter 3:**
  - Value-Chain Analysis
    (Page 76-85)

- **Chapter 5:**
  - Types of Competitive Advantage and Sustainability
    (Page 156-158, 163, 167)

- **Chapter 6:**
  - Unrelated Diversification: Financial Synergies and Parenting
    (Page 204-207)

- **Chapter 7:**
  - Factors Affecting a Nation's Competitiveness
    (Page 230-232)

- **Chapter 8:**
  - Recognizing Entrepreneurial Opportunity
    (Page 267-271)
  - Entrepreneurial Strategy
    (Page 277-281)

- **Chapter 11:**
  - Developing a Learning Organization

- **Chapter 12:**
  - Managing Innovation

BUS 495 - Ch. 1

http://www.psu101.info

Learning Objectives:

After reading this chapter, you should have a good understanding of:

1. The definition of strategic management and its four key attributes.
2. The strategic management process and its three interrelated and principal activities
3. The vital role of corporate governance and stakeholder management as well as how "symbiosis" can be achieved among an organization's stakeholders.
4. The Importance of social responsibility, including environmental sustainability, and how it can enhance a corporation's innovation strategy.
5. The need for greater empowerment throughout the organization.
6. How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

Two Perspectives of Leadership

- **Romantic View:** Leader is the key force in organization's success
- **External Control Perspective:** Focus is on external factors that affect an organization's success.
- **Leaders can make a difference:** Leaders are aware of opportunities and threats faced in external environment. They must have an understanding of thorough understanding of the firm's resources and capabilities.

Sources of Power:

- Position
- Wealth
- Social Status
- Respect (The most important source of power)

Strategic Management Steps:

- **Analysis:**
  - Strategic goals (vision, mission, strategic objectives)
  - Internal and External environment of the firm.
- **Strategic Decisions:** (**Formulation**)
  - What industries should we compete in?
  - How should we compete in those industries?
- **Actions**: (**Implementation**)
  - Allocate Necessary Resources
  - Design the organization to bring intended strategies to reality.

- **Strategic Management is the study of why some firms outperform others:**
    - How to compete in order to create competitive advantages in the marketplace
    - How to create competitive advantages in the market place
        - Unique and Valuable
        - Difficult for competitors to copy or substitutes

Key Attributes of Strategic Management:

- Directs the organization toward overall goals and objectives
- Includes multiple stakeholders in decision making
- Needs to incorporate short-term and long-term perspectives
- Recognizes trade-offs between efficiency and effectiveness.

Question: The final realized strategy of a firm is a combination of:

a) Intended and unrealized strategies
b) Unrealized and emergent strategies
c) **Emergent and deliberate strategies** (**Correct**)
d) Deliberate and unrealized strategies

Strategic Analysis:

- Starting point in the strategic management Process Precedes effective formulation and implementation of strategies.
- Clear Goals and Objectives permit effective allocation of resources
- Hierarchy of Goals
    - Vision
    - Mission
    - Strategic Objectives
- Intellectual assets are drivers of
    - Competitive Advantage
    - Wealth Creation
- Networks and relationship among
    - Employees
    - Customers
    - Suppliers
    - Alliance Partners

(MISSING INFORMATION: CHECK BOOK)

Strategy Formulation

- ❖ **Business Level Strategy**
    - Successful firms develop bases for competitive advantage
    - Cost Leadership, Differentiation, Focus on narrow or industry wide segments.
- Sustainability
- Industry Lifecycle
- ❖ **Corporate-level Strategy Addresses:** (Check Book)
- ❖ **International Strategy:** (Check Book)

- **Efficiency** is doing things right.
- **Effectiveness** is doing the right thing.

Corporate Governance and Stakeholder Management

- Corporate Governance: the relationship among various participants in determining the direction and performance of corporations
    - Shareholders
    - Management (Led by the CEO)
    - Board of Directors

Question: Briefly describe the role of board of directors in corporate governance?

Corporate Governance and Stakeholder Management (Cont.)

- **Board of Directors:**
    - Elected representatives of the owners
    - Ensue interests and motives of management are aligned with those of the owners
        - Effective and Engaged board of directors
        - Shareholder activism
        - Proper managerial rewards and incentives

Example: New Rules for Directors

In light of numerous corporate scandals, the role and rule for board of directors are being redefined. Few areas of focus:

- Number Knowledge
- Strategy Focus
- Time & Understanding
- Watchdog

Stakeholder Management

- **Two views of Stakeholder Management**
    - Zero sum
        - Stakeholders compete for attention and resources of the organization
        - Gain of one is a loss to the other
    - Symbiosis
        - Stakeholders are dependent upon each other
        - Mutual Benefits

Social Responsibility

Is the expectation that businesses or individuals will strive to improve the overall welfare of society

- Management must take active steps to make:
    - Society Better
    - Socially responsible behavior changes overtime
    - Triple bottom line:
        - Involve assessing financial, social, and environmental performance

---

Strategic Management Perspective

- **LO5**
- The need for greater empowerment throughout the organization
- Integrative view of the organization
- Assess how functional areas and activities fit together to achieve goals and objectives
- All managers and employees must take an integrative, strategic perspective of issues facing the organization
- Dynamic, interdependent, and unpredictable world
- The old model: "The top thinks and the local acts"
- Integrating thinking and acting at all levels.
- Managers need to anticipate and respond to dramatic and unpredictable changes in the competitive environment.
- With the emergence of the knowledge economy, human capital has become……………
- To develop and mobilize people and other assets, leaders are needed throughout……………….

(Missing Information)

Coherence in Strategic Direction

- **LO6**
- How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its direction.
- **Vision:**
    - Organizational goal that evokes powerful and compelling mental image.
- **Company Vision:**
    - Massively Inspiring
    - Overarching
    - Long-term
    - Driven by and evokes passion
    - Fundamental statement of the organization's:
        - Values
        - Aspiration
        - Goals

- **Company Vision**
- **Leader's Key trait:**
    - A Strong sense of vision
- **Critical Knowledge skills**
    - Strategy formulation to achieve a vision
- **A plan to implement it**

Mission Statements:

- Purpose of the company
- Basis of competition and competitive advantages
- More specific than vision
- Focused on the means by which the firm will compete

Strategic Objectives:

- Operationalize the mission statement
- Provide guidance on how he organization can fulfill or move toward the "higher goals"
- More specific
- Cover a more well-defined time frame

In general, a **Hierarchy of Goals consists of**:

1- Company Vision
2- Mission Statements
3- Strategic Objectives

Strategic Objectives should be:

- Measurable
- Specific
- Appropriate
- Realistic
- Timely
- Challenging
- Resolve conflicts that arise
- Yardstick for rewards and incentives

END OF CHAPTER 1

Analyzing the External Environment of the Firm

Successful managers must recognize opportunities and threats in their fir's external environment.

In competing for the Future,
"Every manager carries around in his or her head a set of biases, assumptions and presuppositions

- About the structure of the relevant industry,
- About how one makes money in the industry,
- About who the competition is and isn't,
- About how the customers are and aren't and so on.

Environmental analysis requires you to continually question such Assumptions.

Peter Drucker labeled these interrelated sets of assumptions the "Theory of the business."

A firm's strategy may be good at one point in time, but it may go astray when management's frame of reference gets out of touch with the realities of the actual business situation.

This results when management's assumptions, premises, or beliefs are incorrect or when inconsistencies among them render the overall "Theory of the business" invalid.

Warren Buffett, investor extraordinaire, colorfully notes:
"**Beware of part performance 'proofs.' If history books were the key to riches, the Forbes 400 would consist of librarians."**

Arthur Martinez, former chairman of Sears, Roebuck & Co. states, "**Today's peacock is tomorrow's feather duster."**

In the business world, many peacocks have become feather dusters or at least had their plumage dulled.

Creating the Environmentally Aware organization

LO1:
The importance of developing forecasts of the business environment.

How do managers become environmentally aware?
Three important processes:
"1"Environmental Scanning, "2" Environmental Monitoring, "3"Competitive intelligence = Forecasts

The importance of **Scenario planning** in anticipating major future changes in the external environment.

The role of **SWOT** analysis. **(Check Book)**

Environmental Scanning & Monitoring

- **External Scanning**
  - Surveillance of a firm's external environment:
    - Predict environmental changes to come
    - Detect changes already under way
    - Proactive mode

- **External Monitoring**
  - Track evolution of:
    - Environmental trends
    - Sequence of events
    - Streams of activities

Competitive Intelligence

- Define and understand a firm's industry
- Identify rivals' strengths and weaknesses
  - Intelligence gathering (Data)
  - Interpretation of intelligence data
- Helps a firm avoid surprises

What competitive intelligence is and is not

Competitive intelligence is…	Competitive intelligence is Not…
1. **Information** that has been analyzed to the point where you can make a decision	**1. Spying.** Spying implies illegal or unethical activities. It is a rare activity.
2. A tool to alert management to early recognition of both threats and opportunities.	**2. A crystal ball.** Competitive intelligence is good approximation of reality; it does not predict the future.
3. A means to deliver reasonable assessments.	**3. Database search.** Data by itself is not good intelligence.
4. A way of life, a process.	**4. A job for one smart person.**

END OF CHAPTER 2

Value-Chain Analysis

- Sequential process of value-creating activities
- The amount that buyers are willing to pay for what a firm provides them.
- Value is measured by total revenue
- Firm is profitable to the extent the value it receives exceeds the total costs involved in creating its product or service.

Example:

- IBM Electronics Value Chain Management helps companies save money by streamlining their value chain.
- The benefits of streamlining a business with value chain management……
- **Missing Text (Instructor jumped the slide)**

The Value Chain:

Consists of:

- **Support Activities:** General administration, HRM, Technology development, and procurement.
- **Primary Activities:** Inbound logistics, Operations, Outbound logistics, Marketing & Sales, and Service.

Each activity within the value chain adds value to the final product.

---

1. **Primary Activity: Inbound Logistics**

- Associated with receiving, storing, and distributing inputs to the product:
    - Location of distribution facilities
    - Material and Inventory Control systems
    - Systems to reduce time to send "returns" to suppliers
    - Warehouse layout and designs

2. **Primary Activity: Operations**

- Associated with transforming inputs into the final product form:
    - Efficient plant operations
    - Appropriate level of automation in manufacturing
    - Quality production control systems
    - Efficient plant layout and workflow design

3. **Primary Activity: Outbound Logistics**

- Associated with collecting, storing, and distributing the product or service to buyers
    - Effective shipping processes
    - Efficient finished goods warehousing processes
    - Shipping of goods in large lot sizes
    - Quality material handling equipment

4. **Primary Activity: Marketing & Sales**
- Associated with purchases of products and services by end users and the inducements used to get them to make purchases
    - Highly motivated and competent sales force
    - Innovative approaches to promotion and advertising
    - Selection of most appropriate distribution channels
    - Proper identification of customer segments and needs
    - Effective pricing strategies

5. **Primary Activity: Services**
- Associated with providing service to enhance or maintain the value of the product
    - Effective use of procedures to solicit customer feedback and to act on information
    - Quick response to customer needs and emergencies
    - Ability to furnish replacement parts
    - Effective management of parts and equipment inventory
    - Quality of service personnel and ongoing training
    - Warranty and guarantee policies

---

1. **Support Activity: General Administration**
- Typically supports the entire value chain and not individual activities
    - Effective planning systems
    - Ability of top management to anticipate and act on key environmental trends and events
    - Ability to obtain low-cost funds for capital expenditures and working capital
    - Excellent relationships with diverse stakeholder groups
    - Ability to coordinate and integrate activities across the value chain
    - Highly visible to inculcate organizational culture, reputation, and values

2. **Support Activity: Human Resource Management**
- Activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel
    - Effective recruiting, development, and retention mechanisms for employees
    - Quality relations with trade unions
    - Quality of environment to maximize overall employee performance and minimize absenteeism
    - Reward and incentive programs to motivate all employees

3. **Support Activity: Technology Development**
- Related to a wide range of activities and those embodied in processes and equipment and the product it self

4. **Support Activity: Technology Development**
- Function of purchasing inputs used in the firm's value chain.

Resource-Based View of the Firm

Two Perspectives:

- The internal analysis of phenomena within a company
- An external analysis of the industry and its competitive environment

Three key types of resources:

- Tangible resources
- Intangible resources
- Organizational capabilities

Types of Resources: Tangible Resources

Relatively easy to identify, and include physical and financial assets used to create value for customers

- **Financial resources**
  - Firm's cash accounts
  - Firm's capacity to raise equity
  - Firm's borrowing capacity
- **Physical resources**
  - Modern plant and facilities
  - Favorable manufacturing locations
  - State-of-the-art machinery and equipment
- **Technological Resources**
  - Trade Secrets
  - Innovative Production Processes
  - Patents, copyrights, trademarks
- **Organizational Resources**
  - Effective strategic planning processes
  - Excellent evaluation and control systems

Types of Resources: Intangible Resources

Difficult for competitors (and the firm itself) to account for or imitate, typically embedded in unique routines and practices that have evolved over time.

- **Human**
  - Experience and Capabilities of employees
  - Trust
  - Managerial Skills
  - Firm-Specific practices and procedures
- **Innovation and Creativity**
  - Technical and scientific skills
  - Innovation capacities
- **Reputation**
  - Brand name
  - Reputation with customers
  - Reputation with suppliers

Types of Resources: Organizational Capabilities

- Competencies or skills that a firm employs to transform inputs to outputs, and capacity to combine tangible and intangible resources to attain desired end
    - Outstanding customer service
    - Excellent product development capabilities
    - Innovativeness of products and services
    - Ability to hire, motivate, and retain human capital

To maintain and sustain competitive advantage:

The resource must be:

- Valuable
- Rare
- Difficult to imitate
- Difficult to substitute

Firm Resources and Sustainable Competitive Advantage

Is the resource or capability:

- Valuable
- Rare
- Difficult to imitate
- Difficult to substitute

Implications:

- Neutralize threats and exploit opportunities
- Not many firms possess
- Physically unique
- Path dependency
- Causal ambiguity
- Social context
-
-

Question: In the bookseller industry, can different firm resources become strategic substitutes for Amazon.com?

Criteria for Sustainable Competitive Advantage and Strategic Implications:

Valuable?	Rare?	Difficult to Imitate?	Without Substitutes?	Implications for Competitiveness?
No	No	No	No	Competitive disadvantage
Yes	No	No	No	Competitive parity
Yes	Yes	No	No	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustainable competitive advantage

Evaluating Firm Performance

Two approaches for evaluating firm performance

- **Financial Ratio Analysis**
  - Balance sheet
  - Income statement
  - Historical comparison
  - Comparison with industry norms
  - Comparison with key competitors
- **Balanced scorecard (stakeholder perspective)**
  - Employees
  - Customers
  - Owners

- **Five types of financial rations**
  - Short term solvency or liquidity
  - Long term solvency measures
  - Asset management or turnover
  - Profitability
  - Market value
- **Meaningful ratio analysis must include:**
  - Analysis of how ratios change overtime
  - How ratios are interrelated

The Balance Scorecard:

- Provides a meaningful integration of many issues that come into evaluating a firm's performance
- Four key perspectives
  - How do customers see us? **(customers perspective)**
  - What must we excel at? **(internal perspective)**
  - Can we continue to improve and create value? **(innovation and learning perspective)**
  - How do we look to shareholders? **(financial perspective)**

Customer Perspective:

- Time
- Quality
- Performance and Service
- Cost

Internal Business Perspective

- Processes: cycle time, quality, employee skills, and productivity.
- Decisions
- Actions
- Coordination
- Resources and Capabilities

Innovation and learning perspective

- Introduction of new products and services
- Greater value for customers
- Increased operating efficiencies

Financial Perspective

- Profit
- Growth
-

The world's 10 most innovative companies, according to Business Week in 2007 are:

1. Apple
2. Google
3. Toyota
4. General Electric
5. Microsoft
6. P&G
7. 3M
8. Walt Disney Co.
9. IBM
10. Sony

Potential Limitations of the Balanced Scorecard:

- Lack of a clear strategy
- Limited or ineffective executive sponsorship
- Too much emphasis on financial measures rather than nonfinancial measures
- Poor data on actual performance
- Inappropriate links to scorecard measures to compensation
- Inconsistent or inappropriate Terminology

END OF CHAPTER 3

Recognizing a Firm's Intellectual Assets: Moving beyond a Firm's Tangible Resources

Ratio of Market Value to Book Value for Selected Companies:

Company	Annual Sales (Billions)	Market Value (Billions)	Book Value (Billions)	Ratio of Market to Book Value
Genentech	9.3	86.5	9.5	9.1
Google	10.7	142.5	17	8.4
Yahoo!	6.4	42.5	9.2	4.6
eBay	6.0	45.4	10.9	4.2
Southwest Airlines	9.1	11.6	6.4	1.8
Union Pacific (Railroad)	15.6	27.5	15.3	1.8
General Motors	192.6	17.3	14.6	1.2

The Central Role of Knowledge in Today's Economy:

- Efficient allocation of traditional factors of production.
- Today more than 50% of GDP is Knowledge based…
  - Based on intellectual Assets.
  - Intangible People skills.
- 76% of the U.S. GDP.

Traditional Factors of Production:

- People
- Capital
- Knowledge

Creation of wealth in a knowledge economy can be done through:

- Effective management of knowledge workers
- Intellectual capital
- Assets such as
  - Reputation
  - Employee loyalty and commitment
  - Customer relationships
  - Company values
  - Brand names
  - Experience and skills of employees

Intellectual Capital = Market Value of the Firm – Book Value of the Firm

How do companies create value in the knowledge-intensive economy?

- Human capital (individual capabilities, knowledge, skills, and experience of the company's employees and managers)
- Social capital (the network of the relationships that individuals have throughout the organization)
- Knowledge
  - Explicit knowledge
  - Tacit knowledge

Human Capital: The Foundation of Intellectual Capital:

← Attract Human Capital ←→ Develop Human Capital ←→ Retain Human Capital →

The foundation of intellectual capital can be achieved through an interrelated (reciprocally connected) process of **attracting**, **developing**, and **retaining** human capital; all in tandem.

Question:
Do you agree with this statement, "hire for attitude, and train for skill"? Explain.

Attracting Human Capital

- *Hire for attitude, train for skill*
- **Emphasis on:**
  - General knowledge and experience
  - Social skills
  - Values
  - Beliefs
  - Attitudes
- **Sound recruiting approaches**
  - Scanning pools of available candidates
  - Challenge becomes having the right job candidates, not the greatest number of them
- **Networking**
  - Current employees may be best source of new ones
  - Incentives for referrals

Example:

- The top 5 MBA Employers in 2007, according to **Fortune Magazine:**
  1. Google
  2. McKinsey & Company
  3. Goldman & Sachs
  4. Bain & Company
  5. Boston Consulting Group

Developing Human Capital

- Train and develop at all levels
  - Training is not the sole responsibility of the human resource department
- Encouraging widespread involvement
- Transferring knowledge
- Monitor progress and track development
- Evaluate human capital
  - Employees must share knowledge and work together, collectively, to reach organizational goals
  - Firms often use 360-degree evaluation and feedback systems
  - Managers' success cannot compromise the organization's core values

---

Retaining Human Capital

- Provide mechanisms that prevent the transfer of valuable and sensitive information outside the organization
  - Identify with organization's mission and values
  - Strong alliance to organization (strategic intents)
- Challenging work and stimulating environment
- Financial and Nonfinancial Rewards and Incentives
  - Rewards are a vital organizational control mechanism
  - However, money may not be the most important reason why people take or leave jobs
  - Exodus of employees can erode a firm's competitive advantage

---

Extra: Definitions:

- **Exodus of Employees "In Business Terms":** When a group of people decides to quit from an organization. (النزوح الجماعي عن العمل)
- **Erode:** تآكل

Enhancing Human Capital: How Diversity Benefits the Organization

1. Cost argument
2. Resource acquisition argument
3. Marketing argument
4. Creativity argument
5. Problem-solving argument
6. System flexibility argument

The Vital Role of Social Capital:

- Attraction, development and retention of talent is necessary but not sufficient condition for creating competitive advantage
- Knowledge workers often are more loyal to their colleagues and that to their employer.

How Social Capital Helps Attract and Retain Talent

- Hiring via personal (Social) Networks
  - Some job candidates may bring other talent with them
  - Emigration of talent from an organization to form start-up ventures
  - Can provide mechanism for obtaining resources and information from outside the organization.

Knowledge of Social Networks:

- Implications that an understanding of social networks has on one's career
  - Closure
  - Bridging relationships
- From an individual's perspective**……..**

(Instructor Ended the Chapter on this point)

END OF CHAPTER 4

Business-Level Strategy

Types of Competitive Advantage and Sustainability:

- Three generic strategies to overcome the five forces and achieve competitive advantage:
  - **Overall cost leadership**
    - Low-cost-position relative to a firm's peers
    - Manage relationships throughout the entire value chain
  - **Differentiation**
    - Create products and/or services that are unique and valued
    - Non-price attributes for which customers will pay a premium
  - **Focus Strategy**
    - Narrow product lines, buyer segments, or targeted geographic markets
    - Attain advantage either through differentiation or cost leadership

Example:

- **Cost-Leadership:** McDonalds, Wal-Mart
- **Differentiation Strategy:** Harley Davison, Apple
- **Focus Strategy:** Roles, Lamborghini

Overall Cost Leadership

- **Integrated Tactics**
  - Aggressive construction of efficient-scale facilities
  - Vigorous pursuit of cost reductions from experience
  - Tight cost and overhead control
  - Avoidance of marginal customer accounts
  - Cost minimization in all activities in the firm's value chain, such as R&D, service, sales force, and advertising.

Value-Chain Activities: How can then the value chain model help into guiding the firm for a better overall cost leadership? (Important Question, and could come on exam)

Overall Cost Leadership (Cont.)

- A firm following an overall cost leadership position
    - Must attain parity on the basis of differentiation relative to competitors
    - Parity on the basis of differentiation
        - Permits a cost leader to translate cost advantages directly into higher profits than competitors
        - Allows firm to earn above-average profits

Overall Cost Leadership: Improving Competitive Position via-a-vis the Five Forces

- An overall low-cost position:
    - Protects a firm against **rivalry** from **competitors**
    - Protects a firm against **powerful buyers**
    - Provides more flexibility to cope with demands from **powerful suppliers** for input cost increases
    - Provides substantial **entry** barriers from economies of scale and cost advantages
    - Puts the firm in a favorable position with respect to **substitute products**

WAS ABSENT ON

Monday July 26, 2011

END OF CHAPTER 5

Corporate-Level Strategy
Creating Value through Diversification

Making Diversification Work
Corporate-level strategy:
- What business should a corporation compete in?
- How should these businesses be managed to jointly create "synergy"
- Synergy: more value than if they were freestanding units?

- **Diversification initiatives must create value for shareholders**
  - Mergers and Acquisitions
  - Strategic Alliances
  - Joint Ventures
  - Internal Development
- **Diversification should create synergy**

Synergy
- **Related Businesses** (Horizontal Relationships)
  - Sharing tangible resources
  - Sharing intangible resources
- **Unrelated Businesses** (Hierarchical Relationships)
  - Value creation derives from corporate office
  - Leveraging Support Activities

Creating Value
Related Diversification: Economies of Scope

Cost savings from leveraging core competencies or sharing related activities among businesses in the corporation.

- **Leveraging Core Competencies**
  - Strategic resources that reflect the collective learning in the organization.

- **To Create Value:**
  - Superior customer value.
  - Similar business in relation to core competency.
  - Difficult to imitate.

Related Diversification: Economies of Scope
Sharing Activities

Two Primary Payoffs:
- Cost Saving
- Enhance Value

- **Market Power:** Ability to profit through restricting or controlling supply to a market or coordinating with other firms to reduce investment.

- **Pooled Negotiating Power:** The Times Mirror Company increases its power over customers by providing "one-stop shopping" for advertisers to reach customers through multiple media in several huge markets such as Chicago and New York.

- **Vertical Integration:** Shaw Industries, a giant carpet manufacturer, increases its control over raw materials by producing much of its own polypropylene fiber, a key input to its manufacturing process.

UNRELATED Diversification: Parenting, Restructuring, and Financial Synergies

- **Corporate Restructuring and Parenting:** Check Book
- **Portfolio Management**: Check Book

Related Diversification: Economies of Scope and Revenue Enhancement (CHECK BOOK)

- **Core Competencies**
  - The glue that binds existing business together
  - Engine that fuels new business growth
  - Collective learning in a firm
    - How to coordinate diverse production skills
    - How to integrate multiple streams of technologies
    - How to market diverse products and services

- **Three Criteria (of core competencies) that lead to the creation of value and synergy:**
  1. Core competencies must enhance competitive advantages(s) by creating superior customer value
  2. Different businesses in the firm must be similar in at least one important way related to the core competence
  3. Core competencies must be difficult for competitors to imitate or find substitutes for.

Unrelated Diversification: Financial Synergies and Parenting

- Most Benefits from unrelated diversification are gained from vertical (hierarchical) relationships
  - Parenting and restructuring of businesses
  - Allocate resources to optimize
    - Profitability
    - Cash flow
    - Growth
  - Appropriate human resources practices
  - Financial records

Example:

General Electric's products and services include:

- Appliances
- Aviation
- Consumer Electronics
- Electrical Distribution
- Energy
- Finance – Business; Consumer
- Healthcare
- Lighting
- Media & Entertainment
- Oil & Gas
- Plastics
- Rail
- Security
- Water

Corporate Parenting & Restricting

- **Corporate Parenting**
  - Parenting- Creating value within business units
    - Experience of the corporate office
    - Support of the corporate office
- **Corporate Restructuring**
  - Find poorly performing firms
    - With unrealized potential
    - On threshold of significant positive change.
  - Corporate management must
    - Have insight to detect undervalued companies or businesses with high potential for transformation
    - Have requisite skills and resources to turn the business around
  - Restructuring can involve changes in
    - Assets
    - Capital Structure
    - Management

Portfolio Management:
(LOOK UP GRAPH IN BOOK: IMPORTANT)

- **Stars**: Business unit has **High** Market Share **High** Growth Rate
- **Question Marks: Low** Market Share and **High** Growth Rate
- **Cash Cows: High** Market Share **Low** Growth Rate
- **Dogs: Low** Market Share **Low** Growth Rate

Means to Achieve Diversification

- Acquisitions or mergers
- Joint venture
- Strategic alliance
- Internal development
  - New products
  - New Markets
  - New Technology

Strategic Alliances and Joint Ventures

- **Introduce successful product or services into a new market**
  - Lacks requisite marketing expertise
    - Doesn't understand customer needs
    - Doesn't know how to promote the product
    - Doesn't have access to proper distribution channels

- **Join other Firms to reduce manufacturing (or other) costs in the value chain**
  - Pool capital
  - Pool value-creating activities
  - Pool Facilities

- **Develop or diffuse new technologies**
  - Use expertise of two ore more companies
  - Develop products technologically beyond the capability of the companies acting independently

---

END OF CHAPTER 6

BUS 495 - Ch. 7

http://www.psu101.info

International Strategy: Creating Value in Global Markets

The Global Economy: A Brief Overview

- Opportunities and Risks when firms diversify abroad
  - Trade across nations will exceed trade within nations
  - Rise of Globalization
    - Where knowledge is the key source of CA and value creation.
  - Transfer of money from rich to poor countries

G.E. CEO Said:
"We did it to access best brains everywhere in the world."

Factors Affecting a Nation's Competitiveness

- **Factor conditions**[1]
  - Nation's position in factors of production
    - Skilled labor
    - Infrastructure
    -
- **Demand conditions**[2]
  - Nature of home-market demand
    - Industry's product
    - Industry's service

- **Related and Supporting Industries**[3]
  - Presence or absence in the nation of internationally competitive
    - Supplier industries
    - Other related industries

- **Firm strategy**[4]**, structure**[5]**, and rivalry**[6]
  - Conditions in the nation governing how companies are
    - Created
    - Organized
    - Managed
  - Nature of domestic rivalry

Firm Strategy, Structure and Rivalry

- Rivalry is intense in nations with conditions of
  - Strong consumer demand
  - Strong supplier bases
  - High new entrant potential from related industries
- Competitive rivalry increases the efficiency with which firms develop, market, and distribute products and services within the home country.
- Domestic Rivalry provides a strong impetus for firms to:
  - Innovate
  - Find new sources of competitive advantage

Two Opposing Pressures: Reducing Costs & Adapting to Local Markets

- Strategies that favor global products and brands
  - Should standardize all of a firm's products for all of their worldwide markets

- Should reduce a firm's overall costs by spreading investments over a larger market.

Opposing Pressures and Four Strategies:

- Low Pressure of Local Adaptation: High Pressure to Lower Cost**: Global**
- High Pressure of Local Adaptation: High Pressure to Lower Cost**: Transnational**
- Low Pressure of Local Adaptation: Low Pressure to Lower Cost**: International**
- High Pressure of Local Adaptation: Low Pressure to Lower Cost**: Multidomestic**

International Strategy

- Low Cost: **Low** Pressure
- Adaptation: **Low** Pressure
- Based on diffusion and adaptation of the parent company's knowledge and expertise to foreign market.

Global Strategy

- Low Cost: **High** Pressure
- Adaptation: **Low** Pressure

Multidomestic Strategy

- Low Cost: **Low** Pressure
- Adaptation: **High** Pressure

Transnational Strategy

- Low Cost: **High** Pressure
- Adaptation: **High** Pressure

Entry Modes of International Expansion:

Exporting → Licensing → Franchising → Strategic Alliance → Joint Venture → Wholly Owned Subsidiary

---

END OF CHAPTER 7

Entrepreneurial Strategy and Competitive Dynamics

Entrepreneurial Strategy

- **Entrepreneurial Venture:**
  - Small start-up, or
  - Major corporation

- **Its success depends on:**
  - The right combination of resources,
  - Know how, and
  - Strategic action
- Can lead to – **above-average profitability** and
- **Value creating advantages**

- Ill-conceived strategy and strong competitive forces may prevent what seems like a good idea from taking off.

- New entrants need effective strategies.

- Recognizing opportunities.

- Improving chances of success.

Recognizing Entrepreneurial Opportunities

- **Entrepreneurship – New value creation**
- **New Value can be created in :**
  - Start-up Ventures
  - Major corporations
  - Family-owned businesses
  - Non-profit organizations
  - Established institutions

- **To create value three factors must be present:**
  - Opportunity
  - Entrepreneur(s)
  - Resources
- The entrepreneurial strategy will depends on these three factors

---

Entrepreneurial Opportunities

- **Opportunities come from many sources**
    - Start-ups
        - Current or past work experiences
        - Hobbies that grow into business or lead to inventions
        - Suggestions by friends or family
        - Chance events
        - Change
    - Established Firms
        - Needs of existing customers
        - Suggestions by suppliers
        - Technological developments that lead to new advances
        - Change
- <u>Changes spark creative new ideas and innovation.</u>

- **Opportunity Recognition Process:**
    - Discovery phase
    - Evaluation phase

❖ **Discovery Phase:**

- Period when you first become aware of a new business concept
- May be spontaneous and unexpected
- May occur as the result of deliberate search for
    - New venture projects
    - Creative solutions to business problems

❖ **Evaluation Phase:**

- Evaluating an opportunity (Can ot be developed into a full-fledged new venture)?
    - Talk to potential customers
    - Discuss it with production
    - MISSING TEXT CHECK BOOK

Characteristics of Good Opportunities:

- Attractive
- Achievable
- Durable
- Value Creating

Before launching opportunity as a business:

- Consider the resources available to undertake it
- Consider the characteristics of the entrepreneur pursuing it.

- **Best strategy for the enterprise will be determined to some extent by:**
    - A viable opportunity, resources, and entrepreneur(s)
    - Other conditions in the business environment

- Can use various tools and techniques to determine strategic choices
    - Five Forces Analysis
    - Value chain analysis

Entry Strategies

- **Pioneering new entry**
    - Creating new ways to solve old problems
    - Meeting customer's needs in a unique new way

- **Imitative new entry**
    - Strong marketing orientation
    - Introduce same basic product or service in another segment of the market

- **Adaptive New Entry**
    - Offer product or service that is "somewhat new and different"
    - Aware of marketplace conditions and conceive entry strategies to capitalized on current trends

- **"Every new idea is merely a spin of an old idea."**
- **It's one slight twist to an old idea that makes all the difference**

Which Entry New Strategy is best?

- The greatest opportunities may stem from being willing to enter new markets rather than seeking growth in existing market.

Blue Ocean Strategy

- Blue oceans will outperform red oceans

Blue Oceans:

- Firms that are willing to venture into market spaces where there is little or no competition

Red Oceans:

- Firm that limits growth to incremental improvements in competitively crowded industries.

Blue Ocean Strategy: Not only to find an uncontested market… Create one!

END OF CHAPTER 8

Leadership

Developing a Learning Organization

- Successful Learning Organization
  - Create a proactive, creative approach to the unknown
  - Actively solicit the involvement of employees at all levels
  - Enable all employees to use their intelligence and apply their imagination

- Learning Environment
  - Organization-wide commitment to change
  - An action orientation
  - Applicable tools and methods
  - Guiding philosophy
  - Inspired and motivated people with a purpose

Key Elements of a Learning Organization

There are the five key elements of a learning organization. Each of these items should be viewed as necessary, but not sufficient. That is, successful learning organizations need all five elements.

1- Inspiring and motivating people with a mission or purpose.
2- Empowering employees at all levels
3- Accumulating and sharing internal knowledge
4- Gathering and integrating external information
5- Challenging the status quo and enabling creativity

- **Empowering Employees at all levels**
  - Silent elements of empowerment
    - Start at the bottom by understanding needs of employees
    - Teach employees skills of self-management
    - Build teams to encourage cooperative behavior
    - Encourage intelligent risk taking
    - Trust people to perform
    -

- **Accumulating and sharing Internal Knowledge**
  - Open book management

- **Gathering and Integrating external information**
    - Awareness of environmental trends and events
        - Internet accelerates the speed with which useful information can be located
        - "Garden Variety" traditional sources for acquisition of external information

- **Challenging the status quo and enabling creativity**
    - Challenging the status quo
        - Creates a sense of urgency
        - Established a "culture of dissent"
        - Foster a culture that encourages risk taking
        - Cultivate culture of experimentation and curiosity

END OF CHAPTER 11

Innovation

Managing Innovation

Innovation: using new knowledge to transform organizational processes or create commercially viable products and services

- Latest technology
- Results of experiments
- Creative insights
- Competitive information

Types of Innovation

<u>Degree of innovativeness</u>

- **Radical Innovation "Revolution"**
  - Fundamental changes and breakthroughs
  - Evoke major departures from existing practices
  - Can be highly disruptive
  - Can transform or revolutionize a whole industry
- **Incremental Innovation "Evolution"**
  - Enhance existing practices
  - Small improvements in products and processes
  - Evolutionary applications within existing paradigms

Product and Process Innovation

- **Product Innovation**
  - Efforts to create product designs
  - Applications of technology to develop new products for end users
  - More radical and common during early stages of an industry's life cycle
  - Associated with differentiation strategies
- **Process Innovation**
  - Improving efficient of an organization process
    - Manufacturing systems and operations
  - Can improve materials utilization
  - Shorten cycle time
  - Increase quality
  - More likely to occur in later stages of an industry's life cycle
  - Associated with cost leader strategies

Defining the scope of innovation

- Firms must define the "strategic envelope" (Scope of innovation efforts)
- In defining the strategic envelope, a firm should answer several questions
  - How much will the innovation cost?
  - How likely is it to actually become commercially viable?
  - How much value will it add; that is, what will it be worth if it works?
  - What will be learned if it does not pan out

Managing the pace of innovation

- Firms need to regulate the pace of innovation
  - Incremental innovation
    - Gradual Innovations
  - Radical
    - Intensive ground breaking innovations!

Collaborating with innovation Partners

- Innovation often requires collaborating with others who possess complementary knowledge and skills
- Partners can come from several sources
  - Other personnel within the department
  - Personnel within the firm but from another department
  - Partners….
  - ………..

END OF CHAPTER 12

GOOD LUCK IN YOUR EXAMS!
