Definitions

• Strategic Competitiveness
  ➢ When a firm successfully formulates and implements a value-creating strategy

• Sustainable Competitive Advantage
  ➢ When competitors are unable to duplicate a company’s value-creating strategy

• Strategic Management Process
  ➢ The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns

Definitions (cont’d)

• Risk
  ➢ An investor’s uncertainty about the economic gains or losses that will result from a particular investment

• Average Returns
  ➢ Returns equal to those an investor expects to earn from other investments with a similar amount of risk

• Above-average Returns
  ➢ Returns in excess of what an investor expects to earn from other investments with a similar amount of risk
Current Competitive Landscape

- **A Perilous Business World**
  - Investments required to compete on a global scale are enormous
  - Consequences of failure are severe

- **Important Elements of Success**
  - Developing strategy
  - Implementing strategy

Competitive Landscape: Hypercompetition

**Hypercompetition**
A condition of rapidly escalating competition based on

- Price-quality positioning
- Competition to create new know-how and establish first-mover advantage
- Competition to protect or invade established product or geographic markets
Global Economy

• Global Economy
  ➢ Goods, people, skills, and ideas move freely across geographic borders
  ➢ Movement is relatively unfettered by artificial constraints
  ➢ Expansion into global arena complicates a firm’s competitive environment

• Globalization
  ➢ Increased economic interdependence among countries as reflected in the flow of goods and services, financial capital, and knowledge across country borders
  ➢ Increased range of opportunities for companies competing in the 21st-century competitive landscape

Country Competitiveness Rankings (Population over 20 Million)

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Source: From World Competitiveness Yearbook 2003, IMD, Switzerland.

Table 1.1

Technology and Technological Changes

• Rate of change of technology and speed at which new technologies become available
  ➢ Perpetual innovation—how rapidly and consistently new, information-intensive technologies replace older ones
  ➢ The development of disruptive technologies that destroy the value of existing technology and create new markets
Technological Change

- **The Information Age**
  - The ability to effectively and efficiently access and use information has become an important source of competitive advantage
  - Technology includes personal computers, cellular phones, artificial intelligence, virtual reality, massive databases, electronic networks, internet trade

Technological Changes

- **Increasing Knowledge Intensity**
  - Strategic flexibility: set of capabilities used to respond to various demands and opportunities in dynamic and uncertain competitive environments
  - Organizational slack: slack resources that allow the firm flexibility to respond to environmental changes
  - Capacity to learn

I/O Model of Above-Average Returns

- The industry in which a firm competes has a stronger influence on the firm’s performance *than do* the choices managers make inside their organizations
  - Industry properties include
    - economies of scale
    - barriers to market entry
    - diversification
    - product differentiation
    - degree of concentration of firms in the industry
Four Assumptions of the I/O Model

1. External environment imposes pressures and constraints that determine strategies leading to above-average returns

2. Most firms competing in an industry control similar strategically relevant resources and pursue similar strategies

3. Resources used to implement strategies are highly mobile across firms

4. Organizational decision makers are assumed to be rational and committed to acting in the firm’s best interests (profit-maximizing)

The I/O Model of Above-Average Returns

Five Forces Model of Competition

- An industry’s profitability results from interaction among
  - Suppliers
  - Buyers
  - Competitive rivalry among firms currently in the industry
  - Product substitutes
  - Potential entrants to the industry
Resource-Based Model of Above-Average Returns

- Each organization is a collection of unique resources and capabilities that provides the basis for its strategy and that is the primary source of its returns
- Capabilities evolve and must be managed dynamically
- Differences in firms’ performances are due primarily to their unique resources and capabilities rather than structural characteristics of the industry
- Firms acquire different resources and develop unique capabilities

The Resource-Based Model of Above-Average Returns

- Valuable: Allow the firm to exploit opportunities or neutralize threats in its external environment
- Rare: Possessed by few, if any, current and potential competitors
- Costly to imitate: When other firms cannot obtain them or must obtain them at a much higher cost
- Nonsubstitutable: The firm is organized appropriately to obtain the full benefits of the resources in order to realize a competitive advantage
Resources and Capabilities, Core Competencies, and Outcomes

Core Competencies

Valuable
Rare
Costly to Imitate
Nonsubstitutable

Competitive Advantage
Value Creation
Above Average Returns

Strategic Intent

• Internally focused
• The leveraging of a firm’s resources, capabilities and core competencies to accomplish the firm’s goals
• Exists when all employees and levels of a firm are committed to the pursuit of a specific, significant performance criterion

Strategic Mission

• Externally focused
• A statement of a firm’s unique purpose and the scope of its operations in product and market terms
  ➢ Establishes a firm’s individuality and is inspiring and relevant to all stakeholders
  ➢ Provides general descriptions of the firm’s intended products and its markets
Stakeholders

- Individuals and groups who can affect, and are affected by, the strategic outcomes achieved and who have enforceable claims on a firm’s performance

- Claims are enforced by the stakeholder’s ability to withhold essential participation

The Three Stakeholder Groups

- Capital Market Stakeholders
  - Shareholders
  - Major suppliers of capital (e.g., banks)

- Product Market Stakeholders
  - Primary customers
  - Suppliers
  - Host communities
  - Unions

- Organizational Stakeholders
  - Employees
  - Managers
  - Nonmanagers

Stakeholder Involvement

- Two issues affect the extent of stakeholder involvement in the firm
  - How to divide returns to keep stakeholders involved?
  - How to increase returns so everyone has more to share?
Organizational Culture

- The complex set of
  - Ideologies
  - Symbols
  - Core values
  that are shared throughout the firm, that influence how the firm conducts business

Strategic Management Process

- Study the external and internal environments
- Identify marketplace opportunities and threats
- Determine how to use core competencies
- Use strategic intent to leverage resources, capabilities and core competencies and win competitive battles
- Integrate formulation and implementation of strategies
- Seek feedback to improve strategies