

Chapter 5: Organizational Strategy

Sustainable Competitive Advantage

- Recourses
 - The assets, capabilities, processes, employee time, information, and knowledge that an organization uses to improve its effectiveness and efficiency, create and sustain competitive advantage, and fulfill a need or solve a problem
 - Firms use to improve organizational effectiveness and efficiency
 - Critical to organizational strategy because they can help companies create and sustain an advantage over competitors
- Competitive Advantage
 - Providing greater value for customers than competitors can
 - Developed in each corporation over many years
 - Engrained in the corporate culture, assets, policies and procedures
- Sustainable Competitive Advantage
 - When other companies cannot duplicate the value a firm is providing to customers
 - A comparative advantage that other companies have tried unsuccessfully to duplicate and have, for the moment, stopped trying to duplicate
 - Not the same as a long-lasting competitive advantage, though companies obviously want a competitive advantage to last a long time.
 - Low Cost Provider / Low Pricing
 - Market Power
 - Powerful Brands
 - Strategic Assets
 - Barriers to Entry
 - Product Differentiation
 - Strong Balance Sheet / Cash
 - Outstanding Management / People / Culture
 - Rolex
 - Xbox and Playstation
 - Boeing and Airbus
 - SAP and Oracle
 - Google and Bing
 - Coke and Pepsi
 - Marathon and Valero
- Variable resources
 - Allow companies to improve their efficiency and effectiveness
 - Changes in customer demand and preferences, competitors' actions, and technology can make once-valuable resources much less valuable

- Rare resources
 - Resources that is not controlled or possessed by many competing firms
- Imperfectly imitable
 - A resource that is impossible or extremely costly or difficult for other firms to duplicate
- Nonsubstitutable
 - A resource that produces values or competitive advantage and has no equivalent substitutes or replacement
 - iTunes's software

Strategy-Making Process

Assessing the Need for Strategic Change

- Determine whether the company needs to change its strategy to sustain a competitive advantage.
- Difficult because there is a lot of uncertainty in business.
- Also, top managers are often slow to recognize the need for strategic change.
 - Avoid Competitive Inertia
 - A reluctance to change strategies or competitive practices that have been successful in the past
 - Look for Strategic Dissonance
 - A discrepancy between a company's intended strategy and the strategic actions managers take when implementing that strategy
- Managers must be aware of strategic dissonance.
 - Discrepancy between the intended strategy and what actually happens.

Situational Analysis (SWOT analysis)

- An assessment of the strengths and weaknesses in an organization's internal environment and the opportunities and threats in its external environment
- Helps a company determine how to increase internal strengths and minimize internal weaknesses while maximizing external opportunities and minimizing external threats
- Internal Analysis
 - Distinctive Competence
 - Something that a company can make, do, or perform better than competitors
 - Cannot be sustained for long without superior core capabilities
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 - Core Capabilities
 - Less visible, internal decision-making routines, problem-solving processes, and organizational cultures that determine how efficiently inputs can be turned into outputs

- Strategic group
 - Group of companies within an industry that top managers choose to compare, evaluate, and benchmark strategic threats and opportunities
 - Managers include companies as part of their strategic group if they compete directly with those companies for customers or if those companies use strategies similar to theirs
- Core firms
 - Central companies in a strategic group
- Secondary firms
 - Firms that use strategies related to but somewhat different from those of core firms

Choosing Strategic Alternatives

- Strategic reference points
 - The strategic target managers use to measure whether a firm has developed the core competencies it needs to achieve a sustainable competitive advantage.
- Risk-avoiding strategy
 - Aims to protect an existing competitive advantage.
- Risk-seeking strategy
 - Aims to extend or create a sustainable competitive advantage

Corporate-Level Strategies

- The overall organizational strategy that addresses the question “what business or businesses are we in or should be in”
- To formulate effective strategies, companies must be able to answer these three basic questions
 - What business are we in or should we be in?
 - How should we compete in this industry?
 - Who are our competitors, and how should we respond to them?
- Portfolio Strategy

A corporate-level strategy that minimizes risk by diversifying investment among various businesses or product lines.

 - Diversification
 - A strategy for reducing risk by buying a variety of items (stocks or, in the case of a corporation, types of businesses) so that the failure of one stock or one business does not doom the entire portfolio
 - To reduce risk in the overall stock portfolio
 - Acquisition
 - The purchase of a company by another company
 - Unrelated Diversification
 - Creating or acquiring companies in completely unrelated business
 - Losses in one business or industry should have minimal effect on the performance of other companies in the corporate portfolio