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IOS

Strategy

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Agenda

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1. Introduction to strategy
2. Market and resource-based view
3. Towards an inter-firm perspective of strategy
4. Inter-firm alliance and network strategy

What is strategy?

- greek: **„strategia“** (The „art of war“)
- The term originally comes from a military context:
  - „maneuvering troops into position (...), the employment of troops.“ (vgl. Nickols 2000).
  - „Die Strategie ist der Gebrauch des Gefechts zum Zwecke des Krieges; sie muss also dem ganzen kriegerischen Akt ein Ziel setzen, (...) sie entwirft den Kriegsplan, und an dieses Ziel knüpft sie die Reihe von Handlungen an, welche zu demselben führen sollen“ (von Clausewitz, 19.Jhd.)
- After World War II, several notions and meanings of strategy in the business area have evolved, which are partly conflicting.

Definition 1

George Steiner („Strategic planning“ 1979):

1. Strategy is that which top management does that is of great importance to the organization
2. Strategy refers to basic directional decisions, that is, to purpose and missions.
3. Strategy consists of the important actions necessary to realize these directions.
4. Strategy answers the question: What should the organization be doing?
5. Strategy answers the question: What are the ends we seek and how should we achieve them?

Definition 2

Michael Porter („Competitive Strategy“, HBR, 1996):

- Competitive strategy is „about being different.“
- „It means deliberately choosing a different set of activities to deliver a unique mix of value.“

→ To achieve a superior industry position by differentiating the firm‘s products and services from the customer‘s perspective.

„Je mehr der Mensch plant...

Definition 3

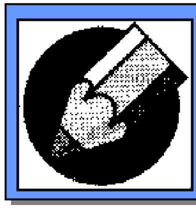
Henry Mintzberg („The rise and fall of strategic planning“ 1979):

1. Strategy is perspective, that is vision and direction.
2. Strategy is position; that is, it reflects decisions to offer particular products and services in particular markets.
3. Strategy is a plan, a „how“, a means of getting frome here to there.
4. Strategy is a pattern in actions over time.

   → strategy emerges over time as intentions collide with and accommodate a changing reality („realized strategy“).

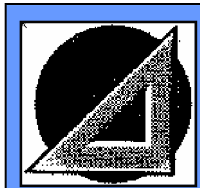
... desto härter trifft ihn der Zufall!“ (Dürrenmatt)

10 strategy schools (Mintzberg et al.) (1-5)



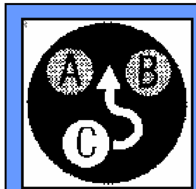
1. The Design school – the 70ths

- Strategy as a FIT of strengths/weaknesses and opportunities/risks.
- The senior manager formulates clear and simple guidelines for implementation.



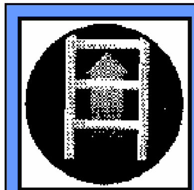
2. The Planning school – 1970 to 1980

- Formal planning: clear processes, check lists, methods and techniques.
- Detailed plans instead of informal guidelines!



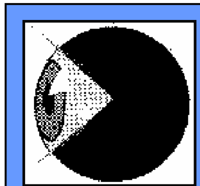
3. The Positioning school – the 80ths

- Founded by Michael E. Porter:
- Market positioning a detailled/intensive analysis of the (market) situation.



4. The Enterpreneurial school

- The entrepreneur is the central persons. He steers/directs the company, he decides.
- Strategy is somehow mystic, based on intuition of the entrepreneur.



5. The Cognitive school – since the 80ths

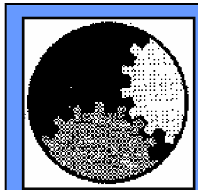
- How do strategies emerge in the minds of people (mind models, landscapes)?
- What can we learn from these formation processes?

Mintzberg, Henry; Ahlstrand, Bruce; Lampel, Joseph (1999): Strategy, blind men and the elephant, in: Financial Times Mastering, 27.09.1999, S. 6-7.

10 strategy schools (Mintzberg et al.) (6-10)

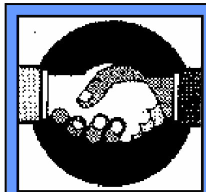
6. The Learning school

- Notion of „emergent strategy“. Strategy emerges on all levels of the organization.
- Formulation and implementation are independent: „try, fail, learn and try again.“



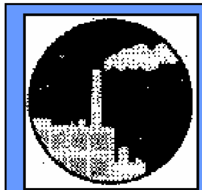
7. The Power school

1. Internal: Strategy formulation is a process of negotiating, convincing and confrontation.
2. External: Company uses power positions in the market and in alliances.



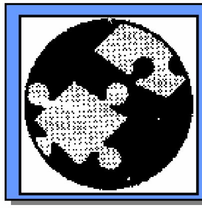
8. The Cultural school

- Strategy development is a social process, grounded in the organizational culture.
- Examines cultural influences to strategy formulation.



9. The Environmental school

- Contingency theory: Focuses on external impact and demands to the organization.
- The role of ecology, society and in general stakeholders to be focused.



10. The Configuration school

- Integrative view: Use different approach depending on different situations.
- Do not overemphasize one of the above views!

Mintzberg, Henry; Ahlstrand, Bruce; Lampel, Joseph (1999): Strategy, blind men and the elephant, in: Financial Times Mastering, 27.09.1999, S. 6-7.

3 basic strategy models

1. Design model (classical):

- Planning and design process, then implementation
- Fit of internal competencies and external situation

2. Emergent model (modernist):

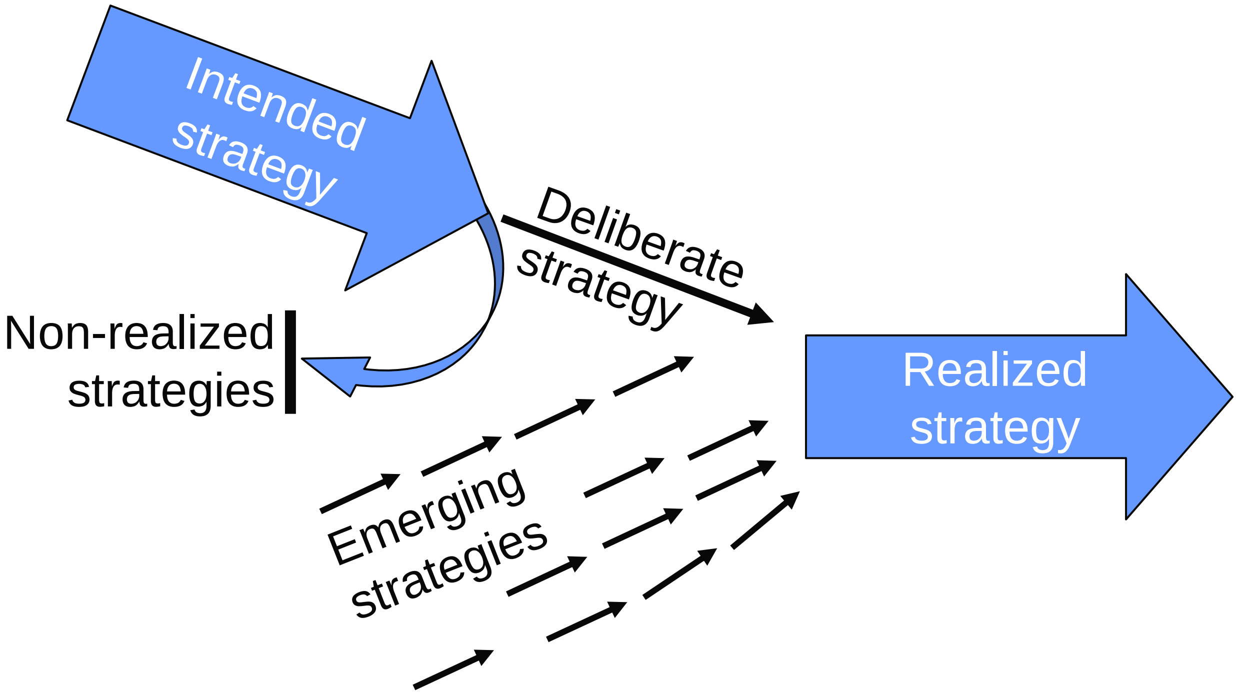
- Strategy emerges in the process of action
- Strategy cannot be (fully) planned in advance but derives from the organization‘s adaptive behaviour to external forces

3. Culture model (symbolic):

- Strategy formation as a social process
- Organization develops powerful symbols of business culture to mobilize strategy formation and implementation.
- More about setting the context than rational planning

The essence of strategy

Strategies tend to be not only deliberately formulated but also to emerge over time:



Mintzberg 1999, S. 30; Chaffee 1985, S. 89f.

From long-range planning to strategic management ...

Strategy takes place on different levels within the firm ...

Corporate Strategy

- Corporate vision
- Corporate identity
- General goals, aims, perspectives
- Business Portfolio → Definition of Strategic Business Units (SBU)

Competitive Strategy (Business Unit Strategies)

- Design of SBUs
- Competitive strategy according to (market and resource-based view)
  - positioning
  - resources
  - partners

Functional Strategies

Skills

Financials | Personnel | Technology | Procurement | Operations | Distribution

Vgl. Backhaus 1999, S. 195

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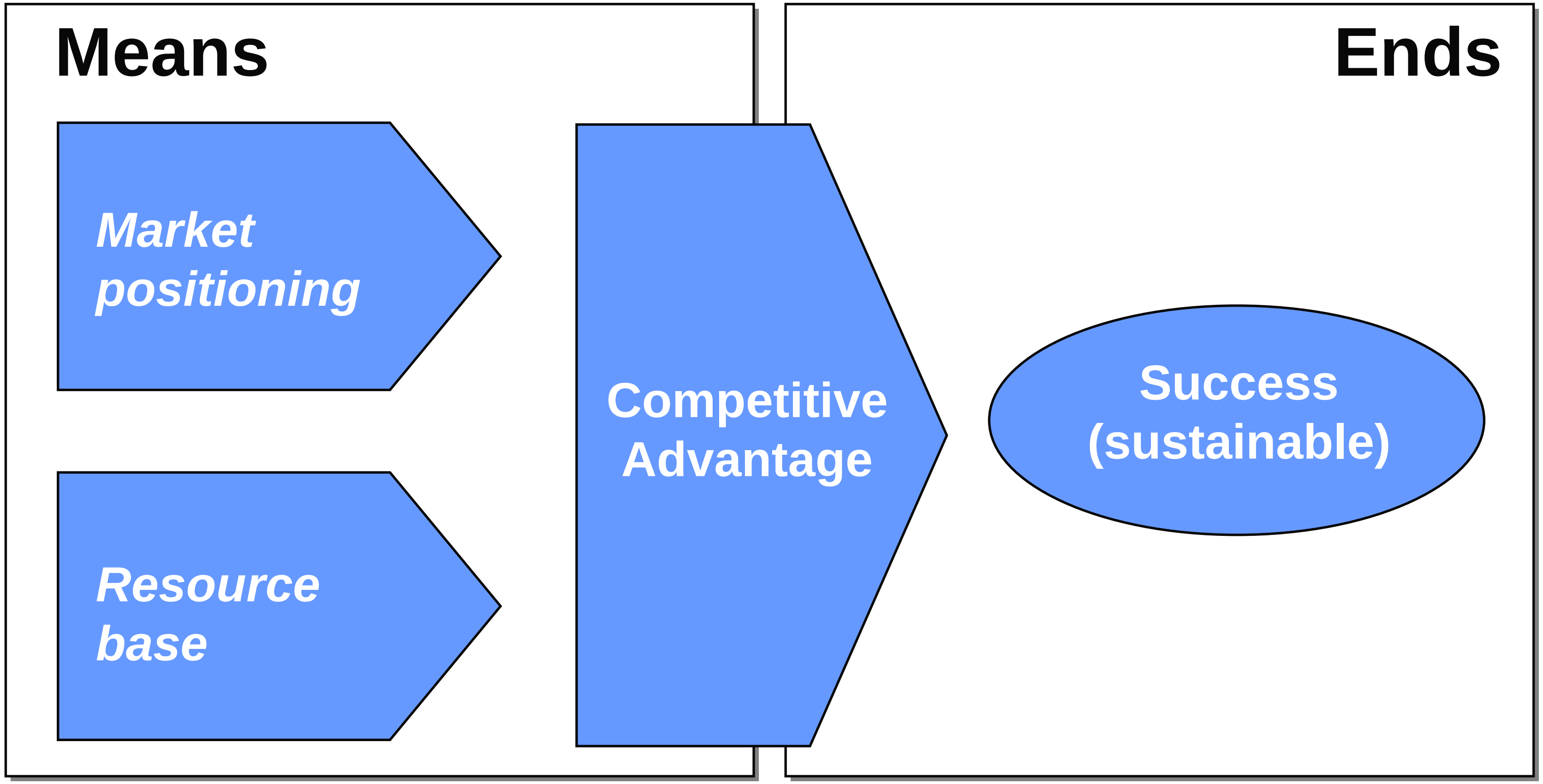
Basics of competitive strategy

Two schools dominate the strategy debate:
market-based view and resource-based view



Quelle : Harald Hungenberg, „Strategisches Management in Unternehmen“ (2000), Seite 6

MBV Market-based view

- Sustainable success is determined by the industry and business unit – market structure and the strategic behaviour of the firm within the industry/market.
- Competitive advantage derives from strategic „fit" with the (external) economic environment of the firm (market positioning) (Cp. Börner, 2000, p. 817)

- Synonyms to the market-based view:
  - Outside-in perspective
  - Market-based approach
  - Harvard school
  - SCP (Structure-Conduct-Performance) Paradigm

MBV Market-based view: Porter

Strategic positioning theory posits that superior performance comes from tight linkages among

- distinctive value propositions
- a carefully crafted product-market focus
- a set of unique value activities -> value chain/ activity system

The core of Porter's work is a system for the analysis and definition of corporate strategy:

- Industry analysis (5 forces): identification of attractive industries
- Generic Strategies: positioning within an industry
- Value Chain: instrument for the analysis of a companies activities

MBV Market-based view: Porter

Strategic positioning theory posits that superior performance comes from tight linkages among

- distinctive value propositions
- a carefully crafted product-market focus
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MBV Porter's Five Forces Model

Bargaining Power of Suppliers:
These factors tend to increase supplier power:
- Dominated by a few suppliers
- Suppliers more concentrated than buyers
- No substitutes
- Threat of forward integration (if suppliers can vertically integrate, their power increases)
- Supplier input to quality of products critical

New Entrants

Threat of new entrants:
Depends on: Entry barriers.
Typical barriers are:
- Economies of scale
- Product Differentiatiob
- Capital requirements
- Customer switching costs
- Government policies
- Access to distribution and suppliers

Suppliers

Industry Competitors

Rivalry

Buyers

Bargaining Power of Buyers:
These factors tend to increase buyer power:
- Concentrated
- Low switching costs (standardized products or services), low profit margins
- Threat of backward integration
- Buyer has all relevant information

Rivalry among competitors:
Depends on:
- Numerous rivals, equally balanced power
- Slow growth
- Low differentiation, low switching costs
- High exit barriers
- Etc.

Substitutes

Threat of substitutes:
Depends on:
- Existence of equal-functioned products
- Customer switching costs
- Aggressiveness and Profitability of Producers

MBV Example tourism: From a travel agent's point of view

Globalization
Deregulation
Volatility of prices
Concentration
Differentiation
Disintermediation ?
Re-Intermediation

New entrants

Globalization
Mail-order firms
Department stores
DMOs

Suppliers

Margins under pressure
Direct distribution

Sector competition

Concentration
Globalization (international Competition)
Deregulation

Customers

Individualization
Mass-Customization
Customer competence
Big clients demand better conditions

Substitutes

New Technologies
Multimedia??

MBV Strategic reactions to the five market forces

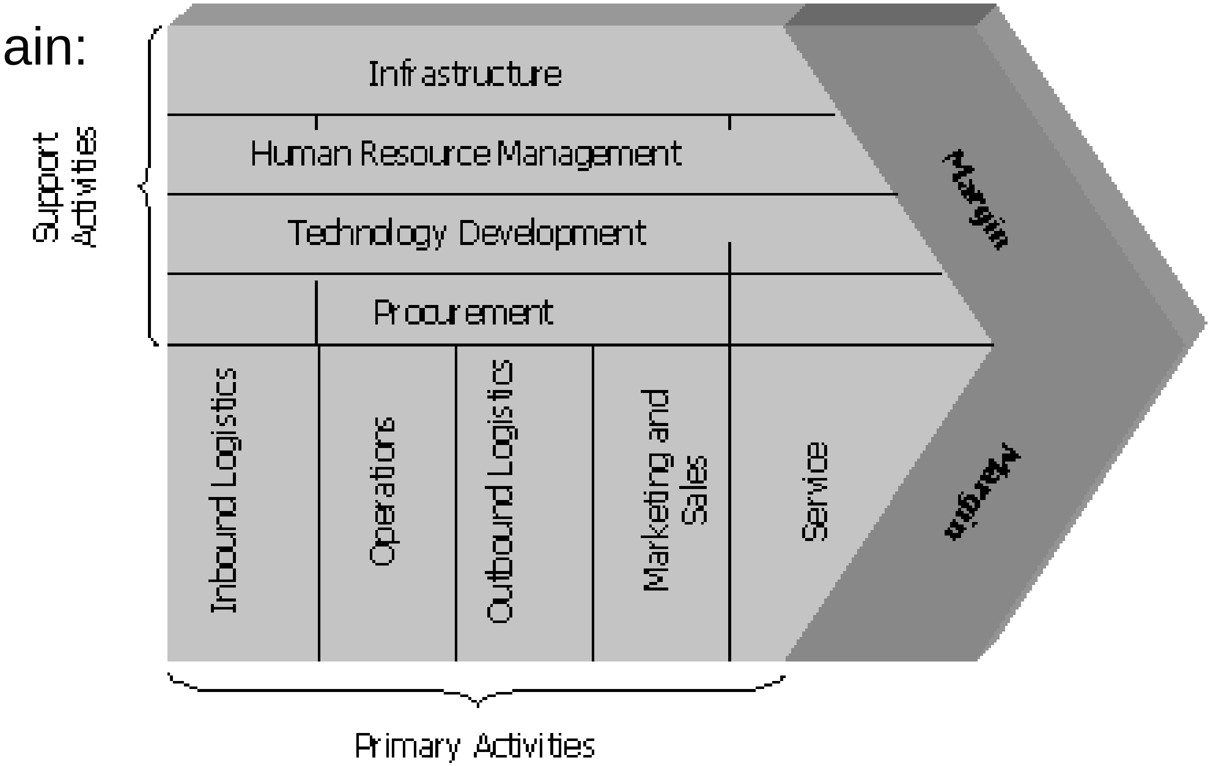
1. **Positioning** the company in the way that its capabilities provide the best defense against the competitive forces.
   - Take the industry structure as given and match a company’s strengths and weaknesses to it.
   - E.g. a company can improve its strategic posture by finding suppliers who possess the least power to influence it adversely.
2. **Influencing the balance of the forces** through strategic moves, thereby improving the company‘s position.
   - E.g. Innovation (substitutes), vertical integration
   - The balance of the forces is partly a result of external factors and partly in the company’s control.
3. **Anticipating shifts** in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.
   - E.g. analyze trends, market research, corporate intelligence

     (Porter, M. E. (1997), p. 8).

Generic strategies and value chain concept

- 3 generic strategies:
  1. Overall cost leadership: „do the same things better“
  2. Differentiation: „do different things“
  3. Focus: „search for a niche“

- Porter‘s value chain:



Porter 1985

RBV Resource-based view

- *Potentials for success:* Strategic management concentrates on the development, maintenance and exploitation of strategic potentials, for which the firm uses its resource base. (Bleicher 1999, p. 75)
- Competitive advantage derives from **unique (i.e. not tradable and difficult to substitute) and inimitable resources and competencies**, which allow to achieve a superior customer benefit. (cp. Börner, 2000, p. 817)

- Synonyms to the resource-based view :
  - Inside-out perspective
  - Resource-based approach
  - Chicago school
  - RCP (Resource-Conduct-Performance) paradigm

The intelligent enterprise (Quinn 1992)

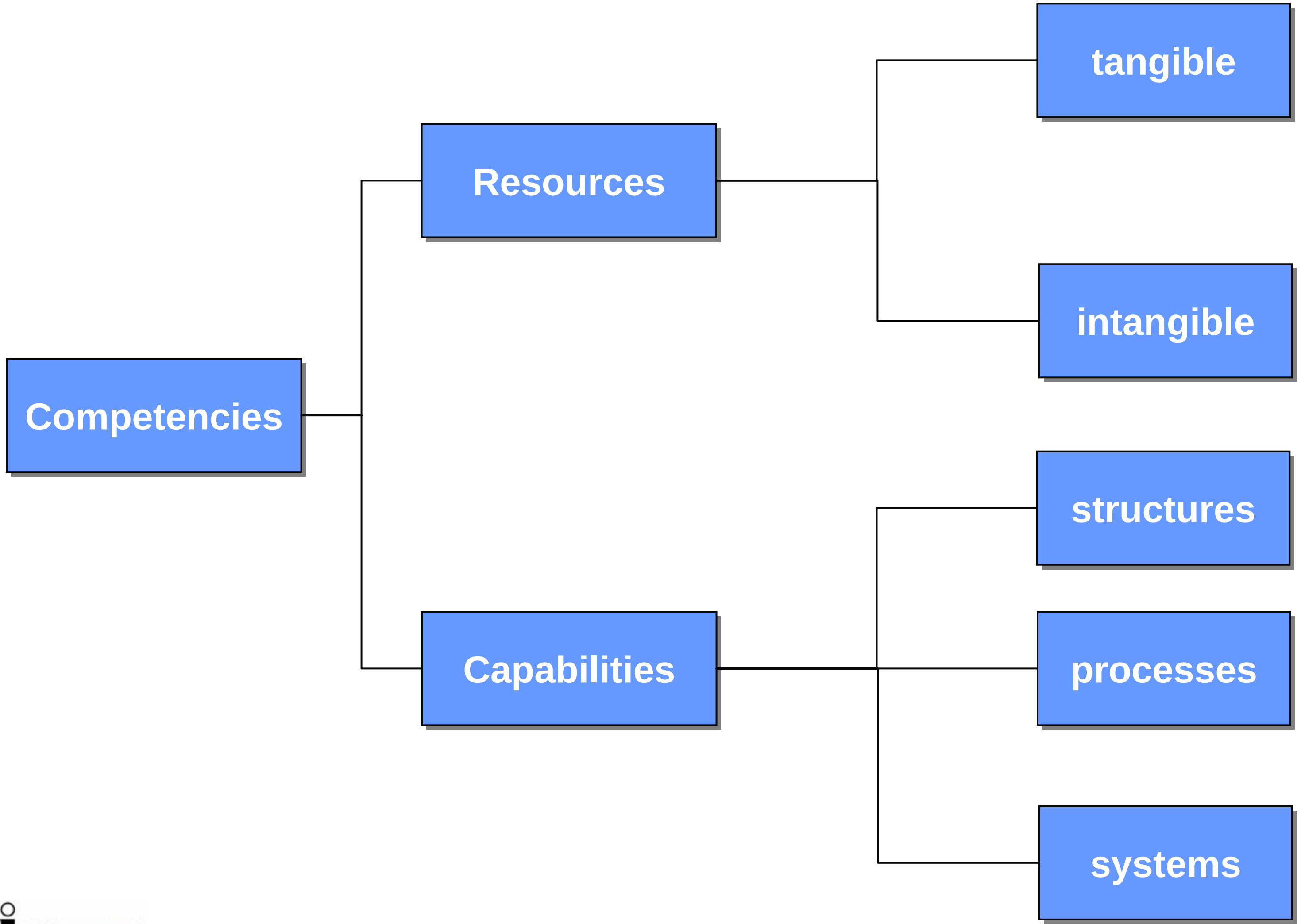
- "***First***, all nonproduction elements in the value chain and at corporate staff levels need to be redefined as 'services', which can either be produced internally or potentially be outsourced to external firms ...
- ***Second***, ... In which of these activities can we achieve, 'best in the world' capabilities internally? ...
- ***Third***, the corporation itself should concentrate ... on those activities ..., where it can create a unique value, and where it must have strategic control to maintain dominance (1) within its own selected area of special competency, (2) over its crucial customer and supplier relationships, and (3) over the systems that coordinate the two." (37)

The intelligent enterprise (Quinn 1992)

- "Maxim One: For maximum long-term strategic advantage, companies focus their own internal resources on a relatively few basic sources of intellectual or service strength - or classes of service activities - which create and maintain a real and meaningful longterm distinctiveness in customer's minds." 53
- "Maxim Three: For continued success companies actively command, dominate, and build barriers to entry around those selected activities critical to their particular strategic concept. Concentrating more power than anyone else in the world on these core competencies as they affect customers is crucial to strategic success. ...
- Maxim Four: Strategists plan and control their outsourcing so that their company never becomes overly dependent on - or later dominated by - their partners." 55

RBV

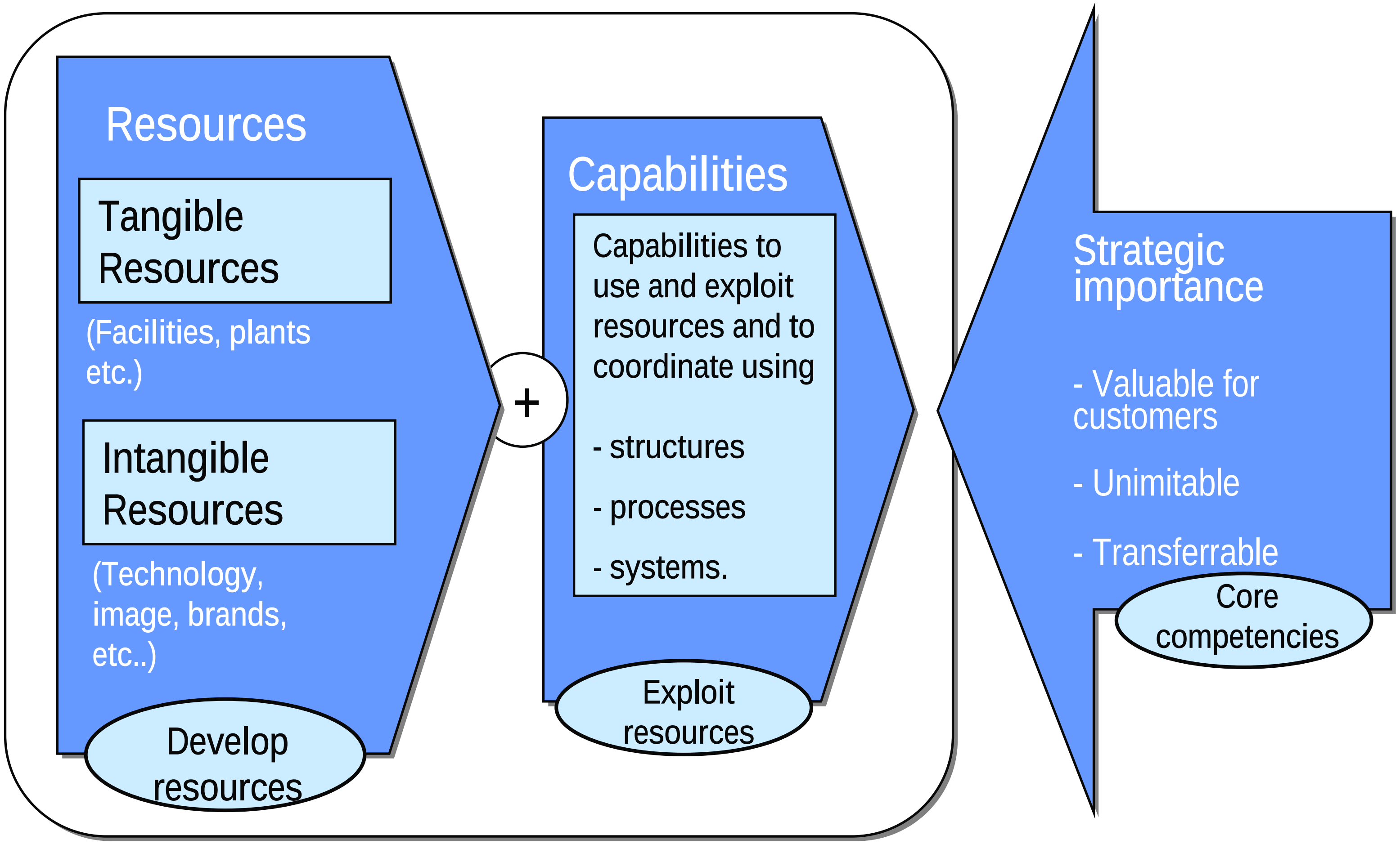
Systematics of Competencies



Source : Harald Hungenberg, „Strategisches Management in Unternehmen“ (2000), p. 100

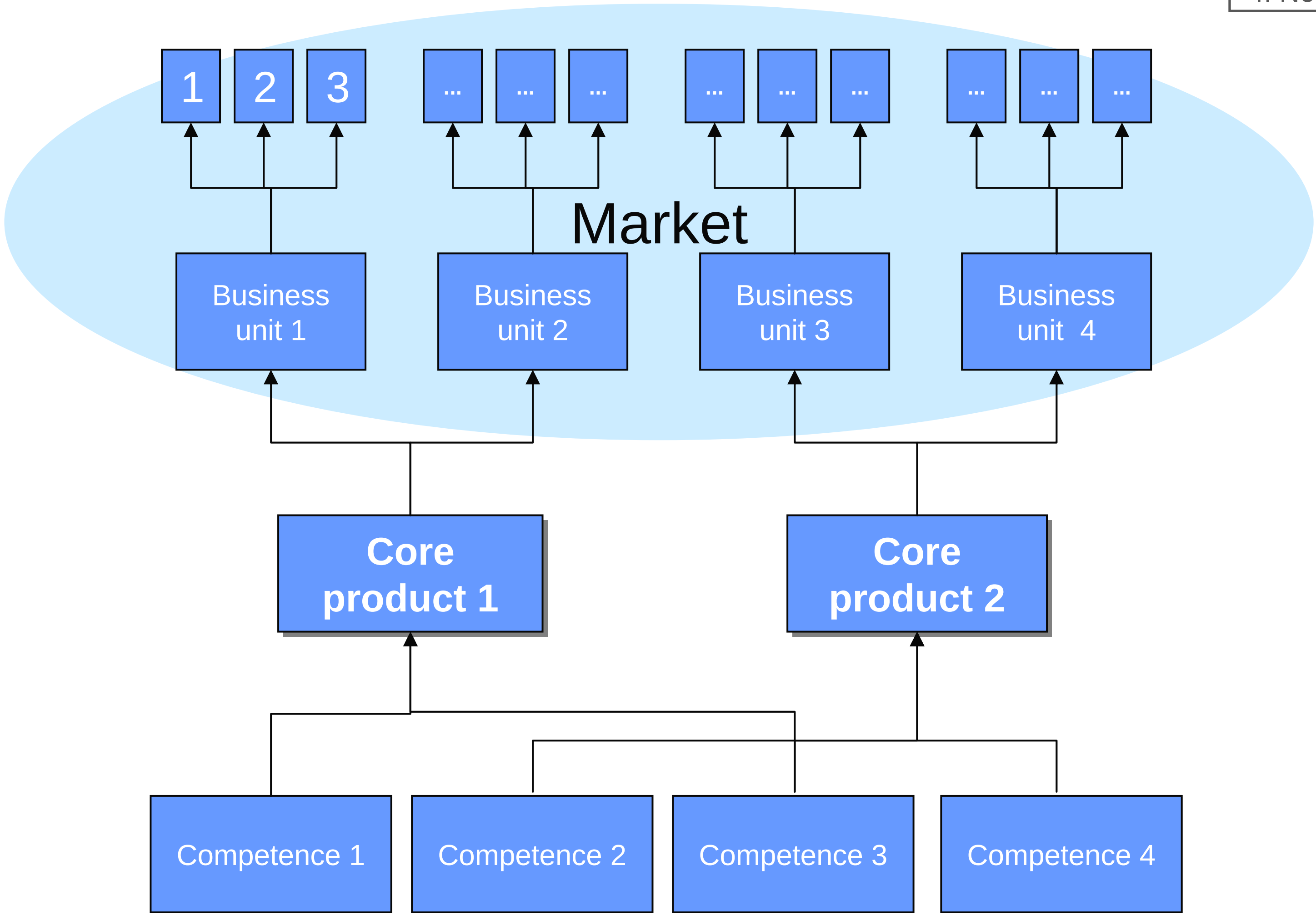
RBV

Resources and capabilities as the basis of core competencies



Source : Harald Hungenberg, „Strategisches Management in Unternehmen“ (2000), p. 104

RBV Configuration of core products



Source: Hamel, Prahalad (1994).

Comparison of Market- and Resource Based - Approach (1)

	MBV Market-Based View	Resource-Based View RBV
Way of Thinking	Company as portfolio of business units	Company as portfolio of capabilities and resources
General Objective	Grwoth through Cash-Flow-Balance throughout SBU-life cycle	Sustainable growth through development, utilisation, and transfer of core competencies
Market Stage	mature markets	Less specific, rather emerging markets
Market Status	Implies rather static markets	Implies rather dynamic markets
Level of Competition	Business units, products	(diversified) company
Basis for Competition	Product-centric cost or differentiation advantages	Exploitation of corporate-wide competencies
Charakcer of strategic advantage	- temporally restricted / erodible - business specific - observable	-long-lasting / hard to attack -transferable to other businesses -hidden (“tactic knowledge”)

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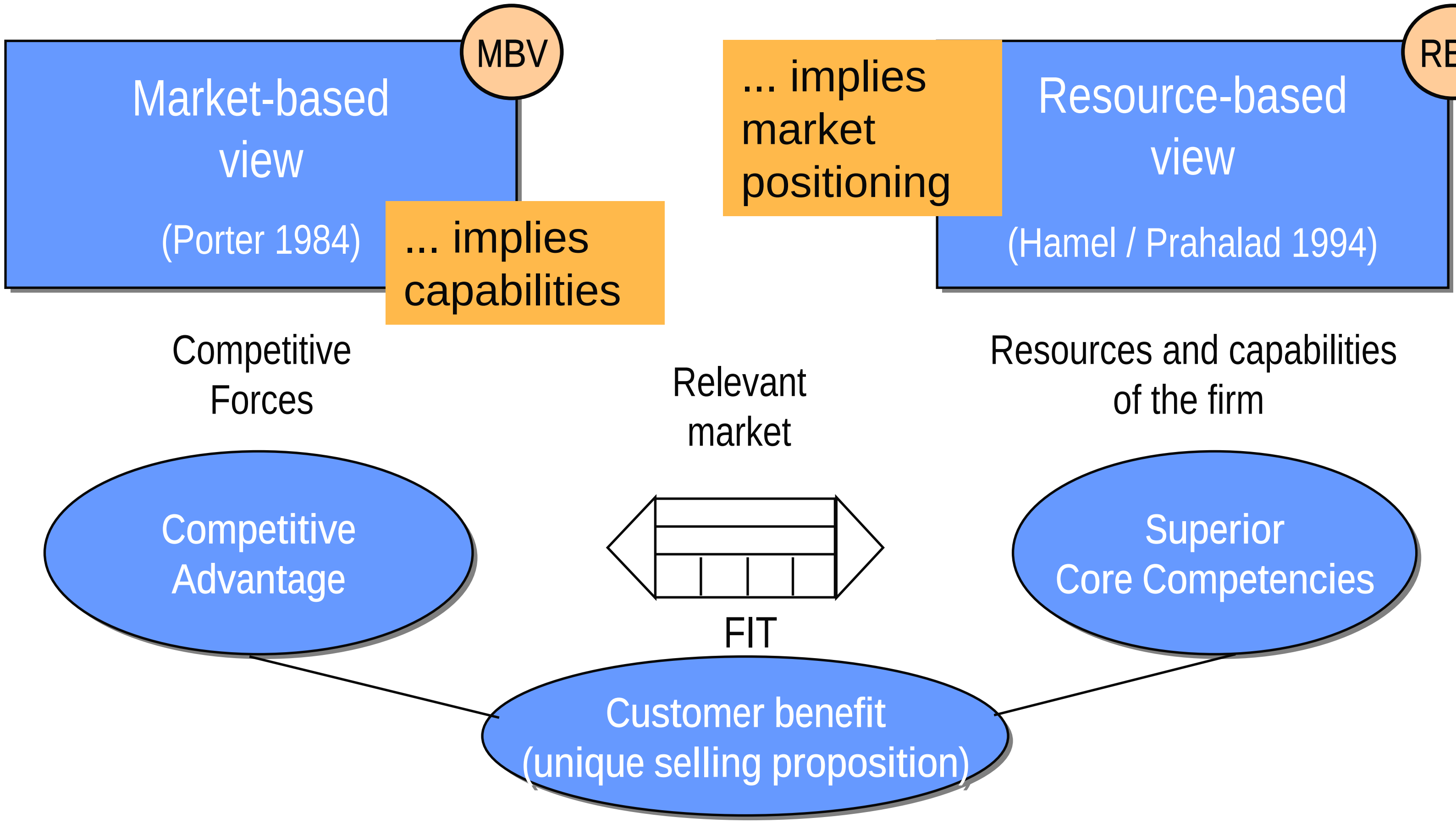
Comparison of Market- and Resource-Based - Approach (2)

	MBV Market-based View	Resource-based View RBV
Strategic Focus	more defensive: Expansion and defence of existing businesses, adaption of strategy to competitive forces	more offensive: enhancements of old business and entry into new businesses through transfer of cpmetencies; influencing competitive forces.
Planning Horizon	short- to mid term	emphasises long-tern
Role of Business Units	Quasi-company, "OWNER" of persons and resources (Profit Center)	Accumulation of resources and capabilities (Center of Competence)
Role of Top Management	Allocation of financial resources to strategic business Units	Integration of resources and capabilities based on corporate-wide business concept

Integrated view on competitive strategy



- Customer behaviour
- Segmentation
- Positioning

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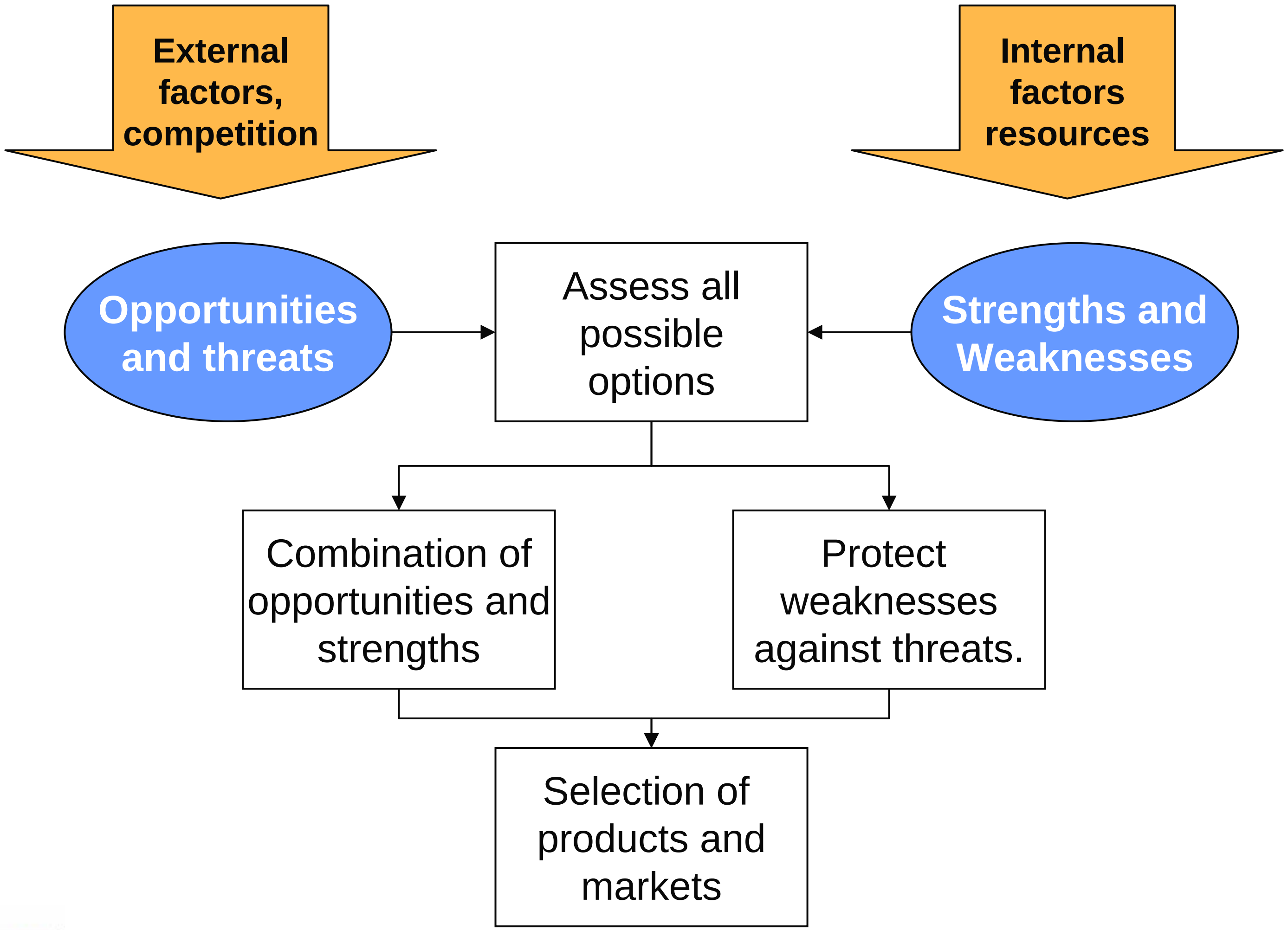
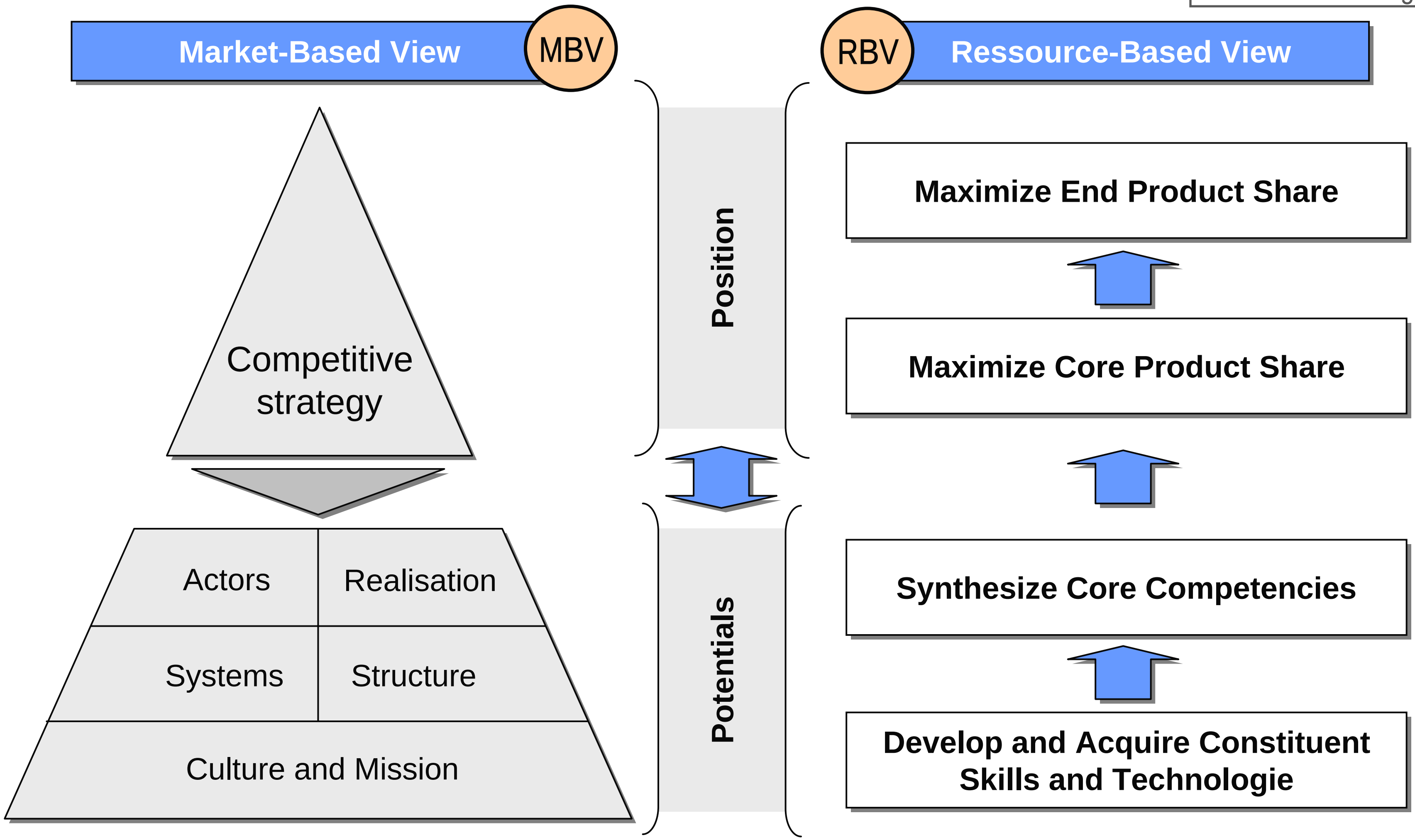
Using SWOT analysis to integrate MBV and RBV thinking



Outside-in versus Inside-out: two views, same intention



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Criticism of Porter's argumentation and the market-based view

- the model assumes a classic perfect market.
  - the more an industry is regulated, the less meaningful insights the model can deliver.
- best applicable for analysis of simple market structures
  - very difficult in complex industries with multiple interrelations, product groups, by-products and segments
  - concentration on segments bears risk of overseeing elements
- model assumes relatively static market structures
  - challenges are: converging industries, dynamic market changes
- based on the idea of competition
  - assumes that companies try to achieve competitive advantages over other players in the markets as well as over suppliers or customers

Porter on coalitions

- "Coalitions are a means of performing one or more activities in combination with another firm instead of autonomously - they are thus a means of configuration. ... Just as a coalition changes the global configuration of an activity, it also complicates the ability to coordinate that activity with others." 321
- "The speed of coalitions as a means of repositioning implies that they will be particularly likely to occur during period of rapid and significant structural change in an industry, particularly structural change involving rising economies of scale. Structural change frequently erodes the existing sources of competitive advantage of some firms and creates new bases of advantage. Firms seek coalitions in order to respond quickly and without the expense of acquisition while retaining independence. This implies that some coalitions may be transitional devises that ultimately dissolve or lead to merger." (Porter; Fuller 1986, 329)

Critique of the resource-based view

- The RBV focuses on single firms and does not adequately address the idea of collaboration and networking.
- Consider, that a firm‘s critical resources may extend beyond firm boundaries (relational resources).
- Especially changes on an industry level, like for example technological innovation, convergence and the merging of industries (consider the „T.I.M.E. industry“) drive the formation of development and learning alliances.
  - Here, the resource view expands far beyond the firm boundaries.
  - Distinguish different categories of resources

Remember: 4 underlying trends

1. Technology changes

RBV

- new ways of communication and information processing
- redefine market roles and rules
- new opportunities and challenges, not to be achieved alone

2. Globalization

MBV

- changing competition, eroding of market structures
- often based on deregulation of former closed national markets
- collaboration to enter new markets, or to reduce competition

3. Changing customer behaviour/needs and fragmented markets

MBV

- individualization and mass customization
- increasing uncertainty
- R&D partnerships & supply chain collaboration

RBV

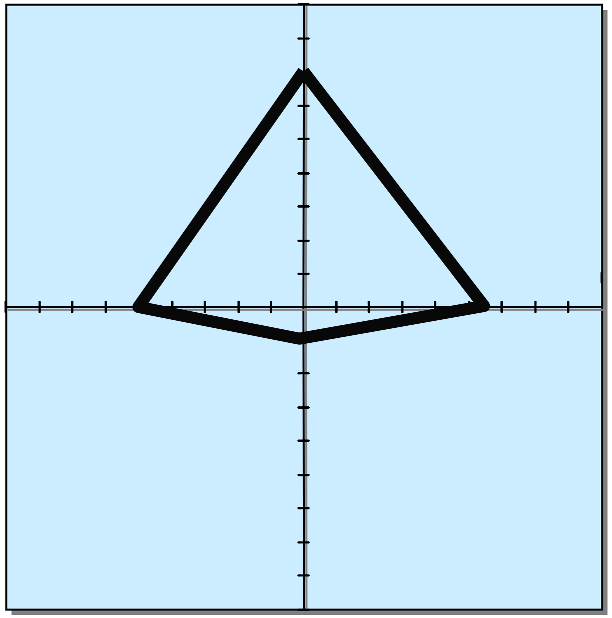
4. Increasing information intensity & importance of knowledge

- products, services and production processes increasingly information intensive
- companies are not able to access and control necessary knowledge alone

Remember: Strategic rationales and motives for network/partnership formation

Enhance:
Quality, Services,
Add Value, Scope,
Knowledge

Share/Manage Risks
Market, financial,
legal, operational,
investment risks



Improve:
Efficiency,
reduce costs,
enhance scale.

Redefine/innovate:
New products,
new services,
new processes,
new business ideas

Acc. to: Merchand, Donald A., Hard IM choices for senior managers, Financial Times Supplement Mastering Information Management, April 5, 1999, S. 4

The inter-firm view – multi-level strategizing: Strategy is about integration and differentiation

- The single-firm view on the network:
  - differentation: achieve a good and powerful position within the network (MBV) with unique competencies (RBV) → coopetition
  - integration: into the overall network value chain (MBV) and resource portfolio (RBV)
    → process interfaces, competence descriptions; also: integrate external resources into internal activities
- The inter-firm/network view on strategy:
  - differentiation: position the network within the market (group vs. group) (MBV) and formulate unique value proposition (RBV)
  - integration: integrate all partners and their contributions to a functioning whole (network resource pool (RBV), network value chain (MBV))
- Furthermore: other activities of the single firms within the market have to be aligned with the network activities

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RBV Interfirm resource view

	1.core resource	2. collaborative resource	3. external, purchased resource
typical coordination	hierarchy (internal resource)	cooperation network	market-based (outsourcing)
resource importance	constituent for company product/ service portfolio critical resource	important resource, but no core resource	less important purchase reasonable, because of other company's leading position
motivation	Leading position may be achieved. Basis for competitive advantages.	Necessary economies of scale may not be achieved without cooperation. High investments necessary which may be shared among network partners.	Concentration on core competencies, own creation improvident.

The impact of cooperation on the development of resources

dimensions of resource development	***impact of the cooperation***	
	positive	***negative***
time compression diseconomies	faster development of technological resources by pooling of know-how, experiences in the implementation process of a cooperation combined with the dynamics of the cooperation may yield a significant lead	conflict within cooperations and time-consuming consensus building may slow down the resource building process
asset mass specificity	combined resource development will considerably accelerate the resource accumulation process	if one of the partners can reap the benefits alone, defection poses a considerable risk
resource interde-pendency	the pooling of complementary resources of different partners creates a highly unique resource position that lowers the imitation risk from outside competitors considerably	a high degree of inter-organizational resource dependence poses a considerable risk if the cooperation breaks up and access to requisite resources gets lost
resource creating, enhancing, destroying	cooperation as an instrument to create or enhance existing resources; collaborative learning as an instrument to leverage not only the mutual strengths but also to significantly improve the companies resource position through a process of accelerated learning	'migratory' competencies may be swiftly adapted by partners, thus an-nihilating a temporary competence advantage

Klein; Kronen 1995

Strategic view on networks and alliances from a (more-or-less) market-based and resource-based view

- **MBV**: Gomes-Casseres, Benjamin (1994). Group versus Group: How Alliance Networks Compete. In: Harvard Business Review, 4, pp. 62-74.
  - Competition often takes place not only on the inter-firm but also an the inter-group level.
  - The article provides insights into reasons for alliance formation, network characteristics and more important on problems, risks and management challenges.
- **RBV**: Hamel, Gary; Doz, Yves L.; Prahalad, C. K. (1989): Collaborate with your Competitors - and win, in: Harvard Business Review, 1 (1989), S. 133-139.
  - Partnerships/alliances are often regarded to be a valuable mechanism to enhance the own pool of resources, often in terms of internalizing information and knowledge.
  - But collaboration may also be risky, because of losing own resources to a partner (who may be at the same time a competitor).

Group-vs.-group: composition for network advantage

- Network Composition: achieve network advantage by composing the network wisely with companies that provide complementary skills/assets
- Strategic questions:
  - Is the whole greater than the sum of its parts?
  - Who controls the group, who manages/coordinates?
  - Where is competitive advantage created?
    - group-based advantage - position the network (competition among networks): integration of the partners' contributions
    - company-based advantage - position within the network (competition within network)
- Effective groups are worth more than the sum of the alliances within them: Manage the group as a whole.

Gomes-Casseres, Benjamin (1994): Group versus Group: How Alliance Networks Compete, in: Harvard Business Review, 4 (1994), pp. 62-74.

Group-vs.-group: Management challenges and collaboration risks

- Internal competition: depends on the number of members fulfilling the same functions and on the structure of relationships among partners.
  - different approaches: competition increases group flexibility, drives innovation and ensures the security of supply (p. 8),
  - but it can fragment a part of the business (no partner is able to reach sufficient scale) and result in conflicts
- Governance: establishment of a governing body versus governance by the lead company
- Relationships: Groups are only as strong as the alliances within them: Manage individual relationships carefully.
- Dependence: allying companies lose control and depend upon external skills; own decisions may be subordinated to those of the network

Gomes-Casseres, Benjamin (1994): Group versus Group: How Alliance Networks Compete, in: Harvard Business Review, 4 (1994), pp. 62-74.

Learning in alliances: the case of cultural differences

a brief synopsis:

- **Western companies**:
  - main goal: intend to avoid investments, reduce costs and risks of entering new markets, regain competitiveness quickly and with minimum effort
  - openness of technicians, consider themselves as "scientific contributors"
  - often regarded as to be arrogant, more receptive
- **Eastern companies**:
  - effort to learn, strategic intent: learning, focused on skills of their partners, commitment towards learning
  - loyalty to company, team members
  - often have the attitude of students, want to listen

Hamel, Gary; Doz, Yves L.; Prahalad, C. K. (1989): Collaborate with your Competitors - and win, in: Harvard Business Review, 1 (1989), S. 133-139.

Learning in alliances: the case of cultural differences

- **Western companies**:
  - *"We complement each other well—our distribution capability and their manufacturing skill. I see no reason to invest upstream if we can find a secure source of product. This is a comfortable relationship for us."*
  - short-term goal, but intention to form a long-term relationship

- **Eastern companies**:
  - *"When it is necessary to collaborate, I go to my employees and say, 'This is bad, I wish we had these skills ourselves. Collaboration is second best. But I will feel worse if after four years we do not know how to do what our partner knows how to do.' We must digest their skills."*
  - long-term goal, but intention of a short-term relationship

Hamel, Gary; Doz, Yves L.; Prahalad, C. K. (1989): Collaborate with your Competitors - and win, in: Harvard Business Review, 1 (1989), S. 133-139.

Learning in alliances: balancing contributions and interests

- The western/eastern example illustrate the potential problems, which may occur in ill-conceived alliances.

- Alliances unfold their potentials, when contributions and interests are well-balanced.
- Achieve mutual gains for each party
  - each partner must contribute something distinctive

- **The challenge is to share enough skills to create advantage vis-a-vis companies outside the alliance while preventing a transfer of core skills to the partner.**

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Learning in alliances: management challenges

- Build secure defenses: avoid losing core competencies
  - collaboration is competition in a different form
  - safeguard the own assets
  - harmony is not the most important measure of success !
  - create trusting atmosphere and deal with conflicts
- Ensure transfer of knowledge (which is intended to be shared)
  - differentiate between easy to transfer and intrinsic knowledge
- Ensure learning and internalization of knowledge
  - learning from partners is paramount

- „The real issue is whether a company is adding to its stock of technologies and competences as rapidly as it is surrendering them."

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The relational view as a new (inter-firm) perspective in strategic thinking

Dimensions	Industry Structure View	Resource-Based View	Relational View
Unit of analysis	Industry	Firm	Pair or network of firms
Primary sources of supernormal profit returns	Relative bargaining power Collusion	Scarce physical resources (e.g., land, raw material inputs) Human resources/ know-how (e.g., managerial talent) Technological resources (e.g., process technology) etc.)	Relation-specific investments Interfirm knowledge-sharing routines Complementary resource endowments Effective governance
Mechanisms that preserve profits	Industry barriers to entry Government regulations Production economies/ sunk costs	Firm-level barriers to imitation Resource scarcity/property rights Causal ambiguity Time compression diseconomies Asset stock interconnectedness	Dyadic/ network barriers to imitation Causal ambiguity Time compression diseconomies Interorganizational asset stock interconnectedness Partner scarcity Resource indivisibility Institutional environment
Ownership/control of rent-generating process/resources	Collective (with competitors)	Individual firm	Collective (with trading partners)

Dyer, Jeffrey H.; Singh, Harbir (1998): The relational view: Cooperative strategy and sources of interorganizational competitive advantage, in: Academy of Management Review, 23 (1998) 4, S. 660-679.

Short summary

- Positioning within the network in terms of power/ influence to achieve the own goals.
- Assure integration into the network by taking care of interfaces regarding processes and resources.
- Classification of resources with respect to importance and role to assure full control over critical resources to minimize external dependence.
- Taking care of networkability, internal capabilities necessary to ensure the ability to collaborate with others (e.g. ensure learning capacity).
- Challenges of collaboration with and learning from competitors, conflict, protect knowledge, etc. (“coopetition”).
- Changing scope in strategic planning: each single firm has to face the formation of the overall network strategy: “group-vs-group”.
- Relational view as an enhancement in strategic thinking.

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