

Strategic Management Course

Oct. 2005 – June 2006

Lessons 7 & 8 - Internal Context:

Organisation Design

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Course Outline and Contents

- Introduction to Strategy and Strategic Management
- Business Strategy
- Competitive Advantage
- ➔ • Internal Context: Organisation Design
- Market Organisation and Competitive Advantage
- External Context: Industry Analysis
- The Spectrum of Competition and Niche Markets
- Competition in Concentrated Markets
- Entry and the Advantage of Incumbency
- Creating and Capturing Value in the Value Chain
- Globalisation and Strategy
- Current trends in Strategic Management
- Strategic Management in a Changing Environment

Summary of Lessons 5 and 6

Values and Competitive Advantage

- Getting close to the consumer e.g. consumer services, inviting and involving the consumer during product development, caring for the consumer etc.
- Empowering the worker (at all levels): not just rewards and incentives but recognition, training, investing in people.
- Innovation: providing innovation solutions to real consumer needs.
- Protecting your ideas not just through patents but through awareness, presence, knowing your customer etc.

Food for Thought

Lessons 5 & 6

What is sustainable competitive advantage?

How can one sustain competitive advantage?

How do you exploit position to get the best competitive advantage?

What is the next Strategic Management trend going to be?

What does the Cost-Quality Frontier technique not tell you?

Suppose you intend/need to radically change the company how do think this will change the organisation?

What advantages and disadvantages do you think this type (functional) of organisation has?

Paths to Competitive Advantage

Competitive advantage is generally considered to fall under two categories that provide paths to success:

Positional
*The position of the company
 in the market place*

Capabilities
*The capabilities of the
 company to respond and
 satisfy the market place*

Positional Advantages

- Brand (Aspirin from Bayer)
- Consumer relationships (IKEA)
- Status (Valentino, Federal Bank, FBI, Scotland Yard, BBC)
- Distribution channels (think of supermarkets and petrol stations)
- Geographic location (North sea oil reserves).....

Capabilities

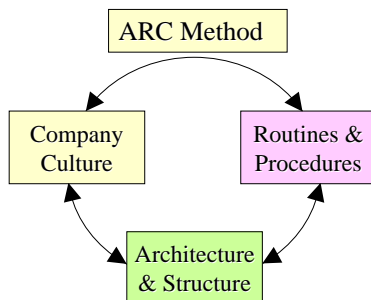
- Sales and Marketing knowledge (knowing the market and what the consumer wants and is willing to pay for)
- Close to the community (many American companies have strong ties with the local community)
- Creativity (certain companies and countries seem to be especially innovative i.e. 3M, China, Finland, Switzerland...)

Summary of Lessons 5 & 6

Lessons 5 & 6

Sustainable competitive advantage is the ability of a company (or individuals) to maintain (or grow) its market position, presence or dominance (in a specific area).

The cost-quality frontier technique maps the position of a company's competitive advantage.



Architecture: is the 'relationship' structure of a company.
Routine: is the procedural (both formal and informal) part of a company.
Culture: is the creed or beliefs of a company.

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The Strategy Process

Lessons 5 & 6

Different Strategies can be applied across the organisation although the ultimate goal is same i.e. better company performance.

Steps for setting Strategy



Examples:

Procurement Strategy : Less Suppliers

R & D strategy : Co-development

H & R strategy : Lower personnel turnover

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Keywords of Lessons 5 and 6

- Architecture
- Routine
- Culture
- ARC
- Organisation
- Design
- Quality-Cost Frontier
- Cost-Quality
- Change
- Competitive Advantage
- Sustainability
- Value
- Best-in-class
- Vulnerability
- Capability
- Process
- Identification
- Options
- First mover
- Position
- Functional
- Frontier
- Perceived
- Value
- Implementation
- Pros and Cons

Lessons 7 and 8 - Industry Analysis

- Back flashes of Lessons 5 & 6 and open questions
- More on ARC analysis
- Assessing an Organisation
- Aligning Strategy and Organisation
- Building and Creating Competitive Advantage
 - Explorers vs. Exploiters
 - Organisation slack
- Costs of Organisation Change
- Industry Analysis: Introduction and Overview
- A Framework for Industry Analysis
 - Value creation and PIE
 - Barriers
- Vertical Power: Buyer or Supplier Power

 This lesson was based on pages 65 to 92 of the course textbook or pages 77 to 92 in the Italian version of the course textbook.

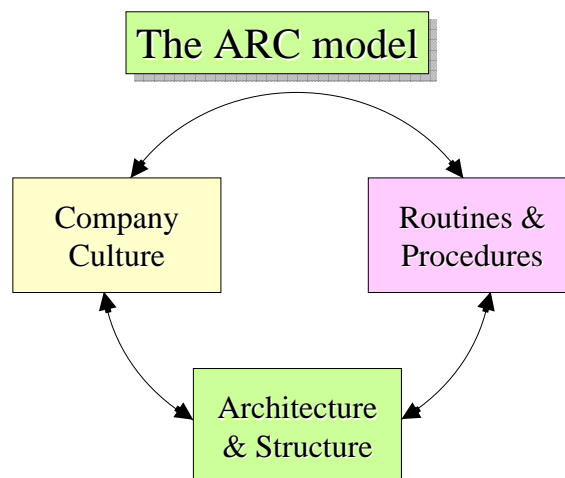
Possible Exam Questions

Define and then discuss the merits of ARC analysis in assessing strategic alignment. How can ARC analysis be used in Industrial Analysis?

Provide 2 examples of an organisation structure and discuss ONE of the possible linkages within each organisation.

Explain the terms Explorers, Exploiters and Organisation slack in the context of competitive advantage. Describe the Porter's 'Five Forces' framework and how it could be improved

Designing an Organisation for Competitive Advantage



Designing an Organisation for Competitive Advantage

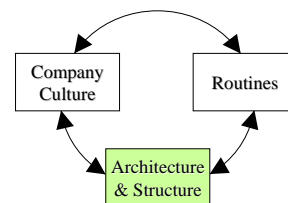
The Key Elements

Architecture: is the 'relationship' structure of a company.

Routine: is the procedural (both formal and informal) part of a company.

Culture: is the creed or beliefs of a company.

More on ARC Analysis



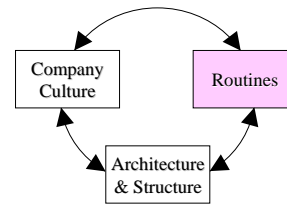
Architecture and Structure

• Company architecture and structure is about the links, relationships and mechanisms between individuals and groups of individuals. Examples are:

- Formal and informal reporting
- Formal and informal mechanisms/procedures
- Responsibilities
- Hierarchical and power structure
- Recruiting and compensation

Can you think of an example of architecture in a company where you have worked?

More on ARC Analysis



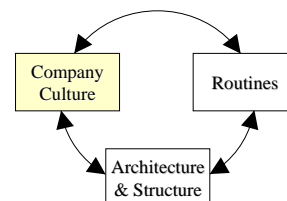
Routines

- Company routines are part of the activities that are carried out repeatedly on a day-to-day basis. Routines are critical for a company's well being since they define the overall response of the company to daily business. Over time this allows the company to develop processes, procedures and habits that guarantee continuity.

However, routines often generate orthodoxies, addictive habits and 'taking things for granted' that impede company growth, especially during change and changing change.

Can you think of a good/bad routine in a company where you have worked?

More on ARC Analysis



Company culture

- Company culture is about the values of individuals and the beliefs they have. It is a difficult topic to assess quantitatively and may differ across the organisation e.g. factories, divisions etc. Culture also has a strong historical and departmental/regional/national background and therefore may be generational in nature as well.

Can you think of a culture issue in a company where you have worked?

Applying ARC analysis to Assess Strategic Alignment

First assess the key coordination and incentive issues of your strategy or the strategy under examination.

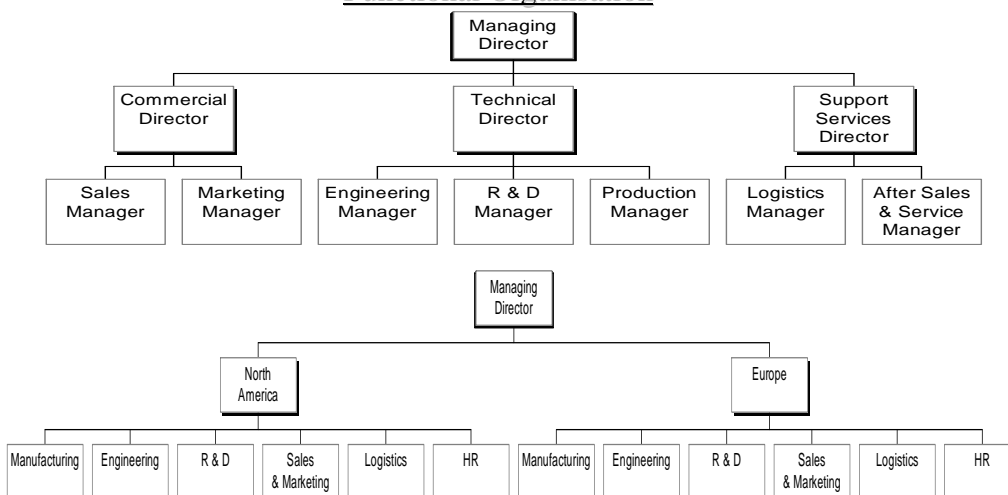
Next use the ARC method to see just how key coordination and incentive issues are tackled

Coordination is the acquisition and allocation of assets i.e. physical things e.g. facilities, machinery, inventory etc. or non-physical e.g. knowledge, experience etc. Ensure that these are available at the right time, format and amount.

Incentives are objectives that may be tangible (e.g. financial) or non-tangible (e.g. winning awards) and may differ greatly across an organisation. Performance measurements may also differ greatly from profit maximisation to recognition.

Examples of Organisations

Functional Organisation



Divisional Organisation

The Best Ever Organisation

The best ever organisation was founded by XXXXX over YYYY years ago. Performance wise it has no rivals and what about revenues?, simply beyond calculation. The devotion of its workforce includes stories of people even giving up their lives to keep it alive and make it thrive.

It is not only known all over the world but is represented in every country. Its values and products are so well accepted and successful that they are available in every context. It has survived every crisis since it's birth and many books have been written about it. Millions of people have been inspired by its story and the individuals that have made it happen.

Horizontal Linkages

Personal
Networks

Liaisons

Project Teams
or Task Forces

Integrators

Explanation of Linkages

Personal Networks

Is a network of “friends” which individuals rely on to “pull the strings” of the organisation. Although often evident there is no formal power or recognised leadership.

Liaisons

These are similar to personal networks except that they have been deliberately formalised by the organisation to help coordinate the workforce or provide work.

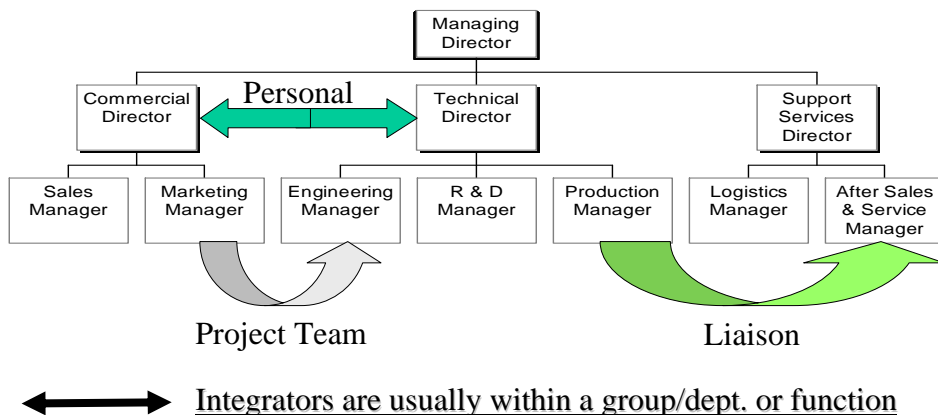
Project Teams or Task Forces

These groups of people are grouped together to tackle specific issue or delivery a specific project within a set time or planning.

Integrators

Should be seen as individual facilitators within an organisation that carry out specific tasks.

Examples of Linkages



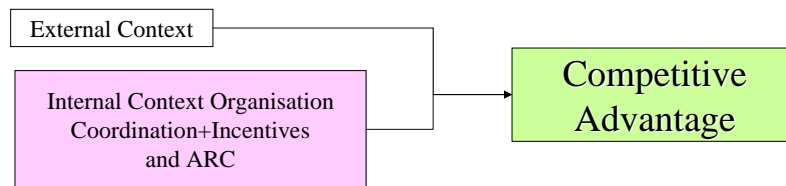
Aligning Strategy and Organisation

A strategy may be aligned by combining the ARC levers that encompass the internal context with the competitive advantage of the organisation.

In more simple terms this means Combining ARC with C.A.:

Aligning Strategy = ARC + Competitive Advantage

Since (in general) very little can be done in terms of organising the external context what is important is that the internal context organisation is maximised.



Building and Creating Competitive Advantage

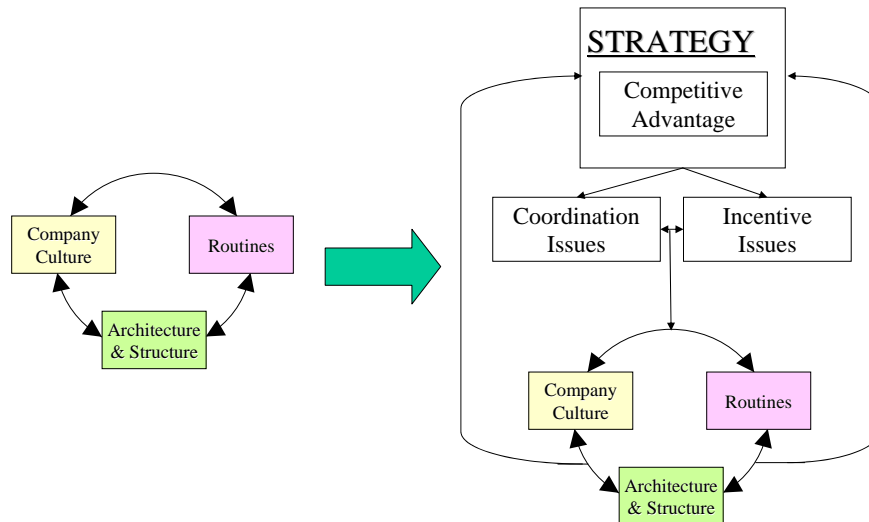
Building competitive advantage implies that the company is 'planning' to enter or remain on the market or in a business.

Sometimes this occurs after an external context change has taken place e.g. a competitor announces a new product. Sometimes internal change inspires the company to invest e.g. a new workforce contract has been signed.

The creation of C.A. may arise from a discovery e.g. non-sticking adhesive for Post-its or something more planned e.g. change of internal procedures, from manual to automatic ordering (think of Amazon or DHL).

Q. What do you think China has done to create its competitive advantage?

Building and Creating Competitive Advantage



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Exploiters

Companies that compete on a particular favourable position (even temporary e.g. currency fluctuations) are firms that exploit the situation. Companies that compete on price or volume are usually exploiters. Their products also coincide with a mature industry e.g. appliances, watches, fuel etc.

Explorers

Companies that approach an industry, product, service etc. in a 'new' or novel way can be defined as explorers. Exploration also implies that a company is probing a new business opportunity although this does not mean that the products are new. For example, a company entering an emerging market is indeed exploring but essentially probably exploiting its present manufacturing-product range.

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Comparisons

<u>Characteristic</u>	<u>Exploiters</u>	<u>Explorers</u>
Interdependence among depts.	Tightly coupled	Loosely Coupled
Discretionary resources	No organisational slack	Substantial Organisational slack
Direction of change	Centralised	Decentralised
Learning Mode	Incremental and within company domains	Also outside of company domains
Environmental fit	Best suited to stable environments	Best suited to rapidly changing environments

Organisation Slack



The term Slack implies that there is a given (accepted, defined etc.) amount of freedom within the system. Hence an organisation with “slack” provides workers with (more) opportunity to adjust and adapt.

Sometimes this freedom leads to an improvement in company efficiency, effectiveness and even performance.

It can also prove to be a competitive advantage if this slack is translated into flexibility and ‘sold’ as a feature.

If slack is institutionalised and clearly defined with the consensus of the workforce and management it can become a very strong ‘hygiene’ factor.

Costs of Organisation Change

The implications of organisation change are not only benefits but also time i.e. to accept and implement change. This will affect the efficiency and effectiveness of an organisation which will lead to more or less 'cost'.

In general this will impact culture and routines, so the manager has to be especially vigilant on these two ARC elements.

Sometimes it is necessary to help the workforce through the transition e.g. training, counselling, explaining etc.

Other times it may be necessary to correct some of the organisation change or make it more gradual.

Industry Analysis: Introduction and Overview

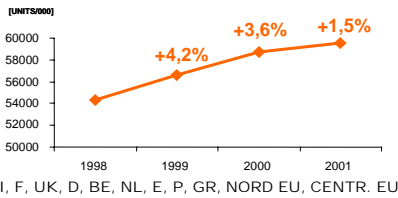
So far we have looked at the internal context of companies and browsed at what happens outside. In the next slides and lessons we will start to look at the external context.

We will need to look at many things such as the status of the industry, innovations, trends, Eycles, consumers etc.

Industry analysis is essentially a framework for identifying, understanding and anticipating industrial change. It focuses on the *long-run performance*.

Examples of Industry Analysis

WESTERN EUROPE

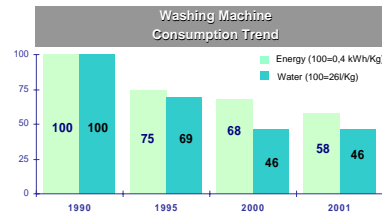


I, F, UK, D, BE, NL, E, P, GR, NORD EU, CENTR. EU

The market is 60,000,000 units on a population of 320 m

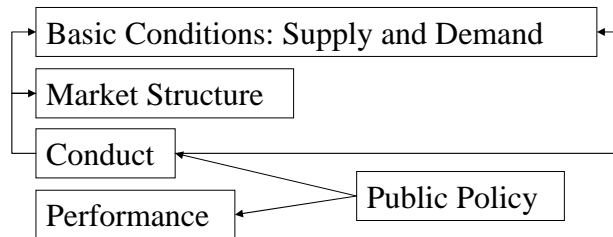
	1998	1999	2000*
Total fixed assets	359	419	646
Trade receivables	379	376	389
Stocks	152	145	183
Trade accounts payable	(403)	(443)	(500)
Net Working capital	128	78	72
% on net sales	9%	6%	4%
Provisions, funds and other liabilities	(147)	(157)	(190)
NET INVESTED CAPITAL	340	340	528
Net financial position	107	91	227
Total net worth	224	244	287
Minority interest	0	5	14
TOTAL SOURCES	340	340	528

Years	% market	Producers
1970	70%	400
1980	75%	150
1990	80%	15
2000	84%	9



Energy consumption of a washing machine decreased by 40% in 10 years, water consumption decreased by 55%

Structure-Conduct-Performance (SCP) Paradigm and Framework.



The SCP is essentially a framework which was developed by governments to highlight areas where intervention may lead to improved social welfare. In an industrial analysis it is therefore intended to analyse behaviour (e.g. product pricing and strategy) and not monetary performance such as profitability.

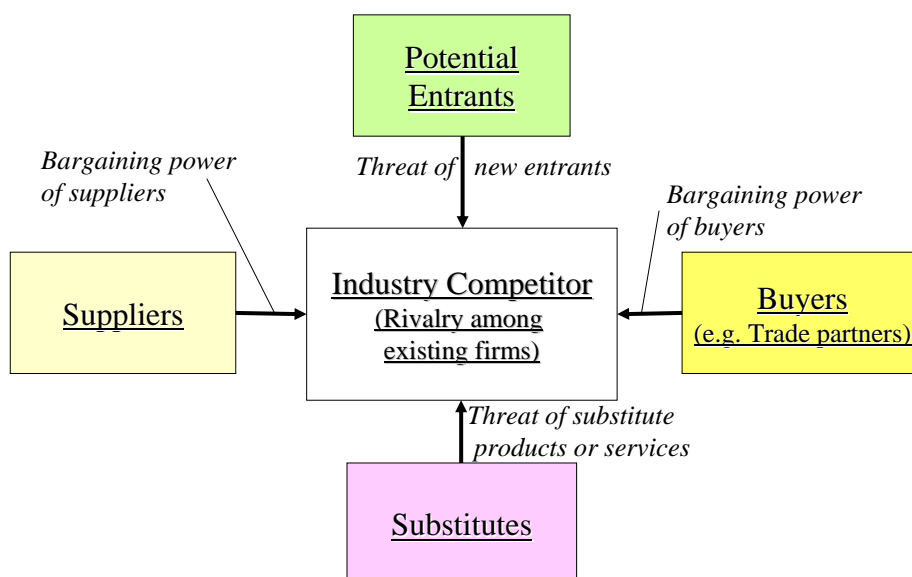
A Framework for Industry Analysis

According to Porter there are five forces involved in the framework of Industry^o Analysis:

- Suppliers (Strategic and Non)
- Buyers (Consumers and Trade Partners)
- Substitutes (Threat of substitute products)
- Potential Entrants (threat from new entrants)
- Industry Competitor (Rivalry among existing firms)

^o (well-defined industry)

Porter's 'Five Forces' Framework



Strategic Suppliers and Non

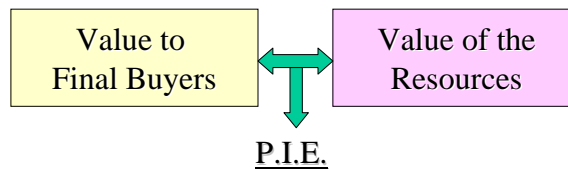
Definition: A strategic supplier is a supplier of services, components, sub-assemblies, products etc. that are fundamental for the strategic success of the company. In general these suppliers also hold key, tacit know-how, of the parts of the manufacturing processes such that they cannot be exchanged easily with other suppliers.

Suppliers that do not fit this definition are defined non-strategic.

Can you give examples of strategic suppliers for a fashion company?

Value Creation - PIE

The value to the final buyers of the goods or services produced less the value of the resources that are used to produce them is the Potential Industry Earnings (PIE).



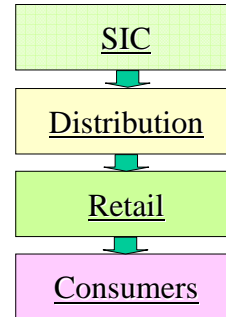
1. Factors that affect the value created
2. Factors that affect the sharing of the value

together these show the attractiveness of the industry

Can you give examples of factors that positively affect the PIE?

Examples of forces that affect PIE

- ✍ Population growth
- ✍ Social-demographic trends
- ✍ Income growth or spread
- ✍ Technology advance or breakthrough
- ✍ Reduction in raw materials costs
- ✍ More suppliers coming on the market
- ✍ Currency fluctuations
- ✍ Work contracts
- ✍ Labour costs
- ✍ Legislation
- ✍ etc.



Entry Barriers

- Production or Manufacturing technology
- Distribution technology
- Brand and reputation
- Legal and legislation

See fig. 6.11 page 139

Buyer or Supplier Power

The more competition among suppliers the better the control on the PIE.

The vertical power is the ability of the supplier or buyer to capture some of the PIE.

Buyer and supplier power are very similar in nature (but the closer to the consumer the wider the gap in difference between them).

Ways of controlling supplier power:

- Strategic alliance
- 'Buying' the supplier
- Exclusivity agreements
- Sharing development and investment costs
- Licensing technologyetc.

Substitutes

The idea of using substitutes is to analyse the industry from a different perspective. This may not only uncover the true potential of the industry but also understand and explain the buyers attitude if the product or service you are proposing is new.

In general a valid substitute is usually one which the consumers sees (perceives) as being essentially the same (although the benefits may be quite different.

Examples: Emailed news releases instead of paper newspapers.

Further examples of Substitutes

For example, if my (new) business model is based on selling or renting a machine that filters, chills and gasifies water in replacement of bottled water then I could analyse this new water business by first looking at the PIE of bottled water.

For example, Shell launched a new type of DIESEL fuel ('V-Power') which is a high-end version of standard DIESEL. A possible candidate for a substitute could be a high octane petrol (e.g. 98Octanes).

[Can you think of other examples of substitutes?](#)

Keywords of Lessons 7 and 8

- Creating and Building
- Functional and Divisional
- Organisation slack
- Organisation cost
- Industry analysis
- Framework
- Value creation
- Capturing Value
- Supplier
- Buyer
- Alignment
- Entry barriers
- Linkages
- Personal networks
- Liaisons
- Task forces
- Integrators
- PIE
- Value creation
- Exploiters
- Explorers
- Vertical Power
- Substitutes
- Potential Entrants
- Threats
- New entrants
- Industry Competitor
- Rivalry
- Organisation change
- Performance

Summary of Questions

Can you think of a good/bad routine in a company where you have worked?

Can you think of a culture issue in a company where you have worked?

Can you give examples of strategic suppliers for a fashion company?

Can you give examples of factors that positively affect the PIE?

Can you think of other examples of substitutes?

Suggested Readings

- Porter M. E. (1980), *Competitive Strategy: Techniques for Analysing Industries and Competitors*, Free Press.
- Grando A. (2001), *Innovazione, Produzione e Logistica nell'era dell'economia digitale*, ETAS libri.
- Roy R. and Wield D. (1995), *Product Design and Technological Innovation*, Open University Press.