Chapter Review 16

Strategic Aspects of Management

Objectives...

1 review the significance of the external and internal environment for strategy formulation
2 explain what (corporate and business) strategy is and how it is formed
3 identify the generic corporate and business strategies
4 discuss theories of strategy formulation

Key Terms

Business Strategy	describes ho wthe organization competes within an industry or market
Capabilities	what the organization can do
Competitive advantage	used interchangeably with "distinctive competence" to mean relative superiority in skills and resources
Competitive strategy	Competitive strategy is concerned with the basis on which a business unit might achieve competitive advantage in its market
resource-based view of strategy	The resource-based view of strategy: the competitive advantage of an organisation is explained by the distinctiveness of its capabilities
Strategic Management Process	a sequential set of analy-ses that can increase the likelihood of a firm's choosing a strategy that generates competitive advantages
Strategy	Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.
Sustained Competitive Advantage	a competitive advan-tage that lasts for a long period of time; an advantage that is not competed away through strategic imitation
VRIO Framework	four questions that must be asked about a resource or capability to determine its competitive potential: the questions of value, rarity, imitability, and organization

35. Strategy is often defined as the match between what a company can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats). Much of strategy focuses on competing and advantage. As was noted, dominant theories about the sources of competitive advantage cluster around the internal or external environment. The dominant paradigm in the 1980s was the competitive forces approach, developed by Porter, which focussed on the external environment. The key aspect of the firm's environment is the industry or industries within which it competes. Industry structure strongly influences the competitive rules of the game as well as the strategies available to firms. In the competitive forces model, five industry- level forces—entry barriers, threat of substitution, bargaining power of buyers and suppliers, and rivalry amongst industry incumbents—determine the inherent profit potential of an industry. The approach can be used to help the firm find a position in an industry from which it can best defend itself against competitive forces or influence them in its favour. Such an approach is often referred to as a model of strategy emphasizing the exploitation of market power. Later, the 'resource-based perspective,' was proposed, with an internal focus, emphasizing firm specific-capabilities as the fundamental determinants of organizational performance. This perspective represents a strategy model emphasizing efficiency. The resource-based (RBV) approach sees organizations with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long- run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance. Organizations which are able to accumulate resources and capabilities that are rare, valuable, nonsubstitutable, and difficult to imitate will achieve a competitive advantage.

36. The different approaches to strategy and the attainment of superior and sustainable organizational performance discussed thus far, view differently the sources of wealth creation and the essence of the strategic problem faced by organizations. The competitive forces framework sees the strategic problem in terms of industry structure, entry deterrence, and positioning. Resource-based perspectives have focused on the exploitation of firm-specific assets. Each approach asks different, often complementary questions. The approaches discussed are generally considered to be complementary and practitioners must work out which frameworks are appropriate for the problem in hand. Mindless devotion to one approach to the neglect of all others is likely to generate strategic blindspots. Winners in the global marketplace are organizations who can demonstrate timely responsiveness and rapid and flexible product innovation, coupled with the management capability to coordinate and redeploy internal and external competences effectively.