

What is Strategy? (Michael Porter, Harvard Business Review)

1) Operational effectiveness means performing similar activities better than rivals perform them

2) Strategic positioning means performing different activities from rivals or performing similar activities in different ways

Strategy is about combining activities, while Operational Effectiveness is about achieving excellence in individual activities or functions.

As companies move to the **productivity frontier**, they can often improve on multiple dimensions of performance at the same time

Competition based on operational effectiveness alone is mutually destructive

The recent wave of industry consolidation through mergers makes sense in the context of Operational Effectiveness competition but is lacking strategic vision

Competitive Strategy is about being different

The essence of strategy is choosing to perform activities differently than rivals do

Strategic positioning:

- Variety based positioning (product or service)
- Needs based positioning (group of customers)
- Access based positioning (accessibility like geographically or scale)

Strategy is the creation of a unique and valuable position involving a different set of activities

A sustainable strategic position requires trade-offs

Imitation by:

- **Repositioning** (competitor can reposition itself to match the superior performer)
- **Straddling** (The straddler seeks to match the benefits of a successful position while maintaining its existing position. It grafts new features, services or technologies onto the activities it already performs.)

A **strategic position** is **not sustainable** unless there are trade-offs with other positions

3) Trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers.

Trade-offs occur when activities are incompatible

Trade-offs arise from:

- Inconsistencies in image or reputation (credibility, confusion of customers)
- Activities (inflexibilities in machinery, people or systems)
- Limits on internal coordination and control (organisational priorities)

4) Fit drives both competitive advantage and sustainability ; **Fit** locks out imitators by creating a chain that is as strong as its strongest link.

Managers have turned to "core"competencies, "critical" resources and "key" success factors, but fit is a far more central component of competitive advantage

Types of fit:

1. Simple consistency between each activity (function) and the overall strategy (first-order fit)
2. Reinforcing activities (one activity supports the other)
3. Optimization effort (elimination of redundancy, minimization of wasted effort, product design changes to reduce after sales service, end-user training)

The competitive advantage grows out of the entire system of activities

Strategic Positions built on systems of activities are far more sustainable than those built on individual activities

Strategic positions should have a horizon of a decade or more, not of a single planning cycle

The more a company's positioning rests on activity systems with a second- and third-order fit, the more sustainable its advantage will be

What is strategy? Strategy is creating fit among a company's activities. If there is no fit among activities, there is no distinctive strategy and little sustainability

5) Growth trap and the role of leadership

At general management's core is strategy:

- Defining a company's position
- Making trade-offs
- Forging fit among activities

Strategy:

- Communicatie
- Enabling
- Involvement

Strategische dissonantie: de beslissingen die op lagere niveau's worden genomen op basis van de veranderende omgeving sporen niet met de overall strategie

Corporate Strategy

Law of requisite variety: Om te kunnen overleven en succesvol te zijn moet de variëteit van een systeem ten minste even groot zijn als de variëteit van zijn omgeving

Schaarste in organisaties zit hem in de acties, zonder actie geen feedback en dus geen leer cyclus. Reflectie is sensemaking, korte feedback cycles

Planning as Learning (Arie de Geus, Shell)

Institutional learning is the process whereby management teams change their shared mental models of their company, their markets and their competitors

Why are some companies better able to adapt? Pain makes people, living systems and corporations change.

Crisis management, by necessity, becomes autocratic management. The positive characteristic of a crisis is that the decisions are made quick. The other side of that coin is that the implementation is rarely good; many companies fail to survive.

The normal decision process in organisations is a **learning process**, because people change their own mental models and built up a joint model as they talk.

The problem is that the speed of that process is slow,

too slow for a world in **which the ability to learn faster than competitors may be the only sustainable competitive advantage**

Scenario's is a way to trigger institutional learning

The issue is not whether a company will learn, but whether it will learn fast and early

Traps in organisational learning:

- Too often we communicate our information by teaching while teaching is actually one of the least efficient ways to convey knowledge. At best 40%, but mostly 25% of what is taught is received.
- Teaching in a business setting has the disadvantage that teachers must be given authority by their students based on teachers presumed superior understanding.

We can **accelerate institutional learning** by changing the rules managers live by

Why not rely on the natural learning process that occurs whenever a management team meets?

- Most people can deal with only three or four variables at a time and do so through only one or two time iterations.
- People discover that in complex systems cause and effect are separated in time and place
- By using computer models we learn what constitutes relevant information

Learning is not a luxury, it is how companies discover their future

Learning capabilities:

- Understanding complexity
- Reflective conversation
- Creatieve orientatie

What can we learn from older organisations (>50 years old)

- Conservative financing
- Sensitive to environment (outward looking)
- Cohesive and corporate identity (employee identification with company)
- Tolerant (decentralized structures)

Managing for survival is not the same as managing for profit !

Managing for survival: at least once renewal of portfolio ; be in business, not in a business; new business was not initiated from a central point

Various sheets

Schools of thought in strategy

- Evolutionary (ills avoiding, emerging strategies, patterns)
- Rationalistic (Positioning, forecasting, intended strategy)
- Processual (Social process, strategic conversations)

Realized strategy = deliberate strategy (intended strategy – unrealized strategy) + emergent strategy

Scenario's: Understanding of the environment

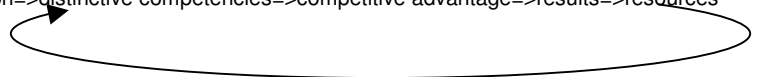
Business idea: Understanding the institution

Three elements of a business idea:

- Competitive advantage nature
- Distinctive competences (reinforcing interaction)
- Growth principle (positive feedback)

The generic business idea : (scarcity; economic value; appropriate uniqueness)

Understanding evolving needs of environment=>entrepreneurial invention=>distinctive competencies=>competitive advantage=>results=>resources



Hallmarks of real distinctiveness:

- Irreversible investments
- Cannot be transferred
- No limits in speeding up investments
- Collective learning and information sharing
- Multiple distinctive competences reinforcing each other
- Create competitive advantage

Fundamental sources of distinctiveness

- Uncodified institutional knowledge (networked people, embedded processes)
- Irreversible investments (specialized assets, legal protection, reputation)

The business rent model:

- Seller's distinctive competencies
 - Buyer's value system
- } Offering (Value)

Uncertainty: Clear trends ; Currently unknown but knowable information ; residual uncertainty

Four levels of uncertainty

- A clear-enough future (forecast)
- Alternate futures (discrete outcomes like decision tree)
- A range of futures (continue range of outcomes based on a limited number of key variables)
- True ambiguity (unpredictable future)

Three strategic postures to deal with uncertainty:

- Shape the future (leadership)
- Adapt to the future (capturing opportunities)
- Reserve the right to play (invest sufficient to stay in the game, but avoid commitments)

Three types of moves are relevant to implement strategy under conditions of uncertainty:

- no regrets move
- options
- big bets

How things hang together:

1. vision
2. mission
3. objectives
4. strategy
5. tactics
6. value proposition
7. execution

Voorwaarden voor Sustainable Competitive Advantage:

- Customer value
- Shareholder value
- Employee value
- Societal value

Test of a valuable resource:

- Inimitable
- Durability
- Appropriability
- Substitutability
- Competitive superiority

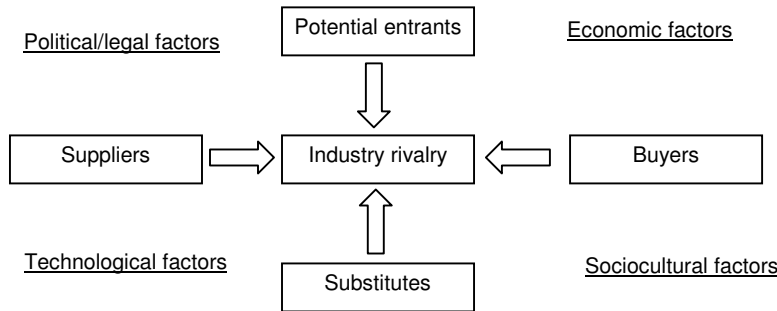
Origins of strategy:

Ansoff	Present mission	Market penetration	Product development
	New Mission	Market development	Diversification
		Present product	New product

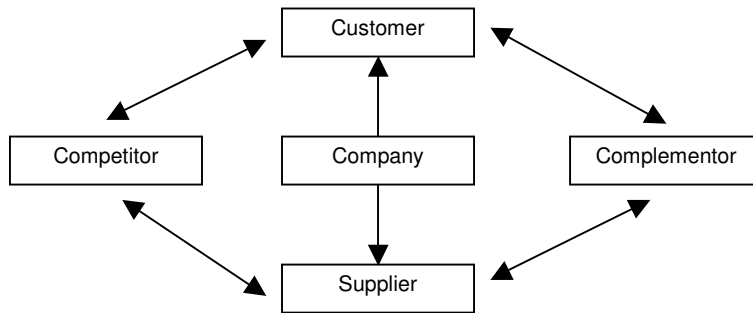
BCG	Growth +	*	?
	Growth -	Cow	Dog
		Share +	Share -

Mapping the business landscape

Porters 5 forces model:



Value Net



Creating competitive advantage:

Profit differences within industries => optimal wedge between cost & differentiation (price)

Analysis:

1. Use activities to analyse relative costs
2. Use activities to analyse relative willingness to pay
3. Explore different strategic options & make choices

In addition: Whole is more than the sum of the parts

Anticipating competitive & cooperative dynamics:

- **Game theory (all act rationally, micro method)**
- **Behavior theory (not rational, sunk cost fallacy, hostility, selective perception; micro method)**

Both theories complement each other ; difficult when large number of competitors

Evolutionary dynamics (macro method)

Four threats to sustainability

