Student Version

PART 1

STRATEGIC MANAGEMENT INPUTS

CHAPTER 3

The Internal Environment: Resources, Capabilities, and Core Competencies

Strategic Management

Competitiveness and Globalization: Concepts and Cases

Seventh edition

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Competitive Advantage

- Firms achieve strategic competitiveness and earn above-average returns when their core competencies are effectively:
  - Acquired.
  - Bundled.
  - Leveraged.
- Over time, the benefits of any value-creating strategy can be duplicated by competitors.

Competitive Advantage (cont'd)

- Sustainability of a competitive advantage is a function of:
  - The rate of core competence obsolescence due to environmental changes.
  - The availability of substitutes for the core competence.
  - The difficulty competitors have in duplicating or imitating the core competence.

The Context of Internal Analysis

- Global Economy
  - Traditional sources of advantages can be overcome by competitors' international strategies and by the flow of resources throughout the global economy.
- Global Mind-Set
  - The ability to study an internal environment in ways that are not dependent on the assumptions of a single country, culture, or context.
- Analysis Outcome
  - Understanding how to leverage the firm's bundle of heterogeneous resources and capabilities.

Creating Value

- By exploiting their core competencies or competitive advantages, firms create value.
- Value is measured by:
  - Product performance characteristics
  - Product attributes for which customers are willing to pay
- Firms create value by innovatively bundling and leveraging their resources and capabilities.
- Superior value → Above-average returns

Creating Competitive Advantage

- Core competencies, in combination with product-market positions, are the firm's most important sources of competitive advantage.
- Core competencies of a firm, in addition to its analysis of its general, industry, and competitor environments, should drive its selection of strategies.

The Challenge of Internal Analysis

- Strategic decisions in terms of the firm's resources, capabilities, and core competencies:
  - Are non-routine.
  - Have ethical implications.
  - Significantly influence the firm's ability to earn above-average returns.

The Challenge of Internal Analysis (cont'd)

- To develop and use core competencies, managers must have:
  - Courage
  - Self-confidence
  - Integrity
  - The capacity to deal with uncertainty and complexity
  - A willingness to hold people (and themselves) accountable for their work

Value Chain Analysis

- Allows the firm to understand the parts of its operations that create value and those that do not.
- A template that firms use to:
  - Understand their cost position.
  - Identify multiple means that might be used to facilitate implementation of a chosen business-level strategy.

Value Chain Analysis (cont'd)

- Primary activities involved with:
  - ➢ A product's physical creation
  - ➢ A product's sale and distribution to buyers
  - ➢ The product's service after the sale
- Support Activities
  - ➢ Provide the assistance necessary for the primary activities to take place.

Value Chain Analysis (cont'd)

- Value Chain
  - Shows how a product moves from the raw-material stage to the final customer.
- To be a source of competitive advantage, a resource or capability must allow the firm:
  - To perform an activity in a manner that is superior to the way competitors perform it, or
  - To perform a value-creating activity that competitors cannot complete

The Value-Creating Potential of Primary Activities

- Inbound Logistics
  - Activities used to receive, store, and disseminate inputs to a product
- Operations
  - Activities necessary to convert the inputs provided by inbound logistics into final product form
- Outbound Logistics
  - Activities involved with collecting, storing, and physically distributing the product to customers

The Value-Creating Potential of Primary Activities (cont'd)

- Marketing and Sales
  - Activities completed to provide the means through which customers can purchase products and to induce them to do so.
- Service
  - Activities designed to enhance or maintain a product's value
- Each activity should be examined relative to competitor's abilities and rated as superior, equivalent or inferior.

The Value-Creating Potential of Primary Activities: Support

- Procurement
  - Activities completed to purchase the inputs needed to produce a firm's products.
- Technological Development
  - Activities completed to improve a firm's product and the processes used to manufacture it.
- Human Resource Management
  - Activities involved with recruiting, hiring, training, developing, and compensating all personnel.

The Value-Creating Potential of Primary Activities: Support (cont'd)

- Firm Infrastructure
  - Activities that support the work of the entire value chain (general management, planning, finance, accounting, legal, government relations, etc.)
    - Effectively and consistently identify external opportunities and threats
    - Identify resources and capabilities
    - Support core competencies
  - Each activity should be examined relative to competitor's abilities and rated as superior, equivalent or inferior.

Outsourcing

- The purchase of a value-creating activity from an external supplier
  - Few organizations possess the resources and capabilities required to achieve competitive superiority in all primary and support activities.
- By performing fewer capabilities:
  - A firm can concentrate on those areas in which it can create value.
  - Specialty suppliers can perform outsourced capabilities more efficiently.

Strategic Rationales for Outsourcing

- Improving business focus
  - Helps a company focus on broader business issues by having outside experts handle various operational details.
- Providing access to world-class capabilities
  - The specialized resources of outsourcing providers makes world-class capabilities available to firms in a wide range of applications.

Strategic Rationales for Outsourcing (cont'd)

- Accelerating re-engineering benefits
  - Achieves re-engineering benefits more quickly by having outsiders—who have already achieved world-class standards—take over process.
- Sharing risks
  - Reduces investment requirements and makes firm more flexible, dynamic and better able to adapt to changing opportunities.
- Freeing resources for other purposes
  - Redirects efforts from non-core activities toward those that serve customers more effectively.

Outsourcing Issues

- Seeking greatest value
  - Outsource only to firms possessing a core competence in terms of performing the primary or supporting the outsourced activity.
- Evaluating resources and capabilities
  - Do not outsource activities in which the firm itself can create and capture value.
- Environmental threats and ongoing tasks
  - Do not outsource primary and support activities that are used to neutralize environmental threats or to complete necessary ongoing organizational tasks.

Outsourcing Issues (cont'd)

- Nonstrategic team resources
  - Do not outsource capabilities critical to the firm's success, even though the capabilities are not actual sources of competitive advantage.
- Firm's knowledge base
  - Do not outsource activities that stimulate the development of new capabilities and competencies.