

## Defining the Organization's Strategic Direction



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### Agenda

- What is strategic direction, and why is it important for a firm to have one?
- How should an organization determine what its strategic direction ought to be?
  - Assessing External Opportunities and Threats
  - Assessing Internal Strengths and Weaknesses
- How can the organization determine its competitive positioning?
- What are the challenges in changing the firm's strategic direction?

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### What is a firm's strategic direction?

- It is the function of the top management team to provide the firm's purpose or "strategic intent."
- The importance of a "mission statement"
  - Communicates "who the firm is" to important stakeholders
    - Customers, Suppliers, Complementors, Rivals
    - Stockholders, Lenders, and Employees too!
- Permits the transforming of abstract goals into a concrete mission with guiding principles for action by the firm
- Examples:
  - Canon → "Beat Xerox"
  - Kodak → "Be the leader in the imaging sector"
  - Coca Cola → "To put a Coke within arms reach consumer in the world."



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### Achieving goals through “operational objectives”

- Kodak: “Be the leader in the imaging sector”
  - Customer focus
  - More rapid new product development
  - Raise manufacturing quality
  - Reduce costs
  - Gain access to critical knowledge through strategic alliances
  - Benchmarking
  - Maintain proprietary technology (e.g., silver halide materials technology)

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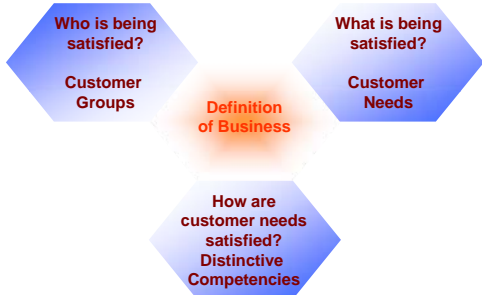
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### Defining the business: the starting point of strategy



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### What is a firm’s strategic direction?

- A coherent technological innovation strategy
  - leverages the firm’s existing competitive position
  - to take advantage of environmental opportunities and
  - provides direction for future development of the firm.

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### SWOT Analysis

- Research has shown that most successful strategies address four aspects of the setting within which a firm operates
  - **S**trengths and **W**eaknesses of the firm's abilities
  - **O**pportunities and **T**hreats within its competitive environment
- SWOT analysis is a useful organizing framework for the **questions** one should ask a firm when choosing a strategy

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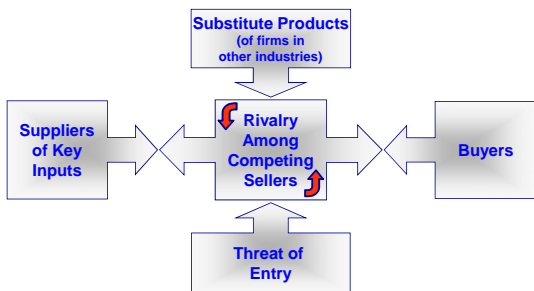
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### Industry Analysis tool kit—Porter's Five Forces Model




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### A sixth force - "complementors"

- Complementors
  - Industry Participants whose businesses enhance the value of yours
  - Opposite of Substitutes
- Examples
  - Computer Manufacturers & Software Makers
  - Consumer Electronics & Entertainment Companies
- The Central Issue
  - How to get "complementors" to make strategic investments which mutually benefit both companies




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## Looking Internally—The Resource based view

- VRIO Framework – A firm achieves SCA when its resources and capabilities are
  - Valuable
  - Rare
  - not easily Imitated
  - Organized to exploit full competitive potential

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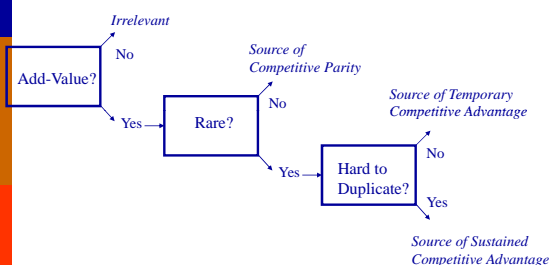
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## When May Resources/Capabilities Provide Competitive Advantage?




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## Core Competencies

- Resources are difficult (or impossible) to imitate when they are:
  - Tacit
  - Path dependent
  - Socially complex
  - Causally ambiguous
- **Core Competencies:** A set of integrated and harmonized abilities that distinguish the firm in the marketplace.
  - Competencies typically combine multiple kinds of abilities.
  - Several core competencies may underlie a business unit.
  - Several business units may draw from same competency.
  - Core competencies should:
    - Be a significant source of competitive differentiation
    - Cover a range of businesses
    - Be hard for competitors to imitate

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### Beware the risk of Core Rigidities...

- Competencies can lead to Rigidities
  - Overcommitment to a core competency can lead to rigidity
  - Incentives and culture may reward current competencies while thwarting development of new competencies.
  - Technological change can cause strengths due to prior coherence to become weaknesses
- **Dynamic capabilities** are competencies that enable the firm to quickly respond to change.
  - E.g., firm may develop a set of abilities that enable it to rapidly deploy new product development teams for a new opportunity; firm may develop competency in working with alliance partners to gain needed resources quickly.

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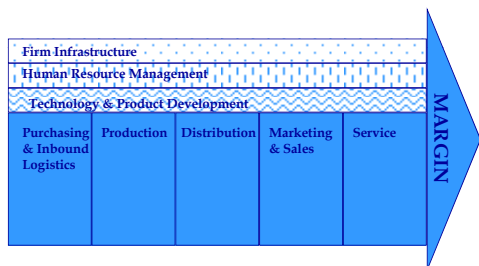
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### Taking Stock of Internal Competencies: Value Chain Analysis

- What Sequence of Activities Are Involved In Creating Value?




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### Determining Sources of SCA through VCA

- Beyond simply using a value chain analysis to "map out" the sequence of activities, we need to do the following:
  - What is the cost structure of each of these activities?
  - How can we differentiate ourselves while performing each of these activities?
  - How do we compare with other competitors in each of these areas?
  - What are our strengths and weaknesses?

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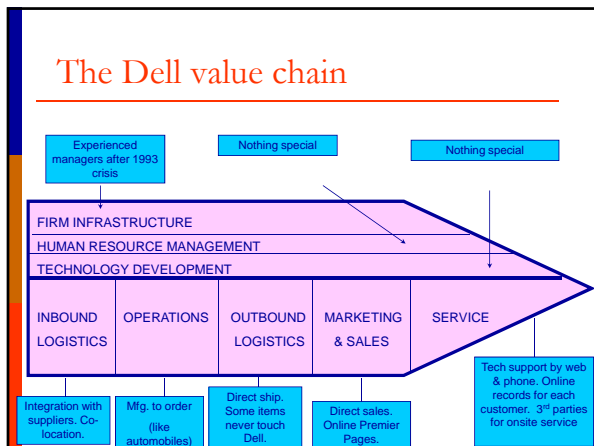
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### In-class activity

- ❑ IBM New Strategic Course Article
- ❑ What is IBM's new strategic mission?
- ❑ Using the information in the article, how would you define IBM's business?
- ❑ Identify 3- 5 key opportunities and threats faced by IBM in year 2001
- ❑ Identify 3-5 key strengths and weaknesses of IBM in year 2001

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### Competitive Positioning

- ❑ Conduct SWOT analysis
  - Identify threats and opportunities (Industry analysis)
  - Identify strengths and weaknesses (Analysis of Resources and Capabilities)
  - Match Strengths and Weaknesses to potential Opportunities and Threats
- ❑ Determine best fit of opportunities and resources
  - Useful to conduct value chain analysis for *both* differentiation and cost savings possibilities
  - Maximize "added value"
- ❑ Make recommendations for competitive positioning and strategic choice

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### The TWOS Matrix

	Strengths (S) List internal strengths here	Weaknesses (W) List internal weaknesses here
Opportunities (O) List external opportunities here	SO Strategies Generate strategies here that use <b>strengths</b> to take <b>advantage of opportunities</b>	WO Strategies Generate strategies here that take <b>advantage of opportunities</b> to <b>overcome weaknesses</b>
Threats (T) List external threats here	ST Strategies Generate strategies here that use <b>strengths</b> to <b>avoid threats</b>	WT Strategies Generate strategies here that minimize <b>weaknesses</b> and <b>avoid threats</b>

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### In-Class Activity



- IBM's new mission
  - E-business on demand is their model of utility computing
- Use the TWOS matrix to map IBM's current strategies
  - Map some recent strategies (actions) as they related to the TWOS matrix

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### The Challenges of Change

- Technological change causes obsolescence
  - Core competencies can become core rigidities
  - Strengths can become weaknesses
- Technological change also opens new opportunities
  - Internal R&D efforts create new possibilities
  - New market potential and unmet demand
- Changing strategic direction can be difficult...
  - Requires a change in "identity"
  - A reconfiguration of existing resources and capabilities
  - Venturing in the unknown
    - Buy-in by crucial stakeholders
    - Battling "inertial" pressures

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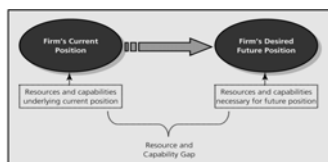
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## Back to the drawing board...

### Defining Strategic Intent

- A long-term goal that is ambitious, builds upon and stretches firm's core competencies, and draws from all levels of the organization.
- Typically looks 10-20 years ahead, establishes clear milestones
- Firm should identify resources and capabilities needed to close gap between strategic intent and current position.

FIGURE 6.6  
Identifying the  
Resource and  
Capability Gap



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## Key Take-aways

- A firm's strategic direction
  - establishes intent and identity
  - mobilizes key stakeholders towards activities that are consistent with its mission
- SWOT framework enables asking the right questions, and undertaking the analysis for determining the firm's strategic direction
- A firm's competitive positioning takes into account strategies that create the best match of its internal capabilities to the external environment
- Change can be difficult, since it renders core competencies obsolete, and requires the firm to go back to the drawing board.

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