Introduction to strategy

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We can always learn from history
Introduction: do smarter strategic choices!

• Competitive advantages are based on
  – product and/or
  – process

• “Sustainable competitive advantages” are challenged due to
  • Globalisation
  • Technology development
  • Deregulation

• Consequence: strategy development is challenged
Implications

«Unless today’s established corporations learn to reinvent themselves and their industries, much of the new wealth will be created by newcomers.»

Gary Hamel (1997)
Strategy for the incumbents
- stay on track or turn before it’s too late
Strategy for the entrepreneurs: new customers, new needs and new solutions
Different focus in different contexts

- **SMB**: growth
- **Large, multinational**: complexity
- **Professional partnership**: individualism
- **Non governmental organisation**: strong values
- **Public sector**: the political dimension
Introduction – focus and process

- **Two typical starting points for strategic choice**
  - *Visionary front runner* (proactive) → e.g. Google
  - *Copy of competitors* (reactive) → e.g. Microsoft

- **Ideally an analytical, sequential process:**
  - Internal analysis
  - External analysis
  - Strategy alternatives
  - Evaluation
    - Realism
    - Feasibility
    - Accept
  - Implementation

(But this is not always the situation!)
Task: ”strategic”

• What makes a choice ”strategic”?  

• What are the key success factors for an effective strategy process?
Introduction (ctd.)

• What choices are really "strategic"?

"Long term planning"
- Lang term
- Irreversible
- Resource allocation
- Risky

“Important”
- Involves top management
- Urgent
- Limited information flow
- Involves consultants

• What are the threats against a good strategy process?
  – *External*: complexity and information access
  – *Internal*: guts and time pressure
What is Strategy?

• Origin-Greek word (strategos)-art of the general
  – Sun Tzu, Chinese military strategist in 500 B.C.
  – Modern-day application to business and competition dates to the 1960s

• Plan versus Action - strategy is “explicit, rigorous formal planning” versus “a set of flexible, goal-oriented actions”

• Strategy as Theory-how to compete successfully
  ➢ Firms have both intended and emergent strategies
  ➢ One firm’s strategies may not work in all situations
  ➢ Past success does not guarantee future success
  ➢ It is often difficult to change strategy
Fundamental Questions in Strategy

• Why do firms differ?
  ➢ Cultural differences between Western firms and Japanese companies
  ➢ Networks of relationships have powerful effect

• How do firms behave?
  ➢ Industry-based view - focus on competitive forces within an industry that impact all firms
  ➢ Resource-based (capabilities) view - focus on internal strengths and weaknesses, firm specific resources and capabilities
  ➢ Institution-based view - focus on government and societal forces
Global Strategy and Globalization at a Crossroads

• Three Defining Events - have brought corporate social responsibility, ethics, and governance to the forefront of strategic decisions

  ➢ Anti-globalization protests
    - lost jobs, downward pressure on wages for unskilled labor, environmental destruction

  ➢ Terrorist attacks
    - 9/11, Madrid, London

  ➢ Corporate governance crisis
    - industrial financial crisis, U.S. scandals, EU
The “Strategy Tripod”
Three Leading Perspectives on Strategy

- Industry-based competition
- Firm-specific resources and capabilities
- Institutional conditions and transitions

Strategy

Performance
The Essence of Strategy

Diagram:
- Performance vs. Time
- Point A: Where are we?
- Intended strategy
- Where must we be?: Point B
- Unrealized strategy
- Emergent strategy
Starting point: “where are we?” (aka SWOT)

Internal analysis

- **S**trengths
- **W**eaknesses

External analysis

- **O**pportunities
- **T**hreats

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Resource based models of competitive advantage

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Environmental models of competitive advantage

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Environmental model...

Michael Porter’s five forces give us an idea of how to analyze competition...
Resource-based model...

- Firm Resource Heterogeneity
- Firm Resource Immobility

Value
Rareness
Imperfect Imitability
Non-Substitutability

Sustained Competitive Advantage
Institution based Considerations

In addition to the resource based and industry based considerations, we need to address both the *formal* and *informal* institutions...
Institution based considerations

• Institutions affect business decisions by signalling what behaviour that is acceptable (Peng 2009)

• The institutional framework consists of
  – The *formal institutions*, e.g. political laws and rules, and economic contracts
  – *The informal institutions* are the social norms for behaviour in a society that are fundamental for cultural and ethical conditions
Music streaming is the future
It creates an optimal user experience – a fun one!

• Access to a library of **ALL music** in the world – ever recorded
• Fixed-fee **rental model** - no need to own music
• Users **explores new music** in a totally different way – no need to decide to buy a track or album
• **Accessible** from all connected devices – PC, mobile, TV, home stereos,++
• **Offline-mode** – play music when not online
• **Sharing** of music online gets a new dimension

More people will play more music than ever before
Task

How do you predict that the music industry will develop in the next three to five years?
Music will become interactive and multimedia

When music meets the interactive screens, music will become an interactive multimedia experience:

- Music videos
- More multimedia content: images, interactive presentations, etc.
- Background info: bios, lyrics, etc.
- Interaction between artist and their fans
- Live concerts and simultaneous music listening
- Ticketing
Task

The concept “business model” is frequently used in strategy processes. What is a “business model”?
Task: “everything gets free, and (some) people are loosing their jobs”

- Dagbladet is in “dire straits”
  - Dagbladet is loosing readers and revenues from advertisers at an increasing speed
  - Digital content is becoming increasingly popular among consumers, but Dagbladets revenues from digital content are small

- Do a “SWOT” for Dagbladet
  - At least 5 Ss, Ws, Os and Ts
  - Prioritize down to 2 of each

- Suggest two-three strategic directions Dagbladet could follow towards 2016
  - Offensive
  - Defensive
  - (Realistic)