Sessions 1 & 2

- **Introduction to Strategic Management**
    - Introduction to Strategic Management
    - Evolution of Strategic Thinking - Views of Eminent Thinkers
    - Strategic vs. Operational Management
    - Strategic Management Process
    - Levels of Strategy (Corporate, Business, Functional)

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.

What is strategy & why is it needed?

Definition

"Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it." ---- Henderson, 1989

For a variety of reasons, many companies have underdeveloped strategies. Sometimes an underdeveloped strategy is effective — a single spectacular idea can carry a business a long way, even without an explicitly stated strategy.

Competitive Positioning

Where to compete:

- Markets (e.g., customer segmentation and targeting; market share targets)
- Products (especially portfolio life cycle management and margin targets)
- Channels (e.g., value-added channel, e-commerce)

How to compete:

- Industry value chain (e.g., supplier strategy; company domain; channel strategy)
- Financial structure (e.g., cash flow strategy)

Internal Capabilities

- Culture (i.e., set of beliefs held by the people of the company about the company)
- Core processes (i.e., central set of linked work activities performed by the company to create value)
- People, capital, technology (i.e., the company's fundamental resources)
- Systems and technology (especially customer understanding, decision support, performance measurement and other information-based systems)

- Organization structure

Foundation of Strategy

In 1934, Prof. G. S. Gause of Moscow University, known as 'the father of mathematical biology' has published result of his experiment.

Result: Gause's Principle of **"Competitive Exclusion" (**two species that compete for the exact same resources cannot stably coexist) However, for millions of years competitors survived. How? Darwinian natural selection (based on adaptation and the survival of the fittest)

"Evolution determines who survives and who is crowded out" --- Henderson D. Bruce, 1989

Some are crowded out naturally, some by the competitors and some suicide. Reason: if every business could grow indefinitely, the total market would grow to an indefinite size on a finite earth.

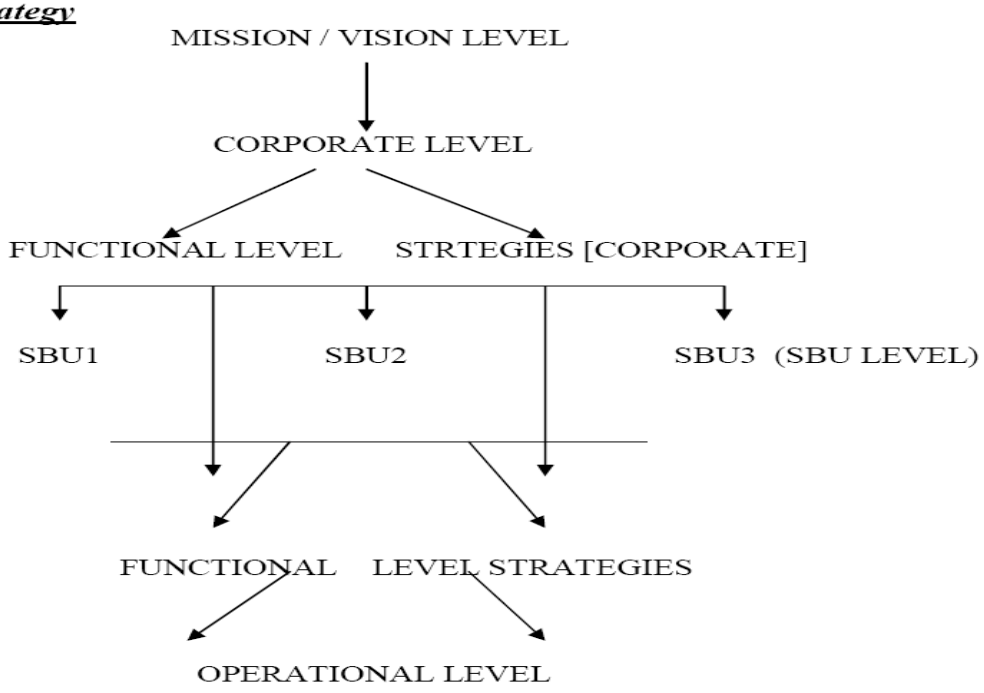
Strategic Management Process

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation.

- Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover
- Strategy implementation often is called the "action stage" of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action.
- Strategy evaluation is the final stage in strategic management. Three fundamental strategy-evaluation activities are
    - (1) reviewing external and internal factors that are the bases for current strategies,
    - (2) measuring performance, and
    - (3) taking corrective actions.

Levels of strategy

Levels of Strategy



Session 3

- **The Strategic Position**
  Porters 5 Forces Model

SESSION 4

PESTEL Analysis

PESTEL is an acronym where the letters stand for Political, Economic, Social, Technological, Environmental and Legal. This framework helps to keep track of all the changes happening in the environment.

Factors of PESTEL Analysis

1] Political

These include factors that affect the extent to which the government has an impact on the economy of a country. For example, the laws, taxation policies, monetary policies, etc are all a part of the political environment.

2] Economic

Economic factors have a huge effect on the firm and its success. Some of the factors to consider when monitoring the economic environment are as follows:

Economic growth, Inflation rates, Unemployment Rates, Current Interest Rates prevailing in the economy, important factors of the specific industry, Consumer Spending potential

3] Social

Everything that goes on in a society greatly affects the organisation. Therefore, it is important to analyse social factors while studying the social environment. For example,

Demographics of the market, Consumer Buying Patterns, Religious and Cultural factors, etc

4] Technological

The changes in the technological environment can be either an opportunity or a threat to the firm. Hence, some technological factors to look for are: New production technology, manufacturing technology (increase in output, lowering of production cost, etc, new innovations, intellectual Property, Patents, etc, Maturity of technology

5] Environmental

These factors affect industries and their ability to function smoothly. For example, such factors are:

Environmental Issues, Energy/Power Consumption, Safe Waste Disposal, Dealing with hazardous material

6] Legal: Business Laws, Environment Laws and guides

- Health and safety guidelines, International Trade Agreements and TreatiesRegional/Local Laws and Circulars

STRATEGIC GAP

Strategy Management bridges the gap between an organization's Strategy Execution and Performance Management.

SESSION 5

SWOT

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, Threats.

Strengths	Weaknesses
	● Gaps in capabilities
● Capabilities	● Lack of competitive strength
● Competitive advantages	● Reputation
● USP's (unique selling points	● Financials
● Resources, Assets, People	● Cash flow
● Experience, knowledge, data	● Supply chain robustness?
● Financial reserves, likely returns	● Effects on core activities, distraction
● Marketing - reach, distribution,	● Reliability of data
● Innovative aspects	● Morale, commitment, leadership
● Locational advantage	● Accreditations, etc
● Price, value, quality	● Processes and systems, etc
● Accreditations, certifications	
● Processes, system	

Opportunities	Threats
• Market developments	• Political effects
• Competitors' vulnerabilities	• Legislative effects
• Industry or lifestyle trends	• Environmental effects
• Technology development and innovation	• IT developments?
• Global influences	• Competitor intentions/actions
• New markets	• Market demand
• Market need for new USP's	• New technologies, services, ideas
• Major contracts, tenders	• Employment market
• Business and product development	• Financial and credit pressures
• Market volume demand trends	• State of Economy

Strengths and Weaknesses are considered internal factors which are under the control of the company. A On the other hand Opportunities and Threats would be categorized as external factors on which the company has practically no control . This is why SWOT analysis is also referred to as Internal-External Analysis.

INTERNATIONAL BUSINESS ENVIRONMENT

The factors in the international business environment which have considerable impact on the functioning and viability of an organization are

1. Tariff Barriers -

Tariff barriers are in the form of taxes and duties imposed on imports. **2. Administrative Policies –** Bureaucratic rules or administrative procedures often make international business very difficult. Some countries have very lengthy formalities that exporters and importers have to deal with. **Considerable Diversities -**

Different countries have their own definite culture. They pose special problems for international marketers. Global customers exhibit considerable cultural and social diversities in term of needs, preferences, habits, languages, expectations, buying capacities, buying and consumption patterns. **4. Political Instability -**

Different political systems , different economics systems and political instability pose real challenges in the international markets. Political atmosphere in different courtiers have to be adjusted to.

5. Place Constraint – Trade in foreign countries which are very far off poses a lot of practically difficulty. This is more so in case of delicate and perishable products.

6. Variations in Exchange Rates - Currencies are traded every day and rates keep changing .Value of the Indian Rupee, European Dollar, US Dollar, Japanese Yen, etc., appreciate or are discounted . This impacts international business

7. Norms and Ethics Challenges - Ethics refers to moral principles, standards, norms of conduct that govern the behaviour of individuals and companies.

<u>SESSION 6</u>

Hofstede identified six dimensions that define culture:

1. Power Distance Index 2. Collectivism vs. Individualism 3. Uncertainty Avoidance Index 4. Femininity vs. Masculinity 5. Short-Term vs. Long-Term Orientation 6. Restraint vs. Indulgence

Power Distance Index

- High power distance index indicates that a culture accepts inequity and power differences, encourages bureaucracy, and shows high respect for rank and authority.

Individualism vs. Collectivism

Individualism indicates that there is a greater importance placed on attaining personal goals. A person's self-image in this category is defined as "I." Collectivism indicates that there is a greater importance placed on the goals and well-being of the group. A person's self-image in this category is defined as "We".

Uncertainty Avoidance Index

A high uncertainty avoidance index indicates a low tolerance for uncertainty, ambiguity, and risk-taking. The unknown is minimized through strict rules, regulations, etc. A low uncertainty avoidance index indicates a high tolerance for uncertainty, ambiguity, and risk-taking. The unknown is more openly accepted, and there are lax rules, regulations, etc.

Masculinity vs. Femininity: The masculinity vs. femininity dimension is also referred to as "tough vs. tender," and considers the preference of society for achievement, attitude towards sexuality equality, behavior, etc.

Long-Term Orientation vs. Short-Term Orientation

The long-term orientation vs. short-term orientation dimension considers the extent to which society views its time horizon.

Indulgence vs. Restraint

The indulgence vs. restraint dimension considers the extent and tendency for a society to fulfill its desires. In other words, this dimension revolves around how societies can control their impulses and desires.

SESSION 7

Organizational Purposes

The Purpose of an organization is the fundamental reason why the organization exists.

The Purpose of an organization is not the answer to the question "What do you do?" This typically focuses on products, services and customers. To clarify, it should answer the question "Why is the work you do important?"

A higher purpose is not about economic exchanges. It reflects something more aspirational. It explains how the people involved with an organization are making a difference, gives them a sense of meaning, and draws their support.

A leader's most important job is "to connect the people to their purpose."

Stakeholder Mapping

In defining strategic purpose, it is useful to identify and categorise all the various stakeholders. Stakeholder mapping identifies stakeholder interest and power and helps in understanding political priorities. The focus is on the power different stakeholders have to influence strategy and the interest each stakeholder has in particular issues. These two dimensions form the basis of the power/interest matrix. The matrix classifies stakeholders in relation to the power they hold and the extent to which they are likely to show interest in supporting or opposing a particular strategy.

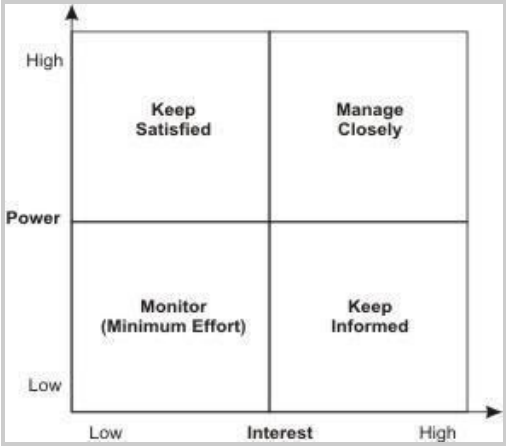
The two types of stakeholders: Whether you are planning a major product launch or kicking off an internal program that mostly affects your team, it's important to understand the different types of stakeholders. Each product or project has internal and external stakeholders, and drawing a clear line between the two will help you set the right priorities and find the approach that works for your specific situation.

Internal stakeholders: Internal stakeholders are people on your team who are participating in building your product or delivering a project. Their level of engagement may vary but they all have an influence because they are a part of your organization.

External stakeholders

External stakeholders are those who will be impacted by your project and product, though they don't directly participate in working on it.

Stakeholder Mapping:



Mission: Why we exist

Vision: What future we want to create

Values: what is important to us

SESSION 8

Critical Success Factors

Critical Success Factors, or CSFs, are indicators for opportunities, activities or conditions required to achieve an objective within a project or mission. Critical Success Factors (CSF) differ per organisation and reflect current and future objectives. Whether it concerns a bar, an insurance agency or contractor, it's essential that the course of action is coordinated with those aspects that help the organisation fulfil its mission. These key variables often have a huge impact on the degree to which a company is successful and effective in reaching strategic goals within the mission and are crucial in gaining a competitive advantage.

Critical Success Factors (CSF) arise from five important sources or areas that influence an organisation. These areas differ from each other, given that different situations lead to different Critical Success Factors (CSF). Rockart and Bullen have written about the following five most important sources of CSF:

Industry Critical Success Factors

These factors are dependent upon the specific industry characteristics. It's important that the organisation continues to monitor these factors to be able to compete in the market. For instance, a chemical company demands specific technology and a clothing producer absolutely requires cotton. These Critical Success Factors (CSF) may influence all competitors within a specific industry, but could also affect individual organisations.

Competitive Strategy and Industry Position CSF

Not all companies in a specific industry have the same Critical Success Factors (CSF). The current position and development phase impact which Critical Success Factors (CSF) are created, as well as the available means and capacities. In addition to an organisation's total value, the demographic and other factors, each management will create different Critical Success Factors (CSF).

Environmental Factors Critical Success Factors (CSF)

The external environment of an organisation largely determines the design of the Critical Success Factors (CSF). A PEST analysis can be used to analyse this external environment. These political, economic, social and technological factors create CSFs for every company. The organisation isn't always able to influence these macro-environmental factors, but these must certainly be considered. Managers who work in production, for instance, must be able to guarantee quality and keep sufficient stock.

Management Critical Success Factors (CSF)

Individual or relatively small aspects within organisations may also lead to new CSFs. When certain responsibilities within a management position are considered to be crucial for an organisation's performance as a whole, this must be closely monitored and measured.

Temporary Factors Critical Success Factors (CSF)

Temporary factors are linked to short-term situations. Although these factors can be important, they are usually not long-lasting. Temporary or one-time factors are often the result of a certain event. When an organisation expands into a new market, for instance on another continent, the CSF may concern expanding and recruiting new capable management.

Things that are measured are carried out more often than things that aren't measured. Each Critical Success Factor (CSF) must be measurable and linked, or be related to a specific company goal

Experience Curve

The concept behind the Experience Curve is that the more experience a business has in producing a particular product, the lower its costs.

The Experience Curve concept was devised by the Boston Consulting Group.

From BCG's research into a major manufacturer of semiconductors, they found that the unit cost of manufacturing fell by about 25% for each doubling of the volume that it produced.

SESSION 9

Strategic Capability

strategic capabilities are the capabilities of an organisation that contribute to its long-term survival or competitive advantage. However, to understand and to manage strategic capability it is necessary to explain its components and the characteristics of those components.

Resources and competences

There are two components of strategic capability: resources and competences. Resources are the assets that organizations have or can call upon and competences are the ways those assets are used or deployed effectively. A shorthand way of thinking of this is that resources are 'what we have ' (nouns) and competences are 'what we do well ' (verbs). Other terms are common and 'capabilities' and 'competences' are sometimes used interchangeably. For example, Gary Hamel and C.K. Prahalad refer to core competences and many writers use the term intangible assets as an umbrella term to include competences and capabilities as well as intangible resources such as brands. Typically all strategic capabilities have elements of both resources and competences. Resources are certainly important, but how an organisation employs and deploys its resources matters at least as much.

Dynamic capabilities

If they are to provide a basis for long-term success, strategic capabilities cannot be static; they need to change. University of Berkeley economist David Teece has introduced the concept of dynamic capabilities, by which he means an organization's ability to renew and recreate its strategic capabilities to meet the needs of changing environments. He argues that the capabilities that are necessary for efficient operations, like owning certain tangible assets, controlling costs, maintaining quality, optimizing inventories, etc., are unlikely to be sufficient for sustaining superior performance. Teece suggests the following three generic types of dynamic capabilities:

● Sensing: Sensing implies that organizations must constantly scan, search and explore opportunities across various markets and technologies. Research and development and investigating customer needs are typical sensing activities. For example, companies in the PC operating systems industry, like Microsoft, have clearly sensed the opportunities in and threats from tablets and smart phones.

● Seizing: Once an opportunity is sensed it must be seized and addressed through new products or services, processes, activities etc. Microsoft, for example, has started to seize opportunities by developing its own tablet device and software and by acquiring the mobile company Nokia.

● Reconfiguring: To seize an opportunity may require renewal and reconfiguration of organizational capabilities and investments in technologies, manufacturing, markets, etc. For example, Microsoft's inroad into tablets and smart phones requires major changes in its current strategic capabilities. The company must discard some of its old capabilities, acquire and build new ones and recombine them.

Resources

As explained above, distinctive capabilities are necessary for sustainable competitive advantage and superior economic performance. This section considers four key criteria by which capabilities can be assessed in terms of their providing a basis for achieving such competitive advantage: value, rarity, inimitability and organizational support – or VRIO.

V – Value of strategic capabilities

Strategic capabilities are valuable when they create a product or a service that is of value to customers and if, and only if, they generate higher revenues or lower costs or both. There are three components here: ● Taking advantage of opportunities and neutralizing threats : the most fundamental issue is that to be valuable capabilities need to provide the potential to address the opportunities and threats that arise in the organizations' environment, which points to an important complementarity with the external environment of an organisation. Capabilities are valuable if they address opportunities and/or threats and generate higher revenues or lower costs or both compared to if the organisation did not have those capabilities. For example, IKEA's cost-conscious culture, size and its intricate configuration of interlinked activities lower its costs compared to competitors and addresses opportunities of low-priced furniture that competitors do not attend to. ● Value to customers: it may seem an obvious point to make that capabilities need to be of value to customers, but in practice it is often ignored or poorly understood. For example, managers may seek to build on capabilities that they may see as valuable but which do not meet customers' critical success factors. Or they may see a distinctive capability as of value simply because it is distinctive, although it may not be valued by customers. Having capabilities that are different from other organisations' is not, of itself, a basis of competitive advantage. ● Cost : the product or service needs to be provided at a cost that still allows the organisation to make the returns expected of it. The danger is that the cost of developing or acquiring the capabilities to deliver what customers especially value is such that products or services are not profitable. Managers should therefore consider carefully which of their organisation's activities are especially important in providing such value and which are of less value.

R – rarity

Capabilities that are valuable, but common among competitors, are unlikely to be a source of competitive advantage. If competitors have similar capabilities they can respond quickly to the strategic initiative of a rival. This has happened in competition between car manufacturers as they have sought to add more accessories and gadgets to cars. As soon as it becomes evident that these are valued by customers, they are introduced widely by competitors who typically have access to the same technology. Rare capabilities , on the other hand, are those possessed uniquely by one organisation or by a few others. Here competitive advantage is longer-lasting. For example, a company can have patented products or services that give it advantage. Service organisations may have rare resources in the form of intellectual capital – perhaps particularly talented individuals. Some libraries have unique collections of books unavailable elsewhere; a company can have a powerful brand; or retail stores can have prime locations. In terms of competences, organisations can have unique skills developed over time or have built special relationships with customers or suppliers not widely possessed by competitors. However, it can

be dangerous to assume that resources and capabilities that are rare will remain so. So it may be necessary to consider other bases of sustainability.

I – inimitability

It should be clear by now that the search for strategic capability that provides sustainable competitive advantage is not straightforward. Having capabilities that are valuable to customers and relatively rare is important, but this may not be enough. Sustainable competitive advantage also involves identifying inimitable capabilities – those that competitors find difficult and costly to imitate or obtain or substitute. (1)Complexity

The capabilities of an organisation can be difficult to imitate because they are complex and involve interlinkages. This may be for two main reasons: ● Internal linkages . There may be linked activities and processes that, together, deliver customer value. However, even if a competitor possessed such a capabilities map, it is unlikely that it would be able to replicate the sort of complexity it represents because of the numerous interactions between tightly knit activities and decisions. This is not only because of the complexity itself but because, very likely, it has developed on the basis of custom and practice built up over years and is specific to the organisation concerned. For example, companies like IKEA and Ryanair still enjoy competitive advantages despite the availability of countless case studies, articles and reports on their successes. ● External interconnectedness . Organisations can make it difficult for others to imitate or obtain their bases of competitive advantage by developing activities together with customers or partners such that they become dependent on them. This is sometimes referred to as co-specialisation . For example, an industrial lubricants business moved away from just selling its products to customers by coming to an agreement with them to manage the applications of lubricants within the customers' sites against agreed targets on cost savings. The more efficient the use of lubricants, the more both parties benefited.

(2)Causal ambiguity

Another reason why capabilities might be difficult and costly to imitate is that competitors find it difficult to discern the causes and effects underpinning an organisation's advantage. This is called causal ambiguity
(3)Culture and history

Competences that involve complex social interactions and interpersonal relations within an organisation can be difficult and costly for competitors to imitate systematically and manage. For example, competences can become embedded in an organisation's culture.

<u>Core Competence</u>

A **core competency** is a concept in management theory introduced by CK Prahalad and Gary Hamel. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace" and therefore are the foundation of companies' competitiveness.

Core competencies fulfill three criteria.

1. Provides potential access to a wide variety of markets.
2. Should make a significant contribution to the perceived customer benefits of the end product.
3. Difficult to imitate by competitors.

2. For example, a company's core competencies may include precision mechanics, fine optics, and micro-electronics. These help it build cameras, but may also be useful in making other products that require these competencies.

3. A core competency results from a specific set of skills or production techniques that deliver additional value to the customer. These enable an organization to access a wide variety of markets.

4. In a 1990 article titled "The Core Competence of the Corporation", C. K. Prahalad and Gary Hamel illustrated that core competencies lead to the development of core products, which can further be used to build many other products for end users. Core competencies are developed through the process of continuous improvements over the period of time rather than a single large change. To succeed in an emerging global market, it is more important and required to build core competencies rather than to do vertical integration. For example, NEC utilized its portfolio of core competencies to dominate the semiconductor, telecommunications, and consumer electronics market.

5. The use and understanding of the concept of core competences can be very important to enterprises. They can use core competences in order to excel at the contrivance of core products. Enterprises could also use core competences to raise the values of customers and stakeholders.

6. Alexander and Martin (2013) state that the competitiveness of a company is based on the ability to develop core competences. A core competence is, for example, a specialised knowledge, technique, or skill. The core capability is the management ability to develop, out of the core competences, core products and new business. Competence building is, therefore, an outcome of strategic architecture which must be enforced by top management in order to exploit its full capacity.

7. Importantly, according to C. K. Prahalad and Gary Hamel (1990) definition, core competencies are the "collective learning across the corporation". They can, therefore, not be applied to the SBU (Strategic Business Unit) and represent resource combination steered from the corporate level. Because the term "core competence" is often confused with "something a company is particularly good at", some caution should be taken not to dilute the original meaning.

8. In Competing for the Future, the authors C. K. Prahalad and Gary Hamel show how executives can develop the industry foresight necessary to adapt to industry changes and discover ways of controlling resources that will enable the company to attain goals despite any constraints. Executives should develop a point of view on which core competencies can be built for the future to revitalize the process of new business creation. Developing an independent point of view of tomorrow's opportunities and building capabilities that exploit them is the key to future industry leadership.

9. For an organization to be competitive, it needs not only tangible resources but intangible resources like core competences that are difficult and challenging to achieve. It is critical to manage and enhance the competences in response to industry changes in the future. For example, Microsoft has expertise in many IT based innovations where, for a variety of reasons, it is difficult for competitors to replicate or compete with Microsoft's core competences.

10. In a race to achieve cost cutting, quality, and productivity, most executives do not spend their time developing a corporate view of the future because this exercise demands high intellectual energy and commitment. The difficult questions may challenge their own ability to view the future opportunities but an attempt to find their answers will lead towards organizational benefits.

11. Core competencies and product development

12. Core competencies are related to a firm's product portfolio via core products. Prahalad and Hamel (1990) defined core competencies as the engines for the development of core products and services. Competencies are the roots of which the corporation grows, like a tree whose fruit are end products.

13. Core products contribute "to the competitiveness of a wide range of end products. They are the physical embodiment of core competencies. Approaches for identifying product portfolios with respect to core competencies and vice versa have been developed in recent years. One approach for identifying core competencies with respect to a product portfolio has been proposed by Danilovic & Leisner (2007). They use design structure matrices for mapping competencies to specific products in the product portfolio. Using their approach, clusters of competencies can be aggregated to core competencies. Bonjour & Micaelli (2010) introduced a similar method for assessing how far a company has achieved its development of core competencies. More recently Hein et al. link core competencies to Christensen's concept of capabilities, which is defined as resources, processes, and priorities. Furthermore, they present a method to evaluate different product architectures with respect to their contribution to the

SESSION 10

Competition View of Strategy VS RBV

The Competition View of Strategy uses Positioning to get Competitive Advantage. Strategy becomes a search for Strategic Fit with the business environment. In this case, Porter's 5 Forces is the approach recommended.

On the other hand, the Resource Based View (RBV) uses Core Competencies to get Competitive Advantage. The company's distinctive capabilities give Competitive Advantage. In this case, VRIO Analysis (given above) is the approach recommended.

Resource-Based View researchers focus on internal context, looking for the unique characteristics of each organisation. According to the resource-based view, the economic analysis of market imperfections, the psychological analysis of perceptual or emotional biases, and the sociological analysis of organisational cultures should reveal the particular characteristics (resources) that contribute to an organisation's specific competitive advantages and disadvantages.

There are two key concepts. The first is that organisations are not identical, but have different capabilities; they are 'heterogeneous' in this respect. The second is that it can be difficult for one organisation to obtain or copy the capabilities of another. The implication for managers is that they need to understand how their organisations are different from their rivals in ways that may be the basis of achieving competitive advantage and superior performance. These concepts underlie what has become

known as the resource-based view (RBV) of strategy (sometimes labelled the 'capabilities view') pioneered by Jay Barney at Ohio State University: that the competitive advantage and superior performance of an organisation are explained by the distinctiveness of its capabilities . Resource – or capabilities – views have become very influential, but it should be borne in mind that while the terminology and concepts employed here align with these views, you will find different terminology used elsewhere.

How useful is the resource-based view? Although the resource-based view (RBV) of strategy has been highly influential during the last couple of decades it has been questioned by some academics. Three recurring critiques have been considered as particularly damaging: 1- The risk of tautology. The underlying explanation of RBV is that the resource or capability characteristics that lead to competitive advantage are those that are valuable and rare. Richard Priem and John Butler argue that since competitive advantage is defined in terms of value and rarity this verges on tautology. To say that a business performs better than another because it has superior resources or is better at some things than other businesses is not helpful unless it is possible to be specific about what resources are important, why and how they can be managed. 2- The lack of specificity. A second and related critique centres on RBV's axiomatic definitions and that resources are not specified. The definitions of resources have been overly inclusive and can include virtually every asset of a firm. However, if everything can be a resource, nothing strategically useful can be associated with the firm that is not a resource. The specifics of resources and capabilities have, however, rarely been defined in RBV. Priem and Butler suggest this is particularly so with regard to the argued importance of tacit knowledge in bestowing competitive advantage: 'This may be descriptively correct, but it is likely to be quite difficult for practitioners to effectively manipulate that which is inherently unknowable.' Others agree that RBV has to come to grips with this as 'the practical assessment and valuation of resources involve subjectivism, knowledge creation and entrepreneurial judgement' (Kraaijenbrink et al.), something RBV largely ignores. 3- The lack of dynamics. Critics argue that RBV may only hold in relatively stable conditions where 'the rules of the game' in an industry remain relatively fixed. In more unpredictable environments the value of resources can easily and quickly diminish. Also, to keep up with dynamic environments resources must change, but RBV does not explain the origins of resources that provide for competitive advantage. Jay Barney, one of the main proponents of the RBV, rejects most of the critique above even if he admits that we need to know more about how resources provide for sustainable competitive advantage: 1- Barney defends the view's practical value as it emphasises that managers must identify, evaluate and develop critical resources even if RBV does not specify exactly how. According to him, many strategy theories becomes tautological if restated in the way the RBV critics do and many of them are of a descriptive rather than prescriptive type in their early stages. Although he does not agree with the tautology critique, he concurs that the value of resources has to be exogenously determined on a market. 2- Barney admits that resources are defined to be all inclusive, but he rejects that this lowers RBV's managerial relevance. On the contrary, he argues, this enhances its applicability. According to him, it is not possible to provide a comprehensive list of all resources that provides sustained competitive advantages. What RBV does is to clearly define the specific attributes required and then managers can apply this logic when evaluating and developing resources. 3- RBV proponents argue that, contrary to the dynamics critique, the view explicitly acknowledges that changes in environmental conditions might

undermine the competitive advantage of a particular resource. Barney admits, however, that dynamic issues of resource change and creation are not covered by RBV and that it needs to be integrated with the dynamic capabilities approach.

Value Chain Analysis

The value chain describes the categories of activities within an organisation which, together, create a product or service. Most organisations are also part of a wider value system, the set of inter-organisational links and relationships that are necessary to create a product or service. Both are useful in understanding the strategic position of an organisation and where valuable strategic capabilities reside. The value chain If organisations are to achieve competitive advantage by delivering value to customers, managers need to understand which activities their organisation undertakes that are especially important in creating that value and which are not. This can then be used to model the value generation of an organisation. The important point is that the concept of the value chain invites the strategist to think of an organisation in terms of sets of activities. There are different frameworks for considering these categories. Primary activities are directly concerned with the creation or delivery of a product or service. For example, for a manufacturing business:

● Inbound logistics are activities concerned with receiving, storing and distributing inputs to the product or service including materials handling, stock control, transport, etc. ● Operations transform these inputs into the final product or service: machining, packaging, assembly, testing, etc.

● Outbound logistics collect, store and distribute the product or service to customers; for example, warehousing, materials handling, distribution, etc. ● Marketing and sales provide the means whereby consumers or users are made aware of the product or service and are able to purchase it. This includes sales administration, advertising and selling. ● Service includes those activities that enhance or maintain the value of a product or service, such as installation, repair, training and spares. Each of these groups of primary activities is linked to support activities which help to improve the effectiveness or efficiency of primary activities: ● Procurement . Processes that occur in many parts of the organisation for acquiring the various resource inputs to the primary activities. These can be vitally important in achieving scale advantages. So, for example, many large consumer goods companies with multiple businesses none the less procure advertising centrally. ● Technology development . All value activities have a ‘technology’, even if it is just know-how. Technologies may be concerned directly with a product (e.g. R&D, product design) or with processes (e.g. process development) or with a particular resource (e.g. raw materials improvements). ● Human resource management . This transcends all primary activities and is concerned with recruiting, managing, training, developing and rewarding people within the organisation.

● Infrastructure . The formal systems of planning, finance, quality control, information management and the structure of an organisation. The value chain can be used to understand the strategic position of an organisation and analyse strategic capabilities in three ways: ● As a generic description of activities it can help managers understand if there is a cluster of activities providing benefit to customers located within particular areas of the value chain. Perhaps a business is especially good at outbound logistics linked to its marketing and sales operation and supported by its technology development. It might be less good in

terms of its operations and its inbound logistics. ● In analysing the competitive position of the organisation using the VRIO criteria as follows:

V- Which value -creating activities are especially significant for an organisation in meeting customer needs and could they be usefully developed further? R- To what extent and how does an organisation have bases of value creation that are rare? Or conversely are all elements of its value chain common to its competitors? I- What aspects of value creation are difficult for others to imitate, perhaps because they are embedded in the activity systems of the organisation? O- What parts of the value chain support and facilitate value creation activities in other sections of the value chain? For example, firm infrastructure support activities including particular formal and informal management control systems can be necessary to fully exploit value creation in the primary activities. ● To analyse the cost and value of activities of an organisation. This could involve the following steps: ● Identifying sets of value activities. The important thing is to ask (i) which separate categories of activities best describe the operations of the organisation and (ii) which of these are most significant in delivering the strategy and achieving advantage over competitors? For example, it is likely that in a branded pharmaceutical company research and development and marketing activities will be crucially important. ● Relative importance of activity costs internally. Which activities are most significant in terms of the costs of operations? Does the significance of costs align with the significance of activities? Which activities add most value to the final product or service (and in turn to the customer) and which do not? It can also be important to establish which sets of activities are linked to or are dependent on others and which, in effect, are self-standing. For example, organisations that have undertaken such analyses often find that central services have grown to the extent that they are a disproportionate cost to internal sets of activities and to the customer. ● Relative importance of activities externally. How does value and the cost of a set of activities compare with the similar activities of competitors? For example, although they are both global oil businesses, BP and Shell are different in terms of the significance of their value chain activities. BP has historically outperformed Shell in terms of exploration, but the reverse is the case with regard to refining and marketing. ● Where and how can costs be reduced? Given the picture that emerges from such an analysis it should be possible to ask some important questions about the cost structure of the organisation in terms of the strategy being followed (or that needs to be followed in the future). For example, is the balance of cost in line with the strategic significance of the elements of the value chain? Can costs be reduced in some areas without affecting the value created for customers? Can some activities be outsourced, for example those that are relatively free-standing and do not add value significantly? Can cost savings be made by increasing economies of scale or scope; for example, through central procurement or consolidating currently fragmented activities (e.g. manufacturing units)?

As Bruce Kogut at Columbia University has explained, an organisation can improve the configuration of its value chain and system by taking advantage of country-specific differences. There are two principal opportunities available: the exploitation of particular locational advantages, often in the company's home country, and sourcing advantages overseas via an international value system.

In short, think of a general purpose value chain connecting the company's activities, and focus on Systems/Process rather than departments.

According to Porter, there are 5 Primary activities in the Value Chain – Inbound Logistics, Outbound Logistics, Operations, Marketing and Sales, and Service. The 4 Support activities are Infrastructure, Human Resource Management, Research & Development, and Procurement.

These can be further broken down into Direct, Indirect and Quality Assurance activities. Identify which ones give you the most value, the ones that add value at every stage. Look for where the greatest value lies in your organisation and then try to increase it.