Strategic Management: Competitiveness and Globalization
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Theme of the Book

The book provides a comprehensive and thorough coverage of all of the key elements of the strategic management process - strategy analysis, strategy formulation, and strategy implementation.

The book presents a large number of examples and applications of strategic management concepts, techniques and tools. The ideas of leading scholars from around the world are used to shape the discussion of what strategic management is (strategy content), the practices of prominent executives and practitioners are used to describe how strategic management is used in many types of organizations (strategy process), and numerous case studies of various firms operating in diverse industries are used to demonstrate how differences in firms, industries, and geographical locations affect the strategic management process (strategy context).
Key Points

- In an increasingly globalized and hyper-competitive landscape, strategic decision makers must adopt a new mindset that values openness, flexibility, speed, and the challenges that evolve from constantly changing conditions.

- Firms achieve strategic competitiveness and earn above-average returns when their unique core competencies are effectively acquired, bundled and leveraged to take advantage of opportunities in the external environment in ways that create value for customers.

- Over-reliance on internal resources, which change more slowly than the external environment, can indicate a core rigidity preventing the firm from integrating internal and external resources to gain competitive advantage. Understanding how to leverage unique bundles of resources and capabilities available in the internal and external environment is the key to competitive advantage.

- ‘Cooperative strategy’ is a strategy in which firms work together to achieve a shared objective. Among other benefits, strategic alliances allow partners to create value that they couldn’t develop by acting independently and to enter markets more quickly and with greater market penetration possibilities.

- In the 21st century competitive landscape, firm survival and success depend heavily on its entrepreneurial ability to continuously find new opportunities and quickly produce innovations to pursue them.

- Strategic renewal can be understood as the adaptive choices and actions a firm undertakes to maintain a dynamic strategic fit with changing environments over time.

- The challenge confronting the strategist is managing a balancing act between engaging in sufficient exploitation to ensure the current viability of the organisation and, at the same time, devoting enough energy to exploration to ensure its future viability.
Introduction

The strategic management process is the full set of commitments and actions required for a firm to achieve strategic competitiveness and earn above-average returns. Analysing its external environment for opportunities and threats and its internal organisation to determine its resources, capabilities, and core competencies – the sources of its ‘strategic inputs’ – is the first step the firm takes in this ‘classical’ process. With the results of these analyses at hand, the firm develops its vision and mission and formulates its strategy. To implement this strategy, the firm then takes actions toward achieving strategic competitiveness and above-average returns.

Firms achieve strategic competitiveness and earn above-average returns when their unique core competencies are effectively acquired, bundled and leveraged to take advantage of opportunities in the external environment in ways that create value for customers.

The authors particularly contend that, in an increasingly globalised and hyper-competitive landscape, strategic decision makers must adopt a new mindset that values openness, flexibility, speed, and the challenges that evolve from constantly changing conditions. That contention is particularly reflected in the authors’ novel views on the following key themes viz. open innovation, cooperative strategy, strategic entrepreneurship and strategic renewal.
Open Innovation

Competitive advantages and the differences they create in firm performance are strongly related to the resources available to firms and also how well they are managed. The authors’ contention is that when firms are willing and able to overcome internal rigidities and use resources, wherever they reside, to support their strategy, they are able to expand their scope for innovation and strategic advantage.

Competing only with the assets within a single organization may be desirable but it is becoming a more and more unlikely scenario. The challenge for firms is to effectively manage current internal resources while simultaneously developing and exploiting external resources.

Over-reliance on internal resources, which change more slowly than the external environment, can indicate a core rigidity preventing the firm from integrating internal and external resources to gain competitive advantage.

Understanding how to leverage unique bundles of resources and capabilities available in the internal and external environment is the key to competitive advantage.

Organisational openness to external insights is thus critical for competitiveness. The table below illustrates some of the contrasting principles of what the authors term ‘closed innovation’ and ‘open innovation’ respectively viz.
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<tr>
<th>Closed innovation principles</th>
<th>Open innovation principles</th>
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<tbody>
<tr>
<td>1. The smart people in our field work for us.</td>
<td>Not all the smart people work for us so we must find and tap into the knowledge and expertise of bright individuals outside our company.</td>
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<tr>
<td>2. To profit from R&amp;D, we must discover, produce it ourselves. and ship</td>
<td>External R&amp;D can create significant value; internal R&amp;D is needed to claim some portion of that value</td>
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<tr>
<td>3. If we discover it ourselves, we will get it to market first</td>
<td>We do not have to originate the research in order to profit from it</td>
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<tr>
<td>4. If we are the first to commercialise an innovation, we will win</td>
<td>Building a better business model is better than getting to market first</td>
</tr>
<tr>
<td>5. If we create the most and best ideas in the industry, we will win</td>
<td>If we make the best use of internal and external ideas, we will win</td>
</tr>
<tr>
<td>6. We should control our intellectual property (IP) so that our competitors do not profit from our ideas.</td>
<td>We should profit from others’ use of our IP, and we should buy others’ IP whenever it advances our own business model.</td>
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Resources, internal and external, are the foundations of competitive advantage. Openness to strategic resources from external sources whilst maintaining internal strengths is an important organisational capability. Sensing which resources matter, absorbing them and utilising them appropriately, or in other words, exploring and exploiting resources unimpeded by their origin, helps firms to increase their performance and stay resilient.
Cooperative Strategy

‘Cooperative strategy’ is a strategy in which firms work together to achieve a shared objective.

A ‘strategic alliance’ is a cooperative strategy in which firms combine some of their resources and capabilities to create competitive advantage. Joint ventures (where firms create and own equal shares of a new venture that is intended to develop competitive advantages), equity strategic alliances (where firms own different shares of a newly created venture), and non-equity strategic alliances (where firms cooperate through a contractual relationship) are the three basic types of strategic alliances.

For all cooperative arrangements success is more likely when partners behave cooperatively. Actively solving problems, being trustworthy, pursuing ways to combine partners’ resources and capabilities to create value are examples of cooperative behaviour known to contribute to alliance success.
Ferrari and Pininfarina

The non-equity strategic alliance between Ferrari and Pininfarina has lasted sixty years. Pininfarina provides Ferrari with both design and engineering services. Ferrari have their own design and engineering teams in place who have worked alongside the Pininfarina employees in creating many Ferrari models. Both companies have managed to achieve a long and fruitful alliance in which both have significantly benefited from each other’s resources and capabilities. Whilst Ferrari have been able to obtain high design and engineering skills by outsourcing some work on their models to Pininfarina, the design company has been given the opportunity to demonstrate what it is able to achieve with significant financial support and budgets, and has benefited from association with one of the strongest and most reputable brands in the motor industry, helping it sell its services to other motor companies and also to companies in other industries such as mobile phones for Motorola.

Cooperative strategies are an integral part of the competitive landscape and are important to many companies. In for-profit organisations, many executives believe that strategic alliances are central to their firm’s success. Among other benefits, strategic alliances allow partners to create value that they couldn’t develop by acting independently and to enter markets more quickly and with greater market penetration possibilities.

The effects of the greater use of cooperative strategies – particularly in the form of strategic alliances – are noticeable. In large firms, for example, alliances can account for 25% or more of sales revenue and many executives believe that alliances are a prime vehicle for firm growth. In some industries, alliance versus alliance is becoming more prominent than firm versus firm as a point of competition. In the global airline industry, for example, competition is increasingly between large alliances rather than between airlines.
PSA Peugeot Citroen: Strategic Alliances for Competitive Advantage

PSA could be considered the pioneer of strategic alliances in the automobile industry.

In the 1990s and 2000s, intense competition in the auto industry led to a wave of consolidation with several auto companies buying stakes in their competitors e.g. Renault’s 44% stake in Nissan, GM’s 20% stake in Fiat. PSA did not make any effort to acquire such stakes but rather concentrated on entering into strategic alliances to counter the challenges posed by its competitors.

PSA’s alliances with Toyota and Fiat for light commercial vehicles helped it to expand its product range. At the same time, by sharing the costs and risks, it was able to provide more choice to its customers with minimum investments, and also achieve economies of scale, which in turn helped reduce unit costs and risks. PSA’s alliances with Renault, Ford, and BMW helped it develop engines with the latest technology, something that it might have found difficult to manage alone, and also enabled PSA to remain at the forefront of engine technology.

PSA’s explicitly stated policy of cooperation and collaboration with independent auto companies was seen by the company as the best way to counter the challenges posed by globalisation and its larger competitors. At the same time, the company was making sure that it secured unique competitive advantages by also going solo on several vital research projects and investing in excess of Euros 2bn in exclusive R&D facilities and projects. This dual strategy demonstrated obvious advantages. At one level, PSA reaped benefits such as higher margins, lower development costs, and less time to market new models. At another level, the strategy allowed PSA to maintain its lead in technology and thus enhance its competitiveness.
In the words of the President of PSA: “These ‘win-win’ agreements allow us to share development and production costs without renouncing our independence, and to pool skills and expertise. They also generate the economies of scale we need to be competitive, by speeding our development and increasing production capacity. In addition, such co-operations offer many opportunities to learn about each other’s culture and processes.”

### Strategic Entrepreneurship

Firms engaging in strategic entrepreneurship simultaneously engage in opportunity-seeking and advantage-seeking behaviours. The purpose is to continuously find new opportunities and quickly innovate to exploit them. The search process, characterized by intensive scanning activities, constitutes the entrepreneurship dimension of strategic entrepreneurship. The strategic dimension involves selection of the best way to manage the firm’s internal adaptation and innovation process in the light of emerging entrepreneurial opportunities. Thus, firms engaging in strategic entrepreneurship integrate their actions to find opportunities, anticipate their future value and implement timely internal adaptation in order to reap future benefits.

Firms have to actively manage the process of entrepreneurship. For example, they should instil an internal climate conducive to entrepreneurial behaviour. This means that organizational actors should be enabled to spend a certain percentage of their time on scanning and evaluation of entrepreneurial opportunities. Moreover, they should feel confident to pursue emerging opportunities without experiencing major drawbacks in terms of penalties for failed efforts. In addition, support and trust of management is vital for firms that aim to be entrepreneurial. It is only when
organizational actors perceive sufficient support and trust, e.g. in the allocation of resources or legitimacy to dedicated projects, that they act upon opportunities.

Effective integration of the various functions involved in innovation processes – from design through engineering to manufacturing and ultimately market distribution – is also critical for effective innovation. Through product development teams or otherwise, the knowledge and skills of different functional areas must be effectively integrated and coordinated to maximize innovation. In particular, shared values and effective leadership are essential prerequisites for cross-function cooperation.

**The Virgin Group Ltd**

The Virgin Group Ltd is a truly entrepreneurial company that is highly successful in exploring entrepreneurial opportunities. The latest and most remarkable addition to the Virgin group is offering flights in outer space.

The Chairman, Richard Branson, is clearly a very successful entrepreneur but he could not have been so successful without the creation of a specific business philosophy that drives all Virgin Group businesses. Managers within Virgin Group companies use the concept of innovation to inspire employees to be creative as well as competitive in all respects. They are required to add to the cutting edge of all products that the company creates and aim for an increase in overall efficiency by scoping the environment for new business opportunities. Moreover, employees of Virgin Group are led through transformational leadership which grants them a great deal of independence, autonomy and room to manoeuvre in pursuit of entrepreneurial opportunities.
Strategic Renewal

In many industries, competition is increasingly characterised by temporary advantages punctuated by frequent disruptions rather than long, stable periods in which firms can achieve sustainable competitive advantages. Consequently change has become the norm modern managers must cope with. Surviving under these conditions requires firms to continuously renew by revitalising and transforming their core activities, and seeking new avenues for growth.

Nokia

Nokia is a classic example of an organization that has successfully renewed and transformed itself several times having successfully developed from manufacturing first paper pulp then TVs to mobile phones and now smart phones. Nokia’s entrepreneurial orientation encourages and supports continuous product innovation and underpins its capability to continually renew itself in response to environmental requirements.

At the core of strategic thinking rests the premise that a fit should exist between organisational structure, processes, competencies and resources on the one hand, and opportunities and threats arising in the organisation’s external environment. Strategic renewal can be understood as the adaptive choices and actions a firm undertakes to maintain a dynamic strategic fit with changing environments over time.
The tension between stability and change and its underlying forces of exploitation and exploration is fundamental to understanding organisational survival and strategic renewal.

Renewing incumbent firms is, however, far from straightforward. Two conflicting forces become apparent. On the one hand, there is a need for an efficient, stable structure enabling optimal exploitation of available knowledge and competencies to deal with short term competitive forces (i.e. stability). On the other hand, environmental change forces established firms to be flexible, transform stagnant businesses and explore new sources of wealth through new resource combinations (i.e. change). Exploration here implies search, variation, risk-taking, experimentation, discovery and innovation using new learning.

The challenge confronting the strategist becomes one of a balancing act. The basic problem is to engage in sufficient exploitation to ensure the current viability of the organisation and, at the same time, to devote enough energy to exploration to ensure its future viability. However, exploiting and exploring are associated with different and inconsistent organizational architectures and processes. Moreover the returns associated with exploration are distant in time and highly variable, while the returns associated with exploitation are immediate in time and more certain. These inconsistencies and their associated contradictory logics create fundamental organizational challenges and tensions as both exploitation and exploration compete for scarce organizational resources and managerial attention – a flexibility paradox. Too much exploitation breeds inertia and dynamic conservatism; exploitation crowds out exploration. Similarly, too much exploration drives out efficiencies and prevents gaining economies of scale or learning by doing.

The key to strategic renewal is strategic flexibility which enables firms that possess it to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment. Firms should try to develop strategic flexibility in all areas of their operations. To be strategically flexible on a continuing basis and to gain competitive benefits, a firm has to develop the capacity to learn. Firms capable of
rapidly and broadly applying what they have learned, exhibit the strategic flexibility and the capacity to change in ways that will increase the profitability of successfully dealing with uncertain, hyper-competitive circumstances.

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