MARK-E0521 Grand Strategy: Concept, History, Applications

Master's/Doctoral course, Spring term 2023

Session 3: Strategy in the Business Realm: Key Discourses and Blind Spots

Prof. Dr. Henrikki Tikkanen

Aalto University
School of Business

Michael Porter (1996) What is Strategy?

- For almost two decades, managers have been learning to play by a new set of rules. Companies must be flexible to respond rapidly to competitive and market changes. They must benchmark continuously to achieve best practice. They must outsource aggressively to gain efficiencies. And they must nurture a few core competencies in race to stay ahead of rivals.
- Positioning—once the heart of strategy—is rejected as too static for today's dynamic markets and changing technologies. According to the new dogma, rivals can quickly copy any market position, and competitive advantage is, at best, temporary.
- However, hypercompetition is a self-inflicted wound, not the inevitable outcome of a changing paradigm of competition.

Porter (1996) What is Strategy?

- The root of the problem is the failure to distinguish between operational effectiveness and strategy. The quest for productivity, quality, and speed has spawned a remarkable number of management tools and techniques: total quality management, benchmarking, time-based competition, outsourcing, partnering, reengineering, change management.
- Although the resulting operational improvements have often been dramatic, many companies have been frustrated by their inability to translate those gains into sustainable profitability. And bit by bit, almost imperceptibly, management tools have taken the place of strategy.
- Cost is generated by performing activities, and cost advantage arises from performing particular activities more efficiently than competitors. Similarly, differentiation arises from both the choice of activities and how they are performed. Activities, then are the basic units of competitive advantage. Overall advantage or disadvantage results from all a company’s activities, not only a few.

Porter (1996) What is Strategy?

- Operational effectiveness (OE) means performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency.
  - The (shifting) productivity frontier
  - However, competitors can quickly imitate management techniques, new technologies, input improvements, and superior ways of meeting customers' needs.
  - The recent wave of industry consolidation through mergers makes sense in the context of OE competition. Driven by performance pressures but lacking strategic vision, company after company has had no better idea than to buy up its rivals.
  - (See the insert "Japanese Companies Rarely Have Strategies.")
- In contrast, strategic positioning means performing different activities from rivals' or performing similar activities in different ways.
  - Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.
  - Southwest Airlines Company, for example, offers short-haul, low-cost, point-to-point service between midsize cities and secondary airports. Cf. IKEA.

Porter (1996) What is Strategy?

Strategy Rests on Unique Activities

Strategic positions emerge from three distinct sources, which are not mutually exclusive and often overlap.

- First, positioning can be based on producing a subset of an industry's products or services. I call this variety-based positioning because it is based on the choice of product or service varieties rather than customer segments.
- A second basis for positioning is that of serving most or all the needs of a particular group of customers. I call this needs-based positioning, which comes closer to traditional thinking about targeting a segment of customers.
- The third basis for positioning is that of segmenting customers who are accessible in different ways. Although their needs are similar to those of other customers, the best configuration of activities to reach them is different. I call this access-based positioning. Access can e.g. be a function of customer geography or customer scale.

Porter (1996) What is Strategy?

A Sustainable Strategic Position Requires Trade-offs

- Whatever the basis—variety, needs, access, or some combination of the three—positioning requires a tailored set of activities because it is always a function of differences on the supply side; that is, of differences in activities. However, positioning is not always a function of differences on the demand, or customer, side.
- Choosing a unique position, however, is not enough to guarantee a sustainable advantage. A valuable position will attract imitation by incumbents, who are likely to copy it in one of two ways.
- Positioning trade-offs are pervasive in competition and essential to strategy. They create the need for choice and purposefully limit what a company offers. They deter straddling or repositioning, because competitors that engage in those approaches undermine their strategies and degrade the value of their existing activities.
- As we return to the question, What is strategy? we see that trade-offs add a new dimension to the answer. Strategy is making trade-offs in competing. The essence of strategy is choosing what not to do.

Porter (1996) What is Strategy?

Fit Drives Both Competitive Advantage and Sustainability

- Positioning choices determine not only which activities a company will perform and how it will configure individual activities but also how activities relate to one another. While operational effectiveness is about achieving excellence in individual activities, or functions, strategy is about combining activities.
- The importance of fit among functional policies is one of the oldest ideas in strategy. Gradually, however, it has been supplanted on the management agenda. Rather than seeing the company as a whole, managers have turned to “core” competencies, “critical” resources, and “key” success factors. In fact, fit is a far more central component of competitive advantage than most realize. (Cf. The business model concept)
- Fit dimensions: Simple consistency, reinforcing and optimization of activities (activity system maps: IKEA, Vanguard, Southwest) (cf. BPR)

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Sustainable Competitive Advantage

- Unique competitive position for the company
- Activities tailored to strategy
- Clear trade-offs and choices vis-à-vis competitors
- Competitive advantage arises from fit across activities
- Sustainability comes from the activity system, not the parts
- Operational effectiveness a given

Problems: Failure to choose, the growth trap, profitable growth, the role of leadership

In many companies, leadership has degenerated into orchestrating operational improvements and making deals. But the leader's role is broader and far more important than this.