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STRATEGIC MANAGEMENT IN THE DIGITAL ECONOMY

What is strategy?

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What is strategy?

What are the scopes where you hear the word "strategy"?

What is strategy?

What Is Strategy?

by Michael E. Porter
www.enrichwise.com

I. Operational Effectiveness Is Not Strategy

A company can outperform rivals only if it can establish a difference that it can preserve.

II. Strategy Rests on Unique Activities

The essence of strategy is choosing to perform activities differently than rivals do.

The competitive value of individual activities cannot be separated from the whole.

III. A Sustainable Strategic Position Requires Trade-offs

Trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers.

IV. Fit Drives Both Competitive Advantage and Sustainability

At general management's core is strategy: defining a company's position, making trade-offs, and forging fit among activities.

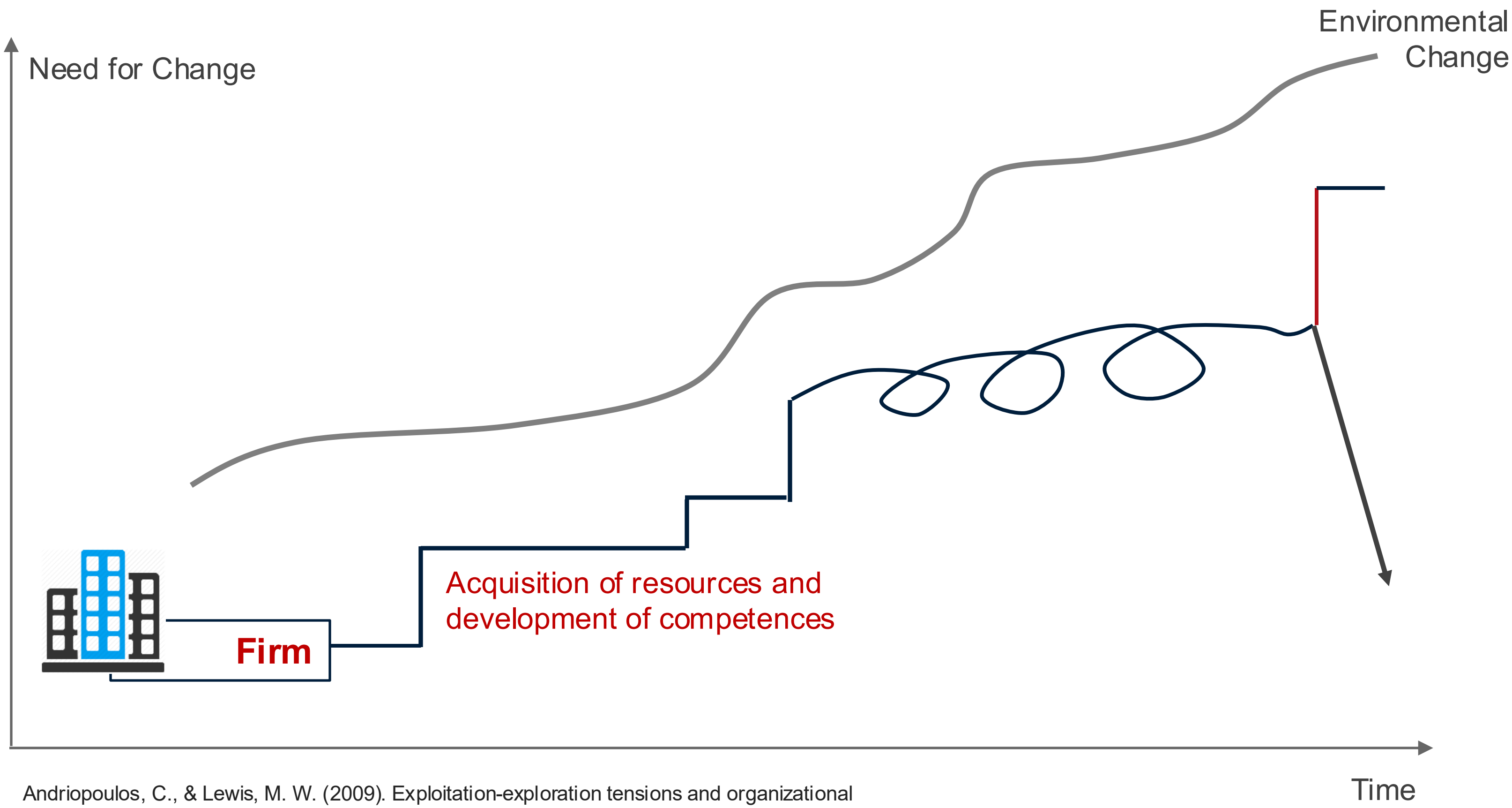
Fit locks out imitators by creating a chain that is as strong as its strongest link.

Strategic positions can be based on customers' needs, customers' accessibility, or the variety of a company's products or services.

Strategic positions should have a horizon of a decade or more, not of a single planning cycle.

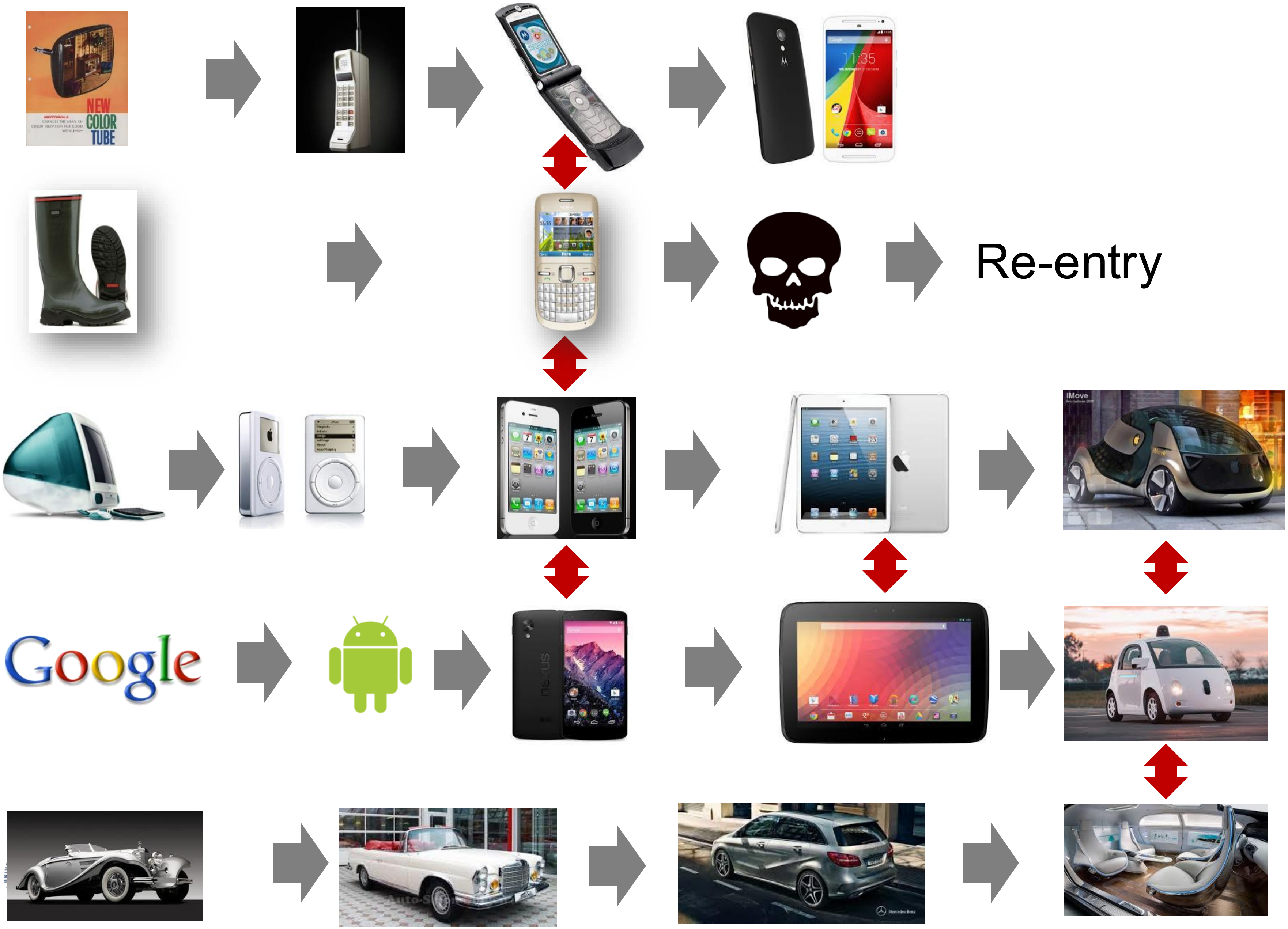
It is a story about change

Enduring success and **sustainable** corporate **development** requires constant **change**. Firms, as bundles of resources and capabilities, need to **meet** changing and complex environmental **demands** (Andriopoulos & Lewis, 2009).



Andriopoulos, C., & Lewis, M. W. (2009). Exploitation-exploration tensions and organizational ambidexterity: Managing paradoxes of innovation. *Organization Science*, *20*(4), 696-717.

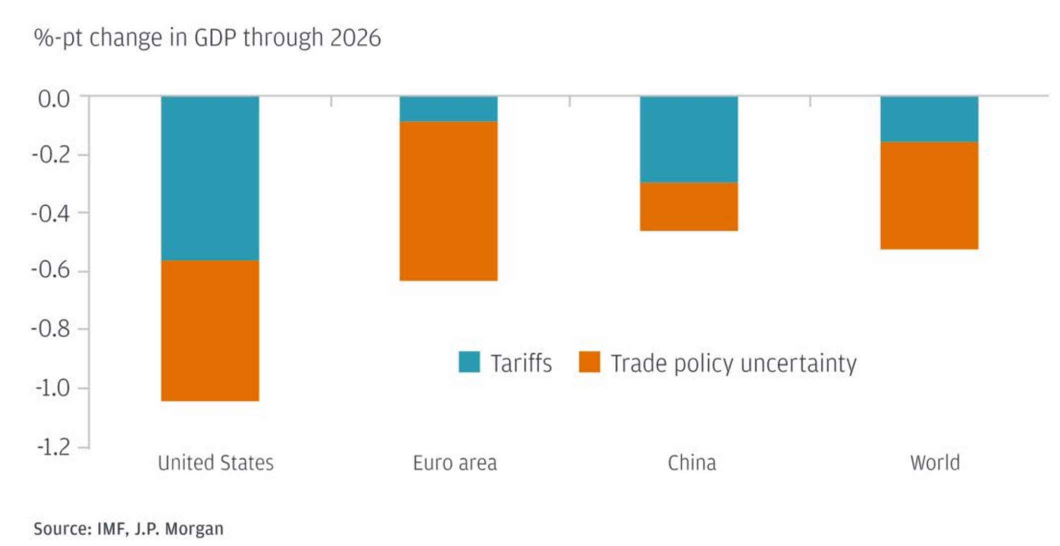
Change



Uncertainty

U.S. average tariff rate

Tariffs and trade policy uncertainty could have a **negative impact on U.S. and global GDP** through 2026.



Challenges

Customers buy from a company?

Value Creation

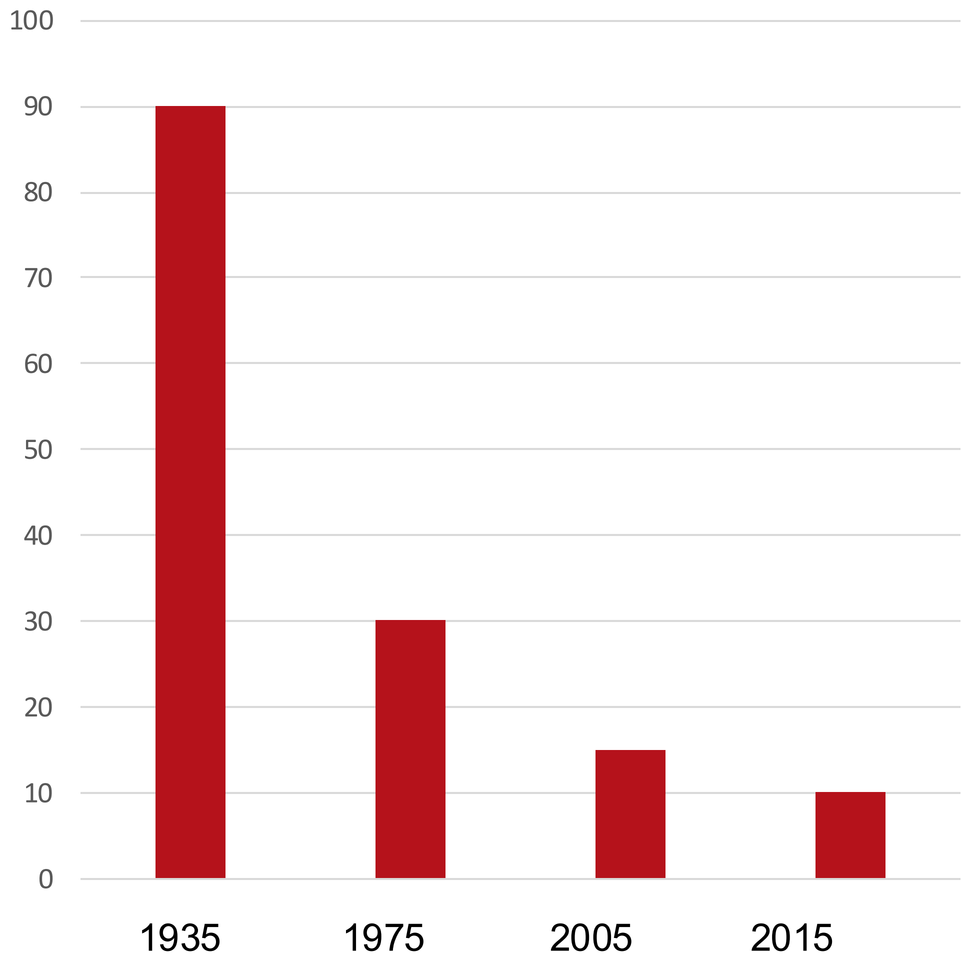
Market disruption: *Shifts in the way value is created*

Investors invest in a company?

Competitive Advantage

Capability disruption: *Erosion of competitive advantage through market entry from outside the industry*

Life expectancy of firms in years



Nokia CEO ended his speech saying this "we didn't do anything wrong, but somehow, we lost".

Strategy is:

‘Strategy can be viewed as building defenses against the competitive forces or finding a position in the industry where the forces are weakest’

Porter (2008), p. 85

‘..the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resource necessary for carrying out these goals’

Chandler (1963), p. 13

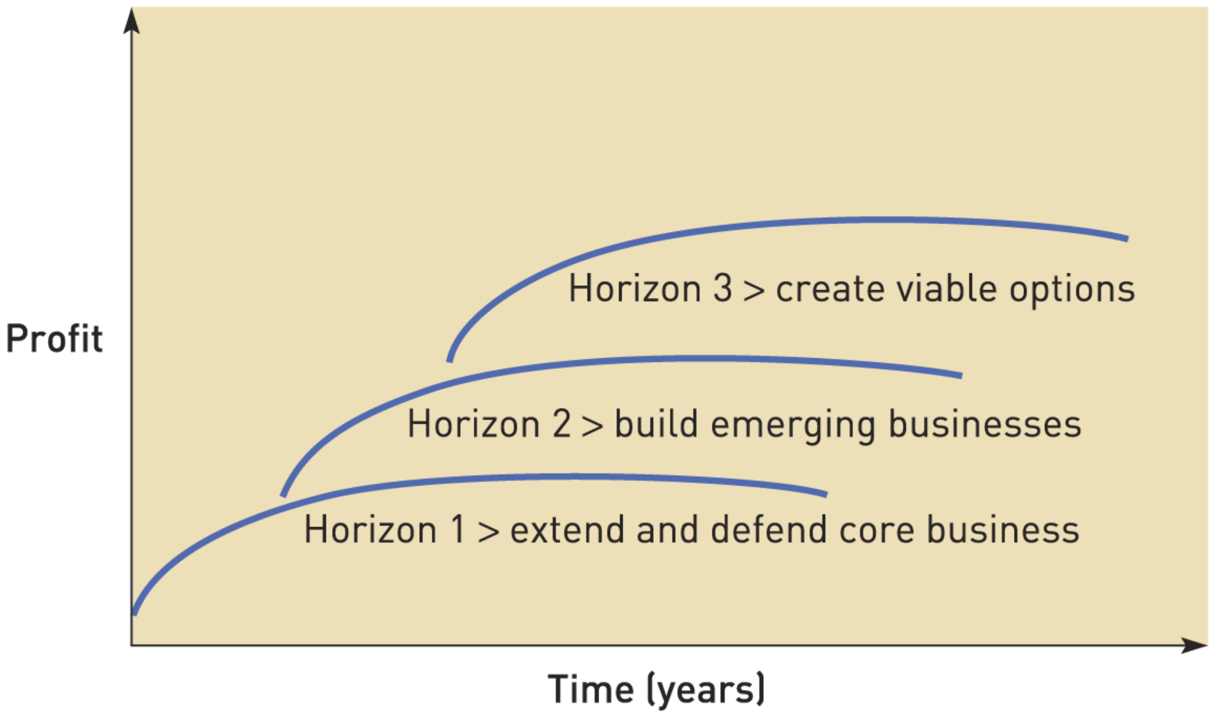
‘… a pattern in a stream of decisions’

Mintzberg (2007), p. 3

Strategy is:

"Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations" (Johnson et al., 2008, p. 3)

Strategies for tomorrow



Note:
'profit' on the vertical axis can be replaced by non-profit objectives;
'business' can refer to any set of activities;
'time' can refer to a varying number of years.

Source: M. Baghai, S. Coley and D. While, *The Alchemy of Growth*, 2000, Texere Publishers: Figure 1.1, p. 5

	Financial Management	Operational Management	Strategic Management
Purpose	Assuring liquidity	Reasonable returns	Ensuring long-term success
Core criterion	Liquidity	Success	Success Factors
Main information	Revenue / costs	Expense / returns	Market position
Source of information	Accounting	Balance Sheet / Cash Flow Statement	External and internal audit Portfolio analysis

Short-term

medium

Long-term

Sources: Johnson, Scholes & Whittington (2008)

Strategy as support for making decisions

Strategic decisions are about:

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Building on resources and competences (**capability**)
- **Values and expectations** of stakeholders

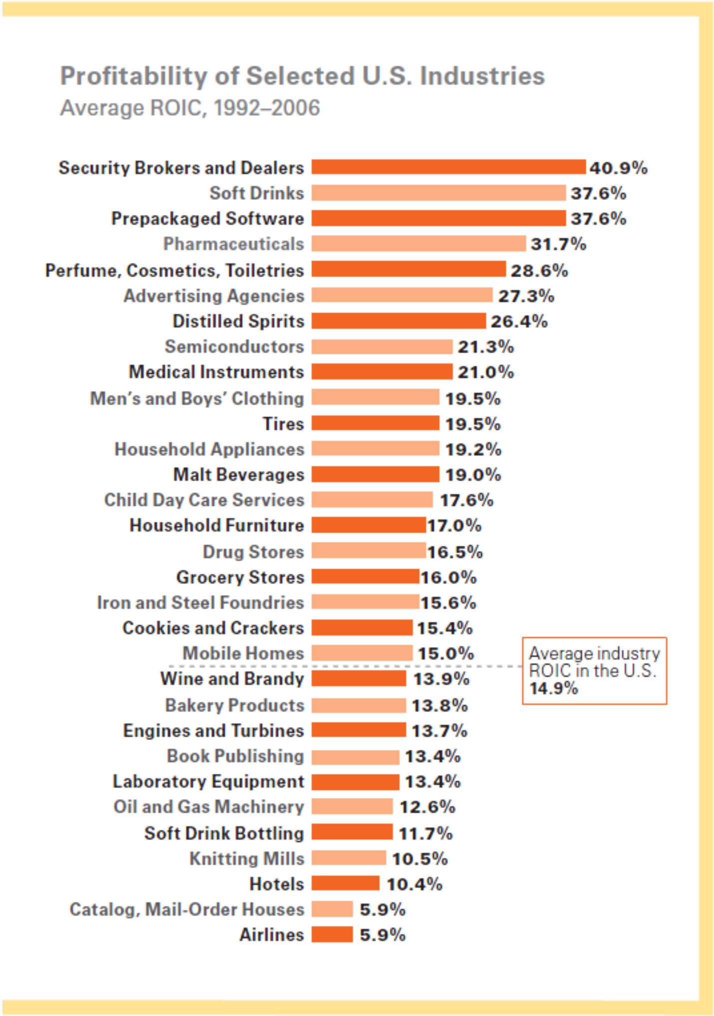
Therefore they are likely to:

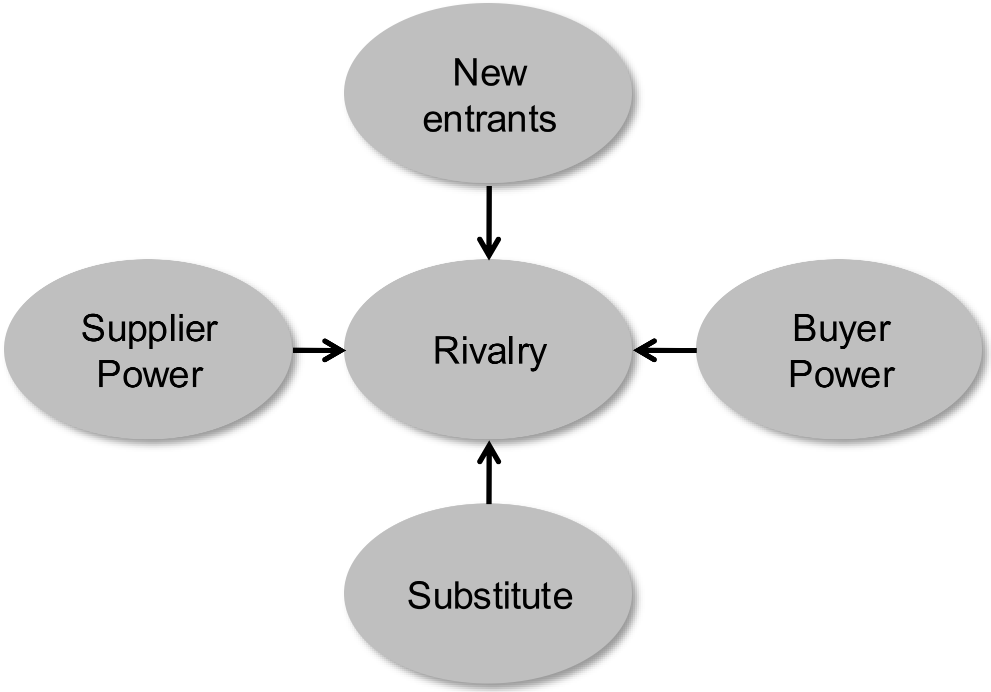
- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

Sources: Johnson, Scholes & Whittington (2008)

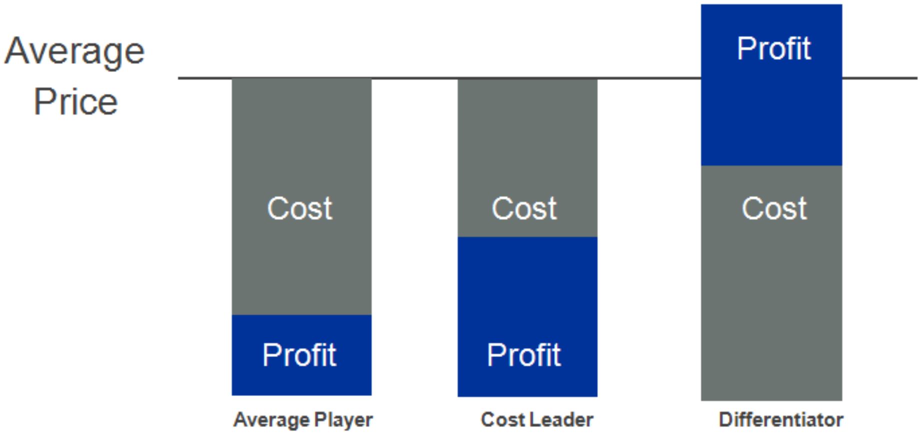
Strategies that lead to value creation and competitive advantage require two choices….

...where should we compete?





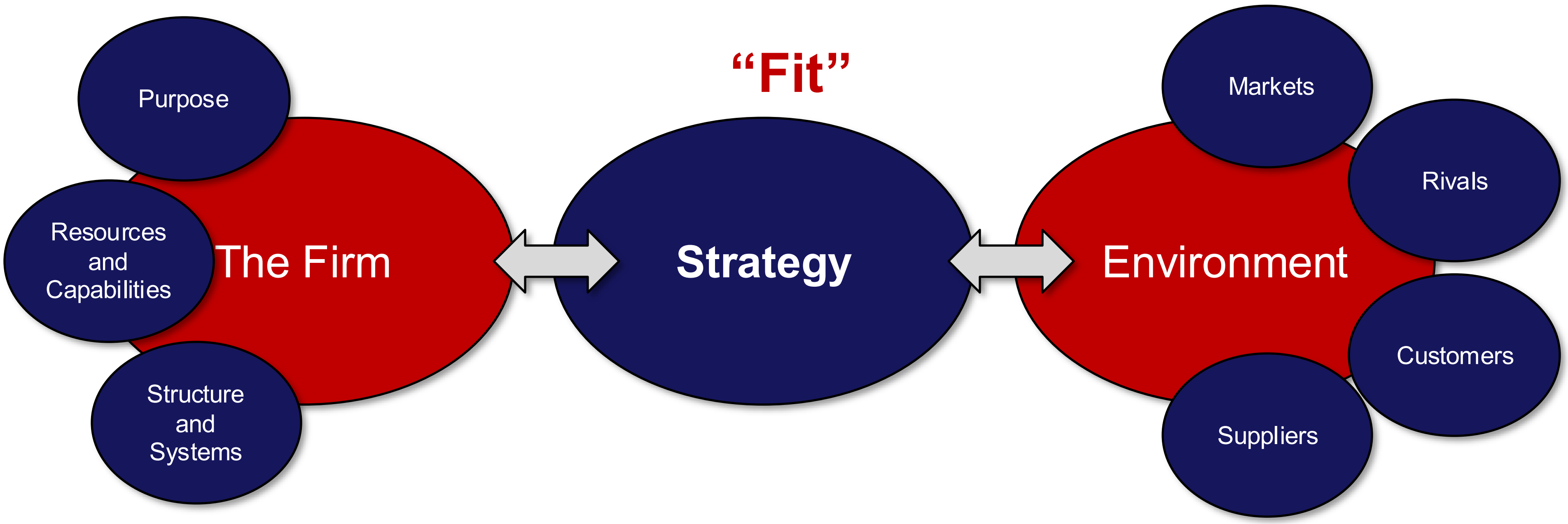
How should we compete?



TASK

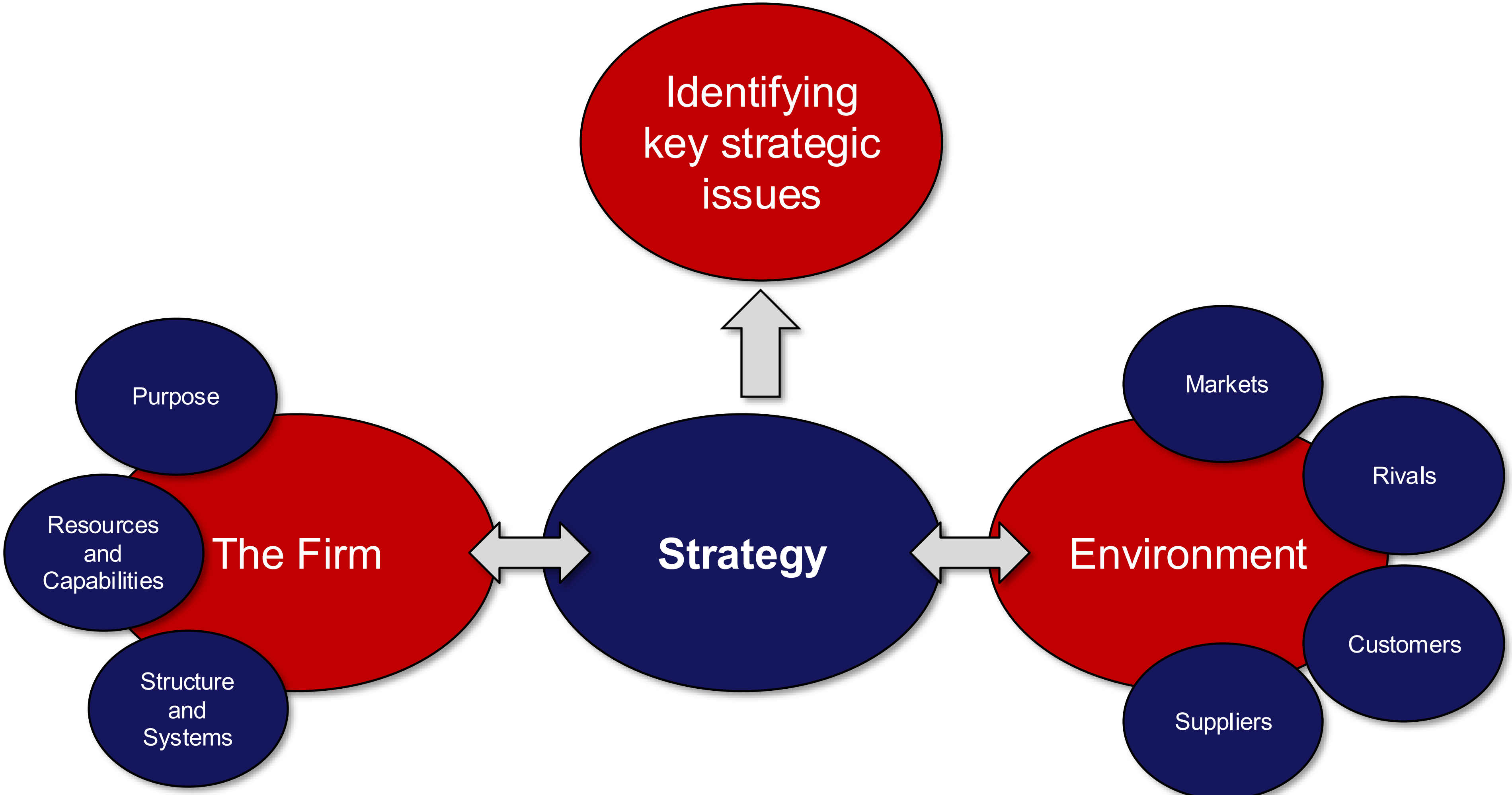
- Choose a business among the following: Satispay, LEGO, Ferrero, Unilever, Apple, BYD, Progetto ARCA, WWF (you can also propose a different one)
- Answer for them the following questions: «**Where should we compete?**» and «**How should we compete?**»

Strategic fit

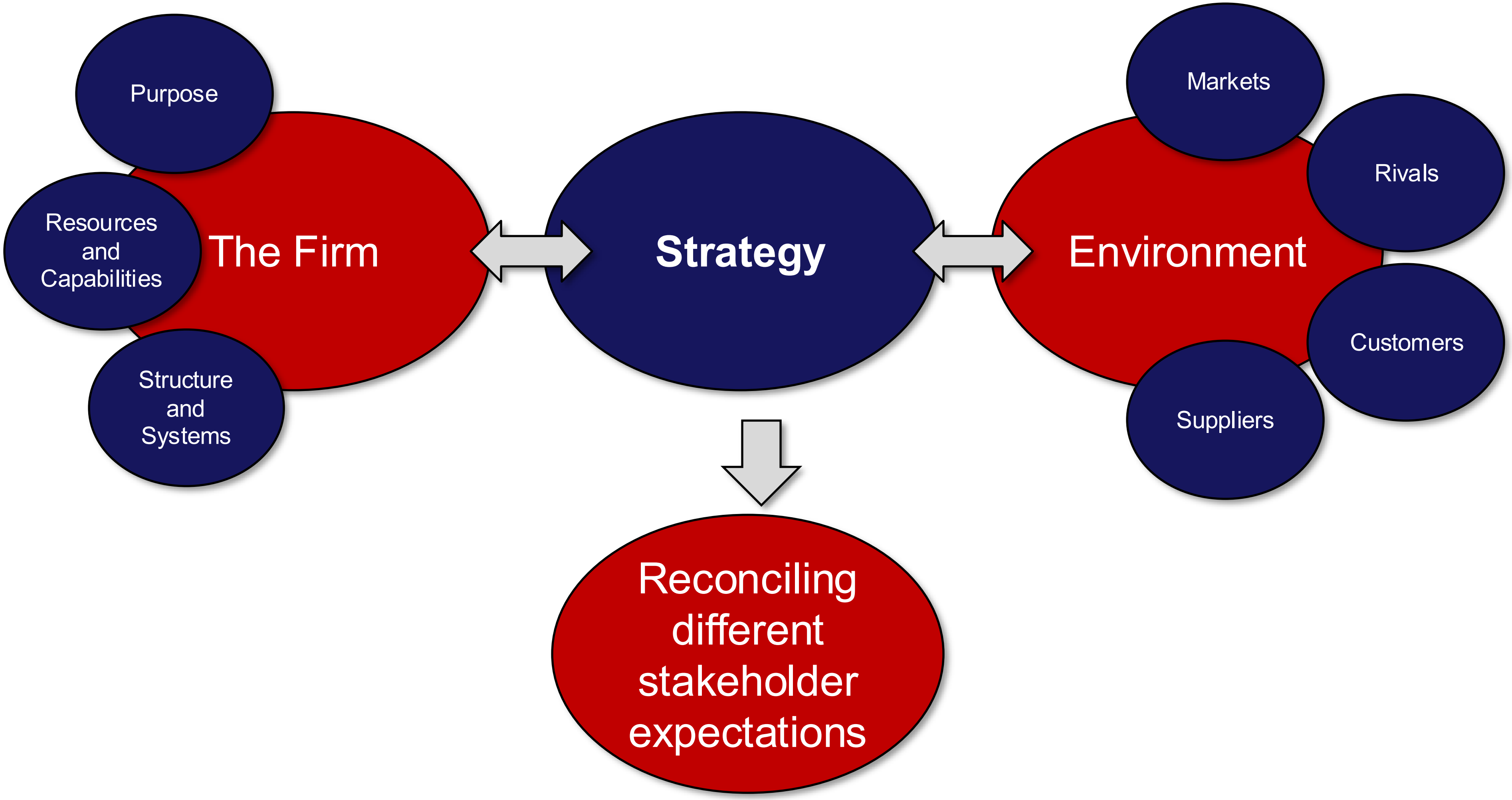


Grant (2019)

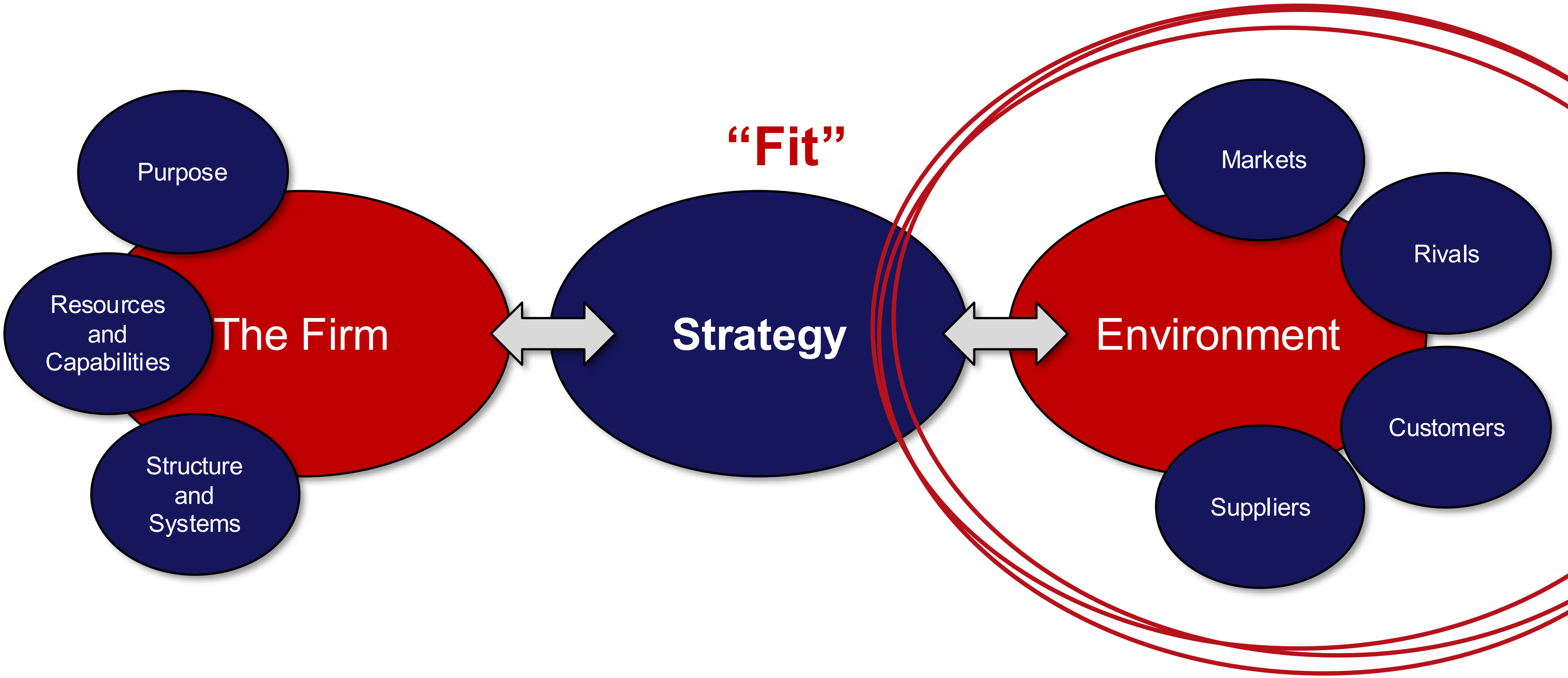
Challenge 1


Identifying key strategic issues
Purpose
Resources and Capabilities
The Firm
Structure and Systems
Strategy
Environment
Markets
Rivals
Customers
Suppliers

Challenge 2


Purpose
Resources and Capabilities
Structure and Systems
The Firm
Strategy
Environment
Markets
Rivals
Customers
Suppliers
Reconciling different stakeholder expectations

Next week



Grant (2019)