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# Sustainable Local Economic Development

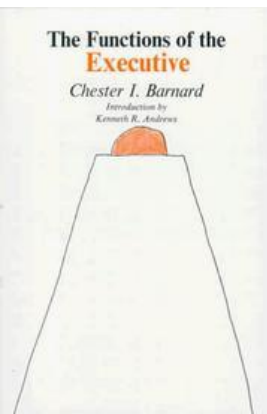
Theories of competitiveness

Dr. Maksadjon Rizoeva

# The Wisdom of Choice

“To try and fail is at least to learn; to fail to try is to suffer the inestimable loss of what might have been.”

- **Chester Barnard** (former CEO of New Jersey Bell Telephone)
- **The Functions of the Executive**





**LO 1** Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.

**LO 2** Define strategy and explain its role in a firm's quest for competitive advantage.

**LO 3** Explain the role of firm effects and industry effects in determining firm performance.

**LO 4** Describe the role of corporate, business, and functional managers in strategy formulation and implementation.

**LO 5** Outline how business models put strategy into action.

**LO 6** Describe and assess the opportunities and challenges managers face in the 21st century.

**LO 7** Critically evaluate the role that different stakeholders play in the firm's quest for competitive advantage.

# ChapterCase 1 The Premature Death of a Google Forerunner at Microsoft

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- **Google founded in 1998**

- **Two graduate students at Stanford – Brin and Larry Page**

- ❖ PageRank algorithm a clear improvement
- ❖ Today, it is world's leading online search/advertising firm



- **Microsoft bought LinkExchange in 1998**

- **Keywords product for search engines; but shut down in 2000**

- **Microsoft considered buying Overture Services in 2003**

- **Gates and Ballmer passed on the deal**

- ❖ Yahoo buys Overture -- an innovator in internet services/advertising -- for its own search product for \$1.6 billion



- **Microsoft launches its own search in 2009**

- **Bing now strategically partnered with Yahoo**

# What Strategy is: Gaining and Sustaining Competitive Advantage

## What is Competitive Advantage?

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- **Superior performance relative to competitors**
  - Examples: Google, Pfizer's Lipitor (patent



## What is Sustainable Competitive Advantage?

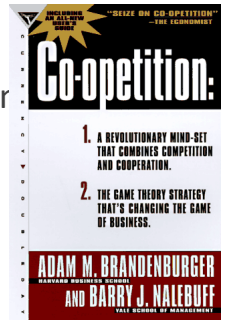
- **Sustainable competitive advantage occurs when a firm implements a value-creating strategy of which other companies are unable to duplicate the benefits or find it too costly to imitate.**
- An important basis for sustainable competitive advantage capabilities.
- is the development of resources and

# What Strategy is: Gaining and Sustaining Competitive Advantage

## What is Strategy?

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- Goal-directed actions to gain & sustain competitive advantage
- It is not a zero-sum game
  - Win – win scenarios – co-opetition (i.e., collaborative efforts among competitors for r
- Requires trade-offs for strategic positioning
  - (low cost) JCPenney vs. (upscale) Neiman Marcus
  - (low cost) Southwest Airlines vs. (stuck in the middle) Delta Song



# Definitions of Strategy

**"The term 'strategy' is intended to focus on the interdependence of the adversaries' decisions and on their expectations about each other's behavior."**

**(Thomas Schelling**

**The Strategy of Conflict)**



**"Strategy can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals."**

**(Alfred D.**

**Chandler Strategy and Structure)**



**Strategy is: "The pattern or plan that integrates an organization's major goals, policies, and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents."** (James Brian Quinn, Logical Incrementalism)



# Strategy as a Theory of How to Compete

## Provides a Manager's Roadmap

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- **The strategic management process is a cycle of analysis, formulation, implementation, and feedback.**
- Apple Newton flops in 1993
- PalmPilot (**Jeff Hawkins**) learned from Apple
- iPhone a huge success in 2009
- Wal-mart' (**Sam Walton's**) assumptions about low costs, profitability
- Auto industry differences between U.S. and Japan

Newton's mistakes

low prices, and high volume to drive

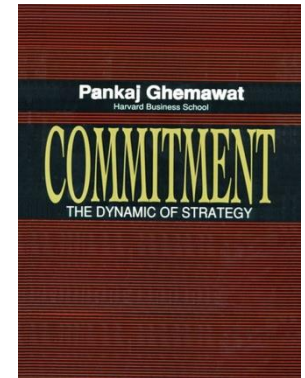


Palm Video



Definition: ***Strategy is the quest to create, capture and sustain competitive advantage.***

- It is the managers' theories/maps about how to *gain* and *sustain* competitive advantage.
- It is about being **different** from your rivals.
- It is about **creating value** while containing cost.
- It is about deciding what to do, and what **not** to do.
- It combines a **set of activities** to stake out a unique position.
- It has alternatives, consequences, and choices involving **significant resources**, typically made under some level of uncertainty.
- It requires **long-term commitments** that are not easily reversible.



# Key Drivers of Value Creation and Advantage

# Sustainable Competitive

Generating economic **value** can be accomplished through:

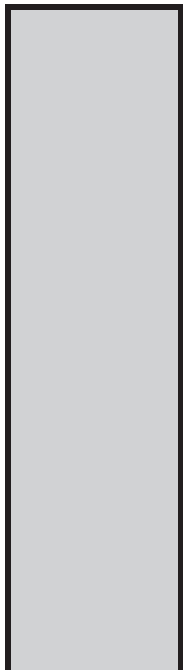
- REVENUE drivers
- COST drivers
- RISK drivers



The image shows a screenshot of a financial statement, possibly an income statement, with a grid layout. The columns represent different periods or categories, and the rows represent various financial metrics. The text is somewhat blurry, but the structure is clear. The table has multiple columns and rows, with some cells highlighted in light blue. The overall appearance is that of a software-generated financial report.

# Value and Cost Drivers

Value



**Value Drivers**

Technology  
Quality  
Delivery  
Breadth of Line  
Service  
Customization

Geography  
Risk Assumption  
Brand/Reputation  
Network Externalities  
Environmental Policy  
Complements

**Cost Drivers**

Economies of Scale  
Economies of Scope  
Learning Curve  
Low Input Costs  
Organizational Practices  
Vertical Integration



Price

Cost

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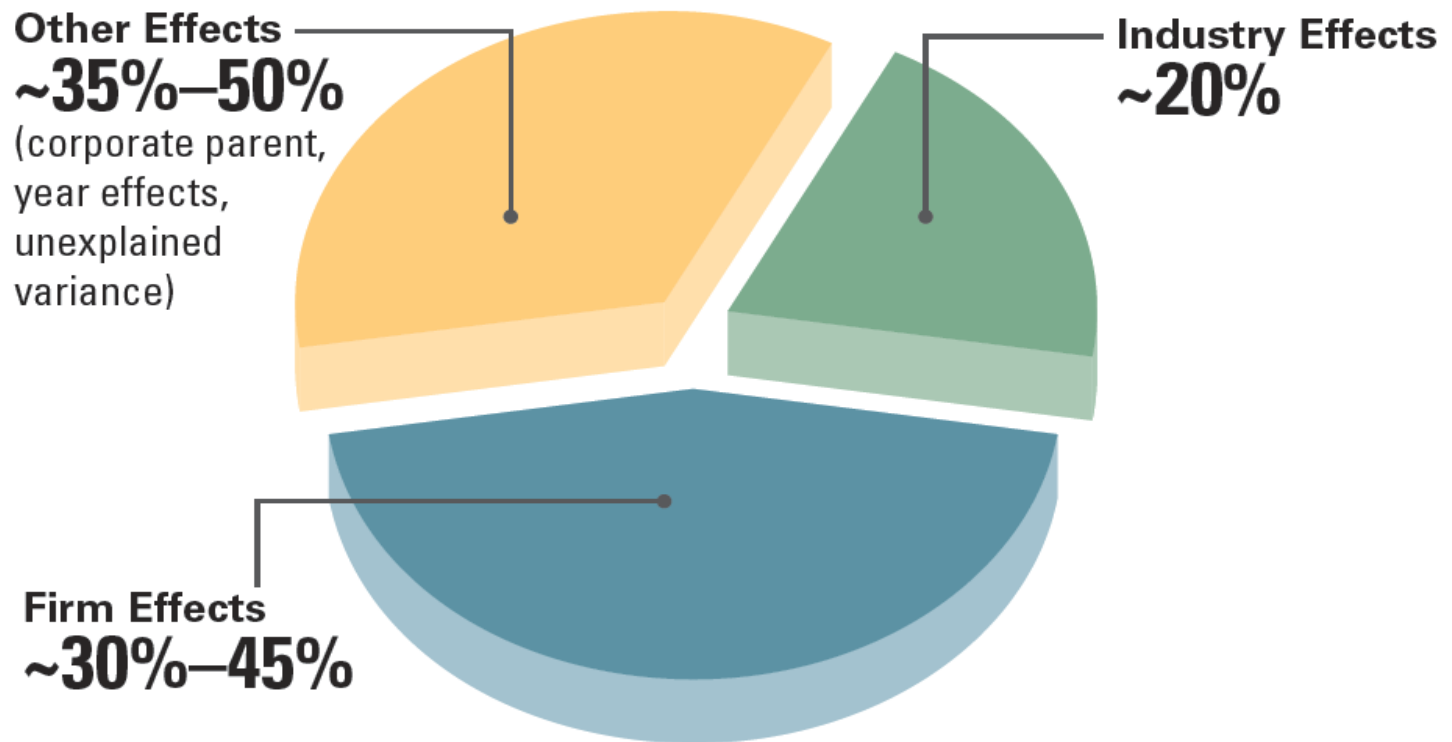
**LO 5** Outline how business models put strategy into action.

**LO 6** Describe and assess the opportunities and challenges managers face in the 21st century.

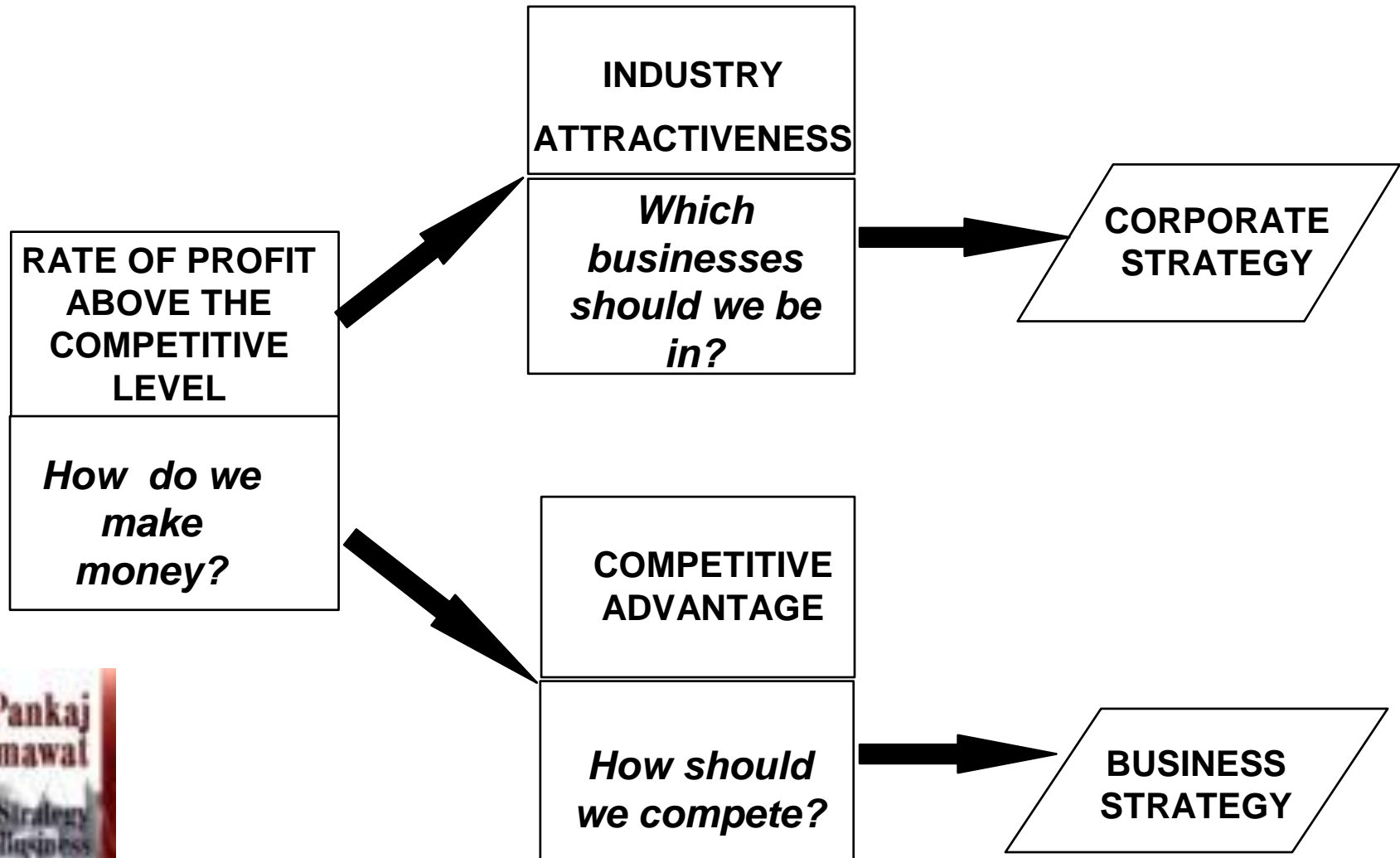
**LO 7** Critically evaluate the role that different stakeholders play in the firm's quest for competitive advantage.

## Industry vs. Firm Effects in Performance

- Astute managers create superior performance
  - ❖ Making important trade-offs
    - Toyota's lean manufacturing



# Sources of Superior Profitability



# Strategy Across the Levels



## Where to Compete?

- Should GE move more aggressively into the health care industry?
- 

**CORPORATE STRATEGY**

## How to Compete?

- Should GE jet engines have better fuel efficiency than Rolls Royce?

**BUSINESS STRATEGY**

## How to Implement?

- Should GE human resources recruit more science graduates?

**FUNCTIONAL STRATEGY**

# Levels of Strategy

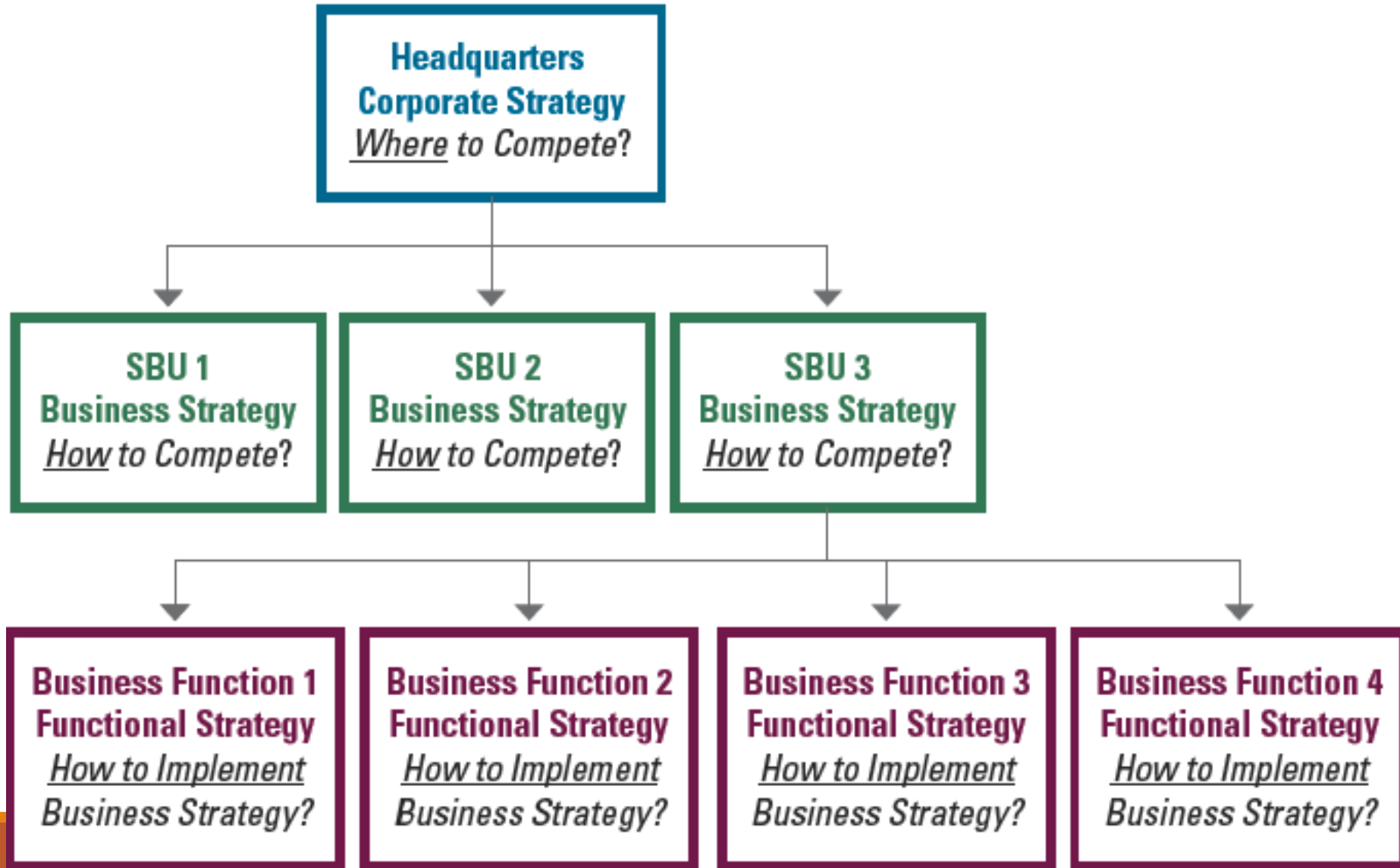
**Corporate Level:** Typically involves decision-making by the top management team that includes the CEO, senior executives, the board of directors, and the corporate staff. Decisions include vertical integration, diversification, strategic alliances, acquisitions, new ventures, and restructuring.

**Business Level:** Includes the strategic choice of *generic strategy* (cost leadership, differentiation, focus) and the benefits and costs of first-mover advantages. Often an enterprise participating in multiple businesses will have different business strategies.

**Functional Level:** Typically directed at improving the effectiveness of functional operations within a company, such as manufacturing, materials management, human resources, marketing, R&D and operations management.

**EXHIBIT 3**     **Strategy Formulation and Implementation Across Levels:  
Corporate, Business, and Functional Strategy**

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# Business Models

## Putting Strategy into Action

- "Razor-blade model" (e.g., laser printers)



- Subscription model (free cell phone

along with wi

How is the firm going to make money to

continue operat

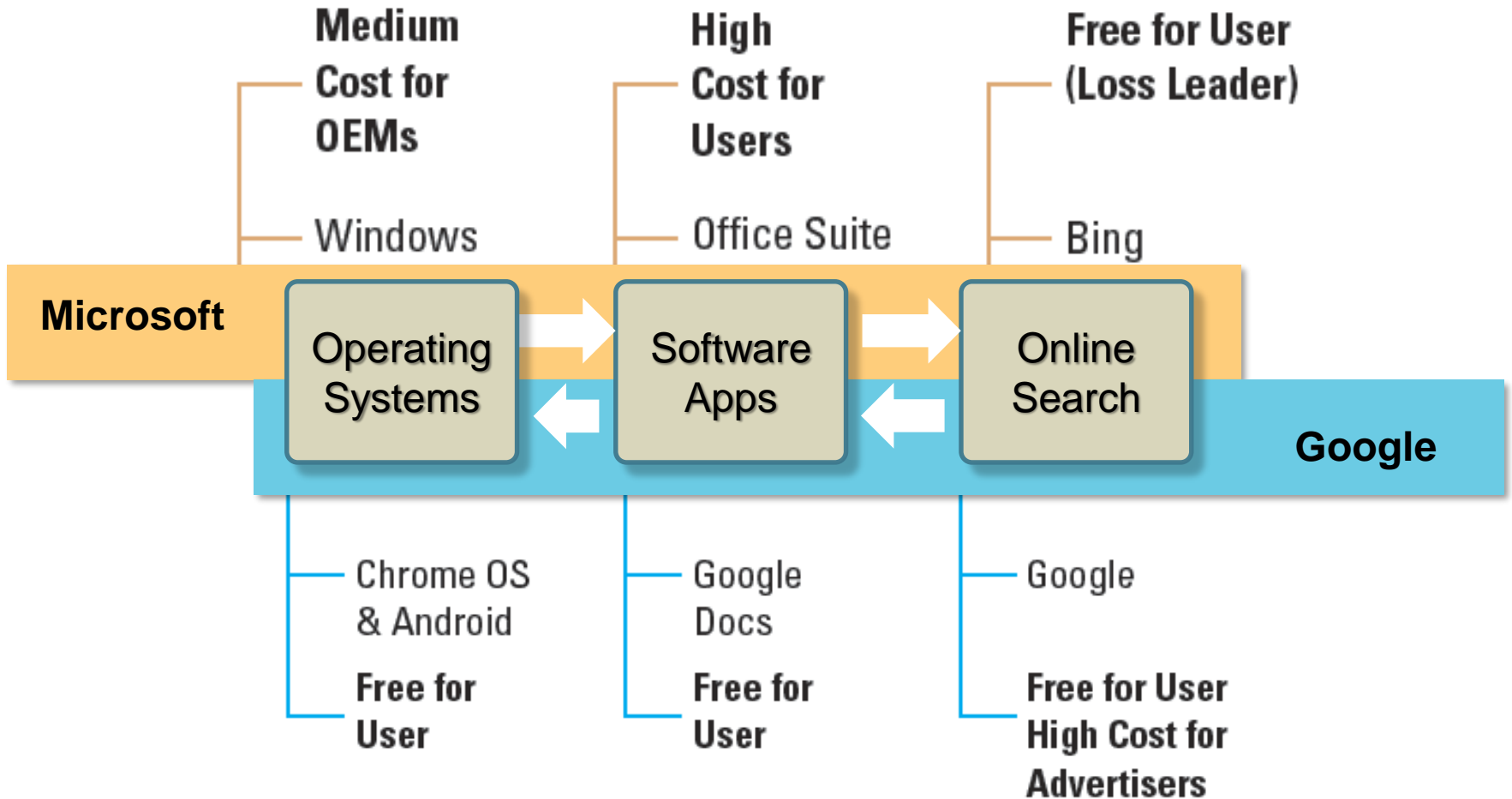
What's happening now between Microsoft

and Google?

- Business models in opposite directions



Multi-point Competition



# Strategy in the 21<sup>st</sup> Century

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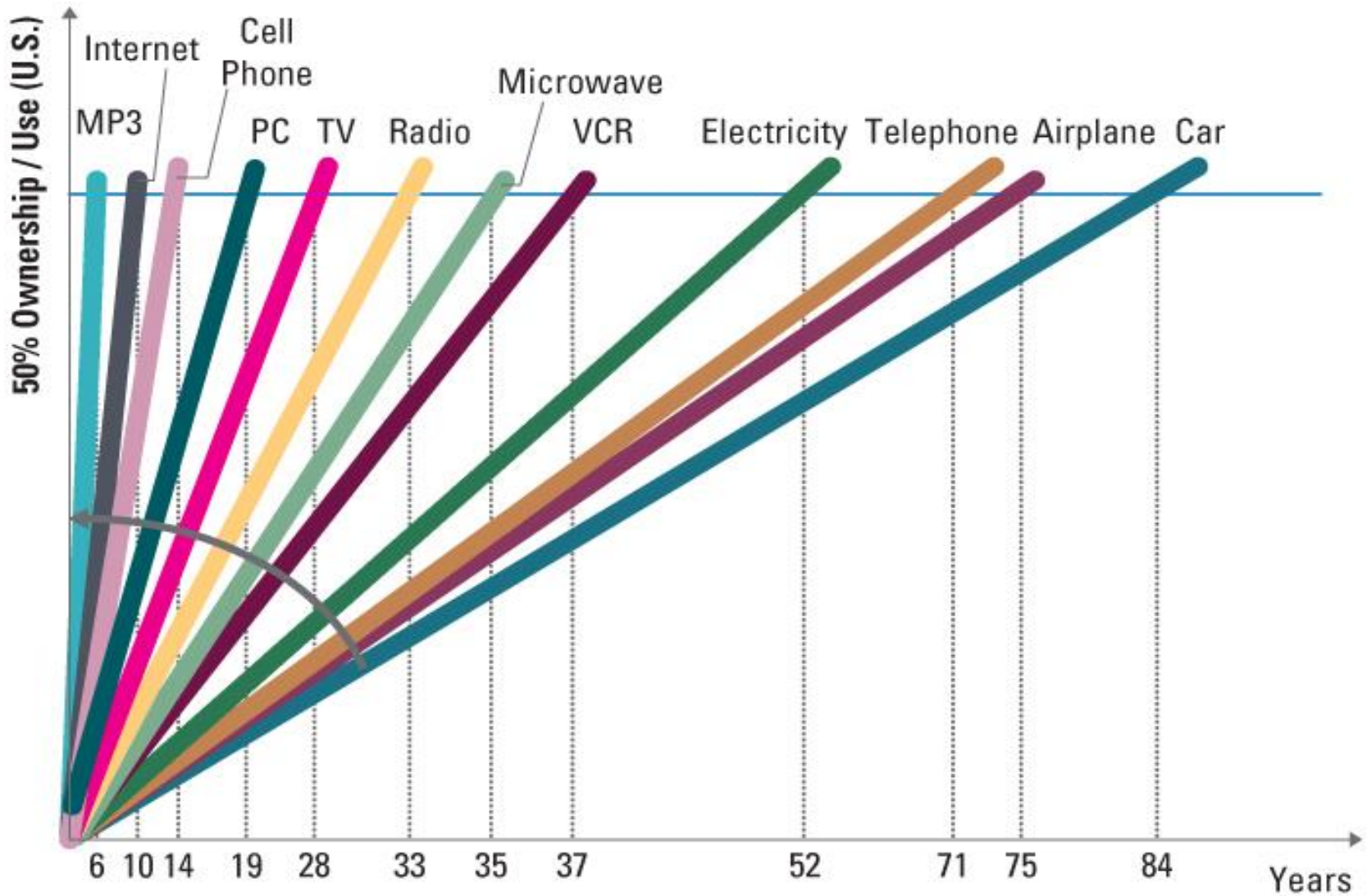
## Accelerating Technological Change:

- 84 years for half of U.S. families to own a car;
- 28 years for half to own a TV;
- 19 years for the PC to reach 50% ownership;
- 6 years for an MP3 player.



EXHIBIT 5

# Accelerating Speed of Technological Change



# Strategy in the 21<sup>st</sup> Century

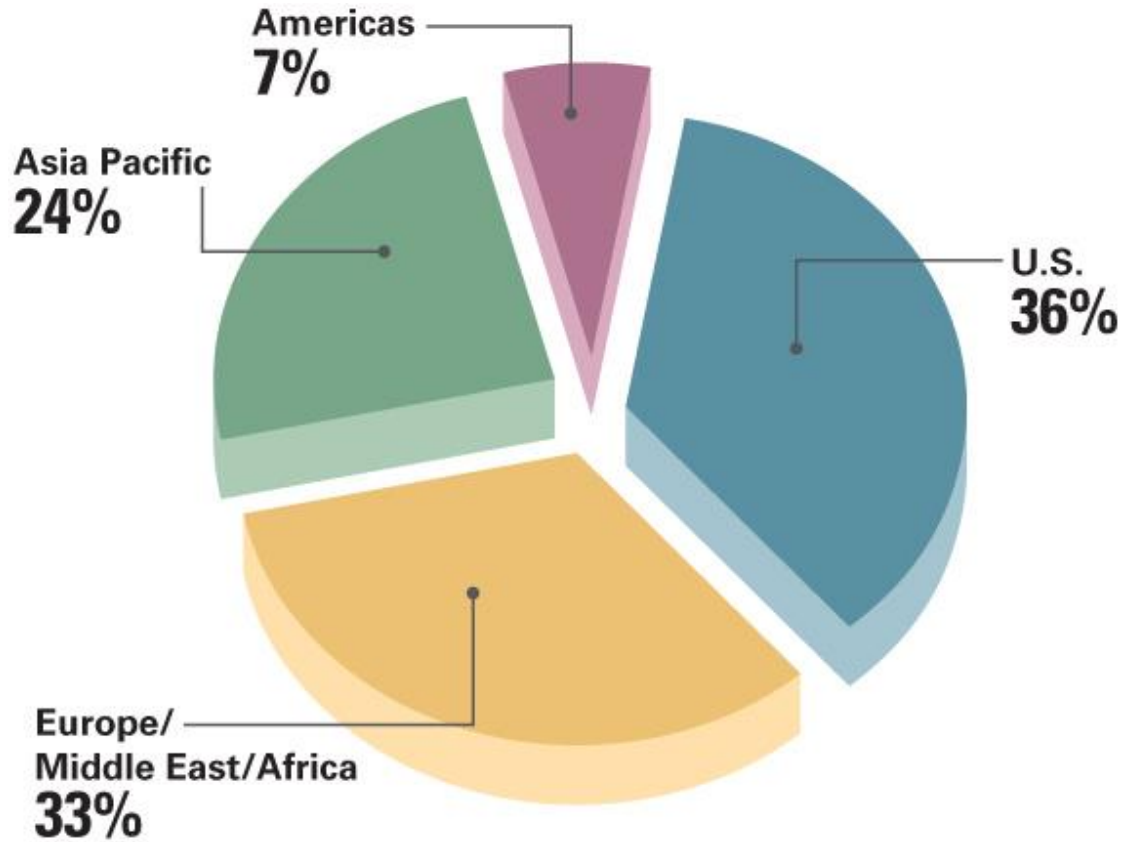
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## A Truly Global World

- BRIC countries have 40% of earth's population
  - Brazil, Russia, India, and China
- IBM has less than 30% of employees in the U.S.
- “Bottom of the pyramid” business opportunities
  - Grameen Bank in India: Microcredit



# Geographic Sources of IBM Revenues, 2010



❖ Is IBM still a “U.S. company” ?

# Strategy in the 21<sup>st</sup> Century

## Future Industries

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- **Health Care**

- In the U.S., over 16% of GDP and still growing

- **Green Economy**

- Potentially large growth in energy efficiency technologies (e.g., solar panels)

- **WEB 2.0**

- Interactivity and using collective intelligence on the Internet. Subject to "**network externalities**"



- **Online apparel company: Threadless**
  - **Started in 2000 with \$1,000 by 2 students – Jake Nickell and Jacob Dehart**
  - **“Prosumers” – a hybrid supplier/customer**
    - ❖ **Shirt designs are submitted by the community**
    - ❖ **Designs are voted on by the online community**
      - **Only winning designs are produced & sold**
      - **“Crowdsourcing”**: volunteers for tasks



Threadless Interview



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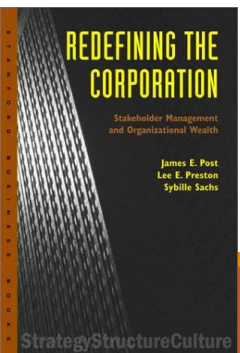
# The Manager's Role in Balancing Expectations

## Business Roundtable:

- “Balancing the shareholder’s expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management.”

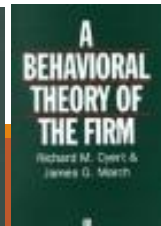
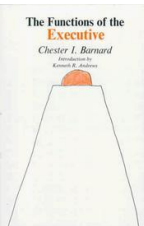
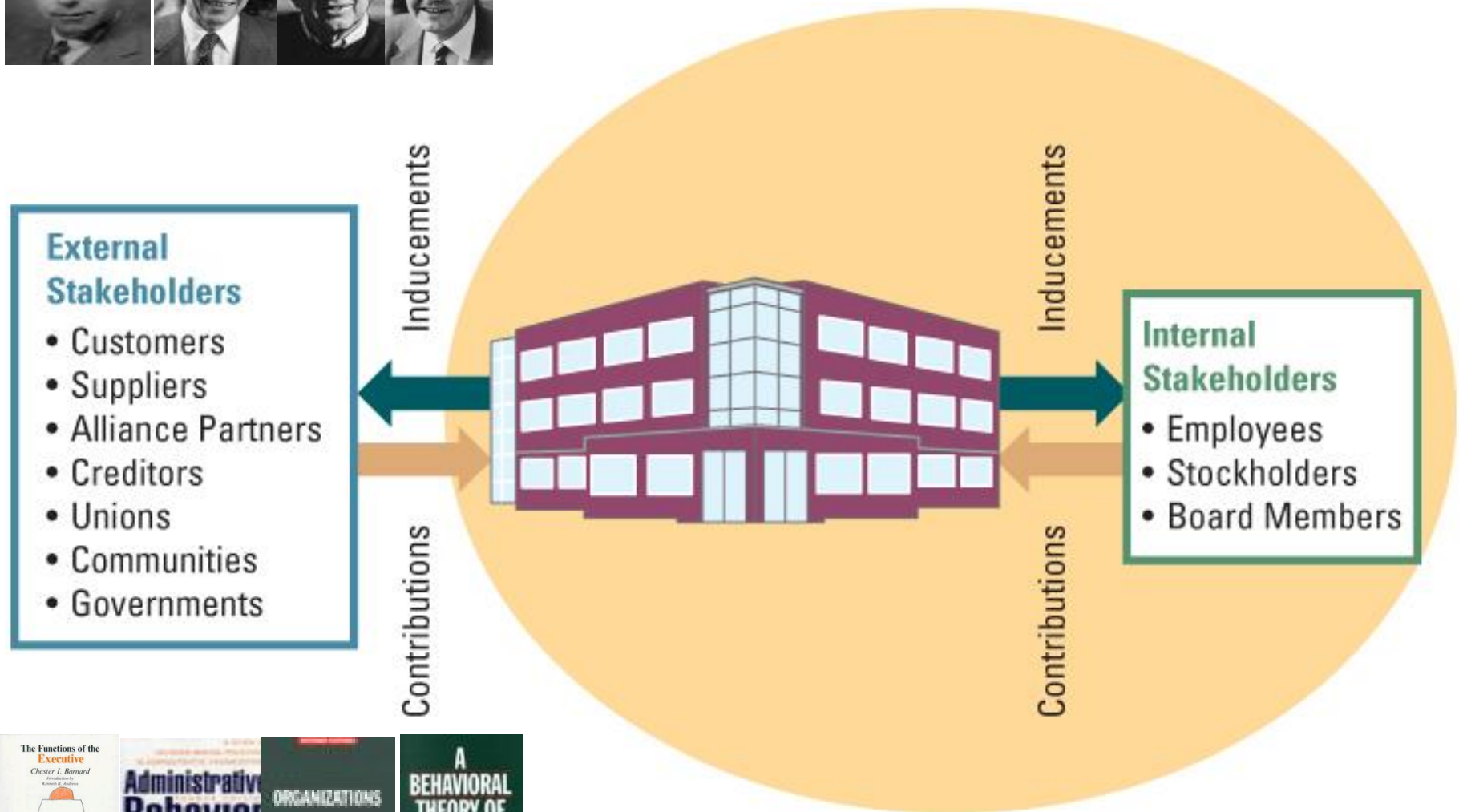
Understanding corporate strategy means understanding the competing value claims of multiple stakeholders.

Stakeholders are the individuals and groups who can affect, and are affected by, the strategic outcomes achieved and who have enforceable claims on a firm’s performance.



# EXHIBIT 8 Internal and External Stakeholders

GAINING &  
SUSTAINING  
COMPETITIVE  
ADVANTAGE



# Our Learning Goals:

## *Pushing Down Through Bloom's Taxonomy*

- 1. Knowledge:** remember material; know terms, facts, procedures, basic concepts
- 2. Comprehension:** grasp meaning; understand facts, interpret charts, translate verbal to math estimate consequences
- 3. Application:** use material in new situations; apply concepts to real situations, follow a procedure
- 4. Analysis:** break material into components & understand structure; recognize logical fallacies, distinguish fact and inference, evaluate relevancy of data
- 5. Synthesis:** integrate parts to make a new whole, integrate learning to solve a problem
- 6. Evaluations:** judge logical consistency, judge whether conclusions are supported by facts

# Most Frequently Cited Skills of Effective Managers

Most frequently cited skills of effective managers. This survey is the assessment of more than 500 mid-level and upper-level managers in about 150 organizations:

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- 01. Verbal communication  
(especially the ability to listen and give counsel)
- 02. Managing time and stress
- 03. Managing individual decisions
- 04. Recognizing, defining, and solving problems
- 05. Motivating and influencing others
- 06. Delegating
- 07. Setting goals that are operational

# Most Frequently Cited Skills of Effective Managers

- 08. Self-awareness
- 09. Team building
- 10. Managing conflict

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- 11. Ability to give a formal presentation
- 12. Patience and respect toward others
- 13. Analytical abilities and technical competence
- 14. Hard work and enthusiasm
- 15. Skills for integrating specialized knowledge
- 16. Ability to write effective reports
- 17. Knowledge of business and strategic planning
- 18. Tolerance and adaptability to change

# Reference and source

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