JMC vLearning
"your virtual learning partner"

Environment Analysis & Strategic Position

Part 2

Chartered Accountancy
Strategic Level

Strategic Management & Leadership (SML)

Mathisha Hewavitharana

MBA (Col), BBA (Col), Dip in Marketing (UK), MCIM. (UK), Practicing Marketer (SL), ACMA, CGMA, DBF (IBSL), AIB (IBSL), MSLIM

ජයසේකර කළමනාකරණ මධ්‍යස්ථානය
JMC JAYASEKERA MANAGEMENT CENTRE (PVT) LTD Estd. 1972

JMC Jayasekera Management Centre (Pvt) Ltd
Pioneers in Professional Education
65/2A, Chittampalam Gardiner Mawatha, Colombo 02 | T: +94 112 430451 | E: info@jmc.lk | F: +94 115 377917

STRATEGIC MANAGEMENT

&

LEADERSHIP

CA - STRATEGIC LEVEL

Environment Analysis & Strategic Position (02)

By:

Mathisha Hewavitharana

MBA (Colombo), BBA (Colombo), Dip In Mktng (UK),
MCIM (UK),Chartered Marketer (UK), Practicing Marketer (SL)
ACMA, CGMA (CIMA), DBF (IBSL),
AIB (IBSL), MSLIM,

Environment Analysis & Strategic Position – (10%)

TUTE 02

CONTENT		
1	Nature of Business Values	
2	Value Creation & Value Chain	
3	The Value Network	
4	Competitive Advantage : Resources & Competencies	

INTRODUCTION

Having investigated the environment that surrounds an organisation, before we can move on to consider the development of strategy, we now need to consider its strategic position - in other words its strengths and weaknesses. We will do this in a variety of ways, but some of the more important approaches are the Porter's value chain model and the idea of competencies and resources.

1.0 THE NATURE OF BUSINESS VALUE

Value is the worth of something.
Organization uses some inputs for the business such as people, money, material, equipment and other types of assets which has a defined value. By using these resources, organization will develop products or services which will carry a higher value than the input used by the business.
Therefore it's noted that creation of "Value" is mandatory for a business organization to survive in the market.

1.1 Meaning of Value to Different Stakeholders

Value creation is the primary aim of any business entity. But the challenging part is, value has different meanings to different groups of people;

Shareholder Value	
Customer Value	
Employee Value	
Supplier Value	

Societal Value	

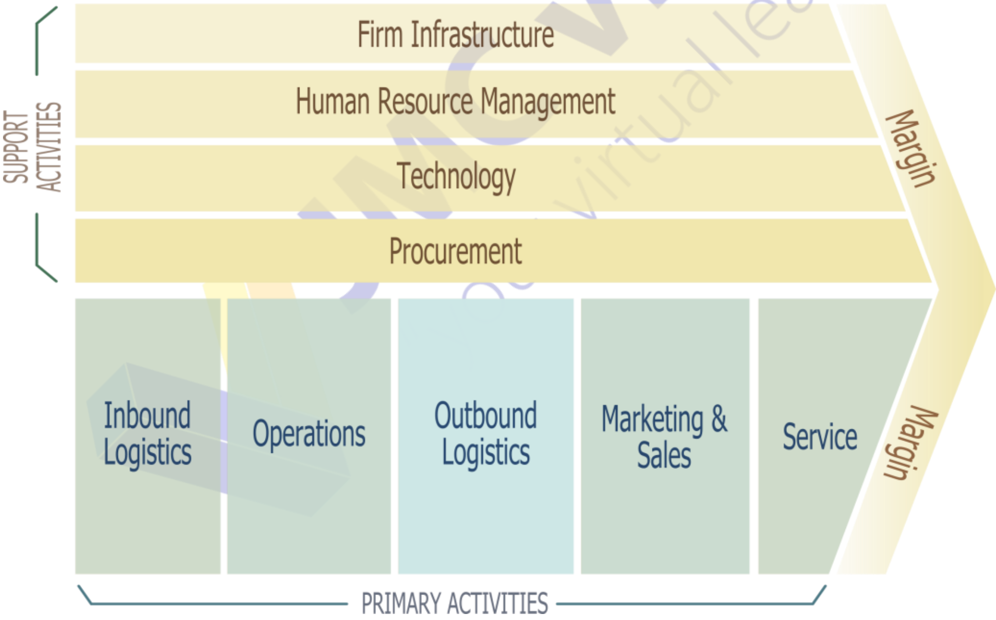
2.0 VALUE CREATION & VALUE CHAIN

Value is created from the way in which a business makes use of its resources and the activities it does.

2.1 Value Chain

Value is created by the way an organization uses its resources and activities it carries out. Value creation activities within an organization is called as its "Value Chain".

Business operations are value creating activities. The Value Chain framework of Michael Porter is a model that helps to analyze specific activities through which firms can create value and competitive advantage.



"Margin" in the above diagram represents "Profit" to be earned by the firm as a result of the value creation / addition done by the firm in its business process from the time of getting raw material / input to the system.

Value chain consists of;

1. Primary Activities
2. Secondary Activities

2.1.1 Primary Activities

Primary activities are activities directly involved in the manufacture of goods or provision of services to customers, sales and marketing, delivery of goods to customers and after-sales service and support

Primary activities of a typical manufacturing company;

Inbound Logistics	
Operations	
Outbound Logistics	
Marketing & Sales	
Service	

2.1.2 Support Activities

These activities provide support for the primary activities in the value chain.

Supportive / Secondary activities of a typical manufacturing company;

Procurement	

Technology Development	
Human Resource Management	
Firm Infrastructure	

The purpose of the value chain model is to;

1. Understanding the activities within the organization that should add value.

2. Looking at the ways how those activities could be performed better to add more value.

Cross functional coordination and integration with in the organization / elements of the value chain can create more efficiency and results in value creation.

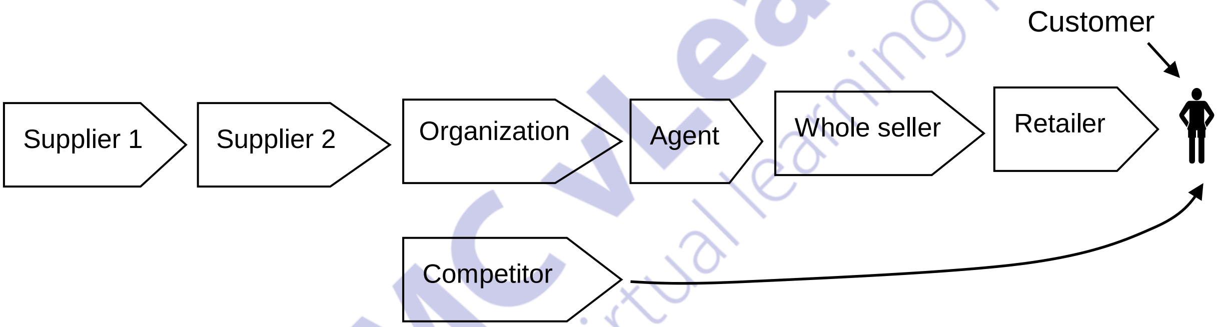
Example:

3.0 THE VALUE NETWORK

A Value network consists of the interconnected value chains of all organizations in the supply chain from raw material production to the end customer delivery.

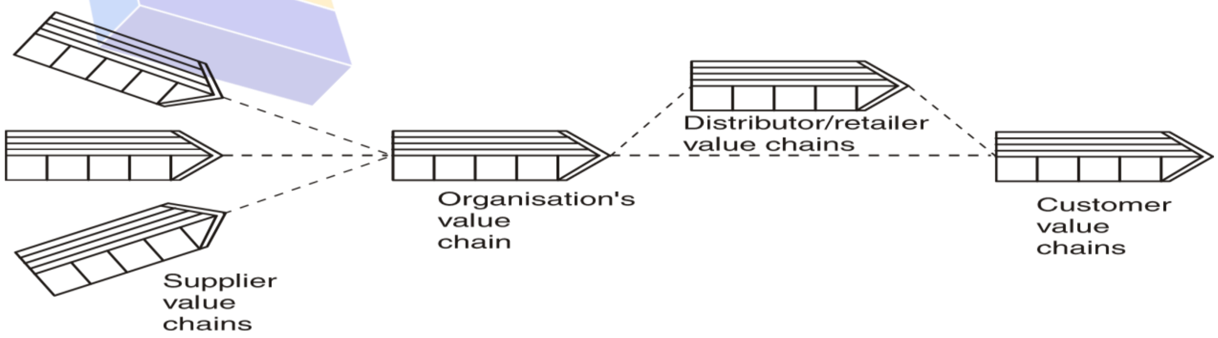
The value network joins an organization's value chain to those of its suppliers and customers. A value network extends from the producers of basic raw materials to the distributors and sellers of an end consumer product. Value should be created at every stage in the value network, although more value may be created in some parts of the network than in others.

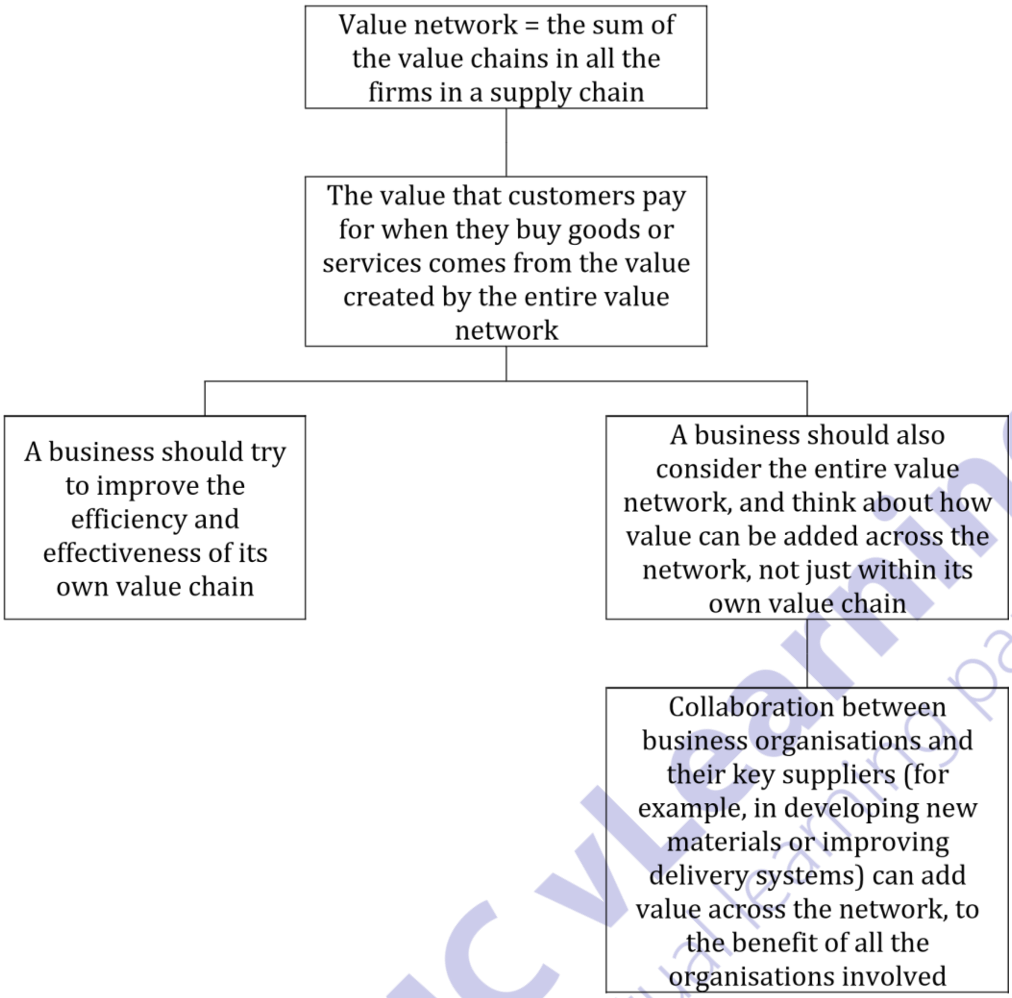
Value activities and linkages between are not restricted to an organisation's own business activities.



3.1 Value Network & Supply Chain

The term "Value Network" was initially used by Johnson, Scholes and Whittington to describe the links between the value chains of different organizations:





4.0 COMPETITIVE ADVANTAGE : Resources & Competences

4.1 Competitive Advantage

4.2 Resource Based View (RBV) on Competitive Advantage Management

Resources are used by management to create value and there can be different forms of available resources for an organization.

Physical Resources	
Financial Resources	
Human Resources	
Intellectual Resources	

7 M Model

Men	
Money	
Machine	
Management	
Management Information Systems	
Make-up	
Methods	

4.3 Threshold Resources and Unique Resources

Resources can either be;

a) Threshold Resources

These are the mandatory resources for the organization to have in order to fulfill minimum requirements of customers. Without having threshold resources, an organization cannot compete in the market.

b) Unique Resources

These are the resources which are unique to the organization and which are found difficult to be duplicated / imitated by competitors. These resources will provide a competitive advantage for the organization over it's competitors.

4.4 Competences

Competence refers to the ways in which an organization uses its resources to create value and to meet expectations of its customers. Competences can be in two forms;

a) Threshold Competences

b) Core Competences

4.5 Resources & Limiting Factors

A *Resource Audit* is a review of all aspects of the resources the organization uses. The Ms Model categorizes the factors as follows;

Men	
Money	
Machine	
Management	
Management Information Systems	
Make-up	
Methods	

Competitive Advantage comes from unique resources and core competences. These are either very difficult or impossible for competitors to imitate / copy.

Having competitive advantages will ensure that organization can offer more value to its customers via value chain. Michael Porter suggests that companies can should seek competitive advantage over their competitors by;

(i) Creating more Value (To Create a Differentiation)
(ii) Creating value more effectively and efficiently at a lower cost (To Gain Cost Leadership)

4.6 Qualities of Strategic Capabilities

Unique resources and core competences are important for creating and sustaining competitive advantage. If competitive advantage is to be based on unique resources and core competences, they must have four qualities:

- They must produce effects that are **valuable to buyers.**
- They must be **rare.**
- They must be **robust and impossible to imitate or copy easily.**
- They must be **non-substitutable.**

These four qualities are sometimes identified by the letters VRIN:

- V – Value
- R – Rarity
- I – Inimitability
- N – Non-substitutability

  - Value

  - Rarity

  - Inimitability

  - Non - Substitutability

4.7 Dynamic & Redundant Capabilities

The business environment changes continually. Changes in customer attitudes and tastes, combined with changes in technology and economic conditions, mean that the resources and competences that an organisation has built up may cease to be sufficient to enjoy competitive advantage, or even survive in business, in the future.

Organisations must therefore continue to acquire new resources and new competences in order to remain competitive by developing new strategic capabilities.

4.7.1 Dynamic Capabilities

Dynamic capabilities is a term that refers to the ability of a firm to 'integrate, build and re-figure internal and external competences to address rapidly-changing environments' (Treece and others).

Dynamic capabilities may also be defined as the 'capacity of an organisation to purposefully create, extend and modify its resource base'.

Whereas operational capabilities refer to the ability of a firm to compete successfully in current business conditions, dynamic capabilities refer to the ability of a firm to survive in the future as business conditions and markets change.

4.7.2 Redundant Capabilities

Redundant capabilities are resources and competences that an organisation has built up, but which are no longer needed and no longer help to create value. As well as building up new strategic capabilities, firms should also dispose of redundant resources and cease to maintain competences that are no longer worthwhile.

There is a possibility that, unless redundant capabilities are disposed of, there is a risk that the firm will fail to respond successfully to changes in the market.

Methods of Testing Strategic Capabilities

Management should continuously diagnose and analyze the strategic capabilities of the organization for sustainable maintenance of those capabilities. Following will enable the organization in testing strategic capabilities;

- Benchmarking
- Situational Analysis Techniques
- Value Chain Analysis

5.0 BENCHMARKING

Benchmarking is the process of gathering data about targets and comparators that permit current levels of performance to be identified and evaluated against best practice. Adoption of identified best practices should improve performance (CIMA, 2008).

There are a number of different types of benchmarking. Johnson et al (2005) propose the following categories:

Historical benchmarking

An internal comparison of current against past performance. This is unsatisfactory, since it can induce complacency; comparison with competitors is the real test of performance.

Industry/sector benchmarking

Compares like with like across the industry or similar providers in the public service. In the UK public sector, league tables are an obvious example of this approach. The limitation of this method is that the whole industry may be under-performing and in danger from substitute products provided by other industries.

Best-in-class benchmarking

Looks for best practice wherever it can be found. This involves making comparisons with similar features or processes in other industries. Johnson et al (2005) suggest that this approach can have a shock effect on complacent managers and lead to dramatic performance improvements.

5.1 Benchmarking Process

Step 01	
Step 02	
Step 03	
Step 04	
Step 05	
Step 06	
Step 07	
Step 08	

5.2 Using Benchmarking

Roberts and Scholes (1993) as cited by Chen (2003) set out questions that should be asked when carrying out a benchmarking exercise as part of a wider strategic review:

- '**Why** are these products or services provided at all?
- Why are they provided **in that particular way**?
- What are the examples of **best practice** elsewhere?
- How should activities be **reshaped** in the light of these comparisons?'

Johnson and Scholes (1997) as cited by Chen (2003) see three levels of benchmarking.

Level of benchmarking	Through	Examples of measures
Resources	Resource audit	Quantity of resources • Revenue/employee • Capital intensity
		Quality of resources • Qualifications of employees • Age of machinery • Uniqueness (eg patents)
Competences in separate activities	Analysing activities	Sales calls per salesperson Output per employee Materials wastage
Competences in linked activities	Analysing overall performances	Market share Profitability Productivity

When selecting an appropriate **benchmark basis**, companies should ask themselves the following questions:

(a) Is it possible and easy to obtain reliable competitor information?

(b) Is there any wide discrepancy between different internal divisions?

(c) Can similar processes be identified in non-competing environments and are these Non-competing companies willing to co-operate?

(d) Is best practice operating in a similar environmental setting?

(e) What is our timescale?

(f) Do the chosen companies have similar objectives and strategies?

5.3 Reasons for Doing Benchmarking

-
-
-
-
-

5.4 Drawbacks of Doing Benchmarking

-
-
-
-
-