

Strategic
management
competitive
advantage paper
summary



**ASSIGN
BUSTER**

The paper "Strategic Management and Competitive Advantage - Concepts and Cases by Barney & Hesterly" is a meaningful example of a book review on management. Every business organization has a long-term purpose or mission which is to generate value to its owners by pursuing activities according to the owners' desires and in competition with similar businesses in a specific industry sector. The value generated by a business would depend on how well it gains a competitive advantage over its competitors by exploiting its own strengths and neutralizing its weaknesses. The business follows a strategic management process to develop a strategy, a well-defined plan that allows it to achieve its mission and win over the competition.

The strategic management process follows an ordered series of steps. First, it has to define well its mission, which shows where the business wants to go in the long-term. Having a clear mission allows the business to craft specific measurable objectives that would help them determine if they are achieving the mission. Second, the business has to evaluate its resources and capabilities (internal strengths and weaknesses) and its business environment (competitors, industry and market characteristics and developments), so that it knows where it is (how to capitalize on strengths and neutralize its weaknesses) and what it can and must do (how to minimize threats and exploit opportunities) to compete. Third, using the information from the previous analyses, the business develops a set of business- and corporate-level strategic choices based on several options open to it and that would lead to competitive advantage: cost leadership, differentiation, or focus; integration, alliances, etc. The fourth step is <https://assignbuster.com/strategic-management-competitive-advantage-paper-summary/>

strategy implementation which includes making changes, if needed, on the strategies based on real-world information and experience. Competitive advantage can be measured using accounting and economic performance measures. The first compares accounting ratios with established industry standards while the second compares the level of profits with the cost of capital to show if the business is a good investment. Knowing these basic points gives potential managers a competitive edge over others. This is why learning the strategic management process and knowing how to use it is important.

Chapter 2: Evaluating a Firm's External Environment

Knowing the firm's external environment is important in the strategic management process because it affects how value is generated and how activities could be carried out under the influence of technological change, demographic trends, cultural trends, the economic climate, legal and political conditions, and other global events. Using the structure-conduct-performance (S-C-P) model allows a systematic analysis of the firm and its environment. This model: (1) helps a firm identify the attributes of its industry's structure that constrains the firm's strategic alternatives and performance, (2) helps it decide how to conduct itself by crafting the most appropriate strategies, and (3) take into account the performance of the firm, the industry, or the economy.

The S-C-P model helps a firm develop the tools it can use to analyze threats in its competitive environment. The "five forces framework" is a tool that looks at five threats to the firm: barriers to entry, rivalry, substitutes, suppliers, and buyers. These threats affect the firm, its performance, and <https://assignbuster.com/strategic-management-competitive-advantage-paper-summary/>

how its competitors would react, thereby helping the firm determine what strategies it needs to develop and execute to overcome problems arising from each of these forces.

Compliments are another important force that a firm has to contend with because these firms add value to the firm's products. A firm can use "complementors" as a means of gaining an advantage over other competitors, e. g. Microsoft encouraging software companies to develop games for its X-box game player instead of developing games for its competitors.

The S-C-P model can also help firms analyze strategic opportunities by identifying generic industry structures and available strategic opportunities, such as (1) consolidation in fragmented industries, (2) technological leadership in emerging industries, (3) product refinement and process innovation in mature industries, and (4) market leadership in declining industries, among others. Using the S-C-P model, global firms can also explore multinational, global, or transnational strategies it can use to gain competitive advantage and create greater value.

Chapter 3: Evaluating a Firm's Internal Capabilities

A firm's performance is affected by its internal resources and capabilities.

Resources are tangible and intangible assets used to conceive of and implement strategies, while its capabilities define how the firm takes

advantage of these resources. The resource-based view (RBV) economic theory assumes that competing firms possess these resources and

capabilities in different ways (resource heterogeneity) and over long time
<https://assignbuster.com/strategic-management-competitive-advantage-paper-summary/>

periods (resource immobility).

A firm can use the value, rarity, imitability, and organization (VRIO) framework as a tool to (1) evaluate the competitive potential of its resources and capabilities, (2) evaluate its strengths and weaknesses, and (3) evaluate its ability to exploit opportunities and neutralize threats. A firm creates value if it can use its resources and capabilities well enough to generate profits by increasing net revenues or decreasing net costs (Barney & Hesterly).

Analyzing the firm's value chain, which is the series of activities to develop, produce, and sell its products or services, allows the firm to identify its valuable resources and capabilities. The firm must invest invaluable and common resources and capabilities to achieve competitive parity. Valuable and rare resources can give a temporary competitive advantage, but if the resources are costly to imitate, these could be a source of sustained competitive advantage. The best combination would be for a firm to organize itself properly in order to take full advantage of valuable, rare-to-find, and costly-to-imitate resources and capabilities.

The VRIO framework is useful in deciding what to do when the firm competes with another with a sustained competitive advantage. Its response would depend on whether it has sufficient resources or capabilities, the best way these could be exploited, and how. A firm must be careful not to overestimate its resources and must be willing to change its organization if doing so allows it to be a better competitor. RBV and VRIO can also help the <https://assignbuster.com/strategic-management-competitive-advantage-paper-summary/>

firm pursue global opportunities provided it is willing to learn, has sufficient resources, and has international linkages it could exploit for value.