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15.963 Advanced Strategy
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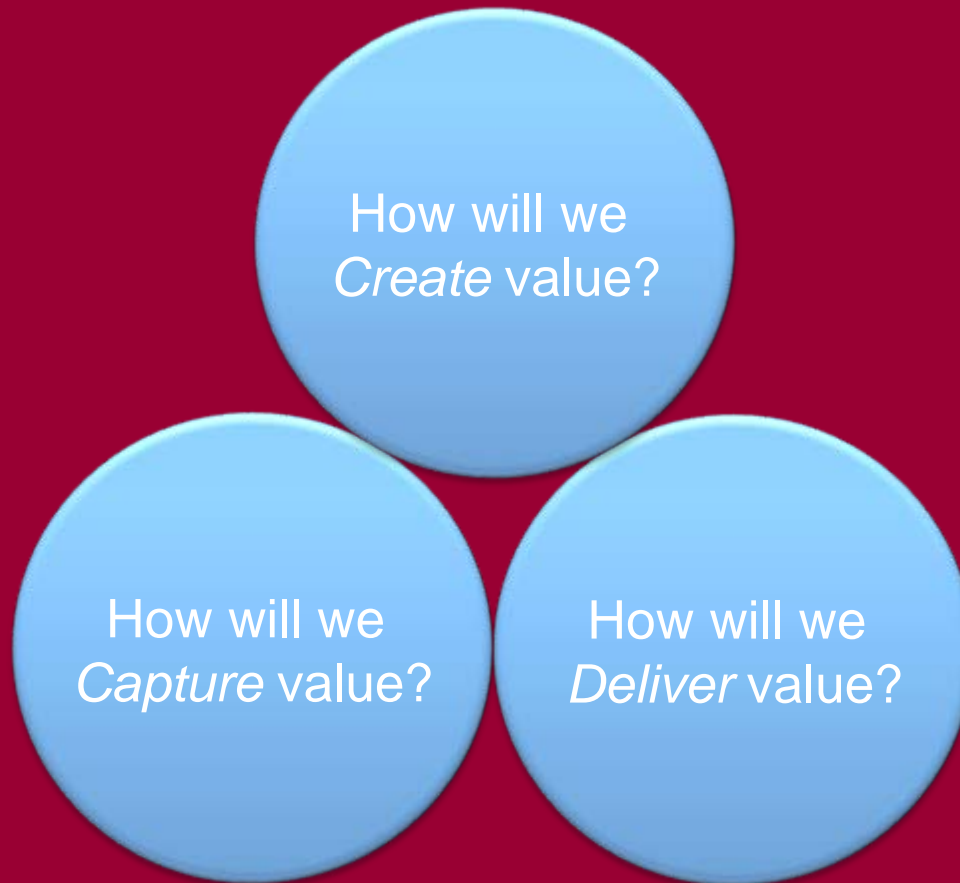


15.963: Closing Reflections

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Eastman Kodak LFM Professor of Management

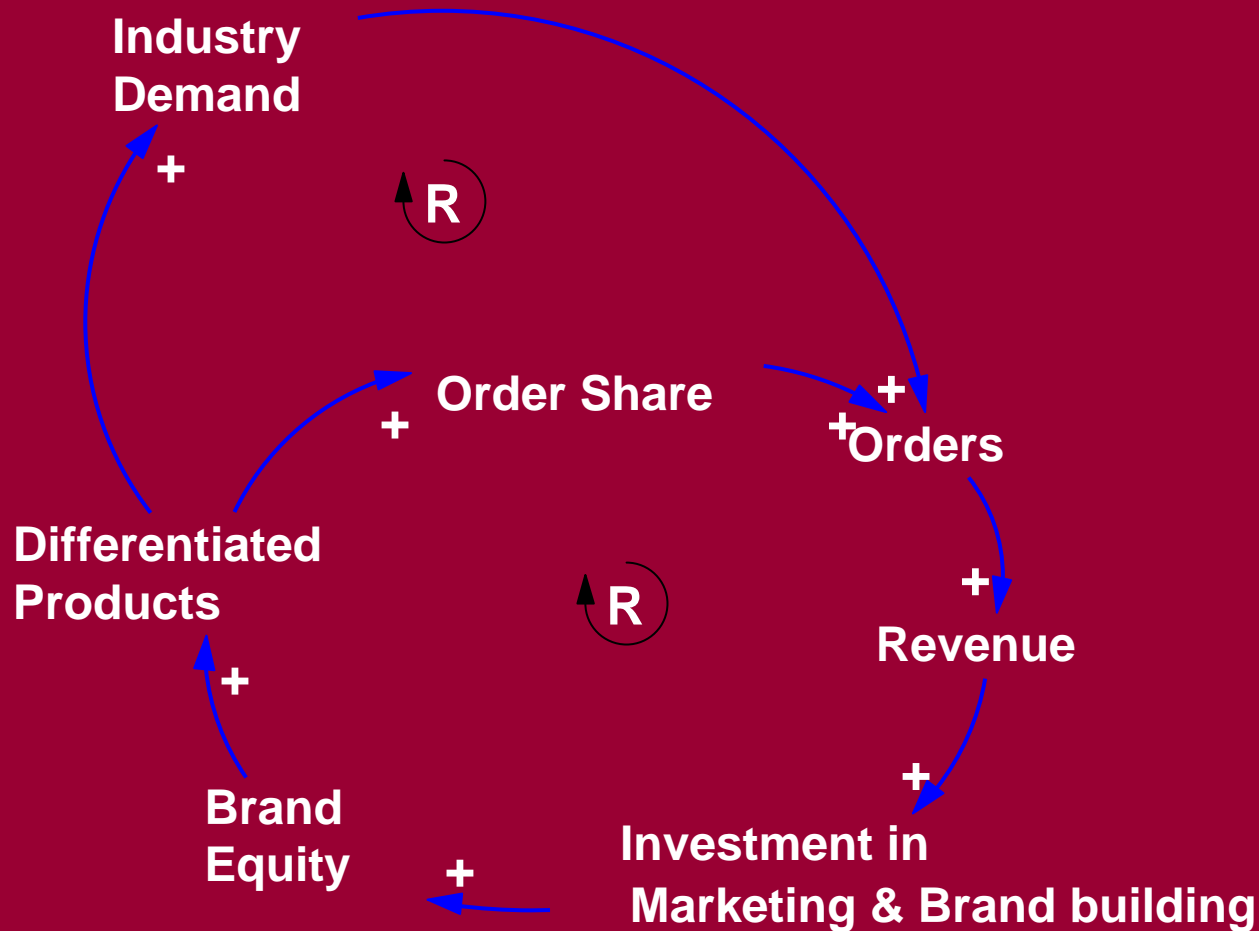
Effective strategies answer three key questions:



Sources of competitive advantage:

- Great context:
 - “Friendly” suppliers and buyers
 - Mellow rivalry
- Strong structural advantages:
 - Institutional connections
 - Unique IP/Assets
 - Scale & Scope derived advantages:
 - Marketing, R&D, Production costs, People, Capital...
- Differentiated organizational competencies:
 - Tightly integrated organizational systems whose elements are “complementary” to each other
 - Featuring relational contracts where appropriate

Self reinforcing dynamics in Marketing, Brand & Customer Awareness



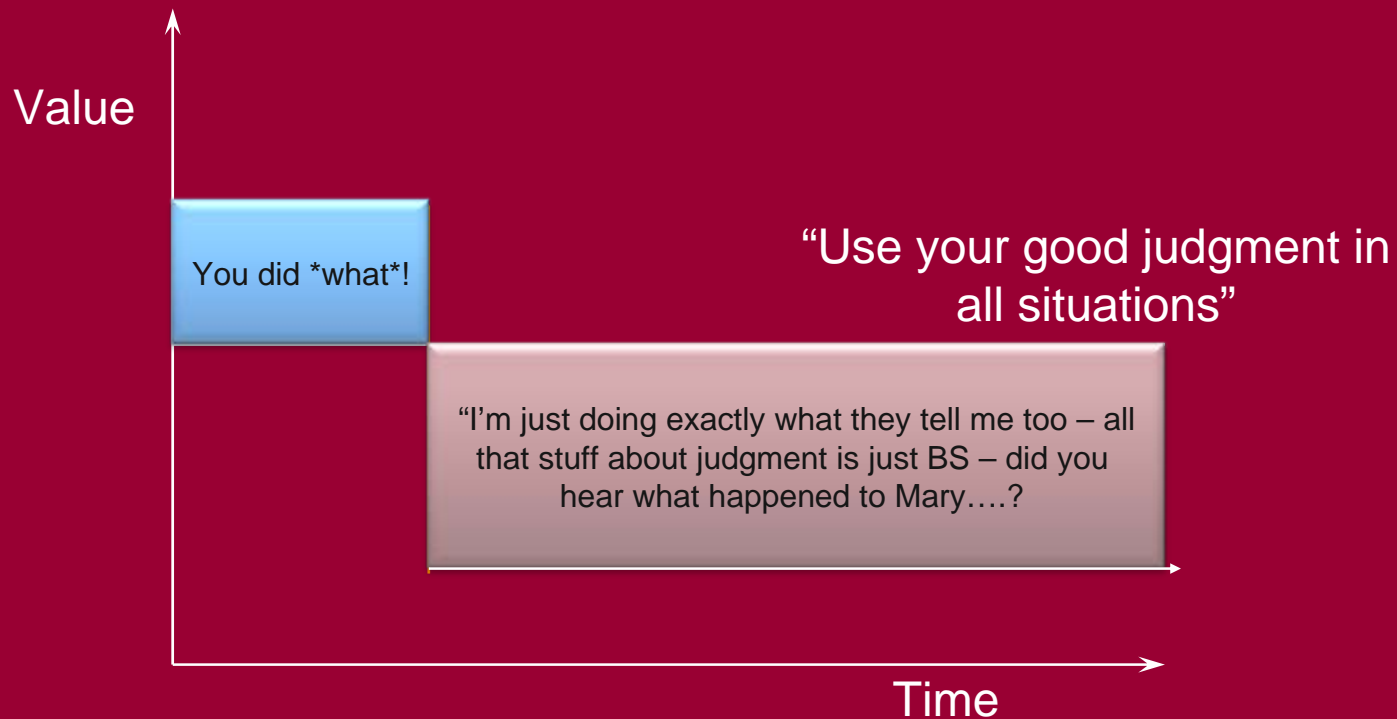
But...

- Structural advantages often erode...
 - Can scale be “bought?”
- Sometimes they are simply not available
 - Toyota? Simmons? Southwest?
- And well deployed organizational competencies can sometimes do an “end run” around established structural positions:
 - Google? Apple?

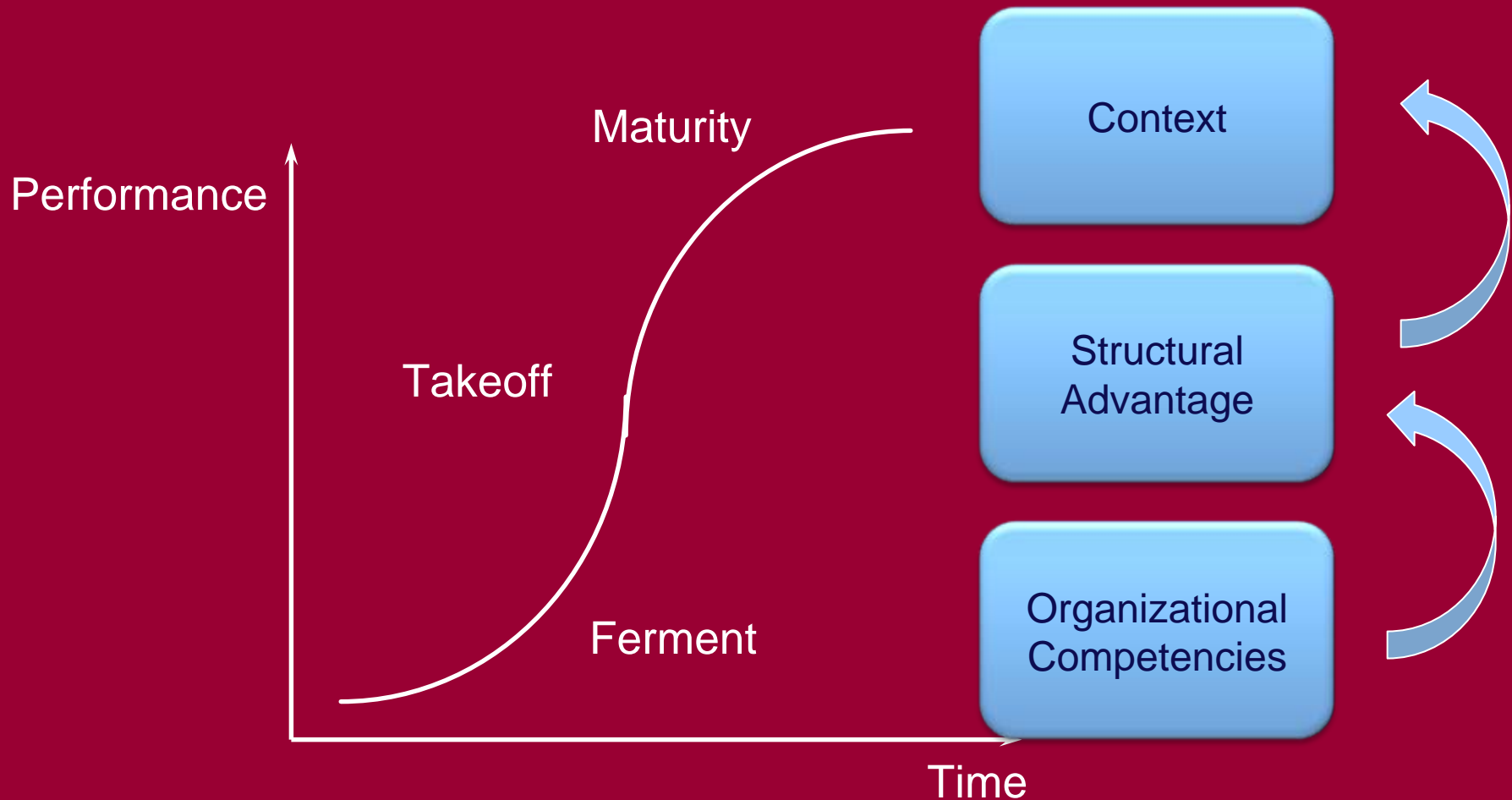
Organizational competencies can be a powerful competitive weapon:

- Particularly when they are embedded in every aspect of the ways in which the firm does business:
 - Who we hire
 - How we reward and promote
 - The values we stress and attempt to act on
 - The metrics we use and the processes we develop
 -
- When they are “complementary” to each other and to the key strategic choices of the firm
- And when they build on well established “relational contracts”

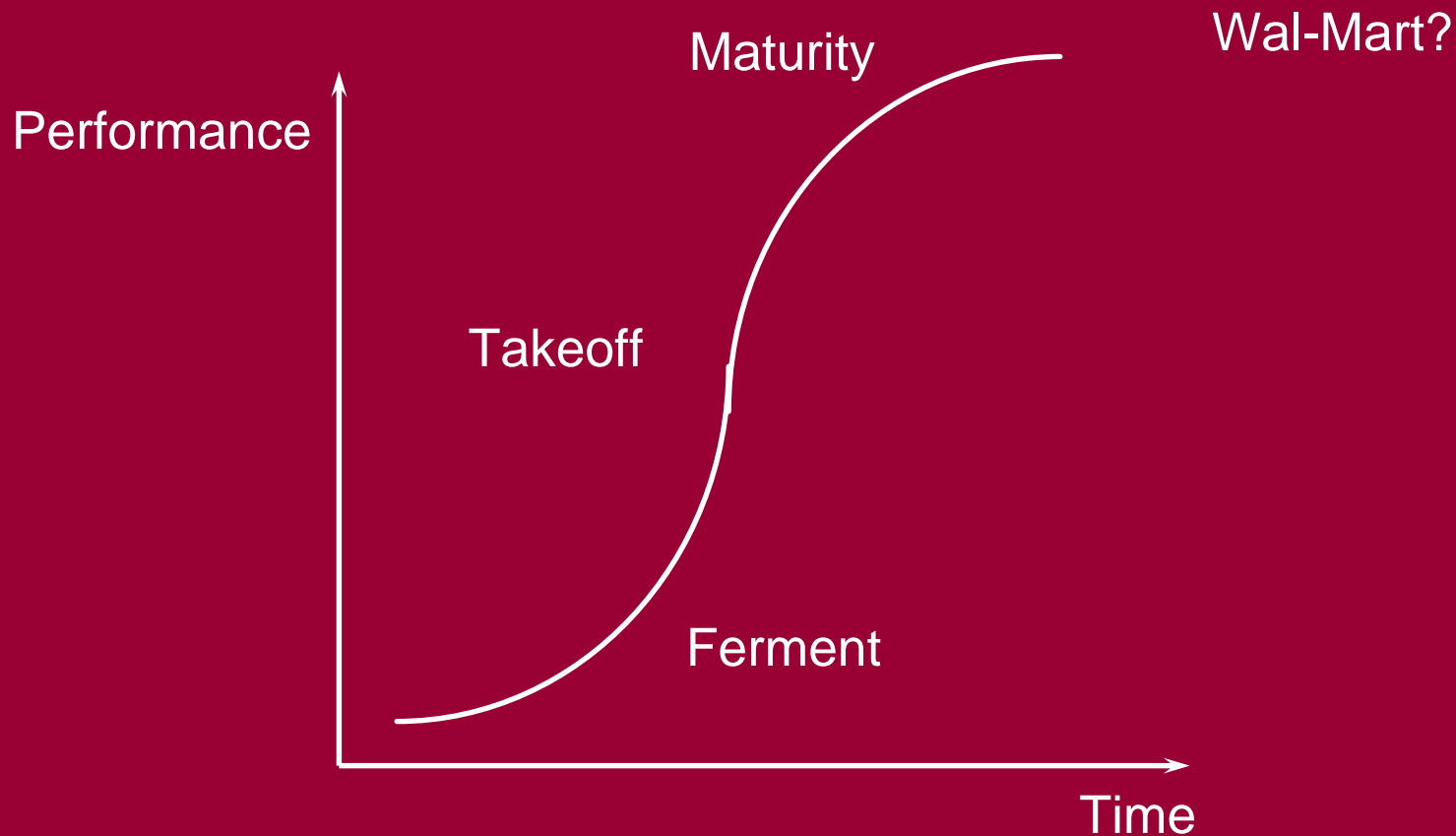
Relational contracts at Nordstrom..



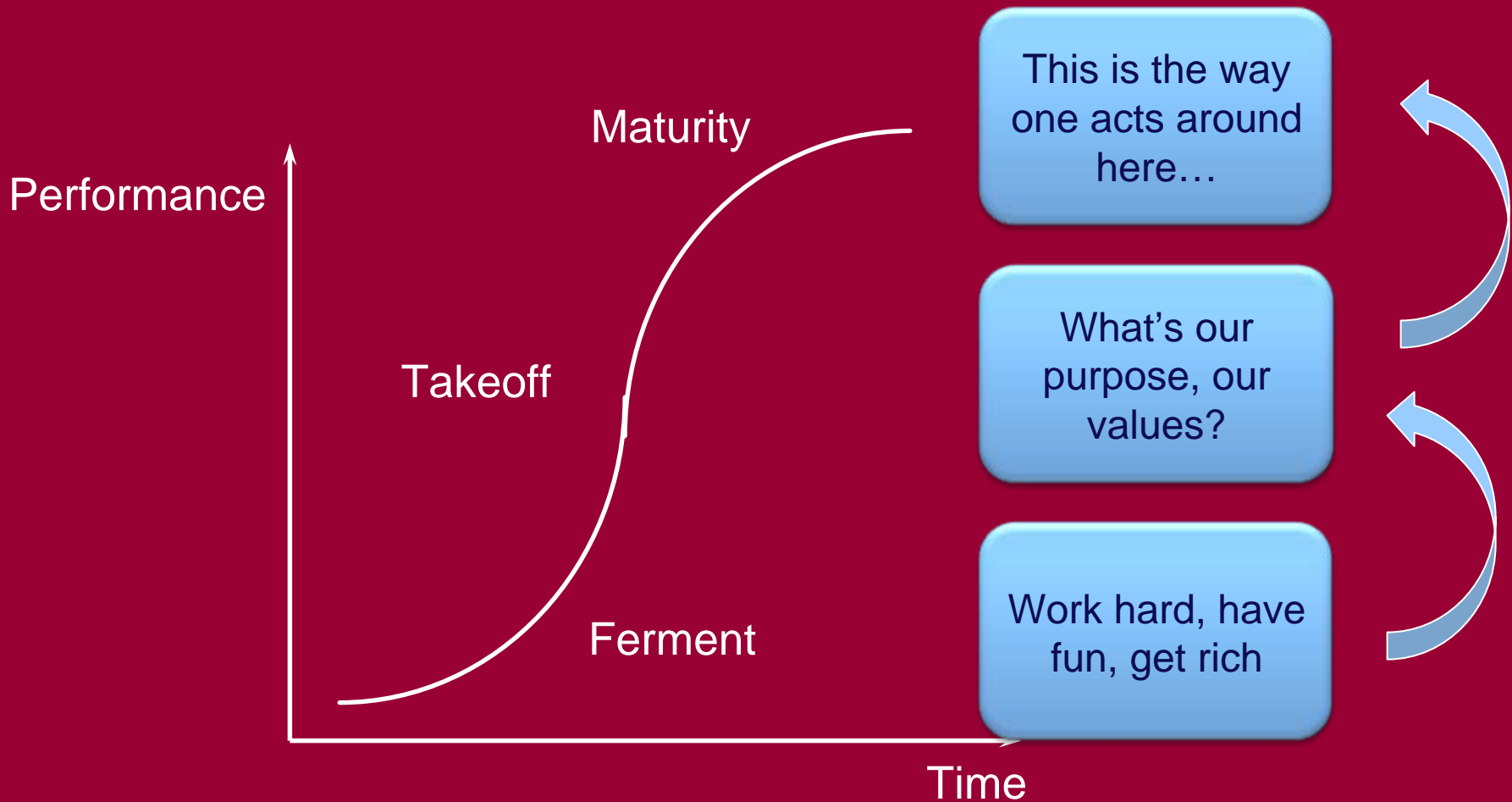
The sources of competitive advantage often change over time....



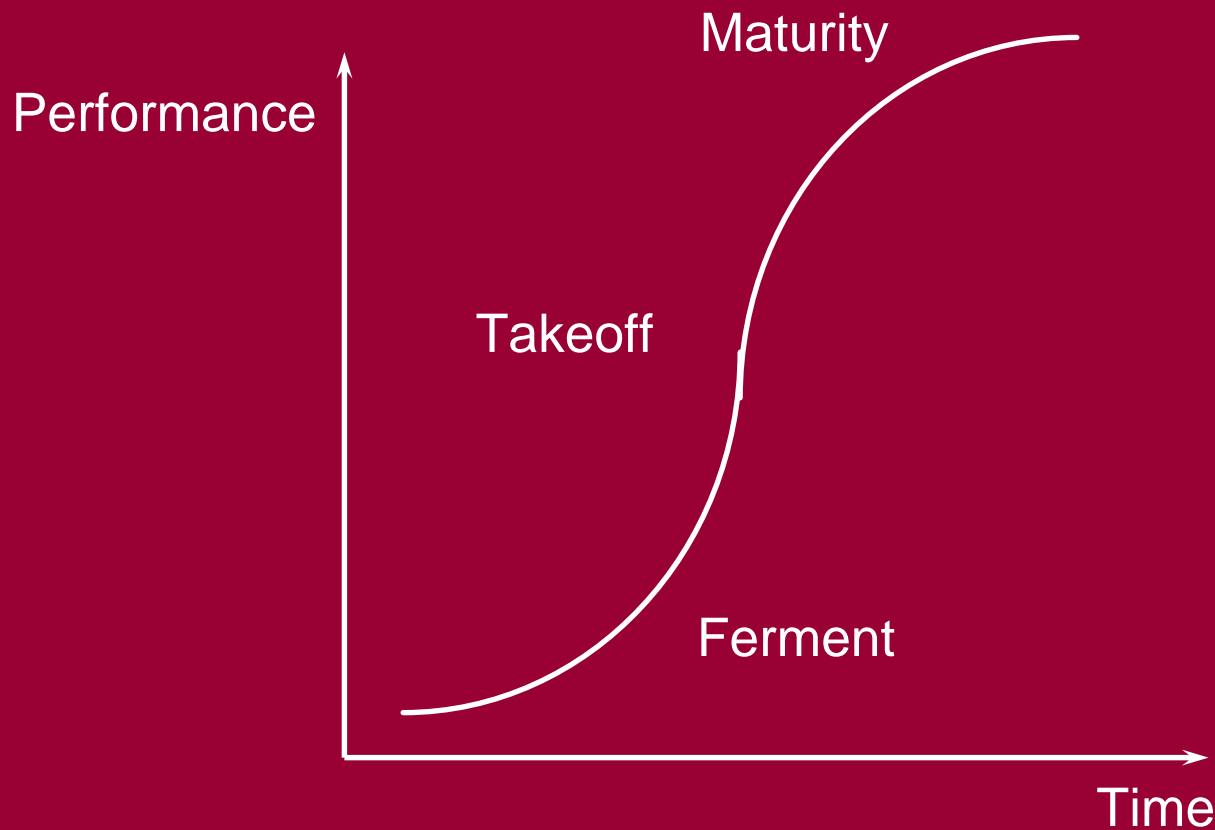
So that in maturity, some high performing firms rely almost entirely on structural advantage...



But in many high performing firms strong relational contracts also develop....

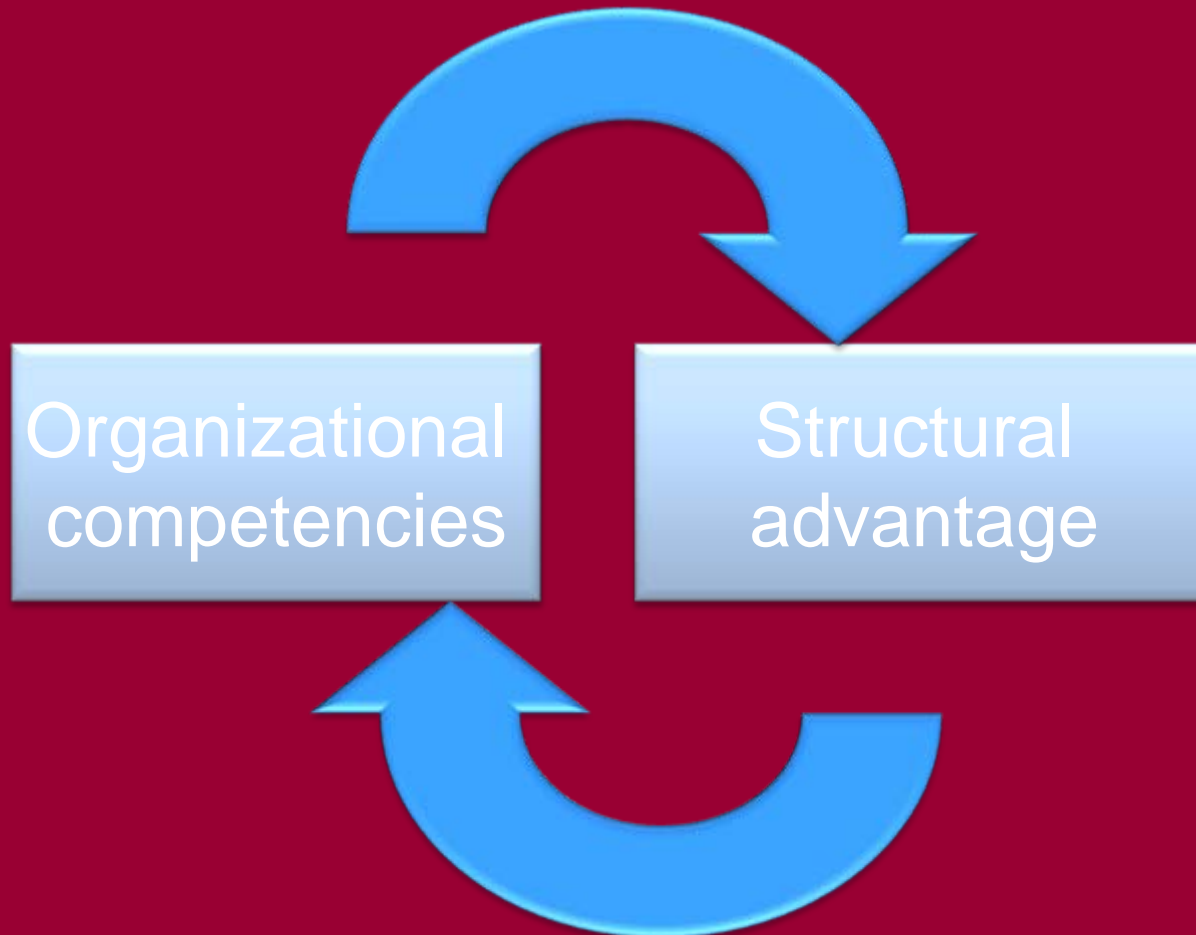


So that in maturity, many high performing firms have both structural advantages *and* effective relational contracts



- Apple?
- Google?
- UPS?
- Intel?
- Zara?
- Saint Gobain?
- Nestle?
- Whole Foods?
- Starbucks?
- Nordstrom?
- McKinsey?
- Goldman Sachs?
- Disney?
- Porsche?
- Genentech?

In these firms organizational competencies and structural advantage reinforce each other



Keys To Success

UPS logo removed due to copyright restrictions.

**Level 5 leadership
from founder Jim
Casey**



Relational Contracts

**Promotion from
within and trust**

**Employee
ownership**

**Collective
innovation with
partners**



Organizational Competencies

**Continuous process
improvement**

**Strong performance
on hard-to-measure
duties**

**Outstanding
strategic shifts and
market awareness**



Structural Advantages

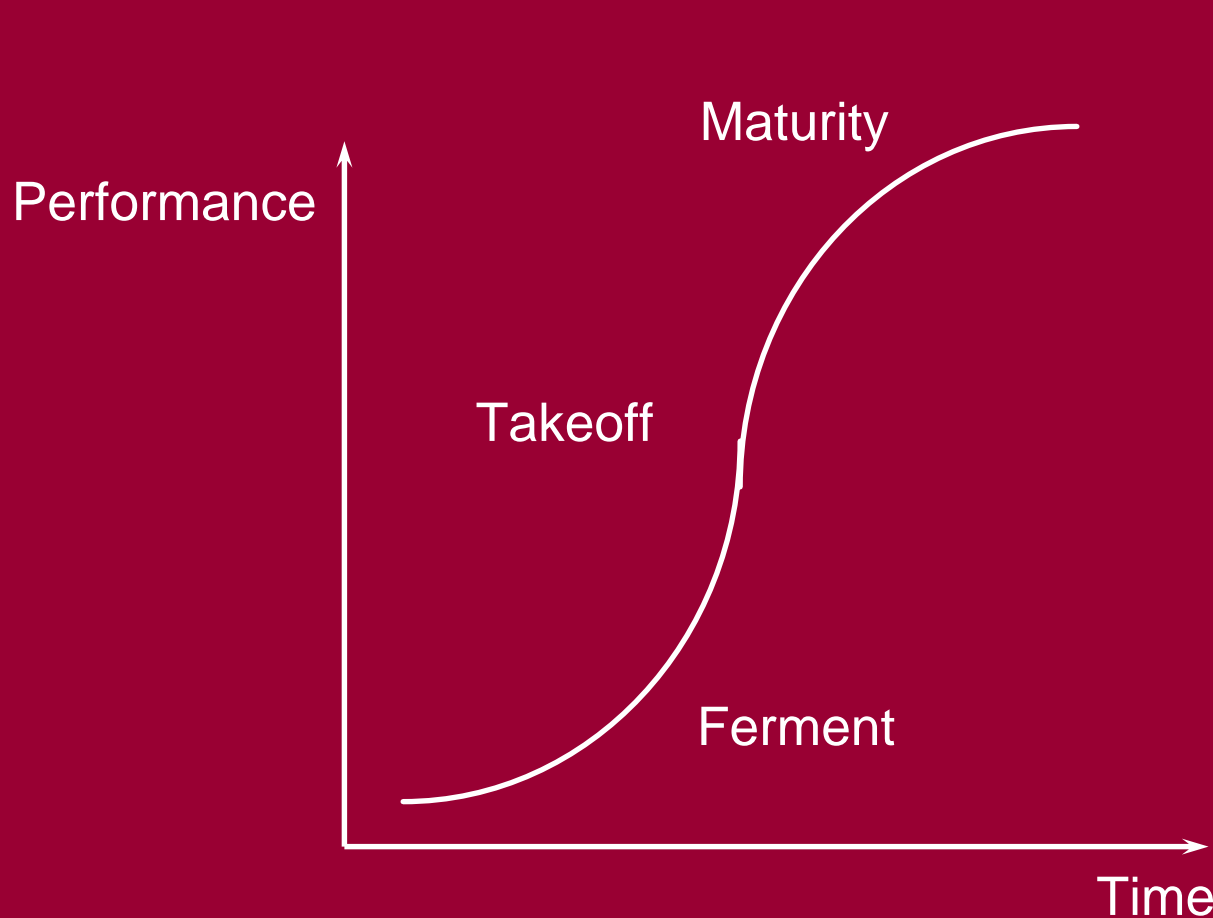
Scalable technology

Brand

Economies of scale

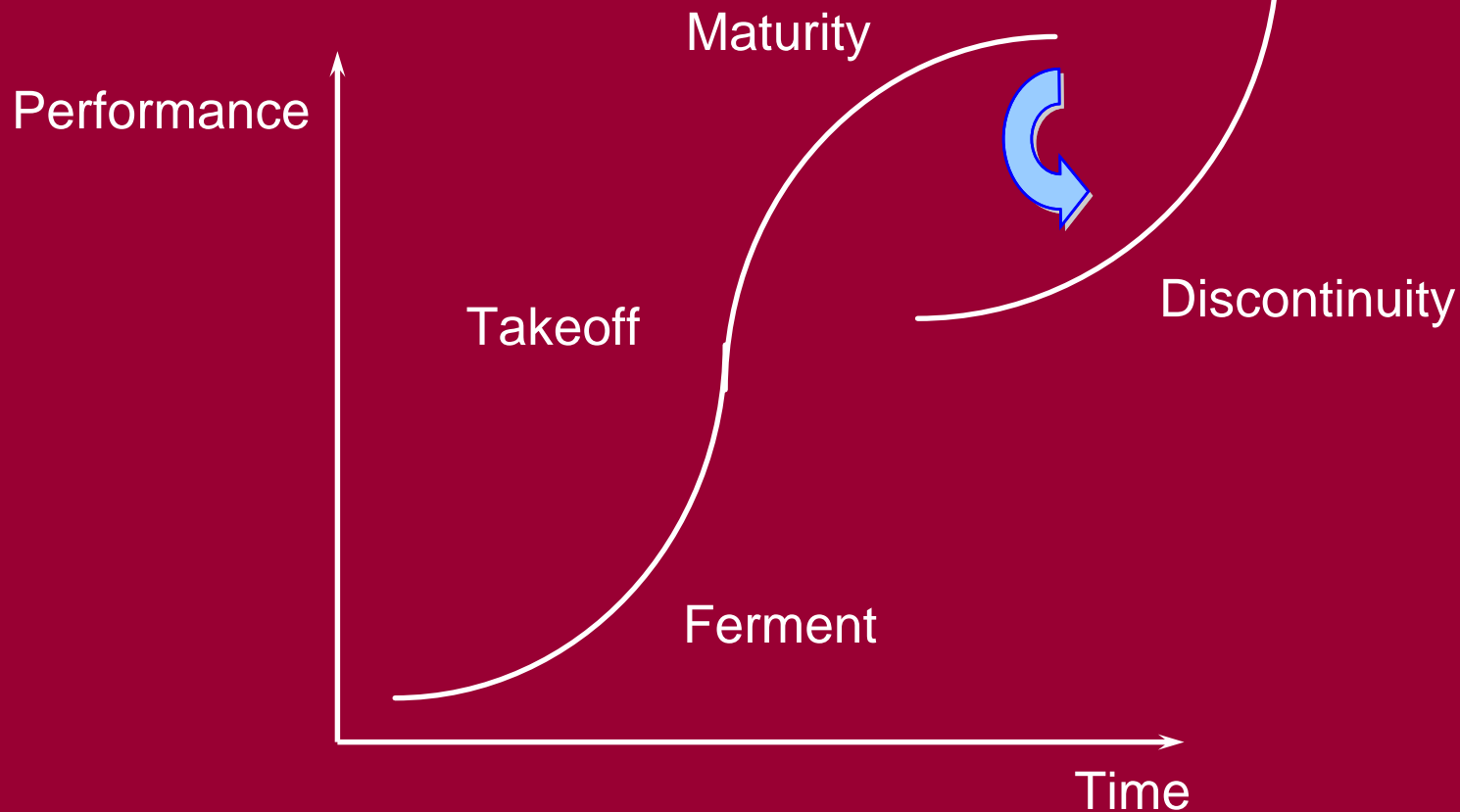


But some firms are forced to rely principally on relational contracts...



Nucor?
Toyota?
Simmons?
Wells Fargo?

What does this analysis imply about the management of strategic change?



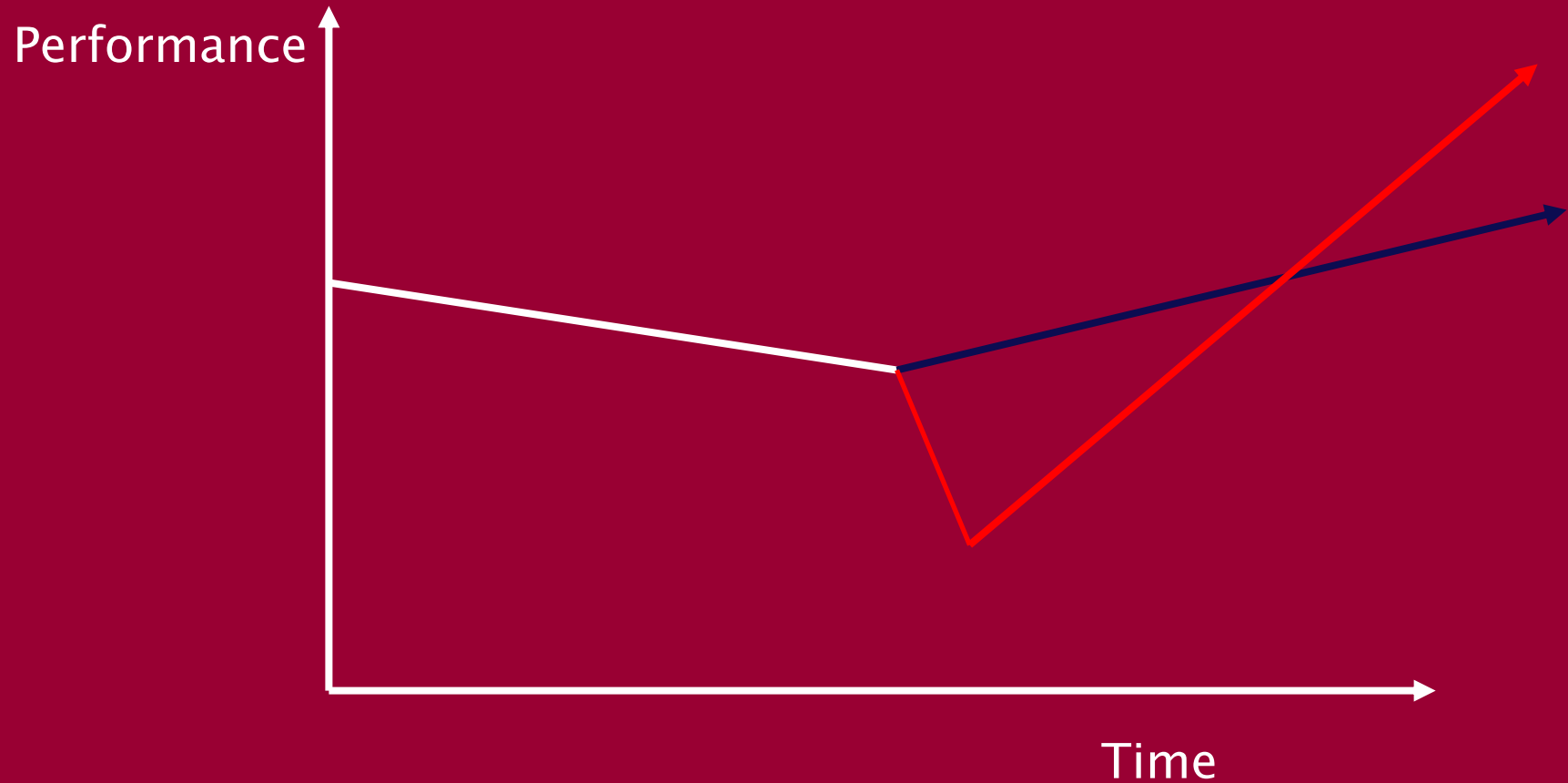
Strategic shifts are hard:

- *“I see”, he said, “you’re suggesting that we invest millions of dollars in a market that may or may not exist but that is certainly smaller than our existing market, to develop a product that customers may or may not want, using a business model that will almost certainly give us lower margins than our existing product lines. You’re warning us that we’ll run into serious organizational problems as we make this investment, and our current business is screaming for resources. Tell me again just why we should make this investment?”*
 - *Divisional Manager, Telecommunications Equipment Provider*

Particularly when everyone is overloaded:

Black and white photograph of river logging removed due to copyright restrictions; in this picture, a few men are surrounded by logs pointing in all directions.

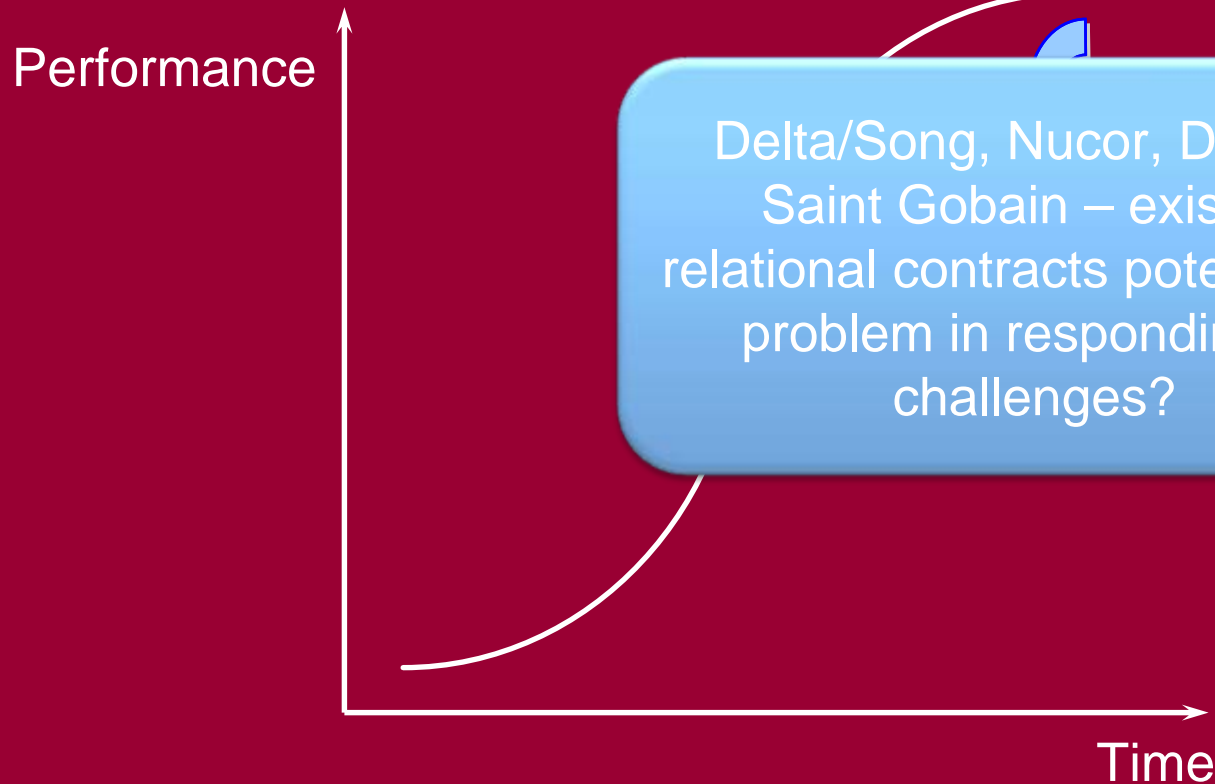
And change means dealing with the possibility of “worse before better”



Is it the case that at times of change successful firms:

- Actively manage relational contracts?
 - Corning
 - Lilly
 - Deaconess
- So that they can leverage structural advantages into the new arena...
- And lay the foundation for robust relational contracts in the new organization?

What does this analysis imply about the management of strategic change?



What do these ideas imply for you?

- For those of you who are going to be analysts...
 - What are the firm's likely sources of long term competitive advantage?
 - What threats does it face?
 - How is it likely to be able to respond?
- For those of you who are going to be followers...
 - What is the existing relational contract?
 - How do I make sure that I conform to “the deal”?
- For those of you who are going to be leaders...
 - What kinds of structural advantages should I pursue?
 - What kinds of organizational competencies will be valuable?
 - What kinds of relational contracts should I build? With whom?

GOOD LUCK!