

# Strategic Management

Lecture Notes  
Semester 1, 2017

# Lecture 1: Introduction

Strategy: Is why some firms consistently outperform others (measured by profitability)

- Strategy studies “Rents” and their origins
  - Rent: sources of sustained abnormal profitability
- What are the sources of sustained abnormal profitability? Is this possible over the long-term?
  - Where you compete is important (could be a source of rent)
  - How you compete (second source, may be more important)
- Inside industry performance differences can be even greater than between industry
- What is Strategy:
  - Understanding a firm’s model of creating a competitive advantage
- “Strategy: military roots. Derived from the Greek “Strategos”: (General’s view: A big-picture plan of how to achieve victory, Interaction of all constituent parts to gain an edge, creating harmony)
- Strategy Is About: Making choices
  - Where to compete (which industries/customers Corporate Strategy)
  - How to compete (what do you do differently vis-a-vis your competitors Business Strategy)
  - Sometimes one strategy drives the other
- Performance in Strategy: Holistic approach toward performance
  - Strategy incorporates both efficiency & effectiveness
  - Measures incorporating other stakeholders: doesn't include relationship with society, exploiting environment can cause a detrimental effect in the LR (e.g. drug price increase), hard to do well when there is a lot of friction in your environment, Leading Indicators>Fortune’s List of Most Admired Companies
- Performance: From Whose Perspective?
  - Strategy’s holistic approach concerns firm-environment interaction
  - Multiple bodies of interest (i.e., stakeholders) impacted by the firm
  - Firm (shareholders, customers, govt, employees, creditors, suppliers, society) vs

## Relationship Between Stakeholders

Two contrasting perspectives

### 1. Zero-Sum View

- Stakeholders compete for attention and resources of the organisation
- Gain of one is a loss to the other
- Rooted in the traditional conflict between workers and employer
- Assumption shareholders win and everyone else loses
- Shareholders’ Leverage Company is run solely in the interest of shareholders, i.e. owners. “There is only one social responsibility of business – to use its resources to engage in activities to increase its profits so long as it stays within the rules of the game.” (Milton Friedman, Nobel-prize winning US economist)
  - Rules of the game can change in the long run e.g. lobbying by environmental firms
  - The Board of Directors is required by law to look after the interests of shareholders;
  - Shareholder activism: CEOs that do not maximise shareholder value will be replaced (the company may be overtaken).

### 2. Symbiotic View

- There is interdependence among stakeholders and shareholders, especially in the long run.
- Stakeholders can establish mutually beneficial interaction (doing well by doing good)
- Possibility of “growing the pie” (win-win game): e.g., happy employees, satisfied customers, higher profits
- Contributing to society can help you differentiate (Business Strategy: Green Products)
- Recognises that if you want to do well in the long run means you need to work together with others e.g. suspended coffee