Strategy Formulation: Functional Strategy and Strategic Choice

Functional Strategy

- Product Design
- Models
- Production Run
- Produce to:

Functional Strategy

- Product Design
- Models
- Production Run
- Produce to:

Levels of Strategy

1. Functional Strategy
2. Business Unit Strategy
3. Corporate Strategy
4. Enterprise Strategy
5. Cooperative Strategy
6. Hypercompetitive Strategy

How do we coordinate?
Sourcing

<table>
<thead>
<tr>
<th>Activity’s Total Value-Added</th>
<th>Activity’s Potential for Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Taper Vertical Integration: Produce Some Internally</td>
<td>Full Vertical Integration: Produce All Internally</td>
</tr>
<tr>
<td>Outsource Completely: Buy on Open Market</td>
<td>Outsource Completely: Purchase with Long-Term Contracts</td>
</tr>
</tbody>
</table>

Generic Model of Core Processes and Systems

- **Your Organization**
  - Capital Resourcing
  - Information Resourcing
  - Human Resourcing
  - Control Systems

- **Supplier’s Organization**
  - Product Development Process
  - Purchasing Process
  - Demand Management Process
  - Production Process
  - Order Fulfillment Process
  - Control Systems

- **Customer’s Organization**

The Full Model of Core Processes and Systems

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- **Customer’s Organization**

Three Levels of Strategy-Operations Fit

- **First-Order Fit:** Processes Consistent with Strategy
- **Second-Order Fit:** First Order + Processes Reinforce Each Other
- **Third-Order Fit:** Second Order + Optimization of Effort

Mapping the Supply Chain

- **Organizational Supply Chain**
  - Chrysler
  - Eaton
  - Casting Supplier
  - Clay Supplier

- **Technology Supply Chain**
  - Engines
  - Valve Lifters
  - Casting Process
  - Clay Chemistry

- **Business Capability Chain**
  - Plant Management
  - Supply Chain Management
  - Chemical Process Control

Supply Chain Volatility vs. Product Life Cycle Volatility

- Customer
- Retailer
- Distributor
- Factory
- Supplier
- Equipment
Principles of Reengineering

- The mission of a business is to create value for its customers.
- It is a company’s processes that create value for its customers.
- Business success comes from superior process performance.
- Superior process performance is achieved by having a superior process design, the right people to perform it, and the right environment for them to work in.

Reengineering Defined

“The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed.”

Hammer & Champy (1993), *Reengineering the Corporation*

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TQM and CPR Emphasize Complementary Elements of Operations Improvement

<table>
<thead>
<tr>
<th>TQM</th>
<th>CPR</th>
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</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>Radical</td>
</tr>
<tr>
<td>Existing Process</td>
<td>Clean Slate</td>
</tr>
<tr>
<td>One-Time/Continuous</td>
<td>One-Time</td>
</tr>
<tr>
<td>Short</td>
<td>Long</td>
</tr>
<tr>
<td>Bottom Up</td>
<td>Top Down</td>
</tr>
<tr>
<td>Narrow, Within Functions</td>
<td>Broad, Cross-Functional</td>
</tr>
<tr>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td>Statistical Control</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Cultural</td>
<td>Cultural/Structural</td>
</tr>
<tr>
<td>Improvement</td>
<td>Innovation</td>
</tr>
</tbody>
</table>

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Kaizen vs. Reengineering

- TQM improves capabilities within each generation of design.
- CPR replaces one generation of process design with another.

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Deming’s PDCA Cycle

1. Do: Carry out approach as planned.
2. Check: Evaluate outcomes: are they desirable?
3. Act: Respond to undesired outcomes by repeating cycle.
4. Plan: Develop structured approach to addressing issues.
5. Time: Process Capabilities

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Typical Approach to Managing CPR

- Strategy Formulation
  - Identifies Competitive Advantage Sought
- Identification of Needed Process Execution Capability
- Use Benchmarking to Identify Best Practices for Possible Adoption
- Redesign of Process
- Plan for Transition to New Generation of Process Designs
- Transition to New Generation of Process

The “Crazy Time” in CPR

- Short-term loss in process capability associated with changing the system
- Generation 1 Process
- Generation 2 Process
- Time

Approaches to Innovation

- Internal Corporate Venturing (Corporate Entrepreneurship)
- Contracting for Innovation
  - Strategic Alliances
  - Joint Ventures
- Investing Outside (Acquiring Innovation)

Innovation and Competitive Advantage

- Difficult for competitors to imitate
- Provide significant value to customers
- Timely
- Capable of being exploited commercially
- Utilize the firm’s existing capabilities and core competencies to develop competitive advantage and achieve strategic competitiveness

Types of Innovative Activity

- Invention
  Creating or developing a new product, service or process idea
- Innovation
  Creating a commercializable product from an invention
- Imitation
  The adoption of innovation by a group of similar firms, which typically results in standardization of the product or process idea

Extracting Value from Innovation

- Barriers to Integration
  - Different functional time orientation
  - Different functional language and interpersonal orientation
  - Different goal orientation
  - Formality of structure
- Facilitators of Integration
  - Shared values
  - New product value provided by leadership
  - Budget allocation to foster integrated design

- Interfunctional Integration – Cross-Functional Design Teams
- Time to Market
- Product Quality
- Creation of Customer Value
- Value Appropriation from Innovation
Strategic Alliances

- Product-Link Alliances
- Knowledge-Link Alliances

Advantages
- Difficult for a single firm to keep up-to-date
- Knowledge is increasingly specialized
- International location advantages

Disadvantages
- Partners’ actions increase legal liability
- Partners’ diversification may distract them
- May become overly dependent on others