



**THE OPEN UNIVERSITY OF SRI LANKA
COMMONWEALTH EXECUTIVE MASTER OF BUSINESS/PUBLIC
ADMINISTRATION
FINAL EXAMINATION – 2018
MCP1653– STRATEGIC MANAGEMENT
DURATION: THREE (03) HOURS**

Date: 18.07.2018

Time: 1.30 pm – 4.30 pm

Answer Question One (01) and Two (02) Questions from others.

Answers should be focused.

This question paper contains four questions and has 4 pages

Question One

Read the following and answer the questions given below.

Why the Ability to Collaborate is the New Competitive Advantage

In 1985, a relatively unknown professor at Harvard Business School named Michael E. Porter published a book called *Competitive Advantage*, which explained that by optimizing every facet of the value chain, a firm could consistently outperform its competitors. The book was an immediate success and made Porter a management superstar.

Yet more recently Porter's thinking has been called into question, most notably by Rita Gunther McGrath in her book *The End of Competitive Advantage*, which argued that sustainable competitive advantage is no longer possible and advised firms to seek out transient advantage.

In truth, neither view fully represents today's business environment. Certainly, companies like Apple and Southwest are still able to dominate their industries, but the source of advantage has changed. We no longer compete in a resource economy, but a semantic economy where firms that can build, manage and widen connections win out. That takes a different set of skills.

Shifting from Assertiveness to Empathy

The old economy was relatively simple. Every business had various cost centers and revenue streams that were largely separate and distinct. So, Porter's strategy of breaking down the value chain to its component parts made a lot of sense. By optimizing each business driver, you could minimize costs, maximize profits and increase margins.

What's more, this optimization process had a cumulative effect. By creating the right incentives, such as pay for performance and letting each business unit "eat what they kill," firms could invest back into the

business, increasing resources that would lead to further cost savings or points of differentiation. Even a small advantage, compounded over time, could be decisive.

Yet today, competitive advantage is not driven by the resources you control, but those you can access. Increasingly, rather than owning resources and capabilities outright, we use platforms to access ecosystems of technology, talent and information. The path to success no longer lies in clawing your way to the top of the heap, but in nudging your way to the center of the network.

That's why Geoff Colvin argues in *Humans Are Underrated* that the most critical 21st century skill is empathy and calls for a shift in emphasis from "knowledge workers" to "relationship workers." In a world of exponentially increasing complexity, no one person or firm can do it all, so those that can work well with others have a distinct advantage.

A Radical Shift Toward Design

Another major 21st century transformation has been the shift from atoms to bits. In the old industrial economy, value was mostly created through massive capital spending on plants and equipment. This was a huge barrier to entry that reinforced and propagated competitive advantage through economies of scale.

Yet today we're seeing a radical shift toward design as a driver of value. After all, Google's algorithms don't cost any more to run than anybody else's and Apple's products don't have significant capabilities that rival products lack. Rather, it is their products' design—how they interface with both users and other products and services—that makes them valuable.

What's more, with advanced manufacturing techniques such as 3D printing and robotics, the same trends are beginning to drive the economics of even wholly physical products. When production becomes automated, every product is an informational object with design at its core. This development is so important that many are calling it a new industrial revolution.

Finally, as Jon Kolko points out in *Harvard Business Review*, the emphasis on design is just as important in how we run our organizations as it is in how we develop products. Everywhere you look, design has become a central driver of value rather than an afterthought.

Breaking Down Silos and Networking the Organization

We've come to take it for granted that we live in a connected age, yet the truth is that much remains separate and disparate. As Gillian Tett explains in *The Silo Effect*, all too often we work in highly specialized areas that are unable to integrate with each other. When dealing with highly complex environments, these silos create distinct disadvantages.

For example, she cites Sony's inability to integrate its far-flung divisions as the reason that, despite its various efforts to create a digital music player, it lost out to the more holistically designed Apple iPod. She also points out that silos contributed to the recent financial crisis, because important risks were tucked away in little noticed parts of the economy.

Yet Tett also argues that silos aren't inevitable and points to Facebook's policy of having every new employee go through a six week "boot camp" as a way to create connections across the organization. (We had a similar policy at my former company and had similar results.) Every enterprise today needs to think seriously about how to network their organization.

Notice again the stark contrast to Porter's vision of value chain components. In his view, by optimizing disparate parts, you make the whole stronger. Yet today, agility trumps strategy and we need to think in terms of networks rather than nodes.

The New Economy is a Social Economy

Clearly, the world has become more complex. Economic development, technology and globalization have all helped blur the lines of old boundaries to such an extent that we desperately need to reexamine old rules, processes and practices. We can no longer take anything for granted.

That means we need to break free of the reductionist approaches of the past. The basic premise of Porter's competitive advantage—that you can increase the whole by optimizing each of the parts in isolation—has become untenable. Rather, we need to use platforms to access ecosystems of technology, talent and information.

At the same time, machine intelligence is quickly replacing human cognitive power much like machines began to replace muscle power over a century ago. More and more, what drives value is the ability to collaborate with both humans and machines. That is where advantage lies today.

That's why today's economy is a social economy with collaboration at its center. In the past, we could dominate by accumulating resources and driving efficiency, but now agility and interoperability that rule the day. We need to shift our focus from assets and capabilities to empathy, design and networked organizations.

Source: Forbes, Greg Satell, December 4, 2015

Answer the following?

- a) "Porter's strategy of breaking down the value chain to its component parts made a lot of sense. By optimizing each business driver, you could minimize costs, maximize profits and increase margins" Critically evaluate this statement. (20 Marks)
- b) "We need to shift our focus from assets and capabilities to empathy, design and networked organizations". Explain this statement using examples. (15 Marks)
- c) "Clearly, the world has become more complex. Economic development, technology and globalization have all helped blur the lines of old boundaries to such an extent that we desperately need to re-examine old rules, processes and practices".
Explain the importance of External environment analysis for Business Operation. (15 Marks)

(Total 50 Marks)

Question Two

Michael E. Porter of Harvard Business School originally discussed the problem of “stuck in the middle”. He said that the profitability of firms depends not only on the typical rates of return in an industry. It depends more importantly on the firm’s position and competitive advantage in that industry. And he argued that competitive advantage derives from one of two strategies: cost leadership or differentiation of products or services. Across most industries you can find firms and products that aim for advantage based on either cost or differentiation.

- a) Explain the concept of ‘Stuck in the middle’ (10 Marks)
- b) “The Blue Ocean challenges the need to choose between product/service differentiation and lower cost, and instead strongly affirms that both differentiation and lower cost are achievable together”. Critically evaluate this statement (15 Marks)
- (Total 25 Marks)

Question Three

“The concept of core competence has implications at the strategic level; the firms should systematically work upon identifying their core competencies and developing them for sustainable competitive advantage.” (Srivastava,2005).

Explain the concepts of “core competency” and “sustainable competitive advantage” with an example from the Banking sector related to Sri Lanka.

(25 Marks)

Question Four

Briefly explain following concepts in relation to strategic management.

- a) The Balanced Scorecard (BSC) as controlling tool. (8 Marks)
- b) Importance of Corporate Social Responsibility (CSR) for an organization. (9 Marks)
- c) Porter’s Value Chain and Value Creation (8 Marks)

(Total 25 Marks)

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