

Chapter 8

Industry Evolution and Strategic Change

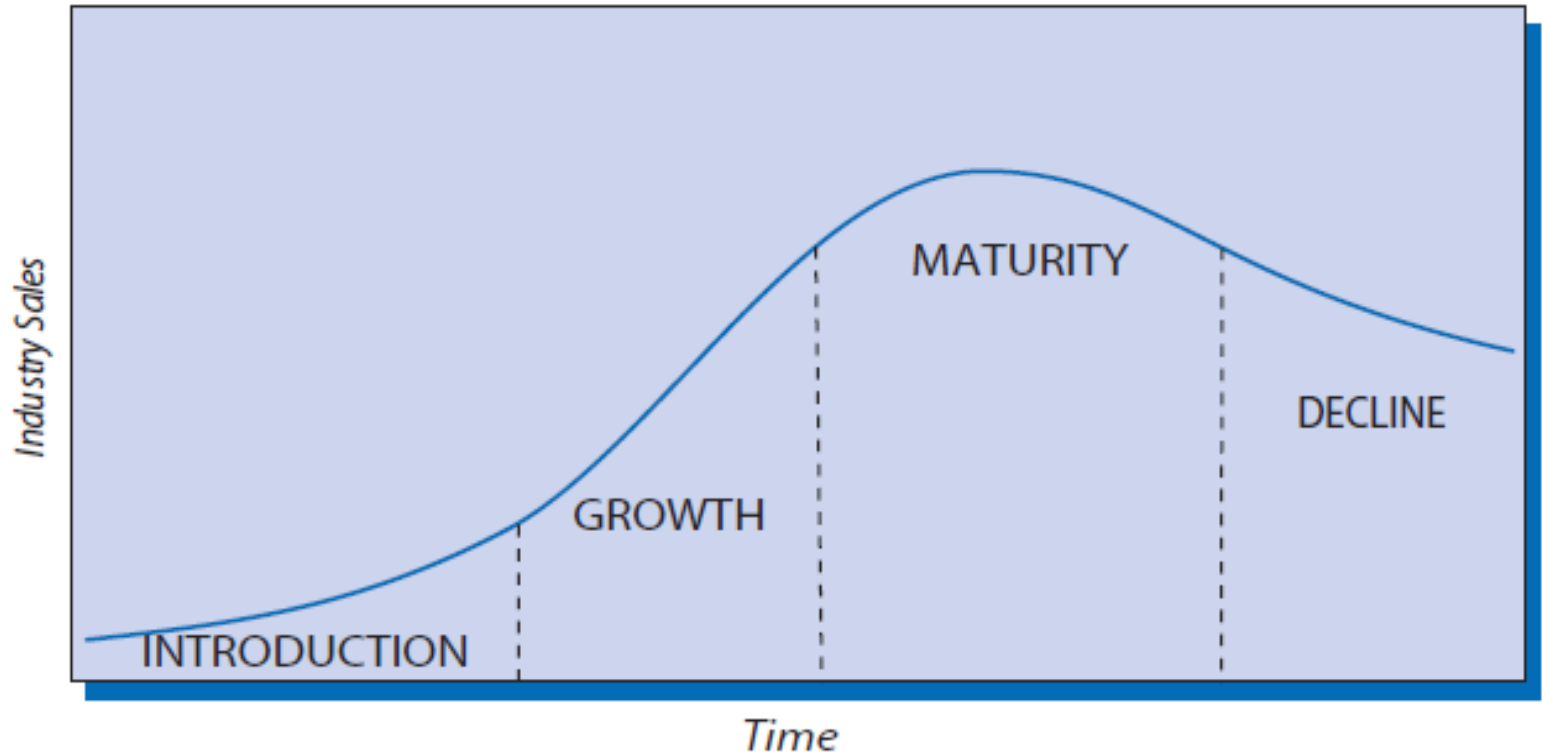
Industry Evolution and Strategic Change



OUTLINE

- Industry evolution and the industry life cycle
- The challenge of organizational adaptation and strategic change
- Managing strategic change
- Developing new capabilities

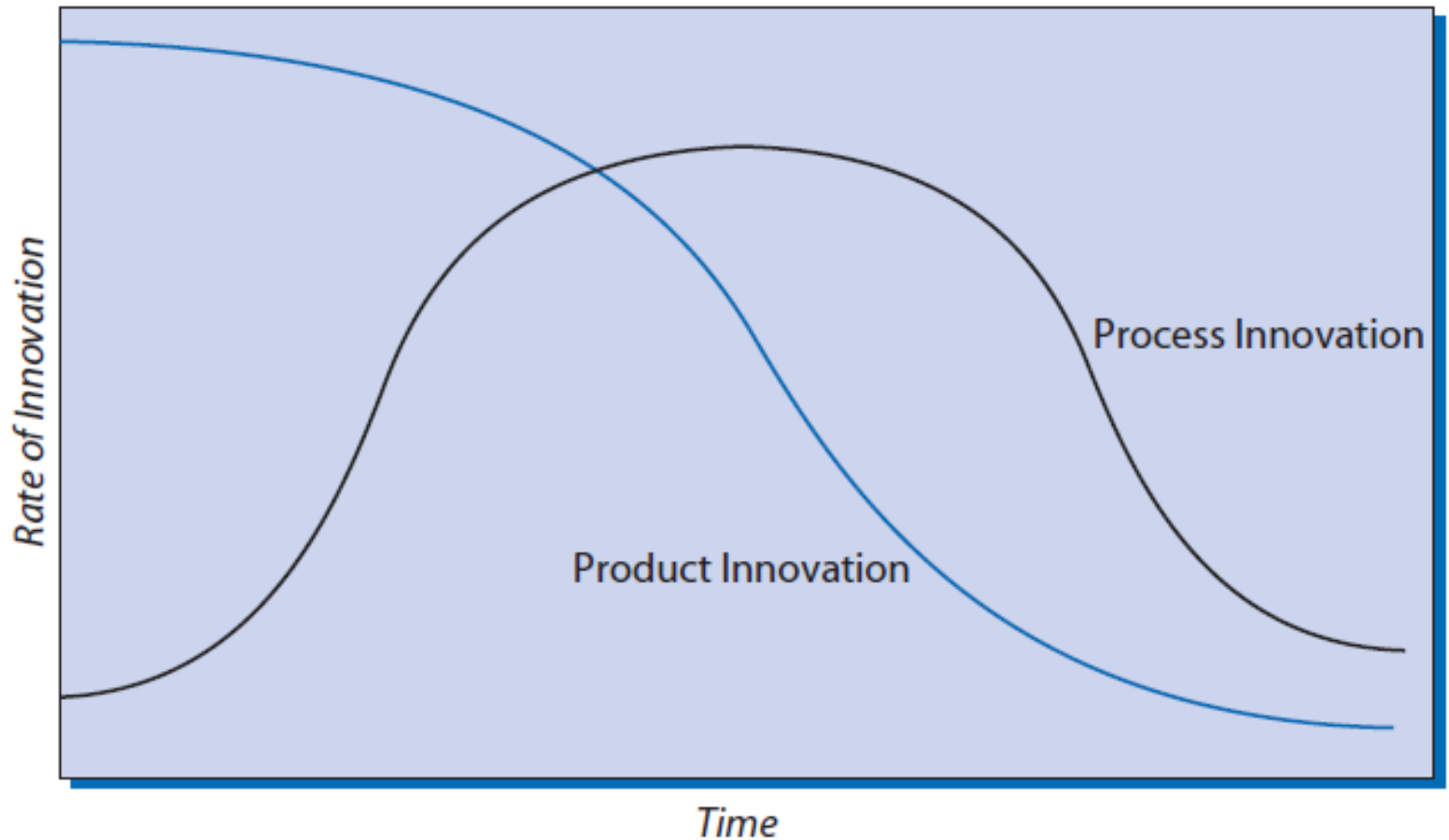
The Industry Life Cycle



Drivers of industry evolution:

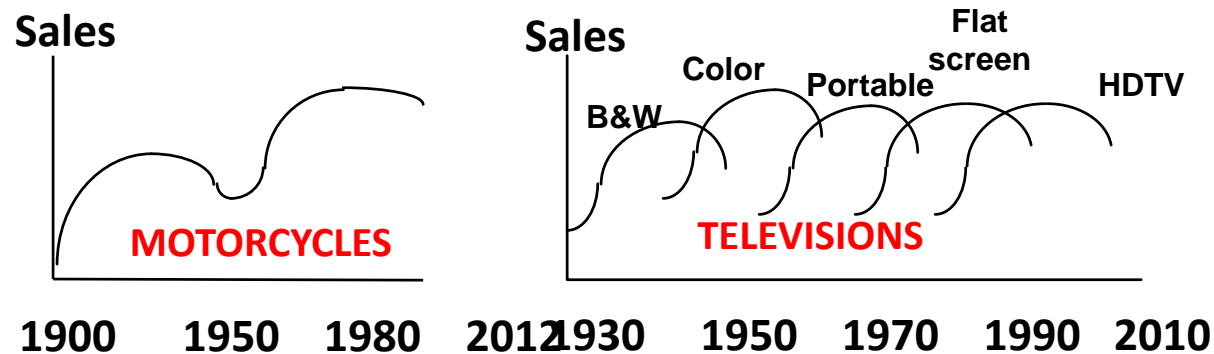
- Demand growth
- Creation and diffusion of knowledge

Product and Process Innovation Over Time



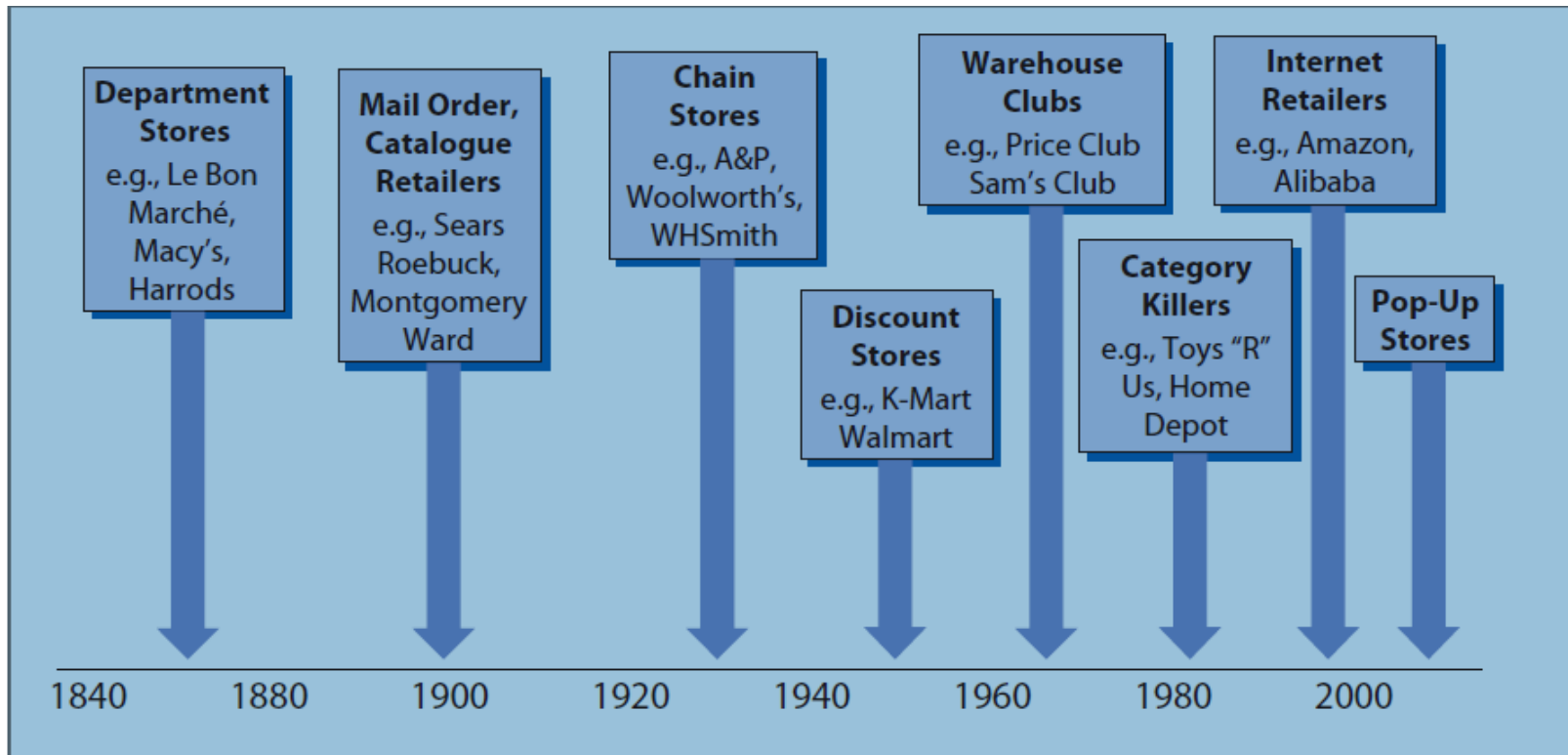
How Typical is the Life Cycle Pattern?

- Technology-intensive industries (e.g. pharmaceuticals, semiconductors, computers) may retain features of emerging industries
- Other industries (especially those providing basic necessities, e.g. food processing, construction, apparel) reach maturity, but not decline
- Industries may experience life cycle regeneration, e.g. motorcycles, TVs:



- Life cycle model can help us to anticipate industry evolution—but dangerous to assume any common, pre-determined pattern of industry development

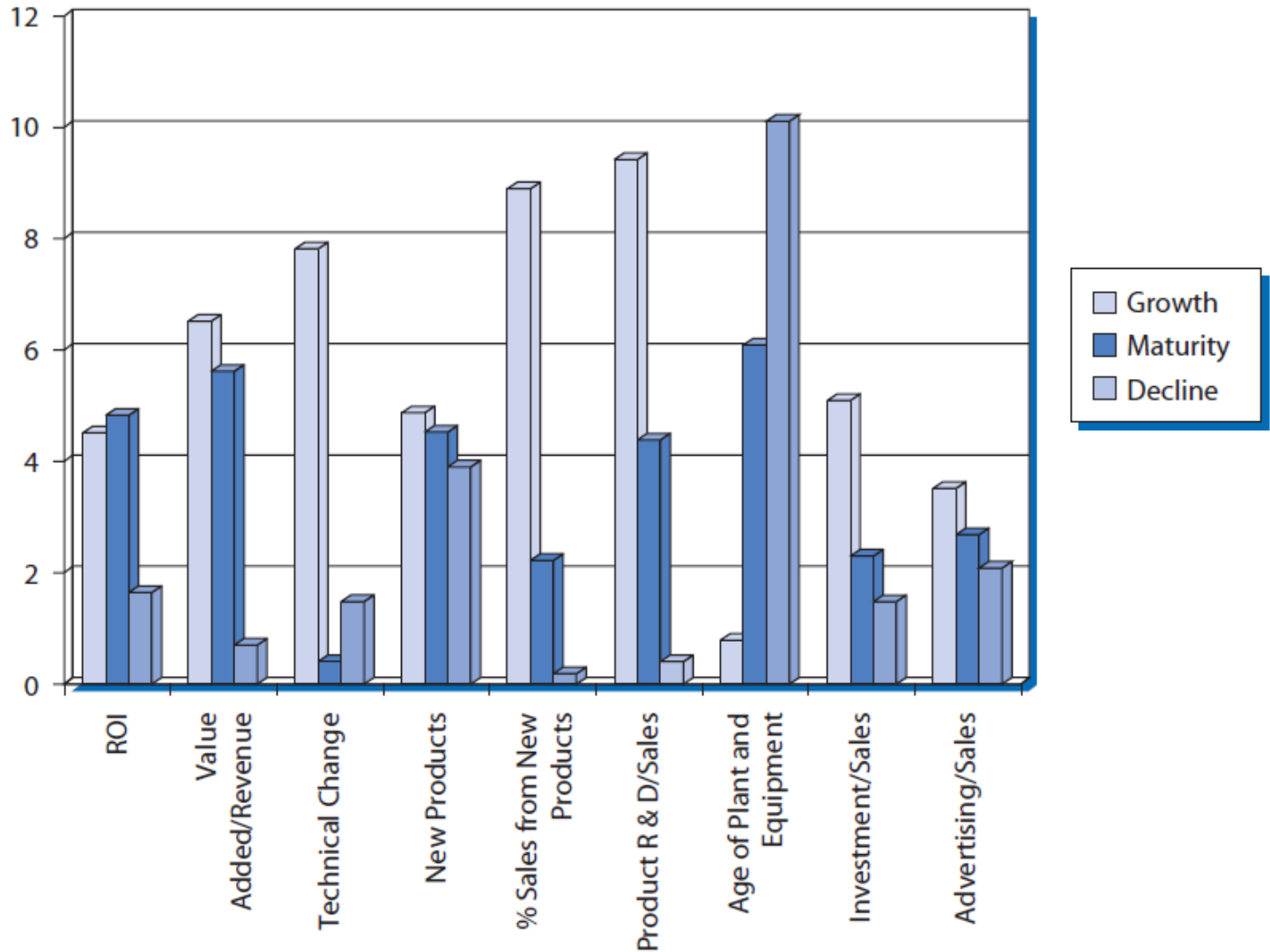
Innovation & Renewal Over the Industry Life Cycle: Retailing



Evolution of Industry Structure over the Life Cycle

	Introduction	Growth	Maturity	Decline
Demand	Early adopters	Rapid increase in market penetration	Replacement/ repeat buying; price sensitive customers	Obsolescence
Technology	Competing technologies; rapid product innovation	Standardization; rapid process innovation	Diffused know how; incremental knowledge	Little innovation
Products	Wide variety of features and designs	Design & quality improve; dominant design emerges	Commoditization; brand differentiation	Differentiation difficult
Manufacturing	Short-runs, skill intensive	Capacity shortage; mass production	Over-capacity emerges, deskilling	Overcapacity
Trade	Production shifts from advanced to emerging companies			
Competition	Few companies	Entry, mergers exist	Shakeout and consolidation	Price wars and exit
KSFs	Product innovation	Design for manufacture; process innovation	Cost efficiency (scale economics low cost inputs)	Low overheads; rationalization

Differences in strategy at different stages of the industry life cycle



Organization Adaptation and Change: The Sources of Inertia

1. **Organizational Routines** – Existing patterns of coordinated activity make it difficult to develop new capabilities
2. **Social & Political Structures** – Change threatens existing social relationships and power structures
3. **Conformity** – Imitation locks firms into common structures and strategies (“institutional isomorphism”)
4. **Limited Search** – “boundary rationality”, preference of exploitation over exploration, and satisfying behavior limit firms to incremental change
5. **Complementarities between strategy, structure, and systems** – Firms create unique configurations of organizational features; localized changes tend to be dysfunctional; change needs to be systematic

The World's Biggest Companies by Market Capitalization, 1912 and 2015

1912	\$billion	2015	\$billion
US Steel	0.74	Apple	637
Standard Oil NJ (Exxon)	0.39	ExxonMobil	393
J&P Coates	0.29	Microsoft	385
Pullman	0.20	Johnson & Johnson	292
Royal Dutch Shell	0.19	Wells Fargo	282
Anaconda	0.18	Walmart	277
General Electric	0.17	Novartis	252
Singer	0.17	General Electric	249
American Brands	0.17	China Mobile	240
Navistar	0.16	Nestlé	237
British American Tobacco	0.16	Chevron	213
De Beers	0.16	China Construction Bank	201

Managing Strategic Change: Dual Strategies and Organizational Ambidexterity

- **Derek Abell's *Dual Strategies***

Firms need:

- a) A strategy for today that focuses on exploiting existing resources and capabilities and current market positions
- b) A strategy for tomorrow based upon adaptation to future challenges

- **Michael Tushman & Charles O'Reilly's *Ambidextrous Organization***

Firms need to:

- a) Exploit existing resources and capabilities and market positions
- b) Explore new opportunities for the future
 - **Structural Ambidexterity** – Exploration and exploitation allocated to different organizational units
 - **Contextual Ambidexterity** – Same organizational units and people perform both exploration and exploitation

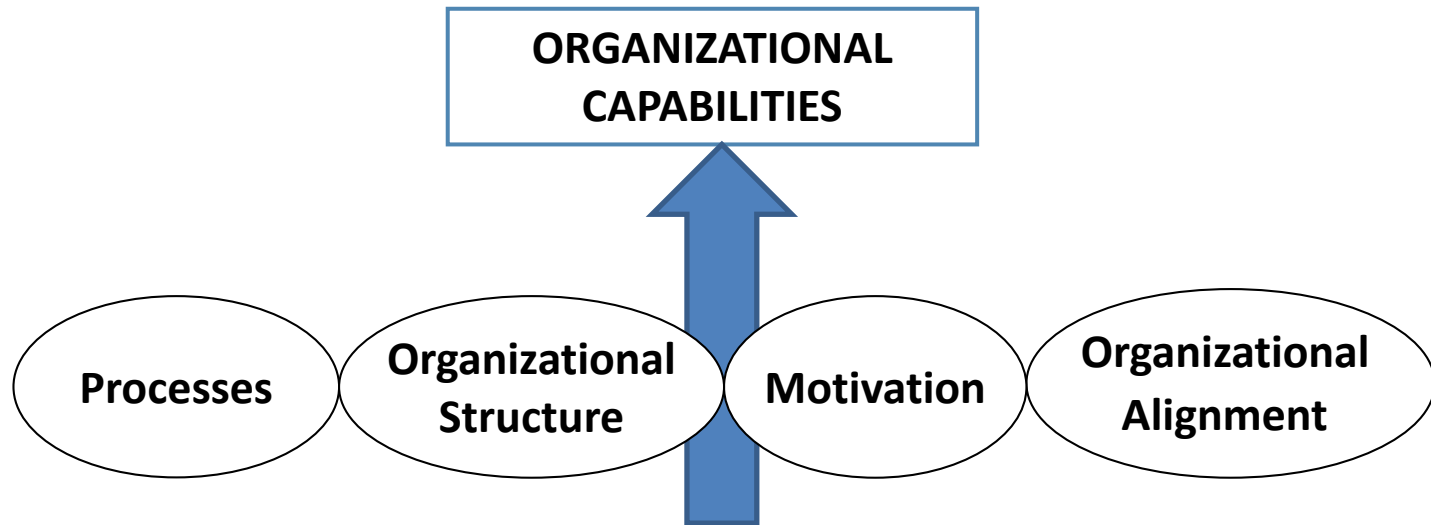
Tools of Strategic Change Management

- **Creating perception of crisis** – A crisis facilitates organizational change. If there's no crisis—create the perception of one
- **Establishing Stretch Targets** – Demanding performance targets can generate ambition and mobilize effort
- **Creating Individual Initiatives** – Initiatives launched by the CEO can be useful vehicles for change e.g. Jack Welch at GE
- **Reorganization and New Blood** – Changing the organizational structure breaks down existing power bases and creates openings for external hires
- **Dynamic Capabilities** - Are the “ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” (David Teece)
- **Multiple Scenario Analysis** – Offers a structured approach for managers to address the forces that are changing their business environment and to prepare for the future

The Challenge of Developing New Capabilities

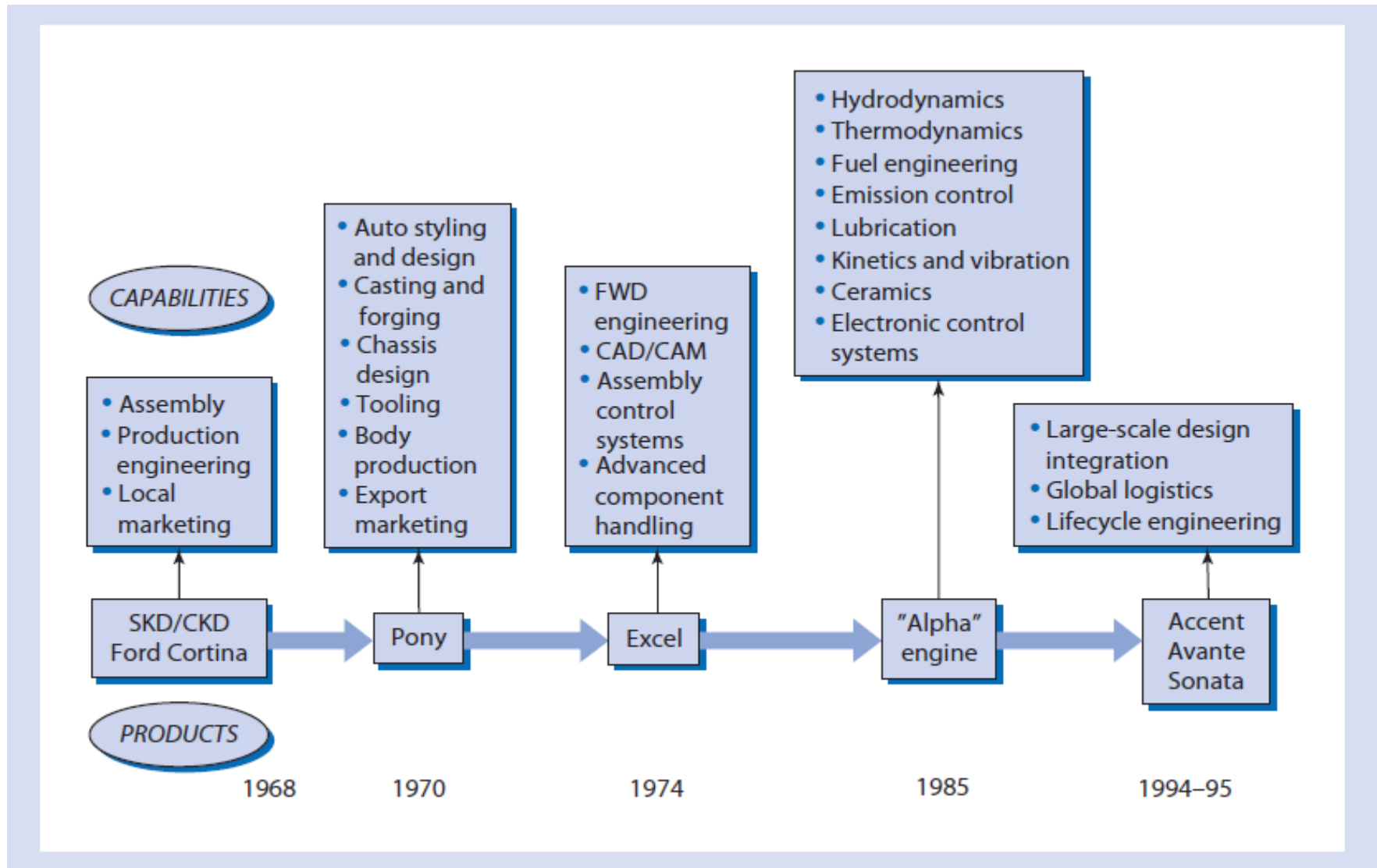
Company	Distinctive capability	Early history
ExxonMobil	Financial management	ExxonMobil's predecessor, Standard Oil (NJ), was the holding company for Rockefeller's Standard Oil Trust
Royal Dutch Shell	Coordinating a decentralized global network of 200 operating companies	Shell Transport & Trading headquartered in London and founded to sell Russian oil in China and the Far East Royal Dutch Petroleum headquartered in The Hague; founded to exploit Indonesian reserves
BP	Elephant hunting	Discovered huge Persian reserves, went on to find Forties field (North Sea) and Prudhoe Bay (Alaska)
ENI	Deal making in politicized environments	The Enrico Mattei legacy; the challenge of managing government relations in post-war Italy
Mobil	Lubricants	Vacuum Oil Co. founded in 1866 to supply patented petroleum lubricants

Integrated resources to create organizational capability



TANGIBLE	INTANGIBLE	HUMAN
<ul style="list-style-type: none"> • Financial • Physical 	<ul style="list-style-type: none"> • Technology • Reputation • Culture 	<ul style="list-style-type: none"> • Skills/know-how • capacity for communication & collaboration • Motivation

Hyundai Motors: Developing Capabilities Through Product Development



Gary Hamel Model

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In future **business model innovation** will be the key to generating new wealth: Competition no longer takes place between companies and products, but between business models.

”

Gary Hamel (2000)



Image Source

- **Future of Management:** Where is Gary Hamel leading us?

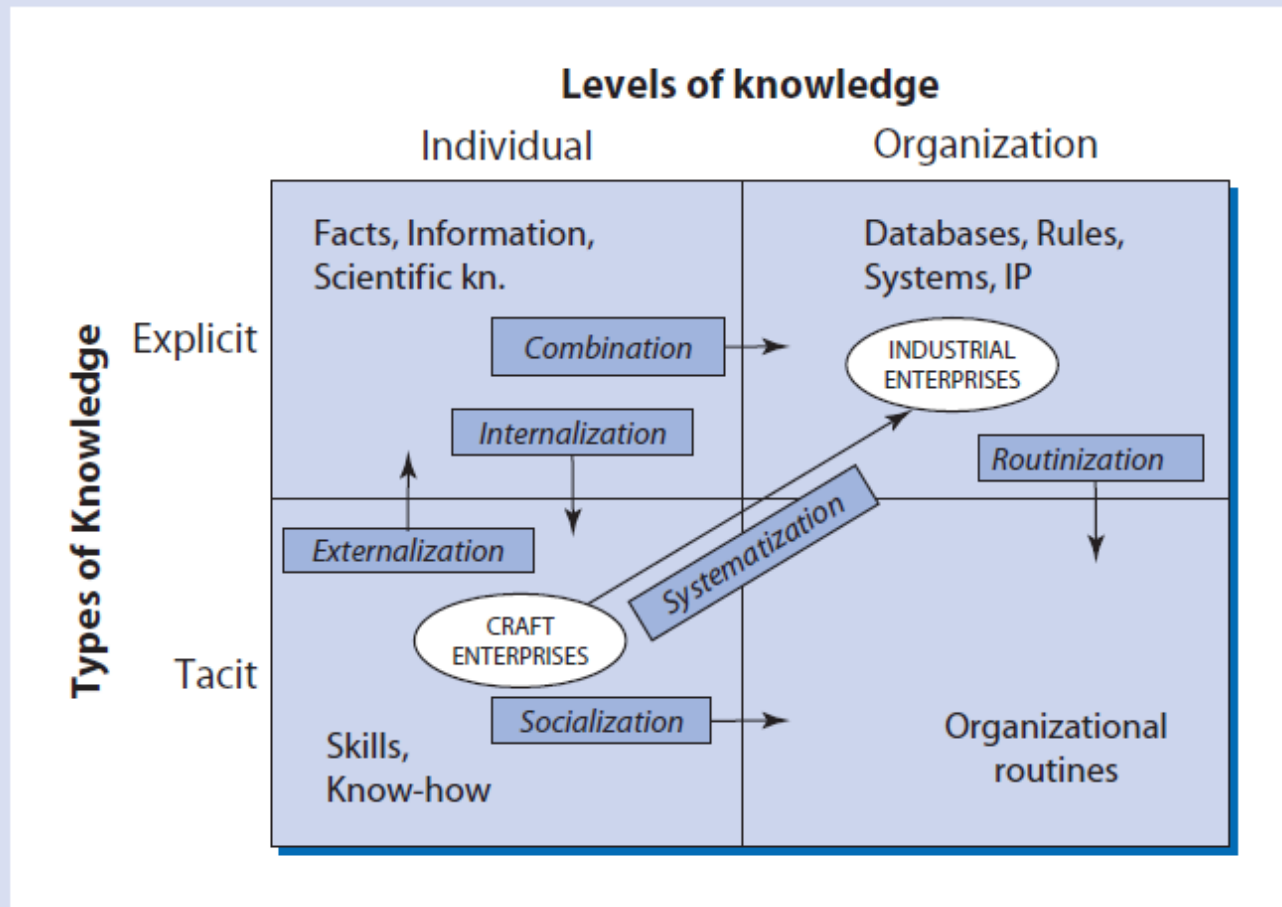
Knowledge Management Practices

Knowledge process	Contributing activities	Explanation and examples
Knowledge identification	Intellectual property management	Firms are devoting increased effort to identifying and protecting their intellectual property, and patents especially
	Corporate yellow pages	BP's Connect comprises personnel data that allows each employee to identify the skills and experience of other employees in the organization
Knowledge measurement	Intellectual capital accounting	Skandia's intellectual capital accounting system pioneered the measurement and valuation of a firm's stock of knowledge. Dow Chemical uses intellectual capital metrics to link its patent portfolio to shareholder value
Knowledge retention	Lessons learned	The US Army's Center for Lessons Learned distills the results of maneuvers, simulated battles, and actual operations into tactical guidelines and recommended procedures. Most consulting firms have post-project reviews to capture the knowledge gained from each project
Knowledge transfer and sharing	Databases	Project-based organizations typically store knowledge generated by client assignments in searchable databases
	Communities-of-practice	Communities of practice are informal, self-organizing networks for transferring experiential knowledge among employees who share the same professional interests
	Best practice transfer	Where operations are geographically dispersed, different units are likely to develop local innovations and improvements. Best practice methodology aims to identify then transfer superior practices
Data analysis	Big data	"Big data" refers to the collation and analysis of huge data sets such as Walmart's more than one million customer transactions each hour and UPS's tracking of its 16.3 million packages per day and telematic data for its 46,000 vehicles.

Knowledge Management & the Knowledge-Based View: Types of Knowledge

Type of Knowledge	Characteristics	Implications
Explicit: Knowing about	Easy and cheap to transfer. A “public good” (non-exclusive)	Easy to exploit within the firm – but difficult to protect from rivals: hence, a weak basis for substantial advantage
Tacit: Knowing how	Difficult to articulate or codify. Transfer is slow and costly. Requires observation and practice	Sound basis for sustainable competitive advantage; Challenge is to replicate it internally

Knowledge Conversion



Source: Based upon I. Nonaka, "A Dynamic Theory of Organizational Knowledge Creation," *Organization Science* 5 (1994): 14–37.

CASE STUDY



- Considering info and data from the text, answer these 3 questions:
 1. What was Kodak's digital imaging strategy during 1992-2012 ?
 2. Why did the strategy fail ?
 3. Was there a better alternative ?