

Business Strategy

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Course & Class Information

Course: Business Strategy

Program: Master's in Business Administration (MBA)

Credits: 6 ECTS

Mode: Onsite / Blended

Class 1: Introduction to Business Strategy & Value Creation

Instructor: Dr. Leul Girma

Main Teaching & Learning Materials

Books

- Johnson et al., (2017): *Exploring Strategy*
- Grant, (2022): *Contemporary Strategy Analysis*
- Porter, (1985) : *Competitive Strategy*

Academic journal articles

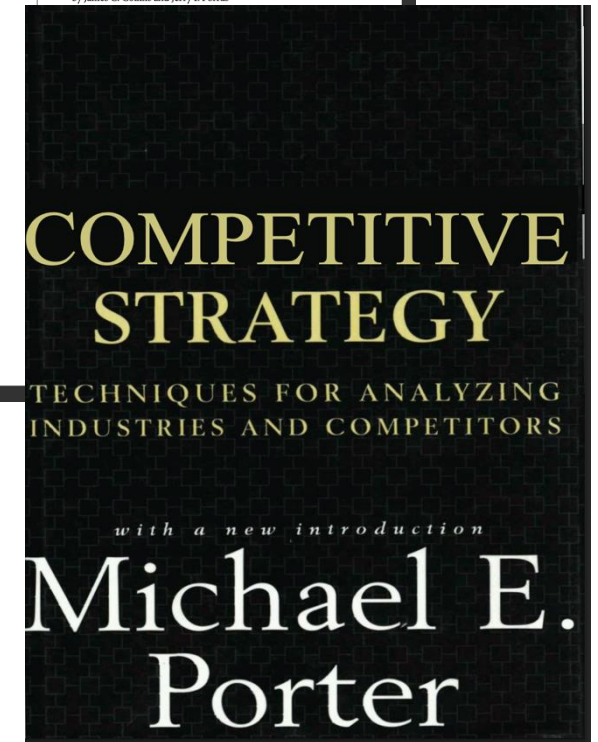
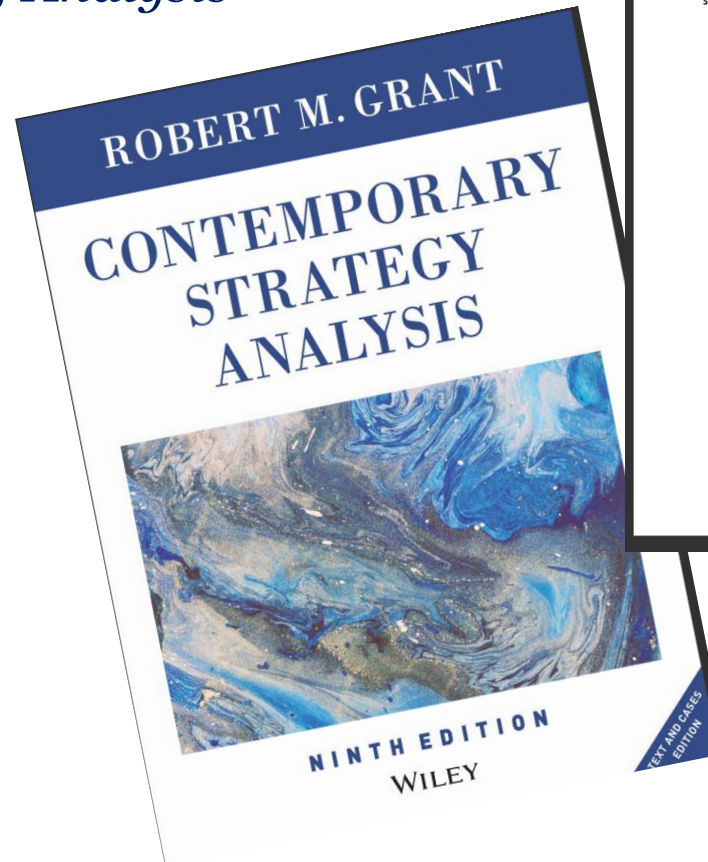
- Harvard Business School case studies

Digital resources

- Company annual reports
- Industry and market databases

Tools

- Microsoft Excel or equivalent
- Presentation software



Objective and Learning Outcomes

Objective:

To introduce the core concepts of business strategy, strategic value creation, and the role of strategy in achieving sustainable competitive advantage.

By the end of this class, YOU will be able to:

- Define business strategy
- Distinguish between strategy and operational effectiveness
- Explain the different levels of strategy
- Analyze how strategy creates value and competitive advantage
- Describe the strategic management process

What Is Business Strategy?

“Strategy is the **long-term direction** of an organization and **the scope of its activities**, through which it seeks **to achieve advantage** in a **changing environment**, through the **configuration of resources and competences**, with the aim of fulfilling stakeholder expectations (Johnson, et al., 2020)”

“Strategy is the **creation of a unique and valuable position**, involving a **different set of activities than competitors** (Porter, 1996)”

“Strategy is about **matching the firm’s resources and capabilities** to the **opportunities that arise in the external environment** (Grant, 2022)”

Core Dimensions of Business Strategy



Long-term direction

The long-term direction refers to the firm's **intended future path** and overarching goals, including **where it wants to compete** and what it **aims to become** over time (Johnson et al., 2020).

It is useful to:

- Provide a **guiding purpose** for strategic decisions
- Shape major commitments and **resource allocation**
- Ensure **consistency** of strategic choices over time



From the early 2000s, IBM **shifted** from **hardware to services, software**, and later **cloud and AI**. This successful shift strengthened **profitability and competitive positioning**.

Positioning and trade-offs

Positioning refers to **how a company chooses to compete by creating a unique and valuable position** through a distinct set of activities and **deliberate trade-offs** (Porter, 1996).

Trade - off refers choosing one path **at the cost of another, balancing different needs and opportunities** (Johnson et al., 2020).

It is useful to:

- Create a **clear position** in customer perception
- **Protect uniqueness** through trade-offs
- Support value creation and competitive advantage



Aligned its strategy around **ultra-low costs** by using **secondary airports** and no-frills service. This clear **positioning** supported **sustained profitability** in a highly competitive airline industry.

Fit with external environment

Fit with the external environment refers to how a company **aligns its strategy** with **industry conditions, competitive forces, and broader environmental changes** (Johnson et al., 2020; Grant, 2022).

It is useful to:

- **Capitalize** on opportunities, **mitigate** risk, **stay** competitive.
- **Adapting** to change (e.g., technological; regulatory & legal)
- **Align** strategy to **emerging trends** (e.g., consumer preference)



Aligned its strategy **with changes in technology and consumer behavior** by **shifting** from DVD rentals to online streaming. This strong environmental fit supported **rapid growth** and global market leadership

Configuration of resources and capabilities

The configuration of resources and capabilities refers to **how a company combines and organizes its assets and skills** to support its strategy and create value and competitive advantage (Johnson et al., 2020; Grant, 2022).

It is useful to:

- **Align resources** (tangible & intangible) with **strategic priorities**
- **Leveraging** core competencies (unique capability) to competitive advantage
- **Increase** efficacy and cost reduction In value creation activities



Configures product design, flat-pack logistics, and self-service retailing into an integrated system. This configuration supports low costs value creation and has enabled sustained competitive advantage.

How is Value Created In Business Strategy?

Value creation

Value creation refers to the **firm's ability to generate returns above the cost of capital by delivering superior value to customers, Shareholder and other stakeholders** (Grant, 2022)

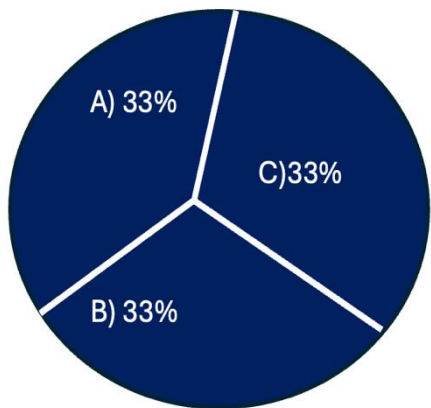
It focused on:

Create Customer value (a): *Perceived benefits relative to total costs (time, convenient, money etc.)*

Shareholder value (b): *Returns above the cost of capital (profit)*

Stakeholder value (c): *Value for employees, partners, and society (job security, welfare etc.)*

These three types of value can be created within the same company, but not necessarily in equal proportions. The **balance** among them **depends on strategic choices** and may change over time.



Customer Value

Customer value refers to the benefits a company **delivers to customers** relative to the total costs they incur, including price, time, and effort (Grant, 2022).

It is focused on:

- Increase **customer willingness to pay**
- Strengthen customer **satisfaction and loyalty**
- Support **differentiation and competitive advantage**



Focus on product design, user experience, and ecosystem integration increases **perceived customer benefits** and supports strong customer loyalty and premium pricing.

Shareholder Value

Shareholder value refers to the **financial returns generated for shareholders** that exceed the company's cost of capital (Grant, 2022).

It is focused on:

- Support **long-term profitability**
- Increase **firm valuation**
- **Attract and retain** investment capital



Long-term growth and reinvestment approach have **generated strong shareholder returns** and significant increases in firm value over time.

Stakeholder value

Stakeholder value refers to the value a company creates for key stakeholders, including **customers, shareholders, employees, and other relevant groups like partners** (Johnson et al., 2020).

It is focused on:

- Support **long-term** organizational **sustainability**
- **Balance** interests of key stakeholder groups
- Strengthen **legitimacy and trust**



Focus on **customers, employees, partners,** and long-term investors has supported innovation, strong employer reputation, and sustained financial performance.

What are the levels of Strategy?

Levels of Strategy

Strategy operates at different levels within a firm **to ensure coherent decision-making, effective resource allocation**, and alignment between long-term direction, competitive **positioning**, and **execution** (Johnson et al., 2020).

1. Corporate-level strategy:

(scope, diversification, portfolio choices)

2. Business-level strategy:

(cost leadership, differentiation, positioning against rivals)

3. Functional-level strategy:

(through operations, marketing, finance, HR, and IT)

4. Interaction between levels:

(Alignment and coherence across corporate, business, and functional decisions in complex organizations)

1. Corporate-level Strategy

Corporate-level strategy **concerns decisions about the overall scope of the firm**, including which businesses or markets the firm should operate in **and how resources are allocated across them** (Johnson et al., 2020; Grant, 2022).

It is focused on:

Scope: Which industries, markets, or geographic regions the firm competes in

Diversification: Whether the **firm operates in one or multiple businesses**

Portfolio choices: How the firm **allocates resources** among its businesses



Involves operating a **portfolio of businesses**, including search, advertising, cloud services, and digital platforms, allowing the firm to manage risk and allocate resources across different growth opportunities.

2. Business-level Strategy

Business-level strategy concerns **how the firm competes within a specific industry or market**, including the choice between cost leadership, differentiation, or a **clear competitive position** relative to rivals (Porter, 1996).

It focused on:

- Cost leadership:** Competing by offering similar value at lower cost
- Differentiation:** Competing by offering unique value at a premium price
- **Positioning against competitors:** Choosing a distinct position relative to rivals



Competes through **differentiation by offering premium products** with **strong design and brand value**.

3.Functional-level Strategy

Functional-level strategy concerns how **individual functions within the firm support** and implement the chosen business-level strategy (Johnson et al., 2020).

It is focused on:

Operations: Efficiency, quality, and cost control

Marketing: Branding, pricing, and customer communication

Finance: Investment decisions and financial control

HR: Skills, incentives, and organizational culture

IT: Systems and digital capabilities



Operations and quality management practices support **its cost efficiency and reliability strategy.**

4. Interaction Between Strategy Levels

Interaction between strategy levels refers to the **alignment and coherence between corporate, business, and functional-level decisions within the firm** (Johnson et al., 2020).

It is focused on:

- Consistency across strategic decisions (**Unified direction**)
- Alignment between scope, competitive positioning, and execution (**Strategic fit**)
- Avoiding conflicts between strategy levels (**Cross-level coherence**)



Corporate growth choices, **cost-focused business strategy, and operational capabilities** are closely aligned, reinforcing its competitive advantage.

Strategy Vs. Operational Effectiveness

Strategy

focused on:

- Performing **different** activities from rivals **or**
- Performing similar activities in **different ways**
- Concerned with **positioning and trade-offs**

Operational effectiveness

focused on:

- Performing **similar activities** **better** than rivals
- Focus on **efficiency, quality, and execution**
- Necessary but **not sufficient for advantage**

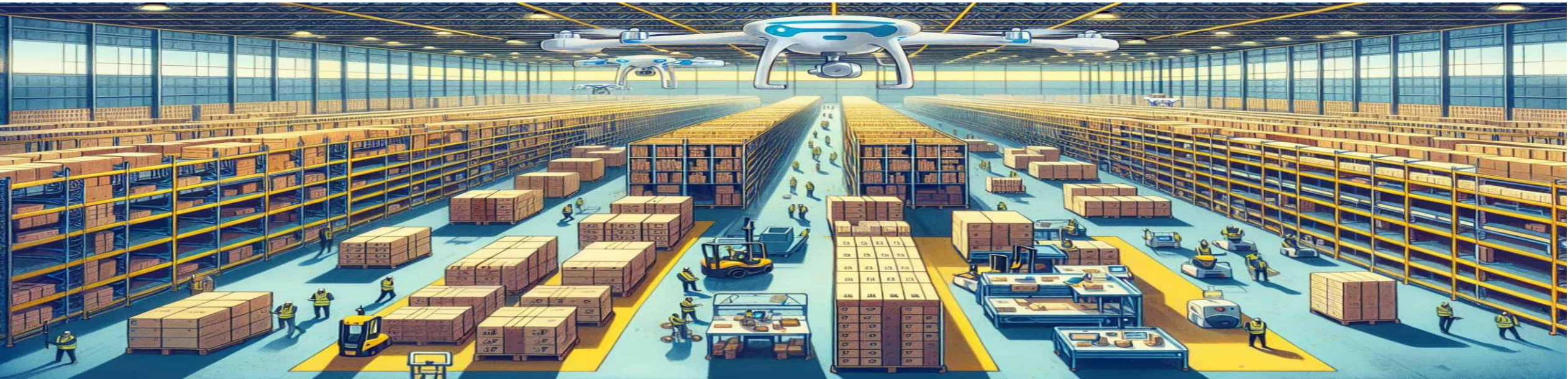
Example — IKEA

Strategy (**different activities**):

Competes through flat-pack furniture, self-service stores, and limited customization. These trade-offs define IKEA's **distinctive low-cost positioning**.

Operational effectiveness (**similar activities better than rivals**):

IKEA improves **warehouse operations, inventory management, and in-store processes** to reduce costs and improve efficiency within its chosen model.



How is Competitive Advantage Arise In Business Strategy?

Competitive Advantage

It exists when a firm can **create and sustain superior value compared to its competitors**, either by delivering **comparable value at lower cost** or by **delivering greater value through differentiation** (Porter, 1985; 1996).

Key clarifications

- Superior performance relative to rivals
- Based on value, not just profit
- Achieved through cost or differentiation
- It must be difficult to imitate
- Driven by strategic choices

Sources of Competitive Advantage

What similarity and differences did you observe here?



What similarity and differences did you observe here?



Unique Sources of Competitive Advantage

- **Globalsocial network scale**

(billions of users and dense social graphs that are hard to replicate)

- **User data and engagement insights**

(deep behavioural data across Facebook, Instagram, WhatsApp)



- **Search data and algorithms**

(unmatched search index, relevance algorithms, and user intent data)

- **Digital advertising platform**

(integrated ecosystem across Search, YouTube, and display networks)



Processes Sources of Competitive Advantage

- **Toyota Production System (TPS)**
*(deeply embedded routines for lean production and waste elimination that **difficult-to-imitate**)*
- **Integrated supplier coordination**
(long-term relationships and joint process improvement)



Organizational Processes

- **Highly standardized operating systems**
*(consistent routines replicated across thousands of outlets **difficult-to-imitate**)*
- **Execution discipline at scale**
(ability to deliver consistency across global markets)



Dynamic capabilities Sources of Competitive Advantage

- **Continuous business model adaptation**

(from online retail to cloud computing, logistics, and digital platforms)



- **Rapid integration of new capabilities** *(combining technology,*

- data, and operations across businesses such as AWS, Prime, and marketplace)

Dynamic Capabilities as a Sources of Competitive Advantage



- **Data-driven content and platform adaptation**

(using analytics to guide content creation and distribution)

- **Global reconfiguration of resources**

(adapting content, pricing, and delivery across markets)

How is Strategic Management Function?

Strategic Management

Strategic management refers to how firms analyze their external environment and internal capabilities, make strategic choices, and implement and evaluate those choices over time (Johnson et al., 2020; Grant, 2022).

It is focused on :

- Guide long-term **strategic decision-making**
- Connect analysis, **strategic choice**, and **execution**
- Support **ongoing learning** and **strategic adaptation**



The Strategic Management Process



1. Define Strategic Intent, Mission, and Vision

Strategic intent

- The firm's long-term ambition and overarching strategic goal
- Provides direction for major strategic priorities

Mission

- The firm's current purpose and reason for existence
- Defines what the firm does, for whom, and how it creates value
- Guides day-to-day strategic and operational decisions

Vision

- A clear statement of the firm's desired future state

Goals

Financial & non financial

2. Analyze the External Environment

Analyzing the external environment involves assessing the **industry, competitive forces**, and **broader macro-environment** to identify opportunities and threats facing the firm , Anticipate change (Johnson et al., 2020; Grant, 2022).

Industry and competition:

Number of competitors, how they compete, innovation races, price wars, advertising

Macro-environment:

PESTEL, entry barriers, suppliers and buyer power, substitute products.

Market trends:

Changes in customer needs, technology, and regulation

Competitive dynamics:

Product launches, strategic moves, market expansion, how competitors act, and react

3. Analyze internal resources and capabilities

Analyzing internal resources and capabilities involves assessing the **firm's assets, skills, and organizational processes** to identify strengths, weaknesses, and potential sources of competitive advantage (Grant, 2022; Johnson et al., 2020).

Key components:

Resources: Tangible and intangible assets (e.g., technology, brand, financial assets)

Capabilities: The firm's ability to deploy resources effectively

Core competencies: Activities the firm performs particularly well

Analysis tools:

SWOT (internal analysis): Identification of strengths and weaknesses

VRIO: Assessment of value, rarity, imitability, and organization

Value chain analysis: Evaluation of activities that create value

4. Formulate Strategy

Formulating strategy involves **developing coherent choices about how the firm will compete**, including decisions at the corporate, business, and functional levels (Johnson et al., 2020; Grant, 2022).

Purpose:

- Translate analysis into strategic choices
- Achieve competitive advantage
- Align strategic decisions across levels

Analysis tools:

- **SWOT:** Matching strengths and weaknesses with opportunities and threats
- **Generic strategies:** Cost leadership and differentiation
- **Strategic positioning:** Activity systems and trade-offs

5. Implement strategy

Implementing strategy involves **translating strategic choices into action** by aligning the firm's structure, systems, people, and processes with the chosen strategy (Johnson et al., 2020; Grant, 2022).

Key components:

- **Organizational structure:** Roles, responsibilities, and reporting lines
- **Systems and processes:** Planning, control, and information systems
- **People and culture:** Skills, incentives, leadership, and values

Purpose:

- Ensure effective execution of strategy
- Align day-to-day activities with strategic goals
- Turn strategic intent into organizational performance

6. Evaluate and control performance

Evaluating and controlling performance involves **monitoring strategic outcomes** to assess whether the firm's strategy is achieving its objectives and to determine whether adjustments are required (Johnson et al., 2020; Grant, 2022).

Key components:

- **Performance measurement:** Financial and non-financial indicators
- **Key performance indicators (KPIs):** Metrics linked to strategic objectives
- **Feedback and control:** Review mechanisms and corrective actions

Purpose:

- Track strategic performance
- Identify gaps between objectives and results
- Support continuous improvement and strategic adjustment

Class 1 Recap

- 1. Strategy defines how a firm creates value and competes over time**
 - Focuses on long-term direction and competitive positioning
- 2. Strategy differs from operational effectiveness**
 - Strategy is about positioning; operations focus on efficiency
- 3. Competitive advantage comes from:**
 - differentiation or cost leadership, unique competence, organizational process, and dynamic capabilities
- 4. Value is created for customers, shareholders, and stakeholders**
 - The balance among them depends on strategic choices
- 5. Strategic management links to:**
 - Connects external analysis, internal capabilities, and implementation

Further reading

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.

Grant, R. M. (2022). *Contemporary strategy analysis* (11th ed.). Wiley.

Johnson, G., Scholes, K., & Whittington, R. (2020). *Exploring strategy* (12th ed.). Pearson.

Mintzberg, H. (1987). The strategy concept I: Five Ps for strategy. *California Management Review*, 30(1), 11–24.

Porter, M. E. (1996). What is strategy? *Harvard Business Review*, 74(6), 61–78.

Thank you



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