Strategic Management of Cities
How do cities compete with each other and what can we do to support their strategy making

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Chair of Strategic Leadership and Global Management
CKI Director, Siemens Center of Knowledge Interchange (CKI) at TU Berlin

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Note:
This presentation heavily draws on a joint panel with Torsten Wulf (HHL Leipzig), Björn Blochung (Roland Berger Strategy Consultants) and Andreas Mehlhorn (Siemens AG) at the Annual Conference of the Strategic Management Society, Rome 2010.
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It’s about cities…
...and/or cities
Cities can have a dynamic which goes up or down
Today’s megacities – mostly in Asia

<table>
<thead>
<tr>
<th>Rank</th>
<th>Megacity</th>
<th>Country</th>
<th>Continent</th>
<th>Population</th>
<th>Annual Growth</th>
<th>Share of GDP in % (as of 2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tokyo</td>
<td>Japan</td>
<td>Asia</td>
<td>34,000,000</td>
<td>0.60%</td>
<td>40</td>
</tr>
<tr>
<td>2</td>
<td>Guangzhou</td>
<td>China</td>
<td>Asia</td>
<td>24,200,000</td>
<td>4.00%</td>
<td>&lt; 5</td>
</tr>
<tr>
<td>3</td>
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<td>South Korea</td>
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<td>24,200,000</td>
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<td>50</td>
</tr>
<tr>
<td>4</td>
<td>Mexico City</td>
<td>Mexico</td>
<td>North America</td>
<td>23,400,000</td>
<td>2.00%</td>
<td>40</td>
</tr>
<tr>
<td>5</td>
<td>Delhi</td>
<td>India</td>
<td>Asia</td>
<td>23,200,000</td>
<td>4.60%</td>
<td>&lt; 5</td>
</tr>
<tr>
<td>6</td>
<td>Mumbai</td>
<td>India</td>
<td>Asia</td>
<td>22,800,000</td>
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<td>15</td>
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<tr>
<td>7</td>
<td>New York City</td>
<td>USA</td>
<td>North America</td>
<td>22,200,000</td>
<td>0.30%</td>
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</tr>
<tr>
<td>8</td>
<td>São Paulo</td>
<td>Brazil</td>
<td>South America</td>
<td>20,900,000</td>
<td>1.40%</td>
<td>25</td>
</tr>
<tr>
<td>9</td>
<td>Manila</td>
<td>Philippines</td>
<td>Asia</td>
<td>19,600,000</td>
<td>2.50%</td>
<td>30</td>
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<tr>
<td>10</td>
<td>Shanghai</td>
<td>China</td>
<td>Asia</td>
<td>18,400,000</td>
<td>2.20%</td>
<td>&lt; 10</td>
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<tr>
<td>11</td>
<td>Los Angeles</td>
<td>USA</td>
<td>North America</td>
<td>17,900,000</td>
<td>1.10%</td>
<td>&lt; 10</td>
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<tr>
<td>12</td>
<td>Osaka</td>
<td>Japan</td>
<td>Asia</td>
<td>16,800,000</td>
<td>0.15%</td>
<td>n.a.</td>
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<tr>
<td>13</td>
<td>Calcutta</td>
<td>India</td>
<td>Asia</td>
<td>16,300,000</td>
<td>2.00%</td>
<td>&lt; 10</td>
</tr>
<tr>
<td>14</td>
<td>Karachi</td>
<td>Pakistan</td>
<td>Asia</td>
<td>16,200,000</td>
<td>4.90%</td>
<td>20</td>
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<tr>
<td>15</td>
<td>Jakarta</td>
<td>Indonesia</td>
<td>Asia</td>
<td>15,400,000</td>
<td>2.00%</td>
<td>30</td>
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<tr>
<td>16</td>
<td>Cairo</td>
<td>Egypt</td>
<td>Africa</td>
<td>15,200,000</td>
<td>2.60%</td>
<td>50</td>
</tr>
<tr>
<td>17</td>
<td>Moscow</td>
<td>Russia</td>
<td>Europe</td>
<td>13,600,000</td>
<td>0.20%</td>
<td>20</td>
</tr>
<tr>
<td>17</td>
<td>Beijing</td>
<td>China</td>
<td>Asia</td>
<td>13,600,000</td>
<td>2.70%</td>
<td>&lt; 5</td>
</tr>
<tr>
<td>17</td>
<td>Dhaka</td>
<td>Bangladesh</td>
<td>Asia</td>
<td>13,600,000</td>
<td>4.10%</td>
<td>60</td>
</tr>
<tr>
<td>20</td>
<td>Buenos Aires</td>
<td>Argentina</td>
<td>South America</td>
<td>13,300,000</td>
<td>1.00%</td>
<td>45</td>
</tr>
<tr>
<td>21</td>
<td>Istanbul</td>
<td>Turkey</td>
<td>Europe &amp; Asia</td>
<td>12,800,000</td>
<td>2.80%</td>
<td>25</td>
</tr>
<tr>
<td>21</td>
<td>Teheran</td>
<td>Iran</td>
<td>Asia</td>
<td>12,800,000</td>
<td>2.60%</td>
<td>n.a.</td>
</tr>
<tr>
<td>23</td>
<td>Rio de Janeiro</td>
<td>Brazil</td>
<td>South America</td>
<td>12,600,000</td>
<td>1.00%</td>
<td>15</td>
</tr>
<tr>
<td>24</td>
<td>London</td>
<td>United Kingdom</td>
<td>Europe</td>
<td>12,400,000</td>
<td>0.70%</td>
<td>15</td>
</tr>
<tr>
<td>25</td>
<td>Lagos</td>
<td>Nigeria</td>
<td>Africa</td>
<td>11,800,000</td>
<td>3.20%</td>
<td>30</td>
</tr>
</tbody>
</table>

Stylized facts about (mega)cities – and key questions for us

• 2007 was the first year in history in which more people lived in cities than in rural areas.
• Today‘s megacities are home to approximately one in ten of the world‘s urban population.
• Magnets for trade, culture, knowledge and industry
• Hugely complex social and environmental challenges

1. What does strategic management as a research discipline which aims to be practically relevant have to offer to deal with cities as focal entities and to help them solve their problems?
2. How can we apply the concept of competitive advantages to cities?
3. What role can business firms play? Does a focus on societal problems, such as the management of cities, signal a new “DNA” of business firms, “beyond core competencies”?

Source: UN HABITAT.; http://www.megacities-megachallenge.org/megacities.html (DFG funded).
Strategic management literature has – so far – not too much to offer

Search procedures:
Key words: Strategy, strategic management, competitive/advantage, planning // city, municipal, urban, metropolitan, mega cities, global cities, community // empirical
Sources: Business Source Premier (EBSCO), Web of Science (WoK)
Result: 184 articles, after filtering procedure 17 articles that deal with the “strategic management of cities”

Examples:

Observations:
• No publications in core strategic management journals
• Cities as a special case of regions -> Focus on external economies of scale
• Economic perspective (innovation, growth, wealth creation …) dominates
Urban economics as a special case of regional cluster economics

The legacy of Alfred Marshall

"Labor Market Pooling"

"Intermediate Inputs"

"Technological Spillovers"

"The mysteries of the trade become no mystery, but are as it were in the air .... Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organizations of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas."

(A. Marshall)

Necessary condition: Interaction with "internal" economies of scale

Major field of application: Low-tech industries

Importance of "external economies"

Major field of application: High-tech industries

Transportation costs tend to play a minor role!

The world's top cities offering the best quality of life

<table>
<thead>
<tr>
<th>2010 Rank</th>
<th>2009 Rank</th>
<th>City</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>Vienna</td>
<td>Austria</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Zurich</td>
<td>Switzerland</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>Geneva</td>
<td>Switzerland</td>
</tr>
<tr>
<td>=4</td>
<td>=4</td>
<td>Vancouver</td>
<td>Canada</td>
</tr>
<tr>
<td>=4</td>
<td>=4</td>
<td>Auckland</td>
<td>New Zealand</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>Düsseldorf</td>
<td>Germany</td>
</tr>
<tr>
<td>=7</td>
<td>8</td>
<td>Frankfurt</td>
<td>Germany</td>
</tr>
<tr>
<td>=7</td>
<td>=7</td>
<td>Munich</td>
<td>Germany</td>
</tr>
<tr>
<td>9</td>
<td>9</td>
<td>Bern</td>
<td>Switzerland</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>Sydney</td>
<td>Australia</td>
</tr>
</tbody>
</table>

Source: Mercer Consulting, 2010

The quest for competitive advantage

Strategic Management of Cities
What is a (sustainable) competitive advantage? A question that can be specified into four more detailed questions

1. The question of **value**: Do a firm’s resources and capabilities enable the firm to respond to environmental threats or opportunities?

2. The question of **rarity**: Is a resource currently controlled by only a small number of competing firms?

3. The question of **imitability**: Do firms without a resource face a cost disadvantage in obtaining or developing it?

4. The question of **organization**: Are a firm’s other principles and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

Beyond the traditional economic welfare perspective – towards a framework

Results from the “Megacity challenges“ study
1. Megacities prioritize economic competitiveness and employment.
2. The environment matters, but may be sacrificed for growth.
3. Transportation overtakes all other infrastructure concerns.
4. Better governance is a vital step towards better cities.
5. Cities will seek to improve services, but could do more to manage demand.
6. Technology will help to deliver transparency and efficiency.
7. The private sector has a role to play in increasing efficiency.

Source: Globe Scan and MRC McLean Hazel, Megacity challenges. A stakeholder perspective, Munich.
An additional framework – what attracts the “creative class”  

(Richard Florida)

- Universities and other higher-education institutions
- Knowledge-intensive firms
- Research universities
- # of High Tech start-ups
- # of patent applications
- R&D intensity
- Integration of foreign people
- Art scene
- Openness for alternative forms of life (e.g. gay partnerships)
- Off-scene clubs, theaters etc.

How can the creative class be defined?

DEFINITION OF CREATIVE CLASS

Members of the creative class develop new usables in their work:

- IT and mathematical professions
- Engineers, architects, scientists
- Art, media, entertainment
- Management

Sources: based on Florida (2002) and Björn Blochung (RBSC) presentation slides
Florida’s concept applied to German cities (1)

GDP per capita [K EUR]

Source: Roland Berger Strategy Consultants (Björn Bloching)
Florida’s concept applied to German cities (2)

Source: Roland Berger Strategy Consultants (Björn Bloching)
What cities have to do to attract talent – and why they often fail

Factors of success for talent recruiting

- Precise evaluation of the demand for talent according to clusters in the next decade (quantity, professions, specializations)
- Precise of the requirements and values of the relevant talents (where and how do you want to live and work?)
- Clear evaluation of the strategic importance and recruitability of different talent segments
- Custom-made strategies for winning and binding the prioritized talents – selective city planning and precise designation instead of buck shot

Starting situation of German cities

- Economic promotion thus far has focussed on companies – almost no consciousness or ideas for talent recruiting
- Despite much market research both regional and supra-regional requirements are largely unknown
- Often there is no knowledge of methods to segment and prioritize talent target groups
- Talents are often seen as a homogenous mass – motto: one creative strategy fits all

Source: Roland Berger Strategy Consultants (Björn Bloching)
To see cities through the lenses of strategic management implies that they can be understood as corporate actors

Some theoretical considerations

- Self-observation, self-description

- Actors tied in a network

- To prove and maintain its capability to act, a system has to become aware of arising problems early enough to initiate actions that face these problems

- Ability to make and implement decisions (go through full decision cycles)
For inspiration: the example of Vail Resorts, Inc.

- Vail Resort is one of the leading resort operators of North America.
- Developed from a ski lift operator into a multifunctional corporation
- Revenue from ski lift ticket sales, hotel and accommodation services, ski schools, stores, boutiques, food and beverages, real estate trading, other leisure activities and offers (Golf, Tennis, Horseback riding)
- IPO in February 1997
- Listed on the New York Stock Exchange (ticker symbol: MTN)
Cities and their stakeholders

- Voting population/parties
- Other government bodies
- Suppliers
- Employees
- Public opinion/press
- Sponsored facilities (e.g. theatres)
- Local companies
- Local population/users of city services

**Conclusion**

- Stakeholder concept is applicable to cities
- In democratic societies, voters represent dominant stakeholder group
- Goals of city management driven by length of legislative periods and main goals of voters

Cities are different: They have diverse stakeholders and goals – with voters playing a dominant role.

Source: Wulf, Torsten; Cities as Strategic Actors - how Strategy Concepts can be applied to Cities, 2010 Annual Meeting of the Strategic Management Society Panel „The Strategic Management of Cities“
Developing competitive advantage of cities

1. Identify competitive advantages
   - Strategic location, local market demand, integration with regional clusters, and human resources

2. Address competitive disadvantages
   - Land, building costs, other costs, security, infrastructure, employee skills, management skills, capital, and attitudes

3. Search for partner institutions
   - Business firms, government, non-profit organizations, social movements, other

4. Define roles for all stakeholders
   - All partner institutions (private sector, government and community-based organizations) have to understand and play their roles

“Rethinking the inner city in economic rather than social terms will be uncomfortable (but necessary).”

Leading companies take “urbanization” as a megatrend that needs – and is promising – to be addressed: The example of SIEMENS

New sector “infrastructure” to be in place in October 2011

Source: www.siemens.com
...and exploit their core competencies to provide sustainable solutions

IBM seems to follow a very similar strategy (“smarter planet” initiative)
## Beyond core competencies – towards a new DNA of business firms

<table>
<thead>
<tr>
<th>Basis for competition</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitiveness of today’s products</td>
<td>Interfirm competition to build competencies</td>
<td>Role-making vs. role-taking within complex systems of value creation and appropriation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Perspective</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Looking for existing customer solutions; inside-out-view (close innovation)</td>
<td>Looking for promising applications of core technologies, competencies and products in new business areas; inside-out-view (close innovation)</td>
<td>Looking for new technical solutions, business models and social contexts; focus not so much on single customers but on broader defined societal problems; outside-in-view (open innovation)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate structure</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio of businesses related in product-market terms</td>
<td>Portfolio of competencies, core products, and businesses</td>
<td>Portfolio of business units, competencies, projects, (and business models?), that integrate partners from other companies and institutions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status of the business unit/core competencies</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autonomy is sacrosanct; the SBU “owns” all resources other than cash</td>
<td>SBU is a potential reservoir of core competencies</td>
<td>SBUs and core competencies serve as a starting point for visioning possible solutions of real-world problems and orchestrating potential partners</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Resource allocation</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discrete businesses are the unit of analysis; capital is allocated business by business</td>
<td>Businesses and competencies are the unit of analysis: top management allocates capital and talent</td>
<td>Real-world problems and business models are the unit of analysis; top-management allocates capital, talent, and opportunities for collaboration with other companies and institutions</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value added of top management</th>
<th>SBU</th>
<th>Core competence</th>
<th>Searching real-world solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimizing corporate returns through capital allocation trade-offs among businesses</td>
<td>Enunciating strategic architecture and building competencies to secure the future</td>
<td>Building strategic platforms and developing new business models that put internal units and partners into place and secure profit potentials for own organization</td>
<td></td>
</tr>
</tbody>
</table>
A final thought – the strategic management of cities may be important, but at the same time we should also not be too voluntaristic.

Canberra – planned and developed in the early 20th century

Brasilia – planned and developed in 1956

Thomas Morus, Utopia
Strategic Management of Cities