Part 1 Strategic Analysis

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Chapter 1

Strategic Management:

Creating Competitive Advantages

Summary/Objectives

PowerPoint Slide 2: Learning Objectives

At the heart of strategic management is the question: "How and why do some firms outperform others?" The challenge to managers is to develop and implement strategies that will provide competitive advantages that will be sustainable over time. This chapter is divided into five sections.

1. The first section addresses the broad question: "What is strategic management?" Here, we define strategic management as "consisting of the analysis, decisions, and actions an organization undertakes to create and sustain competitive advantages." We also address the four key attributes of strategic management: concern with overall objectives; involvement of multiple stakeholders; incorporation of short- and long-term perspectives; and recognition of tradeoffs between effectiveness and efficiency. We also introduce the concept of "ambidextrous behaviors"—the need to combine alignment and adaptability.

2. The second section discusses the strategic management process. Here, we present the three processes—analysis, formulation, and implementation—that provide the framework for the overall organization of the thirteen chapters of the book.

3. The third section focuses on the vital role of corporate governance, which is essential to ensuring that the actions of a firm's management are consistent with the goals of its owners—the shareholders. We also address stakeholder management. It must be taken into account throughout the strategic management process. Although the interests of stakeholders may, at times, conflict, we discuss how firms are able to achieve "symbiosis" among stakeholders wherein various interests are considered interdependent and can be attained simultaneously. We address the importance of social responsibility, including environmental sustainability, as well as challenges associated with making the case for sustainability initiatives.

4. The fourth section addresses today's greater need for a strategic management perspective throughout the organization. With the emergence of the knowledge of economy and globalization, leaders must mobilize people throughout the organization.

5. The fifth section discusses the need for organizations to attain consistency in their vision, mission, and strategic objectives. Collectively, they form a hierarchy of goals.

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Lecture/Discussion Outline

We begin the chapter in LEARNING FROM MISTAKES with a clever quote from Arthur Martinez, Sears's former chairman: "Today's peacock is tomorrow's feather duster" to help illustrate the rapid turnover among the Fortune 500 firms over a period of time. With rapid changing technologies and intensified global competition success can be temporary, and new entrants can shake up long-standing industries.

The SUPPLEMENT below, from a website provides an interesting perspective on the digital economy.

Extra Example: The Digital Disruption Has Already Happened

World's largest taxi company owns no taxis. (Uber)
Largest accommodation provider owns no real estate. (Airbnb)
Largest phone companies own no telco infrastructure. (Skype, WeChat)
Most popular media owner owns no content. (Facebook)
World's largest movie house owns no cinemas. (Netflix)
Largest software vendors don't write the apps. (Apple and Google)

Source: www.ibmforentreprenuers.com.

Discussion Question 1: *What are the implications for your careers? (This is a rather general question, but it might help remind students that they must be sensitive to changes in industry dynamics that could provide new opportunities—as well as, perhaps, erode opportunities that they may have thought they had in a particular industry.)*

Teaching Tip: *By raising the "career implications" question, you will have the opportunity to briefly introduce the concept of the sustainability of competitive advantage(s), i.e., the criteria of rare, valuable, difficult to copy (imitate and substitute) that we will address at length in Chapters 3 and 5. The point that can be made is that students should strive to develop skills and capabilities that satisfy these four criteria to enjoy greater career success. This helps to illustrate some very practical implications of strategy concepts and heighten student interest.*

The opening case is about a company, Luckin Coffee, which failed because of (1) misguided strategic actions as well as weak corporate governance and (2) strong competition from established coffee chains such as Starbucks which have a significant competitive advantage. Thus, it helps to illustrate both the romantic view as well as the external control view of leadership, respectively.

Discussion Question 2: *Given that public accounting firms such as Ernst & Young may be unable to uncover financial misconduct at foreign firms, what kind of due diligence should U.S. investors undertake before investing in Chinese tech companies?*

Response Guidelines: This question should result in some interesting perspectives, especially from students who aspire to work for an accounting firm such as Ernst & Young.

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Instructors may want to point out that accounting firms are dependent on effective country-level corporate governance mechanisms such as effective rule of law, control of corruption, and government effectiveness. The country-level corporate governance in China may not have been as effective as in Ernst & Young's home country (the United Kingdom). Hence, accounting firms may not be as effective in China as they are in the U.K. or U.S., which should give U.S. investors some pause. Then the instructor may highlight the potential of analyzing the internal governance mechanisms, such as the board of directors. Investors may ask questions such as, are the directors on the board sufficiently motivated to monitor management? This could involve examining their compensation packages and stock holdings. Investors could also examine whether directors are independent of management. Next, investors may examine whether other large shareholders in the firm may have an interest in monitoring the firm on behalf of smaller shareholders. These questions may be a visible starting point to conduct due diligence before investing in Chinese tech companies.

Discussion Question 3: *What kind of control and monitoring structures should firm leadership implement to prevent employees from engaging in financial misconduct?*

Response Guidelines: This question of course implies that the firm leadership is interested in creating an ethical culture that prevents financial misconduct. Hence, instructors could start by highlighting the importance of effective corporate governance. Next, management should closely examine the speed of expansion in the Chinese market. While aggressive sales and market share goals are not inherently negative, goals should be realistic given the resources and capabilities of the firm. Disregarding the internal capabilities of the firm is a recipe for employees to cut corners to meet the aggressive goals set by firm leadership. Finally, instructors may highlight the importance of internal control mechanisms such as compensation systems. Employees typically respond strongly to financial incentives, which may be a tool that can be used to properly direct employee behavior. In addition, management should actively shape a culture of ethical conduct. This of course starts with "leading by example" where the top and middle management rigorously addresses instances of misconduct.

You might also mention that Luckin Coffee now trades on the Over-the-Counter Market (OTC) and as of the close of business on December 2, 2022, its stock was trading at $21.50—giving it a market value of approximately $5 billion. It now has more stores in China than Starbucks does and its revenues in the third quarter of 2022 was $547.5 million—a 65.7% increase over the same quarter in 2021. Part of the reason for this turnaround is a new CEO who has engaged external lawyers to review Luckin's operations and improved the market's confidence in the company. Luckin also benefited from a partnership with Eileen Gu, a Chinese freeski champion and Olympic gold medalist who become the breakout sensation of the 2022 Winter Olympics in Beijing.

Source: Luckin Coffee. 2022. Luckin Coffee Inc. Announces Third Quarter 2022 Financial Results. https://kdvr.com/business/press-releases/globenewswire/8701646/luckin-coffee-inc-announces-third-quarter-2022-financial-results/, November 22: np; Toh, M. Luckin Coffee is back and bigger than Starbucks in China. www.cnn.com, May 25: np.

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I. What Is Strategic Management?

PowerPoint Slide 3: The Importance of Leadership
PowerPoint Slide 4: Two Perspectives of Leadership
PowerPoint Slide 5: Leaders Can Make a Difference
PowerPoint Slide 6: Defining Strategic Management
PowerPoint Slide 7: Two Fundamental Questions
PowerPoint Slide 8: Strategic Management
PowerPoint Slide 9: Strategic Management Trade-offs

We point out that it is very important for managers to see their jobs as more than just custodians of the "status quo." Rather, they must proactively anticipate change and continually refine, as well as, when necessary, make significant changes to their strategies. This has become particularly important as competitive environments become characterized by increasing rates of unpredictable change.

A. Defining Strategic Management

We define strategic management as "*consisting of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages*." We believe this definition captures two main elements of the field of strategic management.

First, strategic management entails three on-going processes: analysis, decisions, and actions. That is, managers must analyze the internal and external environment as well as their hierarchy of goals in order to formulate and implement strategies.

Second, the essence of strategic management is the study of why some firms outperform others. We draw on Michael Porter's work to make the important distinction between strategy and operational effectiveness. Managers must create advantages that are sustainable over a period of time, instead of merely temporary. That is: *How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?* (This perspective, of course, draws upon the resource base view of the firm that we address in detail in Chapters 3 and 5.)

> ***Discussion Question 4:*** *Are you familiar with some firms that created advantages in the marketplace that were very temporary?*

B. The Four Key Attributes of Strategic Management

Here, we address four key attributes of strategic management. Strategic management is directed toward organizational goals and objectives; includes multiple stakeholders in decision making; incorporates both short-term and long-term perspectives; and, recognizes trade-offs between effectiveness and efficiency.

EXHIBIT 1.1 provides our definition of strategic management and these four attributes.

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Discussion Question 5: *What are some examples of leaders who failed to incorporate some of these attributes in their decision making? What were the implications?*

The SUPPLEMENT below points out the importance of a key attribute of strategic management: recognizing trade-offs between efficiency and effectiveness.

Extra Example: When a Firm Needs Farmers and Vikings

Executives who excel at execution resemble Nordic Vikings, who attacked when they saw an unprotected spot and retreated when they realized they could not win, maneuvering their longboats toward the next opportunity. Once Vikings seized a bit of land, however, they often remained to farm it. Over time, they came to value the security of protecting what they had, more than the adventure of pursuing new opportunities.

Organizations are susceptible to a similar dynamic. As a business matures, early entrepreneurs leave for new adventures or settle into safe routines at the firm. New employees join the company for its perceived stability, not for adventure. What started as a Viking outpost becomes a farming community. Companies with too few Vikings on the payroll struggle to execute with sufficient urgency. That is why soon after assuming control of a portfolio company, Garantia's (a producer of rainwater tanks) executives would implement a trainee program to attract the best and brightest college graduates, a practice the firm has continued as it has expanded. These graduates provide a steady stream of Vikings and exert constant pressure on executives who might otherwise lapse into the comfort of farm life.

Source: Sull, D. 2010. Are you ready to rebound? Harvard Business Review. 88(3): 74

Discussion Question 6: *Are companies you are familiar with or work at comprised of Vikings or farmers? Would your answer vary over time?*

Discussion Question 7: *When should firms hire more Vikings? How about farmers?*

We also discuss an interesting insight regarding the types of challenges that managers face. Here, we address three "paradoxes" based on a 2016 *HBR* article by Wendy Smith and her colleagues. They are:

- The *innovation paradox* reflects the tension between existing products and new ones, i.e., stability and change.
- The *globalization paradox* is about the conflict between global connectedness and local needs.
- The *obligation paradox* reflects the tension between social responsibility/a broader stakeholder perspective and short-term shareholder demands.

Discussion Question 8: *What are some examples of companies that have faced such paradoxes? What actions were taken? Were they successful?*

We close the section with a brief introduction of the concept of "ambidextrous behaviors"—the ability to both be proactive in taking advantage of future opportunities, as well as in exploiting an existing resource base. STRATEGY SPOTLIGHT 1.1 illustrates this concept

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by providing four examples of ambidextrous behaviors. We also provide some suggestions on how one can become an ambidextrous leader. Ask:

> ***Discussion Question 9:*** *Do you know of any managers or executives who have exhibited ambidextrous behaviors? How?*

II. The Strategic Management Process

PowerPoint Slide 11: Realized Strategy and Intended Strategy: Usually Not the Same.
PowerPoint Slide 12: Intended vs. Realized Strategies
PowerPoint Slide 13: Strategic Management Process
PowerPoint Slide 14, 15, 16: Strategy Analysis
PowerPoint Slide 17, 18, 19: Strategy Formulation
PowerPoint Slide 20-24: Strategy Implementation

We restate the three ongoing processes in strategic management—analysis, decisions, and actions—that are typically referred to as analysis, formulation, and implementation.

A. Intended versus Realized Strategies

EXHIBIT 1.2 draws on the influential work of Henry Mintzberg of McGill University. He distinguishes between "intended" and "realized" strategies, and we provide the example of how Superdry PLC, a British clothing brand, had to change their product mix due to unseasonably warm weather.

> ***Discussion Question 10:*** *What are some other examples of "unrealized" or emergent strategies?*

EXHIBIT 1.3 depicts the strategic management process and indicates how it ties into the chapters in the book. And, consistent with the discussion in the text, the two-way arrows convey the interactive nature of the process.

> ***Teaching Tip:*** *Refer back to the opening case. When discussing EXHIBIT 1.3, it would be helpful to ask the class to illustrate how this exhibit can be useful in outlining the issues surrounding this case and how some of the problems may have been avoided with careful attention to these aspects of analysis, formulation, and implementation.*

The next three subsections address each of the three key strategic management processes: analysis, formulation, and implementation.

B. Strategy Analysis

Strategy analysis consists of, in effect, the "advance work" that must be done in order to effectively formulate and implement strategies. Many strategies fail because managers may want to formulate and implement strategies without a careful analysis of the overarching goals of the organization, as well as a thorough analysis of its external and internal environment.

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1. Analyzing Organization Goals and Objectives (Chapter 1)
2. Analyzing the External Environment (Chapter 2)
3. Assessing the Internal Environment (Chapter 3)
4. Assessing a Firm's Intellectual Assets (Chapter 4)

C. Strategy Formulation

A firm's strategy is formulated at several levels. First, business-level strategy addresses the issue of how firms compete in an industry to gain competitive advantage. Second, corporate-level strategy focuses on two issues: (1) what businesses to compete in, and (2) how businesses can be managed to achieve synergy, that is, create more value by working together than if they operated as a stand-alone entity. Third, firms must develop international strategies as they expand beyond their national boundaries. And fourth, managers must develop entrepreneurial strategies and be aware of the competitive dynamics in their industry.

1. Formulating Business Level Strategies (Chapter 5)
2. Formulating Corporate Level Strategies (Chapter 6)
3. Formulating International Level Strategies (Chapter 7)
4. Entrepreneurial Strategy and Competitive Dynamics (Chapter 8)

D. Strategy Implementation

Clearly, effective strategies are of little value if they are not properly implemented. Implementing strategies involves strategic controls and organizational designs; coordination and integration among activities within the firm, as well as with customers and suppliers; and effective leadership.

1. Strategic Control and Corporate Governance (Chapter 9)
2. Creating Effective Organizational Designs (Chapter 10)
3. Strategic Leadership: Excellence, Ethics and Change (Chapter 11)
4. Fostering Corporate Entrepreneurship (Chapter 12)
5. Analyzing Strategic Management Cases (Chapter 13)

Mr. Usman Ghani, an international consultant, provides excellent insights into the strategic management process. We are very pleased to have his perspective on this central topic to our text. In addition to many insights on leadership at high levels in both business and consulting, he addresses challenges associated with the three core elements of the strategic management process (analysis, formulation, and implementation).

Discussion Question 11: *For your organization (or the organization that you would like to work with) what do you feel are the most important points that he makes that can enhance its strategy and operational effectiveness? (You might address such concepts as leveraging both success and failure for active learning, attitudinal and behavioral*

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pitfalls, experimenting with inclusive ideas, developing self-awareness, the role of ethics and values, etc.)

III. The Role of Corporate Governance and Stakeholder Management

PowerPoint Slide 25: Corporate Governance and Stakeholder Management
PowerPoint Slide 26: Corporate Governance
PowerPoint Slide 27: Stakeholder Management
PowerPoint Slide 28: Two Views of Stakeholder Management

We discuss three important and related concepts: corporate governance, stakeholder management, and social responsibility. Clearly, these topics (especially corporate governance) have generated quite a bit of controversy and the topic should lead to some spirited discussion.

Corporate governance addresses the relationship between various participants in determining the overall direction and performance of corporations. It consists of three primary participants—shareholders, management, and the board of directors.

EXHIBIT 1.4 illustrates these three participants.

(Corporate governance is discussed in much more detail in Chapter 9. However, it is such a "hot" topic, that we wanted to introduce it in the text's opening chapter.)

Discussion Question 12: *What are some other recent examples of poor corporate governance? (Examples would include Bank of America, Wells Fargo, Volkswagen, Uber, etc.)*

Discussion Question 13: *What are the* ***causes*** *of such poor governance?*

We address some examples of extremely high executive pay—in many cases the pay is disproportionate to how well the CEO's firm performed (see examples from the financial industry).

The SUPPLEMENT below provides some information on the increased rapid turnover of CEOs among large firms and the growing pressure that CEOs face from investors and other stakeholders.

Extra Example: Increasing Turnover Among CEOs of U.S. Corporations

The rate of turnover among CEOs of large corporations has increased as corporate directors and activist investors demand strong results—and rapidly seek management changes if they don't happen quickly. Thus, more pressure is placed on CEOs and other C-level staff. Grace periods are being shortened and top executives must quickly tackle challenges and demonstrate their capabilities.

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In 2018, 1,452 CEOs of public and private companies and nonprofit groups left their position—25 percent more than those who departed in 2017 (and this was just shy of the highest annual CEO departures recorded during the 2008 financial crisis)—according to executive recruiting company, Challenger, Gray & Christmas. Although 27 percent of these departures were retirements, many CEOs resigned amid board questions about performance—and some because of professional or sexual misconduct allegations.

As noted by Ken Freeman, former dean of Boston University's Questrom School of Business, "CEOs and other top executives must start earning their stripes from Day 1 on new jobs, and there's little margin for error." And, social media and the availability of data about firms' performance compound the pressure, adding "constant, up-to-the minute scrutiny of CEOs," he says.

Source: Hymowitz, C. 2019. Prove yourself now. Bloomberg Businessweek. April 1: 44.

Teaching Tip: As we note, executive compensation is a "hot" topic and might be a subject that you would like to spend some time on (even though we address corporate governance issues in much more detail in Chapter 9). It is early in the term and this might get many students' "blood pressure" up and lead to spirited debates. You might also ask "How much is too much?" Some students may argue "whatever the market conditions are, because of the market for scarce talent," others may state that "it should depend on how much others make—such as the next highest executive at a firm (or a multiple of the lowest paid in the corporation—such as the case at Whole Foods, Inc.)," and still others may believe that "managers should not receive entrepreneurial rewards without taking entrepreneurial risks (e.g., the case of Welch at GE and Eisner at Disney who earned around $1 billion during their tenures)—since such executives joined the company when it was already very successful and there was little employment risk—not to mention the risk of one's personal financial assets (i.e., "skin in the game")." Or, of course, you could take one of these positions and see how the class reacts—consider asking individual students to take a position and others to rebut it, etc.

Given the usual student interest in executive pay, the SUPPLEMENT below should stimulate additional discussion, i.e., do students agree with the "sentiment" below.

Extra Example: Executive Compensation

The Rock Center for Corporate Governance at Stanford University posed the question (response was 1,202 people): How much does the average CEO of a major corporation make? The answer was quite surprising: $1 million, which is both a round number and seems like a lot of money.

The real answer is quite a bit higher: $10.3 million (according to a 2015 report from the compensation trackers at Equilar).

Approximately three-quarters of those surveyed said that CEOs are not "paid the correct amount relative to the average worker"—and this view held up across political affiliations, i.e., 25 percent of Republicans felt they were paid appropriately, only slightly higher than 16 percent of Democrats and 11 percent of Independents.

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Not surprisingly, David F. Larcker, a professor at the Stanford Graduate School of Business, said in the report: "While we find that members of the public are not particularly knowledgeable about how much CEOs actually make in annual pay, there is a general sense of outrage fueled by the political environment."

Source: Rosenberg, R. 2016. Their CEO got $142 million more than he deserved. financeyahoo.com. February 17: np.

The SUPPLEMENT below provides some interesting insights on surveys of capitalism versus socialism among younger Americans. It might be interesting to ask your students why such perspectives are so pervasive.

Extra Example: Americans' Positive Image of Capitalism Is Eroding…

One would have to go back to the 1960s—or 1930s—to find a time when the primacy of the free market system was being so widely questioned. According to a recent Gallup poll, merely 56 percent of Americans state that they have a positive image of capitalism. Similarly, in a Fox News poll, 36 percent of adults approved of a shift in the United States "away from capitalism and more toward socialism"—a significant increase from 2012 when just 20 percent said so.

Among Millennials and Gen Z, skepticism about free markets is actually the majority view. In Gallup's poll, 51 percent of those 18 to 29 had a positive view of socialism—perhaps more the largely fuzzy Scandinavian/Bernie Sanders version as opposed to the Soviet/Berlin Wall hard stuff—compared to 45% for capitalism. Such a finding is consistent with a Harvard survey of young adults in which 51 percent said they did not support capitalism—and only 19 percent said they "identify as a capitalist." Perhaps, surprisingly, such sentiments come amid an economy that is by all traditional indicators booming with full employment and 3 percent growth.

Although many still believe that America is still the land of opportunity, a 2019 Fox News agency found that just 42 percent of Americans did not think "the way capitalism works in the United States these days give them a fair shot." And, in a country that has always held true to the premise that one could make it through hard work—or at least your children could—18 percent thought that the American Dream is out of reach for their family. Perhaps, the perception of the lack of upward mobility fuels much of such populist anger: Despite all the anecdotal success stores, if you were born in the wrong zip code, to the wrong parents, the road to The Forbes 400 has never looked longer or narrower.

Source: Lane, R. 2019. Reimagining capitalism. Forbes, March 31: 30-35.

A. Alternative Perspectives on Stakeholder Management

In this section we recognize, of course, that there are often conflicting demands among an organization's stakeholders. However, managers need to acknowledge the interdependence among stakeholders and strive to achieve symbiosis, that is, the recognition that stakeholders are interdependent upon one another for their success and well-being.

EXHIBIT 1.5 lists seven key stakeholder groups and the nature of their claims.

1. Zero-Sum or Symbiosis

We address the many stakeholder challenges faced by Walmart.

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Discussion Question 14: *What are some ways Walmart's stakeholder demands may conflict? How might they be highly interdependent and positively (or negatively) related to each other?*

Discussion Question 15: *Can you give other examples of other such collective initiatives? And, in your example, have all stakeholders benefited (or been penalized) equally?*

B. Social Responsibility and Environmental Sustainability: Moving Beyond the Immediate Stakeholders

1. Social Responsibility

Managers must consider the needs of the broader community-at-large and act in a socially responsible manner. Social responsibility is the expectation that businesses or individuals will strive to improve the overall welfare of a society.

The following SUPPLEMENT summarizes some of the central points in the debate as to the value of corporations to devote significant resources to corporate social responsibility:

Extra Example: Stakeholders versus Shareholders

Although corporate social responsibility may appear to be an "apple-pie virtue," it is quite controversial. Below are some of the chief arguments for and against it:

Proponents will claim that it…

BURNISHES A COMPANY'S REPUTATION. In the wake of corporate scandals, corporate social responsibility builds goodwill—and can pay off when scandals or regulatory scrutiny inevitably arise.

ATTRACTS TALENT. Many young professionals expect their employers to be active in social issues. Membership in Netimpact.org, a network of socially-conscious MBA graduates, jumped from 4,000 in 2002 to 10,000 in 2004.

On the other hand, Detractors will argue that it…

COSTS TOO MUCH. Giving by corporate foundations reached an all-time high of $3.6 billion last year. However, it can come at the expense of other priorities, such as research and development, and is rarely valued by Wall Street.

IS MISGUIDED. Many corporate executives believe, as economist Milton Friedman does, that the role of business is to generate profits for shareholders—not to spend others' money for some perceived social benefit.

Source: Grow, B., Hamm, S. & Lee, Louise. 2005. The debate over doing good. *Business Week*, August 15: 76-78.

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Teaching Tip: *You could likely generate some interesting debate by asking students to take alternative positions on this issue. Perhaps, assign one student to the "pro" position and one to the "con" position. Also, give them a chance to rebut the other person's perspective. You could then ask a few others to join the debate by taking their preferred side on this issue. (The debate could become more spirited by raising very "intense" issues such as natural disasters, including the tsunami that hit Japan on March 11, 2011.)*

2. The Triple Bottom Line: Incorporating Financial as Well as Environmental and Social Costs

Next, we state that many companies are measuring what they call the "triple bottom line." Such a technique involves an assessment of environmental, social, and financial performance. We state that environmental sustainability is now a value embraced by most successful corporations.

Discussion *Question* ***16:*** *Do you know of organizations that may have, in effect, used the "triple bottom line" approach to assess environmental, social, and financial performance?*

It is important to stress that when considering the "triple bottom line," there are *not* always tradeoffs. At times, firms can attain symbiosis—that is increase their effectiveness in attaining multiple bottom lines simultaneously. STRATEGY SPOTLIGHT 1.2 addresses how ESG funds can not only be good for the planet but also for investors' wallets.

We provide a brief discussion of ESG (environmental, social, governance) and SRI (Socially Responsible Investing). These socially oriented investment approaches recognize that corporate responsibility and societal concerns are important considerations in investment decisions. And investors can "do well by doing good," as the cliché goes.

The SUPPLEMENT below addresses some challenges in measuring the social impact firms may have on society.

Extra Example: The Challenges of Measuring ESG

Measuring the financial performance of companies has become a standard practice in the financial world. This is partly because financial reports are routinely audited by accounting firms such as Ernst & Young and because the financial community has agreed on standard financial performance metrics such as Return on Assets (ROA). Measuring the social performance of companies—often in the form of ESG scores—is a much bigger challenge. The reason for these difficulties is a fundamental disagreement about what should be measured in ESG scores. ESG scores are typically provided by independent research firms and intended to help companies to understand their ESG risks.

However, it is often unclear what exactly ESG scores measure, which puts managers and shareholders in a difficult situation since they rely on ESG scores to make strategic decisions. Academic research published in the Strategic Management Journal has found that six-well established ESG ratings lack agreement, even after adjusting for differences in definitions. Take

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MSCI, Inc. as an example. MSCI is one of the largest providers of ESG scores, counting large asset managers such as BlackRock as its clients. MSCI's ESG scores are used to label a company as "sustainable," which allows investment firms to include the firm in ESG funds. Yet, MSCI's ESG scores are coming under increasing scrutiny. Some argue that MSCI's ESG scores do not measure a company's impact on the planet and its people but the potential impact of the world on a company and its shareholders. A Bloomberg Businessweek report, for instance, shows that MSCI strategically upgrades companies' ESG scores by adjusting how the world may affect its business. This subtle difference allows MSCI to strategically adjust what its ESG scores measure in any given company. Take McDonald's as an example. MSCI upgraded McDonald's ESG rating in 2021, despite McDonald's impact on the global climate as the world's largest beef purchaser. What did MSCI do? It determined that climate change does not pose a substantial risk to McDonald's, which resulted in carbon emissions being dropped from McDonald's ESG score. Without climate concerns weighing on McDonald's, its ESG score improved. This example should be a cautionary tail of the difficulties of effectively measuring a company's ESG score.

Source: Simpson, C., Rathi, A., & Kishan, S. 2021. Sustainable investing is mostly about sustaining corporations. www.bloomberg.com, December 10: np; and Chatterji, A. K., Durand, R., Levine, D. I., & Touboul, S. 2016. Do ratings of firms converge? Implications for managers, investors and strategy researchers. Strategic Management Journal, 37(8): 1597–1614.

We also provide a perspective on how corporate social responsibility (CSR) can be viewed in terms of three "theaters" which are:

- Theater 1: Focusing on Philanthropy
- Theater 2: Improving Operational Effectiveness
- Theater 3 Transforming the Business Model

Discussion Question 17: *What examples have you read about in which companies have succeeded (or failed) with such initiatives? What were the outcomes?*

We close this section with discussion of "Making the Business Care for Sustainability Initiatives." This becomes a challenge because companies want to know returns on their investments—and the ROI on sustainability initiatives are typically very difficult to quantify. Among the reasons are:

1. The data necessary to calculate ROI accurately are often not available when it comes to sustainability projects.
2. Many of the benefits from such projects are intangible.
3. The payback period is on a different time frame.

We then provide examples of how companies such as 3M, Diversey, and IKEA are addressing these challenges.

The SUPPLEMENT below addresses some of the challenges associated with implementing some "good-sounding" and seemingly valuable environment sustainability initiatives.

Extra Example: It's Not Easy to Implement What May Seem Like Reasonable Environmental Initiatives.

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Starbucks has plans to do away with plastic straws by the year 2020. Lyft has dedicated itself to become "carbon neutral." Candy producer Mondelez claims that all of its wrappers will be recyclable by 2025, and Goldman Sachs has banished the use of paper cups. However, there is rather scant evidence that such gestures truly benefit customers, shareholders, employees—or the environment.

Let's take a closer look at Starbucks. It plans to reduce plastic waste by eliminating plastic straws for recyclable lids. However, straws are a tiny share of waste, accounting for about 0.025 percent of the eight million tons of plastic that flow annually into the ocean. That aside, the new lids contain more plastic than the straws! Although the lids are ostensibly recyclable, consumers must separate them from the cups and throw them into recycling bins. Are many people—realistically—going to go to that trouble?

Then, there are other practical concerns. In 2008, Starbucks set a "bold goal" to serve 25 percent of its beverages in reusable cups by 2015. It later dropped the goal to only 5 percent. Why? Mainly because it was inefficient for baristas to wash dirty cups while other customers waited. And, to top off, cleaning mugs required water and paper towels—which also end up in the trash.

Source: Finley, A. 2019. Would you like guilt with your latte? The Wall Street Journal, May 28: A19.

IV. The Strategic Management Perspective: An Imperative throughout the Organization

PowerPoint Slide 30: Social Responsibility and Environmental Sustainability
PowerPoint Slide 31: Empowered Strategic Management

There is an emerging need for empowerment and a strategic management perspective throughout organizations. This is primarily due to today's increasingly complex, interconnected, and ever-changing global economy. We reinforce this point with the quotation from MIT's Peter Senge, perhaps the best-known writer in the area of organizational learning.

To develop and mobilize people and other organizational assets, leaders are required throughout the organization. Clearly, there is a need for three types of leaders: *local line leaders, executive leaders,* and *internal networkers*.

The SUPPLEMENT below provides and interesting and colorful perspective on the need for empowerment throughout organizations.

Extra Example: Avoid the Heroes and Drones Imagery in Organizations!

Sally Helgesen, author of *The Web of Inclusion: A New Architecture for Building Great Organizations*, expresses the need for leaders throughout the organization. She asserts that many organizations "fall prey to the heroes-and-drones syndrome, exalting the value of those in powerful positions while implicitly demeaning the contributions of those who fail to achieve top

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rank. Culture and processes in which leaders emerge at all levels, both up and down as well as across the organization, typify today's high performing firms."

Source: Helgesen, S. 1996. Leading from the grassroots. In Hesselbein, F. Goldsmith, M. & Beckhard, R. (Eds.) *The leader of the future*: 19-24, San Francisco: Jossey-Bass.

We provide examples of empowerment at both the Virgin Group that is well known for its culture and informal structure, as well insights as from Netflix.

Discussion Question 18: *With regard to the Virgin Group, what do you think would be some of the key challenges in bringing about change?*

We close this section with STRATEGY SPOTLIGHT 1.3 which further reinforces the benefits of broad involvement throughout the organization in the strategic management process. It is about how listening to lower-level executives in a firm can prevent strategic mistakes.

The SUPPLEMENT below emphasizes the importance of empowering people throughout the organization. At USA Mortgage, the CEO realized, belatedly, the importance of having his middle managers involved in planning sessions.

Extra Example: The Value of Bringing in Middle Level Managers for Planning Sessions

Doug Schukar was very excited when his residential mortgage bank in St. Louis, USA Mortgage, increased the loans it funded from $113 million in January 2009 to $1.2 billion by the end of the year. While other lenders struggled, he boosted his sales efforts. However, by failing to keep key middle managers informed of growth plans such as acquisitions, he let them get blindsided by the huge volume of work that came from the company's rapid expansion. Result: Almost all resigned, and he had to hire replacements. Today, he includes middle managers in annual and quarterly planning sessions.

Source: Harnish, V. 2011. Five ways to get your strategy right. Fortune. April 11: 42.

V. Ensuring Coherence in Strategic Direction

PowerPoint Slide 32-36: Coherence in Strategic Direction

Successful organizations express priorities through stated goals and objectives that form a hierarchy of goals that include its vision, mission, and strategic objectives. What visions lack in specificity, they make up for in their ability to evoke powerful and compelling mental images. On the other hand, strategic objectives tend to be more specific and provide a more direct means of determining if the organization is moving toward broader, overall goals.

EXHIBIT 1.6 depicts the hierarchy of goals and its relationship to two attributes: general versus specific and time horizon.

We also address some of the benefits that firms may obtain when they communicate their long-term perspectives and priorities. Among these are:

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1. Investor presentations of long-term plans provide an opportunity for discussions to take place regarding the continuing corporate performance on two critical elements: a long-time value creation *story* (drawing on the past) and a long-term value creation *plan* (drawing on the future).
2. Investors are increasingly seeing ESG (environmental, social, governance) issues as financially material and expect sound management in order to deliver better performance over the long term.
3. A corporation can obtain many collateral benefits when it communicates its long-term purpose. Among these are the ability to inspire—and retain—talented managers and employees.

A. Organizational Vision

An organizational vision has been described as a goal that is "massively inspiring, overarching, and long-term." It should represent a destination and evoke passion.

We review a study of executives from 20 countries that points out the importance of "a strong sense of vision" as well as "strategy formulation to achieve a vision."

We state the visions of three organizations—Medtronic, McDonald's, and Intel, as well as Microsoft's initial vision: "A computer on every desk in every home."

The SUPPLEMENT below (going back in history nearly one hundred years) provides an example of a vision emerging from the middle levels of the organization. Unfortunately, the top executives ignored it.

Extra Example: David Sarnoff's Visionary Leadership

In 1906, a young Russian immigrant found work as an office boy at Marconi Wireless Telegraph Company. He clawed his way up to Chief Inspector at the age of 22. And, ever watchful for ways to advance his career, he decided to attend a demonstration of a new kind of circuit—one that could generate continuous electromagnetic waves. The young man returned to work, convinced he had seen the future. Memos flew. He described how music could be broadcast to hundreds of thousands of homes at once, and from a single transmitter. Every family in America would buy a "radio box." And Marconi would manufacture and sell them all. He wondered why executives couldn't see that there would be millions of dollars to be made. The company's more senior managers thought he had lost his mind. After all, they were in the telegraph business.

Years later, Marconi Wireless became RCA, the Radio Corporation of America. And former office boy David Sarnoff became its president. As for those fellows he worked with, history lost track of them.

Source: Provided by CSX Intermodal (undated). We acknowledge their contribution.

Discussion Question 19: *Would executives in companies with which you are familiar been more receptive to such initiatives by lower-ranking executives? Why? Why not?*

STRATEGY SPOTLIGHT 1.4 discusses how the change of Alibaba's vision served to create a more expansive view of the future.

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We close the section with a brief discussion of some of the reasons that visions fail:

- The Walk Doesn't Match the Talk
- Irrelevance
- Not the Holy Grail
- Too Much Focus Leads to Missed Opportunities
- An Ideal Future Not Reconciled with the Present

The SUPPLEMENT below is another example of a well-known firm—Komatsu—which faltered when it missed opportunities because it placed too much focus on its vision.

Extra Example: How Komatsu "Encircled" Caterpillar

Faced with the challenge of rival Caterpillar's entry into Komatsu's protected home market, Ryoichi Kawai, then CEO of Komatsu, focused the whole company on beating Caterpillar. "Maru-C" became the rally cry, which meant "Encircle Caterpillar." And, to make the enemy visible and omnipresent, Kawai purchased the largest Caterpillar bulldozer available and placed it on the roof of Komatsu headquarters. The story is well-known of how Kawai leveraged his aggression against Caterpillar into a highly disciplined and effective process of building up Komatsu's strengths and market position. (In fact, it became the most-used Harvard case study.)

However, there was a lesser-known downside. The two decades of focusing on a "life-and-death battle" with Caterpillar prevented Komatsu from identifying new opportunities in related areas of business and from pursuing genuine breakthrough innovations in its core earthmoving-equipment business. Eventually, Tetsuya Katada took over and formally abolished the "Maru-C" slogan and removed all the symbols Kawai had built to represent the Caterpillar battle. The result was successful expansion into related areas, such as robotics, and several fundamentally different and highly innovative products, such as earthmoving equipment for undersea operations.

Source: Bruch, H. & Ghoshal, S. 2004. A bias for action. Boston: Harvard Business School.

Discussion Question 20: *What are some effective (or ineffective) organization visions with which you are familiar? Why are they successful (or unsuccessful? (We have found that many students—especially those with a fair amount of work experience—may be somewhat cynical, primarily because the "walk doesn't match the talk".)*

B. Mission Statements

A company's mission statement differs from its vision in that it encompasses both the purpose of the company as well as the basis for competition and competitive advantages.

Teaching Tip: *Many students may have a very "cynical" perspective about mission statements. They may view them as empty platitudes or public relations statements. And, they may have been in organizations where managers did not "walk the talk." You might, for example, ask students to critique the university's mission statement. Alternatively, you may ask if any of them have worked in organizations that had mission statements and ask them if the mission statements were effective and if management "walked the talk."*

EXHIBIT 1.7 contains the Vision Statement and Mission Statement of The Walt Disney Company. This exhibit helps to distinguish between these two strategy concepts.

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Effective mission statements incorporate the concept of stakeholder management, and suggest that organizations must respond to multiple constituencies if they are to survive and prosper. They have the greatest impact when they are used to reflect an organization's enduring, overarching strategic priorities and competitive positioning.

We provide the mission statements of Federal Express and Brinker International (whose restaurant chains include Chili's and On the Border). The two examples serve to illustrate how mission statements can vary in length and detail.

Few mission statements identify profit or any financial indicator as the sole purpose of the firm. Good mission statements must communicate why an organization is special and different.

The SUPPLEMENT below points out how Haier Group, a large Chinese appliance manufacturer, eliminates distance to customers by adopting various measures and strategies. "Serving customers with quality" became part of their mission statement.

Extra Example: The Mission of Haier Group's CEO: Getting Closer to Customers

Zhang Ruimin, CEO of the Haier Group, realized that having a sole focus on generating huge profits today could not ensure his company's survival tomorrow. He chooses to focus on quality instead. He did so by following insights from Peter Drucker's management book, whose words Zhang took to heart: "There is only one valid definition of business purpose: to create a customer."

This insight prompted Haier Group to explore opportunities to create customers in the era of cyberspace and the internet. The result was an internet and telephone marketing network and a physical logistics and services network that allows Haier to excel in determining customers' needs, rapidly delivering products, and after-sales services in both rural and urban areas all over China. Another step Zhang has taken is to invert Haier's organizational pyramid. He truly believes that only people on the front lines can have a deep understanding of customer's needs. Therefore, employees who directly face customers should be at the top, and senior executives should support them so that they can deliver on their commitments to customers. Zhang eloquently expresses his philosophy by drawing on Peter Drucker: "All decisions I make must be consistent with the ever-changing external environment. If they aren't, the consequences may not emerge right away, but once danger shows up, it will be too late; like the Titanic, my company will have no time to change course."

Source: Zhang, R. 2009. What I learned from Peter Drucker: Distance has been eliminated. www.hbr.org. November: np.

Discussion Question 21: *Can you think of other measures to eliminate the distance between a company and its customers?*

Discussion Question 22: *Can inverting the organizational pyramid really work? What would companies gain by doing so? What would they lose?*

C. Strategic Objectives

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Strategic objectives are used to operationalize the mission statement. That is, they help to provide guidance on how the organization can fulfill or move toward the "higher goals" in the goal hierarchy—the mission and vision.

EXHIBIT 1.8 lists several strategic objectives divided into financial and nonfinancial objectives. While most of these objectives are directed toward generating greater profits and returns for the owners of the business, others are directed at customers or the society-at-large (such as BP Amoco's objective to reduce greenhouse gases over an extended period of time).

For objectives to be meaningful, they must satisfy several criteria. They must be:

- Measurable
- Specific
- Appropriate
- Realistic
- Timely

Objectives that satisfy such criteria provide many benefits to the organization. These include: (1) channel employees throughout the organization toward common goals, (2) motivate and inspire employees to higher levels of commitment and effort, (3) help to resolve conflicts when they arise, and (4) provide a yardstick for rewards and incentives.

There are, of course, other objectives that are even more specific that are often referred to as short-term objectives. These are essential components of "action plans" that are vital in the implementation of a firm's strategy. (We address these in more detail in Chapter 9.) We provide the example of how Textron implements its strategic objectives.

Organizations must ensure consistency throughout the organization when it implements strategic objectives. The SUPPLEMENT below discusses how Textron, a conglomerate with $14 billion in 2014 revenues, ensures that its corporate goals are effectively implemented.

Extra Example: How Textron Implements Its Strategic Objectives

At Textron, each business unit identifies "improvement priorities" that it must act upon to realize the performance outlined in the firm's overall strategic plan. Each improvement priority is translated into action items with clearly defined accountabilities, timetables, and key performance indicators (KPIs) that enable executives to tell how a unit is delivering on a priority. Improvement priorities and action items cascade to every level at the firm—lowest levels in each of the firm's 10 business units. Says Lewis Campbell, Textron's CEO: "Everyone needs to know: 'If I have only one hour to work, here's what I'm going to focus on.' Our goal deployment process makes each individual's accountabilities and priorities clear."

Source: Mankins, M. M. & Steele, R. 2005. Turning great strategy into great performance. Harvard Business Review, 83(5): 66–73.

VI. Issue for Debate

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This is an issue that should generate a lot of student interest—given the importance of values in the formulation and implementation of strategies. The issue should evoke some spirited debate because Seventh Generation is faced with a dilemma. That is, if they cross the picket line they will be violating, in effect, a key part of their company values. On the other hand, if they refuse to provide product to the grocers, they would likely destroy relationships with valuable customers.

To begin the discussion, you might consider asking two students to take a side (i.e., cross or not cross the picket line) on the debate. This helps, in effect, to polarize the class. Have the students debate the points of why their course of action would be preferred. After hearing the two sides, take a vote to see where the class stands on the issue. You'll likely find a split within the class.

At this point, introduce the concept of dialectical inquiry, which we discuss in Chapter 13. Here, identify what might be considered the "thesis" (cross the picket line and provide the grocers with your product) and "antithesis" (don't cross the picket line and "honor" your company values—after all, Seventh Generation felt the strikers had a just cause). Ask the class who the stakeholders are (customers, employees, suppliers, union, owners/shareholders, etc.), and how they are affected by each of these two options (many of these are mentioned in the second paragraph of the case—you might also address the importance of attracting and retaining talent as an important consideration in making such decisions).

SEVEN GENERATION'S SOLUTION: You will probably get some creative ideas and, perhaps, even something close to Seventh Generation's creative resolution to the apparent dilemma: A group called the "Values and Operating Principles Committee" (VOPS) was formed within Seventh Generation to solve the issue. While likely using a dialectic inquiry approach, they decided to continue to send their merchandise to the store but take the profits attributable to the sales at those stores and donate them to the union's strike fund. This allowed for shelf space to be maintained, as well as the relationship with both the strikers and their customers (grocers).

The broader learning point to reiterate with this "debate" is for students to strive to avoid the "tyranny of the 'go'/'no go'" and instead seek more creative solutions. Dialectical inquiry is a useful means to this end—this decision-making process helps to address how various stakeholders are affected by the "thesis" and "antithesis" and a more creative solution "synthesis" is often likely to emerge. During the course, especially when analyzing cases, it is helpful to draw on this example to encourage students to employ this decision-making approach when faced with two opposing alternatives. There can often be a third synthesis of ideas that will meet more stakeholder needs and desires.

QUESTIONS:

1. *How important should Seventh Generation's values be considered when deciding what to do?*

Students may have a variety of perspectives on this issue—often reflecting how important they feel that non-economic factors should be in making important decisions. You might point out

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that Seventh Generation's mission is very specific regarding its sensitivity to broader stakeholder groups.

2. How can Seventh Generation solve this dilemma?

This, of course, is addressed above in the "Summary." It will be most interesting to see what "synthesis" students come up with—and, again, emphasize the usefulness of dialectical inquiry in decision making.

VII. Reflecting on Career Implications

PowerPoint Slide 37: Set Strategic Objectives
PowerPoint Slide 38: Reflecting on Career Implications

Below, we provide some suggestions on how you can lead the discussion on the career implications for the material in Chapter 1.

- **Attributes of Strategic Management:** The attributes of strategic management described in this chapter are applicable to your personal careers as well. What are your overall goals and objectives? Who are the stakeholders you have to consider in making your career decisions (family, community, etc.)? What tradeoffs do you see between your long-term and short-term goals?

Students should be aware of the context of their jobs and future careers. Ask students to describe their jobs, and they are likely to list the tasks they complete each day. Now ask them why their jobs are successful for them, and do not accept the salary as an answer. They should be trying to establish a base for the kind of career they want. Do they want to travel a lot or stay in their community? Do they want to raise children? Do they want to improve the world? How so? I enjoy telling stories of friends who took jobs right out of college that paid a high salary but were very challenging. Some of these friends burned out at a young age. The goal here is to get students to think about their careers as part of their life plans—to be balanced with their other goals of marriage, family, and service. You may not get an overwhelmingly positive response, but you will likely plant seeds that some students will appreciate.

- **Intended versus Emergent Strategies:** While you may have planned your career trajectory carefully, don't be too tied to it. Strive to take advantage of new opportunities as they arise. Many promising career opportunities may "emerge" that were not part of your intended career strategy or your specific job assignment. Take initiative by pursuing opportunities to get additional training (e.g., learn a software or a statistical package), volunteering for a short-term overseas assignment, etc. You may be in a better position to take advantage of such emergent opportunities if you make the effort to prepare for them. For example, learning a foreign language may position you better for an overseas opportunity.

It may be useful to ask students how they chose their major. Was this major the same one they initially considered after high school? Some students will probably have changed their major at

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some point. You may get some stories about how hard their original choice was, or that there were unexpected challenges along the way. Now you can use the discussion as an analogy. Future career paths are likely to be filled with unexpected challenges, and it may be advisable to consider alternatives. Most executives have worked in a variety of jobs and organizations during their careers.

An alternative and supplemental approach may be to share your own career path, or the choice of your major in college, if either has evolved in unexpected ways. Students usually appreciate knowing this about their instructors.

The point with these discussions is to get students to expect or even plan for unexpected job changes during their careers. They should be exploring activities to learn what they like and what they are good at.

- **Ambidexterity:** In Strategy Spotlight 1.1, we discussed the four most important traits of ambidextrous individuals. These include looking for opportunities beyond the description of one's job, seeking out opportunities to collaborate with others, building internal networks, and multitasking. Evaluate yourself along each of these criteria. If you score low, think of ways in which you can improve your ambidexterity.

Ask students to list examples of how they have exhibited these traits in their employment histories. Then ask them to share these with a classmate, a think-pair-share type of activity. The sharing with a classmate may spark a discussion of various ways that each student could pursue ambidextrous capabilities. The main value is awareness. Students will probably understand the need for ambidextrous capabilities, but they may not think about them very deeply or understand how to apply them to their work life.

- **Strategic Coherence:** What is the mission of your organization? What are the strategic objectives of the department or unit you are working for? In what ways does your own role contribute to the mission and objectives? What can you do differently to help the organization attain its mission and strategic objectives?

Students should understand how their efforts are helping their employers to succeed. One approach would be to have students list three or four activities they do in their jobs. Then rank the activities according to the strategic importance to their firm. I would ask students to share their rankings. Ask how each of their work activities contributes to their employers' competitive advantage. Then I would ask them to think of ways to increase the time and energy they spend on such strategic activities and decrease their time and energy investment in other activities. One caveat is that all of us must spend some time and energy on non-strategic activities, but students should be aware of the difference.

- **Strategic Coherence:** Setting strategic objectives is important in your personal career as well. Identify and write down three or four important strategic objectives you want to accomplish in the next few years (finish your degree, find a better paying job, etc.). Are you allocating your resources (time, money, etc.) to enable you to achieve these objectives? Are your objectives measurable, timely, realistic, specific, and appropriate?

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It may be useful to ask students if they spend any time and energy in activities that do **not** contribute to their strategic objectives. Then ask why these activities are not productive. This line of questioning may help to clarify the difference between the productive and unproductive activities, and it clarifies the types of activities that are productive. After this discussion, then the students are more likely to be ready for a discussion of objectives that are measurable, timely, realistic, specific, and appropriate.

VIII. Summary

We began this introductory chapter by defining strategic management and articulating some of its key attributes. Strategic management is defined as "consisting of the analysis, decisions, and actions an organization undertakes to create and sustain competitive advantages." The issue of how and why some firms outperform others in the marketplace is central to the study of strategic management. Strategic management has four key attributes: it is directed at overall organizational goals, includes multiple stakeholders, incorporates both short-term and long-term perspectives, and incorporates trade-offs between efficiency and effectiveness.

The second section discussed the strategic management process. Here, we paralleled the above definition of strategic management and focused on three core activities in the strategic management process—strategy analysis, strategy formulation, and strategy implementation. We noted how each of these activities is highly interrelated to and interdependent on one another. We also discussed how each of the 12 chapters fit into the three core activities and provided a summary of the opening vignettes in each chapter.

Next, we introduced two important and interrelated concepts—corporate governance and stakeholder management. Corporate governance consists of three primary elements—management, boards of directors, shareholders (owners)—which play the key role in determining a corporation's strategic direction. Stakeholder management addresses the individuals (and organizations) that must be taken into account throughout the strategic management process. We identified several key stakeholders in all organizations, and the nature of their claims. Successful firms go beyond an overriding focus on satisfying solely the interests of owners. Rather, they recognize the inherent conflicts that arise among the demands of the various stakeholders, as well as the need to endeavor to attain "symbiosis"—that is, interdependence and mutual benefit—among the various stakeholder groups. We also addressed environmental sustainability and some of the challenges associated with "selling" environmental sustainability initiatives to management.

In the fourth section, we discussed the rate of unpredictable change that managers face today. Managers and employees throughout the organization must have a strategic management perspective and become more empowered.

The final section addressed the need for consistency between a firm's vision, mission, and strategic objectives. Collectively, they form an organization's hierarchy of goals. Visions should evoke powerful and compelling mental images. However, they are not very specific. Strategic objectives, on the other hand, are much more specific and are vital to ensuring that the organization is striving toward fulfilling its vision and mission.

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Chapter 1: Strategic Management: Creating Competitive Advantages

Analyze your university (or college) from the stakeholder concept. Identify the stakeholders and the nature of their claims on the organization. What are the implications for administrators?

Teaching suggestions:

You might want to begin by asking the students to identify the difference between shareholders and stakeholders in the context of the university.

Discussion should be oriented towards identifying the various stakeholder groups mentioned in the text, such as:

***Customers:**	students, alumni, recruiting organizations, organizations using research outputs from the university,
***Employees:**	teaching staff including faculty, research associates, teaching associates and the non-teaching or administrative staff, operational staff,
***Suppliers:**	funding organizations and donors, stationery and teaching equipment suppliers, suppliers of utilities, etc.,
***Community:**	taxpayers and the general public who have expectations from the university and can influence its functioning and funding and, of course, the state would be the owner in the case of a state university.

You might then want to ask whether stakeholder management is zero sum or symbiotic?

This would be an interesting issue with which to generate discussion. You can play the role of a devil's advocate to enliven the discussion. It can be argued that if faculty and other employees desire higher salaries, this would require that the "customers" have to pay more for their services. Similarly, more funds for research would mean lesser funds for the administrative and support staff. Taxpayers would want to pay less, which means increased tuition burden to the students and so on. This would bring out the competing and conflicting nature of the claims of the various stakeholder groups.

You might want to then highlight the value of stakeholder symbiosis. Stakeholders are dependent upon each other for their success and well-being.

1. Top quality research needs excellent financial and support facilities. And administrators must recognize that in order to ensure the effective functioning of the university, neither the teaching staff nor the support staff should be starved. Further, research can also enhance the ability of the university to generate external funds.
2. Similarly, customers cannot expect to have better quality education unless they are prepared to pay for it. Alternatively, taxpayers need to pay a certain level of taxes in order to maintain the university at a reasonable level of performance.

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3. Universities also have the social responsibility of inculcating right attitude, and shaping the integrity and character of the students, so that they become good citizens in all walks of life.

You might then want to ask the students to give examples of other social responsibilities of universities. Some of the social responsibilities that can be discussed, to mention a few, are setting examples in terms of waste recycling, promoting environment friendly campus and research lab facilities, being involved with community services, ensuring diversity in the recruiting of students, staff, and faculty.

Conclusion: The expectations of various stakeholder groups are not constant over time and keep changing with changes in technology, globalization, and other societal changes. An administrator would have to recognize this dynamic nature of stakeholder management and strive toward achieving mutual benefit through stakeholder symbiosis.

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End-of-Chapter Teaching Notes

Chapter 1: Strategic Management, Creative Competitive Advantages

Summary Review Questions

1. How is "strategic management" defined in the text, and what are its four key attributes? (In text, What Is Strategic Management?, LO 1-1)

Response:

Strategic management is the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. The four key attributes of strategic management are that it

- Directs the organization toward overall goals and objectives
- Includes multiple stakeholders in decision making
- Needs to incorporate short-term and long-term objectives
- Recognizes trade-offs between efficiency and effectiveness

2. Briefly discuss the three key activities in the strategic management process. Why is it important for managers to recognize the interdependent nature of these activities? (In text, The Strategic Management Process, LO 1-2)

Response:

The three key attributes in the strategic management process are analyses, decisions, and actions. Analyses, also called strategy analysis, refer to managers' development of an understanding of the organization's internal and external environment, and the organization's overarching goals. These understandings are an important prerequisite for the strategic management process.

Decisions, also called strategy formulation, refer to the overall plans that firms develop to compete and outperform their rivals. These plans exploit the results of analyses, in that firms try to use their strengths, limit weaknesses, exploit opportunities, and defend against threats simultaneously.

Actions, also called strategy implementation, refer to ensuring that proper strategic controls and organizational designs are put in place to carry out the strategy.

The interdependent nature of these activities stems from various feedback mechanisms that occur as managers implement their firms' strategies. Unforeseen environmental developments, unanticipated resource constraints, and/or changes in managerial preferences will force firms to modify their intended strategy, combining it with an emergent strategy, and resulting in a realized strategy. The realized strategy will in turn be modified by further unforeseen events. The continually modified realized strategy will consist of refined analyses, decisions, and actions that are constantly being updated.

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3. Explain the concept of "stakeholder management." Why shouldn't managers be solely interested in stockholder management, that is, maximizing the returns for owners of the firm—its shareholders? (In text, The Role of Corporate Governance and Stakeholder Management, LO 1-3)

Response:

Stakeholder management is where multiple individuals or groups, who have a stake in or can influence an organization's performance, are included in the strategic management process. So, top managers will be interested in satisfying the needs of shareholders and other stakeholders such as customers, suppliers, employees, creditors, government, and the community.

Managers who are interested solely in stockholder management are likely to make decisions that satisfy short-term profit objectives. These decisions might include downsizing, neglect of asset maintenance, or put pressure on suppliers to lower prices. However, these decisions are likely to adversely affect long-term performance. Top managers who pay attention to all stakeholders are less likely to make decisions counter to the firm's objective of long-term profit maximization.

4. What is "corporate governance"? What are its three key elements and how can it be improved? (In text, The Role of Corporate Governance and Stakeholder Management, LO 1-3)

Response:

Corporate governance is defined in the text as the relationship among various participants in determining the direction and performance of corporations. The primary participants are (1) the shareholders, (2) the management (led by the chief executive officer), and (3) the board of directors. Corporate governance is designed to focus the efforts of the CEO on maximizing long-term shareholder wealth. The board of directors is elected or chosen by shareholders, and is charged with monitoring and evaluating CEO performance.

Corporate governance can be improved by including other stakeholder representatives on the board of directors. These other members would ensure that top management will respond to these interests and become more socially responsible in addition to earning profits. Managers will respond to and exploit overlapping stakeholder interests, which can lead to increased long-term profits.

Another way to improve corporate governance is to align managerial incentives with organizational performance. This alignment is often done through incentive-based pay or compensation through stock options. Rather than pursuing self-interest such as perks and salary, top managers will be motivated to make their organizations succeed.

5. How can "symbiosis" (interdependence, mutual benefit) be achieved among a firm's stakeholders? (In text, The Role of Corporate Governance and Stakeholder Management, LO 1-3)

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Response:

Stakeholder management will, in part, be tricky because of competing interests. For example, customers may want lower prices while shareholders might want higher prices (which may lead to higher profits). However, stakeholder symbiosis can also result because stakeholders depend on each other for success and well-being. Firms can achieve stakeholder symbiosis by learning stakeholder interests and looking for overlaps. For example, Outback Steakhouse discovered that employees and customers both benefited by employing staff who agreed with the company's principles and beliefs. Such staffs tended to have lower turnover and more satisfied customers.

Inclusion of stakeholders such as the community, government, and environmental groups can also increase a firm's reputation. For example, firms that use a triple bottom line and evaluate their performance in financial, social, and environmental dimensions are likely to have good reputations with customers, governments, and the community at large.

6. Why do firms need to have a greater strategic management perspective and empowerment in the strategic management process throughout the organization? (In text, The Strategic Management Perspective: An Imperative throughout the Organization, LO 1-5)

Response:

In today's complex and dynamic business environment, top managers do not have all the answers. Rather, top managers will be responsible for communicating their firms' strategies to lower-level managers, and in turn empower these managers with discretion to respond quickly and appropriately to opportunities as they arise. Such empowerment enables a firm to respond more quickly to the needs of customers and stakeholders, thus improving competitiveness.

7. What is meant by a "hierarchy of goals"? What are the main components of it, and why must consistency be achieved among them? (In text, Ensuring Coherence in Strategic Direction, LO 1-6)

Response:

An organization's hierarchy of goals refers to goals ranging from, at the top, those that are less specific yet able to evoke powerful and compelling mental images, to, at the bottom, those that are more specific and measurable. The main components are, at the top, the *organizational vision*, which evokes powerful and compelling mental images, the *mission statement*, which includes both the purpose of the organization, its scope of operations, and the basis of its competitive advantage, and the *strategic objectives*, which include shorter-term and measurable goals that guide middle-level managers as they implement the mission statement.

There must be consistency among these goals in order to maximize employee motivation and a sense of equity and fairness when rewards are allocated. Inconsistency among the goals between

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any level can result in confusion among employees as to what the firm values, and subsequently to loss of identification with the firm, loss of motivation, and turnover.

Experiential Exercise and Application Questions

1. Strategy Spotlight 1.1 discusses four activities that underlie ambidextrous behaviors—a dual capacity for alignment and adaptability. Interview two managers in a public, private, or volunteer organization and ask them the following questions: (1) How often do you engage in each of these activities? (2) In your view, which are most important and why? and (3) How would the most effective managers you know "score" on each of these activities? Do you think that the differences in the responses you obtain are due to differences with regard to the managers' personalities, the particular position they have within the organization, or the type of industry in which they work?

Response:

This exercise can be used to understand how ambidextrous individuals operate in organizations. You may draw students' attention to the fact that managers have limited time and attention; hence it becomes important to be extremely purposeful concerning what activities managers engage in. Students become aware of the challenges of using ambidextrous capabilities, but will also see the need for them. In addition, tying this question to personal differences or higher-level influences such as organizations or industries should result in an interesting discussion of the extent to which the external environment affects managers.

2. Using the internet or library sources, select four organizations—two in the private sector and two in the public sector. Find their mission statements. Complete the following exhibit by identifying the stakeholders that are mentioned. Evaluate the differences between firms in the private sector and those in the public sector.

Response:

This exercise is intended to highlight the differences between private and public sector organizations. Students are likely to discover that private sector organizations will focus more on customers and employees. Public sector organizations are likely to focus more on the community at large or broader groups such as taxpayers, the government, or people with a common problem or interest.

An interesting extension of this exercise is to reverse it. Offer a couple of other stakeholder groups, such as the Rainforest Coalition, an organization promoting higher ethical standards for lawyers, or Greenpeace, and ask students what organizations will have these as stakeholders. Then ask why. This exercise is designed to allow students to appreciate some of the advantages to organizations of having multiple diverse stakeholders.

3. On the internet, visit one of these company sites: www.walmart.com, www.ge.com, or www.ford.com. What are some of the key events that would represent the "romantic"

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perspective of leadership? What are some of the key events that depict the "external control" perspective of leadership?

Response:

For these companies, students may have to look a bit to get to the information on company leadership. Usually at the bottom of the first page is a link to "about us." Interestingly, for Ford, the link to "The Ford story" takes you to social media, not information about Ford. There, customers can share their stories about their experiences with Ford products.

For www.walmart.com, the Walmart story includes information related to the romantic perspective of leadership, in which the leader determines organizational success. Sam Walton had a vision about retailing as a way to satisfy customers, and his idealistic vision is repeated throughout the website. You have to look a bit for this information, though. It's buried in links placed at the bottom of the page. For the external control perspective, Walmart simply satisfied a latent demand of consumers for a wide assortment of goods at the lowest possible prices.

For http://www.ge.com, the GE website includes information on the romantic perspective of leadership. There is a link to all the early leaders of GE, back to 1892. No link to Thomas Edison, though, was easily available. There were also links to various leaders and what they are doing to make GE successful. For the external control perspective, GE claims to be responding to market and society needs in various ways, from products to corporate hiring practices, although their performance in recent years has been very poor.

For www.ford.com, the Ford website includes information on its historical roots, which is linked to the romantic perspective of leadership. It takes a couple of clicks, but you can get to Henry Ford's vision of paying workers $5 a day in 1914. The company still carries the Ford name, which suggests that a long-standing corporate culture drives decision making. There are also links to corporate governance and the members of the board of directors. These emphasize the importance of these leaders for representing Ford's perspective to outside interests. For the external control perspective, Ford offers a number of explanations for its organizational success, such as great styling, a strong presence in social media, and descriptions of competitive advantages such as flexible, global production, and cost savings. And Ford's sustainability report emphasizes its responsiveness to various stakeholders and social responsibility.

4. Select a company that competes in an industry in which you are interested. What are some of the recent demands that stakeholders have placed on this company? Can you find examples of how the company is trying to develop symbiosis (interdependence and mutual benefit) among its stakeholders? (Use the internet and library resources.)

Response:

This exercise enables students to see how stakeholders other than shareholders are affecting corporate governance. To extend students' findings, ask them to look up legislative issues related to other issues such as global warming, fair trade (in agricultural goods), and conflict-free diamonds.

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5. Provide examples of companies that are actively trying to increase the amount of empowerment in the strategic management process throughout the organization. Do these companies seem to be having positive outcomes? Why? Why not?

Response:

Students may come up with numerous examples of empowerment. A Google search of "employee empowerment" will yield more than 800,000 hits, and lots of good examples. Most of the information is positive, but for the negative side, check the infamous stories of Nick Leeson, who brought down Barings Bank, and Jerome Kerviel, who hurt Societe Generale. And the recent downfall of AIG has been linked to the poor monitoring, and excess empowerment, of its division that get involved in credit default swaps and collateralized debt obligations. In these cases, lower-level managers were empowered but not supervised, made poor decisions, and cost their firms dearly. The lesson is that empowerment has associated risks, and managers have to strive for a most effective balance between empowerment and control.

6. Look up the vision statements and/or mission statements for a few companies. Do you feel that they are constructive and useful as a means of motivating employees and providing a strong strategic direction? Why? Why not? (Note: Annual reports, along with the internet, may be good sources of information.)

Response:

Students will likely come up with a few examples. An interesting exercise is to first ask students if they are excited by the statements. If not, then ask how the statements should be changed to increase interest. It would then be useful to steer students into a discussion of what the firm is all about—what does the firm do that is interesting. Then to how a firm can back up its claims. The result of the discussion is that mission and vision statements relate to firm policies.

Ethics Questions

1. A company focuses solely on short-term profits to provide the greatest return to the owners of the business (i.e., the shareholders in a publicly held firm). What ethical issues could this raise?

Response:

Short-term focus may result in long-term loss. For example, look at Arthur Anderson. That company is alleged to have increased short-term profits by linking consulting contracts with favorable auditing opinions. The increase in short-term profits was balanced by bankruptcy in the longer run. Other examples are the banking industry's focus on exploiting the home mortgage industry in the 2000s, and the Bernie Madoff scandal.

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2. A firm has spent some time—with input from managers at all levels—in developing a vision statement and a mission statement. Over time, however, the behavior of some executives is contrary to these statements. Could this raise some ethical issues?

Response:

From the perspective of lower-level managers, the inconsistency between the mission and vision statements—and the behavior of the executives—will cause cognitive dissonance. The lower-level managers will wonder what the firm really values and will possibly lose motivation, identification with the firm, pride, and desire to stay with the firm.

CONNECT RESOURCES

Case Analysis.

Coming from Behind, Lego Becomes Number One.
Suntory—A Japanese Beer Company
Tesla: A 21st Century Success Story

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