Chapter 1 - Strategic Management Essentials

**Overview**

Chapter 1 introduces the basic terms in strategic management. This chapter presents the comprehensive model for strategic planning that appears in each subsequent chapter and provides a unifying, logical flow for the entire textbook. This chapter describes the benefits of doing strategic planning, the drawbacks of not doing strategic planning, and the pitfalls of doing strategic planning incorrectly.

**Learning Objectives**

The Chapter 1 Learning Objectives presented in the textbook are reiterated below:

1. Describe the strategic-management process.
2. Discuss the nature of strategy formulation, implementation, and evaluation activities.
3. Define and give examples of key terms in strategic management.
4. Explain the need for integrating analysis and intuition in strategic management.
5. Discuss the nature and role of a chief strategy officer (CSO).
6. Describe the benefits of good strategic management.
7. Explain why some firms do no strategic planning.
8. Discuss the relevance of Sun Tzu’s *The Art of War* to strategic management.
9. Discuss how a firm may achieve sustained competitive advantage.

**Teaching Tips**

1. Spend about 20 minutes going over the comprehensive strategic-management model in Figure 1-1, highlighting each component part with examples. This model integrates all the chapters in the book in a clear process approach to this course. Going over this model is an excellent way to cover the terms introduced in the chapter.

2. Pull up the new and improved author website for this textbook, because it has great resources for students. The URL is www.strategyclub.com. In class, listen to the 4-minute author video at this website for “Why is Chapter 1 so Important?” Spend perhaps a whole class on the author website using the many resources there to give an overview of the whole strategic-management process.

3. The Edward Deming quote mentioned in Chapter 1 (In God We Trust, All Others Bring the Data) is vitally important in this course, because students tend to use vague terms throughout their case analysis. Vagueness is detrimental to development of any strategic plan. Therefore, highlight and emphasize the relevance and importance of the Deming quote and tell students that vagueness is disastrous in this course. Strategies must be formulated to the extent possible on factual, specific, underlying key internal and external factors, rather than trying to formulate strategies based on general statements, opinion, or intuition.

4. A new feature of this edition is the Academic Research Capsules that reveal current research findings on various strategy topics. The first capsule appears early in Chapter 1 titled “When are Chief Strategy Officers (CSOs) Hired/Appointed?” Mention this new feature and this first capsule.

5. Go over the new Table 1-1 that reveals ten famous, strategic planning relevant quotes from NFL coaches. These quotes are all applicable to effectively formulating and implementing strategies.

6. Make sure students can define and give an example of all the strategic-management terms introduced in this chapter – because these terms are used throughout the textbook and in most businesses.

7. Highlight Figure 1-2 on “the benefits of doing strategic planning.” Use that exhibit to emphasize the many benefits of doing strategic planning, as well as the drawbacks of not doing strategic planning.

8. Ask students to raise their hand if they played football, basketball, or soccer for the college/university. Ask several of those athletes to “tell the class how important having a good game plan is to the success of an athletic team.” Associate their answers to the importance of a business having a good game plan, i.e., strategic plan.

9. Regarding the “Comparing Business and Military Strategy” section, emphasize to students that there are countless examples in military history where a superior army was defeated by a smaller army that had a better strategic plan. The famous general, Alexander the Great, who never lost a battle, said (paraphrased): “I’d rather face an army of lions led by a sheep, than an army of sheep led by a lion.” That quote emphasizes the importance of strategic planning, and having an excellent strategist. All the Notable Quotes given at the www.strategyclub.com website under Student Resources are outstanding.

10. Go over the “Implications for Strategists” (new to the 16th edition) and the “Implications for Students” sections at the end of this chapter.

11. For the first time ever, each chapter concludes with a mini-case designed to apply chapter concepts and techniques. The Chapter 1 mini-case is on Ryannair – an Irish firm that may do the best job of strategic planning among all firms. Go over the mini-case in this and all chapters.

12. All end-of-chapter review questions are excellent to go over as many as possible in class. Sometimes in class, the authors will assign every student a question and give the class 10 minutes to develop answers and then let each student give the class the answer, and then comment on the answer (answers to all questions are given later in this manual). This is a great way to promote teacher/student interaction.

13. Ask students to read the Nestle Company Cohesion Case presented after Chapter 1 because a third of all the end-of-chapter exercises at the end of every chapter apply chapter concepts to the Hershey case – thus preparing students for developing a case analysis on their assigned company. Divide students into 3- or 4-person teams within the first two weeks of class and assign to them one of the 30 cases in the book, and schedule a day for the teams to each give a 15 to 20 minute oral presentation revealing their recommended three-year strategic plan for the firm. The authors and most professors using this book use this approach.

14. It is important to spend some class time also on Exercise 1B that applies the strategic-management process to the Nestle Company Cohesion Case. Visit the websites mentioned in this exercise. Show students important strategic information at those websites. Make sure students understand the basic strategic-planning process as applied to Nestle and revealed in that exercise. Associated exercises at the end of other chapters utilize the information obtained from Exercise 1B and collectively help prepare students for performing case analysis on their assigned company.

15. A popular exercise at the end of Chapter 1 is 1D titled “Evaluate An Oral Presentation.” Students will have very clear views about the presentation and their opinions differ widely as to strengths/weaknesses of the presentation. Thus, spending class time working through this exercise will reveal to students how important oral presentations will be throughout the book and its exercises as well as into their careers. We use this exercise also to facilitate teacher/student interaction as well as student/student interaction, which is especially beneficial to do early in the semester.

16. Exercise 1E is an important fact finding activity that will require students to find and to interpret strategic planning for the first time.

17. You could spend several class periods on Exercise 1F. Local strategists may be reluctant to reveal internal policies and procedures, but key steps will be shared. This is an important exercise as it provides an opportunity to out many of the concepts and theories into context and to show them operating in real world situations.

18. Skip over to the last two pages in the Appendix (pp. 392-393) that appears after Chapter 11. Go through that basic timeline/outline for a strategic management case analysis – so students will know what is expected of them in terms of preparing their case analysis/project for the course. Refer back to these pages often in the course, because students will often ask what they are supposed to do or prepare to present.

19. Encourage your students to use the free Excel Student Template at the author website at www.strategyclub.com. Your students will find this template to be immensely helpful in this course. Plus, two example strategic-management case projects are provided at this website as a guide for students to follow.

Answers to End-of-Chapter 1 Review Questions

**1-1. Discount airlines are competing more aggressively with Singapore Airline. How could Singapore Airline best compete with these rivals?**

Answer: Students answers will vary.

**1-2. Does Singapore Airlines have its strategic plan posted on its website? Should the company do so? Why or why not?**

Answer: The Singapore Airlines’ strategic plan is not found on the company’s website. Effectively formulated and implemented strategic plans are critical components of a company’s competitive advantage. Sustaining that advantage requires the use of barriers to imitation in order to prevent rivals from identifying and imitating the underlying drivers of such competitive advantage. One such barrier is the use of ambiguity by ensuring that strategic plans remain secret.

**1-3. Compare and contrast the activities involved in strategy formulation and those in strategy implementation.**

Answer: Strategy formulation includes developing a vision and a mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what

new businesses to enter, what businesses to abandon, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover. This is in great contrast with strategy implementation which includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

**1-4. Given the political and economic collapse of various Middle Eastern countries, identify a list of companies for which gaining and sustaining competitive advantage has permanently changed.**

Answer: The Middle East and North Africa (MENA) region has experienced a significant amount of political and economic upheaval in recent years. That upheaval has led to the emergence of both opportunities and threats in the external environment. The region has experienced political upheaval in Egypt, a protracted internal conflict in Syria, and an adversarial between Western nations. And new opportunities have emerged in vibrant emerging economies in the United Arab Emirates and Qatar. Given these potentially disruptive changes what it takes to gain and sustain competitive advantage has changed irrevocably. The following is a list of companies in which strategists find themselves diligently working to navigate the changing political-economic landscape:

|  |  |  |
| --- | --- | --- |
| **Company Name** | **Country** | **Sector** |
| Saudi Aramco | Saudi Arabia | Petrochemicals |
| Al-Rajhi Bank & Investment Company | Saudi Arabia | Financial services |
| Industries Qatar | Qatar | Industry |
| Qatar National Bank | Qatar | Financial services |
| Etisalat | United Arab Emirates | Telecoms |
| Saudi Telecom Company | Saudi Arabia | Telecoms |
| Kingdom Holding Company | Saudi Arabia | Financial services |
| National Bank of Kuwait | Kuwait | Financial services |
| Etihad Etisalat Company (Mobily) | Saudi Arabia | Telecoms |
| Saudi Electricity Company | Saudi Arabia | Utilities |

**1-5. There is a dramatic shift in mass retailing to become smaller. Give four reasons for this phenomenon, with corporate examples of each.**

Answer: Four reasons for this phenomenon are the increasing use of the Internet which promotes connectivity and comparison shopping through social networking sites such as Facebook and Tumblr; changes consumer habits with consumers today flocking to blogs, short-post forums, and video-sharing websites such as Twitter and YouTube; encourages the use of online sites to promote in-store promotion via online sales; and the disappearance of boundaries between countries in the virtual world; for example, many firms headquartered in the United States are challenged by outside-U.S.–based companies in many industries such as Toyota.

**1-6. Avoid being merely descriptive in your written or oral case analysis; rather, be prescriptive, insightful, and forward-looking throughout your project. Explain the statement and discuss its significance.**

Answer: The statement implies that an individual should not only describe the project they will be writing, but also analyze the points and examine the factors affecting the rapidly-changing environment.

**1-7. As cited in the chapter, Dale McConkey says, “plans are less important than planning.” In terms of strategic management and its benefits, what does McConkey mean?**

Answer: The statement made by Dale McConkey means that plans are the result of planning; hence if there is no planning, plans will not be developed. The manner in which strategic management is carried out is therefore exceptionally important.

**1-8. In terms of developing a strategic plan, explain what Edward Deming means by “In God we trust. All others bring data.”**

Answer: The strategic-management process attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that intuition is essential to making good strategic decisions. Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent. Intuition, however, is not a foolproof strategy against unforeseen setbacks and, hence, there are certain things that are beyond the control of a strategist.

**1-9. In an organization, at which three hierarchal levels would strategy formulation, implementation, and evaluation activities occur?**

Answer: Formulation, implementation, and evaluation of strategy activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional.

**1-10. Explain Einstein’s rationale for saying “Imagination is more important than knowledge.” Would you agree with Einstein? Why or why not?**

Answer: Students should agree with Einstein. In order to be a market leader it is important to have a competitive advantage that is derived from imagination; knowledge is common to most people and, hence, would not provide any competitive advantages.

**1-11. Explain Drucker’s statement “I believe in intuition only if you discipline it.” Do you agree with it? Give reasons for your answer.**

Answer: Students should agree with Drucker. Given the speed at which change is occurring in the business environment, customary managerial habits are not adequate enough for business organizations. In the past, where changes were not rapid and small changes, experience alone was an adequate guide. However, when there are strategic decisions which affect major irrevocable consequences, intuitive and experience-based management philosophies; without discipline, are greatly inadequate.

**1-12. Strategic management is all about gaining and maintaining competitive advantage. Explain whether you agree or disagree with the help of examples.**

Answer: A firm must strive to achieve sustained competitive advantage by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and (2) effectively formulating, implementing, and evaluating strategies that capitalize on those factors.

**1-13. Based on the chapter’s definition of strategists, identify the top three strategists you have personally spoken to, and interacted with.**

Answer: Students’ answers will vary depending on their contacts.

**1-14. Would the collapse of the euro be a major threat, or opportunity, for your college or university? Why or why not? In your opinion, what is the probability of such a collapse?**

Answer: Students’ answers will vary.

**1-15. Strategic management is not a panacea for success and can be dysfunctional if conducted haphazardly. In this context, give five examples of potential “haphazard” aspects of the planning process.**

Answer: The five examples are failure to involve key employees in all phases of planning; failing to create a collaborative climate supportive of change; becoming too engrossed in current problems resulting in insufficient or no planning; being too formal in planning so that flexibility and creativity are stifled; and doing strategic planning only to meet accreditation or regulatory requirements.

**1-16. Explain how and why firms use social networks these days to gain a competitive advantage.**

Answer: The internet has changed the way people organize our lives; inhabit homes, and relate to and interact with family, friends, neighbors. Consumers today are flocking to blogs, short-post forums such as Twitter, YouTube, and social networking sites like Facebook instead of traditional communication means such as television, radio, newspapers and magazines.

**1-17. Compare and contrast vision statements with mission statements.**

Answer: A vision statement identifies what the company aims to be and acts as a source of inspiration. This will help in decision-making for the future. Mission statements are statements of purpose that distinguish one business from other similar firms by identifying the scope of a firm’s operations in product and market terms.

**1-18. Identify the top 10 external factors that you feel are affecting your university. Rank them with one being most important.**

Answer: Students’ answers may vary.

**1-19. In order of importance, list six benefits of a firm engaging in strategic management.**

Answer: Student answers may vary and should draw from the section entitled “Benefits to a Firm That Does Strategic Planning.” Some benefits include financial benefits; agency to take major decisions to better support established objectives; allows identification, prioritization, and exploitation of opportunities; provides an objective view of management problems; represents a framework for improved coordination and control of activities; and minimizes the effects of adverse conditions and changes.

**1-20. Rank six reasons, in order of their importance, why firms don’t have strategic plans.**

Answer: The top six reasons are lack of knowledge and experience in strategic planning, lack of understanding or appreciation for the benefits of planning, lack of monetary rewards, lack of punishment for not planning, engrossment in firefighting, and planning viewed as a waste of time since no product/service is made.

**1-21. Identify six guidelines required while conducting strategic management activities.**

Answer: The six guidelines are that strategic management activities should be a people process, more than a paper process; should a learning process for all managers and employees; theory should be supported by statistics and not the other way around; should be simple and non-routine; should have variations in assignments, team memberships, meeting formats, and planning calendar; and should challenge assumptions underlying current corporate strategy.

**1-22. Discuss how relevant you think Sun Tzu’s *Art of War* writings are, for firms today, in developing and carryingout a strategic plan.**

Answer: Sun Tzu’s *Art of War* writings are relevant not only in the field of military but also in field of strategic planning. His ideas can be easily molded to fit demands of strategic planning. His concept of speedy victory urges the launch of a marketing planning as soon as possible so that competitors are left with little time and readiness to respond. He upholds the idea of knowing our enemies and ourselves. In a strategic plan, SWOT analysis is extremely important so that we know what are out competitive advantages as well as the weaknesses of our competitors. His writings encourage being first as an imperative; hence, it is important to be a market leader. Finally, like Sun Tzu’s Art of War writings, creativity is extremely relevant in developing and carrying out a strategic plan.

**1-23. Determine the ways and means by which strategic planning is conducted at your college or university. Report your findings to your class.**

Answer: Students’ answers will vary. Generally, the college will look at their position in the market developing a mission statement, followed by deciding whether they want to go and in which direction, and finally, the college will devise strategies to achieve their aims.

**1-24. Go to the author website (**[**www.strategyclub.com**](http://www.strategyclub.com)**) and describe the strategic-planning products offered.**

Answer: The SMCO website provides links to websites with information useful for case analyzes such as corporate websites, business analysis services, news sites, magazines, governmental sites, and financial ratio analyses. It also provides links to job search websites, graduate school websites, and websites related to strategic planning. Several software packages are available for purchase on the site including a template for generating the matrices required for case analyses.

**1-25. Compare and contrast the extent to which strategic-planning concepts are used by companies in your country versus companies in the United States.**

Answer: Students’ answers will vary. For example, companies in Singapore generally fall into two groups: subsidiary of multinational companies or domestic companies. The former follows strategies set by their parent company while the latter practice some forms of strategic planning, although perhaps not as much as their counterparts. Domestic companies are looking at stabilizing their business, generating enough profits before they embark on overseas expansions. Furthermore, domestic companies do take a more reactive rather than a proactive approach.

**1-26. Would strategy formulation or strategy implementation concepts differ more across countries? Why?**

Answer: These concepts differ across countries. The internal and external factors differ such as company resources, government / political regulations, cultural factors, and technological advances. These factors impact strategy formulation or strategy implementation.

**1-27. Compare strategic planning with long-range planning.**

Answer: Long-range planning is used to optimize for tomorrow the trends of today, whereas strategic planning is used to exploit and create new and different opportunities for tomorrow.

**1-28. Which three activities comprise strategy evaluation? Why is strategy evaluation important, even for successful firms?**

Answer: Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise. It is required even for successful firms so that they can check that the company is on the right track in terms of strategic management and fully maximizing the use of the resources they have invested in.

**1-29. Explain how a firm can achieve sustained competitive advantage.**

Answer: A firm must strive to achieve sustained competitive advantage by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and (2) effectively formulating, implementing, and evaluating strategies that capitalize on those factors. The firm should also constantly conduct a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to be able to come up with better strategies.

**1-30. Identify and give an overview of three social networking sites that firms use to gain competitive advantage.**

Answer: Students’ answers will vary.

For example, in Singapore, the most popular social networking sites used are Facebook and MySpace. These networking sites allow users to upload their profiles, interests, photos, and videos and share them with other contacts and friends. The websites are also used for dating, and discovering new bands, events and hobbies. For example, Starbucks Singapore has a fan-page on Facebook with a total of 60,000 members. They constantly update the page with new events, promotions, and products. These updates are then reflected on the “status feeds” of those who are subscribed to the fan page.

1-31. List four strategists whom you know personally. Rank them on their effectiveness as a leader in their organization.

Answer: Students’ answers may vary. For example they may list individuals as done below:

1. Mr. Khalid A. Al-Falih is the President and Chief Executive Officer of Saudi Aramco, the world’s largest energy company.
2. Sir Tim Clark is the President of Emirates Airlines. Mr. Clark joined emirates in 1985 and has been instrumental in transforming the airline from a one-route carrier to the world’s largest airline in terms of passenger miles flown.
3. Mr. James Hogan is President and CEO of Etihad Airways, the national airline of the United Arab Emirates. Mr. Hogan joined Etihad in 2006 and has overseen the company’s explosive growth and internationalization.
4. Mr. Mohammed Sharaf is the Chief Executive Officer of Dubai Ports (DP) World. Mr. Sharaf has overseen the growth of DP World into a highly competitive business with operations in over 30 countries.

**1-32. List six characteristics of objectives and give an example of each.**

Answer: The six characteristics of objectives are state direction, aid in evaluation, creation of synergy, revelation of priorities, motivation, and control on activities. The following is an example of each of these characteristics respectively:

Our sales target for year 2011 is to achieve $4 million of new business. We must build this new home in two years. In order to achieve $4 million of new business, we need production to increase production capacity, sales to look for new markets, procurement to source for low prices but good quality raw materials. There are two objectives: to increase sales by 10% this year and to reduce the number of staffs. If we achieve our $10 million sales, everyone will get 10% salary increase. We shall meet every Monday to know the progress of our sales and to take corrective actions.

**1-33. Conduct an Internet research to determine what percentage of your country’s population smoke. What implications does this have for firms in your country?**

Answer: The basic principles of research methodology must be utilized: research objectives, principles of questionnaires being asked, sample size, population size, and data analysis and interpretation.

If your country has a high population of smokers, consider the following: smoking can be quite sociable and many people often smoke when they go out to bars and restaurants. This will then have an impact on the food and beverage industry. Another example is that smokers often buy mints or gum and this will have an impact on the confectionary industry.

**1-34. List four financial and four nonfinancial benefits of a firm engaging in strategic planning.**

Answer: Businesses engaging in strategic planning experience various financial benefits. They show significant improvement in sales, profitability, and productivity compared to firms without strategic planning activities. Firms using strategic planning generally exhibit superior long-term financial performance relative to their industry and seem to make more informed decisions with good anticipation of both short and long-term consequences. They are also prepared for fluctuations in their external and internal environments. In addition to the financial benefits, firms using strategic planning also experience nonfinancial benefits. These include an enhanced awareness of external threats, an improved understanding of competitors’ strategies, increased employee productivity, reduced resistance to change, and a clearer understanding of performance-reward relationships.

**1-35. Discuss the comparisons between business strategy and military strategy.**

Answer: Business and military strategy are similar in many respects. Many of the ideas developed in business strategy were first formulated as military strategy. Both military and business organizations have competitors. A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict.

**1-36. Briefly explain whether strategic planning should be more of a people-oriented process than a paper process.**

Answer: Strategic planning requires people to give inputs and for them to manage the process; it is not just paperwork.

**1-37. Do you agree with the fact that strategic planning should not be controlled by technicians? Briefly explain the reasons for your answer.**

Answer: Strategic planning should not be controlled by technicians because they are so formal in planning that flexibility and creativity are stifled.

**1-38. According to Sun Tzu, warfare is based on deception. Should strategic planning be based on deception? Explain.**

Answer: Strategic planning should not be based on deception because companies need to look at long term growth not just short term goals. In addition, companies have to be answerable to its stakeholders, as well as its shareholders.

**1-39. Explain Sun Tzu’s statement “Generally, in war the best policy is to take a state intact; to ruin it is inferior to this.” Is this true in corporate strategic planning? Explain.**

Answer: It means that if we could conquer the enemies without much warfare, both sides will not suffer many casualties, and not overly use their resources.. This is true in corporate planning because since no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most.

**1-40. What is Singapore Airline’s competitive advantage? How can this advantage be sustained?**

Answer: Singapore’s competitive advantage lies in its capacity to execute on a value proposition that results in a reputation for excellence in the consistent delivery of high quality service to customers in need of access to frequent, efficient, and reliable international/long-haul transport. Competitive advantage may be sustained by ensuring that competitive strategies continue to reflect on the emerging reality of evolving needs of customers and the changing dimensions of competition, for example, price competition, the incorporation of technologically advanced aircraft, and a range of differentiated in-flight services.

**1-41. Are there any compelling reasons why the external audit, and internal audit, should not be conducted simultaneously?**

Answer: There are no compelling reasons why the external audit and internal audit should not be conducted simultaneously.

**1-42. Which stage of strategic management do you feel is the most important? Give reasons for your answer.**

Answer: Strategic management process consists of 3 stages:

* Strategy formulation
* Strategy implementation
* Strategy evaluation

Each state is equally important as they are interdependent on each other.

**1-43. Should strategic planning be more open or closed (i.e., hidden or transparent)? Why?**

Answer: Strategic planning process should be more open because one of the pitfalls in strategic planning is failing to communicate the plan to employee, who continues working in the dark.

**1-44. Discuss the extent to which strategic-planning concepts would be applicable to individuals managing their own lives.**

Answer: Strategic planning concepts, to a large extent, are applicable to individuals managing their own lives; for example, as managers amass experience, they may rely less on formalized planning, a result of overconfidence; or when a person has achieved status, privilege, or self-esteem, he/she often sees a new plan as a threat.

**1-45. Strengths and weaknesses should be determined relative to competitors, or by elements of being, or relative to a firm’s own objectives. Explain.**

Answer: This is a true statement. An internal factor, such as ROI of 4%, can be stated as ROI of 4% vs. Industry Average of 14%, or ROI of 4% vs. Company Objective of 2%, or ROI of 4% vs. negative 4% the prior year. Relative strength/weakness deficiency or superiority is vital information in formulating strategies, and is much better than a single number with no comparison over time or to industry average. An example of “elements of being” would be that Firm A owns 10,000 acres of oil lands.

**1-46. What are the three stages in strategic management? Which stage is more analytical? Which relies most on empowerment to be successful? Which relies most on statistics? Justify your answers.**

Answer: The three stages of strategic management are: strategy formulation, strategy implementation, and strategy evaluation. Because it is the decision-making stage of strategic management, strategy formulation is the most analytical stage. The strategy implementation stage relies most on empowerment to be successful, and hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategy evaluation relies most on statistics, as it deals with reviewing external and internal factors, measuring performance, and analyzing variances between expected vs. actual outcomes.

**1-47. What two factors most often are associated with companies hiring a Chief Strategy Officer?**

Answer: Results of the Menz and Sheef study reveal that an increase in management interdependence and growth in acquisition activity were most commonly associated with hiring a new Chief Strategy Officer (CSO).

**1-48. What is the most important activity in the strategic-management process?**

Answer: Recent research has examined the strategic-management process and concluded that perhaps the most important “activity” is the feedback loop, because strategy must be thought of as a “verb rather than a noun.”

**1-49. Create a diagram illustrating how to gain and sustain competitive advantages.**

Answer: Figure 1-9 How to Gain and Sustain Competitive Advantages

Establish A Clear

Vision & Mission

Evaluate & Gain & Sustain Formulate Strategies:

Monitor Results: Competitive Collect, Analyze, &

Take Corrective Advantages Prioritize Data Using

Actions; Adapt Matrices; Establish A

To Change Clear Strategic Plan

Implement Strategies:

Establish Structure;

Allocate Resources;

Motivate & Reward;

Attract Customers;

Manage Finances

**Answers to the End-of-Chapter 1 Assurance of**

Learning Exercises

**ASSURANCE OF LEARNING EXERCISE 1A:**

**ASSESS SINGAPORE AIRLINE’S MOST RECENT QUARTERLY PERFORMANCE DATA**

ANSWER:

Students should visit Singapore Airline’s website and use the following topics to answer the questions.

* Competitive advantage
* Vision and Mission Statement of Singapore Airline
* External opportunities and threats
* Internal strengths and weaknesses
* Objectives: Long term, medium term, short term
* Strategies and Policies

**ASSURANCE OF LEARNING EXERCISE 1B:**

**GATHER STRATEGY INFORMATION ON NESTLÉ S.A.**

ANSWER:

Possible external opportunities/threats and internal strengths/weaknesses are listed below. The factors were derived from the sources suggested for finding information about Nestle, its rival firms, and the food processing industry. Make sure students see the difference in internal vs. external factors. Remind students to be as specific as possible in stating each factor. Remind students also that key external and internal factors need to be actionable, quantitative, and divisional to the extent possible. Ask students to keep this information for use in later exercises. The factors provided below should serve as examples on the detail needed in student responses. They should not be considered the only correct answers as student answers may vary significantly.

Strengths

1. Nestlé is well diversified geographically with roughly a quarter of 2014 revenues divided between, Europe, North America, Asia, and the rest of the world.
2. Nestlé competes primarily in the food and beverage business with 70 percent of operating profits derived from these products and the remaining profits derived relatively evenly between skin care and pet food products.
3. Nestlé has the largest R&D network and budget of any food company in the world, with total R&D expenses of 1.6 billion CHF in 2014 which amounted to 1.8 percent of total sales.

Weaknesses

1. Despite numerous accolades, nestle was sued in late 2015 in California for allegedly knowingly allowing its Fancy Feast cat food to contain fish from a Thai supplier that uses slave labor.
2. Nestle only list one female among 16 top executives.
3. Revenues were down 3% in 2015 after falling 1% in 2014.

Opportunities

1. Northern Europe consumes twice the chocolate than southern Europe.
2. Only 3% of Hershey’s profits come from outside the USA.
3. India has overtaken China as the fastest growing country in Asia.

Threats

1. Danone competes heavily with Nestle on water, baby nutrition, dairy products and many others in the same key regions as Nestle.
2. Minimum wages are increasing to $10+/hour in numerous USA states and are on the rise globally.
3. Corporate wellness programs discourage candy and chocolate consumption and diabetes and obesity awareness are on the rise and spurring healthy eating globally.

**ASSURANCE OF LEARNING EXERCISE 1C:**

**GET FAMILIAR WITH THE FREE EXCEL STUDENT TEMPLATE**

ANSWER:

Students should visit www.strategyclub.com website as the author website is extremely useful for students. The template provided has been widely used for more than a decade by both students and businesses for actually doing strategic planning, and improved continually by the authors, the free Excel Student Template enables students to more easily apply strategic-management concepts, while engaging in assurance of learning exercises or case analysis. Using the Template, students can devote more time to applying strategy concepts and less time to the mechanics of formatting strategy matrices, tables, and PowerPoints.

**ASSURANCE OF LEARNING EXERCISE 1D:**

**EVALUATE AN ORAL STUDENT PRESENTATION**

ANSWER: Answers will vary for each student.

**ASSURANCE OF LEARNING EXERCISE 1E:**

**STRATEGIC PLANNING AT NESTLÉ S.A.**

ANSWER: Answers will vary for each student. The following questions could be used to guide the class discussion.

**Step 1: 5 Major Strategies Nestle is implementing**

1. Nestlé is in the process of transforming its image from a food company to a health and wellness company.
2. Nestlé has the largest R&D budget of any food company; the firm aims to offer healthier and tastier options from infant formula to products designed for seniors.
3. Nestlé has recently reduced the amount of salt, sugar and saturated fats in many of its products as a means of improving nutrition while enhancing other flavors so not to reduce the taste of their products.
4. One key area that Nestlé improved on in December 2015 was its Marketing Communication to Children Policy by phasing out marketing communication in schools and increasing attention on health and wellness education through other mediums such as TV series currently running in both Mexico and the Philippians to better target children.
5. Nestlé is one of the most socially responsible companies in the world, and has even created an award for businesses who excel in rural development, nutrition, and clean water initiatives.

**Step 2**

* Mars, like Nestlé, is well diversified with six business units consisting of chocolate, drinks, food, symbol-science, pet care, and Wrigley chewing gum.
* Pet care is Mars largest revenue generating segment, followed by chocolate. Pet care and chocolate are Nestlé’s 5th and 6th largest revenue generating segments respectively.
* Mars advocates globally sustainability of the cocoa resource but has received criticism in recent years over purchasing cocoa from West African farms that use child labor.

**Step 3**

Answers will vary widely. Students should mention one of the main advantages of being a publically held firm is the ability to raise capital through selling stock in the open market. On the importance of keeping strategies secret and does Mars have an advantage over Nestlé in this regard, generally the answer would be no, but again answers will vary student to student. Whether public or private, it is important for your customers and employees (or shareholders if public) to know what business you are in, and to know what strategies you are perusing so they can better identify with you in the case of consumers (or shareholders) and make better decisions (to keep in line with the mission/strategy) in the case of employees. Examine the answers in Steps 1 and 2 above for examples for Nestle and Mars. Take McDonald’s as another example. Consumers, stockholders and the competition know McDonald’s overall strategy is to provide fast food at a low price, there is no sense in hiding this strategy. On the contrary, detailing how you plan to implement the strategy should remain secret for public and private firms alike.

**ASSURANCE OF LEARNING EXERCISE 1F:**

**INTERVIEW LOCAL STRATEGISTS**

ANSWER: Answers will vary for each student. The following questions could be used to guide the class discussion.

* Were the strategists focused more on formal versus informal in planning? How did formality vary by size and type of firm?
* Did they have a written vision and/or mission statement? How did this vary by size and type of firm they were working with?
* Did the persons interviewed recognize the benefits of strategic planning? How did the persons interviewed inform the organizations’ employees of the strategic plans and the benefits of strategic planning?

Answers to End-of-Chapter 1 Mini-Case Questions

**1. Visit Ryanair’s website. Compare its website with one of its competitor, like Spirit Air, and give recommendations on how Ryanair can utilize its website as a strategic marketing tool to enhance its competitiveness. How can it improve the website to function more effectively and enhance the company’s efficiency in serving its potential customers?**

The Spirit Air website is better because it is faster and includes more relevant information quickly such as whether your flight is one way or round trip or multi-city. The Spirit Air website also enables you to quickly select a seat, or select a hotel, or select a rental car, or add passengers.

**2. Can you identify any strengths and weaknesses of Ryanair based on information provided in the case and the data given in the table above?**

Operating income, profit before tax, and profit after tax declined in 2014 by 8.3, 9.1, 8.2 percent respectively. Students should be encouraged to look at Ryanair’s low-cost strategy, which is one of their key strengths and the weakness. This is because Ryanair makes risky purchases (300 Boeings and then 200 Boeings). Given their cost strategy, the consumers and manufacturers seem to have more bargaining power that Ryanair.

**NOTE – THE FOLLOWING IS AN EXCELLENT, FUN, NOT-IN-THE-BOOK, ADDITIONAL ASSURANCE OF LEARNING EXERCISE FOR CHAPTER 1**

**EXERCISE TITLE: HOW POTENTIALLY DETRIMENTAL ARE VARIOUS PITFALLS TO AVOID IN DOING STRATEGIC PLANNING?**

**Purpose**

Whenever a firm engages in strategic planning, there are certain potholes or pitfalls that need to be avoided. Being aware of potential pitfalls and being prepared to address them is essential tosuccess. Chapter 1 provides a list of thirteen pitfalls that commonly plague firms and undermine strategic-planning efforts. The following pitfalls can be ranked in terms of how potentially detrimental/severe they are in doing strategic planning. This exercise reveals the authors’ ranking of the thirteen pitfalls in terms of how potentially detrimental/severe they are in doing strategic planning.The thirteen pitfalls to avoid in doing strategic planning, as given in Chapter 1, are as follows:

PITFALLS

1. Using strategic planning to gain control over decisions and resources

2. Doing strategic planning only to satisfy accreditation or regulatory requirements

3. Too hastily moving from mission development to strategy formulation

4. Failing to communicate the plan to employees, who continue working in the dark

5. Top managers making many intuitive decisions that conflict with the formal plan

6. Top managers not actively supporting the strategic-planning process

7. Failing to use plans as a standard for measuring performance

8. Delegating planning to a “planner” rather than involving all managers

9. Failing to involve key employees in all phases of planning

10. Failing to create a collaborative climate supportive of change

11. Viewing planning as unnecessary or unimportant

12. Becoming so engrossed in current problems that insufficient or no planning is done

13. Being so formal in planning that flexibility and creativity are stifled

The purpose of this exercise is to examine/discuss how potentially detrimental/severe the various pitfalls are in doing strategic planning. In addition, the purpose of this exercise is to examine whether individual decisionmaking is better than group decisionmaking. Academic research suggests that groups make better decisions than individuals about eighty percent of the time.

Instructions

Rank the thirteen pitfalls as to how potentially detrimental/severethey are in doingstrategic planning, where 1 = most detrimental and 13 = least detrimental. First, rank the pitfalls as an individual. Then, rank the pitfalls as part of a group of three. Thus, determine what person(s) and what group(s) in class come closest to the expert ranking. In addition to examining strategic-planning pitfalls further, this exercise enables examination of the relative effectiveness of individual versus group decisionmaking in strategic planning.

**The Steps**

1. Fill in Column 1 in Table 1 to reveal your individual ranking of how potentially detrimental to strategic planning the pitfalls are, where 1 = most detrimental to 13 = least detrimental.For example, if you feel Pitfall 1 is the 5th most detrimental, then enter a 5 in Table 1 in Column 1 beside Pitfall 1.
2. Fill in Column 2 in Table 1 to reveal your group’s ranking of the 13 pitfalls.
3. Fill in Column 3 in Table 1 to reveal the expert’s ranking of the 13 pitfalls.
4. Fill in Column 4 in Table 1 to reveal the absolute difference between Column 1 and Column 3 to reveal how well you performed as an individual in this exercise. (Note: For absolute difference, disregard negative numbers)
5. Fill in Column 5 in Table 1 to reveal the absolute difference between Column 2 and Column 3 to reveal how well your group performed in this exercise.
6. Sum Column 4. Sum Column 5.
7. Compare the Column 4 sum with the Column 5 sum. If your Column 4 sum is less than your Column 5 sum, then you performed better as an individual than as a group. Normally, group decisionmaking is superior to individual decisionmaking, so if you did better than your group, you did excellent.
8. The Individual Winner(s): The individual(s) with the lowest Column 4 sum is the WINNER.
9. The Group Winners(s): The group(s) with the lowest Column 5 score is the WINNER.

**Table 1– Pitfalls in Doing Strategic Planning: Comparing Individual versus**

**GroupDecision Making**

Pitfalls to Avoid In Column 1 Column 2 Column 3 Column 4 Column 5

Doing Strategic Planning

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

11.

12.

13.

**Answer: The Expert Ranking**

**Pitfalls to Avoid In Authors’ Ranking**

**Doing Strategic Planning (1=most detrimental to 13=least detrimental)**

1. Using strategic planning to gain control 11

2. Doing strategic planning only to meet requirements 4

3. Too hastily moving to strategy formulation 3

4. Failing to communicate the plan to employees 6

5. Top managers making too many intuitive decisions 5

6. Top managers not actively supporting the process 7

7. Not using plans as a standard to measure performance 8

8. Delegating planning to a “planner” 10

9. Failing to involve key employees 12

10. Failing to create a collaborative climate for change 9

11. Viewing planning as unnecessary 1

12. Too engrossed in current problems to plan 2

13. Being too formal in planning 13

**Rationale:**

The authors have developed strategic plans for many companies. The rankings given above are based on their experience and the readings given at the end of Chapter 1, rather than being based on empirical research. First, millions of businesses, especially small businesses,view planning as unnecessary, so that pitfall is the #1 most potentially detrimental or severe. Millions more businesses report that they are too engrossed in current problems to plan, so that pitfall isthe #2 most detrimental when it is encountered. Millions of businesses that do strategic planning in some form move too hastily from vision/mission to deciding/selecting strategies to pursue, bypassing the external and internal audit, so that pitfall is #3. Hundreds of thousands of businesses do strategic planning only to meet accreditation or government requirements, so that pitfall is #4. At thousands of businesses that do strategic planning, the top managers make too many intuitive decisions without using planning matrices or taking the time to gather relevant data and statistics, so that pitfall is #5. The #6 most detrimental pitfall is doing strategic planning but not communicating the plan to employees who then basically work in the dark. The #7 pitfall is top managers not actively supporting the planning process for a variety of reasons ranging from differences of opinion about the process itself to disagreement about the strategies selected for implementation. The #8 pitfall most detrimental is doing strategic planning but not using the plans as a standard to measure performance, basically just filing the planning documents away rather than using them to guide operational and strategic expectations. The #9 pitfall is failing to create a collaborative climate for change; the only constant is change and change must be viewed as essential for the firm to successfully adapt to its external environment. Less potentially detrimental are pitfalls # 10, 11, 12, and 13 listed above that, respectively, dealing with delegating planning to a planner or technocrat rather than using a collaborative approach, using the planning process to gain control over decisionmaking, failing to involve key employees to help facilitate change, and being too formal, ritualistic in the planning process.