### CHAPTER 1

# Strategic Management: Creating Competitive Advantages

SUMMARY/OBJECTIVES

At the heart of strategic management is the question: “How and why 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 six 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.”

2. The second section discusses the four key attributes of strategic management: concern with overall objectives; involves multiple stakeholders; incorporates short- and long-term perspectives; and recognizes tradeoffs between effectiveness and efficiency. As well, the strategic management process is described. Here, the three processes—analysis, formulation, and implementation—that provide the framework for the overall organization of the chapters of the book is presented.

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 considered *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 and environmental sustainability.

1. The fourth section considers the importance of social responsibility, including environmental sustainability, and how it can enhance a corporation’s innovation strategy. This section also presents the concept of shared value, and its implications for capitalism.

5. The fifth section addresses three interrelated factors in the business environment—globalization, technology, and intellectual capital—that have increased the level of unpredictable change for today’s leaders. Such factors create a greater need for a strategic management perspective throughout the organization.

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

**LECTURE/DISCUSSION OUTLINE**

The introductory case concerns The Hudson’s Bay Company (HBC), the oldest department store chain in North America, widely viewed as an iconic Canadian brand. The company faced criticism over its customer service, its disappointing online presence, and its lagging sales. Some of the pressure stems from the competition of luxury retail giant Nordstrom. The case allows the instructor to touch on all three aspects of the strategic management process—analysis, formulation, and implementation. It also provides the basis for a useful discussion on the adequacy of the existing mission and whether it is robust enough to guide effective responses to new competitive challenges.

**I. WHAT IS STRATEGIC MANAGEMENT?**

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 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 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, instead of highly 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.)

**B. THE FOUR KEY ATTRIBUTES OF STRATEGIC MANAGEME**NT

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 tradeoffs between effectiveness and efficiency.

EXHIBIT 1-1 provides our definition of strategic management and these four attributes.

* **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.

**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

* **Are companies you are familiar with or work at comprised of Vikings or farmers? Would your answer vary over time?**
* **When should firms hire more Vikings? How about farmers?**

We close this section with the humorous example of British bus drivers (to illustrate the problems with an overemphasis on means versus ends). It may be interesting to ask:

* **What are the underlying causes of the British bus driver problem? (e.g., culture; reward**

**and evaluation system; total lack of empowerment; employee selection; leadership, etc.)**

To discuss the role and implications of the stakeholder perspective, you may want to bring up the following example where Jack Welch, GE’s well-known former CEO, explains his view on the proper role of shareholder value in managing a publicly-held corporation. **His main point is that shareholder value is an outcome, not a strategy,** based on an interview from March 16, 2009.

**How does Jack Welch See the Role of Shareholder Value?**

On March 12, the Financial Times ran a front-page story with the headline “Welch Denounces Corporate Obsessions.” The article, which generated wide spread reaction in the media and on blogs, asserted that in an interview with the FT, Jack Welch, the former head of General Electric (GE), had described the business emphasis on shareholder values as “misplaced.”

“On the face of it, shareholder value is the dumbest idea in the world,” Welch was quoted as saying. Below, in a question-and-answer session, he elaborates.

**Jack, your comments about shareholder value being “dumb” sure ignited, both pro and con. Did you really say what the FT said you did?** Every direct quote in the FT is accurate. In a wide-ranging interview about the future of capitalism, I was asked what I thought about “shareholder value as a strategy.” My response was that the question on its face was a dumb idea. Shareholder value is an outcome—not a strategy.

**Is that a new position for you? Some people seemed to think you’d had some kind of conversion experience.** Absolutely not. It’s obvious that strategies are what drive a business. You might, for instance, have a strategy around innovation aimed at producing the leading products in every cycle, or you might have a strategy to become the low cost global supplier, or you could have a strategy to globalize a company, taking its strengths in one market and translating them to every market. But you would never tell your employees, “Shareholder value is our strategy.” That’s not a strategy you can touch. That’s not a strategy that helps you know what to do when you come to work every day. It doesn’t energize or motivate anyone. So basically my point is, increasing the value of your company in both the short and long term is an outcome of the implementation of successful strategies. I’ve always felt that way, and I’ve always said I felt that way.

Source: Welch, S. 2009. Jack Welch elaborates: Shareholder value. [www.businessweek.com](http://www.businessweek.com). March 16: np.

* **What do you see as some of the possible problems if shareholder value is seen as a strategy (and not an outcome)?** (Students will probably raise the issue of problems associated with trying to maximize short-term shareholder value by cutting investment, firing employees, divestments, etc.—that may likely hurt the firm in the longer-term.)

**II. THE STRATEGIC MANAGEMENT PROCESS**

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

Review the chapter opening example Nortel from the previous section and why they experienced dramatically lowered performance because of errors in the three processes. Emphasize the importance of seemingly good strategies that were poorly implemented.

The SUPPLEMENT below provides two examples of strategies that failed primarily due to poor implementation. Ask students:

* **What are some examples of failed Internet strategies and what are the causes?**

**Failed Internet Strategies**

**Furniture.com**. The lesson: Keep your promises. Furniture.com talked big about delivering a better experience than furniture stores, where salespeople can intimidate, and direct price comparison is tough. But Furniture.com didn’t walk its talk. When *e.biz* (a *Business Week* publication) investigated the company in July 2001, they found a mess. Product returns were higher than most realized. Damage to goods in transit and late deliveries were common. And promises of customer service were not fulfilled. One writer claimed: “When I logged on to their instant messaging support line, I was on hold nearly long enough to read a copy of *Sports* *Illustrated*.”

**Mortgage.com**. Web sites have to be much more convenient, not a little, to draw customers away from old ways of doing business. Online mortgages seemed like such a brilliant idea. The old way of getting home loans is a paper work mess no one really likes. But online mortgages eliminated little paperwork. And the off-line mortgage market is already highly competitive on price, so the advantage the Web brought was minimized. Mortgage.com has closed its site but hopes to sell its technology to banks. It still may make borrowing from the Old Guard moderately better. But much more was expected.

Source: Mullaney, T. J. 2001. Gone but not forgotten. *Business Week E.BIZ*. January 22: EB 16.

In the next three subsections, the text addresses each of the three key strategic management processes—analysis, formulation, and implementation. Brief examples from business practice are discussed based on the opening cases (or vignettes) in each chapter. The examples demonstrate that strategic management poses complex challenges and things can go wrong.

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: 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. It will also help to show how analysis, formulation, and implementation are highly interrelated (e.g., a poor analysis of market opportunity led to faulty strategy formulation and good analysis of market shifts led to good strategic choices).***

**A. STRATEGY ANALYSIS**

Strategy analysis consists of, in effect, the “advance work” that must be done 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.

1. STRATEGIC MANAGEMENT: CREATING COMPETITIVE ADVANTAGES: AN OVERVIEW (CHAPTER 1)

2. ANALYZING THE EXTERNAL ENVIRONMENT OF THE FIRM (CHAPTER 2)

3. ANALYZING THE INTERNAL ENVIRONMENT OF THE FIRM (CHAPTER 3)

4. ASSESSING THE INTELLECTUAL ASSETS OF THE FIRM (CHAPTER 4)

**B. 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 can businesses 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, given the growing importance of the Internet, firms must explore the ramifications of this new strategic platform and formulate e-business strategies.

1. BUSINESS-LEVEL STRATEGY: CREATING AND SUSTAINING COMPETITIVE ADVANTAGES (CHAPTER 5)

2. CORPORATE-LEVEL STRATEGY: CREATING VALUE THROUGH DIVERSIFICATION (CHAPTER 6)

3. FORMULATING INTERNATIONAL LEVEL STRATEGIES (CHAPTER 7)

4. INDUSTRY CHANGE AND COMPETITIVE DYNAMICS (CHAPTER 8)

**C. STRATEGY IMPLEMENTATION**

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.

We offer two more supplements below. The first provides an example of poor implementation decisions and the second lists several well-known companies that have succeeded by implementing their strategies very effectively.

The SUPPLEMENT below provides some poor implementation decisions that Bob Nardelli has made while he was head of Home Depot and Chrysler (under the direction of Cerberus Capital Management).

**Bob Nardelli’s Implementation Failures**

Although fixing Chrysler would have tested any executive, Nardelli’s default position was to cut costs. Although that strategy may be understandable and the proper instinct when a firm is hemorrhaging money, Nardelli’s cuts haven’t always served strategic ends. While he was CEO of Home Depot, he replaced veteran hardware employees and retired tradesmen with twentysomethings making less money. The cuts gave profits a short-term pop, but lackluster service drove away loyal customers.

At Chrysler, Nardelli cut costs partly by robbing from tomorrow. Car companies are nowhere if they don’t have new products in the pipeline. But he cut capital spending for new models from more than $3 billion in 2007 to $2.3 billion for the following two years.

When the feds showed up to assess Chrysler’s viability, they noted that Nardelli’s team planned only four new models for the next five years. They also pointed out that Chrysler had dedicated half as many engineers to a given model as General Motors. Nardelli could have cut more production to find a breakeven point rather than axing engineers and crimping product development.

Source: Welch, D. 2009. Bob Nardelli’s wrong turns. *BusinessWeek*. May 4: 26.

* **What strategy should Nardelli have taken at Chrysler?**

1. CREATING EFFECTIVE ORGANIZATIONAL DESIGNS (CHAPTER 9)

2. STRATEGIC CONTROL AND CORPORATE GOVERNANCE (CHAPTER 10)

3. STRATEGIC LEADERSHIP CREATING A LEARNING, ETHICAL, AND SOCIALLY RESPONSIBLE ORGANIZATION   
(CHAPTER 11)

4. MANAGING INNOVATION AND FOSTERING ENTREPRENEURSHIP (CHAPTER 12)

**III. THE ROLE OF CORPORATE GOVERNANCE AND STAKEHOLDER MANAGEMENT**

This section discusses two important and related concepts: corporate governance and stakeholder management. These topics (especially corporate governance) generated quite a bit of controversy in the early 2000’s and again following the recent economic crisis in 2008. 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.

(Corporate governance is discussed in much more detail in Chapter 10. However, it is such a “hot” topic, that we wanted to introduce it in the text’s opening chapter.)

* **What are some recent examples of poor corporate governance? (Examples would include many firms in the financial sector, as well as Arthur Anderson, Best Buy, Olympus, Enron, Tyco, etc.)**

**Executive Compensation – A Hot Topic for Boards of Directors**

The hottest issue for boards this year is shaping up to be executive compensation. For the first time ever, companies are required to disclose a complete tally of everything they have promised to pay their executives, including such until now hidden or difficulty-to-find items as severance, deferred pay, accumulated pension benefits, and perks worth more than $10,000. They will also have to provide an explanation of how and why they’ve chosen to pay executives as they do. The numbers are likely to be eye-popping. Michael S. Melbinger, a top compensation lawyer in Chicago, thinks that when all the proxies are filed, there could be 50 companies or more with CEO pay packages worth $150 million-plus.

Source: Byrnes, N. & Sasseen, J. 2007. Board of hard knocks. BusinessWeek, January 22: 35-39.

In addition to shareholders, there are other stakeholders that must be explicitly taken into account in the strategic management process. There are five primary stakeholder groups: customers, employees, suppliers (of goods, services, and capital), the community-at-large, and owners.

***Teaching Tip: In recent years, there has been growing outrage about the excesses of top brass in the financial sector and the illegal and unethical behaviours of top executives of firms such as Nortel, Hollinger, Enron, Tyco, Global Crossing, Arthur Andersen and so on. It would be interesting to discuss what should be done to curb such behaviour. Some students may suggest more regulation and tougher punishments for executives as possible solutions. Others may point out the downside of overregulation and suggest letting “the market take its course.” You may wish to point out the social and economic costs of fiascoes such as Enron and Worldcom. Here it was not just employees who lost their jobs and retirement benefits, but also literally millions of individuals who suffered financial losses due to the collapse of the stock price who had either purchased these stocks or who owned shares in them through their retirement portfolios. Also, many suppliers and banks were left unpaid. This helps to bring alive the issue of how the actions of executives can influence a broad range of stakeholders.***

**A. ZERO-SUM OR SYMBIOSIS: TWO 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. The phenomenon called crowd sourcing exemplifies this interdependence.

* **What are some other ways that stakeholder demands may conflict? How might they be highly interdependent and positively related to each other?**

**IV. SOCIAL RESPONSIBILITY: 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:

**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.

***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 Hurricane Maria in September 2017.)***

1. **The Concept of “Shared Value”**

Shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in which it operates. The fair trade movement exemplifies the interpretation of shared value. Fair trade mostly redistributes value rather than expanding the overall amount of value created.

The section includes many examples: shared value investments with cocoa farmers in the Ivory Coast, Hindustan Unilever’s direct-to-home distribution system in India (which employ many poor women), Johnson & Johnson’s wellness programs, and Olam International’s, a cashew producer, efforts to cut shipping costs by employing people in local processing plants.

* **Can you think of other examples of firms that have benefitted from “shared value” initiatives? (We find that this is an interesting and worthwhile topic to discuss in strategic management classes because many students still have a very “zero-sum” mentality regarding stakeholder management, i.e., any initiatives that don’t provide an immediate financial return should not be undertaken. Examples that we use in this section (and elsewhere in the text) will (hopefully!) broaden their perspective.**

The SUPPLEMENT below illustrates how Apple successfully leads the market by engaging in environmental sustainability, which is one of the company’s core strategic foci.

**Apple Going “Green”**

The U.S. Environmental Protection Agency recently proposed revised requirements for companies needing permits of greenhouse gases in new factories and plants. A failure to respond to public pressure from activists can harm a company’s brands, profits, and overall reputation. In contrast, companies that choose to exceed minimum mandates can win a voice in shaping future regulation. Apple, for instance, used its 2009 sustainability report to identify several toxic substances common to electronic products as the greatest environmental challenge facing the industry. The company emphasizes that its own products were free of such materials, addition, “in keeping with our philosophy over the last decade, Apple is not waiting for legislation to ban these substances.” Companies like Apple, that are leading the way, have discovered operational, financial, and reputational benefits in developing aggressive overall sustainability strategies.

* **What are basic drivers of sustainability initiatives? Can you name some other companies that exhibit such behaviour?**

1. **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.

* **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 attain increase their effectiveness in attaining multiple bottom lines simultaneously. The SUPPLEMENT below provides examples from Major League Baseball.

**How Major League Baseball is “Going Green”**

Baseball’s green push began in earnest two years ago, when MLB aligned with the Natural Resources Defense Council, an environmental group that also advises other pro sports leagues. Ever since, NRDC has functioned as a sort of green conscience nudging the league to buy recycled paper, avoid harsh chemicals on fields, and insist that concessionaires move to biodegradable cups.

Let’s look at some “green” examples:

* When the Atlanta Braves play home games during the 2009 season, about 2,000 parking attendants, ticket takers, and food vendors at Turner Field will be decked out in shirts with Atlanta Braves patches on the chest. That’s standard work attire at big-league ballparks. The difference: Here, the shirts were made of about 50% recycled soda bottles.
* The New York Mets’ new Citi Field will have waterless urinals.
* The Tampa Bay Rays will give free parking to car poolers.
* The New York Yankees will use energy-efficient bulbs to light the stadium (saving enough to power 75 homes for a year).

Source: Hyman, M. 2009. Green grow the ballparks. BusinessWeek. April 20: 74.

* **What do you see as some of the benefits of these initiatives? (One you might mention is that such green initiatives may also help lure corporate sponsors—a critical action, given a time when pro franchises are struggling to hold on to marketing dollars.) A general question to ask would be: What other organizations you are familiar with have undertaken “green” initiatives? Are they successful? Why? Why not?**

**V. THE STRATEGIC MANAGEMENT PERSPECTIVE: AN IMPERATIVE THROUGHOUT THE ORGANIZATION**

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.

We first address three driving forces—globalization, technology, and intellectual capital--that are often mentioned as driving the need for broader involvement in the strategic management perspective.

**A. KEY DRIVING FORCES**

We address the interrelated nature of the three driving forces and, for emphasis, provide a quotation from Walter Wriston, Citibank, CEO.

The SUPPLEMENT below addresses another example of how two factors that have accelerated the rate of change — globalization and technology — can have dramatic effects on an economy. It discusses why many U.S. manufacturing jobs have been lost. (Although the source is somewhat dated—the trend in fewer manufacturing jobs in the United States and Canada has further increased in the past several years.)

###### Global Competition and Technology Reduces Domestic Manufacturing Jobs

Charles Seitz remembers when Rochester, New York was a busy manufacturing town. Now all that the fifty-eight-year-old engineer can see is a landscape of empty buildings. Such a sight reflects a major trend: fifty years ago, a third of the U. S. workforce labored in factories making everything from lipsticks to cars. Today, slightly more than one-tenth of the nation’s 131 million workers are employed by manufacturing firms. Four-fifths of them are in services. The decline in manufacturing jobs in the United States has swiftly accelerated since the beginning of 2000. Most of these are factory jobs that have been lost because companies are unable to respond effectively to the sharp rise in competition.

Jobs are being moved abroad as developing countries promise lower labor costs and attractive new markets. Further, advances in technology enable firms to produce more with fewer workers. For example, at Eastman Kodak, ten years ago, mixing filmmaking ingredients with precision was a job done by 14 workers in a dark room. Today, most of the work is done by one person watching a computer screen in a control room. Sadly, Seitz was laid off after 26 years at Kodak—right before Christmas and two months away from being eligible for full retirement benefits.

Source: Hagenbaugh, B. 2002. Manufacturing jobs fading fast away. USA Today, December 13: 1-2.

* **What are the implications for careers? Will many service sector jobs also “fade away”? Why? Why not? How have things changed more recently (2016-2018)? (e.g. many service sector jobs such as IT have been outsourced and offshored.)**
* **Are there any implications for public policy? Legislation?**

***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, difficulty to copy (imitate and substitute) that we 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.***

You may want to spend a bit more time discussing the three driving forces, globalization, technology and intellectual capital. If so, we also provide an example in Strategy Spotlight 1.1, The Global Market for Talent, that links the three. We will pick this up at the end of the discussion of the three driving forces.

Below, we offer some further thoughts on each of the driving forces and a couple of interesting discussion points.

1. **GLOBALIZATION**

The defining feature of the global economy is not the flow of goods but rather the flow of capital, people, and information. Time and space are no longer a barrier to doing deals anywhere in the world. Computer networks permit instantaneous transactions, and the market watchers operate on a 24-hour basis.

The importance of moving resources and information around the world to meet local needs can’t be ignored; the relevance of markets becoming more open throughout the world, and the importance of the ability to learn and collaborate to manage diversity, complexity, and ambiguity. Clearly, top-level managers can’t do it all themselves.

The SUPPLEMENT below discusses one of the rapidly rising expenses faced by multinational firms that are currently doing business overseas: a dramatic increase in premiums for kidnap and ransom insurance policies. The primary reason is the increase in fundamentalist Islamic groups:

###### Soaring Kidnap and Ransom Insurance Policies

Shipping companies have seen their insurance premiums increase in spite of lower volumes of container shipping traffic going around the horn of Africa, due to an explosion in piracy emanating from the coast of Somalia. Similarly, United States firms are faced with soaring insurance policies when they do business in many countries around the world. Rates surged 200 percent between January and September 2003, says the St. Paul Cos.’s David Lattin. The key reason: fundamentalist Islamic groups around the world. Where has been the greatest impact? Brazil, Colombia, Ecuador, former Soviet republics, India, Mexico, Nigeria, Philippines, South Africa, and Venezuela. Some typical premiums: $36,000 for a $2.5 million policy covering a medium-size U. S. food concern operating in Brazil: $193,000 for $25 million coverage of a large American utility working in nearby Mexico.

Source: *The New York Times*, 2009, April 15, p1; and Swibel, M. 2003. Stay north of Tijuana. *Forbes*, September 15: 36.

1. **TECHNOLOGY**

The acceleration in the creation and diffusion of technology increases the importance of innovation to remain competitive. Technology has reduced the life cycles of products—as the example of Intel points out. In addition, technology—from videoconferencing to the Internet--has made our world smaller and faster. Managers must be able to make technology even more viable and a productive part of the work setting.

* **What are some other applications of information technology with which you are familiar? How did it enhance the organization’s performance?**

In addition to the potential benefits of technology, ethical issues can arise. You may consider asking the students about advances in biotechnology and the DNA:

* **What ethical issues does new technological capability may raise? What should be done?**

1. **INTELLECTUAL CAPITAL**

Knowledge has become the direct source of competitive advantage(s) for companies selling ideas and relationships as well as an indirect source of competitive advantage for companies trying to differentiate themselves by how they create value for customers.

Technology must be used effectively to leverage human capital to both facilitate collaboration among individuals and to develop more sophisticated knowledge management systems. Firms must not only acquire and retain top talent but also develop and maintain a strategic perspective if they are to contribute their efforts to the goals of the firm.

***Teaching Tip: Students will readily recognize the apparent contradictions in STRATEGY SPOTLIGHT 1.1 and the above SUPPLEMENT. That is, the SUPPLEMENT and SPOTLIGHT 1.1, in effect, “disagree” on the job security of employees in the service sector. 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, difficulty to copy (imitate and substitute) that we 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.***

**VI. ENSURING COHERENCE IN STRATEGIC DIRECTION**

Successful organizations express priorities through stated goals and objectives that form a hierarchy of goals that includes 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.

**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 1,500 senior leaders 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 six organizations—Medtronic, Loblaws, BCE, WSIB, McDonald’s and Enbridge. We also assert that a vision statement often contains a slogan, diagram, or picture—whatever grabs attention--and provide such examples as “Beat Xerox” (Canon) and “The Ultimate Driving Machine” (BMW).

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.

**David Sarfnoff’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 every one. 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.

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

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

**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.

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

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
* An Ideal Future Not Reconciled with the Present
* Tunnel Vision
  + **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 ask them 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 1-6 contains the Vision Statement and Mission Statement of WSIB (Workers’ Safety and Insurance Board), an Ontario agency with annual premiums reaching $2.4 billion that affects the lives of more than half of employees in Ontario. This exhibit helps to distinguish between these two strategy concepts.

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.

At times, mission statements can, and should, change when competitive positions dramatically change or when the firm is faced with new threats and opportunities

**C. STRATEGIC OBJECTIVES**

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 1-7 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).

For objectives to be meaningful, they must satisfy several criteria that collectively form the acronym S.M.A.R.T. They must be:

* Specific
* Measurable
* 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 Chapter 9.)

**VII. 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 considered throughout the strategic management process. We identified five key stakeholders in all organizations: owners, customers, suppliers, employees, and society-at-large. 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.

The fourth section considers the importance of social responsibility, moving beyond traditional stakeholders to include the concept of environmental sustainability, and how it can enhance a corporation’s innovation strategy. The concept of shared value, and its implications for capitalism, was central in this section. The elements of the triple bottom line were then related to the concept of social responsibility.

In the fifth section, we discussed three interrelated factors—globalization, technology, and intellectual capital. They have accelerated the rate of unpredictable change that managers face today. These factors, and the combination of them, have increased the need for managers and employees throughout the organization to 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.

***Teaching Tip:******If your class consists of students with very limited exposure to the business world, who have not worked much outside the home or beyond summer jobs, you may want to consider the following exercise that helps highlight the importance and immediacy of Stakeholder analysis. Alternatively, you can use any well-known company, such as Canadian Tire, BCE (Bell Canada), or Tim Hortons.***

* **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 publicwho have expectations from the university and can influence its functioning and funding

and, of course, the government would be the owner in the case of a public university or college.

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” 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 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 to maintain the university at a reasonable level of performance.
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 are: setting example 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, to mention a few.

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 towards achieving mutual benefit through stakeholder symbiosis.

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.

1. **Attributes of Strategic Management**: How do your activities and actions contribute to the goals of your organization? Observe the decisions you make on the job. What are the short-term and long-term implications of your decisions and actions? Have you recently made a decision that might yield short-term profits but might negatively impact the long-term goals of the organization (e.g., cutting maintenance expenses to meet a quarterly profit target)?

It is our experience that getting students involved in applying the tools, techniques, and concepts that we teach in strategic management to their daily lives—both in professional life and personal life—has many positive implications. First, the ideas become less abstract and more concrete. Second, many of the students, undergraduates especially, have only viewed their organizations from an hourly worker’s perspective. Applying these concepts suddenly forces them to take a top management view and brings these concepts “alive” to them. Either as a written exercise or as class room discussion, forcing the students to think of the trade-offs between long term and short-term implications of their decisions in the work place can help them develop a better appreciation for strategic management.

1. **Intended versus Emergent Strategies**: Don’t be too inflexible in your career strategies; strive to take advantages 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.

This question ideally lends itself to a lively class room discussion about the differences between “deliberate” and “emergent” strategies. It is our experience that at least some students will explain how “serendipitous” their career choices were. There will be others who will say that they always knew what they wanted and how they have worked towards accomplishing that goal. Even in those cases, the instructor can point out how circumstances in the labour market may change and developing the flexibility to take advantage of new developments may help them in their future careers.

1. **Strategic Coherence**: Focus your efforts on the “big picture” in your organization. In doing this, you should always strive to assure that your efforts are directed toward your organization’s vision, mission, and strategic objectives.

You will find that many students are surprisingly unaware of overall organizational goals and too narrowly focused on the goals of their subunits. A discussion of how their subunits goals and objectives relate to overall organizational goals can lead to opportunities to forcefully illustrate the presence or absence of strategic coherence.