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CHAPTER 2 THE CONTEXT OF MANAGING STRATEGICALLY

LEARNING OUTCOMES

Use this Learning Outline as you read and study this chapter:

- 2.1 Describe the different perspectives on competitive advantage.
- 2.2 Explain the driving forces, implications, and critical success factors of the business environment.
- 2.3 Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context.

TEXT OUTLINE

Strategic Management in Action Case #1: Out of Focus

Eastman Kodak, founded in 1884, has struggled to keep up with changing technologies. Though Kodak invented a digital camera in 1975, they were reluctant to introduce it into the market for fear of cannibalizing photographic film sales. Other companies soon began introducing digital cameras and once cell phone cameras were capable of providing quality pictures, it was too late for Kodak.

- Ask students why a company like Kodak, with a well-known brand and a long history, would be so slow to change. What could Kodak have done differently?
- It is clear that Kodak did not change and adapt as the technologies were advancing in the photographic industry. What can the firm do *now* to turn the company around?
- Have students work in pairs to brainstorm other current companies and their products that may become obsolete in the next 10 years.

Teaching Notes: _____

LEARNING OUTCOME 2.1 DESCRIBE THE DIFFERENT PERSPECTIVES ON COMPETITIVE ADVANTAGE

- A. **Managing strategically** means formulating and implementing strategies that allow an organization to develop and maintain competitive advantage.
- B. **Competitive advantage** is what sets an organization apart or its competitive edge.
 1. Having something that competitors don't
 2. Doing something better than other organizations do
 3. Doing something other organizations can't
- C. Competitive advantage is a key ingredient for long-term success and survival of all organizations, including not-for-profits and governments.
 1. Failure can be traced to:
 - a) Failure to recognize the impact of important external factors
 - b) Failure to capitalize on organizational resources and capabilities
- D. Represent different perspectives on what it takes to capture competitive advantage—that is, how to manage strategically (refer to Table 2.1).

Strategic Management in Action: Hanesbrands Inc.

- As an in-class exercise (group or open discussion), discuss the *I/O view of the pantyhose industry and where competitive advantages might come from in this industry.*

1. Industrial Organization View (I/O)

The **industrial organization (I/O) view** suggests organizations look at the impact of important external factors. Focus is on:

- a) The structural forces within an industry
- b) The competitive environment (i.e., the firm's position within the industry)
- c) How these influence competitive advantage
 - (1) Firm's position in the industry and the underlying industry characteristics will, determine profitability.
 - Negative forces in industry will result in lower than average profits
 - Weak position in the market will result in lower than average profits
- d) Competitive advantage
 - (1) Michael Porter is best known proponent
 - (2) Firm's position within the industry and the underlying industry characteristics determine its potential profitability

Note: Students will not necessarily know what is meant by position. It might be a good time to use a strategic group map. Use dimensions to explain what is meant by competitive position, etc.

- (3) The structure of an industry influences what is appropriate organizational conduct (i.e., its strategic decisions and actions influence the organization's performance)
- (4) Analyzing external forces and basing strategic decisions on that analysis
- (5) Managers make sound strategic choices by understanding what makes an industry attractive, choosing an attractive industry in which to compete, and then choosing an appropriate competitive position within that industry
- (6) Focus on strategic analysis is external
- (7) Major concern is how the firm stacks up against its competitors
- (8) Emphasis is clearly on understanding what is happening at the industry level

2. *Resource-Based View*

Resource-based view emphasizes firm's resources are most important in getting and keeping a competitive advantage.

- a) Organizations are different collections of assets and capabilities
- b) Managing strategically is developing and exploiting an organization's unique resources and capabilities
- c) Organization is positioned to succeed if it has the best and most appropriate resources for its business
- d) Competitive advantage will accrue to the organization that possesses unique assets or capabilities.

Strategic Managers in Action: Hulu

- *What do you think Hulu's owners should do now?* In groups of two or three, have students assume the role of owner of Hulu. Ask them to brainstorm what they would do with the company.
- *What is it about this situation context that's so challenging?* Students might cite the vast number of similar services appearing in the market. Competition could overtake Hulu's status as one of the most-watched online video properties. They may also offer that content providers could charge higher fees or delay videos. Finally, some students may recognize that the owners (including NBC Universal, Walt Disney, and others) are in a position to ensure their productions are more accessible than that of competitors.
- *What type of resource(s) does Hulu have? Would you call it unique. Explain.* Students should go through the various types of resources (financial, physical, human, intangible, and structural/cultural assets) and determine what the company possesses. Have students examine Figure 2.2 and answer the questions as the uniqueness of the resources identified.

- e) **Resources** include all financial, physical, human, intangible and structural/cultural assets used by an organization to develop, produce and deliver products or services to its customers.
 - (1) *Financial* assets encompass the financial holdings of an organization (cash reserves, investments, etc.), the actual and available debt and equity used by the organization and any retained earnings.
 - (2) *Physical* assets include equipment, office buildings, manufacturing or sales facilities, raw materials, or any other tangible materials an organization has.
 - (3) *Human resources* include the experiences, characteristics, knowledge, judgment, wisdom, skills, abilities and competencies of an organization's employees.
 - (4) *Intangible* assets include such things as brand names, patents, reputation, trademarks, copyrights, registered designs and databases.
 - (5) *Structural/cultural* assets include the history, culture, work systems, organizational policies, working relationships, level of employee trust and the formal structure being used.
- f) Unique resources will provide a sustainable competitive advantage (Figure 2.2). Resources that have all four characteristics can be used to form sustainable competitive advantages. The four characteristics are:
 - (1) *Value*
 - (a) Resource can be used to exploit external circumstances that are likely to bring in organizational revenues
 - (b) Used to neutralize negative external situations that are likely to keep revenue from flowing in
 - (c) Resource is valuable in the context of what's happening in the external environment
 - (2) *Rarity*
 - (a) No competing firm possesses the resource

- (b) If more competitors acquire certain resources that have been a source of competitive advantage, then less likely source of competitive advantage for an organization
- (c) Even commonly held resources may be valuable for firm's survival in a competitive environment
- (3) *Difficult to Imitate (Duplicate) and Substitute*
 - (a) Imitation (duplication) is when a competitor builds the same kind of resource as firm it's imitating
 - (b) Substitution is when a firm substitutes an alternative resource for the specific resource currently being used to gain competitive advantage and achieves the same results
 - (c) To keep resources unique, want resources to be hard to imitate and substitute
- (4) *Ability to Exploit*
 - (a) Organization must be able to exploit resources
 - (b) Formal structure, systems, policies, procedures and processes in place to use resources it has to develop a sustainable competitive advantage
 - (c) Managing strategically means continually building and maintaining organizational resources

Strategic Management in Action: W. L. Gore & Associates

- *From the Gore company Web site, can other examples of resources be identified? Are any of the resources unique? Explain why or why not.*

After visiting Gore's Web site, you might pose this question to the class: "Consider that the patent protection for Gore-Tex has expired. What other resources does Gore have? What is your evidence that they have those resources?" (The students will probably focus on innovative product design, quality, great employees).

Then push the classroom discussion further with the following: "Does Gore's structure and culture give it an advantage? How would that advantage work to benefit the company and its ability to make profits? (In other words, how does its culture lead to the effective use of the resources that the students identified earlier?) At this point, the students may struggle a bit. A key point is that the culture can facilitate innovation, better quality design, willingness to create clever new products and market them. It is not automatic...a company needs the resources and the culture and someone to make it all work together.

To explore another interesting area with your class, pose the question: "Is this culture unique to Gore? Could it be replicated easily?" If your students think it could be easily replicated you might want to push the students on the "ability to exploit" aspect of the resource-based view. How might Gore be able to use this culture to its advantage whereas other firms might fail using it?

3. *Guerilla View*

Guerilla view proposes that an organization's competitive advantage is temporary and can be gained only by peppering the competitive marketplace with rapid radical surprises.

- a) Environment is characterized by continual and often revolutionary changes.
- b) Successful organizations must rapidly and repeatedly disrupt the current situation and radically surprise competitors with strategic actions designed to keep them off balance—act like a guerrilla unit. Successful organizations repeatedly create new competitive advantages based on how the context is changing.

4. *Which View Is Best?*

- a) Managing strategically involves looking both externally and internally to come up with strategies that have a chance of creating a sustainable competitive advantage. Unique resources and capabilities can be "matched" to changing external circumstances.

- b) As the external environment is continually changing, the source of sustainable competitive advantage is probably found in different places at different points in time
- c) Continually analyze the external and internal organizational environments and take advantage of any positive changes (or buffer against negative changes) with the organization's unique resources and capabilities.

Strategic Management in Action: FedEx

After visiting FedEx's Web site, you might pose this question to the class: "What strategic options is FedEx pursuing, especially in light of the rising fuel costs and retail slump? Do FedEx's actions reflect the guerilla view of competitive advantage?"

The students will probably focus on developing new markets globally through acquiring Kinko's, a copy company, and focusing on more profitable products (i.e., long-haul global and domestic cargo markets by buying new planes and acquiring a domestic trucking company).

You can then push the discussion further by asking: "Do FedEx's structure, policies, procedures and processes give it an advantage? How would that advantage work to benefit the company and its ability to make profits? (In other words, how does its internal processes and structure lead to the effective use of the strategic options that the students identified earlier?)

Another interesting area to explore with your class is to pose the question: "Is this strategy unique to FedEx? Could it be replicated easily?" If your students think it could be easily replicated you might want to push them on the "ability to exploit" aspect of the resource-based view. How might FedEx be able to use this strategy to its advantage whereas other firms might fail using it?

Active Learning Hint

Pause lecture; allow the students 2-3 minutes to turn to the student next to them and compare notes. This gives students the opportunity to confirm the information, and review before moving to the next topic.

Teaching Notes: _____

Learning Review: Learning Outcome 2.1

- *Define competitive advantage and explain why it's important.*
 - It is what sets an organization apart—in other words, its competitive edge. When an organization has a competitive advantage, it has something that other competitors do not, does something better than other organizations, or does something that others cannot. Competitive advantage is a necessary ingredient for an organization's long-term success and survival.
- *Describe the different perspectives on competitive advantage.*
 - Industrial organization (I/O) view*
 - Focused on the structural forces within an industry
 - The competitive environment of firms
 - How these influenced competitive advantage
 - Resource-based view (RBV)*
 - It sees organizations as very different collections of assets and capabilities. No two organizations will be alike because they have not had the same set of experiences, acquired the same assets or capabilities, or built the same organizational cultures. The organization's assets and capabilities will determine how efficiently and effectively it does its work.
 - Guerrilla view*
 - The main premise of the guerrilla view is that an organization's competitive advantage is temporary because the environment is characterized by continual, radical, and often revolutionary changes. Successful organizations must be more adept at rapidly and repeatedly disrupting the current situation and radically surprising competitors with strategic actions designed to keep them off balance—in other words, acting like a guerrilla unit. The successful organization will repeatedly form new competitive advantages based on different rules and different asset combinations than the existing strategies.
- *Explain what makes a resource unique.*
 - Resources must be difficult to create, buy, substitute, or imitate.

LEARNING OUTCOME 2.2**EXPLAIN THE DRIVING FORCES, IMPLICATIONS AND CRITICAL SUCCESS FACTORS OF THE BUSINESS ENVIRONMENT****A. Drivers of the New Business Environment (Figure 2.3)**

1. *The Information Revolution*
 - a) Information is readily available to practically anyone from anywhere on the globe at any hour of the day and pretty much in any format.
 - b) Instant availability of information has radically changed nature of business environment which affects context of strategic management.
 - c) Information is *the* essential resource of production, not simply a means to an end.
 - Land, labor and capital have become support factors, not main factors.
 - Organizations must now look to how information and knowledge can be exploited.

For Your Information — All Service All the Time

- *How has the information revolution impacted service businesses?* Services now have customers who are better informed about the company's offerings and the competitor's offerings. By collecting and using information about customers needs, businesses are able to supply services tailored to the individual. Internet-based services can be made available 24 hours a day with little added cost allowing customers access at the customer's convenience.
- *Choose a couple of businesses and do some research to answer the above question.* Some services to consider: Home mortgage sites where you can gather information and apply for a mortgage 24 hours a day (e.g., Ditech.com), travel companies (e.g., Expedia, Travelocity and Priceline).

2. *Technology*

- a) **Technology** defined—using equipment, materials, knowledge and experience to perform tasks.

Strategic Management — The Global Perspective

- *What does this scenario tell us about the importance of knowing the context?* This scenario tells us that the context that businesses operate in today which establishes the “rules of the game” is different than what it used to be. Knowing the context of information technology helps businesses prepare for the changing context so resources (i.e., labor, technology, and funding) can be secured to operate successfully.

- b) **Innovation** is the process of turning a creative idea into a product or process that can be used or sold; developing, making and marketing something that can generate revenue.
- c) Technology aids in “bottom up” or mass collaboration capability
- d) Technology affects organizational performance
- e) Influences an organization’s sustainable competitive advantage

3. *Globalization*

Globalization is a dominant characteristic of the business environment. It entails producing, marketing, and distributing goods and services throughout the world.

- a) Global markets
- i. The global marketplace provides significant opportunities for organizations to market their goods and services. Creating sustainable competitive advantage may require looking globally, not just domestically, for customers and resources.
 - ii. The global marketplace should not just be viewed as an outlet for products; it is also a critical source of resources as well.
 - iii. Geographic boundaries don’t constrain an organization’s strategic decisions and actions.

For Your Information — Offshoring and Outsourcing: The Good, The Bad and The Reality

- *Are offshoring and outsourcing bad?* This is a great topic for class discussion. You may want to get students into small groups and ask some groups to develop arguments for outsourcing and some groups to develop arguments against it. You can provide examples and contra-examples. For instance, India has had a lot of attention focused on its services and software industries. Indian companies are making in-roads based primarily on lower wages. However, there is also an entrepreneurial energy in new Indian companies that is making innovation an attractive element of outsourcing. However, this also exposes a threat...if Indian companies are innovative and cheaper, how will US and European companies be able to retain jobs and compete? On the pro-outsourcing side, these threats are what stimulates innovation in organizations. The problem of competitors with lower costs has to be overcome leading us to innovate.

On the negative side, some companies will simply join the Indian companies by moving to less expensive labor markets. But that will raise wages eventually. However, given India’s population, and ability to graduate hundreds of thousands of new, well-trained engineers and software designers annually opponents of outsourcing can point to a long cycle before wages will rise substantially.

A good point to elicit from your students is the idea that by outsourcing you are creating your own worst nightmare...a cheaper, faster, more innovative competitor. By outsourcing to another company you are teaching them your business, something that might have been impossible for them to learn. Outsourcing ends up giving them a blueprint for competing with you in the future.

Other questions for students: “What kinds of businesses should outsource? Which activities should be outsourced? Which activities should your business protect?” “If you outsource will there be any

political or customer goodwill ramifications?” “If we outsource, the savings can be re-employed in developing new businesses and technologies...isn’t that better than trying to protect older businesses and jobs?”

b. Global competitors

- i. Competitors can come from anywhere and they, too, will be looking for a sustainable competitive advantage.
- ii. Global competitors do not always have to be a threat to each other. They might find that the most effective strategy for them to achieve a sustainable competitive advantage is to partner together in some type of an arrangement to create or market products.

B. Implications of These Driving Forces

Four major implications (Figure 2.3):

1. *Continual Change*

- a) **Change** – all organizations deal with changing conditions.
- b) **Organizational change** is a structured transition in what an organization does and how it does it.
- c) Changes in internal or external factors can lead to organizational change to remain competitive.

2. *Reduced Need for Physical Assets*

- a) Traditionally, amassing physical assets (i.e., manufacturing facilities, office buildings, equipment, inventory) lead to economic powerfulness.
- b) Today's economy—value is found in intangible factors (e.g., information, people, ideas and knowledge)
 - Customer databases
 - Online ordering systems
 - Continual product and process innovation
 - Employee knowledge sharing

3. *Vanishing Distance and Compressed Time*

- a) Impact of physical distance and time constraints have all but disappeared.
- b) Geography (and political boundaries) no longer determines customers and competitors.
- c) Ability to instantly interact (e-mail, text messaging, interactive Web sites, etc.) means staying on top of changes or finding marketplace advantage is temporary at best.

Strategic Management in Action — The Global Perspective: Trend Micro, Inc.

- *How has the company been successful because it’s set up its business in a way that takes advantage of the realities of today’s context? What role do political boundaries play in world commerce? Do you think Steve Ming-Jang Chang’s view is relevant to all industries? What industries are most likely to be “global?” (Consider industries where the product or service can be sent electronically from anywhere.) What industries are going to stay local (although global ownership might be possible)? (Services such as restaurants and housing must be delivered locally).*

4. *Increased Vulnerability*

- a) Exposure due to interconnectedness and openness (e.g., computer viruses, terrorist attacks, biological attacks)
- b) Strategic decisions must be made to protect facilities, employees and information

Teaching Notes: _____

C. Critical Success Factors (Figure 2.3)

1. *Ability to Embrace Change*

Being successful in a turbulent environment means not only being tolerant of change, but also seeking it out and embracing it with open arms. Change can bring opportunities to exploit but can also bring challenges in dealing successfully with the changes.

- a) **Change agents** are individuals or groups who strategically manage the formulation, implementation and evaluation of an organization's change efforts.
- b) Strategic leadership plays a significant role in providing an appropriate and supportive organizational environment in which employees are encouraged to take responsibility for problems and solutions.

2. *Creativity and Innovation Capabilities*

- a) *"Create and innovate or fail!"*
- b) **Creativity**—the ability to combine ideas in a unique way or to make unusual associations between ideas.
- c) An innovative organization is characterized by its ability to channel creativity into useful outcomes.

3. *Being a World-Class Organization*

- a) Strategic decision makers take actions to help it be the best in the world at what it does (see Figure 2.4).

For Your Information—the DNA of Corporate Innovation: Innovation Network Inc.

- *Research a company and assess it on challenge, customer focus, creativity, communication, collaboration, completion, and contemplation.* You may wish to precede this exercise with a discussion of change management and how managers can get their employees to embrace change.
- Think about how you would feel managing in a rapidly changing organization. What would your employees need from you? What would you need from your boss?

Learning Review: Learning Outcome 2.2

- *Describe the three major driving forces of the business environment.*
 - Information revolution—the almost instant availability of almost any type of information. If there is one driving force that has set the tone for this new business environment, it is the information revolution. Not only is this revolution continuing to spread, it is also accelerating.
 - Technological advances and breakthroughs—all organizations—regardless of size, type, or location—use some form of technology to do their work. Technology is changing the nature of the work we do, how we do that work and even where we do that work.
 - Globalization—the international linkage of economies and cultures that fosters a business and competitive situation in which organizations have no national boundaries.

- *Explain the four major implications of these driving forces.*
 - Continual turbulence and change—changing technology, changing customer demands and changing competitive factors.
 - Reduced need for physical assets—shift away from the traditional factors of production and toward information as a major competitive weapon.
 - Vanishing distance—"the world is getting smaller" as delivery systems, marketing technology and interface systems have decreased the obstacles of geography and political boundaries.
 - Compressed time—electronic mail and interactive Web sites give us almost instantaneous delivery of information (dissemination of marketing and product information, customer inquiries and orders and advanced delivery systems have made products from anywhere in the world available quickly.)
- *Discuss the three critical factors for succeeding in the business environment.*
 - *Ability to embrace change:* Change is a given in today's business environment. Being successful in such an environment means not only being tolerant of change, but seeking it out and embracing the opportunities and dealing with the challenges.
 - *Creativity and innovation capabilities:* Strategic decision makers must be prepared to create new products and services and adopt state-of-the-art technology if their organizations are to compete successfully and survive.
 - *Being a world-class organization:* Strategic decision makers take actions to help it be the best in the world at what it does.

LEARNING OUTCOME 2.3 DISCUSS TWO ORGANIZATIONAL ELEMENTS THAT GUIDE STRATEGIC DECISION MAKERS IN MANAGING STRATEGICALLY IN TODAY'S CONTEXT

A. Organizational Vision and Mission

1. **Organizational vision** is a broad comprehensive picture of what a leader wants an organization to become. It is a statement of what the organization stands for, what it believes in and why it exists. Presents a view beyond what an organization "is" to what the organization "could be."

Four components have been identified as important to organizational vision:

- a. The vision should be built on a foundation of the organization's core values and beliefs. These values and beliefs address what is fundamentally important to the organization, whether it is conducting business ethically and responsibly, satisfying the customer, emphasizing quality in all aspects, or being a technology leader. Vision should stress whatever those core values might be.
 - b. The vision should elaborate a purpose for the organization. Every organization has a purpose and that purpose is specified in the organization's vision so all organizational stakeholders are explicitly aware of why the organization exists.
 - c. It should include a brief summary of what the organization does. Although the vision doesn't provide explicit details, it should explain what it is doing to fulfill its purpose.
 - d. It should specify broad goals. Goals provide a target that all organizational members work toward meeting. Goals also serve to unify organizational members towards a common end. An organization's vision can and should be a guiding force in every direction.
2. A **mission** is a statement of what specific organizational units do and what they hope to accomplish.
 - a. An organization will have a single vision and potentially several missions (divisional, departmental, project work group, etc.) that contribute to the pursuit of the organization's vision.
 - b. Provides a focus for employees as they make and implement strategic decisions.
 - c. Provides an overview of each unit's purpose, what it does and its goals.

- d. Aligns with the organizational vision.

Strategic Management in Action: Corning

- Visit Corning's Web site, find the company's seven values, and describe them. How will these values affect the way organizational employees (i.e., employees, managers) manage strategically? You might want to visit this Web site in class and then discuss each value briefly. Ask students what they think each value means to them and how it would affect their behavior as a Corning employee. What would they expect from the company's culture and procedures given what its values are said to be (and?)

Active Learning Hint

This is a good point to build in "Building Your Skills #1" or The Grey Zone as a small group activity.

Teaching Notes: _____

The Grey Zone

- How can strategic decision makers make sure that vision and mission statements are more than empty words? Consider using Gore Company's vision statement to provide an example of a vision statement and company practice. Ask your students if they have experienced companies that do not do "as they say to do" in their vision or mission statements. How as a manager can you help make the mission a reality? What specific steps would you take to make sure that your company upheld its mission statement? (Southwest Airlines might be another good source for mission statements). Sometimes the vision and mission statements serves to show what the organization will not do...if students are stuck, have them think in terms of "if this mission is true, what would our organization not be willing to do? What businesses would we not get into? What customers or markets would we not serve?"

B. CSR and Ethics

1. **Corporate social responsibility (CSR)** is the obligation of organizational decision makers to make decisions and act in ways that recognize the interrelatedness of business and society. Managing strategically is recognizing the commitment to make decisions that will enhance the interest of the various individuals and groups with interests in the organization.
 - a. **Stockholders**—traditionally, this has been the group of primary interest; the economic reason for an organization's existence.
 - i. From this perspective, corporate social programs and actions must be paid for which adds to the cost of doing business. Costs are either passed onto customers in the form of higher prices or absorbed by the organization.
 - ii. Profitability suffers.
 - iii. Milton Friedman: Firms should be responsible to maximize shareholder returns.
 - b. **Stakeholders**—individuals or groups who have a stake in, or are significantly influenced by, an organization's decisions and actions and who, in turn, can influence the organization (e.g. customers, employees and communities). Figure 2.5 lists several categories of stakeholders.
 - i. Belief that organizations have larger societal role to play and a broader constituency to serve than just stockholders.

- ii. Many organizations believe that strong and socially responsible stakeholder relationships make them more competitive.

For Your Information—Ethics in Real Life: United Technologies Corporation

- *What do you think of the suggestions for effective codes of ethics? What are the implications of these ideas for managing strategically? What did you find in the ethics section of United Technology's Web site that might be helpful to other strategic decision makers?*
- What is the reason many organizations develop and publish a Code of Ethics?
- Is it a post action to a problem or event? In other words, was it due to some public relations failure or court intrusion?
- Consider how reward systems may distort peoples' ethics (e.g., Many people would never steal yet if they could get enough money and not face consequences, they might be more likely to consider it).
- What can organizations do to limit temptation? To encourage good, ethical decision-making?

Ethics – “doing the right thing” is a complex topic.

- i. The Grey Zone covers ethical dilemmas in each chapter of this book to emphasize the importance of understanding the role of ethics in strategic decision making.
- ii. Involves the rules and principles that define right and wrong decisions and behavior.
- iii. Means considering more than just being in compliance with the law as organizational strategies are formulated and implemented.
- iv. Interpretations of right and wrong vary.
- v. Recognize the ethical implications, rather than just complying with the law.

Learning Review: Learning Outcome 2.3

- *Discuss organizational vision and mission statements.*
 - *Organizational vision* is a broad comprehensive picture of what a leader wants an organization to become. It is a statement of what the organization stands for, what it believes in, and why it exists. The vision provides a vibrant and compelling picture of the future. It presents a view beyond what the organization "is" to what the organization "could be." There are four components to organizational vision: (1) it should be built on a foundation of the organization's core values and beliefs, (2) it should elaborate a purpose for the organization, (3) it should include a brief summary of what the organization does, and (4) it should specify broad goals.
 - A *mission statement* provides a focus for unit employees as they make strategic decisions and implement them. Although it is not as comprehensive and broad as the organizational vision, a unit's mission statement still provides an overview of the unit's purpose, what it does, and its goals. The mission statement also aligns with the organizational vision. Ideally, what you have is a broad framework within which organizational members know what they are doing and why they are doing it. This shared vision provides direction for managing strategically and determining whether progress is being made. The mission statement also should reflect the organization's commitment to social responsibility and ethical decision-making.
- *Define corporate social responsibility.*
 - *Corporate social responsibility* is the obligation of organizational decision makers to make decisions and act in ways that recognize the interrelatedness of business and society. It recognizes the existence of various stakeholders and how organizations deal with them.
- *Explain who stakeholders are and why they are important to managing strategically.*
 - *Stakeholders* are individuals or groups who have a stake in or are significantly influenced by an organization's decisions and actions and who, in turn, can influence the organization. As a world-class organization, recognizing the commitment to make decisions and to implement those

decisions in ways that will enhance the various stakeholder relationships may make the organization more competitive.

- *Discuss why ethics are important to strategic decision makers.*
 - Some believe that ethics is both a personal and organizational issue and should be part of the strategic management process. This means recognizing the ethical implications of the outcomes of strategic decisions and actions. It means considering more than just complying with the law as organizational strategies are formulated and implemented.

QUESTIONS?

Active Learning Hint

At the end of lecture, ask the students to give a written response to two questions to give you feedback about their learning:

What was one thing you learned today?

What is one thing that is still unclear or you don't understand?

THE BOTTOM LINE

Learning Outcome 2.1

Describe the different perspectives on competitive advantage.

- *Managing strategically*: formulating and implementing strategies that allow an organization to develop and maintain a competitive advantage.
- *Competitive advantage*: what sets an organization apart; its competitive edge; necessary for long-term success and survival of organization.
- *I/O view*: focuses on structural forces within an industry, the competitive environment of firms, and how these influence competitive advantage; developed by Mike Porter; involves understanding what makes an industry attractive, choosing an attractive industry in which to compete and choosing an appropriate competitive position within that industry.
- *RBV*: a firm's unique resources are most important in getting and keeping competitive advantage; *resources* (all of the financial, physical, human, intangible, and structural/cultural assets used by an organization to develop, produce and deliver products or services to its customers). To be unique, resources must add value (i.e., can be used to exploit positive or buffer against negative external changes), be rare (no other firms have it), be hard to imitate (duplicate) and substitute, and be exploitable.
- *Guerrilla view*: competitive advantage is temporary; successful organizations must be adept at rapidly and repeatedly disrupting current situation and radically surprising competitors to keep them off balance.

Learning Outcome 2.2

Explain the driving forces, implications and critical success factors of the business environment.

- Three driving forces: (1) information revolution-information is the essential resource for production; (2) *technology* (using equipment, materials, knowledge, and experience to perform tasks), which impacts work in three ways: *innovation* (turning a creative idea into a product or process that can be used or sold), bottom-up or mass collaboration

capability (customers and individuals have control), and performance (technology can be a powerful tool in helping organizations perform better); and (3) globalization (global marketplace and global competitors).

- Four major implications of these driving forces: (1) continual change stimulates need for *organizational change* (a structured transition in what organization does and how it does it); (2) reduced need for physical assets-value is found in intangible assets; (3) vanishing and compressed time-geography and time no longer play an important role in determining customers and competitors; (4) vulnerability-openness and interconnectedness can leave organization's information, facilities and employees vulnerable.
- Three factors critical to success in this new context: (1) ability to embrace change-need *change agents* (someone who initiates and oversees change efforts); (2) *creativity* (ability to combine ideas in a unique way or to make unusual associations between ideas and innovation capabilities); (3) being a *world-class organization* (an organization in which strategic decision makers are taking actions to help it be the best in the world at what it does).
- Characteristics include strong customer focus, continual learning and improvement, flexible organization structure, creative human resource management, egalitarian climate and significant technological support.

Learning Outcome 2.3

Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context.

- Need a single *organizational vision* (broad comprehensive picture of what a leader wants an organization to become), which should (1) be built on a foundation of the organization's core values and beliefs, (2) elaborate a purpose for the organization, (3) include a brief summary of what the organization does, and (4) specify broad goals.
- Also need a *mission statement* (statement of what specific organizational units do and what they hope to accomplish); likely will have several mission statements.
- Vision and mission reflect commitment to *CSR* (obligation of organizational decision makers to make decisions and act in ways that recognize the interrelatedness of business and society), to stakeholders (individuals or groups who have a stake in or are significantly influenced by the organization), and to *ethics* (principles that define right and wrong decisions and behavior).

Suggestions for using YOU as Strategic Decision Maker: Building Your Skills exercises

1. If technology is available in the classroom, this exercise may be an in-class exercise. Following the lecture on organizational vision, pull up the Web site in class. Split the class into four groups: one group for each of the components of vision. Ask each group to evaluate the statements and how the statements fit their group's assigned component. **[Learning Outcome 2.3: Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context; Course Level Objectives: Discuss the functions of vision statements, mission statements, and long-term corporate objectives; AACSB: Use of information technology, Reflective thinking skills]**
2. This exercise could be used as a team "debate" using the pro-con format. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**

3. This exercise could be used for in-class discussion, for either individuals or small groups of two or three. Work to get the students to think about how an organization's knowledge can become a competitive advantage. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
4. This exercise could be used in small groups of two or three for discussion. Also, consider the authors of the quotes. Is the concept of strategy a time-sensitive one? Ask the students to think about the timeframe in which each quoted author lived and draw on how the times were similar or different. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
5. This exercise would work as an individual or small group outside-of-class assignment. Ask the students to reflect on why the top companies are on *Fortune's* most admired companies' list. Has what we value in companies changed over time? **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
6. Ask students to prepare a 1 to 2 page talking points synopsis outside of class or break into groups of three to four students to represent the pros and cons of each viewpoint. Might consider having the students consider this issue in light of their work at the university. How are they rewarded for creative or careful work? How can both be produced? Have the students debate the issue in class. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**

Strategic Management in Action Cases

Case #1 Out of Focus

1. The context facing Kodak includes an information revolution (consumers want instantaneous photographs and do not want to wait for them to develop as they wish to share those images with friends through social media), technology (cell phone cameras produce a high quality picture that again, provides instant and easy access that traditional film print does not), and globalization (not only has Kodak faced international competition, but the technologies of digital cameras and cell phone cameras are relatively commonplace throughout the major world markets). The implications (as presented in Figure 2.3) show that there is indeed a need for continual change and Kodak has become vulnerable to advanced technologies and competitors. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; Course Level Objectives: Explain how to evaluate a firm's external environment; AACSB: Reflective thinking skills]**
2. Students might lean toward saying Kodak cannot succeed. However (from Figure 2.3), if they retain the ability to embrace change and devote funds to change, seek creative and innovative ways to develop new products and services, and regain their status as a world-class organization, they could turn their struggles into a path for success. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
3. Students should be able to identify any number of ethical or social responsibility issues. As for meeting Kodak's responsibilities, responses might include creating a team or task force to ensure compliance with ethical/social responsibility issues, integrating this into the culture of the company, and ensuring that top executives (as an example for others to follow) maintain a strong stance on ethics and social responsibility. **[Learning Outcome 2.: Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context; Course level**

objectives: Discuss the roles of ethics and social responsibility in strategic management; AACSB: Ethical understanding and reasoning abilities, Reflective thinking skills]

4. *I/O View:* Kodak failed to fully understand its evolving industry. Strategic decisions were not made to ensure competitive advantage as the industry changed and new technologies were introduced. *RBV:* Kodak had the necessary resources – even inventing an early digital camera in the 1970s – however, those resources were not adequately utilized to acquire and maintain competitive advantage. *Guerrilla View:* Kodak was reluctant to recognize the sudden advance of new technologies and the quick acceptance by consumers. First, Kodak didn't attempt to disrupt the market with an introduction of a digital camera. Second, as cell phone cameras began to displace digital cameras, Kodak was again slow to react to the technological evolution. **[Learning Outcome 2.: Describe the different perspectives on competitive advantage; AACSB: Reflective thinking skills]**

Case #2 Troubles in Toyland?

1. The driving forces affecting Toys “R” Us and the toy industry in particular 1) globalization as discount retailers were able to compete more effectively worldwide; and 2) technology as other retailers were making decisions based on hard data from information captured through technology. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
2. Students will identify any number of toys they had as a child. The point will be for them to compare/contrast what they had as a child compared to what children today play with. In addition, they should recognize technological (and even digital) evolutions taking place in the industry. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
3. Toys “R” Us is positioning itself to sell different products than discount retailers. Students’ responses to this question may vary, but the true test of success will be its financial performance over time. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
4. Toys “R” Us’ replacement of top leadership in rapid succession has pros and cons. Pros of replacing top leadership include a) new ideas are introduced into the company, b) new leadership represents a fresh start for the company, and c) can be a positive signal to creditors and investors. Cons of replacing top leadership include a) the instability created at the organization and b) the new leaders not understanding the organization. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
5. Other companies can learn the following from Toys “R” Us’ experiences: a) companies must be responsible for their own mistakes and not blame others for their problems, b) companies should be proactive not reactive, c) better decisions are based on hard data, and d) for a company to get a fresh start, often the executive team has to be replaced. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**

Case #3 Game Not Over, Not Yet

1. *I/O View*: EA's advantage stems from its size and reputation as an industry leader. This reputation would make game designers, movie rights owners and game platform makers interested in working with EA because they will sell many games to a large clientele.
Resource Based View: EA's unique abilities to identify interesting new features and make games fun to play give it a creative advantage. EA also has a strong process that allows them to meet deadlines and get new games to market on time. This allows marketing the games in conjunction with movie premieres and other promotions building sales opportunities.
Guerilla View: EA is able to develop new concepts and features that make their games more interesting to play. EA introduces innovations often making it difficult for competitors to keep up.
[Learning Outcome 2.1: Describe the different perspectives on competitive advantage; AACSB: Reflective thinking skills]
2. EA has strengths in creating new and innovative games. The game designers combine passion to do great games while having the discipline to finish games on schedule. EA leads the market by encouraging change. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
3. Financial (over \$3 billion in revenues), human (talented game designers), and intangible (well-known brand and image). **[Learning Outcome 2.1: Describe the different perspectives on competitive advantage; AACSB: Reflective thinking skills]**
4. Students may identify any number of ethical and social responsibility issues. The key is for the students to recognize how the company can ensure it is meeting its ethical and social responsibility obligations. **[Learning Outcome 2.3: Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context; Course Level Objectives: Discuss the roles of ethics and social responsibility in strategic management; AACSB: Reflective thinking skills]**
5. EA must be concerned with the licensors to ensure a stream of new themes for games. They also must ensure their appeal to designers to keep challenging them with interesting projects otherwise the best talent will go elsewhere to work on better games. **[Learning Outcome 2.3: Discuss two organizational elements that guide strategic decision makers in managing strategically in today's context; AACSB: Reflective thinking skills]**

Case #4 Bridging the Gap

1. Driving forces include information revolution (consumers are able to learn about new fashions easily and instantly through social media and they can quickly compare prices on their cell phones), technology (the technology for producing clothes must still allow for prices of raw materials and labor, therefore the cost of any new technology must be weighed against the prices for cotton and labor), and globalization (increased competition comes from retailers such as H&M and Zara). **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
2. Critical success factors are ability to embrace change (can Gap catch up and exceed what H&M and Zara are doing in the fashion retailing industry?), creativity and innovation (can Gap develop fashions and merchandise that sparks the interest the firm had in the 1980s and 1990s?), and being a world-class organization (will decisions made at the executive level at Gap place the company back in world-class organization status?). **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**

3. Students should be able to articulate that the process for getting an article of clothing from concept to store shelf could be shortened if fewer decision makers are in that process. In other words, with greater autonomy and fewer approvals required in each step of the process, fashions can get to the market quicker. **[Learning Outcome 2.2: Explain the driving forces, implications, and critical success factors of the business environments; AACSB: Reflective thinking skills]**
4. *I/O View*: Gap failed to quickly adapt to changes that were occurring in the industry. As retailers such as H&M and Zara expanded, Gap was slow to keep up.
RBV: Gap possesses the resources to be successful; however, the utilization of those resources has not been as effective as it could be. A greater focus on the use of the resources would give Gap a competitive advantage.
Guerrilla View: Shaking up the industry with new styles and fashions would bring Gap a competitive advantage. Or, shortening the time of development from concept to store shelf would facilitate Gap's competitiveness with H&M and Zara. **[Learning Outcome 2.1: Describe the different perspectives on competitive advantage; AACSB: Reflective thinking skills]**