

Chapter 2

Strategic Leadership: Managing the Strategy Process

Overview

ChapterCase: Marissa Mayer: Turnaround at Yahoo

2.1 Vision, Mission, and Values (LO 2-1, LO 2-2, LO 2-3)

CONNECT INTEGRATION

Video Case: The Power of a Mission: Christine Benninger, President Humane Society of Silicon Valley

2.2 Strategic Leadership (LO 2-4, LO 2-5, LO 2-6)

CONNECT INTEGRATION

Case and Interactive Labeling: Formulating Strategy Across Levels at IBM

2.3 The Strategic Management Process

CONNECT INTEGRATION

Case Analysis: Planned Emergent Strategy at 3M

2.4 Implications for the Strategist

Strategy Term Project

CONNECT INTEGRATION

HP Running Case: Module 2

myStrategy

POWERPOINT SLIDES 1–4

The strategic management process describes the method strategic leaders use to conceive of and implement a strategy that may lead to sustainable competitive advantage.

The chapter begins with the first step in the strategic management process with a discussion of the role of vision, mission, and values in strategic management. Vision statements are covered in more detail with a particular emphasis on customer- versus product-oriented visions.

Next, we expand upon the topic of corporate social responsibility in Chapter 1 with a discussion on firm ethical values. Not only do firms need to make a profit, but they also need to do so by doing good. This topic is reinforced in the Strategy Highlight 2.1 (Merck).

The chapter addresses the roles a strategic leader must fulfill successfully to lead the company and achieve its strategic objectives. Theoretical context is provided for upper echelon perspective and Level-5 leadership theory.

Three levels of strategy formulation, corporate strategy, business strategy, and functional strategy are described and compared. Finally, the chapter includes a description of three different processes used to “make” strategy. A top-down focused strategic planning process, a future-oriented scenario planning process, and a participative planned emergence process are all compared and contrasted. Strategy Highlight 2.2 (Starbucks) illustrates planned emergence.

Learning Objectives

- LO 2-1 Describe the roles of vision, mission, and values in the strategic management process.
- LO 2-2 Evaluate the strategic implications of product-oriented and customer-oriented vision statements.
- LO 2-3 Explain why anchoring a firm in ethical core values is essential for long-term success.
- LO 2-4 Outline how managers become strategic leaders.
- LO 2-5 Describe the roles of corporate, business, and functional managers in strategy formulation and implementation.
- LO 2-6 Evaluate top-down strategic planning, scenario planning, and strategy as planned emergence.

ChapterCase

STRATEGY SMART VIDEO

POWERPOINT SLIDE 72

You may want to introduce the case discussion with the Marissa Mayer video on “What’s Next for Yahoo.”

CONSIDER THIS DISCUSSION QUESTIONS

POWERPOINT SLIDES 60–62

In an attempt to turn around Yahoo, Mayer defined a new vision and mission for the Internet company. How useful are the new vision and mission in Yahoo’s turnaround attempt?

Students will have a variety of opinions on this question. To guide the discussion it might help to begin with a discussion of what constitutes success in this turnaround. Is it measured in terms of growing the user base, attracting advertising revenue, creating shareholder value, delivering cutting edge technology advances, or just surviving? Once a clear picture of the goal is established, the role of a new vision and mission can be assessed. Begin with what positive outcomes might be created from the new vision, then progress to how those outcomes might affect the achievement of the desired turnaround results. Strictly controlling the class discussion on cause and effect relationships at this point can help you to establish critical reasoning skills that will improve discussion quality throughout the remainder of the course.

What are some of the major changes Mayer has undertaken to turn Yahoo around? How do you evaluate them?

In terms of competitive strategy, her changes include “a new strategic focus on mobile advertising, video, social media advertising, and native advertising.” Internally, things like working in offices only, stacked ranking, etc. were changed. Again, drive the class discussion in terms of causal relationships. Which of these changes are likely to have significant impacts in causing the desired results for a successful turnaround?

What “grade” would you give Mayer for her job performance as strategic leader? What are her strengths and her weaknesses? Where would you place her on the Level-5 pyramid of strategic leaders (see Exhibit 2.4), and why? Support your answers.

Students should be able to identify many of Mayer’s traits and behaviors from the case, including: “superior skill set and strong work ethic,” “attention to detail,” “commitment of time,” “majoring in symbolic systems, a discipline that combines cognitive sciences, artificial intelligence, and human–computer interaction,” attitude of “putting product before profits,” and “majoring in symbolic systems, a discipline that combines cognitive sciences, artificial intelligence, and human–computer interaction.”

Some investors remain skeptical about Yahoo’s future, essentially valuing the company close to zero dollars were it to sell its stake in Alibaba. Do you share their pessimism, or do you think that Mayer will be able to turn Yahoo around? Why or why not?

Alibaba is facing increased competition in its markets and the IRS declined to assure Yahoo that its sale of its Alibaba stake would receive favorable tax treatment (see “[Yahoo’s got spin, not substance](#)” M Gottfried 9/29/15 *The Wall Street Journal*). In addition to these challenges, skeptics argue that Facebook and Google are such a powerful duopoly in web ads that Yahoo may be unable to carve a profitable share of the market (for more discussion, see “[Rich get richer as Google and Facebook dominate web ads](#)” T Ray 10/3/15 *Barrons*). Students are likely to begin making judgments based on a consumer perspective and a sample size of one, i.e., how much they use Yahoo versus Facebook and Google. Try to steer them away from that path to think about the question from an activist investor’s perspective. One way to do that is to focus again on the success criteria established in the beginning of this discussion and talk about the barriers to achievement.

2.1 Vision, Mission, and Values LO 2-1

POWERPOINT SLIDES 5–15

EXAMPLES

Stanford University's [Leadership in Focus](#) center offers great materials for the classroom. Although the emphasis is on leadership and organizational behavior, several of the cases are well suited to a strategy course. One option that fits in well in this section is a video case of Roger Deromedi, Kraft CEO, describing the process of [developing a vision](#) for the firm. It includes suggested discussion questions.

NEWER FACULTY: Building a great company has some similarities to building a great house. Using this analogy to start the chapter should resonate for many students. It is a helpful way to introduce the idea of vision and yet still tie it to something tangible that must be implemented (building that great new home). You may want to open the discussion of vision with this humorous video: <http://bit.ly/1av478Q>.

If you are looking for an example similar to that of Yahoo's CEO that is a non-U.S. example or in the early stages of a turnaround, consider Petroleos de Venezuela. This leader, Eulogio del Pino, was educated at Stanford, like Mayer. Like Mayer, he also faces challenges in revenue generation and a firm history of underinvestment relative to competition. Many of your international students will relate to the additional challenges of running a state-owned enterprise, in terms of the stronger stakeholder power of politicians, labor unions, and societal leaders (see "[Eulogio del Pino battles to turn around Venezuela's energy giant](#)" K Vyas 7/2/15 *The Wall Street Journal*).

In Yahoo's case, the Board felt that a turnaround of the business required a leader with different skill sets and vision, so Carol Bartz was replaced with Marissa Mayer. In other situations, firms recognize the need for a change of direction, but believe that the current leadership can adapt. Here are two examples:

- At Procter and Gamble, the firm's long-term strategy was disrupted by a major shift in consumer behavior during the recession that began in 2008. They expected that things would return to the old normal after the recession and so they were slow to adapt to the new normal. Lafley, CEO, takes responsibility for the hit to shareholder value, but will remain on as executive chairman overseeing the shift to a new vision for the firm (see "[P&G faces up to mistakes in beauty business](#)" S Ng and E Byron 7/10/15 *The Wall Street Journal* and "[P&G CEO takes responsibility for company performance](#)" S Ng 10/13/15 *The Wall Street Journal*).
- Many years ago, Intel recognized that their mission of focusing on memory chips was made obsolete by industry evolution and they shifted to microprocessor chips for large computers, servers, desktops, and later laptops (see Chapter 3, Learning Objective 3-5 for an opportunity to revisit this example). Now a rapid consumer shift to mobile devices is making adherence to that mission both less profitable and riskier. Both Intel and its rival AMD are experiencing profit downturns. AMD seems to be taking strategic actions to engineer a turnaround during the market shift while retaining the same mission and vision (see "[AMD cuts 5% of workforce](#)" D Clark 10/1/15 *The Wall Street Journal* and "[AMD reports a loss of 26% on revenue decline](#)" D Clark and M Armentel 10/16/15 *The Wall Street Journal*). Intel's CEO, Brian Krzanich, in contrast, appears to be changing the firm's mission and strategic vision to focus on the "Internet of Things" (see "[Intel CEO accelerates shift from PCs](#)" D Clark 6/2/15 *The Wall Street Journal*).

DISCUSSION TOPICS

When [Facebook](#) acquired [Instagram](#), they sent Emily White to act as the new COO, charged with converting it from a revenue-less business into a profit center. One of her first steps was to target the CEO toward creating a vision for the firm to create an inspiring focus for advertisers, users, and employees. He came up with "to capture and share the world's moments." Ask students to evaluate this vision in terms of whether it will attract customers (advertisers) or users. How might it serve as a guide to employees about what they should or should not work on? Ask students to draw parallels between Instagram's strategic challenges and those faced by Yahoo. Then invite them to comparatively evaluate the two firm's visions. See "[Instagram pictures itself making money](#)" 9/8/13 *The Wall Street Journal* and [video](#). AACSB 2015 Standard 9 Leading in organizational situations

Currently, Chinese companies such as [Baidu](#), [BYD](#), and [Lenovo](#) aspire to world leadership. These companies set their ambitious goals when they were only a fraction of the size of the companies they were chasing. Indeed, they were so small that initially the market leaders did not even recognize them as potential competitors; many had never competed outside their domestic markets. Yet all made global leadership their mission, with goals so ambitious they exceeded the firms' existing resources and capabilities by a large margin. Ask students to identify what challenges these firms needed to overcome and how they might measure success. **AACSB 2015 Standard 9 Leading in organizational situations**

EXPERIENCED FACULTY: If you chose to use some of the examples of firms who are trying to change their strategic vision without changing leadership, you can use those as a lead-in for a discussion of the advantages and disadvantages of a new leader. For example, changing the CEO sends a powerful message that things are going to change. It also opens the door for major shifts within the top executive team. On the other hand, a new CEO has to invest a considerable amount of time in learning company operations, understanding the culture and processes, and assessing the management before he can make informed changes. Students may identify many other pros and cons for each choice. **AACSB 2015 Standard 9 Leading in organizational situations**



connect[®] INTEGRATION

Video Case: The Power of a Mission: Christine Benninger, President Humane Society of Silicon Valley

Summary of Activity: This video case analysis provides students an opportunity to consider the value of a strong vision and mission in attracting talented staff and rebuilding an organization. This video is less than five minutes long and has four embedded questions contained in it. **Difficulty: Medium Blooms: Apply AACSB: Analytic^{SEP}**

Video Case Tips: We suggest setting the “attempts” policy to “revise the previous attempt” for video cases. This enables students to watch parts of the video and edit their answers without needing to watch the entire video again for each attempt at the questions. Note the video stops at the questions and the student must enter an answer for it to proceed.

Follow-Up Activity: The instructor can expand on the concepts in this video case by discussing how this nonprofit changed the products and services it provided in order to *survive* and thus serve its customers (the pet adopting families) better in the long-run. This may also be a starting point for a discussion of the contrasts between impactful vision statements at nonprofits such as Teach for America and the Humane Society versus the for-profit firms' vision statements shown in the textbook.

STRATEGY SMART VIDEOS

POWERPOINT SLIDES 69–70

NEWER FACULTY: Education is a subject most students will readily relate to. An example of an organization with an inspiring vision is [Teach for America](#) (see Exhibit 2.1). While some question the long-term effectiveness of Ivy League students teaching in blighted urban areas or impoverished rural areas for two years, there is no doubt that the organization is quite successful in terms of its ability to recruit a large pool of applicants each year and to generate passion. One of the interesting notes at the website is that the program has over 20,000 alumni and 67 percent of them are still in the educational field (and half of those are teachers in the classroom). Inspiring visions and missions (such as TFA's) provide intrinsic motivations for employees and customers alike. The Hilton Worldwide video discusses the firm's vision, mission, and values. You can use these two video examples to contrast differences between profit and nonprofit organizations and/or to evaluate the effectiveness of each firm's vision statements.

Strategy Smart Video Extended Discussion

POWERPOINT SLIDE 68

EXPERIENCED FACULTY: A video on PepsiCo's CEO, Ms. Nooyi and her "Performance with a Purpose" strategy is available at: <http://bit.ly/Ubhvs9>

What "grade" would you give Ms. Nooyi for her job performance as a strategic leader? What are her strengths and weaknesses? Where would you place Ms. Nooyi on the Level-5 pyramid of strategic leadership (see Exhibit 2.4), and why? Support your answers. Students will have a variety of answers; here is one we think is appropriate: Ms Nooyi gets a B at this point. She is clearly well aware of [PepsiCo's](#) internal resources and capabilities and how the external environment is threatening the firm. Her corporate decisions in terms of restructuring and diversifying have cleared the firm's path and open significant opportunities in the food industry where the firm can leverage its capabilities and gain competitive advantage. However, her strategic intent is betting everything on being a corporate citizen. The true relationship between CSR and a firm's performance is still uncertain and so far the results for Pepsi do not reflect that the firm is gaining competitive advantage over its competitors. The markets where the different business units of PepsiCo participates are highly competitive and have very strong players. Stronger business-level strategies are necessary to guarantee that the expected performance will be attained.

With respect to the Level-5 pyramid of strategic leadership she would be located at or very near the top of it. Nooyi has proven to have superior interpersonal, informational, and decisional skills. She has also proven to be capable not only of guiding a company the size of PepsiCo, but of steering it toward a significantly different goal and convincing the organization to follow through by guiding with example and conviction. [AACSB 2015 Standard 9 Leading in organizational situations](#)

What should a strategic leader like Ms. Nooyi do if his or her vision does not seem to lead to an immediate (financial) competitive advantage? What would be your top three recommendations? Support your arguments. See the response below for the risks of staying the course when your vision is not yielding results. The remaining options can be simply identified as (1) the CEO comes up with a new implementation plan that creates competitive advantage with the vision, (2) the CEO gets a new vision, (3) the firm gets a new CEO with a new vision, or (4) the firm sells the business to another firm that has a management team with a new vision. You may want to solicit these big categories from the students first, then divide into small groups, each assigned to make a specific recommendation in one of these categories.

If you were a member of PepsiCo's board of directors, would you be concerned with Ms. Nooyi's and/or PepsiCo's performance? If you were concerned, what course of action would you recommend? Would you go so far as to endorse Ms. Nooyi's replacement with a new CEO who would focus more on PepsiCo's stock market performance? Why or why not? While "Performance with a Purpose" is a promising long-term strategy that could put PepsiCo in a very favorable position with its stakeholders (especially its customers), there can be no "Purpose" without "Performance." In other words, shareholders want to see their investment grow by more than the industry average and certainly more than the firm's direct competitors. Otherwise, there is an incentive for that investor to cash out and invest in the better performing firm or a less risky asset. Even if the investor understands the long-term value of the strategy, there is a need for short-term results. [AACSB 2015 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management](#)

Do you agree with Ms. Nooyi's critics that PepsiCo should be split up into two companies—one focusing on beverages, and one focusing on snack foods? What would be the advantages and disadvantages of such a move? Students may be unprepared to give a technically sound analysis of this strategy at this time. However, you can lay the groundwork for discussions of both industry profitability and diversification strategy with this discussion topic. Invite the students to identify key success factors in each industry. Ask them how they would go about determining which industry was more profitable. You might also ask some students to check the financial performance of a competitor in each industry: Coca-Cola (KO) and Mondelez International (MDLZ) versus PepsiCo (PEP). Then begin a discussion of the linkages between the two businesses for PepsiCo. Supply chain majors are likely to identify the overlaps in the distribution systems for the two businesses and effects on Pepsi's negotiating power with its buyers. Marketing majors may note the importance of brand management for each business, the overlap in target customer segments, the bargaining power with advertising media, and the shared pressure for healthy alternatives.

2.1 Vision, Mission, and Values LO 2-2

POWERPOINT SLIDES 16–18

EXAMPLE

EXPERIENCED FACULTY: Although a product-centric view can potentially limit a company's strategic options, it can also help a company to refocus. [Shell](#) Canada provides an example of how dealing with the question, "What are we about?" led to a refocusing of the company and as a consequence, superior performance. Although the majority owner was Royal Dutch Shell, Shell Canada was more or less independent; its shares were traded on the Toronto Stock Exchange. In the 1980s, Shell Canada was a widely diversified business with interests not only in oil and gas exploration and distribution, but also in activities ranging from chemicals to forestry. Although it had performance comparable to the industry average, Shell Canada's executives began to focus on the firm's mission during this time. After some soul searching, the company's managers realized that Shell Canada was at its heart a low-cost producer of oil and gas. With this new clarity of mission, Shell Canada began to sell off its peripheral businesses to refocus on oil and gas. In 2007, Royal Dutch Shell bought, at a cost of \$8.7 billion, the remaining 22 percent of shares that it didn't already own. By refocusing on oil and gas, Shell Canada was able to apply its core competency to increase the value created for customers, and to do this at a low cost. Its mission statement helped Shell Canada focus on the activities that yielded the greatest returns.

Research Update

Partlow, P., Medeiros, K. E., and Mumford, M. D. (2015), Leader cognition in vision formation: Simplicity and negativity. *The Leadership Qrtly* 26: 448–469. doi:10.1016/j.leaqua.2015.02.009

EXPERIENCED FACULTY: Discussion of this recent research offers an opportunity to dig deeper into the process of vision statement development by discussing the cognitive processes that lead to more effective vision statements. The authors conclude that simplification is more effective than increased complexity and that thinking through potential negative outcomes is an important part of the process.

END OF CHAPTER ETHICAL/SOCIAL ISSUES EXERCISE 2

Ask students to evaluate the vision or mission statements of a group of firms and discuss their evaluations in small groups. To assess achievement of this learning objective, you would want to ask them to choose whether each statement is more product-oriented or more customer-oriented. However, you may also want to include other issues: Is it framed within a set of core values? Does it provide employees with guidance on what actions or new ideas would or would not be consistent with the vision? Is it easy to understand? Is it clear how success would be measured? The end of chapter material includes an extensive list of firms.

Vision/Mission Statement	Type of Statement	Company
To be the world's best quick service restaurant.	Product	McDonald's
To be the most respected global financial services company.	Product	Citibank
To become the beauty company most women turn to worldwide.	Customer	Avon
To provide a global trading platform where practically anyone can trade practically anything.	Customer	Ebay
To operate the best specialty retail business in America, regardless of the product we sell.	Product	Barnes & Noble
To provide our customers great quality cars at great prices with exceptional customer service.	Customer	CarMax
To nourish and delight everyone we serve.	Customer	Darden Restaurants
To be America's best run, most profitable automotive retailer.	Product	AutoNation
Bringing the best to everyone we touch.	Customer	Estée Lauder
[To be] the world's largest and best platform for online communities to share and connect.	Product	Reddit
To give everyone the power to create and share ideas and information instantly, without barriers.	Customer	Twitter
To be the best worldwide provider of higher-value staffing services and the center for quality employment opportunities.	Product	Manpower
To sell food in a fast, friendly environment that appeals to pride conscious, health minded consumers.	Product	KFC
To serve our customers, employees, shareholders, and society by providing a broad range of staffing services and products.	Customer	Kelly Services
To give the people the power to share and make the world more open and connected.	Customer	Facebook

If you are using this as a quiz, you may wish to assign different firms from the list of other examples below.

Company	Mission/Vision Statement	Type
Micron	"[To] be the most efficient and innovative global provider of semiconductor solutions."	Product
McKesson	"To provide comprehensive pharmacy solutions that improve productivity, profitability and result in superior patient care and satisfaction."	Product
Alcatel Lucent Technologies	"Our mission is to provide our customers with a superior, quality telephony system and support service, which enables them to manage their communications and relationships with their stakeholders efficiently, effectively and profitably."	Product
Dow Chemical Company	"Maximize long-term value per share by being the most valuable and respected science company in the world."	Customer
Dole Food Company	"To [supply] the consumer and our customers with the finest, high-quality products."	Product
CVS Corporation	"Helping people on their path to better health."	Customer
Bristol-Myers Squibb Company	"To discover, develop and deliver innovative medicines that help patients prevail over serious diseases."	Customer
ADM	"Our vision is to be the most admired global agribusiness. Creating value. Growing responsibly. Serving vital needs."	Product
Aflac	"To combine aggressive strategic marketing with quality products and services at competitive prices to provide the best insurance value for consumers."	Product
LG	"To deliver innovative digital products and services that make our customers' lives better, easier and happier through increased functionality and fun."	Product
Ford	"One team. One plan. One goal."	Product
Harley-Davidson	"Fulfilling dreams of personal freedom."	Customer

END OF CHAPTER DISCUSSION QUESTION 1

What characteristics does an effective mission statement have?

NEWER FACULTY: A mission statement describes what a company does and why it does it. A clear and compelling mission statement can assist the company in reaching for stretch goals. The mission statement in most organizations should be customer-oriented. Customer-oriented defines the mission in terms of solutions for customer needs. An example would be [Disney](#)'s ("Make people happy"). Product-oriented defines the business in terms of goods or services provided. Examples here would be [CSX](#) ("the safest, most progressive North American railroad") and [Intel](#)'s mission from 2000 ("the preeminent building-block supplier to the Internet economy"). Students will see the basic differences in customer and product orientations fairly quickly. However, they don't always see the difference between a customer-oriented mission and listening to the customer. We use the Henry Ford "horse and buggy" example, but sometimes students want something more contemporary. An additional example we've used is Steve Jobs at [Apple](#). Until the innovation of MP3 players (and especially the iPod), customers never knew they needed our entire music collection to carry around with them in their pockets!

2.1 Vision, Mission, and Values LO 2-3

POWERPOINT SLIDE 19

EXAMPLES

McKesson is ranked 11th on the FORTUNE 500 list (2015) and was founded in 1833 by John McKesson & Charles Olcott (www.mckesson.com), yet many students will have never heard of this company. The reason is their two main businesses (distribution solutions and technology solutions) are focused on businesses in the health care field rather than on consumers. We bring this up because we thought carefully about what organization to use as an exemplar of values. Many of today's students are quite cynical of companies espousing big, bold, and charitable value statements. Too often these proclamations are indeed just words without the necessary tough choices backing them up in everyday business. Quite often, our students perceive that these lists of values and missions are produced for public relations reasons. If a firm like Walmart does something "good" (like put solar panels on top of their buildings), many students will view this merely as a way to move the headlines away from their many public labor issues. As a business-to-business firm, McKesson has no huge "public persona" in the marketplace. So if they are taking actions that seem to align with a core set of values, it may come across to the students as more well thought out and intentioned rather than "just for show."

You might want to use an example to show that firm's with lax ethical values hurt more than their shareholders. Using a giant Ponzi scheme, Bernie Madoff, with the help of several employees in his investment securities firm, defrauded high-profile institutional and individual investors such as the bank HSBC, Banco Santander, Human Rights First, the International Olympic Committee, film producer and CEO of DreamWorks Animation Jeffrey Katzenberg, actor Kevin Bacon, and Nobel Peace Prize winner Elie Wiesel. Madoff's fraud totaled an estimated \$65 billion. He was sentenced to 150 years imprisonment and fines of more than \$170 billion. ("Q&A on Madoff case," *The Wall Street Journal*, March 12, 2009.)

Businesses also have an ability to influence the ethical decisions of other organizations. The recent FIFA scandal offers a great example of this. Corporate sponsors of football (soccer) had not taken action during years of rumors of FIFA corruption, but in 2015 that changed. Coca-Cola, Emirates, Sony, and other firms have used their sponsorship dollars to make a statement about ethics and integrity. (See "[FIFA corruptions scandal pressures soccer governing body's sponsors](#)" S Vranica, T Mickle, and J Robinson 05/31/15 *The Wall Street Journal*.)

Another Stanford University video case addresses making ethical decisions. Michael Marks, former Chairman and CEO of Flextronics discusses such a decision in "[Right, Wrong, or Just Business?](#)"

DISCUSSION TOPICS

What responsibility do lower-level executives at Enron bear for not reporting questionable practices by the firms' leadership? Why do you think only one employee initially came forward to report the irregularities and help with the investigation? Lower-level executives have an ethical responsibility to report questionable practices, beginning by questioning the authority, and moving outside the company if necessary. We don't know how many employees really knew about the fraud underway at Enron versus how many "just heard rumors." Still with over 20,000 employees at Enron, and another 30,000 at Arthur Anderson, it is clear some people knew and did nothing about it. Whistle-blowing is a difficult choice and there are many factors to consider, but the fact that so few came forward says that the actions were in alignment with the values and culture of the firm actually practiced, even if it was at odds with their stated values. [AACSB 2015 Standard 9 Ethical understanding and reasoning \(able to identify ethical issues and address the issues in a socially responsible manner\)](#)

Extended Discussion

NEWER FACULTY: Values are ethical standards and norms governing the behavior of individuals within the firm or organization. Employees though will tend to follow the actual practice of their strategic leaders even if that is different from the stated values. Unethical and illegal behavior can destroy both companies and livelihoods. The MBA oath says in part, “my decisions affect the well being of individuals inside and outside my enterprise, today and tomorrow.” This echoes what John Mackey of Whole Foods has in recent years called conscious capitalism.

PepsiCo offers an example of this thinking. In the last few years, PepsiCo has been contracting directly with small farmers in impoverished areas (for example, in Mexico). What started as a pilot project in PepsiCo’s Sabritas snack food division has now spread to over 1,000 farmers providing potatoes, corn, and sunflower oil to the firm. Pepsi provides a price guarantee for farmers’ crops that is higher and much more consistent than the previous system of using intermediaries. The farmers report that since they have a firm market, they are planting more crops. Output is up about 160 percent, and the farm incomes have tripled in the last three years. The program also has benefits for Pepsi as well. A shift to sunflower oil for its Mexican products will replace the 80,000 tons of palm oil it currently imports to Mexico from Asia and Africa, thus slashing transportation and storage costs.

What are the benefits of this program for PepsiCo? What are its drawbacks? It also lowers the cost in transportation and storage by importing from Mexico instead of Asia, and helps stabilize key suppliers which aid with the consistency of scheduling and processing. However, if sunflower oil produces a different taste than palm oil, it could have very negative effects on the sales of their products.

What other societal benefits could such a program have in Mexico? The benefit is that PepsiCo created a win–win situation for both the company and local farmers by improving the local economies. This means the company takes good care of the stakeholders by doing good.

If you were a PepsiCo shareholder, would you support this program? Why or why not? It is an ethical behavior and students should generally answer Yes. The answer for No can be supported if the student links it to an overall increase in costs or a loss of focus on the desires for products by the end consumer.

Can you find other examples of firms employing “conscious capitalism”? As noted, Whole Foods Market can be an example here because the business practices are ethical and employ environmental and societal responsiveness. Students may have a variety of answers concerning the food industry, especially with the increase in organic and locally grown initiatives. Toms shoes is another example. For every shoe they sell in retail, they donate a pair of shoes to kids in underserved areas around the globe (<http://www.toms.com>). AACSB 2015 Standard 9 Social responsibility, including sustainability, and ethical behavior and approaches to management

Strategy Highlight 2.1

POWERPOINT SLIDES 20–21:

“**Merck:** Reconfirming its core values” illustrates how a firm’s values define both what it should do and what it should not do. This strategy highlight offers the opportunity to illustrate that a firm’s strategy is—and should be—constrained by its core values. These values guide a firm on strategies on which it should embark and strategies that it should avoid or abandon. It also does a nice job of illustrating that strategic planning involves many decisions that are legal but may not conform to the firm’s ethical values. Invite students to discuss Yahoo’s core values and identify some actions that would be legal for them to do, but prohibited by their values. AACSB 2015 Standard 9 Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner)

END OF CHAPTER ETHICAL/SOCIAL ISSUES EXERCISE 1

In the discussion about Merck (Strategy Highlight 2.1), it is clear the firm has followed a socially responsible path by donating more than 1 billion drug treatments to remedy river blindness in remote African communities. Yet Merck must also meet shareholder responsibilities (as discussed in Chapter 1) and make profits on drugs in use in more affluent societies. How should a responsible firm make these trade-offs? What steps can strategic leaders take to guide organizations on these challenging issues?

The connection that we want students to make is to link strategy development back to the direction provided by the firm's vision, mission, and values. The firm's values should constrain the firm's actions to the way that the firm wants to do business. The vision and mission should offer directional guidance of what to do AND what not to do. More detailed guidelines should also be offered to managers at various levels throughout the company to provide clear frames of reference on overall strategic goals to provide a context for decision making. Leaders also need to create a firm culture that supports the values. Selection and retention of employees needs to reinforce these cultural values. A Stanford University video case describes the challenges in doing so (see "[Dealing with a mismatch in values](#)" NR Narayana Murthy, Infosys CEO).

Students should consider the impact on cost of capital due to low profits and its subsequent effects on funds to develop new drugs. They also should consider that the requirement to gain government approval for new drugs and pricing agreement on drugs sold to government funded health plans, such as U.S. Medicare and UK National Health, creates strategic consequences for negative societal opinions.

This is an excellent topic for an in-depth class exercise on ethical considerations in strategy. If your course requires an assessment on ethics and social responsibility, then you could require the students to write a position paper recommending a strategy position for Merck on pricing of critical drugs in impoverished regions, that addresses both patient needs and firm profit objectives. Such an assignment could be used either in an online course or a classroom setting. **AACSB 2015 Standard 9 Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner) and Written and oral communication**

If you want to engage students in a classroom exercise, in addition to this Merck issue, assign one or two related pharmaceutical ethical issues, for example firms that buy the rights to "underpriced" drugs and then jack up the prices (see "[Turing to cut price of drug Daraprim after increase sparks outcry](#)" JD Rockoff 9/23/15 *The Wall Street Journal* which describes Turing's decision to raise the price of a drug from \$13.50 per tablet to \$750 per tablet) or firms that charge much more for most drugs in the U.S. than they do in other countries where prices are negotiated by national health programs. Group students into "top management teams" and assign students to be CEO, "pro-patient," or "pro-shareholder." Each group should have a discussion in which they try to convince the CEO to make a decision in their favor. Then have a broader class discussion of the challenges that firms face making ethical decisions in strategy development. **AACSB 2015 Standard 9 Ethical understanding and reasoning (able to identify ethical issues and address the issues in a socially responsible manner) and Written and oral communication**

Research Update

Wang, T. and Bansal, P. (2012), Social responsibility in new ventures: profiting from a long-term orientation. *Strat. Mgmt. J.*, 33: 1135–1153. doi: 10.1002/smj.1962

EXPERIENCED FACULTY: Discussion of this recent research offers an opportunity to expand upon the concept that CSR does not come free and resource-constrained firms are often unable or unwilling to allocate management time and money to it. "By furthering social good and going beyond legal requirements, CSR activities help create business value, develop strategic resources, and insure against risks, but also cost money, distract managers, and aggravate relationships between principals and agents." New ventures' liability of newness was found to amplify the negative effects and suppress the positive effects of CSR. However, they also found that new ventures whose strategic decisions have a long-term orientation, versus those with a short-term focus, were able to attenuate the impacts of their liability of newness by integrating CSR into their activities.

2.2 Strategic Leadership LO 2-4

POWERPOINT SLIDES 22–27

EXAMPLES

You may want to open the topic of strategic leadership with a discussion about what a leader is. A video case that could be used to start that discussion is “[What is a leader?](#)” Col. Gayle Colvin, U.S. Air Force, from Stanford Leadership in Focus.

NEWER FACULTY: You may want to give the students a deeper understanding of what the Level-5 leadership pyramid means for their own careers. You might describe it thus: Taken together, you become an effective and ethical leader by sequentially mastering each of the five steps in the strategic leadership pyramid. Your training in college allows you to become a highly capable individual who can make productive contributions. If you take a first job immediately after your undergraduate degree, you will likely begin your corporate career in a functional area that was your focus or major in college (e.g., accounting, operations management, marketing, finance). As you move down the learning curve through group work in college and on-the-job training, you develop the ability to work effectively with others to achieve team objectives. With these skills, you move to Level-2 leadership. As responsibilities come to you, you will be able to develop and demonstrate the ability to organize resources efficiently and effectively to achieve strategic objectives. At Level 3, you have become an effective manager—someone who produces results. Levels 4 and 5 require a stronger element of strategic leadership than the prior levels. When given the chance to work as a general manager (someone who has profit-and-loss responsibility for a unit or group), you will need Level-4 strategic leadership qualities. At Levels 4 and 5, you will have increasingly dramatic opportunities to put to use the AFI framework you’ve learned from this book: You will need to be able to present a compelling vision and mission to inspire others to achieve superior performance. Doing so requires an intimate understanding not only of the inner workings of your company (Chapters 1 and 2), but also of the external environment. The internal and external analysis concepts (Chapters 3 and 4) will help you lay the foundation to formulate strategies that can improve firm performance (Chapters 5 through 7). Having produced results at the business level, you might be tapped as the CEO of the company. At Level-5 strategic leadership, you need to reconcile a strong will and work ethic (which got you to the top) with the humility to lead a company by example. To do this effectively, you need a deep understanding of corporate-level strategy (Chapters 8 through 10) and organizational design (Chapter 11). You also will need to exhibit unfailing personal integrity (Chapter 12).

STRATEGY SMART VIDEO EXAMPLE

POWERPOINT SLIDE 71:

NEWER FACULTY: Strategic leadership refers to the behaviors and styles of executives that influence others to achieve organizational goals. The three roles of a leader are interpersonal, informational, and decisional. According to the upper-echelons theory, organizational outcomes including strategic choices and performance levels reflect the values of the top management team (the individuals at the upper echelons, or levels, of an organization). The theory states that executives interpret situations through the lens of their unique perspectives, shaped by personal circumstances, values, and experiences. The Level-5 leadership pyramid (Exhibit 2.4) is a conceptual framework that shows leadership progression through five distinct, sequential levels. Jim Collins in *Good to Great* found that all the companies he identified as great were led by Level-5 executives.

EXERCISE

This exercise can be used to assess critical reasoning skills, such as applying weights to multiple objectives and evaluating issues from multiple perspectives. Invite students to name a leader with whom they are familiar (work, school, home, or community) and try to identify behaviors of that person that exemplify each of the five levels of leadership. Encourage students to identify both positive and negative traits and behaviors. Challenge the students to weigh the positives and negatives and explain why they believe some are more important than others. [AACSB 2015 Standard 9 Leading in organizational situations](#)

DISCUSSION TOPICS

Consider the situation at [JCPenney](#) in 2011–2013 (see “Investor William Ackman targets JCPenney’s CEO” 8/8/13 *The Wall Street Journal*; “Penney wounded by deep staff cuts” 4/14/13 *The Wall Street Journal*; and a video). Ron Johnson was brought in to save JCP from sharply declining competitiveness. He completely re-envisioned the firm’s strategy, customer experience, store layout, and pricing position. He closed underperforming stores and retrained/replaced staff. Sadly, he lost even more customers in the process. The board of directors fired him and brought back the previous CEO (who had been replaced due to underperformance). Upper echelon’s theory: How did Ron Johnson’s previous experience and perspectives gained as head of Apple’s retail operations shape his strategic thinking at JCP?

EXPERIENCED FACULTY: Another such example is Stephen Elop’s leadership of [Nokia](#). He came to Nokia from a senior leadership position at Microsoft. He chose a unique strategy for Nokia in the handset space by eschewing both Nokia’s own OS, Symbian (Apple and Blackberry strategy) and Google’s [Android](#) (all other successful firms), in favor of the weakest market share at that time, Microsoft OS. His strategy was a large enough failure to nearly sink the firm. To salvage the situation, he and the Nokia board of directors negotiated a \$7b sale of the handset business to [Microsoft](#). Encourage students to delve into the mental models that Elop would have brought to Nokia based on his Microsoft experience. Use the discussion to tease out some of Elop’s strengths as a leader. Why was he perceived differently in Seattle and Norway? See “[Nokia CEO Elop has big to-do list](#)” 9/3/13 *The Wall Street Journal* and “[Nokia’s Stephen Elop: Next Microsoft CEO?](#)” 9/4/13 *The Wall Street Journal*. (Update: Stephen Elop left Microsoft in June 2015 after the disastrous performance of the device business group that he led and the write-off of most of the purchase price of Nokia.) Was the poor business performance that followed him from Nokia to Microsoft attributable more to the dynamics of the mobile phone/tablet business or to his leadership traits and skills? (See “[Former Nokia CEO leaving Microsoft](#)” S Ovide and C Delaney 6/17/15 *The Wall Street Journal*.) **AACSB 2015 Standard 9 Leading in organizational situations**

2.2 Strategic Leadership LO 2-5

POWERPOINT SLIDES 28–31

END OF CHAPTER DISCUSSION QUESTION 3

This chapter introduces three different levels appropriate for strategic considerations (see Exhibit 2.5). In what situations would some of these levels be more important than others? For example, what issues might be considered by the corporate level? What do you see as the primary responsibilities of corporate-level executives? When might the business-level managers bear more responsibility for considering how to respond to an issue? In what situations, might the functional-level managers have a primary responsibility for considering an issue? How should the organization ensure the proper attention to each level of strategy as needed?

The “Where, How, Implementation” questions can be quite useful to help students think about a particular strategic decision and which level of strategy it represents. Balance of the strategic levels is difficult and can be an area where many companies falter. In larger organizations, the strategic responsibilities will reside in different individuals and teams. This helps assure that no level is completely neglected, but it doesn’t address the appropriate mix of strategic levels. Some organizations have implemented a periodic review of strategies at all levels of the firm to try to assess the health of the overall company and its business models.


Students may be more familiar with functional and business-level strategies from their own work experiences. Functional areas can develop many great ideas on how to implement business and corporate strategies. Given a supportive organizational climate, these areas can also produce emergent strategies. Relative importance is often based on external factors. When Lou Gerstner came to [IBM](#) and started to refocus the firm on services rather than hardware, the corporate strategy and transition was preeminent. Many of the business-level strategies—for example, in hardware-focused SBUs—were likely abandoned. On the other hand, when [Microsoft](#) rolls out Bing and partners with [Facebook](#), [Google](#)’s business-level strategies will be most important in figuring out how to compete in this new online search environment.



connect[®]

INTEGRATION

Case and Interactive Labeling: Formulating Strategy Across Levels

This click-drag labeling activity starts with a brief case using IBM as an additional example of the different levels of strategy. This complements the book's discussion. The student must read the textbook and also the case provided here. Then, the student will drag the elements to the correct locations in both columns of this activity. Next the student will answer three related questions following the interactive activity. **Difficulty: Easy Blooms: Evaluate AACSB: Analytic** 

EXERCISE

This can be used as a small group exercise in class or as a quiz to assess decision making skills (ability to identify a problem). Assign five newspaper articles or mini-cases for students to read and ask them to identify for each one the firm's key problem and whether its solution will be a functional-, business-, or corporate-level strategy. **AACSB 2015 Standard 9 Framing problems**

Here are some possible examples that you might use:

Source	Problem	Level
Porsche Mini Case	What is the appropriate level of product diversification from sports cars?	Corporate
Starbucks Strategy Highlight	Should we add a line of Frappuccino products?	Functional
Instagram	Can we gain revenue with advertising without losing our competitive advantage with users?	Business
Apple	How can Apple differentiate its next iPad more effectively from the Samsung Galaxy to increase customers' willingness to pay?	Business
Yahoo	Should we sell our stake in Alibaba?	Corporate
Twitter	How can we compete more effectively with Facebook for ad revenue?	Business

2.2 Strategic Leadership LO 2-6

POWERPOINT SLIDES 33–46

EXAMPLES

NEWER FACULTY: Top-down strategic planning is typically performed by senior managers and strategy specialists on a 3- or 5-year cycle. The output is usually a detailed book (or PDF file these days) with analysis of current positions and plans for future growth. In scenario planning, critical elements are to create a diverse set of “what if” plans in the formulation stage and then to drive forward with a dominant strategic plan in the implementation phase. Planned emergence is the less formal process that tends to emerge from the “bottom-up” of the organization. The Mintzberg framework reflects the strategy that it may be driven from the top or the bottom of the organization. Exhibits 2.7 and 2.8, show how the AFI framework overlays on the scenario planning process. This provides an opportunity to walk through the strategy-making process.

To conduct successful scenario planning, managers need current information. The network-equipment giant Cisco Systems has invested huge sums in technology to generate just this kind of data. Cisco’s senior executives can track daily customer order data from its sales teams around the globe with up-to-the-minute accuracy. Walmart’s CEO Mike Duke indicates that he too is using real-time sales data tracking, enabling top executives to monitor daily sales of each of the over 8,500 Walmart stores worldwide in real time. With these real-time data systems, managers can identify emerging trends in each region and market segment long before they materialize in financial data. This in turn allows them to fine-tune their functional strategy with unprecedented accuracy and speed.

An unexpected event at the largest rail carrier in the world, Japan Railways, led to diversification from railroads into bottled water. Japan Railways was constructing a new bullet train through the mountains north of Tokyo, requiring many tunnels. In one of the mountains, persistent flooding caused huge problems. Engineers responded by drawing up complex plans to drain the water. Meanwhile, workers inside the tunnel were making good use of the water—they were drinking it. A maintenance worker suggested the water should not be pumped away but rather bottled and sold as premium drinking water because it tasted so fresh. Its source was snow pack, purified and filtered in the slow percolation process through the mountain’s geological layers and enhanced on the way with healthy amounts of calcium, potassium, and magnesium. Eventually, Japan Railways set up vending machines on 1,000 railroad platforms in and around Tokyo, and home delivery of water, juices, and coffee followed. The employee’s proposal had turned an expensive engineering problem into a multimillion-dollar business. Because Japan Railways was willing to define its business as broader than just being in railroads, it was able to capture the emergent strategy and diversify into drinking water. In contrast, given its product-oriented vision to be the safest, most progressive North American railroad, it is doubtful that CSR Railroad would have reacted in a similar fashion had it encountered the same serendipitous event.

A functional manager at IBM suggested entry into the emerging life sciences field. She saw a business opportunity for IBM, in which application of high-performance computing and information technology could solve thorny problems that accompanied data-intensive work such as decoding human genomes and furthering personalized medicine. IBM’s general and corporate managers supported this strategic initiative, dubbed “information-based medicine.” This new business opportunity generated more than \$5 billion in revenue a few years later.

Patsy Sherman—Scotchgard—3M: In 1953 researchers at 3M were working with fluorocarbons to be sold as coolant liquid in air conditioning equipment. One of the researchers noticed, after accidentally spilling some coffee on her shoe, that the residue of fluorocarbons turned the coffee into small beads of liquids without staining. After observing this unique experiment Sherman contacted the chemist Sam Smith, and together they began developing a product that could actually repel oil, water, and other residues from fabric. In 1956 the Scotchgard protector was launched. What skills are needed to go from a coffee spill to an idea for a commercial product to meet a consumer need? You might discuss the role of absorptive capacity, deep understanding of customer needs, or intuitive thinking.

Arthur Fry and Spencer Silver—Post-it Notes—3M: In 1968 Dr. Silver, who was a senior chemist in 3M's central research lab, had developed a high quality adhesive that was easily peeled off from the surfaces it adhered to. This particular discovery was not considered a great success, since the real goal of Silver's project was to find a super strong adhesive, and instead they found a rather weak one. Arthur Fry, a collaborator in 3M's research lab, was singing in a chorus of a small church on a given Sunday morning. He was frustrated by how the bookmarks he used always slipped away. He suddenly remembered Silver's presentation. Fry wrote up a proposal to develop a reusable, reliable, and adhesive bookmark and presented it to his supervisors. 3M's culture of innovation led the supervisor to give an opportunity to Fry to develop and try out his idea. An interesting question is not so much as to how firms allow for serendipity to grow to a successful innovation, but how the firm promotes the emergence of such a serendipity. It is well known that 3M fosters innovation and allows its employees to dedicate 15 percent of its time to pursue projects that the employees consider good potential innovations for the firm. In great part the embracement of this culture is what led the prior products to success. A less open firm would simply have shut both projects down.

George de Mestral—Velcro: In 1948, when Mestral was returning from a nature hike with his dog, he noticed that both the dog and he were covered with burrs. Filled with an instant curiosity to determine what made this material so sticky on his clothes and the dog's hair, he immediately headed out to his microscope and observed the little burrs in order to try to understand why they were so incredibly adhesive. What he discovered from this serendipitous event is that the burrs contain millions of miniature hooks which allowed those seeds to attach so strongly to the fabrics of his clothes and his dog hair. He thought of a fastening system that contained both parts (one similar to the fabrics and the other to the burr). He set himself out to the task of identifying the appropriate combination of materials in order to build the ideal fastening machine he had envisioned. In spite of the high level of skepticism and laughter that his idea initially generated, he joined efforts with a weaver from the French textile industry and began a joint R&D effort for the product. Through trial and error he found out that nylon provided the best grip over other fabrics like cotton. By 1955 Mestral filed a patent for his product named Velcro (velours which means velvet, and crochet which means hook). Why was the textile weaver critical to the innovation process? Discuss complementary resources.

Campbell and Roberts—Sildenafil citrate (Viagra)—Pfizer: Simon Campbell and David Roberts were looking for compounds that helped treat angina, which is a disabling heart condition generated by a shortage of oxygen in the heart. The compound sildenafil citrate was isolated and taken to trials for this purpose. Although the drug proved inefficient to treat angina in the second stage of clinical trials, a promising side effect was reported. Patients taking the drug were presenting erections. Pfizer decided to change direction and invested \$340MM to conduct a new Phase II trial to test the effect on impotent men. Could an individual have capitalized on this serendipitous discovery? No, expertise in managing the FTC review process, clinical trials, and marketing to doctors is required. The firm's structure and culture is clearly supporting serendipity and helping transform it into a successful product.



Case Analysis: Planned Emergent Strategy

This case and multiple choice question activity builds student comprehension of the planned emergence form of strategy by examining a case about the development of Post-it Notes by 3M Corporation. The student must read the case provided, as well as the relevant textbook section, and answer the related questions in this exercise. **Difficulty: Medium Blooms: Evaluate AACSB: Analytic^{SEP}**

Follow-Up Activity: The instructor can expand on the concepts from this case analysis by having students discuss another example of this strategy formation process—this one concerning Starbucks in Strategy Highlight 2.2 (text page 46). There are similarities in corporate culture and personal persistence that are present in both applications of this concept. Class or small group discussions can also be created around the similarities and differences in the three approaches to strategy: strategic planning, scenario planning, and planned emergence. What would the development of Post-it Notes or Frappuccino have looked like using one of the other two approaches?

DISCUSSION TOPICS

Scenario planning may become more widely used going forward if the economic, political, and technological forces keep changing rapidly. The global power shift from the west toward Asia would make a good discussion that ties sociopolitical uncertainties to scenario planning. In 2016, a good choice for scenario analysis discussion might be the uncertainties created by the U.S. presidential election.

Working professional students may find the explosion in the supply of shale gas to be an interesting area of analysis. Some major areas of uncertainty are (1) whether or not the U.S. will allow natural gas to be exported to increase demand and (2) the extent to which environmental concerns for fresh water aquifer contamination or earthquake inducement may limit supply. This discussion creates for different scenarios in a 2x2 matrix with different supply/demand balances. Teams could be assigned one of the four quadrants and asked to develop implications for multiple supporting industries (chemical manufacturing, energy-intensive manufacturing, gas transportation, etc.), as well as the gas production firms.

END OF CHAPTER DISCUSSION QUESTION 2

In what situations is top-down planning likely to be superior to bottom-up emergent strategy development?

Top-down strategic planning is usually best in relatively stable environments. Emergent strategy is preferred in more uncertain times. However the Mintzberg framework identifies that combining the two approaches is likely to yield the best results. An organization in today's environment should strive to be flexible enough to adjust the proportion of top-down and bottom-up ideas based on the situation. Top-down planning and decision making may also be best in businesses in which reliability and consistency are key success factors. (Do you want your nuclear power plant operators experimenting with emerging ideas? Should auditors experiment with new accounting principles?). Bottom-up planning and decision making offers advantages in innovation-based businesses where (1) being closer to knowledge of customer needs and competitive trends may create information advantages at lower levels of the organization and (2) a diverse stock of non-redundant knowledge may yield more radical innovations.

END OF CHAPTER DISCUSSION QUESTION 4

Identify an industry that is undergoing intense competition or is being featured in the business press. Discuss how scenario planning might be used by competitors to prepare for future events. Can some industries benefit more than others from this type of process? Explain why.

Industries that by their nature need to make “big bets” are often users of scenario planning. This would include the oil industries. It would also include other major extraction companies (Alcoa, for example) and capital intensive industries such as semiconductors (Intel). These firms must make major investments around the globe to be successful in their industries. Scenario planning can help them with boundary conditions on their choices.

Students can relate to the growing sociocultural concerns about obesity and the impact that this may have on the beverage and quick service restaurant industries. You can invite student teams to write a rich, narrative description of life in a world where high caloric food is highly regulated. Then they should be asked to identify implications for either industry. If you want to build on the Yahoo and Twitter cases, you can ask students to analyze the impact of a continuing shift from desktops/laptops to mobile devices on web advertising.

Strategy Highlight 2.2

POWERPOINT SLIDES 45–46

“Starbucks CEO: It’s Not What We Do” This highlight illustrates serendipity and emergent strategy.

DISCUSSION TOPICS

There are two key points we like to bring out about this Strategy Highlight. The first is what type of risks was the store manager taking to offer a drink on the menu after it had been turned down by the executive committee? In some organizations, this would be cause for termination. So not only was the store manager relentless in pursuit of the idea, she may have been putting her job on the line. Second is the idea that the organization must be willing to accept ideas that “emerge,” and implement them even if they were not driven by senior leadership. Ask students what conclusions they might draw about how firm culture and processes for experimentation and decision making authority may impact firm innovation.

EXERCISES

EXPERIENCED FACULTY: Shell predicts that in 2025 most of our energy will continue to be generated from fossil fuels but 20 percent will come from alternative energy sources like wind, solar, and hydro power. Given Shell’s past success in using scenario planning, one ought to pay attention to its predictions. Shell can claim a number of accurate predictions to its credit. In the 1960s, with the price of a barrel of crude oil around \$10 (compared to a record high of close to \$150 in the summer of 2008), managers at Shell began to formulate strategic plans for a future with a strong OPEC (the cartel of oil-exporting countries) and an accompanying drastic rise in oil prices. When the price of crude oil suddenly surged to over \$80 a barrel in the late 1970s, Shell was well-positioned to take advantage of this new situation; other oil companies were scrambling to adjust. Shell activated one of its alternative strategic plans that detailed how to obtain crude oil from North Sea drilling, to which the firm had already secured the rights. In the early 1980s, Shell made strategic preparations to take advantage of another apparently far-fetched scenario when it speculated that communism might fail, bringing down the powerful Soviet Union and ending Soviet artificial restrictions on the supply of natural gas. As a consequence of these strategies, Shell moved from eighth place to become the second-largest oil company in the world. More information is available on [Shell’s website](#) on the process of scenario planning, their past scenarios, and their projections on renewable energy adoption. Shell’s latest scenarios ([video](#)) envision the world as it might be in 2100. You might ask small teams of students to brainstorm the implications that these two scenarios have for industries other than the energy industry. For example, the automotive and passenger airline industries are strongly impacted by both fuel supplies/pricing and air quality controls. Other new scenarios focus on envisioning the [cities of the future](#), which might have broader appeal to your students and a global perspective from Los Angeles to Marrakesh, Chongqing, Manila, and Copenhagen.

END OF CHAPTER DISCUSSION SMALL GROUP EXERCISE 2

POWERPOINT SLIDE 65

In many situations, promising ideas emerge from the lower levels of an organization, only to be discarded before they can be implemented. It was only extraordinary tenacity and disregard for the policy of selling only corporate-approved drinks that permitted the Frappuccino to “bloom” within Starbucks (see Strategy Highlight 2.2).

Some scholars have suggested that companies set aside up to 2 percent of their budgets for *any* manager with budget control to be able to invest in new ideas within the company.¹ Thus, someone with a \$100,000 annual budget to manage would be able to invest \$2,000 in cash or staff time toward such a project. Multiple managers could go in together for somewhat larger funds or time amounts. Through such a process, the organization could generate a network of “angel investors.” Small funds or staff time could be invested in a variety of projects. Approval mechanisms would be easier for these small “seed-stock” ideas, to give them a chance to develop before going for bigger funding at the top levels of the organization.

What problems would need to be addressed to introduce this angel-network idea into a firm? Use a firm someone in your group has worked for or knows well to discuss possible issues of widely distributing small funding level approvals across the firm.

This exercise builds on some of the ideas applied in the Starbucks Strategy Highlight, combined with thoughts from Gary Hamel's book *The Future of Management* (Harvard 2007). It also integrates some of the real options concepts, because these "seeds" of funding spread throughout the organization will enable limited funding of many different ideas and give each project some time to get traction without it being a "bet the business" decision.

Implementation ideas may take on many issues, depending on the student's prior work experience and knowledge. Most apparently, where does the department manager take the 2 percent from the budget to invest it in these small-scale experiments? What if some managers want to invest and others don't? What sorts of controls would the firm have on the types of projects the employees could explore? Then there's the loss of control by the senior managers or finance, who have been approving all projects previously. At what point do these small projects need to get larger approvals within the organization? The mid-level manager should bring the idea to the attention of the top executives, ideally with a proposal of what would need to be changed as well as what it would offer. A good executive has to look at all possibilities for improving the company even if it requires significant change. (Japan Railways moving to bottled water is an example of a company that made an unexpected change.) Raise the issue of the importance of brand value and global brand image as a core competence of Starbucks, as a key success factor in the industry, and as the most valuable asset on the balance sheet. Encourage your marketing majors to explore the risks associated with independent, bottom-up experimentation with elements of strategy that have high brand impact. How might relationships with franchisees been harmed by offering products in company-operated stores that were not available to partners?

2.4 Implications for Strategists

POWERPOINT SLIDES 47–50

END OF CHAPTER SMALL GROUP EXERCISE 1

POWERPOINT SLIDE 64

Discuss within your group methods that the STEM Education Coalition might use to gain partners, particularly business organizations, that will help them make sure STEM education is a national policy priority. Given the budget crisis, how can they persuade congressional representatives to support funding?

Introduce this topic with (1) the role of a clear vision of the future for the organization and a sharply defined mission and (2) if you used the Instagram example earlier in the class session, draw parallels with the purposes that a clear vision statement is intended to serve for that firm to communicate with and motivate various stakeholder groups.

How does funding for STEM education affect job opportunities for business majors?

Some students are likely to focus on obvious "What's in it for me?" issues like less scholarship and loan money available to business school students as resources are targeted to support STEM students. You can use a quote from Isaac Asimov to move the discussion forward, "The important prediction is not the automobile, but the parking problem; not the radio, but the soap opera; not the income tax, but the expense account." Encourage them to look beyond the automobile to find the parking lot opportunity. You might also want to bring in ideas from organizational theory and discuss the role of business in shaping public policy.

Although group members may not be STEM majors, brainstorm ideas about how you might advise businesses to modify their operations or to expand/transform their operations in order to find opportunities in the Global Trends initiatives over the next 15 years. Choose a business of interest to the group. Then consider scenarios in which the business may thrive as one of the five trends develop. For example, the majority of businesses might want to ask, "What if threats to cyber-security increase?" Or, "What if water resources become more scarce? How would this affect production or demand for the goods produced?" Your group may also consider businesses or industries that may decline as a result of the trends.

This is another opportunity to identify the business implications of scenario planning. In addition to industries that may decline, ask students to consider industries that may be off-shored as a lead in to the *myStrategy* section in Chapter 3.

What additional developmental opportunities might prepare business majors for playing key roles in facing the Global Trends 2030? What skills will you need in order to manage effectively the STEM employees who are central to innovation?

This is a great opportunity to introduce the concept of Competency Development plans that may arise at the firm level in Chapter 4 and appear in the *myStrategy* section in Chapter 4. The discussion may start out with a very student-oriented cognitive bias, yielding ideas like “Take a course in Physics or Electrical Engineering.” While the new MOOC trend does open the opportunity for non-credit courses in a wide-range of topics, try to move the discussion beyond what should be studied. Managers will not need to know everything that the STEM majors who work for them know, but they will need to know how to communicate in a common language and understand problem-solving and decision making processes in those fields. What have they learned in stats about hypothesis testing that might help them in a managerial role in an R&D lab, for example? On a simple level, which newspapers or journals might they read regularly to improve their ability to talk about and understand the latest technical trends (*The Wall Street Journal* technology section, *Discover*, etc.).

Strategy Term Project: Mission, Goals, and the Strategic Management Process

Term Project Module 2

Search for a vision, mission statement, and statement of values for your chosen firm. Note that not all organizations publish these statements specifically, so you may need to make inferences from the available information. Relevant information is often available at the firm’s website (though it may take some searching) or is contained in its annual reports. You may also interview a manager of the firm or contact Investor Relations. You may also be able to compare the official statement with the business press coverage of the firm.

First, the student will search for the firms’ mission statement. Remember some firms use the term mission and vision interchangeably, so the student may need to adapt a vision statement as the mission if it is appropriate.

Identify the major goals of the company.

Major company goals are quite often available through the annual reports that each public firm must file with the SEC (free at <http://www.sec.gov/edgar.shtml>).

Trace any changes in strategy that you can identify over time. Try to determine whether the strategic changes of your selected firm are a result of intended strategies, emergent strategies, or some combination of both.

Longer-term goals are usually in the annual reports. We suggest going back a few years in the annual reports and comparing what the firm said three or five years ago to what they said most recently. Pulling a couple of older annual reports will also help in the formation of a timeline for major changes in the organization. Also, check the firm’s website. Often, firms will include a history or “timeline” section from their home page under “About Us” or the “Investors” tab.



HP Running Case: Module 2

While offering each student the opportunity to explore and analyze the company of his/her choice can add interest to the exercise, there are many advantages for an instructor when the entire class works on the same firm. Connect allows you to do this with a running case for a single firm that encompasses every chapter in the textbook and tracks the Strategy Term Project. Hewlett-Packard is provided as an example firm your students can use to see what information and analysis would be helpful to cover this portion of the term project.

myStrategy

POWERPOINT SLIDE 63

How much are your values worth to you?

Identify your personal values. How do you expect these values to affect your work life or your career choice?

These questions are meant to be personal but we offer a few thoughts on them. Values should play some part, but it is not likely to be the most important influence. If your only goal is to become head of a large company, market growth and expansion may become a high priority. However, success can be found in many places, and it is usually more important to find a company with good leadership (firm effects) than to worry solely about market growth (industry effects).

How much less salary would (did) you accept to find employment with a company that is aligned with your values?

Studies have shown that once workers get above a certain “pay the bills” space financially, intrinsic rewards often become more important than money. We have found a wide variance of answers when we have run this exercise in our classes.

How much are you willing to “pay for pay” if your dream job is in management consulting or investment banking?

Encourage students to consider work/family life balance and recognize the implications of long hours and extensive travel that usually accompany high-paying jobs.

ⁱ Hamel, G. (2007), *The Future of Management* (Boston, MA: Harvard Business School Publishing).