part 1 Strategic Analysis

Chapter 1
Strategic Management: Creating Competitive Advantages ... 2 (1-2)

Chapter 1
Strategic Management:
Creating Competitive Advantages

Summary/Objectives

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

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

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

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

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

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

Lecture/Discussion Outline

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

The SUPPLEMENT below, from a recent article in *The Economist,* provides some additional insight.

Extra Example: Rapid Turnover among Industry Leaders

In the 1950s and 1960s the corporate world was ruled by cabals of giants—by the "Big Three" in American cars and broadcasting and the "Seven Sisters" in global oil. C. Wright Mills, a sociologist, complained that America was ruled by a tiny elite. J.K. Galbraith, an economist, argued that there was not much difference between state planning as practiced by the Russians and corporate planning as practiced by General Motors.

Today's corporate world could hardly be more different. Time is being compressed: Google was incorporated only in 1998 but is now one of the world's biggest companies. Geography too is being tightened: who would have guessed in Galbraith's day that one of the world's leading aircraft-makers would be Brazilian (Embraer) or that one of the most innovative clothes brands would be Spanish (Zara)? In 1980 a corporation in the top fifth of its industry had only a 10 percent chance of falling out of that tier in five years. Eighteen years later that chance had risen to 25 percent.

Source: Anonymous. 2013. The transience of power. *The Economist*. March 16: 70.

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

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

The opening case is about a firm that most students were probably familiar with—and probably patronized—Groupon. It helps to illustrate our opening theme that achieving success in an industry—or even surviving—can be very challenging for companies of any size. Groupon is a firm that suffered because it did not respond effectively to changes in the competitive environment. It also, of course, points out how a firm's strategy can become rather easily copied by rivals.

The case serves to illustrate the two perspectives of leadership that we discuss: "romantic" (where leaders can have a significant impact on organizational outcomes), and "external control" (where leaders are highly constrained by factors beyond their control). Ask:

? ***Discussion Question 2:*** *What lessons can we learn from Groupon's declining performance?*

Response guidelines: There are many lessons students can learn from Groupon. First, there was an exceptionally high level of overconfidence on Mason's and Lefkofsky's part. Although its market valuation was originally much higher than the initial $6 billion pre-IPO offer from Google, the firm's value sank rather rapidly. Second, it is rather apparent that financial/accounting controls were lacking—as evidenced by the questionable accounting practices that failed to include marketing costs as well as appropriate funds set aside for refunds. Third, Andrew Mason did not appear to take his fiduciary responsibilities very seriously—given his various distracting antics. Fourth, Groupon did not realize it entered a business that was very difficult to scale—given the need to hire extensively to solicit new businesses to participate in the coupon business. Fifth, and perhaps most important, one could argue Groupon failed to recognize how easy it was for rivals to imitate its business—because of the extremely low entry barriers. This served to intensify competition and drive down potential profitability.

We then emphasize that leaders can have a very positive impact on organizations and point out such well-known leaders in business as Jack Welch (former GE chairman), Andy Grove (former CEO, Intel), Herb Kelleher (Chairman, Southwest Airlines), and the late Steve Jobs (Apple).

? ***Discussion Question 3:*** *What are some other examples of executives who have overcome significant challenges (over which they had relatively little control) and guided their firm to a high level of success in their industry?*

INSIGHTS FROM EXECUTIVES, Melvin Alexander, CPA, on page 7 provides a perspective on the Affordable Care Act, commonly referred to as Obamacare.

? ***Discussion Question 4:*** *What are some other short- and long-term implications of this legislation?*

The SUPPLEMENT below provides an interesting insight on some of the downsides of Obamacare from the perspective of a practicing surgeon—who is also an adjunct scholar at the Cato Institute. Obviously, Obamacare is a very "hot" political issue that was passed with no partisanship support in the U.S. Congress. It would be interesting to ask your students what they believe are the positive and negative aspects of the legislation, as well as what was the political process that led to this landmark legislation.

Extra Example: A Surgeon's Perspective on Obamacare

A recent Boston University/Harvard Medical School study suggests that up to 80 percent of people participating in the Obamacare's Medicaid expansion have been shifted off their private insurance. These patients' plans—that they liked, and were told they could keep—did not meet Affordable Care Act requirements, and were eliminated. Healthcare.gov offered them Medicaid.

But the irony doesn't stop there. Even if my patients save money by no longer paying premiums, they suffer in the long run by being trapped in a subpar health-care system. A Medicaid card does not translate into quality medical care. In some cases, it does not translate into medical care at all.

Only 45 percent of doctors are now accepting new Medicaid patients, according to a recent survey by the health-care company Merritt Hawkins. The number has dropped from 55 percent in the past five years. In some cities—Dallas and Minneapolis, for example—as few as 23 percent of doctors are seeing new Medicaid patients. As Obamacare vastly expands the number of patients on the Medicaid rolls—three million new patients, by last count—this threatens these patients' well-being . . . up to 80 percent of these new Medicaid patients previously had private insurance. Thanks to Obamacare, they have been shunted into a second-class health-care system.

Source: Singer, J.A. 2014. Obamacare shunts my patients into Medicaid. *Wall Street Journal*. October 21: A13.

I. What Is Strategic Management?

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

A. Defining Strategic Management

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

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

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

? ***Discussion Question 5:*** *Are you familiar with some firms that created advantages in the marketplace that were very temporary?*

B. The Four Key Attributes of Strategic Management

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

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

? ***Discussion Question 6:*** *What are some examples of leaders who failed to incorporate some of these attributes in their decision making? What were the implications?*

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

Extra Example: When a Firm Needs Farmers and Vikings

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

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

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

? ***Discussion Question 7:*** *Are companies you are familiar with or work at comprised of Vikings or farmers? Would your answer vary over time?*

Discussion Question 8: *When should firms hire more Vikings? How about farmers?*

We close the section with a brief introduction of the concept of "ambidextrous behaviors"—the ability to both be proactive in taking advantage of future opportunities, as well as in exploiting an existing resource base. STRATEGY SPOTLIGHT 1.1 illustrates this concept by providing four examples of ambidextrous behaviors. We also provide some suggestions on how one can become an ambidextrous leader. Ask:

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

II. The Strategic Management Process

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

A. Intended Versus Realized Strategies

EXHIBIT 1.2 draws on the influential work of Henry Mintzberg of McGill University. He distinguishes between "intended" and "realized" strategies, and we provide the example of how China's fast growing middle class and associated demand for luxury goods has helped cargo carriers rebound from the recent recession.

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

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

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

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

B. Strategy Analysis

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

1. Analyzing Organization Goals and Objectives (Chapter 1)

2. Analyzing the External Environment (Chapter 2)

3. Assessing the Internal Environment (Chapter 3)

4. Assessing a Firm's Intellectual Assets (Chapter 4)

C. Strategy Formulation

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

1. Formulating Business Level Strategies (Chapter 5)

2. Formulating Corporate Level Strategies (Chapter 6)

3. Formulating International Level Strategies (Chapter 7)

4. Entrepreneurial Strategy and Competitive Dynamics (Chapter 8)

D. Strategy Implementation

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

1. Strategic Control and Corporate Governance (Chapter 9)

2. Creating Effective Organizational Designs (Chapter 10)

3. Strategic Leadership: Excellence, Ethics and Change (Chapter 11)

4. Fostering Corporate Entrepreneurship (Chapter 12)

5. Analyzing Strategic Management Cases (Chapter 13)

III. <u>The Role of Corporate Governance and Stakeholder Management</u>

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

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

EXHIBIT 1.4 illustrates these three participants.

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

Discussion Question 11: *What are some other recent examples of poor corporate governance? (Examples would include Bank of America, Brocade, Countrywide Financial, etc.)*

Discussion Question 12: *What are the* **causes** *of such poor governance?*

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

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

Extra Example: CEOs Face More Pressure from Boards and a Variety of Stakeholders

CEOs are spending less time at the helm: the tenure of the average American CEO has plunged from about ten years in the 1990s to five-and-a-half as of 2013. Those who disappoint are held to account: 80 percent of CEOs of the S&P companies are ousted before retirement. CEOs must confront a growing army of critics from within the capitalist system. CEOs also face a growing army of critics from outside the Board. Banks have been chided for sins such as interest-rate rigging (Barclays), money-laundering (HSBC) and illicit dealings with Iran (Standard Chartered).

Source: Anonymous. 2013. The transience of power. *The Economist*. March 16: 70.

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

The SUPPLEMENT below provides some interesting insights between developed versus emerging markets on differences between the perceptions of capitalism/corporations. It might be interesting to ask your students why such differences are so pervasive.

Extra Example: The West Has Much Lower Confidence in Capitalism

The great majority, not surprisingly, have a "favorable" view of corporations whether they come from developed (82 percent) or emerging (86 percent) markets. However, the general public's view of corporations is far less favorable. Interestingly, people in developed markets—including the U.S., U.K., Germany, Japan and Hong Kong—retain especially skeptical views.

- Only 52 percent of the public in developed markets have a "favorable" view of corporations, compared with 72 percent in emerging markets such as China, Brazil, India, Mexico and Turkey.
- Nearly 60 percent of the public in emerging markets favor corporations that are "strong and influential" because they are "engines of innovation and economic growth." Just over one-third of the public in developed markets agree.
- In developed markets, 45 percent say corporations have "too much influence over government," compared with 30 percent in emerging economies.

Source: Baer, D.A. 2014. The West's Bruised Confidence in Capitalism. *Wall Street Journal*. September 22: A17.

A. Alternative Perspectives on Stakeholder Management

In this section we recognize, of course, that there are often conflicting demands among an organization's stakeholders. However, managers need to acknowledge the interdependence among stakeholders and strive to achieve symbiosis, that is, the recognition that stakeholders are interdependent upon one another for their success and well-being. We briefly review (addressed in Chapter 3) how Outback Steakhouse found that there were positive relationships between employee attitudes, customer satisfaction, and revenue increases.

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

1. Zero-Sum or Symbiosis

We address the many stakeholder challenges faced by Wal-Mart.

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Discussion Question 13: *What are some ways Wal-Mart's stakeholder demands may conflict? How might they be highly interdependent and positively (or negatively) related to each other?*

STRATEGY SPOTLIGHT 1.2 discusses how firms such as Nike, Walmart, and Patagonia have started working with a number of stakeholder groups through the sustainable apparel coalition to enhance the environmental impact of their products.

? ***Discussion Question 14:*** *Can you give other examples of other such collective initiatives? And, in your example, have all stakeholders benefitted (or been penalized) equally?*

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

1. Social Responsibility

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

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

Extra Example: Stakeholders Versus Shareholders

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

Proponents will claim that it…

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

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

On the other hand, Detractors will argue that it…

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

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

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

Teaching Tip: *You could likely generate some interesting debate by asking students to take alternative positions on this issue. Perhaps, assign one student to the "pro" position and one to the "con" position. Also, give them a chance to rebut the other person's* *perspective. You could then ask a few others to join the debate by taking their preferred side on this issue. (The debate could become more spirited by raising very "intense" issues such as natural disasters, including Hurricane Katrina in August 2005.)*

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

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

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Discussion Question 15: *Do you know of organizations that may have, in effect, used the "triple bottom line" approach to assess environmental, social, and financial performance?*

It is important to stress that when considering the "triple bottom line," there are *not* always tradeoffs. At times, firms can attain symbiosis—that is increase their effectiveness in attaining multiple bottom lines simultaneously. STRATEGY SPOTLIGHT 1.3 addresses how several firms can increase revenues and cut costs via sustainability initiatives.

We close the section with a brief discussion of SRI (Socially Responsible Investing). SRI recognizes that corporate responsibility and societal concerns are important considerations in investment decisions. And, investors can "do well by doing good," as the cliché goes.

The SUPPLEMENT below provides some figures on the favorable views of environmental sustainability by CEOs and the public at large.

Extra Example: Favorable Views on Environmental Sustainability

Data (obtained from research by American Express, Davos, Deloitte, Maritz Research and Price Waterhouse Coopers) shows how positively CEOs and the general public view environmental sustainability:

- 87 percent of Fortune 1000 CEOs believe sustainability is important to a company's profits.
- 73 percent of CEOs believe sustainability results in costs savings.
- 90 percent of the U.S. population says it is important for companies to be mindful of their impact on the environment and society.
- 46 percent of consumers say they would shop at a retailer more if it was environmentally friendly.
- □□□□□□□□□□□□□□consumers say they would pay more for environmentally friendly services, products, or brands.

Source: Kubala, D. Apparel Technology & Business Insight—From Concept to Consumer (unpublished manuscript).

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

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

To develop and mobilize people and other organizational assets, leaders are required throughout the organization. As noted by MIT's Peter Senge, there is a need for three types of leaders: *local line leaders, executive leaders,* and *internal networkers*.

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

Extra Example: Avoid the heroes and drones imagery in organizations!

Sally Helgesen, author of The Web of Inclusion: A new Architecture for Building Great Organizations, expresses the need for leaders throughout the organization. She asserts that many organizations "fall prey to the heroes-and-drones syndrome, exalting the value of those in powerful positions while implicitly demeaning the contributions of those who fail to achieve top rank. Culture and processes in which leaders emerge at all levels, both up and down as well as across the organization, typify today's high performing firms.

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

We provide examples of empowerment at both the Virgin Group that is well known for its culture and informal structure, as well as Nancy Snyder's efforts to bring about transformational change at Whirlpool.

? ***Discussion Question 16:*** *With regard to Whirlpool's initiatives, what do you think would be some of the key challenges in bringing about change?*

We close this section with STRATEGY SPOTLIGHT 1.4 that further reinforces the benefits of broad involvement throughout the organization in the strategic management process. It is about the filming of the movie *Gorillas in the Mist*, and it points out the value of *in*experience.

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

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

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

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

V. Ensuring Coherence in Strategic Direction

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

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

A. Organizational Vision

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

We review a study of 1,500 senior leaders that points out the importance of "a strong sense of vision" as well as "strategy formulation to achieve a vision."

We state the visions of five organizations—Disney, Medtronic, Wells Fargo, McDonald's, and Zynga. We also assert that a vision statement often contains a slogan, diagram, or picture—whatever grabs attention—and provide such examples as "Beat Xerox" (Canon) and "To take the world boating" (Outboard Marine Corporation).

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

Extra Example: David Sarnoff's Visionary Leadership

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

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

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

? ***Discussion Question 17:*** *Would executives in companies with which you are familiar been more receptive to such initiatives by lower-ranking executives? Why? Why not?*

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

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

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

Extra Example How Komatsu "Encircled" Caterpillar

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

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

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

Discussion Question 18: *What are some effective (or ineffective) organization visions with which you are familiar? Why are they successful (or unsuccessful)? (We have found that many students—especially those with a fair amount of work experience—may be somewhat cynical, primarily because the "walk doesn't match the talk".)*

B. Mission Statements

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

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

EXHIBIT 1.7 contains the Vision Statement and Mission Statement of WellPoint Health Network, a $62 billion managed health care organization. This exhibit helps to distinguish between these two strategy concepts.

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

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

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

At times, mission statements can, and should, change when competitive positions dramatically change or when the firm is faced with new threats and opportunities. STRATEGY SPOTLIGHT 1.5 provides an example of how The James Irvine Foundation narrowed its mission—many social and environmental issues to challenges facing California's youth.

Discussion Question 19: *Can you think of other organizations that have successfully (or unsuccessfully) changed their mission? What can explain their success (or lack thereof)?*

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

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

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

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

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

***Discussion Question 20:** Can you think of other measures to eliminate the distance between a company and its customers?*

***Discussion Question 21:** Can inverting the organizational pyramid really work? What would companies gain by doing so? What would they lose?*

C. Strategic Objectives

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

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

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

- Measurable
- Specific
- Appropriate
- Realistic
- Timely

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

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

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

Extra Example: How Textron Implements its Strategic Objectives

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

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

VI. Issue for Debate

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

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

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

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

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

QUESTIONS:

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

Students may have a variety of perspectives on this issue—often reflecting how important they feel that non-economic factors should be in making important decisions. You might point out that Seventh Generation's mission is very specific regarding its sensitivity to broader stakeholder groups.

2. *How can Seventh Generation solve this dilemma?*

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

➢ VII. Reflecting on Career Implications

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

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

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

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

It may be useful to ask students how they chose their major. Was this major the same one they initially considered after high school? Some students will probably have changed their major at some point. You may get some stories about how hard their original choice was, or that there were unexpected challenges along the way. Now you can use the discussion as an analogy. Future career paths are likely to be filled with unexpected challenges, and it may be advisable to consider alternatives. Most executives have worked in a variety of jobs and organizations during their careers.

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

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

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

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

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

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

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

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

VIII. Summary

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

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

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

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

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

Chapter 1: Strategic Management: Creating Competitive Advantages

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

Teaching suggestions:

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

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

***Customers:** students, alumni, recruiting organizations, organizations using research outputs from the university,

***Employees:** teaching staff including faculty, research associates, teaching associates and the non-teaching or administrative staff, operational staff,

***Suppliers:** funding organizations and donors, stationery and teaching equipment suppliers, suppliers of utilities, etc.,

***Community:** taxpayers and the general public who have expectations from the university and can influence its functioning and funding

and, of course, the state would be the owner in the case of a state university.

You might then want to ask whether stakeholder management is zero sum or symbiotic? *(We address this topic and provide a detailed example of Procter & Gamble in Chapter 1).*

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

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

1. Top quality research needs excellent financial and support facilities. And administrators must recognize that in order to ensure the effective functioning of the university, neither the teaching staff nor the support staff should be starved. Further, research can also enhance the ability of the university to generate external funds.
2. Similarly, customers cannot expect to have better quality education unless they are prepared to pay for it. Alternatively, taxpayers need to pay a certain level of taxes in order to maintain the university at a reasonable level of performance.
3. Universities also have the social responsibility of inculcating right attitude, and shaping the integrity and character of the students, so that they become good citizens in all walks of life.

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

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

End-of-Chapter Teaching Notes

Chapter 1: Strategic Management, Creative Competitive Advantages

Summary Review Questions

1. How is "strategic management" defined in the text, and what are its four key attributes? (pages 9–10)

Response:

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

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

2. Briefly discuss the three key activities in the strategic management process. Why is it important for managers to recognize the interdependent nature of these activities? (pages 12–15)

Response:

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

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

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

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

3. Explain the concept of "stakeholder management." Why shouldn't managers be solely interested in stockholder management, that is, maximizing the returns for owners of the firm—its shareholders? (pages 16–18)

Response:

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

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

4. What is "corporate governance"? What are its three key elements and how can it be improved? (pages 15–16)

Response:

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

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

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

5. How can "symbiosis" (interdependence, mutual benefit) be achieved among a firm's stakeholders? (pages 17–18)

Response:

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

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

6. Why do firms need to have a greater strategic management perspective and empowerment in the strategic management process throughout the organization? (pages 22–23)

Response:

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

7. What is meant by a "hierarchy of goals"? What are the main components of it, and why must consistency be achieved among them? (pages 23–24)

Response:

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

There must be consistency among these goals in order to maximize employee motivation and a sense of equity and fairness when rewards are allocated. Inconsistency among the goals between any level can result in confusion among employees as to what the firm values, and subsequently to loss of identification with the firm, loss of motivation, and turnover.

Experiential Exercise

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

Response:

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

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

Application Questions and Exercises

1. Go to the Internet and look up one of these company sites: www.walmart.com, www.ge.com, or www.ford.com. What are some of the key events that would represent the "romantic" perspective of leadership? What are some of the key events that depict the "external control" perspective of leadership?

Response:

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

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

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

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

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

Response:

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

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

Response:

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

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

Response:

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

Ethics Questions

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

Response:

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

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

Response:

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