CHAPTER

1

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Strategic Management

Creating Competitive Advantages

Learning Objectives

LO1-1 Define strategic management and its four key attributes.

LO1-2 Understand the strategic management process and its three interrelated and principal activities.

LO1-3 Identify the vital role of corporate governance and stakeholder management, as well as how "symbiosis" can be achieved among an organization's stakeholders.

LO1-4 Understand the importance of social responsibility, including environmental sustainability, and how it can enhance a corporation's innovation strategy.

LO1-5 Recognize the need for greater empowerment throughout the organization.

LO1-6 Explain how an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

We encourage you to reflect on how the concepts presented in this chapter can enhance your career success (see "Reflecting on Career Implications..." at the end of the chapter).

LEARNING FROM MISTAKES

What makes the study of strategic management so interesting? Things can change so rapidly! Some start-ups can disrupt industries and become globally recognized names almost overnight and the rankings of the world's most valuable firms can dramatically change in a brief period of time. On the other hand, many impressive, high-flying firms can struggle to reclaim past glory—or fail altogether. As colorfully (and ironically!) noted by Arthur Martinez, Sears's former Chairman: "Today's peacock is tomorrow's feather duster."[1]

Consider the following:[2]

- The 33-year average tenure of companies on the S&P 500 in 1962 narrowed to 24 years by 2016 and is forecast to shrink to merely 12 years by 2027.
- At the beginning of 2000, the four firms in the world with the highest market values were General Electric, Exxon Mobil, Pfizer, and Citigroup. By late 2019, four tech firms headed the list: Apple, Alphabet (parent of Google), Amazon, and Microsoft.
- Record private equity activity, a strong M&A market, and the growth of start-ups with billion dollar market caps (called "unicorns") are often viewed as leading factors to increase disruptions in a wide variety of industries.
- A quarter century ago, few would have predicted that a South Korean firm would be a global car giant, an Indian firm would be one of the world's largest technology firms, and a huge Chinese Internet firm would list on an American stock exchange.
- In 1995, only about 3 percent of the companies on the Fortune 500 list were from emerging markets. This number has increased to 26 percent in 2013, and is predicted to grow to 45 percent by 2025.
- With the emergence of the digital economy, new entrants are shaking up long-standing industries. After all, Alibaba has become the world's most valuable retailer—but holds no inventory; Airbnb is the world's largest provider of accommodations—but owns no real estate; and Uber is the world's largest car service—but owns no cars.

Retail has become one of the prime examples of an industry that has been impacted by the digital disruption and the emergence of online competitors. Many brick-and-mortar (i.e., high asset intensive) firms such as Bed, Bath & Beyond, Urban Outfitters, Sears, Radio Shack, and J.C. Penney have either filed for bankruptcy, or have become mere shadows of their former selves.

Let's take a closer look at another retailer, Mattress Firm, which filed for bankruptcy on October 5, 2018.[3]

Houston-based Mattress Firm was founded in 1986 and eventually grew to more than 3,200 stores and $3 billion in annual revenues. However, its pursuit of growth and dominance—largely via acquisition–in the industry led to its eventual demise.

A turning point came in 2015 when it purchased one of its chief rivals, Sleepy's, for $780 million. Steve Stagner, Mattress Firm's CEO at the time asserted, "This transformational acquisition unites the nation's two largest mattress specialty retailers providing customers with convenience, value, and choice."

However, things certainly didn't turn out as he had hoped. Acquiring Sleepy's 1,000 stores left Mattress Firm severely over-retailed. As store traffic slowed, costly leases turned into an albatross around the firm's neck. In bankruptcy court filings, the rapid expansion led to the "cannibalization" of stores that were clustered too closely and put them in direct competition with each other. This was poignantly stated by Hendre Ackermann, the firm's CFO: "There are many examples of a Mattress Firm store being located literally across the street from another Mattress Firm store."

Mattress Firm's fortunes were also eroded by a set of more nimble competitors: online upstarts, including Casper, Lessa, Tuft & Needle, and Sapira. For example, Casper Sleep, Inc., founded in 2014, raised $240 million to sell mattresses directly to consumers. It provided easy online ordering, hassle-free delivery, and returns of reasonably affordable mattresses. Within a year, Casper booked sales of $100 million.

The online rivals also had another major advantage over Mattress Firm: Shoppers had grown weary of the traditional mattress-buying experience. This involved going into a store, testing out a slew of mattresses for a few minutes, and rushing into a decision on an expensive item designed to last for years. And, customers were often annoyed by complicated and expensive delivery options. As noted by Casper's co-founder and CEO, Philip Krim, "Traditional mattress retailers have been alienating customers for decades and are now buckling under pressure. Casper has turned a tired industry on its head with innovative products and a superior shopping experience." Recently, Casper expanded its direct-to-consumer online business into a wide variety of products including bed frames, sheets, pillows, and dog mattresses.

Discussion Questions

1. What actions should Mattress Firm have taken when it became apparent that there were some nimble, online rivals entering the industry?
2. Casper Sleep Inc. has certainly become a strong competitor in this industry. In your view, what could they do to further strengthen their position?

romantic view of leadership
situations in which the leader is the key force determining the organization's success—or lack thereof.

Today's leaders face a large number of complex challenges in the global marketplace. In considering how much credit (or blame) they deserve, two perspectives of leadership come immediately to mind: the "romantic" and "external control" perspectives.[4] First, let's look at the **romantic view of leadership.** Here, the implicit assumption is that the leader is the key force in determining an organization's success—or lack thereof.[5] This view dominates the popular press in business magazines such as *Fortune, Bloomberg Businessweek,* and *Forbes,* wherein the CEO is either lauded for his or her firm's success or chided for the organization's demise.[6] Consider, for example, the credit that has been bestowed on leaders such as Bill Gates, Andrew Grove, and Jeff Bezos for the tremendous accomplishments when they led their firms—Microsoft, Intel, and Amazon, respectively.

Similarly, Apple's emergence as one of the world's most valuable firms has been attributed almost entirely to the late Steve Jobs, its former CEO, who died on October 5, 2011.[7] Apple's string of hit products, such as iMac computers, iPods, iPhones, and iPads, is a testament to his genius for developing innovative, user-friendly, and aesthetically pleasing products. In addition to being a perfectionist in product design, Jobs was a master showman with a cult following. During his time as CEO between 1997 and 2011, Apple's market value soared by over $300 billion!

On the other hand, when things don't go well, much of the failure of an organization can also, rightfully, be attributed to the leader.[8] Clearly, the aggressive acquisition of its rival, Sleepy's, by Mattress Firm's CEO, Steve Stagner, led to a steep decline in the firm's performance because of the resulting oversaturation of its retail outlets and the associated costly leases. In contrast, Apple fully capitalized on emerging technology trends with a variety of products, including sophisticated smartphones.

The effect—for good or for bad—that top executives can have on a firm's market value can be reflected in what happens when one of them leaves their firm.[9] For example, look what occurred when Kasper Rorsted stepped down as CEO of the German packaged-goods firm Henkel in January, 2016 to become CEO of Adidas: Henkel immediately lost $2 billion in market capitalization, and Adidas gained $1 billion. On the other hand, when Viacom announced that executive chairman Sumner Redstone was stepping down, the firm gained $1.1 billion of market valuation in 30 minutes!

external control view of leadership
situations in which external forces—where the leader has limited influence—determine the organization's success.

However, such an emphasis on the leader reflects only part of the picture. Consider another perspective, called the **external control view of leadership.** Here, rather than making the implicit assumption that the leader is the most important factor in determining organizational outcomes, the focus is on external factors that may positively (or negatively) affect a firm's success. We don't have to look far to support this perspective. Developments in the general environment, such as economic downturns, new technologies, governmental legislation, or an outbreak of major internal conflict or war, can greatly restrict the choices that are available to a firm's executives. For example, several book retailers, such as Borders and Waldenbooks, found the consumer shift away from brick-and-mortar bookstores to online book buying (e.g., Amazon) and digital books an overwhelming environmental force against which they had few defenses.

Looking back at the opening Mattress Firm case, Mr. Stagner faced some challenges from the external environment over which the firm had relatively little control. As noted, the online upstarts, such as Casper Sleep, Inc., had multiple competitive advantages such as lower capital investments and labor costs, as well as a superior customer shopping experience. At the same time, of course, Mattress Firm was encumbered with the high costs associated with physical locations.[10]

Before moving on, it is important to point out that successful executives are often able to navigate around the difficult circumstances that they face. At times it can be refreshing to see the optimistic position they take when they encounter seemingly insurmountable odds. Of course, that's not to say that one should be naive or Pollyannaish. Consider, for example, how one CEO, discussed next, is handling trying times.[11]

Name a general economic woe, and chances are that Charles Needham, CEO of Metorex, is dealing with it.

- Market turmoil has knocked 80 percent off the shares of South Africa's Metorex, the mining company that he heads.
- The plunge in global commodities is slamming prices for the copper, cobalt, and other minerals Metorex unearths across Africa. The credit crisis makes it harder to raise money.
- Fighting has again broken out in the Democratic Republic of Congo, where Metorex has a mine and several projects in development.

Such problems might send many executives to the window ledge. Yet Needham appears unruffled as he sits down at a conference table in the company's modest offices in a Johannesburg suburb. The combat in northeast Congo, he notes, is far from Metorex's mine. Commodity prices are still high, in historical terms. And Needham is confident he can raise enough capital, drawing on relationships with South African banks. "These are the kinds of things you deal with, doing business in Africa," he says.

WHAT IS STRATEGIC MANAGEMENT?

LO 1-1

Define strategic management and its four key attributes.

Given the many challenges and opportunities in the global marketplace, today's managers must do more than set long-term strategies and hope for the best.[12] They must go beyond what some have called "incremental management," whereby they view their job as making a series of small, minor changes to improve the efficiency of their firm's operations.[13] Rather than seeing their role as merely custodians of the status quo, today's leaders must be proactive, anticipate change, and continually refine and, when necessary, make dramatic changes to their strategies. The strategic management of the organization must become both a process and a way of thinking throughout the organization.

Defining Strategic Management

strategic management the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages.

Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of strategic management.

First, the strategic management of an organization entails three ongoing processes: *analyses, decisions,* and *actions.* Strategic management is concerned with the *analysis* of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environments of the organization. Next, leaders must make strategic decisions. These *decisions,* broadly speaking, address two basic questions: What industries should we compete in? How should we compete in those industries? These questions also often involve an organization's domestic and international operations. And last are the *actions* that must be taken. Decisions are of little use, of course, unless they are acted on. Firms must take the necessary actions to implement their **strategies.** This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality.

strategy
the ideas, decisions, and actions that enable a firm to succeed.

Second, the essence of strategic management is the study of why some firms outperform others.[14] Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. That means focusing on two fundamental questions:

competitive advantage
a firm's resources and capabilities that enable it to overcome the competitive forces in its industry(ies).

- ***How should we compete in order to create* competitive advantages *in the marketplace?*** Managers need to determine if the firm should position itself as the low-cost producer or develop products and services that are unique and will enable the firm to charge premium prices. Or should they do some combination of both?
- ***How can we create competitive advantages in the marketplace that are unique, valuable, and difficult for rivals to copy or substitute?*** That is, managers need to make such advantages sustainable, instead of temporary.

Sustainable competitive advantage cannot be achieved through operational effectiveness alone.[15] The popular management innovations of the last two decades—total quality, just-in-time, benchmarking, business process reengineering, outsourcing—are all about operational effectiveness. **Operational effectiveness** means performing similar activities better than rivals. Each of these innovations is important, but none lead to sustainable competitive advantage because everyone is doing them.

operational effectiveness
performing similar activities better than rivals.

Strategy is all about being different. Sustainable competitive advantage is possible only by performing different activities from rivals or performing similar activities in different ways. Companies such as Walmart, Southwest Airlines, and IKEA have developed unique, internally consistent, and difficult-to-imitate activity systems that have provided them with sustained competitive advantages. A company with a good strategy must make clear choices about what it wants to accomplish. Trying to do everything that your rivals do eventually leads to mutually destructive price competition, not long-term advantage.

The Four Key Attributes of Strategic Management

Before discussing the strategic management process, let's briefly talk about four attributes of strategic management.[16] It should become clear how this course differs from other courses that you have had in functional areas, such as accounting, marketing, operations, and finance. Exhibit 1.1 provides a definition and the four attributes of strategic management.

EXHIBIT 1.1
Strategic Management Concepts

Definition: Strategic management consists of the analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages.

Key Attributes of Strategic Management

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

First, strategic management is *directed toward overall organizational goals and objectives.* That is, effort must be directed at what is best for the total organization, not just a single functional area. Some authors have referred to this perspective as "organizational versus individual rationality."[17] That is, what might look "rational" or ideal for one functional area, such as operations, may not be in the best interest of the overall firm. For example, operations may decide to schedule long production runs of similar products to lower unit costs. However, the standardized output may be counter to what the marketing department needs to appeal to a demanding target market. Similarly, research and development may "overengineer" the product to develop a far superior offering, but the design may make the product so expensive that market demand is minimal.

As noted by David Novak, former CEO of Yum Brands:[18]

> I tell people that once you get a job you should act like you run the place. Not in terms of ego, but in terms of how you think about the business. Don't just think about your piece of the business. Think about your piece of the business and the total business. This way, you'll always have a broader perspective.

Second, strategic management *includes multiple stakeholders in decision making.*[19] **Stakeholders** are those individuals, groups, and organizations that have a "stake" in the success of the organization, including owners (shareholders in a publicly held corporation), employees, customers, suppliers, the community at large, and so on. (We'll discuss this in more detail later in this chapter.) Managers will not be successful if they focus on a single stakeholder. For example, if the overwhelming emphasis is on generating profits for the owners, employees may become alienated, customer service may suffer, and the suppliers may resent demands for pricing concessions.

stakeholders
individuals, groups, and organizations that have a stake in the success of the organization. These include owners (shareholders in a publicly held corporation), employees, customers, suppliers, and the community at large.

Third, strategic management *requires incorporating both short-term and long-term perspectives.*[20] Peter Senge, a leading strategic management author, has referred to this need as a "creative tension."[21] That is, managers must maintain both a vision for the future of the organization and a focus on its present operating needs. However, financial markets can exert significant pressures on executives to meet short-term performance targets. Studies have shown that corporate leaders often take a short-term approach to the detriment of creating long-term shareholder value.

Andrew Winston addresses this issue in his recent book, *The Big Pivot*:[22]

> Consider the following scenario: You are close to the end of the quarter and you are faced with a project that you are certain will make money. That is, it has a guaranteed positive net present value (NPV). But it will reduce your earnings for this quarter. Do you invest?
>
> A research study posed this question to 400 CFOs and a majority said they would not do it. Further, 80 percent of the executives would decrease R&D spending, advertising, and general maintenance. So, what occurs when you cut back on these investments to prop up short-term earnings *every* quarter? Logically, you don't invest in projects with favorable paybacks and you underspend on initiatives that build longer-term value. Thus, your earnings targets in the future quarters actually get more difficult to hit.

Fourth, strategic management *involves the recognition of trade-offs between effectiveness and efficiency.* Some authors have referred to this as the difference between "doing the right thing" **(effectiveness)** and "doing things right" **(efficiency)**.[23] While managers must allocate and use resources wisely, they must still direct their efforts toward the attainment of overall organizational objectives. As noted by Meg Whitman, Hewlett-Packard's former CEO, "Less than perfect strategy execution against the right strategy will probably work. A 100 percent execution against the wrong strategy won't."[24]

effectiveness
tailoring actions to the needs of an organization rather than wasting effort, or "doing the right thing."

efficiency
performing actions at a low cost relative to a benchmark, or "doing things right."

Successful managers must make many trade-offs. It is central to the practice of strategic management. At times, managers must focus on the short term and efficiency; at other times, the emphasis is on the long term and expanding a firm's product-market scope in order to anticipate opportunities in the competitive environment.

To summarize, leaders typically face many difficult and challenging decisions. In a recent article in the *Harvard Business Review*, Wendy Smith and her colleagues provide some valuable insights in addressing such situations.[25] The author team studied corporations over many years and found that senior executives are often faced with similar sets of opposing goals, which can polarize their organizations. Such tensions or paradoxes fall into three categories, which may be related to three questions that many leaders view as "either/or" choices.

- *Do we manage for today or for tomorrow?* A firm's long-term survival requires taking risks and learning from failure in the pursuit of new products and services. However, companies also need consistency in their products and services. This depicts the tension between existing products and new ones, stability and change. This is the *innovation paradox*. For example, in the late 1990s, IBM's senior leaders saw the Internet wave and felt the need to harness the new technology. However, the firm also needed to sustain its traditional strength in client-server markets. Each strategy required different structures, cultures, rewards, and metrics—which could not easily be executed in tandem.
- *Do we stick to boundaries or cross them?* Global supply chains can be very effective, but they may also lack flexibility. New ideas can emerge from innovation activities that are dispersed throughout the world. However, not having all the talent and brains in one location can be costly. This is the tension between global connectedness and local needs, the *globalization paradox*. In 2009, NASA's director of human health and performance started an initiative geared toward generating new knowledge through collaborative cross-firm and cross-disciplinary work. Not too surprisingly, he faced strong pushback from scientists interested in protecting their turf and their identities as independent experts. Although both collaboration and independent work were required to generate new innovations, they posed organizational and cultural challenges.
- *Whom do we focus on, shareholders or stakeholders?* Clearly, companies exist to create value. But managers are often faced with the choice between maximizing shareholder gains while trying to create benefits for a wide range of stakeholders—employees, customers, society, etc. However, being socially responsible may bring down a firm's share price, and prioritizing employees may conflict with short-term shareholders' or customers' needs. This is the *obligation paradox.* Paul Polman, Unilever's CEO, launched the Unilever Sustainable Living Plan in 2010. The goal was to double the size of the business over 10 years, improve the health and well-being of more than a billion people, and cut the firm's environmental impact in half. He argued that such investments would lead to greater profits over the long term; whereas a singular focus on short-term profits would have adverse effects on society and the environment. His arguments were persuasive to many; however, there have been many challenges in implementing the plan. Not surprisingly, it has caused uncertainty among senior executives that has led to anxiety and fights over resource allocation.

ambidexterity
the challenge managers face of both aligning resources to take advantage of existing product markets and proactively exploring new opportunities.

Some authors have developed the concept of **"ambidexterity"** (similar to the aforementioned "innovation paradox"), which refers to a manager's challenge to both align resources to take advantage of existing product markets and proactively explore new opportunities.[26] Strategy Spotlight 1.1 discusses ambidextrous behaviors that are essential for success in today's challenging marketplace.

1.1 STRATEGY SPOTLIGHT

AMBIDEXTROUS BEHAVIORS: COMBINING ALIGNMENT AND ADAPTABILITY

A study involving 41 business units in 10 multinational companies identified four ambidextrous behaviors in individuals. Such behaviors are the essence of ambidexterity, and they illustrate how a dual capacity for alignment and adaptability can be woven into the fabric of an organization at the individual level.

They take time and are alert to opportunities beyond the confines of their own jobs. A large computer company's sales manager became aware of a need for a new software module that nobody currently offered. Instead of selling the customer something else, he worked up a business case for the new module. With management's approval, he began working full time on its development.

They are cooperative and seek out opportunities to combine their efforts with others. A marketing manager for Italy was responsible for supporting a newly acquired subsidiary. When frustrated about the limited amount of contact she had with her peers in other countries, she began discussions with them. This led to the creation of a European marketing forum that meets quarterly to discuss issues, share best practices, and collaborate on marketing plans.

They are brokers, always looking to build internal networks. When visiting the head office in St. Louis, a Canadian plant manager heard about plans for a $10 million investment for a new tape manufacturing plant. After inquiring further about the plans and returning to Canada, he contacted a regional manager in Manitoba, who he knew was looking for ways to build his business. With some generous support from the Manitoba government, the regional manager bid for, and ultimately won, the $10 million investment.

They are multitaskers who are comfortable wearing more than one hat. Although an operations manager for a major coffee and tea distributor was charged with running his plant as efficiently as possible, he took it upon himself to identify value-added services for his clients. By developing a dual role, he was able to manage operations and develop a promising electronic module that automatically reported impending problems inside a coffee vending machine. With corporate funding, he found a subcontractor to develop the software, and he then piloted the module in his own operations. It was so successful that it was eventually adopted by operations managers in several other countries.

A recent *Harvard Business Review* article provides some useful insights on how one can become a more ambidextrous leader. Consider the following questions:

- **Do you meet your numbers?**
- **Do you help others?**
- **What do you do for your peers?** Are you just their in-house competitor?
- **When you manage up, do you bring problems—or problems with possible solutions?**
- **Are you transparent?** Managers who get a reputation for spinning events gradually lose the trust of peers and superiors.
- **Are you developing a group of senior managers who know you and are willing to back your original ideas with resources?**

Sources: Birkinshaw, J. and C. Gibson. 2004. Building ambidexterity into an organization. *MIT Sloan Management Review,* 45(4): 47–55; and Bower, J. L. 2007. Solve the succession crisis by growing inside-out leaders. *Harvard Business Review,* 85(11): 90–99.

THE STRATEGIC MANAGEMENT PROCESS

LO 1-2

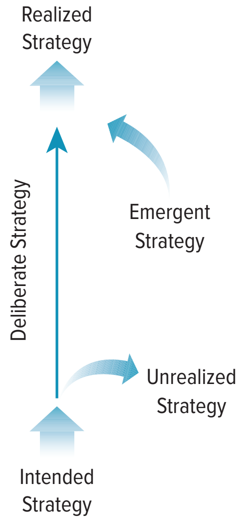
Understand the strategic management process and its three interrelated and principal activities.

We've identified three ongoing processes—analyses, decisions, and actions—that are central to strategic management. In practice, these three processes—often referred to as strategy analysis, strategy formulation, and strategy implementation—are highly interdependent and do not take place one after the other in a sequential fashion in most companies.

Intended versus Realized Strategies

Henry Mintzberg, a management scholar at McGill University, argues that viewing the strategic management process as one in which analysis is followed by optimal decisions and their subsequent meticulous implementation neither describes the strategic management process accurately nor prescribes ideal practice.[27] He sees the business environment as far from predictable, thus limiting our ability for analysis. Further, decisions are seldom based on optimal rationality alone, given the political processes that occur in all organizations.[28]

EXHIBIT 1.2 Realized Strategy and Intended Strategy: Usually Not the Same



Source: Adapted from Mintzberg, H., and Waters, J. A. 1985. Of strategies: Deliberate and emergent. *Strategic Management Journal,* 6: 257–272.

intended strategy
strategy in which organizational decisions are determined only by analysis.

Taking into consideration the limitations discussed previously, Mintzberg proposed an alternative model. As depicted in Exhibit 1.2, decisions following from analysis, in this model, constitute the **intended strategy** of the firm. For a variety of reasons, the intended strategy rarely survives in its original form. Unforeseen environmental developments, unanticipated resource constraints, or changes in managerial preferences may result in at least some parts of the intended strategy remaining *unrealized.*

Consider how a factor clearly outside of management's control—weather—can impact a firm and lead to changes in its strategy:[29]

> Superdry PLC, a British clothing brand, suffered a 21 percent drop in its share price on October 15, 2018. Why? The firm said that unseasonably hot weather in the UK, continental Europe, and on the East Coast of the U.S. over the summer and autumn had significantly affected demand for its cold-weather clothing—which generates 45 percent of its annual sales. As noted by its former Chief Executive Euan Sutherland, "Superdry is a strong brand with significant growth opportunities…but we are not immune to the challenges presented by this extraordinary period of unseasonably hot weather."
>
> In response to the weather change, the firm said that it is seeking to address its reliance on autumn and winter clothing by expanding into dresses, skirts, and women's tops. In addition, it plans to move into new market segments such as sports products, giving the company's global consumers broader choices.

realized strategy
strategy in which organizational decisions are determined by both analysis and unforeseen environmental developments, unanticipated resource constraints, and/or changes in managerial preferences.

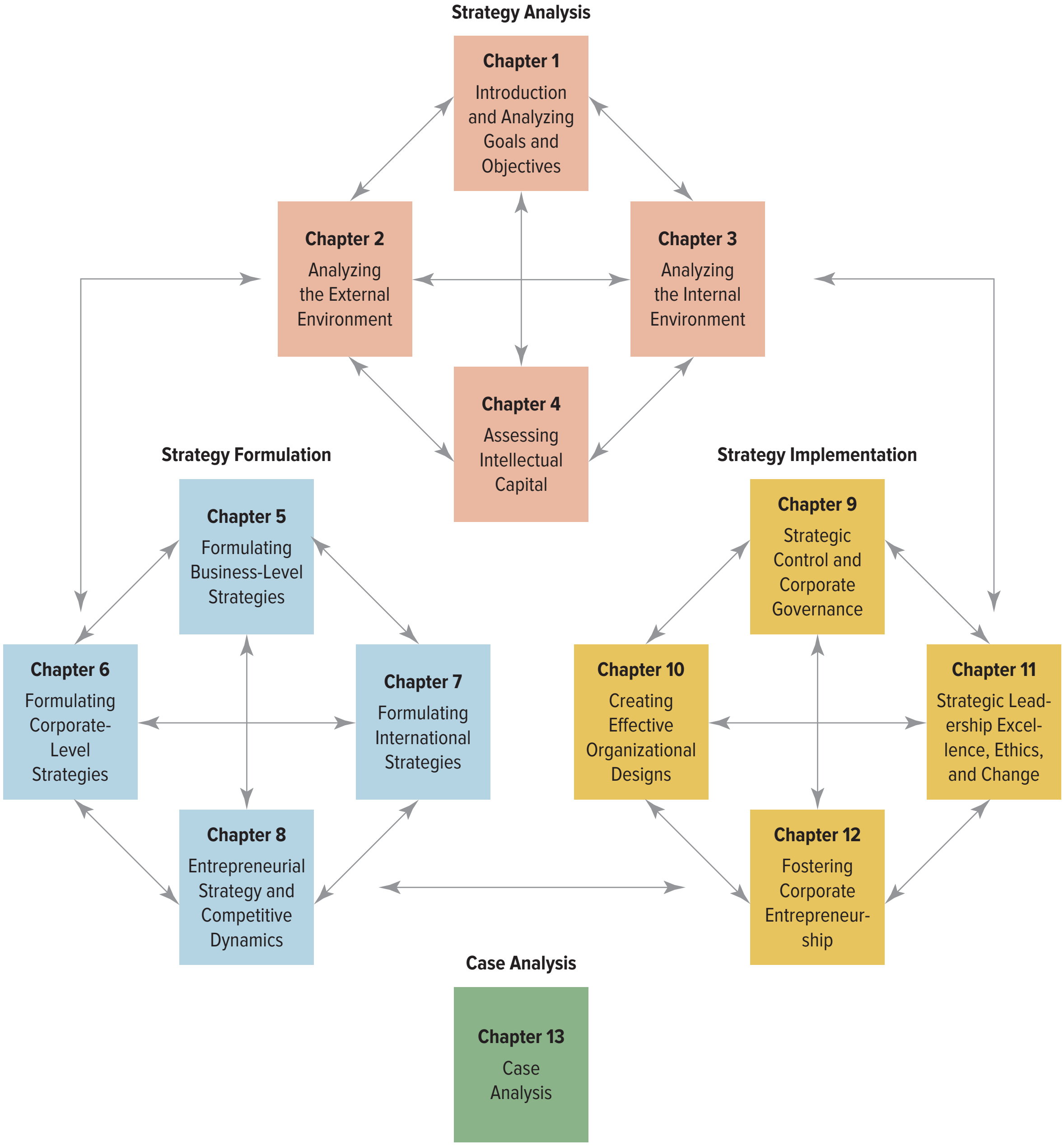
Thus, the final **realized strategy** of any firm is a combination of deliberate and emergent strategies.

Next, we will address each of the three key strategic management processes—strategy analysis, strategy formulation, and strategy implementation—and provide a brief overview of the chapters.

Exhibit 1.3 depicts the strategic management process and indicates how it ties into the chapters in the book. Consistent with our previous discussion, we use two-way arrows to convey the interactive nature of the processes.

Before moving on, we point out that analyzing the environment and formulating strategies are, of course, important activities in the strategic management process. However, nothing happens until resources are allocated and effective strategies are successfully

EXHIBIT 1.3 The Strategic Management Process



implemented. Rick Spielman, General Manager of the Minnesota Vikings (of the National Football League), provides valuable insight on this issue.[30] He recalls the many quarterbacks that he has interviewed over the past 25 years and notes that many of them can effectively draw up plays on the whiteboard and "you sit there and it's like listening to an offensive coordinator." However, that is not enough. He points out, "Now can he translate that and make those same decisions and those same type of reads in the two and a half seconds he has to get rid of the ball?"

Strategy Analysis

We measure, study, quantify, analyze every single piece of our business. . . . But then you've got to be able to take all that data and information and transform it into change in the organization and improvements in the organization and the formalization of the business strategy.

—Richard Anderson, former CEO of Delta Air Lines and current CEO of Amtrack [31]

strategy analysis study of firms' external and internal environments, and their fit with organizational vision and goals.

Strategy analysis may be looked upon as the starting point of the strategic management process. It consists of 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 and without a thorough analysis of its external and internal environments.

Analyzing Organizational Goals and Objectives (Chapter 1) A firm's vision, mission, and strategic objectives form a hierarchy of goals that range from broad statements of intent and bases for competitive advantage to specific, measurable strategic objectives.

Analyzing the External Environment of the Firm (Chapter 2) Managers must monitor and scan the environment as well as analyze competitors. Two frameworks are provided: (1) The general environment consists of several elements, such as demographic and economic segments, and (2) the industry environment consists of competitors and other organizations that may threaten the success of a firm's products and services.

Assessing the Internal Environment of the Firm (Chapter 3) Analyzing the strengths and relationships among the activities that constitute a firm's value chain (e.g., operations, marketing and sales, and human resource management) can be a means of uncovering potential sources of competitive advantage for the firm.[32]

Assessing a Firm's Intellectual Assets (Chapter 4) The knowledge worker and a firm's other intellectual assets (e.g., patents) are important drivers of competitive advantages and wealth creation. We also assess how well the organization creates networks and relationships as well as how technology can enhance collaboration among employees and provide a means of accumulating and storing knowledge.[33]

Strategy Formulation

"You can have the best operations. You can be the most adept at whatever it is that you're doing. But, if you have a bad strategy, it's all for naught."

—Fred Smith, CEO of FedEx[34]

strategy formulation decisions made by firms regarding investments, commitments, and other aspects of operations that create and sustain competitive advantage.

Strategy formulation is developed at several levels. First, business-level strategy addresses the issue of how to compete in a given business to attain competitive advantage. Second, corporate-level strategy focuses on two issues: (a) what businesses to compete in and (b) how businesses can be managed to achieve synergy; that is, they create more value by working together than by operating as standalone businesses. Third, a firm must develop international strategies as it ventures beyond its national boundaries. Fourth, managers must formulate effective entrepreneurial initiatives.

Formulating Business-Level Strategy (Chapter 5) The question of how firms compete and outperform their rivals and how they achieve and sustain competitive advantages goes to the heart of strategic management. Successful firms strive to develop bases for competitive advantage, which can be achieved through cost leadership and/or differentiation as well as by focusing on a narrow or industrywide market segment.[35]

Formulating Corporate-Level Strategy (Chapter 6) Corporate-level strategy addresses a firm's portfolio (or group) of businesses. It asks: (1) What business (or businesses) should we compete in? and (2) How can we manage this portfolio of businesses to create synergies among the businesses?

Formulating International Strategy (Chapter 7) When firms enter foreign markets, they face both opportunities and pitfalls.[36] Managers must decide not only on the most appropriate entry strategy but also how they will go about attaining competitive advantages in international markets.[37]

Entrepreneurial Strategy and Competitive Dynamics (Chapter 8) Entrepreneurial activity aimed at new value creation is a major engine for economic growth. For entrepreneurial initiatives to succeed, viable opportunities must be recognized and effective strategies must be formulated.

Strategy Implementation

> *"Without strategy, execution is aimless. Without execution, strategy is useless."*
>
> *—Morris Chang, Founding Chairman of Taiwan Semiconductor Manufacturing Company* [38]

Clearly, sound strategies are of no value if they are not properly implemented.[39] **Strategy implementation** involves ensuring proper strategic controls and organizational designs, which includes establishing effective means to coordinate and integrate activities within the firm as well as with its suppliers, customers, and alliance partners.[40] Leadership plays a central role to ensure that the organization is committed to excellence and ethical behavior. It also promotes learning and continuous improvement and acts entrepreneurially in creating new opportunities.

strategy implementation
actions made by firms that carry out the formulated strategy, including strategic controls, organizational design, and leadership.

Strategic Control and Corporate Governance (Chapter 9) Firms must exercise two types of strategic control. First, informational control requires that organizations continually monitor and scan the environment and respond to threats and opportunities. Second, behavioral control involves the proper balance of rewards and incentives as well as cultures and boundaries (or constraints). Further, successful firms (those that are incorporated) practice effective corporate governance.

Creating Effective Organizational Designs (Chapter 10) Firms must have organizational structures and designs that are consistent with their strategy. In today's rapidly changing competitive environments, firms must ensure that their organizational boundaries—those internal to the firm and external—are more flexible and permeable.[41] Often, organizations develop strategic alliances to capitalize on the capabilities of other organizations.

Creating a Learning Organization and an Ethical Organization (Chapter 11) Effective leaders set a direction, design the organization, and develop an organization that is committed to excellence and ethical behavior. In addition, given rapid and unpredictable change, leaders must create a "learning organization" so that the entire organization can benefit from individual and collective talents.

Fostering Corporate Entrepreneurship (Chapter 12) Firms must continually improve and grow as well as find new ways to renew their organizations. Corporate entrepreneurship and innovation provide firms with new opportunities, and strategies should be formulated that enhance a firm's innovative capacity.

Chapter 13, "Analyzing Strategic Management Cases," provides guidelines and suggestions on how to evaluate cases in this course. Thus, the concepts and techniques discussed in the first 12 chapters can be applied to real-world organizations.

In the "*INSIGHTS* from Executives" sidebar we include an interview that the authors conducted with Usman Ghani, Chairman of ConfluCore, a large and successful consulting firm that has offices and affiliates on six continents.

1.1 *INSIGHTS* from Executives

THE STRATEGIC MANAGEMENT PROCESS

Usman Ghani, Chairman, ConfluCore

Biosketch

Usman Ghani has held leadership roles in strategic planning, marketing, operations, organization development, IT, and executive education, as well as led cross-functional, multicultural core business process teams to effective implementations. He is a former Fortune 100 executive distinguished by his record of developing powerful board policies and business strategies for a variety of industry leaders, including McKinsey & Company, Royal Dutch/Shell Group, Exxon Mobil Corporation, and HP/Electronic Data Systems.

Characterized as a high-energy visionary, Usman is passionate about helping complex organizations see the big picture so that they are capable of transformation. He consistently applies fresh thinking, refined dynamic strategy models, organizational approaches, and futuristic technologies to reveal the best solutions to compound challenges. His advisory firm, ConfluCore, integrates multiple concepts to generate *confluence* at the core of organizations to generate superior synergies. ConfluCore is headquartered in Las Colinas, Texas. It has offices and affiliates on all six continents and has been serving boards and senior executives worldwide for two decades.


Usman A. Ghani

With three Master's degrees from MIT and multiple certifications, courses, and diplomas, Usman has strived to undertake the tutelage of some of the world's premier thought leaders in each field he has taken on. These include Robert Blake, Peter Drucker, Jay Forrester, David McClelland, Edgar Schein, and Peter Senge. Believing in lifelong learning, he continues his own development personally and professionally.

Question 1. In your experience working with organizations, what have you found to be key attributes of successful strategies?

Successful strategies have not a few but *several* attributes and all of them must operate *in concert.* The three aspects I emphasize are, that: (a) *considered* strategic processes are applied, (b) strategies display systematic *adaptability,* and (c) customer offerings are effectively *differentiated* by the organizations. To ensure this, strategic management should itself also be *regularly assessed.*

Question 2. Looking at it from the other side, what are some of the key pitfalls you've seen firms fall prey to that have resulted in strategic failures?

Beware! While not broadly published, strategic failures outnumber strategic successes in all sizes and types of organizations. It is only when the acclaimed ones (like Borders, GE, Kodak, and Sears) result in large-scale failures that we become aware and then only for a while. Often, it is the dysfunctional strategic management of these organizations that fail them.

Successes and failures occur every day, but only for the attentive. These accumulate and, upon crossing some threshold, successes are celebrated while failures are shunned. So, the top pitfall is that strategic management often lacks a critiquing process to leverage *both* successes and "failures" as active learning. Both can contribute effectively if acknowledged by management. Bill Gates said there is nothing more dangerous than not knowing why and how you have succeeded. I would add to that statement that failures are learning steps and opportunities to leapfrog ahead; without knowing the why and how of your failures, over time organizations are bound to repeat their past failures or accumulate the negative consequences from their smaller failures, eventually becoming big failures. However, very few organizations realize this and management may hide failures to avoid negative consequences and also to exaggerate successes to beget recognition.

The most dangerous pitfalls in strategic management are often attitudinal and behavioral. These include disallowing changes to static/fixed strategies, becoming comfortable with average benchmarks, overconfident executives, complacent management, groupthink cultures, playing favorites, etc. All these can be checked if management so desires to avert attitudinal and behavioral pitfalls.

Question 3. How have you built your career and what are some valuable experiences or insights you've taken from different points in your career journey?

My career is atypical. Being fortunate to get guidance of great minds early on, I avoided singular specialization and aspired to understand a wide range of subjects and strove to integrate across these. By choice, *continued*

I pursued multiple cross-disciplinary academic programs at the best institutions and took on challenging integrative management projects with the finest and largest global corporations. Never tilting with one discipline alone, I kept experimenting with inclusive ideas that have ensued for me into one powerful concept: confluence—*the dynamic integration of core actions and decisions of an organization.*

Most companies and departments like to try integrative notions (like cross-functional communication), but these do not herald fullest potential synergy. Applying innovative methods, my company, ConfluCore (stands for *confluence at the core*) has effected real integration providing boards and management deeper insights into the workings of their organizations, meeting their crucial challenges, and developing self-convincing practicable, productive solutions. I say that when a sprinter wins a race, we do not kiss his feet; nor wish to pat his heart; nor praise his determined mind, nor admire any other one function of his. The whole human accomplished the win and gets the award (typically a medal around the neck). Similarly, an organization is a whole: we should never run it believing that we have one or two excellent departments. This is dangerous as we have seen in many corporate failures of the 21st century. We must have all functions and departments confluent at the organizational core. As we have seen, reasonably well-run departments that are mutually and dynamically integrated *for confluence* outdo those organizations that have one or a few excellent functions but lack dynamic integration.

Question 4. Based on your experience, what are some of the most critical attributes of effective strategic leaders?

Effective strategic leaders underscore strategic management as having three overlapping functions and are not biased toward any one function. They advance strategic analysis, formulation, and implementation in proper proportions. They become orchestra conductors, using Peter Drucker's metaphor. I am known for saying that a CEO is a Chief Everything Officer and so, responsible for *creating confluence* among all aspects of the organization, never tilting to one at the expense of the others. I have seen that executives who tilt eventually end up performing poorly and not really leaving a legacy.

The roles of effective strategic leaders includes developing visions, designing organizations, building integrative cultures, and inspiring all organizational stakeholders to attain greater heights. These roles carry huge influence and convey power. So, when done ethically, they advance the organization's power to innovate and redefine their excellence in serving customers. As these roles are more interactive and social, they are neither executed either alone nor with a small group in isolation. Effectiveness demands deep interaction skills, principally listening, empathizing, reflecting, motivating, resolving conflicts, and teambuilding. Effective strategic leaders use appropriate metaphors at appropriate times to resonate with the stakeholders. Additionally, an effective leader is open to critique to develop deeper self-awareness, which is rather uncommon. I have seen that the few leaders who yearn for deeper self-awareness and candid interactions, far outperform others who don't or those who are afraid to be perceived as vulnerable.

Question 5. How do you see the growing focus on advanced technologies, such as data analytics and artificial intelligence, influencing firms and industries over the next decade?

Advanced technologies and technical innovation are helpful when they are strategically deployed by an organization. Two effective approaches for this include: (a) changing the method and quality of an organization's *offerings,* and (b) developing better *support systems* to advance actions and decisions of the board and management to the next level. These two should also be included in an organization's technology strategy.

Offering-focused technologies enhance the value of the company's products and services and provide renewed competitive positioning while also advancing the state of its industry. Support-systems technologies also provide significant competitive advantage (if these are not adopted hurriedly or taken as "we too") by supplying real information faster and more meaningfully to the right people. Organizations should define the role (and processes) of their support systems *to establish and rekindle these* over time with the right advanced technologies.

The strategic management of support systems is increasingly important and must incorporate "soft" factors that are "invisible" or the intangible aspects of organizations. Such factors are not typically captured in classic accounting practices. For example, elements of corporate culture, level of organizational morale, stock of talent capability, and the like are the social aspects that should be included in strategic management. Additionally, boards and leadership should apply smart simulations to anticipate the consequences of their decisions, develop alternative strategies, indulge in scenario planning, and, in the process, also actively seek to acquire new learning themselves.

continued

Question 6. How important have you found integrity and organizational ethics to be for leaders and organizations? Can you provide any examples of times where integrity played a pivotal role in organizations you've worked with?

Organizations are social entities. Hence, ethics and values are paramount to establishing trust that rallies sound action by its people. When ethics are evident in actions of leaders, people walk the talk and live the values. But when ethics and values are "written on paper only", then terrible things happen. A recent example of the latter is Wells Fargo where the espoused theory was customer service and trust, while the strategy-in-action was compelling customers to open multiple accounts so the bank could project the market perception of growth, while in reality the number of customers remained the same. The fall from grace that the bank faced is still ongoing.

Ethical strategic leaders know that convergence of espoused values with values that are practiced fosters tremendous trust and mobilizes an unstoppable cultural momentum that spawns innovation, loyalty, and progress, and loyalty. But when these are dissimilar, not only do the most ambitious of strategies fail, they also take a long time to recover, if ever. For example, Enron never recovered and disappeared leaving behind its ghastly mark on corporate America.

Let's now address two concepts—corporate governance and stakeholder management—that are critical to the strategic management process.

LO 1-3

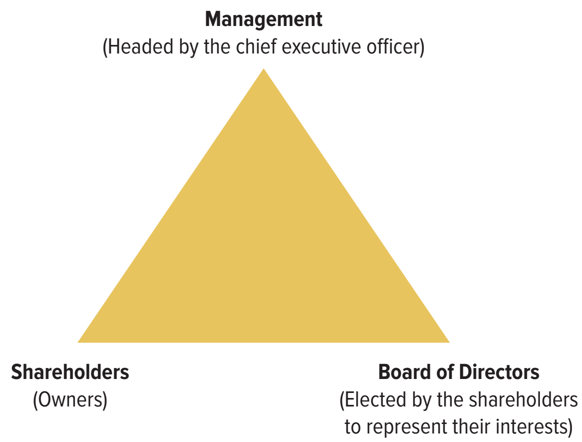
Identify the vital role of corporate governance and stakeholder management, as well as how "symbiosis" can be achieved among an organization's stakeholders.

THE ROLE OF CORPORATE GOVERNANCE AND STAKEHOLDER MANAGEMENT

Most business enterprises that employ more than a few dozen people are organized as corporations. As you recall from your finance classes, the overall purpose of a corporation is to maximize the long-term return to the owners (shareholders). Thus, we may ask: Who is really responsible for fulfilling this purpose? Robert Monks and Neil Minow provide a useful definition of **corporate governance** 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."[42] This relationship is illustrated in Exhibit 1.4.

corporate governance 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.

EXHIBIT 1.4 The Key Elements of Corporate Governance



The board of directors (BOD) are the elected representatives of the shareholders charged with ensuring that the interests and motives of management are aligned with those of the owners (i.e., shareholders). In many cases, the BOD is diligent in fulfilling its purpose. For example, Intel Corporation, the giant $59 billion maker of microprocessor chips, practices sound governance. Its BOD follows guidelines to ensure that its members are independent (i.e., are not members of the executive management team and do not have close personal ties to top executives) so that they can provide proper oversight; it has explicit guidelines on the selection of director candidates (to avoid "cronyism"). It provides detailed procedures for formal evaluations of directors and the firm's top officers.[43] Such guidelines serve to ensure that management is acting in the best interests of shareholders.[44]

Recently, there has been much criticism as well as cynicism by both citizens and the business press about the poor job that management and the BODs of large corporations are doing. We only have to look at the scandals at firms such as Arthur Andersen, Best Buy, Olympus, Enron, Volkswagen, and Wells Fargo.[45] Such malfeasance has led to an erosion of the public's trust in corporations. For example, according to the 2014 CNBC/Burson-Marsteller Corporation Perception Indicator, a global survey of 25,000 individuals, only 52 percent of the public in developed markets has a favorable view of corporations.[46] Forty-five percent felt corporations have "too much influence over the government." More than half of the U.S. public said "strong and influential" corporations are "bad" even if they are promoting innovation and growth, and only 9 percent of the public in the United States says corporate CEOs are "among the most respected" in society.

Perhaps, part of the responsibility—or blame—lies with boards of directors who are often not delivering on their core mission: providing strong oversight and strategic support for management's efforts to create long-term value.[47] In a recent study by McKinsey & Co., only 34 percent of 772 directors agreed that the boards on which they served fully comprehended their firm's strategies. And only 22 percent claimed their boards were completely aware of how their firms created value. Finally, a mere 16 percent claimed their boards had a strong understanding of the dynamics of their firms' industries.

One area in which public anger is most pronounced is the excessive compensation of the top executives of well-known firms. It is now clear that much of the bonus pay awarded to executives on Wall Street in the past was richly undeserved.[48] Case in point, 2011 was a poor year for financial stocks: 35 of the 50 largest financial company stocks fell that year. The sector lost 17 percent—compared to flat performance for the Standard & Poor's 500. However, even as the sector struggled, the average pay of finance company CEOs rose 20.4 percent. For example, JPMorgan CEO Jamie Dimon was the highest-paid banker—with $23.1 million in compensation, an 11 percent increase from the previous year. The firm's shareholders didn't do as well—the stock fell 20 percent.[49]

Of course, executive pay is not restricted to financial institutions. A study released in 2016 entitled "The 100 Most Overpaid CEOs" addressed what it viewed as the "fundamental disconnect between CEO pay and performance."[50] It found that CEO pay grew 997 percent over the most recent 36-year period—a rate that outpaced the growth in the cost of living, the productivity of the economy, and the stock market. The lead author, Rosanna Weaver, argues that the latter point disproves "the claim that the growth in CEO pay reflects the 'performance' of the company, the value of its stock, or the ability of the CEO to do anything but disproportionately raise the amount of his pay."

Clearly, there is a strong need for improved corporate governance, and we will address this topic in Chapter 9.[51] We focus on three important mechanisms to ensure effective corporate governance: an effective and engaged board of directors, shareholder activism, and proper managerial rewards and incentives.[52] In addition to these internal controls, a key role is played by various external control mechanisms.[53] These include the auditors, banks, analysts, an active financial press, and the threat of hostile takeovers.

Alternative Perspectives of Stakeholder Management

Generating long-term returns for the shareholders is the primary goal of a publicly held corporation.[54] As noted by former Chrysler vice chairman Robert Lutz, "We are here to serve the shareholder and create shareholder value. I insist that the only person who owns the company is the person who paid good money for it."[55]

Despite the primacy of generating shareholder value, managers who focus solely on the interests of the owners of the business will often make poor decisions that lead to negative, unanticipated outcomes.[56] For example, decisions such as mass layoffs to increase profits, ignoring issues related to conservation of the natural environment to save money, and exerting excessive pressure on suppliers to lower prices can harm the firm in the long run. Such actions would likely lead to negative outcomes such as alienated employees, increased governmental oversight and fines, and disloyal suppliers.

Clearly, in addition to *shareholders,* there are other *stakeholders* (e.g., suppliers, customers) who must be taken into account in the strategic management process.[57] A stakeholder can be defined as an individual or group, inside or outside the company, that has a stake in and can influence an organization's performance. Each stakeholder group makes various claims on the company.[58] Exhibit 1.5 provides a list of major stakeholder groups and the nature of their claims on the company.

stakeholder management
a firm's strategy for recognizing and responding to the interests of all its salient stakeholders.

Zero Sum or Symbiosis? There are two opposing ways of looking at the role of **stakeholder management**.[59] The first one can be termed "zero sum." Here, the various stakeholders compete for the organization's resources: the gain of one individual or group is the loss of another individual or group. For example, employees want higher wages (which drive down profits), suppliers want higher prices for their inputs and slower, more flexible delivery times (which drive up costs), customers want fast deliveries and higher quality (which drive up costs), the community at large wants charitable contributions (which take money from company goals), and so on. This zero-sum thinking is rooted, in part, in the traditional conflict between workers and management, leading to the formation of unions and sometimes ending in adversarial union–management negotiations and long, bitter strikes.

Consider, for example, the many stakeholder challenges facing Walmart, the world's largest retailer.

> Walmart strives to ramp up growth while many stakeholders are watching nervously: employees and trade unions; shareholders, investors, and creditors; suppliers and joint venture partners; the governments of the United States and other nations where the retailer operates; and customers. In addition many non-governmental organizations (NGOs), particularly in countries where the retailer buys its products, are closely monitoring Walmart. Walmart's stakeholders have different interests, and not all of them share the firm's goals.

EXHIBIT 1.5
An Organization's Key Stakeholders and the Nature of Their Claims

Stakeholder Group	Nature of Claim
Stockholders	Dividends, capital appreciation
Employees	Wages, benefits, safe working environment, job security
Suppliers	Payment on time, assurance of continued relationship
Creditors	Payment of interest, repayment of principal
Customers	Value, warranties
Government	Taxes, compliance with regulations
Communities	Good citizenship behavior such as charities, employment, not polluting the environment

There will always be conflicting demands on organizations. However, organizations can achieve mutual benefit through stakeholder symbiosis, which recognizes that stakeholders are dependent upon each other for their success and well-being.[60] Consider Procter & Gamble's "laundry detergent compaction," a technique for compressing even more cleaning power into ever smaller concentrations.

P&G perfected a technique that could compact two or three times as much cleaning powder into a liquid concentration. This remarkable breakthrough has led to not only a change in consumer shopping habits but also a revolution in industry supply chain economics. Here's how several key stakeholders are affected:

> *Consumers* love concentrated liquids because they are easier to carry, pour, and store. *Retailers,* meanwhile, prefer them because they take up less floor and shelf space, which leads to higher sales-per-square-foot—a big deal for Walmart, Target, and other big retailers. *Shipping and wholesalers,* meanwhile, prefer reduced-sized products because smaller bottles translate into reduced fuel consumption and improved warehouse space utilization. And, finally, *environmentalists* favor such products because they use less packaging and produce less waste than conventional products.[61]

Social Responsibility and Environmental Sustainability: Moving beyond the Immediate Stakeholders

LO 1-4

Understand the importance of social responsibility, including environmental sustainability, and how it can enhance a corporation's innovation strategy.

Organizations cannot ignore the interests and demands of stakeholders such as citizens and society in general that are beyond its immediate constituencies—customers, owners, suppliers, and employees. The realization that firms have multiple stakeholders and that evaluating their performance must go beyond analyzing their financial results has led to a new way of thinking about businesses and their relationship to society.

First, *social responsibility* recognizes that businesses must respond to society's expectations regarding their obligations to society. Second, the *triple bottom line approach* evaluates a firm's performance. This perspective takes into account financial, social, and environmental performance. Third, *making the case for sustainability initiatives* addresses some of the challenges managers face in obtaining approvals for such projects—and how to overcome them.

social responsibility
the expectation that businesses or individuals will strive to improve the overall welfare of society.

Social Responsibility **Social responsibility** is the expectation that businesses or individuals will strive to improve the overall welfare of society.[62] From the perspective of a business, this means that managers must take active steps to make society better by virtue of the business being in existence.[63] What constitutes socially responsible behavior changes over time. In the 1970s, affirmative action was a high priority; during the 1990s and up to the present time, the public has been concerned about environmental quality. Many firms have responded to this by engaging in recycling and reducing waste. And in the wake of terrorist attacks on New York City and the Pentagon, as well as the continuing threat from terrorists worldwide, a new kind of priority has arisen: the need to be vigilant concerning public safety.

In order to maximize the positive impact of corporate social responsibility (CSR) initiatives, firms need to create coherent strategies.[64] Research has shown that companies' CSR activities are generally divided across three theaters of practice and assigning the activities accordingly is an important initial step.

- *Theater one: Focusing on philanthropy*. Here, programs are not designed to increase profits or revenues. Examples include financial contributions to civic and charity organizations as well as the participation and engagement of employees in community programs.
- *Theater two: Improving operational effectiveness*. Initiatives in this theater function within existing business models to provide social or environmental benefits and support a company's value creating activities in order to enhance efficiency and effectiveness. They typically can increase revenue or decrease costs—or both. Examples

include sustainability initiatives that can reduce the use of resources, waste, or emissions—to cut costs. Or, firms can invest in employee health care and working conditions to enhance retention and productivity—as well as a firm's reputation.

- *Theater three: Transforming the business model.* Improved business performance is a requirement of programs in this theater and is predicated on social and environmental challenges and results. An example would be Hindustan Unilever's Project Shakti in India. Rather than use the typical wholesaler-retailer distribution model to reach remote villages, the firm recruited village women who were provided with training and microfinance loans in order to sell soaps, detergents, and other products door-to-door. More than 65,000 women were recruited and not only were they able to typically double their household's income but it also contributed to public health via access to hygiene products. The project attained more than $100 million in revenues and has led the firm to roll out similar programs in other countries.

A key stakeholder group that appears to be particularly susceptible to corporate social responsibility (CSR) initiatives is customers.[65] Surveys indicate a strong positive relationship between CSR behaviors and consumers' reactions to a firm's products and services.[66] For example:

- Corporate Citizenship's poll conducted by Cone Communications found that "84 percent of Americans say they would be likely to switch brands to one associated with a good cause, if price and quality are similar."[67]
- Hill & Knowlton/Harris's Interactive poll reveals that "79 percent of Americans take corporate citizenship into account when deciding whether to buy a particular company's product and 37 percent consider corporate citizenship an important factor when making purchasing decisions."[68]

Such findings are consistent with a large body of research that confirms the positive influence of CSR on consumers' company evaluations and product purchase intentions across a broad range of product categories.

triple bottom line
assessment of a firm's financial, social, and environmental performance.

The Triple Bottom Line: Incorporating Financial as Well as Environmental and Social Costs Many companies are now measuring what has been called a **"triple bottom line."** This involves assessing financial, social, and environmental performance. Shell, NEC, Procter & Gamble, and others have recognized that failing to account for the environmental and social costs of doing business poses risks to the company and its community.[69]

Social and environmental issues can ultimately become financial issues. According to Lars Sorensen, CEO of Novo Nordisk, a $17 billion global pharmaceutical firm based in Denmark:[70]

> If we keep polluting, stricter regulations will be imposed, and energy consumption will become more costly. The same thing applies to the social side. If we don't treat employees well, if we don't behave as good corporate citizens in our local communities, and if we don't provide inexpensive products for poorer countries, governments will impose regulations on us that will end up being very costly.

The environmental revolution has been almost four decades in the making.[71] In the 1960s and 1970s, companies were in a state of denial regarding their firms' impact on the natural environment. However, a series of visible ecological problems created a groundswell for strict governmental regulation. In the United States, Lake Erie was "dead," and in Japan, people died of mercury poisoning. More recently, Japan's horrific tsunami that took place on March 11, 2011, Hurricane Sandy's devastation on the East Coast of the United States in late October 2012, and Hurricane Michael's heavy destruction of Florida's Gulf Coast in October 2018 have raised alarms.

As noted by Andrew Winston, founder of Winston Eco-Strategies, the norms and expectations about how firms manage environmental and social issues are rapidly changing.[72] For example, in 2011, only 20 percent of the S&P companies produced sustainability reports. However, by 2016, 82 percent did, providing public, detailed looks at their environmental and social initiatives and performance. A growing number have integrated these sustainability reports into their annual financial reports.

Winston's company maintains a public database on the sustainability goals set by multinational firms. Such commitments include objectives such as "reduce greenhouse gas emissions by 50 percent by 2025," and "ensure women make up 40 percent of management roles." Greater than 90 percent of the 200 largest companies in the world now have public targets on social or environmental performance—and it is nearly 100 percent if we exclude Chinese state-owned enterprises, which typically only follow government mandates. More than 130 of the world's largest companies are now committed to 100 percent renewable energy. Ten years ago, the number of large firms with renewable energy goals, or any sustainability objectives, was negligible.

For many successful firms, environmental values are now becoming a central part of their cultures and management processes.[73] And, as noted earlier, environmental impacts are being audited and accounted for as the third bottom line. According to a recent corporate report, "If we aren't good corporate citizens as reflected in a Triple Bottom Line that takes into account social and environmental responsibilities along with financial ones—eventually our stock price, our profits, and our entire business could suffer."[74] Also, a CEO survey on sustainability by Accenture debunks the notion that sustainability and profitability are mutually exclusive corporate goals. The study found that sustainability is being increasingly recognized as a source of cost efficiencies and revenue growth. In many companies, sustainability activities have led to increases in revenue and profits.

Strategy Spotlight 1.2 discusses some of the challenges and initiatives directed toward environmental sustainability in the fashion industry.

Many firms have profited by investing in socially responsible behavior, including those activities that enhance environmental sustainability. However, how do such "socially responsible" companies fare in terms of shareholder returns compared to benchmarks such as the Standard & Poor's 500 Index? Let's look at some of the evidence.

> SRI (socially responsible investing) is a broad-based approach to investing that now encompasses an estimated $3.7 trillion, or $1 out of every $9 under professional management in the United States.[75] SRI recognizes that corporate responsibility and societal concerns are considerations in investment decisions. With SRI, investors have the opportunity to put their money to work to build a more sustainable world while earning competitive returns both today and over time.
>
> And, as the saying goes, nice guys don't have to finish last. The ING SRI Index Fund, which tracks the stocks of 50 companies, enjoyed a 47.4 percent return in a recent year. That easily beat the 2.65 percent gain of the Standard & Poor's 500 stock index. A review of the 145 socially responsible equity mutual and exchange-traded funds tracked by Morningstar also shows that 65 percent of them outperformed the S&P 500.[76]

Making the Business Case for Sustainability Initiatives We mentioned many financial and nonfinancial benefits associated with sustainability initiatives in the previous section. However, in practice, such initiatives often have difficulty making it through the conventional approval process within corporations. This is primarily because, before companies make investments in projects, managers want to know their return on investment.[77]

The ROIs on sustainability projects are often very difficult to quantify for a number of reasons. Among these are:

1. ***The data necessary to calculate ROI accurately are often not available when it comes to sustainability projects.*** However, sustainability programs may often find their success beyond company boundaries, so internal systems and process metrics can't capture all the relevant numbers.

1.2 STRATEGY SPOTLIGHT

ENVIRONMENTAL SUSTAINABILITY IN THE FASHION INDUSTRY

The $3 trillion fashion industry employs over 60 million people along its global value chain. Although it makes 100 billion accessories and garments each year, three-fifths of them are thrown away within a year, according to McKinsey & Company. Further, a vast amount of cotton, water, and power is used to make their products, but less than 1 percent is recycled into new clothes, according to an environmental research group in England. Amazingly, the United Nations Economic Commission for Europe estimates that about 40 percent of clothes in the wardrobes of developed countries are never worn! To provide some perspective, Rob Opsomer, a sustainability researcher asserts that "the equivalent of a dump truck filled with textiles gets landfilled or incinerated every single second."

Inditex SA, the company that owns Zara and several other brands, made 1.6 billion garments in 2016—a scale that has helped its stock price quintuple over a recent 10-year period. However, recently industry growth has slowed, in part because millennials have become sensitive to fast fashion's impact on the environment. (In fact, according to Boston Consulting Group, one-third of this demographic consistently identifies sustainability as a factor that influences their purchasing habits.) Plus, they exhibit a preference for spending on experiences rather than goods.

Despite their strong past performance, Inditex has missed analysts' revenue expectations in recent quarters and its shares have lost about one third of their value since the summer of 2017. As noted by Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel, "Their business model is fundamentally unsustainable. We all have enough stuff."

This situation creates an opportunity for companies to use sustainability to differentiate their brands. With growing concerns over the waste, retailers have begun placing recycling bins prominently in many stores, using greener materials, etc., to help win over customers. Let's look at some of Inditex's initiatives:

- Began disassembling old clothing to spin into yarns for fashions it markets as "garments with a past."
- Grouped many of its sustainability efforts—clothes made from organic cotton and repurposed fabrics into a sub-brand called Join Life.
- To boost the share of greener textiles in its mix, the firm has funded research programs at MIT and universities in Spain. One initiative is to try using 3D printing to make textiles using by-products from timber operations.

Inditex says that for now they're absorbing the extra costs of using recycled or reconstituted garments. The Join Life line is priced competitively with other items in the Zara stores—T-shirts cost less than $10 and jeans are priced under $40. The firm is striving to keep a lid on prices of its greener materials and it expects the cost to fall as production increases. Anna Gedda, an executive at rival H&M, whose firm has undertaken similar initiatives, asserts, "We take it as a long-term investment instead of charging it to our customers. We believe sustainable fashion should be affordable for all."

Sources: Hirtenstein, A., and D. Wei. 2018. The greening of throwaway stuff. *Bloomberg BusinessWeek,* May 7: 18-19; Kell, G. 2018. Can fashion be sustainable? *forbes.com,* June 4: np; and Mellery-Pratt, R. 2017. 5 sustainability threats to fashion. *businessfashion.com,* May 26: np.

2. ***Many of the benefits from such projects are intangible.*** Traditional financial models are built around relatively easy-to-measure, monetized results. Yet many of the benefits of sustainability projects involve fuzzy intangibles, such as the goodwill that can enhance a firm's brand equity.
3. ***The payback period is on a different time frame.*** Even when their future benefits can be forecast, sustainability projects often require longer-term payback windows.

Clearly, the case for sustainability projects needs to be made on the basis of a more holistic and comprehensive understanding of all the tangible and intangible benefits rather than whether or not they meet existing hurdle rates for traditional investment projects. For example, 3M uses a lower hurdle rate for pollution prevention projects. When it comes to environmental projects, IKEA allows a 10- to 15-year payback period, considerably longer than it allows for other types of investment. And Diversey, a cleaning products company, has employed a portfolio approach. It has established two hurdles for projects in its carbon reduction plan: a three-year payback and a cost per megaton of carbon avoided. Out of 120 possible projects ranging from lighting retrofits to solar photovoltaic systems, only 30 cleared both hurdles. Although about 60 of the other ideas could reach *one,* an expanded 90-project portfolio, all added together, met the double hurdle. Subsequently, Diversey was able to increase its carbon reduction goal from 8 to 25 percent and generated a higher net present value.

Such approaches are the result of the recognition that the intangible benefits of sustainability projects—such as reducing risks, staying ahead of regulations, pleasing communities, and enhancing employee morale—are substantial even when they are difficult to quantify. Just as companies spend large fortunes on launching advertising campaigns or initiating R&D projects without a clear quantification of financial returns, sustainability investments are necessary even when it is difficult to calculate the ROI of such investments. The alternative of not making these investments is often no longer feasible.

THE STRATEGIC MANAGEMENT PERSPECTIVE: AN IMPERATIVE THROUGHOUT THE ORGANIZATION

LO 1-5

Recognize the need for greater empowerment throughout the organization.

Strategic management requires managers to take an integrative view of the organization and assess how all of the functional areas and activities fit together to help an organization achieve its goals and objectives. This cannot be accomplished if only the top managers in the organization take an integrative, strategic perspective of issues facing the firm and everyone else "fends for themselves" in their independent, isolated functional areas. Instead, people throughout the organization must strive toward overall goals.

To develop and mobilize people and other assets, leaders are needed throughout the organization.[78] No longer can organizations be effective if the top "does the thinking" and the rest of the organization "does the work." Everyone must be involved in the strategic management process. There is a critical need for three types of leaders:

- ***Local line leaders*** who have significant profit-and-loss responsibility.
- ***Executive leaders*** who champion and guide ideas, create a learning infrastructure, and establish a domain for taking action.
- ***Internal networkers*** who, although they have little positional power and formal authority, generate their power through the conviction and clarity of their ideas.[79]

Top-level executives are key in setting the tone for the empowerment of employees. Consider Richard Branson, founder of the Virgin Group, whose core businesses include retail operations, hotels, communications, and an airline. He is well known for creating a culture and an informal structure where anybody in the organization can be involved in generating and acting upon new business ideas. In an interview, he stated: "If someone has an idea, they can pick up the phone and talk to me. I can vote, 'Done, let's do it.' Or, better still, they can just go ahead and do it. They know that they are not going to get a mouthful from me if they make a mistake."[80]

To inculcate a strategic management perspective, managers must create management processes to foster change. This involves planning, leading, and holding people accountable. At Netflix, leading people is not based on one's position in the hierarchy, nor an individual trait that is taught to people identified as "high potentials."[81] The expectation is that anyone can take initiative, make decisions, and influence others consistent with the firm's strategy. Everyone gets—and receives—feedback from team members, supervisors, managers, and customers. As part of the overall system that emphasizes transparency, there is the shared belief at Netflix that good results depend on people providing their insights and perspectives. Getting alignment, direction, and obtaining results the right way is essential. Those who fail to achieve this are asked to leave the firm.

We'd like to close with our favorite example of how inexperience can be a virtue. It further reinforces the benefits of having broad involvement throughout the organization in the strategic management process (see Strategy Spotlight 1.3).

1.3 STRATEGY SPOTLIGHT

STRATEGY AND THE VALUE OF INEXPERIENCE

Peter Guber, chairman of Mandalay Entertainment, discovered that great ideas can come from the least expected sources. During the filming of the movie *Gorillas in the Mist*, his production company faced many problems. Rwanda—the site of the filming—was on the verge of revolution, the film needed to use 200 animals, and the screenplay required the gorillas to follow a script, that is, do what the script called for and "act." If that failed, the fallback position was to use dwarfs in gorilla suits on a soundstage—a strategy that usually failed.

Guber explains how the "day was saved" by someone with very limited experience:

> We called an emergency meeting to solve these problems. In the middle of it, a young intern asked, "What if you let the gorillas write the story?" Everyone laughed and wondered what she was doing in the meeting with experienced filmmakers. Hours later, someone casually asked her what she had meant. She said, "What if you send a really good cinematographer into the jungle with a ton of film to shoot the gorillas, then you could write a story around what the gorillas did on film." It was a brilliant idea. And we did exactly what she suggested: We sent Alan Root, an Academy Award–nominated cinematographer into the jungle for three weeks. He came back with phenomenal footage that practically wrote the story for us.

The upshot? The film cost $20 million to shoot—half the original budget. And it was nominated for five Academy Awards—including Sigourney Weaver for best actress—and it won two Golden Globe Awards.

Source: Guber, P. 1998. My greatest lesson. *Fast Company,* 14: 88–90; and *imdb.com*.

LO 1-6

Explain how an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

ENSURING COHERENCE IN STRATEGIC DIRECTION

Employees and managers must strive toward common goals and objectives.[82] By specifying desired results, it becomes much easier to move forward. Otherwise, the organization's stakeholders would not know what the firm is striving to accomplish. And, employees and managers would have no idea of what to work toward. Alan Mulally, former CEO at Ford Motor Company, stressed the importance of perspective in creating a sense of mission: "What are we? What is our real purpose? And then, how do you include everybody so you know where you are on that plan, so you can work on areas that need special attention."[83]

Why Share a Firm's Strategic Direction?

Despite pressure for short-term results, executives should communicate their long-term thinking to help ensure the support of investors and other stakeholders. Many have suggested the benefits that firms can obtain when they communicate their perspectives and priorities. Among these are:[84]

- Investor presentations of long-term plans provide an opportunity for discussions to take place regarding the continuing corporate performance on two critical elements: a long-term value creation story (drawing on the past) and a long-term value creation plan (looking to the future). This involves a good deal of research about the market, product development, fiscal and attitudinal changes, and regulatory changes. In addition, it also helps to signal credibility as to the corporation's preparedness to deal with anticipated environmental changes. When Aled Smith, an award-winning fund manager with M&G Investments, was asked how he decides if a corporation's management was trustworthy, he responded, "What matters to me is that companies can explain their strategy...And unfortunately, probably 80 percent of the corporate presentations fall into the same trap, confusing strategy with objectives or aims with ambitions. Their explanations are like...'We're going to build this great platform, and then we're going to monetize it and make lots of money.' The steps in between are not well laid out."

- Investors are increasingly seeing ESG (environmental, social, governance) issues as financially material and expect sound management of such factors in order to deliver better performance over the long term. Thus, communicating such matters enables investors to view them "through the eyes of management" and reduces uncertainty about a firm's initiatives and insight regarding their resource allocations. It also demonstrates that the company can anticipate as well as capitalize on megatrends. A long-term plan enables the CEO to outline, for example, how the firm is responding to significant trends such as technological disruption, an aging society, and the transition to a low-carbon economy.
- A corporation can obtain many collateral benefits when it communicates a long-term purpose. Among these are the ability to inspire—and retain—managers and employees. When a company espouses an authentic, sustainable purpose, it is more likely to attract, motivate, and retain talent—a core objective in the knowledge economy. However, in a recent MIT Sloan School survey of more than 4,000 managers, only 28 percent could correctly list three of their firms' top strategic priorities. Similarly, in another study, only 14 percent of the organizations that were polled reported that their employees had a good understanding of their company's strategy and direction. The Metrus Group identified several factors that can enhance the attainment of alignment in the purpose and objectives throughout an organization—an agreed upon strategy; strategic measures or a balanced scorecard; and, linking to business functions with targets, individual accountabilities, and rewards.

Organizations express priorities best through stated goals and objectives that form a **hierarchy of goals,** which includes the firm's vision, mission, and strategic objectives.[85] What visions may 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.[86] Visions, as one would expect, also have longer time horizons than either mission statements or strategic objectives. Exhibit 1.6 depicts the hierarchy of goals and its relationship to two attributes: general versus specific and time horizon.

hierarchy of goals
organizational 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.

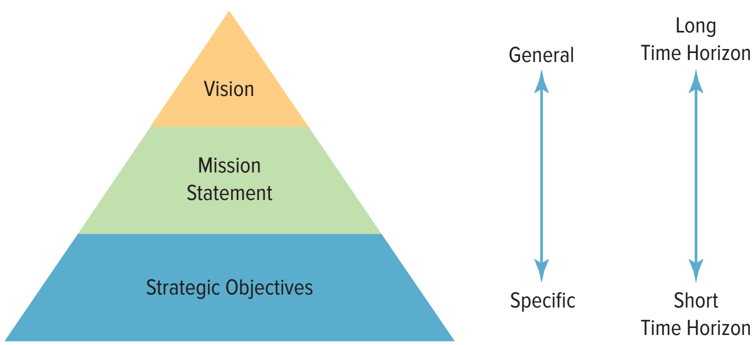
Organizational Vision

A **vision** is a goal that is "massively inspiring, overarching, and long term."[87] It represents a destination that is driven by and evokes passion. For example, Wendy Kopp, founder of Teach for America, notes that her vision for the organization, which strives to improve the quality of inner-city schools, draws many applicants: "We're looking for people who are magnetized to this notion, this vision, that one day all children in our nation should have the opportunity to attain an excellent education."[88]

vision
organizational goal(s) that evoke(s) powerful and compelling mental images.

Leaders must develop and implement a vision. A vision may or may not succeed; it depends on whether or not everything else happens according to an organization's strategy.

EXHIBIT 1.6 A Hierarchy of Goals



1.4 STRATEGY SPOTLIGHT — DIGITAL ECONOMY

ALIBABA'S VISION CREATED THE WORLD'S MOST VALUABLE ONLINE ECOSYSTEM

Alibaba has become one of the leading online retailers in the world with a market capitalization of more than $400 billion, exceeding the value of more traditional retailers such as Walmart. Jack Ma started Alibaba in 1999 as a business-to-business (B2B) portal connecting Chinese manufacturing companies with the world. Ma quickly replicated the initial success of the B2B portal to other e-commerce areas, such as consumer-to-consumer (C2C) markets with the Taobao marketplace launched in 2003. However, while Alibaba's initial business model was very successful, it was not until 2007 that Alibaba became the world-beater it is today. This was when Jack Ma and his management team agreed on a new vision for the Chinese e-commerce giant: "foster the development of an open, coordinated, prosperous e-commerce ecosystem." This vision transformed Alibaba's business model from simply connecting sellers and buyers into an ecosystem providing all resources that Chinese online businesses would need to succeed. Over time, Alibaba moved more and more retail functions to its sprawling online platform. Alibaba's ecosystem today includes a startling array of businesses, including commerce, payment, advertising, lending, and shipping. In other words, Alibaba does what Amazon, eBay, PayPal, Google, LendingClub, and FedEx do in the United States, but in a coordinated and data-driven network controlled by Alibaba.

Bringing these varied businesses into the Alibaba ecosystem is not only customer-centric, but also efficient. Alibaba uses machine-learning technology to leverage the data created in its ecosystem. For instance, Alibaba's lending business—called Ant Financial—automates lending decisions to small businesses, allowing Alibaba to make lending decisions in a matter of minutes without the input or supervision of a banker. This data-driven lending business assesses the strengths of the borrower's business, the competitive pressure from rival vendors, and the overall likelihood of repayment, all with the data available in the Alibaba ecosystem. Alibaba's leadership team understands the value of its ecosystem and invests heavily in protecting it. For instance, a recent loyalty program, called 88VIP, either costs 88 RMB ($13) or 888 RMB ($130). Members who contribute more to the value of the ecosystem by writing reviews or shopping at different Alibaba businesses are charged the lower price. Alibaba not only realizes direct benefits from this membership model by collecting membership fees, but also reaps indirect benefits by creating an engaged and credible customer base, which further raises the value of the Alibaba ecosystem in a virtuous cycle.

Sources: Ming, Z. 2018. Alibaba and the future of business. *Harvard Business Review*, 96(5): 88-96; Saiidi, U. 2017. Alibaba is much more than just China's e-commerce platform. cnbc.com, September 22: np; and Laubscher, H. 2018. Is Alibaba's 88VIP loyalty program the final straw for competitors? forbes.com, August 14: np.

As the late Mark Hurd, Hewlett-Packard's former CEO, humorously pointed: "Without execution, vision is just another word for hallucination."[89]

In a survey of executives from 20 different countries, respondents were asked what they believed were a leader's key traits.[90] Ninety-eight percent responded that "a strong sense of vision" was the most important. Similarly, when asked about the critical knowledge skills, the leaders cited "strategy formulation to achieve a vision" as the most important skill. In other words, managers need to have not only a vision but also a plan to implement it. Regretfully, 90 percent reported a lack of confidence in their own skills and ability to conceive a vision.[91]

One of the most famous examples of a vision is Microsoft's (at its founding): "A computer on every desk in every home." Other examples are:

- "Transforming technology to save lives." (Medtronic)
- "To move with velocity to drive profitable growth and become an even better McDonald's serving more customers delicious food each day around the world." (McDonald's)
- "If it is smart and connected, it is best with Intel." (Intel)

Although such visions cannot be accurately measured by a specific indicator of how well they are being achieved, they do provide a fundamental statement of an organization's values, aspirations, and goals. Such visions go well beyond narrow financial objectives, of course, and strive to capture both the minds and hearts of employees.

Strategy Spotlight 1.4 discusses how the development of Alibaba's vision served to create a more expansive view of their future.

Clearly, vision statements are not a cure-all. Sometimes they backfire and erode a company's credibility. Visions fail for many reasons, including the following:[92]

The Walk Doesn't Match the Talk An idealistic vision can arouse employee enthusiasm. However, that same enthusiasm can be quickly dashed if employees find that senior management's behavior is not consistent with the vision. Often, vision is a sloganeering campaign of new buzzwords and empty platitudes like "devotion to the customer," "teamwork," or "total quality" that aren't consistently backed by management's action.

Irrelevance Visions created in a vacuum—unrelated to environmental threats or opportunities or an organization's resources and capabilities—often ignore the needs of those who are expected to buy into them. Employees reject visions that are not anchored in reality.

Not the Holy Grail Managers often search continually for the one elusive solution that will solve their firm's problems—that is, the next "holy grail" of management. They may have tried other management fads only to find that they fell short of their expectations. However, they remain convinced that one exists. A vision simply cannot be viewed as a magic cure for an organization's illness.

Too Much Focus Leads to Missed Opportunities The downside of too much focus is that in directing people and resources toward a grandiose vision, losses can be significant. It is analogous to focusing your eyes on a small point on a wall. Clearly, you would not have very much peripheral vision. Similarly, organizations must strive to be aware of unfolding events in both their external and internal environment when formulating and implementing strategies.

An Ideal Future Irreconciled with the Present Although visions are not designed to mirror reality, they must be anchored somehow in it. People have difficulty identifying with a vision that paints a rosy picture of the future but does not account for the often hostile environment in which the firm competes or that ignores some of the firm's weaknesses.

Mission Statements

A company's **mission statement** differs from its vision in that it encompasses both the purpose of the company and the basis of competition and competitive advantage.

mission statement
a set of organizational goals that identifies the purpose of the organization, its basis of competition, and competitive advantage.

Exhibit 1.7 contains the vision statement and mission statement of The Walt Disney Company, a $60 billion giant entertainment and media enterprise. Note that while the vision statement is broad-based, the mission statement is more specific and focused on the means by which the firm will compete.

Effective mission statements incorporate the concept of stakeholder management, suggesting that organizations must respond to multiple constituencies. Customers, employees, suppliers, and owners are the primary stakeholders, but others may also play an important role. Mission statements also have the greatest impact when they reflect an organization's enduring, overarching strategic priorities, and competitive positioning. Mission statements also can vary in length and specificity. The following two mission statements illustrate these issues.

- "To produce superior financial returns for our shareholders by providing high value-added logistics, transportation, and related business services through focused operating companies." (Federal Express)

EXHIBIT 1.7
Comparing The Walt Disney's Vision and Mission

Vision
To be one of the world's leading producers and providers of entertainment and information.
Mission
To be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content, services, and consumer products, we seek to develop the most creative, innovative, and profitable entertainment experiences and related products in the world.

Source: Walt Disney company records.

- "To be the very best in the business. Our game plan is status go . . . we are constantly looking ahead, building on our strengths, and reaching for new goals. In our quest of these goals, we look at the three stars of the Brinker logo and are reminded of the basic values that are the strength of this company . . . People, Quality, and Profitability. Everything we do at Brinker must support these core values. We also look at the eight golden flames depicted in our logo, and are reminded of the fire that ignites our mission and makes up the heart and soul of this incredible company. These flames are: Customers, Food, Team, Concepts, Culture, Partners, Community, and Shareholders. As keeper of these flames, we will continue to build on our strengths and work together to be the best in the business." (Brinker International, whose restaurant chains include Chili's and On the Border)[93]

Few mission statements identify profit or any other financial indicator as the sole purpose of the firm. Indeed, many do not even mention profit or shareholder return.[94] Employees of organizations or departments are usually the mission's most important audience. For them, the mission should help to build a common understanding of purpose and commitment to nurture.

A good mission statement, by addressing each principal theme, must communicate why an organization is special and different. Two studies that linked corporate values and mission statements with financial performance found that the most successful firms mentioned values other than profits. The less successful firms focused almost entirely on profitability.[95] In essence, profit is the metaphorical equivalent of oxygen, food, and water that the body requires. They are not the point of life, but without them, there is no life.

Vision statements tend to be quite enduring and seldom change. However, a firm's mission can and should change when competitive conditions dramatically change or the firm is faced with new threats or opportunities.

Strategic Objectives

strategic objectives a set of organizational goals that are used to put into practice the mission statement and that are specific and cover a well-defined time frame.

Strategic objectives are used to operationalize the mission statement.[96] 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. Thus, they are more specific and cover a more well-defined time frame. Setting objectives demands a yardstick to measure the fulfillment of the objectives.[97]

Exhibit 1.8 lists several firms' strategic objectives—both financial and nonfinancial. While most of them are directed toward generating greater profits and returns for the owners of the business, others are directed at customers or society at large.

EXHIBIT 1.8
Strategic Objectives

Strategic Objectives (Financial)
• Increase sales growth 6 percent to 8 percent and accelerate core net earnings growth from 13 percent to 15 percent per share in each of the next 5 years. (Procter & Gamble)
• Generate Internet-related revenue of $1.5 billion. (AutoNation)
• Cut corporate overhead costs by $30 million per year. (Fortune Brands)
Strategic Objectives (Nonfinancial)
• Reduce volatile emissions 15 percent over a 5-year period, indexed to net sales. (3M)
• Our goal is to help save 100,000 more lives each year. (Varian Medical Systems)
• We want to be the top-ranked supplier to our customers. (PPG)

Sources: Company documents and annual reports.

For objectives to be meaningful, they need to satisfy several criteria. An objective must be:

- ***Measurable.*** There must be at least one indicator (or yardstick) that measures progress against fulfilling the objective.
- ***Specific.*** This provides a clear message as to what needs to be accomplished.
- ***Appropriate.*** It must be consistent with the organization's vision and mission.
- ***Realistic.*** It must be an achievable target given the organization's capabilities and opportunities in the environment. In essence, it must be challenging but doable.
- ***Timely.*** There must be a time frame for achieving the objective. As the economist John Maynard Keynes once said, "In the long run, we are all dead!"

When objectives satisfy the given criteria, there are many benefits. First, they help to channel all employees' efforts toward common goals. This helps the organization concentrate and conserve valuable resources and work collectively in a timely manner.

Second, challenging objectives can help to motivate and inspire employees to higher levels of commitment and effort. Much research has supported the notion that people work harder when they are striving toward specific goals instead of being asked simply to "do their best."

Third, as we noted earlier in the chapter, there is always the potential for different parts of an organization to pursue their own goals rather than overall company goals. Although

ISSUE FOR DEBATE

Seventh Generation's Decision Dilemma

A strike idled 67,300 workers of the United Food and Commercial Workers (UFCW) who worked at Albertsons, Ralphs, and Vons—all large grocery store chains. These stores sold natural home products made by Seventh Generation, a socially conscious company. Interestingly, the inspiration for its name came from the Great Law of the Haudenosaunee. (This Law of Peace of the Iroquois Confederacy in North America has its roots in the 14th century.) The law states that "in our every deliberation we must consider the impact of our decisions on the next seven generations." Accordingly, the company's mission is "To inspire a revolution that nurtures the health of the next seven generations," and its values are to "care wholeheartedly, collaborate deliberately, nurture nature, innovate disruptively, and be a trusted brand."

Clearly, Seventh Generation faced a dilemma: On the one hand, it believed that the strikers had a just cause. However, if it honored the strikers by not crossing the picket lines, the firm would lose the shelf space for its products in the stores it had worked so hard to secure. Honoring the strikers would also erode its trust with the large grocery stores. On the other hand, if Seventh Generation ignored the strikers and proceeded to send its products to the stores, it would be compromising its values and thereby losing trust and credibility with several stakeholders—its customers, distributors, and employees.

Discussion Questions

1. How important should the Seventh Generation values be considered when deciding what to do?
2. How can Seventh Generation solve this dilemma?

Sources: Russo, M. V. 2010. *Companies on a mission: Entrepreneurial strategies for growing sustainably, responsibly, and profitably.* Stanford: Stanford University Press, 94–96; Seventh Generation. 2012. Seventh generation's mission—Corporate social responsibility. www.seventhgeneration.com, np; Foster, A. C. 2004. Major work stoppage in 2003. U.S. Bureau of Labor and Statistics: Compensation and Working Conditions. www.bls.gov, November 23: np; Fast Company. 2008. 45 social entrepreneurs who are changing the world. Profits with purpose: Seventh Generation. www.fastcompany, np; and Ratical. n.d. The six nations: Oldest living participatory democracy on earth. www.ratical.org, np.

well intentioned, these may work at cross-purposes to the organization as a whole. Meaningful objectives thus help to resolve conflicts when they arise.

Finally, proper objectives provide a yardstick for rewards and incentives. They will ensure a greater sense of equity or fairness when rewards are allocated.

A caveat: When formulating strategic objectives, managers need to remember that too many objectives can result in a lack of focus and diminished results:

> A few years ago CEO Tony Petrucciani and his team at Single Source Systems, a software firm in Fishers, Indiana, set 15 annual objectives, such as automating some of its software functions. However, the firm, which got distracted by having so many items on its objective list, missed its $8.1 million revenue benchmark by 11 percent. "Nobody focused on any one thing," he says. Going forward, Petrucciani decided to set just a few key priorities. This helped the company to meet its goal of $10 million in sales. Sometimes, less is more![100]

Reflecting on Career Implications . . .

This chapter discusses both the long-term focus of strategy and the need for coherence in strategic direction. The following issues extend these themes by asking students to consider their own strategic goals and how they fit with the goals of the firms in which they work or would seek employment.

- **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 trade-offs do you see between your long-term and short-term goals?
- **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 take the effort to prepare for them. For example, learning a foreign language may position you better for an overseas opportunity.
- **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.
- **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?
- **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?

key points

LO1-1 The definition of strategic management and its four key attributes.

- Strategic management is defined as "consisting of the analyses, decisions, and actions an organization undertakes to create and sustain a competitive advantage."
- 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 attributes: It is directed at overall organizational goals, involves multiple stakeholders, includes both short-term and long-term perspectives, and incorporates trade-offs between efficiency and effectiveness.

everyone else "fends for themselves" in their independent, isolated functional areas.
- To develop and mobilize people and other assets, leaders are needed throughout the organization.
- Organizations cannot be effective if the top "does the thinking" and the rest of the organization "does the work."

LO1-2 **The strategic management process and its three interrelated and principal activities.**

- The three principal activities in the strategic management process are: strategy analysis, strategy formulation, and strategy implementation.
- All of these activities are highly interrelated and interdependent on the others.

LO1-3 **The vital role of corporate governance and stakeholder management, as well as how "symbiosis" can be achieved among an organization's stakeholders.**

- Corporate governance can be broadly defined as the relationship among various participants in determining the direction and performance of corporations.
- Internal governance mechanisms include shareholders (owners), management (led by the chief executive officer), and the board of directors.
- External control is exercised by auditors, banks, analysts, an active business press, as well as the threat of takeovers.
- We identify five key stakeholder groups in an organization: owners, customers, suppliers, employees, and society at large.
- Although inherent conflicts may arise among the demands of various stakeholders, managers must endeavor to achieve "symbiosis," that is, interdependence and mutual benefit among the multiple stakeholder groups.

LO1-4 **The importance of social responsibility, including environmental sustainability, and how it can enhance a firm's innovation strategy.**

- Social responsibility recognizes that businesses must respond to society's expectations regarding their obligations to society.
- Many firms have become more innovative by investing in initiatives that incorporate socially responsible behavior, including activities that enhance environmental sustainability.
- The triple bottom line approach evaluates a firm by taking into account its financial, social, and environmental performance.

LO1-5 **The need for greater empowerment throughout the organization.**

- Effective strategic management cannot be achieved if only the organization's top managers take an integrative, strategic perspective of issues facing the firm and everyone else "fends for themselves" in their independent, isolated functional areas.

LO1-6 **How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.**

- Organizations need to have consistency among their hierarchy of goals: their vision, mission, and strategic objectives.
- Visions should evoke powerful and compelling mental images.
- A company's mission statement differs from its vision in that it encompasses both the purpose of the company and the basis of competition and competitive advantage.
- Strategic objectives are used to operationalize the mission statement. They serve to provide guidance on how the organization can fulfill or move toward the "higher goals" in the goal hierarchy—the mission and the vision. Thus, they are more specific and cover a well-defined time frame.

SUMMARY REVIEW QUESTIONS

1. How is "strategic management" defined in the text, and what are its four key attributes?
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?
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?
4. What is "corporate governance"? What are its three key elements, and how can it be improved?
5. How can "symbiosis" (interdependence, mutual benefit) be achieved among a firm's stakeholders?
6. Why do firms need to have a greater strategic management perspective and empowerment in the strategic management process throughout the organization?
7. What is meant by a "hierarchy of goals"? What are the main components of it, and why must consistency be achieved among them?

key terms

romantic view of leadership 4
external control view of leadership 4
strategic management 5
strategy 6
competitive advantage 6
operational effectiveness 6
stakeholders 7
effectiveness 7
efficiency 7
ambidexterity 8
intended strategy 10
realized strategy 10
strategy analysis 12
strategy formulation 12
strategy implementation 13
corporate governance 16
stakeholder management 18
social responsibility 19
triple bottom line 20
hierarchy of goals 25
vision 25
mission statement 27
strategic objectives 28

EXPERIENTIAL EXERCISES AND APPLICATION QUESTIONS

1. Strategy Spotlight 1.1 discusses four activities that underlie ambidextrous behaviors—a dual capacity for alignment and adaptability. Interview two managers in a public, private, or volunteer organization and ask them the following questions: (1) How often do you engage in each of these activities? (2) In your view, which are most important and why? and (3) How would the most effective managers you know "score" on each of these activities? Do you think that the differences in the responses you obtain are due to differences with regard to the managers' personalities, the particular position they have within the organization, or the type of industry in which they work?
2. 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.
3. Go to the Internet and look up one of these company sites: *www.walmart.com*, *www.ge.com*, or *www.fordmotor.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?
4. 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.)
5. 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?
6. 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.)

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?
2. A firm has spent some time—with input from managers at all levels—on 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?

Organization Name
Mission Statement
Stakeholders (√ = mentioned)
A. Customers
B. Suppliers
C. Managers/employees
D. Community-at-large
E. Owners
F. Others?
G. Others?

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