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Strategic *9e* Management

Text & Cases



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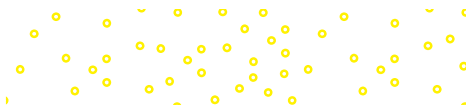
University of Texas at Dallas

ninth edition

STRATEGIC MANAGEMENT

text & cases

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STRATEGIC MANAGEMENT: TEXT AND CASES, NINTH EDITION

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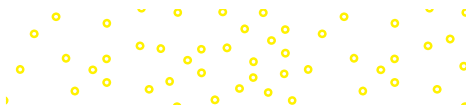
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dedication

To my family, Margie and Taylor and my parents,
the late Bill and Mary Dess; and Michael Wood

To my first two academic mentors—Charles Burden
and Les Rue (of Georgia State University)

—Greg

To my wonderful wife, Gaelen, my children,
Megan and AJ; and my parents, Gene and Jane

—Gerry

To my family, Helaine, Rachel, and Jacob

—Alan

To my family, Hannah, Paul and Stephen; and my
parents, Kenny and Inkyung.

—Sean

about the authors



Photo provided by the author

Gregory G. Dess

is the Andrew R. Cecil Endowed Chair in Management at the University of Texas at Dallas. His primary research interests are in strategic management, organization-environment relationships, and knowledge management. He has published numerous articles on these subjects in both academic and practitioner-oriented journals. He also serves on the editorial boards of a wide range of practitioner-oriented and academic journals. In August 2000, he was inducted into the *Academy of Management Journal's* Hall of Fame as one of its charter members. Professor Dess has conducted executive programs in the United States, Europe, Africa, Hong Kong, and Australia. During 1994 he was a Fulbright Scholar in Oporto, Portugal. In 2009, he received an honorary doctorate from the University of Bern (Switzerland). He received his PhD in Business Administration from the University of Washington (Seattle) and a BIE degree from Georgia Tech.



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preface

Welcome to the Ninth Edition of *Strategic Management: Text and Cases!*

As noted on the cover, we are happy to introduce Seung-Hyun Lee to the author team. Greg has known Seung since we both joined the faculty at the University of Texas at Dallas in 2002. Seung has developed a very distinguished publication record in both strategic management and international business/international management and he has made many important contributions in these areas in the present edition. In particular, his international expertise has been particularly valuable in further “globalizing” our book.

We appreciate the constructive and positive feedback that we have received on our work. Here’s some of the encouraging feedback we have received from our reviewers:

The Dess book comprehensively covers the fundamentals of strategy and supports concepts with research and managerial insights.

Joshua J. Daspit, Mississippi State University

Very engaging. Students will want to read it and find it hard to put down.

Amy Grescock, University of Michigan, Flint

Very easy for students to understand. Great use of business examples throughout the text.

Debbie Gilliard, Metropolitan State University, Denver

I use *Strategic Management* in a capstone course required of all business majors, and students appreciate the book because it synergizes all their business education into a meaningful and understandable whole. My students enjoy the book’s readability and tight organization, as well as the contemporary examples, case studies, discussion questions, and exercises.

William Sannwald, San Diego State University

The Dess book overcomes many of the limitations of the last book I used in many ways: (a) presents content in a very interesting and engrossing manner without compromising the depth and comprehensiveness, (b) inclusion of timely and interesting illustrative examples, and (c) EOC exercises do an excellent job of complementing the chapter content.

Sucheta Nadkarni, University of Cambridge

The content is current and my students would find the real-world examples to be extremely interesting. My colleagues would want to know about it and I would make extensive use of the following features: “Learning from Mistakes,” “Strategy Spotlights,” and “Issues for Debate.” I especially like the “Reflecting on Career Implications” feature. Bottom line: the authors do a great job of explaining complex material and at the same time their use of up-to-date examples promotes learning.

Jeffrey Richard Nystrom, University of Colorado at Denver

We always strive to improve our work and we are most appreciative of the extensive and thoughtful feedback that many strategy professionals have graciously given us. We endeavored to incorporate their ideas into the Ninth Edition—and we acknowledge them by name later in the Preface.

We believe we have made valuable improvements throughout our many revised editions of *Strategic Management*. At the same time, we strive to be consistent and “true” to our original overriding objective: a book that satisfies three R’s—rigor, relevance, and readable. And we are



pleased that we have received feedback (such as the comments on the previous page) that is consistent with what we are trying to accomplish.

What are some of the features in *Strategic Management* that reinforce the 3 R's? First, we build in rigor by drawing on the latest research by management scholars and insights from management consultants to offer a current and comprehensive view of strategic issues. We reinforce this rigor with our “Issues for Debate” and “Reflecting on Career Implications. . .” that require students to develop insights on how to address complex issues and understand how strategy concepts can enhance their career success. Second, to enhance relevance, we provide numerous examples from management practice in the text and “Strategy Spotlights” (sidebars). We also increase relevance by relating course topic and examples to current business and societal themes, including environmental sustainability, ethics, globalization, entrepreneurship, and data analytics. Third, we stress readability with an engaging writing style with minimal jargon to ensure an effective learning experience. This is most clearly evident in the conversational presentations of chapter opening “Learning from Mistakes” and chapter ending “Issues for Debate.”

Unlike other strategy texts, we provide three separate chapters that address timely topics about which business students should have a solid understanding. These are the role of intellectual assets in value creation (Chapter 4), entrepreneurial strategy and competitive dynamics (Chapter 8), and fostering entrepreneurship in established organizations (Chapter 12). We also provide an excellent and thorough chapter on how to analyze strategic management cases.

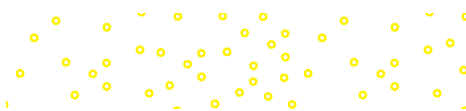
In developing *Strategic Management: Text and Cases*, we certainly didn't forget the instructors. As we all know, you have a most challenging (but rewarding) job. We did our best to help you. We provide a variety of supplementary materials that should help you in class preparation and delivery. For example, our chapter notes do not simply summarize the material in the text. Rather (and consistent with the concept of strategy), we ask ourselves: “How can we add value?” Thus, for each chapter, we provide numerous questions to pose to help guide class discussion, at least 12 boxed examples to supplement chapter material, and three detailed “teaching tips” to further engage students. For example, we provide several useful insights on strategic leadership from one of Greg's colleagues, Charles Hazzard (formerly Executive Vice President, Occidental Chemical). Also, we completed the chapter notes—along with the entire test bank—ourselves. That is, unlike many of our rivals, we didn't simply farm the work out to others. Instead, we felt that such efforts help to enhance quality and consistency—as well as demonstrate our personal commitment to provide a top-quality total package to strategy instructors. With the Ninth Edition, we also benefited from valued input by our strategy colleagues to further improve our work.

Let's now address some of the key substantive changes in the Ninth Edition. Then we will cover some of the major features that we have had in previous editions.

WHAT'S NEW? HIGHLIGHTS OF THE NINTH EDITION

We have endeavored to add new material to the chapters that reflects the feedback we have received from our reviewers as well as the challenges today's managers face. Thus, we all invested an extensive amount of time carefully reviewing a wide variety of books, academic and practitioner journals, and the business press.

We also worked hard to develop more concise and tightly written chapters. Based on feedback from some of the reviewers, we have tightened our writing style, tried to eliminate redundant examples, and focused more directly on what we feel is the most important content in each chapter for our audience. The overall result is that we were able to update our material, add valuable new content, and—at the same time—shorten the length of the chapters.



Here are some of the major changes and improvements in the Ninth Edition:

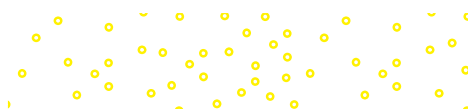
- **Big Data/Data Analysis.** A central theme of the Ninth Edition, it has become a leading and highly visible component of a broader technological phenomena—the emergence of digital technology. Such initiatives have the potential to enable firms to better customize their product and service offerings to customers while more efficiently and fully using the resources of the company. Throughout the text, we provide examples from a wide range of industries and government. This includes discussions of how Coca Cola uses data analytics to produce consistent orange juice, IBM’s leveraging of big data to become a healthcare solution firm, Caterpillar’s use of data analytics to improve machine reliability and to identify needed service before major machine failures, and Digital Reasoning’s efforts to use data analytics to enhance the ability of firms to control employees and avoid illegal and unethical behavior.
- **Greater coverage of international business/international management (IB/IM from new co-author).** As we noted at the beginning of the Preface, we have invited Seung-Hyun Lee, an outstanding IB/IM scholar, to join the author team and we are very pleased that he has accepted! Throughout the book we have included many concepts and examples of IB/IM that reflects the growing role of international operations for a wide range of industries and firms. We discuss how differences in national culture impact the negotiation of contracts and whether or not to adapt human resource practices when organizations cross national boundaries. We also include a discussion of how corporate governance practices differ across countries and discuss in depth how Japan is striving to develop balanced governance practices that incorporate elements of U.S. practices while retaining, at its core, elements of traditional Japanese practices. Additionally, we discuss why conglomerate firms thrive in Asian markets even as this form of organization has gone out of favor in the United States and Europe. Finally, we discuss research that suggests that firms in transition economies can improve their innovative performance by focusing on learning across boundaries within the firm compared to learning from outside partners.
- **“Executive Insights: The Strategic Management Process.”** Here, we introduce a nationally recognized leader and explore several key issues related to strategic management. The executive is William H. McRaven, a retired four-star admiral who leads the nation’s second largest system of higher education. As chief executive officer of the UT System, he oversees 14 institutions that educate 217,000 students and employ 20,000 faculty and more than 70,000 health care professionals, researchers, and staff. He is perhaps best known for his involvement in Operation Neptune Spear, in which he commanded the U.S. Navy Special Forces who located and killed al Qaeda leader Osama bin Laden. We are very grateful for his valuable contribution!
- **Half of the 12 opening “Learning from Mistakes” vignettes that lead off each chapter are totally new.** Unique to this text, they are all examples of what can go wrong, and they serve as an excellent vehicle for clarifying and reinforcing strategy concepts. After all, what can be learned if one simply admires perfection?
- **Over half of our “Strategy Spotlights” (sidebar examples) are brand new, and many of the others have been thoroughly updated.** Although we have reduced the number of Spotlights from the previous edition to conserve space, we still have a total of 64—by far the most in the strategy market. We focus on bringing the most important strategy concepts to life in a concise and highly readable manner. And we work hard to eliminate unnecessary detail that detracts from the main point we are trying to make. Also, consistent with our previous edition, many of the Spotlights focus on two



“hot” issues that are critical in leading today’s organizations: ethics and environmental sustainability—as well as data analytics in this edition.

Key content changes for the chapters include:

- **Chapter 1 addresses three challenges for executives who are often faced with similar sets of opposing goals which can polarize their organizations.** These challenges, or paradoxes, are called (1) the innovation paradox, the tension between existing products and new ones—stability and change; (2) the globalization paradox, the tension between global connectedness and local needs; and, (3) the obligation paradox, the tension between maximizing shareholder returns and creating benefits for a wide range of stakeholders—employees, customers, society, etc. We also discuss three theaters of practice that managers need to recognize in order to optimize the positive impact of the corporate social responsibility (CSR) initiatives. These are (1) Focusing on philanthropy, (2) Improving operational effectiveness, and (3) Transforming the business model.
- **Chapter 2 introduces the concept of big data/data analytics—a technology that affects multiple segments of the general environment.** A highly visible component of the digital economy, such technologies are altering the way business is conducted in a wide variety of sectors—government, industry, and commerce. We provide a detailed example of how it has been used to monitor the expenditures of federal, state, and local governments.
- **Chapter 3 includes a discussion on program hiring to build human capital.** With program hiring, firms offer employment to promising graduates without knowing which specific job the employee will fill. Firms employing this tactic believe it allows them to meet changing market conditions by hiring flexible employees who desire a dynamic setting. We also include a discussion of how Coca Cola is leveraging data analytics to produce orange juice that is consistent over time and can be tailored to meet local market tastes.
- **Chapter 4 discusses research that has found that millennials have a different definition of diversity and inclusion than prior generations.** That is, millennials look upon diversity as the blending of different backgrounds, experiences, and perspectives within a team, i.e., cognitive diversity. Earlier generations—the X-Generation and the Boomer Generation—tended to view diversity as a representation of fairness and protection for all regardless of gender, race, religion, etc. An important implication is that while many millennials believe that differences of opinion enable teams to excel, relatively few of them feel that their leaders share this perspective. The chapter also provides a detailed example of how data analytics can increase employee retention.
- **Chapter 5 examines how firms can create strong competitive positions in platform markets.** In platform markets, firms act as intermediaries between buyers and sellers. Success is largely based on the ability of the firm to be the de facto provider of this matching process. We discuss several actions firms can take to stake out a leadership position in these markets. In addition, we include a discussion of research outlining how firms can develop organizational structures and policies to draw on customer interactions to improve their innovativeness. The key finding from this research is that it is critical for firms to empower and incent front line employees to look for and share innovative insights they take away from customer interactions.
- **Chapter 6 includes a section on different forms of strategic alliances and when they are most appropriate.** In discussing the differences between contractual alliances, equity alliances, and joint ventures, students can better understand the range of options they



have to build cooperative arrangements with other firms and the factors that influence the choice among these options.

- **Chapter 7 explains two important areas in which culture can play a key role in managing organizations across national boundaries.** First, we discuss situations in which it is best to not adapt one's company culture—even if it conflicts with the culture country in which the firm operates. We provide the example of Google's human resource policy of providing employees with lots of positive feedback during performance reviews. Why? Google feels that this is a key reason for its outstanding success in product innovation. Second, we address some of the challenges that managers encounter when they negotiate contracts across national boundaries. We discuss research that identifies several elements of negotiating behaviors that help to identify cultural differences.
- **Chapter 8 identifies factors investors can examine when evaluating the risk of crowdfunded ventures.** When firms raise funds through crowdfunding, they often have limited business and financial histories and haven't yet built up a clear reputation. This raises the risks investors face. We identify some factors investors can look into to clarify the worthiness and risk of firms who are raising financial resources through crowdfunding.
- **Chapter 9 discusses the increasingly important role that activist investors have in the corporate governance of publicly-traded firms.** Activist investors are investors who take small but significant ownership stakes in large firms, typically 5 to 10 percent ownership, and push for major strategic changes in the firm. These activist investors are often successful, winning 70 percent of the shareholder votes they champion and have forced the exit of leaders of several large firms. Additionally, we discuss a corner of Wall Street where women dominate, as corporate governance heads at major institutional investors. These institutional investors hold large blocks of stock in all major corporations. As a result, these female leaders are in a position to push for governance changes in these corporations to make them more responsive to the concerns of investors, such as increasing opportunities for female corporate leaders.
- **Chapter 10 discusses how firms can organize to improve their innovativeness.** Often managers look to outside partners to learn new skills and access new knowledge to improve their innovative performance. We discuss research that suggests that efforts to look to create novel combinations of knowledge within the firm offer greater potential to generate stronger innovation performance. The key advantage of internal knowledge is that it is proprietary and potentially more applicable to the firm's innovation efforts.
- **Chapter 11 includes discussions of multiple firms that have changed their leadership and control systems to respond to challenges they've faced.** This includes Marvin Ellison's efforts to revive JC Penney after prior bad leadership, Target's efforts to change its supply chain system to meet changing customer demands, and the decision procedures JC Johnson Inc. has put in place to improve its ability to lead its industry in sustainability efforts.
- **Chapter 12 highlights the potential to learn from innovation failures.** Too often, firms become risk averse in their behavior in order to avoid failure. We discuss how this can result in missing truly innovative opportunities. Drawing off research by Julian Birkinshaw, we discuss the need for firms to get their employees to take bold innovation actions and steps firms can take to learn from failed innovation efforts to be more effective in future innovation efforts. We also discuss research on the consequences of losing star innovation employees. Firms worry about the loss of key innovation personnel, but research shows that while there are costs associated with the loss of star



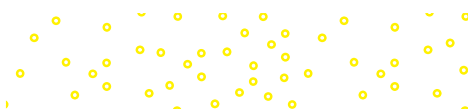
innovators, there are also potential benefits. Firms that lose key innovators typically experience a loss in exploitation-oriented innovation, but they also often see an increase in exploration-oriented innovation.

- **Chapter 13 provides an example of how the College of Business Administration at Towson University successfully introduced a “live” business case completion across all of its strategic management sections.** The “description” and the “case completion checklist” includes many of the elements of the analysis-decision-action cycle in case analysis that we address in the chapter.
- **Chapter 13 updates our Appendix: Sources of Company and Industry Information.** Here, we owe a big debt to Ruthie Brock and Carol Byrne, library professionals at the University of Texas at Arlington. These ladies have provided us with comprehensive and updated information for the Ninth Edition that is organized in a range of issues. These include competitive intelligence, annual report collections, company rankings, business websites, and strategic and competitive analysis. Such information is invaluable in analyzing companies and industries. We are always amazed by the diligence, competence—and good cheer—that Ruthie and Carol demonstrate when we impose on them every two years!
- **We have worked hard to further enhance our excellent case package with a major focus on fresh and current cases on familiar firms.**
 - More than half of our cases are author-written (much more than the competition).
 - We have updated our users favorite cases, creating fresh stories about familiar companies to minimize instructor preparation time and “maximize freshness” of the content.
 - We have added several exciting new cases to the lineup including Blackberry and Ascena (the successor company to Ann Talyor).
 - We have also extensively updated 28 familiar cases with the latest news.
 - Our cases are familiar yet fresh with new data and problems to solve.

WHAT REMAINS THE SAME: KEY FEATURES OF EARLIER EDITIONS

Let’s now briefly address some of the exciting features that remain from the earlier editions.

- **Traditional organizing framework with three other chapters on timely topics.** Crisply written chapters cover all of the strategy bases and address contemporary topics. First, the chapters are divided logically into the traditional sequence: strategy analysis, strategy formulation, and strategy implementation. Second, we include three chapters on such timely topics as intellectual capital/knowledge management, entrepreneurial strategy and competitive dynamics, and fostering corporate entrepreneurship and new ventures.
- **“Learning from Mistakes” chapter-opening cases.** To enhance student interest, we begin each chapter with a case that depicts an organization that has suffered a dramatic performance drop, or outright failure, by failing to adhere to sound strategic management concepts and principles. We believe that this feature serves to underpin the value of the concepts in the course and that it is a preferred teaching approach to merely providing examples of outstanding companies that always seem to get it right. After all, isn’t it better (and more challenging) to diagnose problems than admire perfection? As Dartmouth’s Sydney Finkelstein, author of *Why Smart Executives Fail*,



notes: “We live in a world where success is revered, and failure is quickly pushed to the side. However, some of the greatest opportunities to learn—for both individuals and organizations—come from studying what goes wrong.”* We’ll see how, for example, why Frederica Marchionni, the CEO that Land’s End hired in 2015, failed to spearhead the revival of the brand. Her initiatives geared toward taking the brand upscale turned out to be too much of a shock to the firm’s customer base as well as the firm’s family culture and wholesome style. As noted by a former executive, “It doesn’t look like Land’s End anymore. There was never the implication that if you wore Lands’ End you’d be on the beach on Nantucket living the perfect life.” We’ll also explore the bankruptcy of storied law firm Dewey & LeBoeuf LLP. Their failure can be attributed to three major issues: a reliance on borrowed money, making large promises about compensation to incoming partners (which didn’t sit well with their existing partners!), and a lack of transparency about the firm’s financials.

- **“Issue for Debate” at the end of each chapter.** We find that students become very engaged (and often animated!) in discussing an issue that has viable alternate points of view. It is an exciting way to drive home key strategy concepts. For example, in Chapter 1, Seventh Generation is faced with a dilemma that confronts their values and they must decide whether or not to provide their products to some of their largest customers. At issue: While they sympathize (and their values are consistent) with the striking workers at the large grocery chains, should they cross the picket lines? In Chapter 4, we discuss an issue that can be quite controversial: Does offering financial incentives to employees to lose weight actually work? We will explain a study by professors and medical professionals who conducted a test to explore this issue. And, in Chapter 7, we address Medtronic’s decision to acquire Covidien, an Irish-based medical equipment manufacturer for \$43 billion. Its primary motive: Lower its taxes by moving its legal home to Ireland—a country that has lower rates of taxation on corporations. Some critics may see such a move as unethical and unpatriotic. Others would argue that it will help the firm save on taxes and benefit their shareholders.
- **“Insights from Research.”** We include six of this feature in the Ninth Edition—and half of them are entirely new. Here, we summarize key research findings on a variety of issues and, more importantly, address their relevance for making organizations (and managers!) more effective. For example, in Chapter 2 we discuss findings from a meta-analysis (research combining many individual studies) to debunk several myths about older workers—a topic of increasing importance, given the changing demographics in many developed countries. In Chapter 4, we address a study that explored the viability of re-hiring employees who had previously left the organizations. Such employees, called “boomerangs” may leave an organization for several reasons and such reasons may strongly influence their willingness to return to the organization. In Chapter 5, we summarize a study that looked at how firms can improve their innovativeness by drawing on interactions with customers but only if the firm empowers front line employees to lead innovative efforts and provides incentives to motivate employees to do so. In Chapter 10, we discuss research on firms in transition economies that found firms which learn from both external partners and by spanning boundaries within the firm can improve their innovation. However, learning between units within the firm produced higher innovation performance.

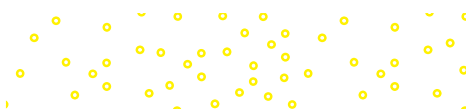
*Personal Communication, June 20, 2005.



- **“Reflecting on Career Implications. . .”** We provide insights that are closely aligned with and directed to three distinct issues faced by our readers: prepare them for a job interview (e.g., industry analysis), help them with current employers or their career in general, or help them find potential employers and decide where to work. We believe this will be very valuable to students’ professional development.
- **Consistent chapter format and features to reinforce learning.** We have included several features in each chapter to add value and create an enhanced learning experience. First, each chapter begins with an overview and a list of key learning objectives. Second, as previously noted, the opening case describes a situation in which a company’s performance eroded because of a lack of proper application of strategy concepts. Third, at the end of each chapter there are four different types of questions/exercises that should help students assess their understanding and application of material:
 1. Summary review questions.
 2. Experiential exercises.
 3. Application questions and exercises.
 4. Ethics questions.

Given the centrality of online systems to business today, each chapter contains at least one exercise that allows students to explore the use of the web in implementing a firm’s strategy.

- **Key Terms.** Approximately a dozen key terms for each chapter are identified in the margins of the pages. This addition was made in response to reviewer feedback and improves students’ understanding of core strategy concepts.
- **Clear articulation and illustration of key concepts.** Key strategy concepts are introduced in a clear and concise manner and are followed by timely and interesting examples from business practice. Such concepts include value-chain analysis, the resource-based view of the firm, Porter’s five-forces model, competitive advantage boundaryless organizational designs, digital strategies, corporate governance, ethics, data analytics, and entrepreneurship.
- **Extensive use of sidebars.** We include 64 sidebars (or about five per chapter) called “Strategy Spotlights.” The Strategy Spotlights not only illustrate key points but also increase the readability and excitement of new strategy concepts.
- **Integrative themes.** The text provides a solid grounding in ethics, globalization, environmental sustainability, and technology. These topics are central themes throughout the book and form the basis for many of the Strategy Spotlights.
- **Implications of concepts for small businesses.** Many of the key concepts are applied to start-up firms and smaller businesses, which is particularly important since many students have professional plans to work in such firms.
- **Not just a textbook but an entire package.** *Strategic Management* features the best chapter teaching notes available today. Rather than merely summarizing the key points in each chapter, we focus on value-added material to enhance the teaching (and learning) experience. Each chapter includes dozens of questions to spur discussion, teaching tips, in-class group exercises, and about a dozen detailed examples from business practice to provide further illustrations of key concepts.



TEACHING RESOURCES


Instructor's Manual (IM)

Prepared by the textbook authors, along with valued input from our strategy colleagues, the accompanying IM contains summary/objectives, lecture/discussion outlines, discussion questions, extra examples not included in the text, teaching tips, reflecting on career implications, experiential exercises, and more.

Test Bank

Revised by Christine Pence of the University of California-Riverside, the test bank contains more than 1,000 true/false, multiple-choice, and essay questions. It is tagged with learning objectives as well as Bloom's Taxonomy and AACSB criteria.

- **Assurance of Learning Ready.** Assurance of Learning is an important element of many accreditation standards. Dess 9e is designed specifically to support your Assurance of Learning initiatives. Each chapter in the book begins with a list of numbered learning objectives that appear throughout the chapter. Every test bank question is also linked to one of these objectives, in addition to level of difficulty, topic area, Bloom's Taxonomy level, and AACSB skill area. *EZ Test*, McGraw-Hill's easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted Assurance of Learning analysis and assessment.
- **AACSB Statement.** The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, Dess 9e has sought to recognize the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in Dess 9e and the test bank to the general knowledge and skill guidelines found in the AACSB standards. The statements contained in Dess 9e are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While Dess 9e and the teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions within Dess 9e according to the six general knowledge and skills areas.
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PowerPoint Presentation

Prepared by Pauline Assenza of Western Connecticut State University, it consists of more than 400 slides incorporating an outline for the chapters tied to learning objectives. Also included are instructor notes, multiple-choice questions that can be used as Classroom Performance System (CPS) questions, and additional examples outside the text to promote class discussion.

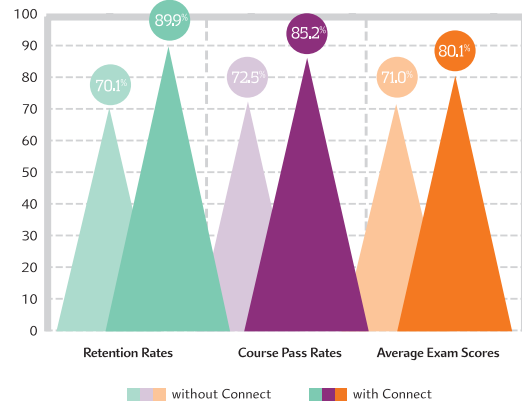
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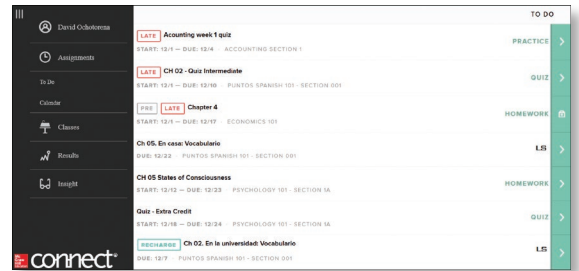


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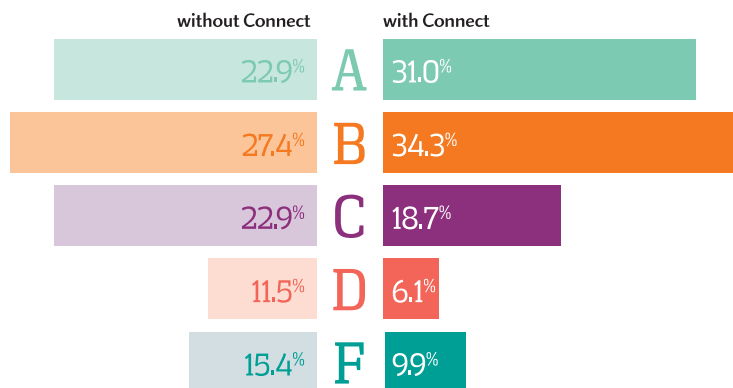
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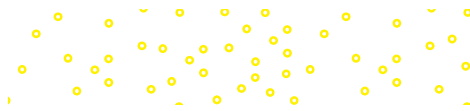
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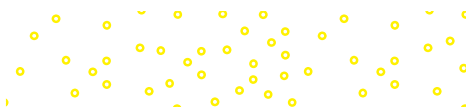
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Second, we would like to thank the people who have made our two important “features” possible. The information found in our six “Insights from Research” was provided courtesy of www.businessminded.com, an organization founded by K. Matthew Gilley, PhD (St. Mary’s University) that transforms empirical management research into actionable insights for business leaders. We appreciate Matt’s graciousness and kindness in helping us out. And, of course, our “Executive Insights: The Strategic Management Process” would not have been possible without the gracious participation of Admiral William H. McRaven, Retired who is presently Chancellor of the University of Texas System, and Jana Pankratz, Executive Director.

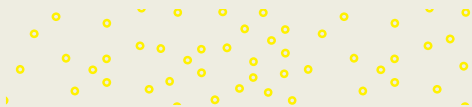
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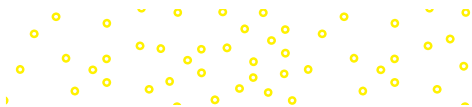
Fourth, we would like to thank the team at McGraw-Hill for their outstanding support throughout the entire process. As we work on the book through the various editions, we always appreciate their hard work and recognize how so many people “add value” to our final package. This began with John Biernat, formerly publisher, who signed us to our original contract. He was always available to us and provided a great deal of support and valued input throughout several editions. Presently, in editorial, Susan Gouijnstook, managing director, director Mike Ablassmeir, senior product developers Anne Ehrenworth and Katharine Glynn (of Piper Editorial) kept things on track, responded quickly to our seemingly endless needs and requests, and offered insights and encouragement. We appreciate their expertise—as well as their patience! Once the manuscript was completed and revised, content project manager Harvey Yep expertly guided it through the content and assessment production process. Matt Diamond provided excellent design and artwork guidance. We also appreciate executive marketing manager Debbie Clare and marketing coordinator Brittany Berholdt for their energetic, competent, and thorough marketing efforts. Last, but certainly not least, we thank MHE’s 70-plus outstanding book reps—who serve on the “front lines”—as well as many in-house sales professionals based in Dubuque, Iowa. Clearly, they deserve a lot of credit (even though not mentioned by name) for our success.

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Finally, we would like to thank our families. For Greg this includes his parents, William and Mary Dess, who have always been there for him. His wife, Margie, and daughter, Taylor, have been a constant source of love and companionship. His father, a career U. S. Air Force pilot took his “final flight” on May 22, 2015. Truly a member of Tom Brokaw’s “Greatest Generation,” he completed flight school before his 21st birthday and flew nearly 30 missions over Japan in World War II as a B-29 bomber pilot before he turned 23. His wife, five children, and several



grandchildren truly miss him. Gerry thanks his wife, Gaelen, for her love, support, and friendship; and his children, Megan and AJ, for their love and the joy they bring to his life. He also thanks his current and former PhD students who regularly inspire and challenge him. Alan thanks his family—his wife, Helaine, and his children, Rachel and Jacob—for their love and support. He also thanks his parents, Gail Eisner and the late Marvin Eisner, for their support and encouragement. Sean thanks his wife, Hannah, and his two boys, Paul and Stephen, for their unceasing love and care. He also thanks his parents, Kenny and Inkyung Lee for being there whenever needed.



a guided tour

chapter
1
Strategic Management
Creating Competitive Advantages

LEARNING OBJECTIVES

Learning Objectives numbered LO5.1, LO5.2, LO5.3, etc., with corresponding icons in the margins to indicate where learning objectives are covered in the text.

- After reading this chapter, you should have a good understanding of the following learning objectives:*
- LO1-1 The definition of strategic management and its four key attributes.
 - LO1-2 The strategic management process and its three interrelated and principal activities.
 - LO1-3 The vital role of corporate governance and stakeholder management, as well as how “symbiosis” can be achieved among an organization’s stakeholders.
 - LO1-4 The importance of social responsibility, including environmental sustainability, and how it can enhance a corporation’s innovation strategy.
 - LO1-5 The need for greater empowerment throughout the organization.
 - LO1-6 How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.



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 in just a few years. The rankings of the world’s most valuable firms can dramatically change in a rather brief period of time. On the other hand, many impressive, high-flying firms can struggle to reclaim past glory or even fail. Recall just four that begin with the letter “b”—Blackberry, Blockbuster, Borders, and Barings. As colorfully (and ironically!) noted by Arthur Martinez, Sears’ former Chairman: “Today’s peacock is tomorrow’s feather duster.”¹ Consider the following.²

- At the beginning of 2007, the three firms in the world with the highest market values were Exxon Mobil, General Electric, and Gazprom (a Russian natural gas firm). By early 2017, three high tech firms headed the list—Apple, Alphabet (parent of Google), and Microsoft.
- Only 74 of the original 500 companies in the S&P index were still around 40 years later. And McKinsey notes that the average company tenure on the S&P 500 list has fallen from 61 years in 1958 to about 20 in 2016.
- With the dramatic increase of the digital economy, new entrants are shaking up long-standing industries. Note that Alibaba is 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.
- A quarter century ago, how many would have predicted that a South Korean firm would be a global car giant, that an Indian firm would be one of the world’s largest technology firms, and a huge Chinese Internet company would list on an American stock exchange?
- Fortune magazine’s annual list of the 500 biggest companies now features 156 emerging-market firms. This compares with only 18 in 1995!

To remain competitive, companies often must bring in “new blood” and make significant changes in their strategies. But sometimes a new CEO’s initiatives makes things worse. Let’s take a look at Lands’ End, an American clothing retailer.³

Lands’ End was founded in 1963 as a mail order supplier of sailboat equipment by Gary Cooper. As business picked up, he expanded the business into clothing and home furnishings and moved the company to Dodgeville, Wisconsin, in 1978 where he was its CEO until he stepped down in 1990. The firm was acquired by Sears in 2002, but later spun off in 2013. A year later it commenced trading on the NASDAQ stock exchange.

Targeting Middle America, companies like Lands’ End, the GAP Inc., and J. C. Penney have had a hard time in recent years positioning themselves in the hotly contested clothing industry. They are squeezed on the high end by brands like Michael Kors Holdings Ltd. and Coach, Inc. On the lower end, fast-fashion retailers including H&M operator Hennes & Mauritz AB are applying pressure by

LEARNING FROM MISTAKES

Learning from Mistakes vignettes are examples of where things went wrong. Failures are not only interesting but also sometimes easier to learn from. And students realize strategy is not just about “right or wrong” answers, but requires critical thinking.

4.3 STRATEGY SPOTLIGHT

MILLENNIALS HAVE A DIFFERENT DEFINITION OF DIVERSITY AND INCLUSION THAN PRIOR GENERATIONS

A recent study by Deloitte and the Billie Jean King Leadership Initiative (BJKLI) shows that, in general, Millennials see the concepts of diversity and inclusion through a vastly different lens. The study analyzed the responses of 3,726 individuals who came from a wide variety of backgrounds with representation across gender, race/ethnicity, sexual orientation, national status, veteran status, disabilities, level within an organization, and tenure with an organization. The respondents were asked 62 questions about diversity and inclusion and the findings demonstrated a snapshot of shifting generational mindsets.

Millennials (born between 1977 to 1995) look upon diversity as the blending of different backgrounds, experiences, and perspectives within a team—which is known as cognitive diversity. They use this word to describe the mix of unique traits that help to overcome challenges and attain business objectives. For Millennials, inclusion is the support for a collaborative environ-

These generations view diversity as a representation of fairness and protection for all—regardless of gender, race, religion, ethnicity, or sexual orientation. Here, inclusion is the integration of individuals of all demographics into one workplace. It is the right thing to do, that is, a moral and legal imperative to achieve compliance and equality—regardless of whether it benefits the business. The study found that when asked about the business impact on diversity, Millennials are 71 percent more likely to focus on teamwork. In contrast, 28 percent of non-Millennials are more likely to focus on fairness of opportunity.

The study’s authors contend that the disconnect between the traditional definitions of diversity and inclusion and those of Millennials can create problems for businesses. For example, clashes may occur when managers do not permit Millennials to express themselves freely. The study found that while 86 percent of Millennials feel that differences of opinion allow teams to excel, only 59 percent believe that their leaders share this perspective.

The study suggests that a company with an inclusive culture promotes innovation. And it cites research by IBM and Morgan Stanley that shows that companies with high levels of innovation

STRATEGY SPOTLIGHT

These boxes weave themes of ethics, globalization, and technology into every chapter of the text, providing students with a thorough grounding necessary for understanding strategic management. Select boxes incorporate crowdsourcing, environmental sustainability, and ethical themes.

11.2 STRATEGY SPOTLIGHT ENVIRONMENTAL SUSTAINABILITY, ETHICS

FAMILY LEADERSHIP SUSTAINS THE CULTURE OF SC JOHNSON

SC Johnson, the maker of Windex, Ziploc bags, and Glade Air Fresheners, is known as one of the most environmentally conscious consumer products companies. The family-owned company is run by Fisk Johnson, the fifth generation of the family to serve as firm CEO. It is the 35th largest privately owned firm, with 13,000 employees and nearly \$10 billion in sales. Over the decades, the firm has built and reinforced its reputation for environmental consciousness. Being privately owned by the Johnson family is part of it. Fisk Johnson put it this way, “Wall Street rewards that short-termism. . . . We are in a very fortunate situation to not have to worry about those things, and we’re very fortunate that we have a family that is principled and has been very principled.”

Fisk uses the benefits of dedicated family ownership to work in both substantive and symbolic ways. On the substantive side, he has implemented systems in place to improve its environmental performance. For example, with its Greenleaf process, the firm rates the ingredients it uses or is considering using. It then rates each ingredient on several criteria, including biodegradability and human toxicity, and gives the ingredient a score rang-

3 (better or best) from about 20 percent to over 50 percent from 2001 to 2016.

Fisk uses stories from decisions in the past as it acts to sustain its culture of environmental consciousness. In using stories to reinforce the environmental focus within the firm and to explain it to external stakeholders, Fisk Johnson draws on stories relating to decisions his father made as well as ones he’s made. Most prominently, he uses a story about a decision his father made to stop using chlorofluorocarbons in the firm’s aerosol products. “Our first decision to unilaterally remove a major chemical occurred in 1975, when research began suggesting that chlorofluorocarbons (CFCs) in aerosols might harm Earth’s ozone layer. My father was CEO at the time, and he decided to ban them from all the company’s aerosol products worldwide. He did so several years before the government played catch-up and banned the use of CFCs from everyone’s products.” He goes on to say, “You look back on that decision today, in light of the strong laws that came in, and that was a very prescient decision.” This story is especially effective since it highlights his father’s willingness and ability to take actions that can lead both the government and industry rivals to change. A second story outlines the firm’s decision to remove

INSIGHTS

The “Insights” feature is new to this edition. “Insights from Executives” spotlight interviews with executives from worldwide organizations about current issues salient to strategic management. “Insights from Research” summarize key research findings relevant to maintaining the effectiveness of an organization and its management.

1.1 INSIGHTS from executives

THE STRATEGIC MANAGEMENT PROCESS

*Admiral William H. McRaven, Retired
Chancellor, University of Texas System*

BIOSKETCH

University of Texas Chancellor William H. McRaven, a retired four-star admiral, leads the nation's second largest system of higher education. As chief executive officer of the UT System since January 2015, he oversees 14 institutions that educate 217,000 students and employ 20,000 faculty and more than 70,000 health care professionals, researchers, and staff. Prior to becoming chancellor, McRaven, a Navy SEAL, was the commander of U.S. Special Operations Command during which time he led a force of 69,000 men and women and was responsible for conducting counter-terrorist operations worldwide. McRaven is also a recognized national authority on U.S. foreign policy and has advised presidents George W. Bush and Barack Obama and other U.S. leaders on defense issues. His acclaimed book, *Spec. Ops: Case Studies in Special Operations Warfare: Theory and Practice*,

SEAL—helps young people move past self-imposed limits of physical and mental endurance and build confidence in themselves to lead others. The result is a person who is capable of leading in an environment of constant stress, chaos, failure and hardships. In fact, to me, basic SEAL training was a lifetime sampling of micro-challenges I would later face while leading people and organizations all crammed into six months.

Question 2. In leading *Nepenthe Spear*, what were the key leadership decisions you made to build an organization to accomplish this task?

The majority of the key leadership decisions that in past embued us to accomplish this task began before I took command of the organization—but as a member of the organization and its number 2 leader over a period of years, I had been an engaged student in the trial, error, and the ultimate development of what my old boss, General Stan McChrystal, called a “team of teams.” You see, our operational environment was changing at an incredibly rapid pace. Unlike any time in our history the rate of change was—and is—no longer



2.1 INSIGHTS from Research

NEW TRICKS: RESEARCH DEBUNKS MYTHS ABOUT OLDER WORKERS

Overview

People often think that older workers are less motivated and less healthy, resist change and are less trusting, and have more trouble balancing work and family. It turns out these assumptions just aren't true. By challenging these stereotypes in your organization, you can keep your employees working.

What the Research Shows

In a 2012 paper published by *Personnel Psychology*, researchers from the University of Hong Kong and the University of Georgia examined 418 studies of workers' ages and stereotypes. A metaanalysis—a study of studies—was conducted to find out if any of the six following stereotypes about older workers—as compared with younger workers—was actually true:

- They are less motivated.
- They are less willing to participate in training and career development.
- They are more resistant to change.
- They are less trusting.
- They are less healthy.
- They are more vulnerable to work-family imbalance.

retain, and encourage mature employees' continued involvement in workplaces because they have much to offer in the ways of wisdom, experience, and institutional knowledge. The alternative is to miss out on a growing pool of valuable human capital.

How can you deal with age stereotypes to keep older workers engaged? The authors suggest three effective ways:

- Provide more opportunities for younger and older workers to work together.
- Promote positive attributes of older workers, like experience, carefulness, and punctuality.
- Engage employees in open discussions about stereotypes.

Adam Bradshaw of the DeCarmo Group Inc. has summarized research on addressing age stereotypes in the workplace and offers practical advice. For instance, make sure hiring practices identify factors important to the job other than age. Managers can be trained in how to spot age stereotypes and can point out to employees why the stereotypes are often untrue by using examples of effective older workers. Realize that older workers can offer a competitive advantage because of all the other reasons that organizations

operate mostly on a cash basis, hence a very short collection period. Semiconductor manufacturers sell their output to other manufacturers (e.g., computer makers) on terms such as 2/15 net 45, which means they give a 2 percent discount on bills paid within 15 days and start charging interest after 45 days. Skilled-nursing facilities also have a longer collection period than grocery stores because they typically rely on payments from insurance companies.

The industry norms for return on sales also highlight differences among these industries. Grocers, with very slim margins, have a lower return on sales than either skilled-nursing facilities or semiconductor manufacturers. But how might we explain the differences between

EXHIBIT 3.10
How Financial Ratios Differ across Industries

Financial Ratio	Semiconductors	Grocery Stores	Skilled-Nursing Facilities
Quick ratio (times)	1.9	0.6	1.3
Current ratio (times)	3.6	1.7	1.7
Total liabilities to net worth (%)	35.1	72.7	82.5
Collection period (days)	48.6	3.3	36.5
Assets to sales (%)	131.7	22.1	58.3
Return on sales (%)	24	1.1	3.1

Source: Dun & Bradstreet, *Industry Norms and Key Business Ratios, 2010–2011*, One Year Edition, SIC #3600–3699 (Semiconductors); SIC #5400–5499 (Grocery Stores); SIC #8000–8099 (Skilled-Nursing Facilities). New York: Dun & Bradstreet Credit Services.

EXHIBITS

Both new and improved exhibits in every chapter provide visual presentations of the most complex concepts covered to support student comprehension.

REFLECTING ON CAREER IMPLICATIONS

This section before the summary of every chapter consists of examples on how understanding of key concepts helps business students early in their careers.

Reflecting on Career Implications . . .

This chapter discusses both the long-term focus of strategy and the need for coherence in strategic direction. The following questions 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?

Cases

Updated case lineup provides nine new cases. The majority of the remaining cases have been revised to “maximize freshness” and minimize instructor preparation time. New cases for this edition include well-known companies such as Tata Starbucks, the Casino Industry, and General Motors.

CASES

CASE 32

BLACKBERRY LIMITED: IS THERE A PATH TO RECOVERY?

In mid-2017, the once-high-flying BlackBerry stock was trading for less than \$7 a share. Remarkably, that was a drop of more than 94 percent from \$139 in 2008.¹ The competitive landscape had shifted in recent years, and BlackBerry had lost its strong position in the industry. The company faced a severe reduction in hardware revenues and mobile subscribers.² BlackBerry Limited hired John Chen, a turnaround specialist, as its new CEO to get the former dominant smartphone producer back to profitability.³ Soon after joining the company, Chen formulated a turnaround plan that emphasized corporate and government enterprises. This new plan significantly reduced the company's operating costs.⁴ After Chen started turning the steering wheel, BlackBerry appeared to be stabilizing, but the sustainability of his strategy was still a big unknown. There have been rumors regarding a potential sale of the company to Samsung Group, privatization of operations to reduce the risk of shareholder activism, hostile takeover, and a move to focus only on software and licensing agreements.⁵ Each of these would be a very different scenario from what the Canadian tech giant faced just a few years ago. Industry experts speculate on what lies ahead, but new CEO John Chen seems to be optimistic about the future of BlackBerry.

The return to success of BlackBerry in the smartphone industry might sound farfetched but it was not impossible. Once BlackBerry had held significant market share in the smartphone space, it remained a question of what strategy the company should adopt to revive the admiration it once enjoyed and re-boost demand for BlackBerry smartphones. The smartphone industry had become immensely competitive with giants Apple Inc. and Samsung Group the two companies that held most of the market share in the industry. With BlackBerry's specialization in data and mobile security there seemed to be potential in BlackBerry's software security enterprise division, which had not received as much attention and resources as the smartphone division.

Research in Motion

Mihai “Mike” Lazaridis and his childhood friend Doug Freig founded Research in Motion (RIM) in 1984. Lazaridis was born in Istanbul in 1960 and came from a

¹ This case was prepared by Professor Alan B. Eisen and graduate student Sandi Nazir of Pace University, and Professor Helmut J. Korn of Baruch College, City University of New York. This case is strictly based on primary research and was developed for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © 2017 Alan B. Eisen.

CASES

CASE 19

JOHNSON & JOHNSON

On January 26, 2017, Johnson & Johnson, the world's largest health care company, bolstered its roster of treatments for rare diseases by announcing a \$30 billion deal to acquire Actelion, a Swiss biotechnology firm. The deal expanded its portfolio of leading medicines and promising late stage products. “We believe this transaction offers compelling value to both Johnson & Johnson and Actelion shareholders.” Alex Gorsky, the chairman and chief executive of J&J, stated in a news release.¹

With 250 companies in virtually every country, J&J has under its banner the world's largest medical device business, an even bigger pharmaceutical business, and a consumer products division with a dozen megabrands, from Neutrogena to Tylenol. Although the firm is best known for its common consumer products, its biggest recent growth has come from its vast range of pharmaceuticals. J&J has advantages from its diversified businesses such as greater financial stability, a wider range of expertise, and a customer base that spans consumers to hospitals to governments.

Financial stability has been J&J's calling card for decades. Its sales have risen on a regular basis, with profits showing an annualized growth rate of over 12 percent over the three years 2014-2016 (see Exhibits 1 and 2). The firm has consistently raised its dividend for well over 50 years and it remains one of only two U.S. companies with an AAA credit rating from Standard and Poor. “They're in a great position,” said Kristen Stewart, an analyst at Deutsche Bank. “They have the luxury of time and the ability to look at different opportunities across different business units. That is what a diversified business platform affords them.”²

¹ Case prepared by Jamal Shamsi, Michigan State University, with the assistance of Professor Alan B. Eisen. Pace University Material has been drawn from published sources to be used for purposes of class discussion. Copyright © 2017 Jamal Shamsi and Alan B. Eisen.

EXHIBIT 1 Income Statement (in \$ millions)

	Year Ending		
	2016	2015	2014
Total Revenue	\$71,890	\$70,074	\$74,331
Gross Profit	21,685	21,536	51,585
Operating Income	20,645	17,556	20,959
Net Income	16,540	15,409	16,323

Source: Johnson & Johnson.

During the early 1990s, when mobile carriers were interested in devices with voice capabilities and as selling as much as possible until the market became saturated. Reading e-mails on a handheld device was unheard of. A nonexistent demand for devices with e-mail support did not weaken Lazaridis's determination: he developed initial prototypes by writing gateway codes hooked up to an HP Palmtop, the company's first device with “e-mail on a belt.” Although the device was not commercially applicable, it became extremely popular with RIM employees. Lazaridis recalls that “employees started taking these things home, and they wouldn't return them.” What he then understood was that the idea of “e-mail on a belt” had the potential to generate high demand, but the challenge lay in making such a product practical enough for consumers to use on a daily basis.

The business aspect of RIM was made easier by the emergence of Harvard graduate Jim Balsillie. In the 1990s, Balsillie was an employee of a small technology company

CASES

CASE 12

EMIRATES AIRLINE IN 2017

Within three decades, Emirates Airline went from a small start-up to one of the world's biggest carriers measured by international passenger mileage. Started in 1985, the airline deviated from the strategy of most other airlines to use its position between the U.S., Europe, Africa, and Asia to connect flights between distant pairs of cities such as New York and Shanghai or London and Nairobi. Tim Clark, the firm's president, referred to these as “strange city pairs.” No airline has grown like Emirates, whose expansion qualifies it to claim the crown of the free-wheeling sultan of the skies.

Its strategy of flying large number of passengers all around the world would have been difficult without the

¹ Case prepared by Jamal Shamsi, Michigan State University, with the assistance of Professor Alan B. Eisen. Pace University Material has been drawn from published sources to be used for purposes of class discussion. Copyright © 2017 Jamal Shamsi and Alan B. Eisen.

EXHIBIT 1 Top Global Airlines

There are several rankings of the world's airlines, but a few have consistently been rated highest in service over the last few years. These are listed below in no particular order.

	Started	Main Hub	Fleet	Destinations
SINGAPORE	1972	Singapore	108	63
CATHAY PACIFIC	1946	Hongkong	161	102
EMIRATES	1985	Dubai	221	142
THAI	1960	Bangkok	91	78
ASIANA	1988	Seoul	85	108
ETHAID	2003	Abu Dhabi	102	109
EVA	1989	Taipei	68	53
AIR NEW ZEALAND	1940	Auckland	106	78
GARUDA	1948	Jakarta	119	102
QATAR	1994	Doha	146	146
ANA	1962	Tokyo	211	73
SOUTH AFRICAN	1934	Johannesburg	60	42
VIRGIN ATLANTIC	1984	London	40	30
QANTAS	1920	Sydney	118	42
LUFTHANSA	1953	Frankfurt	273	190

Source: Skyscanner.

¹ Case prepared by Robert Wood Johnson II, Princeton University. Pace University Material has been drawn from published sources to be used for purposes of class discussion. Copyright © 2017 Robert Wood Johnson II.

Robert Wood Johnson II decided reluctantly to take the family business public. He fretted about the effects that market pressures would have on the company's practices and values, which led him to write a 307-word statement of corporate principles. This spelled out that J&J's primary responsibility was to patients and physicians, followed by employees, and then by communities. Shareholders were placed last on the list. This credo is inscribed in stone at the entrance of the firm's headquarters and is routinely invoked at the company.

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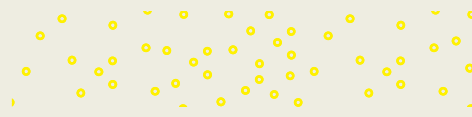
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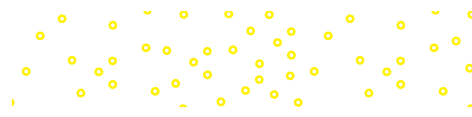
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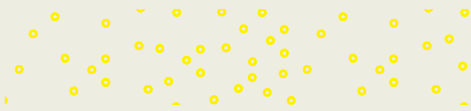
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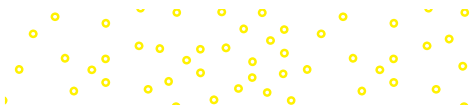
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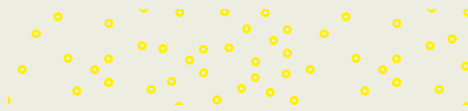
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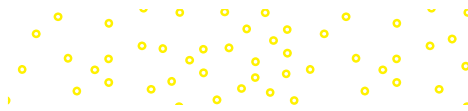
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cases

1 ROBIN HOOD

Hypothetical/Classic

Robin Hood and his Merry men are in trouble, as wealthy travelers are avoiding Sherwood Forest. This classic case is an excellent introduction to strategic management using a nonbusiness context. C2

2 THE GLOBAL CASINO INDUSTRY IN 2017

Casino Industry

The dominance of Las Vegas and Atlantic City in the global market has been challenged by the development of several casinos along a strip in the former Portuguese colony of Macau. More recently, this growth of casinos has spread to other locations across Asia-Pacific. All of these new locations are hoping to grab a share of the gambling revenues. C3

3 MCDONALD’S IN 2017

Restaurant

Change is in the air at the world’s largest burger chain. Only 20% of millennials have even tried a Big Mac and McDonald’s is worried. It has removed high fructose corn syrup from its buns, changed from the use of liquid margarine to real butter, decided to use chicken that has been raised without antibiotics, and switched to cage-free eggs. C7

4 ZYNGA: IS THE GAME OVER?

Multimedia & Online Games

Zynga not only struggled to remain relevant in the gaming industry but also fought to seem attractive to investors. During the past four years, the company had a new CEO almost every year. C13

5 QVC

Retail

QVC is finally beginning to see cracks emerge in a business model that has relied on impulsive purchases

by television viewers. The home shopping channel’s U.S. sales fell 6% during the last part of 2016, the first drop in seven years on its home turf. It was especially troubling that this decline extended into the crucial year-end holiday period. C19

6 MICROFINANCE: GOING GLOBAL . . . AND GOING PUBLIC?

Finance

With the global success of the microfinance concept, the number of private microfinance institutions exploded and the initial public offerings for these institutions was on the rise. This transfer of control to public buyers creates a fiduciary duty of the bank’s management to maximize shareholder value. Will this be a good thing for these typically “do good” banks? C24

7 WORLD WRESTLING ENTERTAINMENT

Entertainment

2017 offered new challenges for WWE’s potent mix of shaved, pierced, and pumped-up muscled hunks; scantily clad, and sometimes cosmetically enhanced beauties; and body-bashing clashes of good versus evil that had resulted in an empire that claimed over 35 million fans. C27

8 GREENWOOD RESOURCES: A GLOBAL SUSTAINABLE VENTURE IN THE MAKING

Natural Resources

GreenWood manager Jeff Nuss narrowed the field from 20 possible investment sites to two strategic alternatives. Which tree plantation investment in rural China should Jeff proceed with? C32

9 FRESHDIRECT: HOW FRESH IS IT?

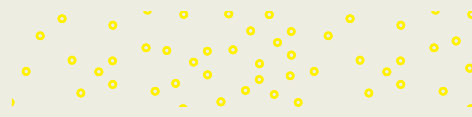
Grocery

FreshDirect, a New York City–based online grocer, claimed, “Our food is fresh, our customers are spoiled.” Recently, however, many consumers questioned the freshness of the food delivered. C46

10 DIPPIN’ DOTS: IS THE FUTURE FROZEN?

Ice Cream

Dippin’ Dots Ice Cream is faced with mounting competition for its flagship tiny beads of ice cream that are made and served at super-cold temperatures. Will their new distribution partners bring them in from the cold? . . . C58



11 KICKSTARTER AND CROWDFUNDING

Crowdfunding

Crowdfunding allows ventures to draw on relatively small contributions from a relatively large number of individuals using the Internet, without standard financial intermediaries. Kickstarter offers a platform for crowdfunding of new ventures, but the field is crowded. C68

12 EMIRATES AIRLINE IN 2017

Airlines

Emirates faced its biggest challenge from the drop in oil prices and the growth in terrorist attacks that have led to a decline in demand. Many companies, particularly in the Middle East, have been cutting back on travel for their employees, reducing the premium revenue that Emirates has been generating from first and business class passengers. C75

13 CIRQUE DU SOLEIL

Entertainment

Cirque du Soleil’s business triumphs mirrored its high-flying aerial stunts, but poorly received shows over the last few years and a decline in profits have caused executives at Cirque to announce restructuring and refocusing efforts—shifting some of the attention away from their string of successful shows toward several other potential business ventures. C82

14 PIXAR

Movies

Disney CEO Bob Iger worked hard to clinch the deal to acquire Pixar, whose track record has made it one of the world’s most successful animation companies. Iger realized, however, that he must try to protect Pixar’s creative culture while also trying to carry that culture over to some of Disney’s animation efforts. C86

15 CAMPBELL: HOW TO KEEP THE SOUP SIMMERING

Processed and Packaged Goods

In 2017, Campbell Soup neared the boiling point with numerous challenges, the most important to remain attractive to health-conscious consumers. CEO Denise Morrison tried to turn the company focus toward fresh food categories, with its fresh food division called “Campbell Fresh.” However, the company still failed to accomplish an impressive comeback. C91

16 HEINEKEN

Beer

Heineken can lay claim to a brand that may be the closest thing to a global beer brand. But in the United States and Europe sales are relatively flat. Heineken owns more than 175 smaller or regional brands of beer. Would the move to launch Bintang, which is its biggest selling beer brand in Indonesia, into the UK and select European markets be successful? C102

17 FORD: NO LONGER JUST AN AUTO COMPANY?

Automotive

Ford’s new CEO Mark Fields announced that Ford would focus not only on advanced new vehicles but on changing the way the world moves by solving today’s growing global transportation challenges. Are Fields and Ford up to the challenge? C107

18 GENERAL MOTORS IN 2017

Automotive

GM has fallen from its dominant position in the domestic auto business, is dismantling operations in Russia, and is selling off its Opel unit in Europe to Peugeot. Will CEO Mary Barra be able to bring back the glory with a series of new investments such as in electric vehicles, ride sharing fleets, and driverless cars? C120

19 JOHNSON & JOHNSON

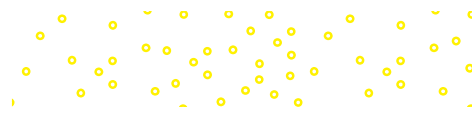
Pharmaceuticals, Personal Care Products, Medical Devices

CEO Alex Gorsky has been growing J&J by acquisition, while granting autonomy to the firms that it absorbs. While independence cultivates an entrepreneurial attitude, the units are not pursuing collaborative opportunities across units. How can J&J combine collaboration and autonomy without unraveling the J&J entrepreneurial spirit? C128

20 AVON: A NEW ERA?

Cosmetics

Rookie CEO Shari McCoy spun off 80% of Avon’s domestic business in an attempt save the firm. Can McCoy save the remaining business and return the iconic, direct selling company to profitable growth? C133



21 THE BOSTON BEER COMPANY: POISED FOR GROWTH

Beer

The Boston Beer Company was facing a difficult competitive environment with direct competition from both larger and smaller breweries and from premium imported beers. While further growth would be beneficial in terms of revenue, growing too large could negatively affect the company’s status as a craft brewery and the perceptions of its customers. C144

22 NINTENDO’S SWITCH

Video Games

In 2017 Nintendo launched a new gaming console system named Nintendo Switch. Would the new Joy-Con Controllers and flexible play features be enough to boost consumer numbers and investors’ confidence? C154

23 TATA STARBUCKS: HOW TO BREW A SUSTAINABLE BLEND FOR INDIA

Coffee

Would Starbucks and Tata under new CEO Sumi Ghosh’s leadership finally be able to brew a new blend of success in the competitive and complex Indian café market? While management appeared proud of the joint venture’s early performance, some critical strategic choices would need to be made to ensure the long-term success of Starbucks in India. C165

24 WEIGHT WATCHERS INTERNATIONAL INC.

Weight Loss

Weight Watchers was reinventing weight loss for a new generation and hoping profits would jump off the scale. A new “Beyond the Scale” advertising campaign that featured the entrepreneur and talk show host, Oprah Winfrey, claiming that she had lost 40 pounds by using Weight Watchers program. C173

25 SAMSUNG ELECTRONICS 2017

Consumer Electronics

Samsung rushed the Note 7 to market ahead of Apple’s anticipated iPhone 7. The tendency of the Note 7 to burst into flames from a poor battery design subsequently led Samsung to engage in one of its most extensive and costly recalls and to eventually kill the new product. C184

26 PROCTER & GAMBLE

Consumer Products

Procter & Gamble was the world’s largest consumer products conglomerate, with billion-dollar brands such as Tide, Crest, Pampers, Gillette, Right Guard, and Duracell. However, sales were down as consumers were coping with the economic downturn by switching to P&G’s lower-priced brands. C189

27 APPLE INC.: IS THE INNOVATION OVER?

Computers, Consumer Electronics

CEO Tim Cook had driven the stock price up 175% since the death of founder Steve Jobs. Yet Cook was criticized for being too cautious about entering new product categories, pursuing acquisitions, and driving employees to achieve stretch goals. Would Apple be able to innovate without Jobs? C195

28 JETBLUE AIRLINES: GETTING OVER THE “BLUES”?

Airline

This airline’s start-up success story is facing new challenges as operational problems have surfaced and another new pilot is in the CEO’s seat. C208

29 UNITED WAY WORLDWIDE

Nonprofit

As a nonprofit organization, it was imperative for United Way Worldwide to get the necessary support at the local level in order to achieve its stated organizational goals. Would Gallagher’s various strategies be successfully implemented, or was the nonprofit’s very mission perhaps no longer relevant? C218

30 EBAY

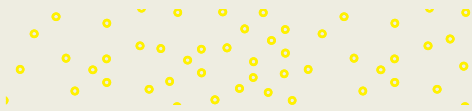
Internet

The online auction pioneer was entering a critical period. There were questions of what was right for the company to increase shareholder value over the long term, as well as operational issues related to search engine optimization and online security. C227

31 JAMBA JUICE: MIXING IT UP & STARTING AFRESH

Smoothies/QSR

After years of same-store declines, activist investors were pressuring CEO Dave Pace for a turnaround.



Jamba has gradually expanded its product line over the past several years to appeal to a broader palate, but was the company biting off more than it could chew? . . . C241

32 BLACKBERRY LIMITED: IS THERE A PATH TO RECOVERY?

Mobile Phones, Software

Blackberry CEO John Chen was hired to get the former dominating smartphone producer back to profitability. However, Blackberry stock was trading for less than \$7 a share, that is, only a fraction of the \$139 price in 2008. Chen has to navigate the rumors of a sale to Samsung and hostile takeovers, while refocusing the firm. Will Chen and Blackberry survive? C250

33 ASCENA: ODDS OF SURVIVAL IN SPECIALTY RETAIL?

Retail, Women’s Fashion

Ascena was just starting to digest Ann Taylor, its most recent acquisition in women’s apparel. However, 2017

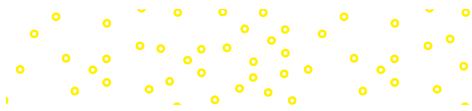
was shaping up to be the worst year in apparel retail in a decade as ten major apparel retailers filed for bankruptcy and many others teetered on the brink. Could Ascena transcend the industry and drive sales forward or was this one acquisition too many? C263

Indexes

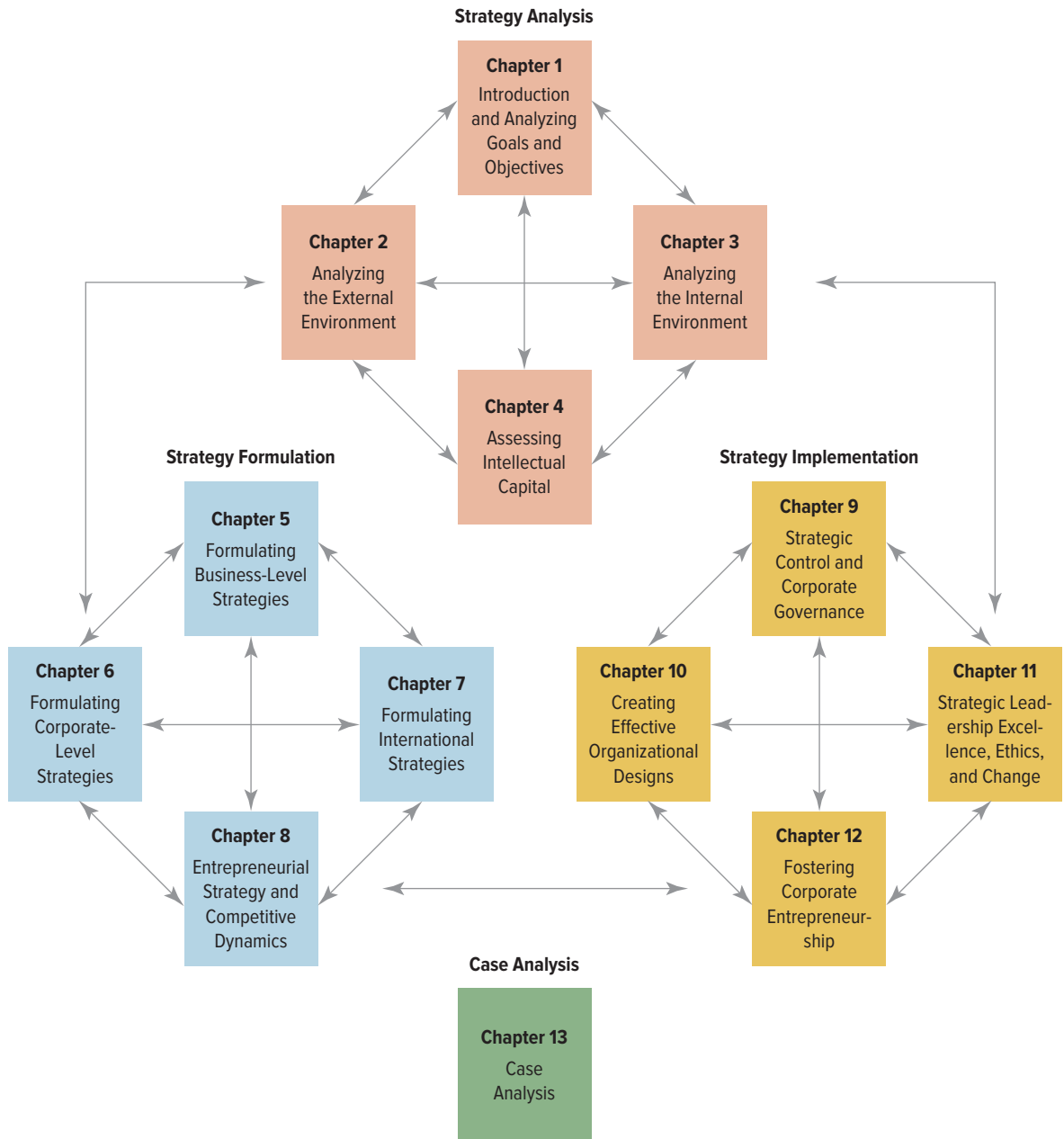
Company I-1

Name I-11

Subject I-27



The Strategic Management Process



Strategic Management

Creating Competitive Advantages

After reading this chapter, you should have a good understanding of the following learning objectives:

- LO1-1** The definition of strategic management and its four key attributes.
- LO1-2** The strategic management process and its three interrelated and principal activities.
- LO1-3** The vital role of corporate governance and stakeholder management, as well as how “symbiosis” can be achieved among an organization’s stakeholders.
- LO1-4** The importance of social responsibility, including environmental sustainability, and how it can enhance a corporation’s innovation strategy.
- LO1-5** The need for greater empowerment throughout the organization.
- LO1-6** How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

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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 in just a few years. The rankings of the world's most valuable firms can dramatically change in a rather brief period of time. On the other hand, many impressive, high-flying firms can struggle to reclaim past glory or even fail. Recall just four that begin with the letter “b”—Blackberry, Blockbuster, Borders, and Barings. 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

- At the beginning of 2007, the three firms in the world with the highest market values were Exxon Mobil, General Electric, and Gazprom (a Russian natural gas firm). By early 2017, three high tech firms headed the list—Apple, Alphabet (parent of Google), and Microsoft.
- Only 74 of the original 500 companies in the S&P index were still around 40 years later. And McKinsey notes that the average company tenure on the S&P 500 list has fallen from 61 years in 1958 to about 20 in 2016.
- With the dramatic increase of the digital economy, new entrants are shaking up long-standing industries. Note that Alibaba is 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.
- A quarter century ago, how many would have predicted that a South Korean firm would be a global car giant, than an Indian firm would be one of the world's largest technology firms, and a huge Chinese Internet company would list on an American stock exchange?
- *Fortune* magazine's annual list of the 500 biggest companies now features 156 emerging-market firms. This compares with only 18 in 1995!

To remain competitive, companies often must bring in “new blood” and make significant changes in their strategies. But sometimes a new CEO's initiatives makes things worse. Let's take a look at Lands' End, an American clothing retailer.³

Lands' End was founded in 1963 as a mail order supplier of sailboat equipment by Gary Comer. As business picked up, he expanded the business into clothing and home furnishings and moved the company to Dodgeville, Wisconsin, in 1978 where he was its CEO until he stepped down in 1990. The firm was acquired by Sears in 2002, but later spun off in 2013. A year later it commenced trading on the NASDAQ stock exchange.

Targeting Middle America, companies like Lands' End, the GAP Inc., and J. C. Penney have had a hard time in recent years positioning themselves in the hotly contested clothing industry. They are squeezed on the high end by brands like Michael Kors Holdings Ltd. and Coach, Inc. On the lower end, fast-fashion retailers including H&M operator Hennes & Mauritz AB are applying pressure by churning out inexpensive, runway-inspired styles.

To spearhead a revival of the brand, Lands' End hired a new CEO, Frederica Marchionni, in February 2015. However, since her arrival, the firm's stock price has suffered, same store sales declined for all six quarters of her tenure, and the firm kept losing money. It reported a loss of \$19.5 million for the year ending January 29, 2016—compared to a \$73.8 million profit for the previous year. (And, things didn't get better—it lost another \$7.7 million in the first half of 2016.)

So, what went wrong? Lands' End was always known for its wholesome style and corporate culture. Its founder, Gary Comer, who liked to dress casually in jeans and sweaters, had fostered a familial culture. However, things dramatically changed when Ms. Marchionni arrived. Prior to taking the position, she had struck a deal to only spend one week a month in Dodgeville—preferring instead to spend most of her time in an office in New York's garment district. Also, unlike her predecessors, she had private bathrooms in both of her offices—such perks didn't seem to fit well with the firm's culture.

Given Marchionni's background at high-end names like Ferrari and Dolce & Gabbana, she tried to inject more style into the maker of outdoorsy, casual clothes. She added slimmer-fits, stiletto heels and a new line of activewear. In presentations, according to those attending, she derided the company's boxy sweaters and baggy pants as “ugly,” asking “Who would wear that?” A photo shoot for a line took place in the Marshall Islands—a very costly location, according to people familiar with the situation. She overhauled the catalog, hired celebrity photographers, and hired a *Vogue* stylist for input. She also added new price points—including the Canvas line which sells for as much as 30 percent more than the traditional Lands' End collection.

At the end of the day, it appeared that Ms. Marchionni was never able to get Lands' End employees to buy into her vision. And as losses piled up quickly, the board became concerned that she was trying to make too many changes too quickly. Perhaps, she was not given enough time to turn things around—but her approach to re-invent the apparel brand may have been too much of a shock for its customer base as well as the firm's family culture and wholesome style. Maybe Lee Eisenberg, the firm's former creative director, said it best: “It doesn't look like Lands' End anymore. There was never the implication that if you wore Lands' End you'd be on a beach on Nantucket living the perfect life.” Marchionni resigned on September 26, 2016—underscoring, as noted by *Fortune.com*, how futile it must be to take such a Middle American brand upscale.

Discussion Questions

1. What actions could Ms. Marchionni have taken to improve Lands' End's prospects for success in the marketplace?
2. Did Lands' End make the right choice in selecting her for the CEO position? Why? Why not?

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 Jack Welch, Andrew Grove, and Herb Kelleher for the tremendous accomplishments when they led their firms, General Electric, Intel, and Southwest Airlines, respectively.

Similarly, Apple's success in the last decade 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

romantic view of leadership

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

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, actions undertaken by Ms. Marchionni to move Lands' End upscale backfired and hampered its performance. 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!

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.

external control view of leadership

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

Looking back at the opening Lands' End case, it was clear that Ms. Marchionni faced challenges in the external environment over which she had relatively little control. As noted, chains targeting Middle America such as Lands' End were squeezed on both the higher end by brands such as Coach Inc. and on the lower end by Hennes & Mauritz AB. And as noted by an analyst, her potential for success was adversely affected by "the worst consumer soft goods market in eight years."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?

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 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.

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:

- **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. 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.

LO 1-1

The definition of strategic management and its four key attributes.

strategic management

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

strategy

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

competitive advantage

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

operational effectiveness

performing similar activities better than rivals.

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.

EXHIBIT 1.1

Strategic Management Concepts

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.

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, 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 CEO, “Less than perfect strategy execution against the right strategy will probably work. A 100% 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 2016 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

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. & Gibson, C. 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.

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.

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.

ambidexterity

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

THE STRATEGIC MANAGEMENT PROCESS

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.

LO 1-2

The strategic management process and its three interrelated and principal activities.