part one

Strategic Analysis

Strategic Analysis

outline

chapter 1

Strategic Management:

Creating Competitive Advantages: An Overview

learning objectives

After reading this chapter, you should have a good understanding of:

LO 1 the essence and definitions of strategy, strategic management, and competitive advantages.

LO 2 the four key attributes of strategic management and the three principal and interrelated activities of the strategic management process.

LO 3 the vital role of corporate governance and stakeholder management in the strategic management process and the long-term success of all organizations.

LO 4 the key environmental forces that create unpredictable change and call for a greater strategic management perspective throughout the organization.

LO 5 how an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

One of the things that makes the study of strategic management so interesting is that it tries to answer the question: Why do some firms outperform others? How is it that struggling firms can become stars, while high flyers can become earthbound very rapidly? When Wal-Mart announced its intentions of entering the Canadian retail scene in the mid-1980s, most established companies—large and small alike—were justifiably terrified. Within the next few years and as a direct result of Wal-Mart's aggressive strategy, venerable competitors, such as Eaton's and Kmart, disappeared. Others, though, were able to survive and some, such as Canadian Tire and Loblaws, faced the onslaught head-on and have thrived in the new competitive landscape. Bombardier has been a Canadian success story of genius and serendipity; it was able to carve a unique place in a range of industries in aerospace, public transit, and outdoor recreational equipment. During the recent stock market slump beginning in 2000, many technology firms were particularly ravaged. Let's look at one such firm that experienced a hard fall from grace.

case study

John Roth, after his appointment in 1997 as chief executive officer of the Brampton, Ontario-based telecom behemoth Nortel Networks, embarked on a three-year journey to transform Nortel from a lumbering bureaucracy into a template for the New Economy. Along the way, Nortel electrified the high-tech industry with a series of lightning-quick manoeuvres and became a major player in the Internet revolution. Roth's efforts earned him Canada's Outstanding CEO of the Year Award for 2000. He catapulted Nortel beyond its decades-long core business of making telephone equipment into the red-hot market for fibre-optic networks and other systems for transmitting digital information over the Internet. It also spawned a series of multi-billion dollar acquisitions and new alliances. In 2000, Nortel ranked as North America's number two maker of telecom products, trailing only Lucent Technologies, and was the second largest router manufacturer, behind its other chief rival, Cisco Systems Inc. In early 2000, Nortel Networks had surpassed $400 billion in market capitalization and accounted for as much as 36 percent of the value of the TSE 300, leading the stock exchange to record trading volumes.

Yet, on February 15, 2001, sales growth expectations were cut in half to 15 percent, earnings growth predictions were reduced from 30 percent to 10 percent, and a first-quarter earnings guidance was revised downward from 16 cents per-share growth to a loss of 4 cents per share. Nortel's stock, which had already been battered along with all high-tech shares during the second part of 2000, lost another third of its value and dropped below $30, down 76 percent from its high of $125 in July 2000. The CEO, whose credibility evaporated along with Nortel's market capitalization, was now just another executive scrambling to keep his business intact as the bottom fell out of the high-tech market.

Nortel's shareholders lost a collective $325 billion in value, and the damage wasn't limited to a small, elite class of investors. Through mutual funds, pension plans, retirement savings plans, and other investments, Canadians of all stripes owned a piece of the country's largest, mightiest company.

Roth attempted to explain the sudden change in outlook on the dramatically slowing U.S. economy. He argued that during the four weeks since he first announced 2001 projections on January 18, Nortel customers unexpectedly changed their telecom spending plans, which, for the first time, seriously began to impact sales forecasts of Nortel equipment. Ostensibly, despite earlier warnings from the likes of Cisco, Lucent, and Ericsson, nothing of significance had shown up on Nortel's order books until February 15, 2001. Only then did the bad news flood in—to the tune of US$1.8 billion less in expected revenue for the first quarter.*

During the four weeks between forecasts, a number of other events took place. First, two Nortel executives sold approximately $7 million worth of shares. The company's chief technology officer, Bill Hawe, quietly resigned and exercised his own options, worth about

*Nortel's woes continued unabated; two subsequent CEOs resigned under the weight of accounting irregularities, and by the spring of 2005, its shares were trading for under $3.

US$10 million. On the same day that Hawe resigned, RBC Dominion Securities interviewed Roth for a Webcast not widely disseminated, during which he commented that customers were "slowing down expenditures of capital like we've never witnessed before!" And finally, Nortel completed an all-stock deal for a JDS Uniphase Corp. subsidiary, worth about US$3 billion at the time, but as much as US$1 billion less after the stock collapsed.

For many Canadians who had seen their retirement savings disappear, this was a slap in the face—particularly since Roth received $135 million in 2000 from salary, bonus, and proceeds from the sale of Nortel shares. Nortel was knocked off its pedestal—and Roth stood out like the clothing-challenged emperor.[1]

Who and what might be responsible for Nortel's successes during the 90s and its failures since? Answers to such questions lie at the heart of strategic management and are the subject of this book. Leaders, such as those at Nortel, face a large number of unusual challenges in today's global marketplace. In deciding how much credit (or blame) they deserve, one might consider the *romantic* view of leadership.[2] Here, the implicit assumption is that the leader is the key force in determining an organization's success—or lack thereof. This view dominates the popular press in business magazines, such as *Fortune, BusinessWeek, Forbes,* and *Canadian Business,* wherein the CEO is either lauded for his or her firm's success or chided for the organization's demise. Consider, for example, the credit that has been bestowed on such leaders as Jack Welch, Andrew Grove, Isadore Sharpe, and Paul Tellier for the tremendous accomplishments of their firms, General Electric, Intel, Four Seasons Hotels and Resorts, and Canadian National Railways, respectively. In the world of sports, managers and coaches, such as Scotty Bowman or Pat Quinn, get a lot of the credit for their teams' outstanding successes in the field and on the ice. 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. After all, Nortel's Roth, in his enthusiasm to pump up revenues, aggressively counted huge contracts that left little margin for error. Such risks are generally not advised, especially as market and economic conditions erode. Nonetheless, he repeatedly ignored negative signals and continued to make rosy forecasts. Profits and the firm's stock price eventually took a big hit.

However, this gives only part of the picture. From another perspective on leadership, *external control* is highlighted. Here, rather than making the implicit assumption that the leader is the most important contributor in determining organizational performance, the focus is on external factors that may positively or negatively affect a firm's success. One doesn't have to look far to support this perspective. Clearly, Nortel was negatively impacted by the worldwide recession that began in 2000, which drastically cut the demand for telecommunication equipment and services. Other rivals, such as Alcatel and Lucent Technologies, were also negatively affected. Furthermore, as we see later on in the book, other perspectives ascribe the success of an organization primarily to unique combinations of skills and resources that are rare and invaluable in creating the products and services offered to the market.

The point, of course, is that no single perspective is entirely correct, and we must acknowledge multiple angles in the study of strategic management. Our premise is that leaders can make a difference, but they must be constantly aware of the opportunities and threats that they face in the external environment and have a thorough understanding of their firm's resources and capabilities.

Consider a rather dramatic example of the external control perspective at work: the terrorist attack on the twin towers of the World Trade Center in New York City and the Pentagon building in Arlington, Virginia, on September 11, 2001. The loss of life and injuries to innocent people were immense, and the damage to property was enormous. Wall Street suffered losses of about $1.4 trillion in the five trading sessions after the market opened on September 17. The effect on many industries was devastating. Yet, some high-technology firms recognized opportunities and benefited from government reactions to the terrorist attacks and from subsequent developments such as the creation of the Department of Homeland Security and the Iraq War in 2003. Leaders and entrepreneurs responded and capitalized on increased outlays for specialized computing hardware and software, surveillance equipment and services, and appropriations for the military, which have increased dramatically since then. The effectiveness of those firms' responses highlights the fact that an organization's success (and, by extension, strategic management) cannot be viewed as deriving from a single factor, nor can a single person normally make all the difference in the results.

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.[3] They must go beyond what some have called "incremental management," whereby they view their job as making a series of minor changes to improve the efficiency of their firm's operations.[4] That is fine if their firm is competing in a very stable, simple, and unchanging industry. But there aren't many of those left. As we shall discuss in this chapter and throughout the book, the pace of change is accelerating, and the pressure on managers to make both major and minor changes in a firm's strategic direction is increasing.

Rather than view their role as mere custodian of the status quo, today's leaders must be proactive, anticipate change, continually refine and, when necessary, make significant changes to their strategies. The strategic management of the organization must become both a process and a way of thinking throughout the organization. At the heart of strategic management, each manager faces the question: How can I contribute to make our firm outperform others? The challenge to managers is, first, to decide on strategies that provide advantages, which can be sustained over time and, second, to effectively execute those strategies in the midst of an environment of great turbulence and uncertainty.

Defining Strategic Management

LO 1

Strategic Management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages. *Competitive advantage,* in turn, is what makes a company's offerings superior to those of its competitors. Superiority comes in many dimensions, and firms can pursue different avenues of competitive advantage. Some can excel in providing products and services of superior quality that may incorporate unique and valuable features, that may be customized to address specific customer needs more closely, or that may be lower priced. Even for organizations whose mandates do not include making profits, such as government departments and not-for-profit organizations, the concept of competitive advantage is very instructive. Consider, for example, our court system. What is the competitive advantage of a particular court of justice as compared to alternatives such as mediation or arbitration? What elements of its organizing structure, staff, and strategy are responsible for providing resolutions to disputes that are speedier, fairer, or perceived as more just than the alternatives? The answers are important since they can influence whether the populace will trust the court and whether the government will then adequately fund it rather than divert resources to its "competitors."

The above definitions of strategic management and competitive advantage capture 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: *analysis, decisions,* and *actions.* That is, strategic management is concerned with the *analysis* of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment 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 as well as its 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. Strategic management is, therefore, a process and an evolving managerial responsibility that requires a great deal of interaction among those three subprocesses. It should be noted that although each of the three subprocesses can conceptually be viewed as occurring distinctly and in sequence, effective managers engage in all three, all the time. Their actions provide insights and experiences that further inform their understanding of what is going on in the marketplace as well as what their firm is capable of accomplishing. Such appreciation allows them to continuously refine or drastically change their adopted strategies.

Second, the essence of strategic management is the study of why some firms outperform others.[5] Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a period of time. That means focusing on two fundamental questions: How should we compete in order to create competitive advantages in the marketplace? For example, managers need to determine if the firm should position itself as the low-cost producer or develop products and services that are unique, which would enable the firm to charge premium prices, or some combination of both. Since managers must also ask how to make such advantages sustainable, instead of temporary, in the marketplace, the next question is: How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?[6,7]

Ideas that work are almost always copied by rivals immediately. In the 1980s, American Airlines tried to establish a competitive advantage by introducing the frequent flyer program. Within months, all major airlines in the U.S. as well as in Canada and the rest of the world had similar programs. Overnight, instead of competitive advantage, frequent flyer programs became a necessary tool for competitive parity. The challenge, therefore, is to create a competitive advantage that is sustainable.

Michael Porter argues that sustainable competitive advantage cannot be achieved through operational effectiveness alone.[8] Most of the popular management innovations of the last two decades—total quality, just-in-time, benchmarking, business process re-engineering, outsourcing—are about operational effectiveness. Operational effectiveness means performing similar activities better than rivals. Each of these is important, but none leads to sustainable competitive advantage, for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing different activities from rivals or performing similar activities in different ways. Companies such as Wal-Mart, Canadian Tire, and IKEA have developed unique, internally consistent, and difficult-to-imitate activity systems that have provided them with sustained competitive advantage. A company with a good strategy must make clear choices about what it wants to accomplish. Trying to do everything that its rivals do eventually leads to mutually destructive price competition, not long-term advantage.

The Four Key Attributes of Strategic Management

LO 2

Four attributes distinguish strategic management from the other functions such as accounting, marketing, or operations, which are performed inside an organization.[9] Students of business and commerce have traditionally been exposed to the issues that are pertinent to each of the various functions. More recently, additional emphasis has been placed on such

Definition: Strategic management consists of the analysis, 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.
- incorporates short-term and long-term perspectives.
- recognizes trade-offs between efficiency and effectiveness.

Exhibit 1.1 *Strategic Management Concepts*

topics as strategic human resource management or strategic marketing, which recognize and address similar strategic attributes within the organizational functions. Exhibit 1.1 states our definition of strategic management and identifies its four attributes.

1. 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."[10] In other words, what might look "rational" or most appropriate 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 in order to lower unit costs. However, the standardized output may be counter to what the marketing department needs in order to appeal to a sophisticated and demanding target market. Similarly, research and development may "overengineer" the product in order to develop a far superior offering, but the design may make the product so expensive that market demand is minimal. In studying strategic management, we look at cases and strategic issues from the perspective of the whole organization rather than that of the functional areas in which students might have the most training and experience.

2. Strategic management *includes multiple stakeholders in decision making.* Managers must incorporate the demands of many stakeholders when making decisions.[11] Stakeholders are those individuals, groups, and organizations who 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. Managers will not be successful if they continually 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 become resentful of continual demands for pricing concessions. Many organizations have been able to satisfy multiple stakeholder needs simultaneously. In doing so, financial performance may actually increase because employees who are satisfied with their jobs make a greater effort to enhance customer satisfaction, thus leading to higher profits.

3. Strategic management *incorporates both short-term and long-term perspectives.* Peter Senge, a leading strategic management author at the Massachusetts Institute of Technology, has referred to this need as a "creative tension."[12] That is, managers must maintain both a vision for the future of the organization as well as a focus on its present operating needs. However, as one descends the hierarchy of the organization from executive to middle-level to lower-level management, a narrower, short-term perspective tends to prevail. Nonetheless, all managers throughout the organization must maintain a strategic management perspective and assess how their actions impact the overall attainment of organizational objectives. For example, laying off several valuable employees may help to cut costs and improve profits in the short term, but the long-term implications for employee morale and customer relationships may suffer—leading to subsequent performance declines.[13]

4. Strategic management *involves the recognition of trade-offs between effectiveness and efficiency.* Closely related to the third point above, this recognition means being aware of the need to strive to act effectively and efficiently as an organization. Some authors have referred to this as the difference between "doing the right thing" (effectiveness) and "doing things right" (efficiency).[14] While managers must allocate and use resources wisely, they must still direct their efforts toward the attainment of overall organizational objectives. Managers who are totally focused on meeting short-term budgets and targets may fail to attain the broader goals of the organization. Consider the following anecdote, told by Norman Augustine, formerly CEO of defence giant Martin Marietta (now Lockheed Martin):

> I am reminded of an article I once read in a British newspaper which described a problem with the local bus service between the towns of Bagnall and Greenfields. It seemed that, to the great annoyance of customers, drivers had been passing long queues of would-be passengers with a smile and a wave of the hand. This practice was, however, clarified by a bus company official who explained, "It is impossible for the drivers to keep their timetables if they must stop for passengers."[15]

Clearly, the drivers who were trying to stay on schedule had ignored the overall mission. As Augustine noted: "Impeccable logic but something seems to be missing!"

The Strategic Management Process

We have identified three ongoing processes—analysis, 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. Further, these three processes do not take place one after the other in a sequential fashion in most companies.

Henry Mintzberg, an influential management scholar at McGill University, argues that conceptualizing the strategic management process as one in which analysis is followed by optimal decisions and their subsequent meticulous implementation neither describes the strategic management process accurately nor prescribes ideal practice.[16] In his view, the business environment is far from predictable, thus limiting our ability for analysis. Further, decisions in an organization are seldom based on optimal rationality alone, given the political processes that occur in all organizations.

Mintzberg, therefore, proposed an alternative model of strategy development. As depicted in Exhibit 1.2, decisions deriving from analysis constitute the *intended* strategy of the firm. For a variety of reasons, the intended strategy rarely survives in its original form. Unforeseen environmental developments, unanticipated resource constraints, or changes in managerial preferences may result in at least some parts of the intended strategy remaining *unrealized.* On the other hand, good managers will want to take advantage of a new opportunity presented by the environment even if it was not part of the original set of intentions. The SARS crisis in Toronto and Southeast Asia was a completely unexpected environmental development. If managers of pharmaceutical firms redeploy their R&D capabilities to develop a drug to fight SARS, that would be an *emergent* strategy. The final *realized* strategy of any firm is a combination of deliberate and emergent strategies.

Addressing each of the three strategic management processes separately does, nevertheless, serve some useful pedagogical purposes. It allows us to develop a better appreciation of what each entails and to consider the concepts, frameworks, and tools that can be

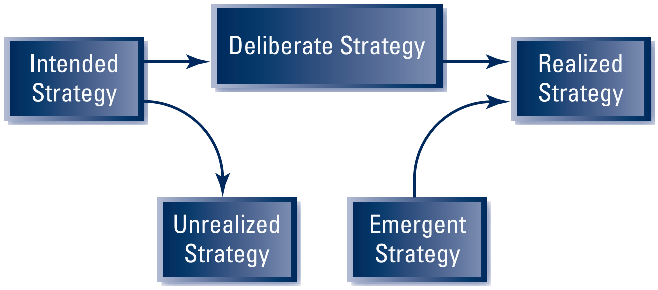

Exhibit 1.2 *Realized Strategy and Intended Strategy: Usually Not the Same*

Source: H. Mintzberg and J. A. Waters, "Of Strategies, Deliberate and Emergent," *Strategic Management Journal* 6 (1985), pp. 257–72.

used by managers who engage in each. It serves to demonstrate that effective strategic management poses complex challenges and that sometimes things can go wrong.

Exhibit 1.3 depicts the strategic management process (or at least an unambiguous and systematic reflection of it) and indicates how it ties into the chapters in the book. Consistent with our discussion above, we use two-way arrows to convey the interactive nature of the processes. Next, we briefly elaborate on what each of the three strategic management processes entails.

Strategy Analysis

Strategy analysis may be looked upon as the starting point of the strategic management process. It consists of the "advance work" that must be done in order to effectively formulate and implement strategies. Analysis is about understanding what is going on, why situations have unfolded in particular ways, what issues the organization faces at present and in the future, whether and why the organization has been successful, and what others may be doing and why. Most importantly, analysis is about making sense of the elements and the interactions that formed the organization's world in the past and will continue to be of importance in the future. Many strategies fail because managers proceed to formulate and implement strategies without an appreciation of the overarching goals of the organization and without a careful analysis of its external and internal environment.

Strategy analysis starts with an appreciation of the organization's goals and objectives. Various stakeholders have different expectations and aspirations with respect to what an organization should stand for and what it should strive to accomplish. Analyzing organizational goals and objectives (Chapter 1) addresses how organizations reconcile those divergent positions and why organizations must have clearly articulated goals and objectives if they are to channel the efforts of individuals throughout the organization toward common ends. Goals and objectives also provide a means of allocating resources effectively. A firm's vision, mission, and strategic objectives form a hierarchy of goals that range from broad statements of intent and bases for competitive advantage to specific, measurable strategic objectives.

As indicated in Exhibit 1.3, this hierarchy of goals does not emerge in a purely straightforward fashion. Rather, it is developed in concert with a rigorous understanding of the ever-changing opportunities and threats in the external environment (Chapter 2) as well as a thorough understanding of the firm's strengths and weaknesses (Chapters 3 and 4). The opening incident in Chapter 1 described how Roth, CEO of Nortel, ignored the economic and competitive landscape and set unrealistically high growth targets. The result was an erosion of his firm's competitive position.

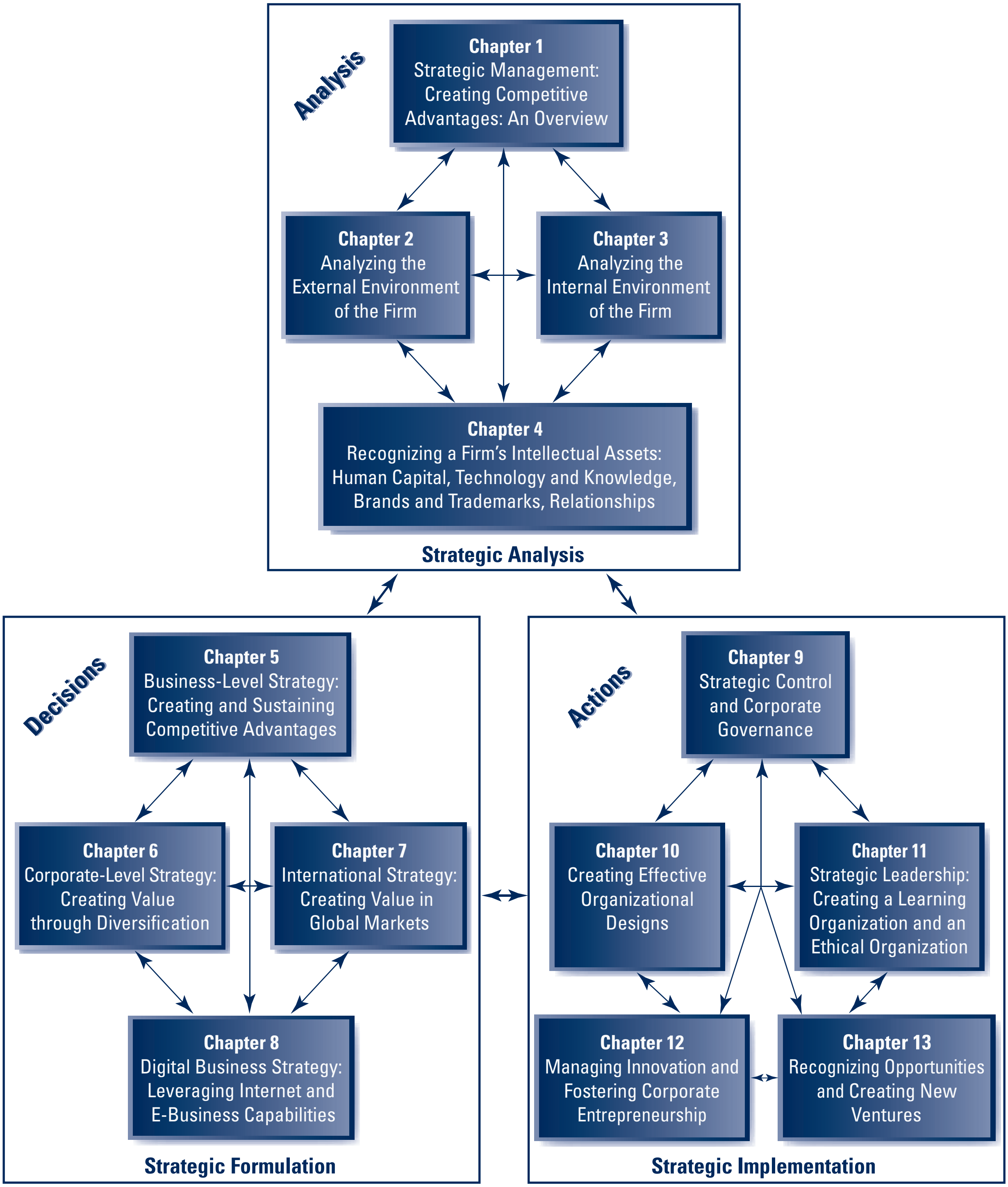

Exhibit 1.3 *The Strategic Management Process*

As noted, strategy analysis entails an in-depth understanding of the external environment (Chapter 2). Managers monitor and scan the environment as well as analyze competitors. Such information is critical in determining the opportunities and threats in the external environment. Two complementary frameworks are typically employed to provide the structure for analysis of the external environment—one capturing the general environment and the other, the industry environment, which encompasses competitors, suppliers, and customers. Strategy analysis of the external environment relies critically on extensive use of tools developed in diverse fields such as macro- and microeconomics, political science, marketing, consumer behaviour, operations management, international business, sociology, and psychology. They help managers make sense of the world that surrounds them.

In addition to the external environment, strategy analysis must focus on a firm's internal environment (Chapter 3). What does the firm do? How does it create the products and services it brings to the market? Why does it do things a certain way? Such analysis helps to identify both strengths and weaknesses that can, in part, determine how well a firm will succeed in an industry. Analyzing the strengths and relationships among the activities that constitute a firm's value chain (such as operations, marketing and sales, and human resource management) can be a means of uncovering potential sources of competitive advantage for the firm.

Probably the most important elements within an organization, which contribute vitally to its success, are the knowledge and skills of its workers as well as its intellectual assets such as technology, patents, and trademarks (Chapter 4). In addition to human capital, we address how well the organization creates networks and relationships among its employees, customers, suppliers, and alliance partners.

Strategy Formulation

An organization makes decisions about the strategies it will pursue and the bases for the competitive advantage it will attempt to build. Its overall strategy is developed at several levels. First, business-level strategy addresses the issue of how to compete in given business environments to attain competitive advantage (Chapter 5). The question of how firms compete and outperform their rivals and how they achieve and sustain competitive advantages is the essence of strategic management. Successful firms strive to develop bases for competitive advantage. These can be achieved through cost leadership, differentiation, and by focusing on a narrow or industry-wide market segment. Some advantages can be more sustainable over time, and a firm's business-level strategy changes with the industry life cycle—that is, the stages of introduction, growth, maturity, and decline.

Second, corporate-level strategy focuses on two issues: (1) which businesses to compete in and (2) how businesses can be managed to achieve synergy—the creation of more value by working together rather than operating as stand-alone businesses (Chapter 6). Firms consider the relative advantages and disadvantages of pursuing strategies of related or unrelated diversification and make choices regarding the various means they can employ to diversify—internal development, mergers and acquisitions, and joint ventures and strategic alliances.

Third, a firm must determine the best method for developing international strategies as it ventures beyond its national boundaries (Chapter 7). When firms expand their scope of operations to include foreign markets, they encounter many opportunities and potential pitfalls. They must decide not only on the most appropriate entry strategy but also how they will go about attaining competitive advantages in international markets. Many successful international firms have been able to attain both lower costs and higher levels of differentiated products and services through the successful implementation of a "transnational strategy."

Finally, digital technologies, such as the Internet and wireless communications, are changing the way business is conducted and present both new opportunities and threats for virtually all businesses (Chapter 8). When firms formulate strategies, they should give explicit consideration to how digital technologies add value and impact their performance outcomes. The effective use of the Internet and digital business strategies can help an organization improve its competitive position and its ability to create advantages by enhancing cost leadership, differentiation strategies, or its ability to serve a narrow market segment across geographic boundaries.

Strategy Implementation

Effective strategies are of no value if they are not properly executed. Managers are called to take action and coordinate the activities within their organization to help guide the implementation of the chosen strategies. Moreover, managers align their firm's activities with those of their suppliers, customers, and alliance partners in ways that will achieve desirable outcomes. Strategy implementation encompasses the systems, structures, attitudes, and behaviours that make things happen within organizations.

First, strategy implementation entails having in place an effective corporate governance structure that aligns the interests of managers with those of the owners of the firm (Chapter 9). Corporate governance involves not only the board of directors and actively engaged shareholders but also proper managerial reward and incentive systems, along with the strategic control mechanisms that set boundaries on managers' behaviours.

Firms must also adopt organizational structures and designs that are consistent with their strategies (Chapter 10). Organizational structures define how the various units within an organization relate and interact and how information flows across them. In addition, they establish the appropriate organizational boundaries. These should be sufficiently flexible and permeable to incorporate alliance partners and capitalize on the capabilities of other organizations.

Strategy implementation is, in large part, about leadership (Chapter 11). Today's managers are expected to do much more than manage their troops by telling them what to do. They are called to provide a vision, inspire, and lead ethically and with integrity. Moreover, they recognize that today's successes do not guarantee success in the future. Firms must continuously improve and find new ways to grow and renew. Instilling an entrepreneurial attitude and fostering experimentation throughout the organization help identify new opportunities while specific strategies are being formulated that will enhance the firm's innovative capacity (Chapter 12).

Finally, as part of strategy implementation, we consider the creation of new ventures (Chapter 13). New ventures and small businesses represent a major engine of economic growth. Although the challenges they face are unique, especially for start-up firms entering into business for the first time, many of the concepts that we address in the text can be applied to new ventures and small businesses. Viable opportunities must be recognized, effective strategies must be implemented, and entrepreneurial leadership skills are needed to successfully launch and sustain these enterprises.

The Role of Corporate Governance and Stakeholder Management

LO 3

If strategic management is about the analysis, decisions, and actions of the whole organization, what the organization stands for and aspires to achieve must be the starting point that will guide the analysis, decisions, and actions of its managers. Most business enterprises that employ more than a few dozen people are organized as corporations. According to financial theory, the overall purpose of a corporation is to maximize shareholder value, which is reflected in the long-term return to the owners, or shareholders. When considering not-for-profit organizations, NGOs, and entities in the public sector, the absence of direct ownership might, on the surface, complicate things. Yet, even there, one may ask: Who is really responsible for defining and fulfilling this purpose? Corporate governance is frequently seen as the vehicle to carry out this responsibility. Some have defined corporate governance as "the relationship among various participants in determining the direction and performance of corporations. The primary participants are (1) the shareholders, (2) the management (led by the chief executive officer), and (3) the board of directors."[17]

Briefly, the board of directors (BOD) consists of the elected representatives of the shareholders. They are charged with overseeing management and ensuring that the interests and motives of management are aligned with those of the owners (i.e., shareholders). In many cases, the BOD is diligent in fulfilling its purpose. For example, Intel Corporation, the giant $27 billion maker of microprocessor chips, is widely recognized as an excellent example of sound governance practices. Its BOD has established guidelines to ensure that its members are independent of the executive management team, and it provides detailed procedures for formal evaluations of both directors and the firm's top officers.[18]

Recently, though, we have also witnessed many scandals concerning poor management and complacent BODs in such firms as WorldCom, Hollinger, Enron, and Tyco.[19] Such malfeasance has led to much criticism and cynicism as well as to the erosion of the public's trust in the governance of corporations. A recent Gallup poll found that 90 percent of Americans felt that people leading corporations could not be trusted to look after the interests of their employees, and only 18 percent thought that corporations looked after their shareholders. Forty-three percent believed that senior executives were in it only for themselves. In Britain, that figure was an astonishing 95 percent.[20]

Notwithstanding these statistics, generating long-term returns for the shareholders is the primary goal of a publicly held corporation. As noted by former Chrysler vice chairman Robert Lutz, "We are here to serve the shareholder and create shareholder value. I insist that the only person who owns the company is the person who paid good money for it."[21]

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

In addition to *shareholders,* there are other *stakeholders* that must be explicitly taken into account in the strategic management process.[22] A stakeholder can be defined as an individual or group, inside or outside the company, that has an interest in an organization's actions and performance. Stakeholders are affected by what an organization does and can influence, to varying degrees, its performance. Although companies can have different stakeholders, each generally has five prominent stakeholder groups: customers, employees, suppliers (of goods, services, and capital), the community at large, and, of course, the owners.[23]

In essence, stakeholders have a "stake" in how a company competes, how it conducts its affairs, how it uses its own as well as the public's resources, and how it performs. Some stakeholders may be able to exert direct influence on those decisions, while others may only be passive recipients of the consequences. Consider, for example, our public health system and the organizations within it such as hospitals, clinics, ethical and generic pharmaceutical manufacturers, pharmacies, individual doctors and their professional associations, insurance companies, patients and their families, patient advocacy groups, as well as the government and taxpayers who are paying for it all. Each one of those organizations has to consider multiple stakeholders in making critical decisions because each decision has the potential to seriously affect the well-being of a number of individuals and groups. In turn, each stakeholder will attempt to exert whatever degree of influence it can to direct the decision to serve its own interests.

Alternate Perspectives of Stakeholder Management

The role of stakeholder management in the strategic management process can be considered under different perspectives.[24] In one view, the role of management is to look upon the various stakeholders as competing for the attention and resources of the organization. The gain of one individual or group is the loss of another individual or group. That is, employees want higher wages (which drive down profits), suppliers want higher prices for their inputs and slower, more flexible delivery times (which drive up costs), customers want fast deliveries and higher quality (which drive up costs), the community at large wants charitable contributions (which take money from company goals), and so on. This zero-sum thinking is rooted, in part, in the traditional conflict between workers and management, limited resources, and competing priorities of the diverse stakeholders.

Although there will always be some conflicting demands placed on the organization by its various stakeholders, there is value in exploring how the organization can achieve better results through *stakeholder symbiosis,* which recognizes that stakeholders are dependent upon each other for their success and well-being.[25] That is, managers acknowledge the interdependence among employees, suppliers, customers, shareholders, and the community at large and incorporate this understanding in their decisions. Sears, for example, has developed a sophisticated quantitative model that demonstrates symbiosis. With this model, Sears can predict the relationship between employee satisfaction, customer satisfaction, and financial results.[26] The Sears model found that a 5 percent improvement in employee attitudes led to a 1.3 percent improvement in customer satisfaction, which, in turn, will drive a 0.5 percent improvement in revenue.

Increasingly, it is argued that an organization must acknowledge and act upon the interests and demands of stakeholders, such as citizens and society in general, which are beyond its immediate constituencies—customers, owners, suppliers, and employees. That is, it must consider the needs of the broader community and act in a socially responsible manner.[27]

Social responsibility is the expectation that businesses or individuals will strive to improve the overall welfare of society.[28] From the perspective of a business, this means that managers must take active steps to make society better by virtue of the business being in existence. Similar to norms and values, actions that constitute socially responsible behaviour tend to change over time. In the 1970s, affirmative action was a high priority and firms responded. During the 1990s and up to the present time, the public has been concerned about the quality of the environment. Many firms have responded to this by engaging in recycling and reducing waste. Today, in the wake of heightened threats of terrorism, a new kind of priority has arisen: the need to be responsible and vigilant concerning public safety.

To remain viable in the long run, many companies are measuring what has been called a "triple bottom line." This accounting model involves assessing financial, environmental, and social performance.[29] Shell, NEC, and Procter & Gamble, along with other corporations, have recognized that failing to account for the environmental and social costs of doing business poses risks to the company and the community in which it operates.

The first bottom line presents the financial measures with which all leaders are familiar.[30] The second bottom line assesses ecological and material capital. And the third bottom line measures human and social capital. In its 1999 annual report, for example, BP Amoco reported on such performance indicators as annual sales and operating costs (bottom line #1); levels of hydrocarbon emissions, greenhouse emissions, and oil spills compared to the prior year (bottom line #2); and its workforce safety record, employee training, and philanthropic contributions (bottom line #3).

The approach is "a revolution in the way we conceptualize corporate responsibility," according to Thomas Gladwin, professor of sustainable enterprise at the University of Michigan. He has helped corporations develop new ways of assessing performance. He sees a shift in the attitudes and assumptions of even the most established companies. "Literally hundreds of companies are taking in-depth, serious looks at what sustainability means."

Gladwin proposed that companies continue to build and manage capital but widen the definition to include all the resources they depend on, not just financial capital. He distinguished four additional types of capital:

- ***Ecological.*** Renewable resources generated by living systems, including wood or animal by-products.
- ***Material.*** Non-renewable or geological resources such as mineral ores and fossil fuels.
- ***Human.*** People's knowledge, skills, health, nutrition, safety, security, and motivation.
- ***Social.*** Assets of civil society such as social cohesion, trust, reciprocity, equity, and other values that provide mutual benefit.

Strategy Spotlight 1.1 discusses how some well-known companies go beyond financial considerations in their strategic actions.

The Strategic Management Perspective: An Imperative Throughout the Organization

LO 4

Strategic management requires managers to take an integrative view of the organization and assess how all of the functional areas and activities "fit together" to help the organization achieve its goals and objectives. This cannot be accomplished if only the top managers in the organization take an integrative, strategic perspective of issues facing the firm, while everyone else "fends for themselves" in their independent, isolated functional areas. Marketing and sales will generally favour broad, tailor-made product lines; production will demand standardized products that are relatively easy to make in order to lower manufacturing costs; research and development will design products to demonstrate technical elegance; and so on. Instead, people throughout the organization need to be striving toward overall goals.

The above argument has always made sense, but the need for such a perspective is accelerating in today's increasingly complex, interconnected, ever-changing, global economy. As noted by Peter Senge of MIT, the days when Henry Ford, Alfred Sloan, and Tom Watson (top executives at Ford, General Motors, and IBM, respectively) "learned for the organization" are now over. He goes on to say:

> In an increasingly dynamic, interdependent, and unpredictable world, it is simply no longer possible for anyone to "figure it all out at the top." The old model, "the top thinks and the local acts," must now give way to integrating thinking and acting at all levels. While the challenge is

strategy spotlight 1.1

Measuring More Than Just Financial Performance

It is in an organization's best interest to look beyond the numbers. Financial performance alone will not create a sustainable enterprise. A company needs to know what its ecological and social impact is and what changes it should make to reduce the size of the impact.

The Gap Inc.'s response to these issues is reflected in its recently constructed corporate campus in San Bruno, California. The roof of the building is a giant undulating meadow that absorbs storm water and supports local birds, while the interior is designed so that people feel as if they were working outdoors under giant clouds. Cool nighttime air is stored in the flooring material and reused to cool the building during the daytime. This reduces the need for mechanical heating and cooling equipment by over 50 percent and energy consumption by over 60 percent. Employees breathe fresh air and spend their day in natural light.

Dow Chemical Company addressed environmental issues by embarking on a two-year collaboration with its traditional adversaries—five local environmental groups—to find effective ways to reduce toxic waste at its Midland, Michigan, complex. The company invested $3.1 million in making changes that cut production of several toxic chemicals by 37 percent and reduced the release of chemicals to water and air by 43 percent.

Social responsibility for Suncor Energy of Calgary means accountability to employees and the communities where they work. Suncor reports annually on environmental, social, and economic performance. Given the location of many of its operations, its commitment to be socially responsible means extensive consultations with aboriginal communities and substantial investments in community projects involving the Athabasca Tribal Council and Metis communities. Such activity helps ensure that those communities share the benefits of oil sands development and industry relations agreements with Fort McKay, Athabasca Chipewyan, and Miksew Cree First Nations.

Sources: J. E. Austin, "Principles of Partnership," *Leader to Leader,* Fall 2000, pp. 44–52; www.suncor.ca; and www.nrdc.org/cities/manufacturing/msri/intro.asp.

great, so is the potential payoff. "The person who figures out how to harness the collective genius of the people in his or her organization," according to former Citibank CEO Walter Wriston, "is going to blow the competition away."[31]

Some Key Driving Forces

Many driving forces are increasing the need for a strategic perspective and greater involvement throughout the organization.[32] Among the most important of these are globalization, technology, and intellectual capital.[33] These forces are inherently interrelated and, collectively, they are accelerating the rate of change and uncertainty with which managers at all levels must deal. The implication of such unpredictable change was probably best captured by former AOL Time Warner chairman Stephen M. Case, in a talk to investors and analysts:

> I sometimes feel like I'm behind the wheel of a race car. . . . One of the biggest challenges is there are no road signs to help navigate. And . . . no one has yet determined which side of the road we're supposed to be on.[34]

Globalization The defining feature of the global economy is not the flow of goods—international trade has existed for centuries—but the flow of capital, people, and information worldwide. With globalization, time and space are no longer a barrier to making deals anywhere in the world.

Along with the increasing speed of transactions and global sourcing of all forms of resources and information, managers must address the paradoxical demand to think globally and act locally. They have to move resources and information rapidly around the world to meet local needs. They also face new challenges when formulating strategies: volatile political situations, difficult trade issues, ever-fluctuating exchange rates, unfamiliar cultures, and gut-wrenching social problems.[35] Today, managers must be more literate in the ways of foreign customers, commerce, and competition than ever before. Globalization requires that organizations increase their ability to learn and collaborate and to manage diversity, complexity, and ambiguity. Top-level managers can't do it all alone.

Technology Technological change and diffusion of new technologies are moving at an incredible pace. Such developments accentuate the importance of innovation for firms if they are to remain competitive. David de Pury, former co-chair of the board of Asea Brown Boveri, claimed that "innovate or die" is the first rule of international competition. Similarly, continuous technological development and change shrink product life cycles. Andrew Grove, chairman of Intel, explained the recent introduction of a sophisticated new product at his company—one in which it had invested considerable funds. However, later in the same year, Intel was forced by competition to introduce a replacement product that would cannibalize its existing product. The firm had only 11 months to recoup that significant investment. Such time-intensive product development involves the efforts and collaboration of managers and professionals throughout the organization. Once again, top-level managers can't do it all alone.

Intellectual Capital Knowledge has become the direct source of competitive advantage(s) for companies selling ideas and relationships (e.g., professional services, software companies, and technology-driven companies) as well as for all companies trying to differentiate themselves from rivals by how they create value for their customers.

Exhibit 1.4 displays some interesting figures on the importance of knowledge, or "brainpower," in the creation of value. What's behind the numbers? While manufactured

Exhibit 1.4
Brainpower Weighs In

Product	Price (in January 2000)	Weight in Pounds	Price per Pound
Pentium III 800MHz microprocessor	$ 851.00	0.01984	$ 42,893.00
Viagra (tablet)	8.00	0.00068	11,766.00
Gold (ounce)	301.70	0.0625	4,827.20
Hermès scarf	275.00	0.14	1,964.29
Palm V	449.00	0.26	1,726.92
Saving Private Ryan on DVD	34.99	0.04	874.75
Cigarettes (20)	4.00	0.04	100.00
Who Moved My Cheese? by Spencer Johnson	19.99	0.49	40.80
Mercedes-Benz S-class four-door sedan	78,445.00	4,134.00	18.98
The Competitive Advantage of Nations by Michael Porter	40.00	2.99	13.38
Chevrolet Cavalier four-door sedan	17,770.00	2,630.00	6.76
Hot-rolled steel (ton)	370.00	2,000.00	0.19

Source: G. Colvin, "We're Worth Our Weight in Pentium Chips," *Fortune,* March 20, 2000, p. 68.

strategy spotlight 1.2

The Global Market for Talent

Globalization today involves the movement of people and information across borders, not just goods and investment. Many technology-strategy consultants operating in North America, and making over $150,000 annually, are blissfully unaware of the challenge posed by the likes of Ganesh Narasimhaiya.

Ganesh is a 30-year-old Indian who enjoys cricket, R&B music, and bowling. He has a bachelor's degree in electronics and communications, and he can spin out code in a variety of languages: COBOL, Java, and UML (Unified Modelling Language), among others. Ganesh has worked on high-profile projects for Wipro, a $903 million Indian software giant, all over the world. He has helped GE Medical Systems roll out a logistics application throughout Southeast Asia. He proposed a plan to consolidate and synchronize security solutions across a British client's ebusiness applications. He developed a strategy for transferring legacy system applications onto the Web for a company in Norway. He works up to 18 or 19 hours a day at a customer site, and for that, he may earn as much as $7,000 a month. When he's home in Bangalore, his pay is about one-quarter of that—$21,000 a year. But by Indian standards, this is a small fortune.

Ganesh is part of Wipro's strategy of amassing a small force of high-level experts who are increasingly focused on specific industries and can compete with anyone for a given consulting project. Wipro's Trojan horse is the incredibly cheap offshore outsourcing solution that it can provide. The rise of a globally integrated knowledge economy is a blessing for developing nations. What it means for the North American and Western European skilled labour forces is less clear. This is something that strategy consultants working for Accenture and EDS in the United States, Canada, or Germany need to think about. Why? Forrester Research has predicted that at least 3.3 million white-collar jobs and $136 billion in wages will shift from the U.S. alone to low-cost countries by 2015. With dramatically lower wage rates and the same level of service, how is the Western technology professional going to compete with Ganesh and his colleagues?

Sources: K. H. Hammonds, "Smart, Determined, Ambitious, Cheap: The New Face of Global Competition," *Fast Company,* February 2003, pp. 91–97; P. Engardio, A. Bernstein; and M. Kripalani, "Is Your Job Next?" *BusinessWeek,* February 3, 2003, pp. 50–60.

goods have steadily accounted for a shrinking proportion of the total economy, their value has risen substantially. Why? In the information age, manufactured goods have increasingly become what can be called "congealed brainpower." Intel, for example, turns something of less value than metal—sand (which becomes silicon)—into something far more valuable than gold—Pentium III chips. Brainpower can take the form of ultra-high technology, as in the Pentium chip, or brand power, as in the Hermès scarf. Most often it's both, as in the Mercedes-Benz."[36]

Creating and applying knowledge to deliver differentiated products and services of superior value for customers requires the acquisition of superior talent as well as the ability to develop and retain that talent.[37] Successful firms create an environment with strong social and professional relationships, where people feel strong "ties" to their colleagues and their organization.

Technologies are used to leverage human capital and to facilitate collaboration among individuals.[38] The challenge for management is to instill human capital with a strategic perspective and use its talents to effectively help the organization attain its goals and objectives.

Strategy Spotlight 1.2 discusses the global market for talent. It illustrates how forces of globalization, technology, and intellectual capital can be related.

Let's now look at what some companies are doing to increase the involvement of employees throughout the organization in the strategic management process.

Enhancing Employee Involvement in the Strategic Management Process

Today's organizations increasingly need to anticipate and respond to dramatic and unpredictable changes in the competitive environment. With the emergence of the knowledge economy, human capital (as opposed to financial and physical assets) has become the key to securing advantages in the marketplace that persist over time.

To develop and mobilize people and other assets in the organization, leaders are needed throughout the organization.[39] No longer can organizations be effective if the top "does the thinking" and the rest of the organization "does the work." Everyone needs to be involved in the strategic management process. Peter Senge noted the critical need for three types of leaders.

- Local line leaders who have significant profit and loss responsibility.
- Executive leaders who champion and guide ideas, create a learning infrastructure, and establish a domain for taking action.
- Internal networkers who, although having little positional power and formal authority, generate their power through the conviction and clarity of their ideas.[40]

Sally Helgesen, author of *The Web of Inclusion: A New Architecture for Building Great Organizations,* made a similar point regarding the need for leaders throughout the organization. She asserted that many organizations "fall prey to the heroes-and-drones syndrome, exalting the value of those in powerful positions while implicitly demeaning the contributions of those who fail to achieve top rank."[41] Cultures and processes in which leaders emerge at all levels, both up and down as well as across the organization, typify today's high-performing firms.[42]

What are some firms doing to increase involvement of employees throughout the organization? Top-level executives are key in setting the tone. Consider Richard Branson, founder of the Virgin Group, whose core businesses include retail operations, hotels, communications, and an airline. He is well known for creating a culture and an informal structure in which anybody in the organization can be involved in generating and acting upon new business ideas. In a recent interview, he stated:

> [S]peed is something that we are better at than most companies. We don't have formal board meetings, committees, etc. If someone has an idea, they can pick up the phone and talk to me. I can vote "done, let's do it." Or, better still, they can just go ahead and do it. They know that they are not going to get a mouthful from me if they make a mistake. Rules and regulations are not our forte. Analyzing things to death is not our kind of thing. We very rarely sit back and analyze what we do.[43]

To inculcate a strategic management perspective throughout the organization, many large traditional organizations often require a major effort in transformational change. This involves extensive communication, training, and development to strengthen a strategic perspective within the organization. Ford Motor Company is one such example.

Ford instituted a major cultural overhaul and embarked on a broad-based attempt to develop leaders throughout the organization. It wanted to build an army of "warrior-entrepreneurs"—people who have the courage and skills to reject old ideas and who believe in change passionately enough to make it happen. A few details:

> Recently, Ford sent about 2,500 managers to its Leadership Development Center during the year for one of its four programs—Capstone, Experienced Leader Challenge, Ford Business Associates, and New Business Leader—instilling in them not just the mind-set and vocabulary of a revolutionary but also the tools necessary to achieve a revolution. At the same time, through

strategy spotlight 1.3

Strategy and the Value of Inexperience

Peter Gruber, chairman of Mandalay Entertainment, explained how his firm benefited from the creative insights of an inexperienced intern.

> Sometimes life is all about solving problems. In the movie business, at least, there seems to be one around every corner. One of the most effective lessons I've learned about tackling problems is to start by asking not "How to?" but rather "What if?" I learned that lesson from a young woman who was interning on a film I was producing. She actually saved the movie from being shelved by the studio.
>
> The movie, *Gorillas in the Mist,* had turned into a logistical nightmare. We wanted to film at an altitude of 11,000 feet, in the middle of the jungle, in Rwanda—then on the verge of a revolution—and to use more than 200 animals. Warner Brothers, the studio financing the movie, worried that we would exceed our budget. But our biggest problem was that the screenplay required the gorillas to do what we wrote—in other words, to "act." If they couldn't or wouldn't, we'd have to fall back on a formula that the studio had seen fail before: using dwarfs in gorilla suits on a sound stage.
>
> We called an emergency meeting to solve these problems. In the middle of it, a young intern asked, "What if you let the gorillas write the story?" Everyone laughed and wondered what she was doing in the meeting with experienced filmmakers. Hours later, someone casually asked her what she had meant. She said, "What if you sent a really good cinematographer into the jungle with a ton of film to shoot the gorillas. Then you could write a story around what the gorillas did on film." It was a brilliant idea. And we did exactly what she suggested: We sent Alan Root, an Academy Award–nominated cinematographer, into the jungle for three weeks. He came back with phenomenal footage that practically wrote the story for us. We shot the film for $20 million—half of the original budget!
>
> This woman's inexperience enabled her to see opportunities where we saw only boundaries. This experience taught me three things. First, ask high-quality questions, like "what if?" Second, find people who add new perspectives and create new conversations. As experienced filmmakers, we believed that our way was the only way—and that the intern lacked the experience to have an opinion. Third, pay attention to those with new voices. If you want unlimited options for solving a problem, engage the what if before you lock onto the how to. You'll be surprised by what you discover.

Source: P. Gruber, "My Greatest Lesson," *Fast Company* 15 (1998), pp. 88, 90.

the Business Leaders Initiative, all 100,000 salaried employees worldwide will participate in business-leadership "cascades," intense exercises that combine trickle-down communications with substantive team projects.[44]

Finally, Strategy Spotlight 1.3 demonstrates how inexperience can be a virtue. It further reinforces the benefits of having broad involvement throughout the organization in the strategic management process.

Ensuring Coherence in Strategic Direction

To be successful, employees and managers throughout the organization must be striving for common goals and objectives. By specifying desired results, it becomes much easier to move forward. Otherwise, without a clear vision of what the firm is striving to accomplish, no one really knows what to work toward. As the old nautical expression puts it: "No wind favours the ship that has no charted course."

LO 5

Organizations express priorities best through stated goals and objectives that form a *hierarchy of goals.* The hierarchy of goals for an organization includes its vision, mission, and strategic objectives. What visions may lack in specificity, they make up for in their ability to evoke powerful and compelling mental images. On the other hand, strategic objectives tend to be more specific and provide a more direct means of determining if the organization is moving toward broader, overall goals.[45]

Organizational Vision

The starting point for articulating a firm's hierarchy of goals is the company vision. It is often described as a goal that is "massively inspiring, overarching, and long-term."[46] A vision represents a destination that is driven by and evokes passion. A vision may or may not succeed; it depends on whether everything else happens according to the firm's strategy.

Developing and implementing a vision is one of a leader's central roles. In a survey of 1,500 senior leaders, 870 of whom were CEOs (from 20 different countries), respondents were asked what they believed were the key traits that leaders must have. Ninety-eight percent responded that "a strong sense of vision" was the most important. Similarly, when asked about critical knowledge skills, the leaders cited "strategy formulation to achieve a vision" as the most important skill. Ninety percent also reported a lack of confidence in their own skills and ability to conceive a vision for their organization. For example, T. J. Rogers, CEO of Cypress Semiconductor, an electronic chipmaker that faced some difficulties in 1992, lamented that his own short-sightedness caused the danger: "I did not have the 50,000-foot view, and got caught."[47]

One of the most famous examples of a vision is from Disneyland: "To be the happiest place on earth." Other examples are:

- "Restoring patients to full life." (Medtronic)
- "More! Providing Canadians with a one-stop destination in meeting their food and everyday household needs." (Loblaws)
- "Clear; Simple; First; True; Profitable; Proud" (Bell Canada Enterprises, BCE)
- "Our vision is to be the world's best quick service restaurant." (McDonald's)

Although it is difficult to accurately measure how well such visions are being achieved, they do provide a fundamental statement of an organization's values, aspirations, and goals. Such visions go well beyond narrow financial objectives and strive to capture both the minds and hearts of employees.

The vision statement may also contain a slogan, diagram, or picture—whatever grabs attention.[48] The aim is to capture the essence of the more formal parts of the vision in a few words that are easily remembered, yet evoke the spirit of the entire vision statement. In its 20-year battle to dominate the photocopy equipment business, Canon's slogan was "Beat Xerox." Motorola's slogan is "Total Customer Satisfaction." Outboard Marine Corporation's slogan is "To Take the World Boating." And Chevron strives "To Become Better than the Best."

Vision statements are not a cure-all. Sometimes they backfire and erode a company's credibility. Visions fail for many reasons, including those discussed in the following paragraphs.[49]

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

Irrelevance A vision that is created in a vacuum—unrelated to environmental threats or opportunities or an organization's resources and capabilities—can ignore the needs of those who are expected to buy into it. When the vision is not anchored in reality, employees will reject it.

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

An Ideal Future Irreconciled with the Present Although visions are not designed to mirror reality, they do need to be anchored somehow in it. People have difficulty identifying with a vision that paints a rosy picture of the future but either takes no account of the often hostile environment in which the firm competes or ignores some of the firm's weaknesses. As we will see in the next section, many of these same issues can apply to mission statements.

Mission Statements

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

Exhibit 1.5 contains the vision statement and mission statement of WellPoint Health Network, a $17 billion managed health care organization. Note that while the vision statement is broad, the mission statement is more specific and focused on the means by which the firm will compete. This includes providing branded products that will be tailor-made to customers in order to create long-term customer relationships.

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

- "To produce superior financial returns for our shareholders as we serve our customers with the highest quality transportation, logistics, and ecommerce." (Federal Express)
- "To be the very best in the business. Our game plan is status go . . . we are constantly looking ahead, building on our strengths, and reaching for new goals. In our quest of these goals, we look at the three stars of the Brinker logo and are reminded of the basic values that are the strength of this company . . . People, Quality and Profitability. Everything we do at Brinker must support these core values. We also look at the eight golden flames depicted in our logo, and are reminded of the fire that ignites our mission and makes up the heart and soul of this

Exhibit 1.5
Comparing WellPoint Health Network's Vision and Mission

Vision

WellPoint *will redefine our industry:*

Through a new generation of consumer-friendly products that put individuals back in control of their future.

Mission

The WellPoint companies provide health *security* by offering a *choice* of quality branded health and related financial services *designed* to meet the *changing* expectations of individuals, families and their sponsors throughout a *lifelong* relationship.

Source: WellPoint Health Network company records.

1.4 strategy spotlight

NextJet's Change of Mission

The dot-com crash was only the first blow to NextJet, Inc., a Dallas-based business launched in 1999 to ship packages overnight. The bigger blow came with the September 11 terrorist attacks, when passenger airlines were forced to add security and reduce flights. One of NextJet's strengths was its nationwide network of local courier services that got packages to and from airports, all coordinated through their proprietary software that could determine the optimal routing. However, the company's business model fell apart when it could not rely on the airlines to get packages between cities quickly enough to make the added cost for same-day delivery worthwhile.

Rather than give up, NextJet reinvented the business around the idea that its most important asset was the software itself. The company's new mission received almost immediate validation when its software was deployed successfully at United Parcel Service. NextJet's software provides Atlanta-based UPS with tools for setting online rates and tracking packages. While a lot of same-day business did evaporate when corporations tightened the reins on spending, some things can't wait overnight to be shipped. For example, makers of hospital equipment may need to ship critical parts within a few hours. NextJet's software can help shippers make important decisions in less than a second, finding the fastest and most economical route among air, truck, and courier operations.

Sources: A. Goldstein, "NextJet Is Hoping That Its Software Can Deliver," *Dallas Morning News,* December 4, 2002, pp. 1–3; industry.java.sun.com/javanews/stories/story2/0,1072,34986,00.html; and M. G. Nelson, "NextJet Network Adds Wireless," *Information Week,* April 30, 2001, p. 34.

> incredible company. These flames are: Customers, Food, Team, Concepts, Culture, Partners, Community and Shareholders. As keeper of these flames, we will continue to build on our strengths and work together to be the best in the business." (Brinker International, whose restaurant chains include Chili's and On the Border)[50]

Few mission statements identify profit or any other financial indicator as the sole purpose of the firm. Indeed, most do not even mention profit or shareholder return.[51] Employees of organizations or departments are usually the mission's most important audience. For them, the mission should help to build a common understanding and promote a nurturing of purpose and commitment.

Profit maximization not only fails to motivate people but also does not differentiate between organizations. Every corporation wants to maximize profits over the long term. A good mission statement, by addressing each principal theme, must communicate why an organization is special and different. Studies that linked corporate values and mission statements with financial performance found that the most successful firms mentioned values other than profits. The less successful firms focused almost entirely on profitability.[52] In essence, profit is the metaphorical equivalent of oxygen, food, and water, which the body requires. They are not the point of life, but without them, there is no life.

Once again, vision statements tend to be quite broad, unchanging, and enduring and often represent an inspiring, overarching, and emotionally driven destination. A firm's mission, on the other hand, tends to be more specific and to address questions concerning the organization's reason for being and the basis of its intended competitive advantage in the marketplace. It should change when competitive conditions change or the firm is faced with new threats or opportunities. Strategy Spotlight 1.4 provides an example of a firm, NextJet, which changed its mission in order to realize new opportunities.

Strategic Objectives

Strategic objectives are used to operationalize the mission statement. That is, they help to provide guidance on how the organization can fulfill or move toward the "higher goals" in the goal hierarchy—the mission and vision. As a result, they tend to be more specific and cover a more well-defined time frame.

Setting objectives demands a yardstick to measure the fulfillment of the objectives.[53] If an objective lacks specificity or measurability, it is not very useful, simply because there is no way of determining whether it is helping the organization to move toward the organization's mission and vision.

Exhibit 1.6 lists several strategic objectives of corporations, divided into financial and non-financial categories. While most of these strategic objectives are directed toward generating greater profits and returns for the owners of the business, others are directed at customers or society at large.

For an objective to be meaningful, it needs to satisfy several criteria. It must be:

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

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

Exhibit 1.6
Strategic Objectives

Strategic Objectives (Financial)

- Increase sales growth 6% to 8% and accelerate core net earnings growth to 13% to 15% per share in each of the next five years. (Procter & Gamble)
- Generate Internet-related revenue of $1.5 billion. (Automation)
- Increase the contribution of Banking Group earnings from investments, brokerage, and insurance from 16% to 25%. (Wells Fargo)
- Cut corporate overhead costs by $30 million per year. (Fortune Brands)

Strategic Objectives (Non-financial)

- Ensure that a majority of our customers, when surveyed, say they consider Wells Fargo the best financial institution in the community. (Wells Fargo)
- Operate 6,000 stores by 2010—up from 3,000 in the year 2000. (Walgreen's)
- Develop a smart card strategy that will help us play a key role in shaping online payments. (American Express)
- Reduce greenhouse gases by 10% (from a 1990 base) by 2010. (BP Amoco)

Sources: Company documents and annual reports.

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

Third, as we noted earlier in the chapter, there is always the potential for different parts of an organization to pursue their own goals rather than overall company goals. Although well intentioned, these goals may work at cross-purposes to the organization as a whole. Meaningful objectives, thus, help to resolve conflicts when they arise.

Finally, proper objectives provide a yardstick for rewards and incentives. Not only will they lead to higher levels of motivation by employees, but they will also help to ensure a greater sense of equity or fairness when rewards are allocated.

There are, of course, still other objectives that are even more specific. These are often referred to as short-term objectives—essential components of "action plans" that are critical in implementing a firm's chosen strategy. We will discuss these issues in Chapter 9.

summary

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

The second section discussed the strategic management process. Here, we adhered to the above definition of strategic management and focused on three core activities in the strategic management process—strategy analysis, strategy formulation, and strategy implementation. We noted how each of these activities is highly interrelated to and interdependent on the others. We also discussed how each of the 13 chapters fits into the three core activities and provided a summary of the opening vignettes in each chapter.

Next, we introduced two important concepts, corporate governance and stakeholder management, which must be taken into account throughout the strategic management process. Governance mechanisms can be broadly divided into two groups: internal and external. Internal governance mechanisms include shareholders (owners), management (led by the chief executive officer), and the board of directors. External control is exercised by auditors, banks, analysts, and an active business press as well as the threat of takeovers. We identified five key stakeholders in all organizations: owners, customers, suppliers, employees, and society at large. Successful firms go beyond an overriding focus on satisfying solely the interests of owners. Rather, they recognize the inherent conflicts that arise among the demands of the various stakeholders as well as the need to endeavour to attain "symbiosis"—that is, interdependence and mutual benefit—among the various stakeholder groups.

In the fourth section, we discussed three interrelated factors—globalization, technology, and intellectual capital—that have accelerated the rate of unpredictable change that managers face today. These factors, and the combination of them, have increased the need for managers and employees throughout the organization to have a strategic management perspective and to become more empowered.

The final section addressed the need for consistency between a firm's vision, mission, and strategic objectives. Collectively, they form an organization's hierarchy of goals.

Visions should evoke powerful and compelling mental images. However, they are not very specific. Strategic objectives, on the other hand, are much more specific and are vital to ensuring that the organization is striving toward fulfilling its vision and mission.

summary review questions

1. How is "strategic management" defined in the text, and what are its four key attributes?
2. Briefly discuss the three key activities in the strategic management process. Why is it important for managers to recognize the interdependent nature of these activities?
3. Explain the concept of "stakeholder management." Why shouldn't managers be solely interested in shareholder management—that is, maximizing the returns for owners of the firm (its shareholders)?
4. What is corporate governance? What are its three key elements, and how can it be improved?
5. How can "symbiosis" (interdependence, mutual benefit) be achieved among a firm's stakeholders?
6. What are some of the major trends that now require firms to have a greater strategic management perspective and empowerment in the strategic management process throughout the firm?
7. What is meant by a "hierarchy of goals"? What are the main components of it, and why must consistency be achieved among them?

experiential exercise

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

	Private Sector #1	**Private Sector #2**	**Public Sector #1**	**Public Sector #2**
Name				
Mission Statement				
Stakeholders (✓ = mentioned)				
1. Customers				
2. Suppliers				
3. Managers/employees				
4. Community at large				
5. Owners				
6. Others?				
7. Others?				

application questions & exercises

1. Go on the Internet and look up the history of a company such as Nortel, Wal-Mart, GE, or Ford. What are some of the key events that would represent the "romantic" perspective of leadership? What are some of the key events that depict the "external control" perspective of leadership?
2. Select a company that competes in an industry in which you are interested. What are some of the recent demands that stakeholders have placed on this company? Can you find examples of how the company is trying to develop "symbiosis" (interdependence and mutual benefit) among its stakeholders? (Use the Internet and library resources.)
3. Provide examples of companies that are actively trying to increase the amount of employee empowerment in the strategic management process throughout the organization. Do these companies seem to be having positive outcomes? Why? Why not?
4. Look up the vision statements and/or mission statements for a few companies. Do you feel that they are constructive and useful as a means of motivating employees and providing a strong strategic direction? Why? Why not? (Note: Annual reports, along with the Internet, may be good sources of information.)

ethics questions

1. A company focuses solely on short-term profits to provide the greatest return to the owners of the business (i.e., the shareholders in a publicly held firm). What ethical issues could this raise?
2. A firm has spent some time—with input from managers at all levels—in developing a vision statement and a mission statement. Over time, however, the behaviour of some executives is inconsistent with these statements. Could this raise some ethical issues?

endnotes

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