PART 1

Strategic Analysis

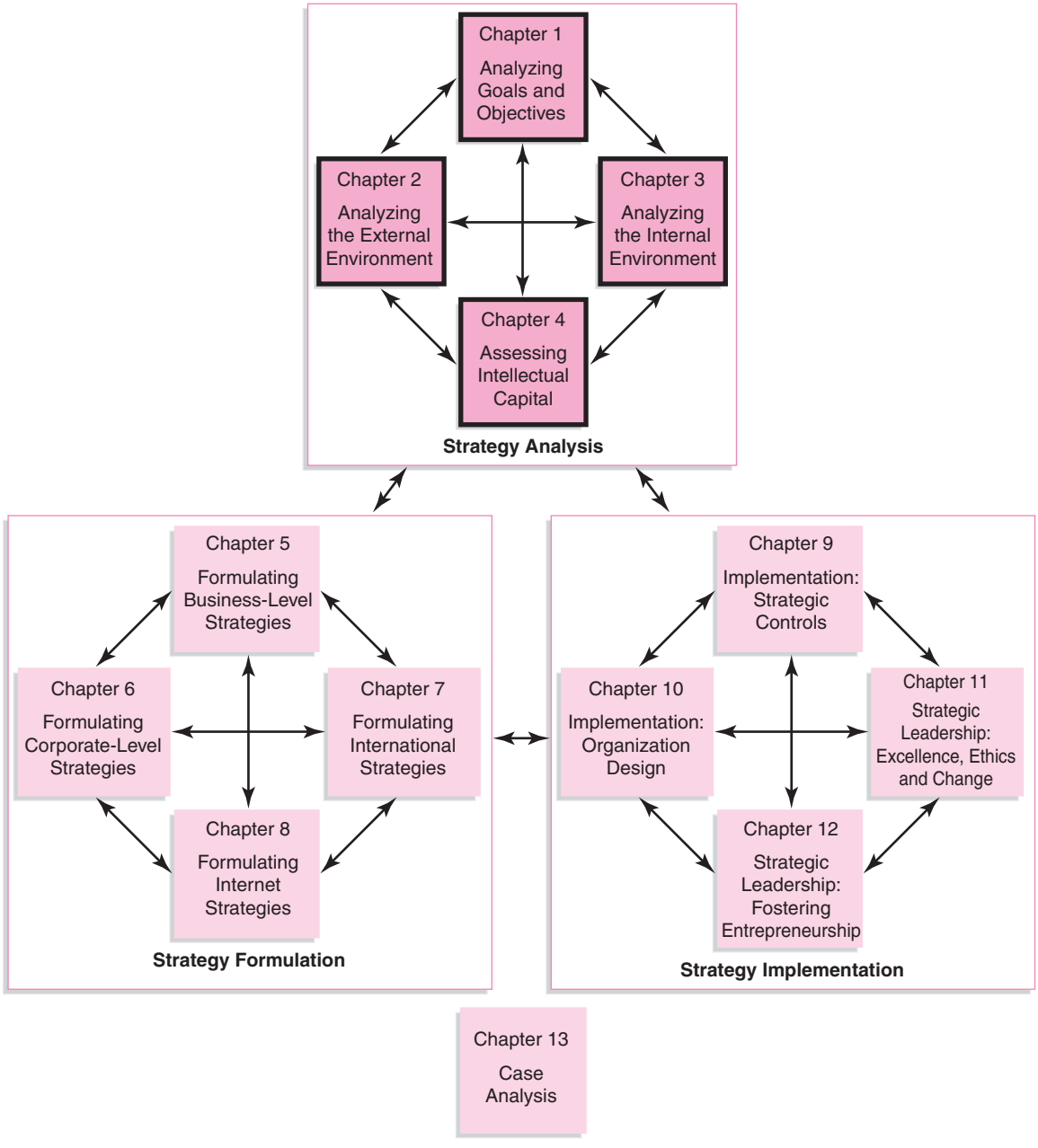
PART OUTLINE

1 Strategic Management: Creating Competitive Advantages

2 Analyzing the External Environment of the Firm

3 Assessing the Internal Environment of the Firm

4 Recognizing a Firm's Intellectual Assets: Moving beyond a Firm's Tangible Resources


Chapter 1
Analyzing Goals and Objectives
Chapter 2
Analyzing the External Environment
Chapter 3
Analyzing the Internal Environment
Chapter 4
Assessing Intellectual Capital
Strategy Analysis
Chapter 5
Formulating Business-Level Strategies
Chapter 6
Formulating Corporate-Level Strategies
Chapter 7
Formulating International Strategies
Chapter 8
Formulating Internet Strategies
Strategy Formulation
Chapter 9
Implementation: Strategic Controls
Chapter 10
Implementation: Organization Design
Chapter 11
Strategic Leadership: Excellence, Ethics and Change
Chapter 12
Strategic Leadership: Fostering Entrepreneurship
Strategy Implementation
Chapter 13
Case Analysis

CHAPTER 1

Strategic Management:
Creating Competitive Advantages

CHAPTER OBJECTIVES

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

- The definition of strategic management and its four key attributes.
- The strategic management process and its three interrelated and principal activities.
- Why stakeholder management is so critical in the strategic management process and how "symbiosis" can be achieved among an organization's stakeholders.
- The key environmental forces that are creating more unpredictable change and requiring greater empowerment throughout the organization.
- How an awareness of a hierarchy of strategic goals can help an organization achieve coherence in its strategic direction.

We define strategic management as *consisting of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages.* At the heart of strategic management is the question: How and why do some firms outperform others? Thus, the challenge to managers is to decide on strategies that provide advantages that can be sustained over time. There are four key attributes of strategic management. It is directed at overall organizational goals, includes multiple stakeholders, incorporates short-term as well as long-term perspectives, and recognizes trade-offs between effectiveness and efficiency. We discuss the above definition and the four key attributes in the first section.

The second section addresses the strategic management process. The three major processes are strategy analysis, strategy formulation, and strategy implementation. These three components parallel the analyses, decisions, and actions in the above

definition. We discuss how each of the 12 chapters addresses these three processes and provide examples from each chapter.

The third section discusses an important concept—stakeholder management—that must be taken into account during the strategic management process. The interests of various stakeholders, such as owners, customers, and employees, can often conflict and create challenging decision-making dilemmas for managers. However, we will also discuss how some firms have been able to achieve "symbiosis" among stakeholders wherein their interests are considered interdependent and can be achieved simultaneously.

The fourth section addresses three interrelated factors in the business environment—globalization, technology, and intellectual capital—that have increased the level of unpredictable change for today's leaders. These factors have also created the need for a greater strategic management perspective and reinforced the role of empowerment throughout the organization.

The final section focuses on the need for organizations to ensure consistency in their vision, mission and strategic objectives which, collectively, form a hierarchy of goals. While visions may lack specificity, they must evoke powerful and compelling mental images. Strategic objectives are much more specific and are essential for driving toward overall goals. ■

One of the things that makes the study of strategic management so interesting is that struggling firms can become stars and high flyers can become earthbound very rapidly. During the stock market slump of 2000 and 2001, many technology and dot-com firms were particularly ravaged. Let's look at one such firm that experienced a hard fall from grace—Lucent Technologies.[1]

> In 1996, AT&T excited Wall Street when it spun off Lucent Technologies. Lucent was seen as a fast-growing company that would rapidly propel the value of its stock. And it did for a while. Wall Street snapped up the firm's shares, expecting a high growth, innovative strategy that would capture increasing portions of the telecom equipment market. Lucent didn't disappoint these early investors. In the year after the company was spun off from AT&T, Lucent reported an increase in sales of 13 percent. The next year, 1998, sales again rose, this time by 20 percent. This sales growth translated into a spectacular growth in earnings of 49 percent, trouncing competitors Motorola and Nortel.
>
> When the telecom equipment industry was growing at 14 to 17 percent, Lucent management announced that they believed the company would consistently outpace this growth rate by 3 to 5 percent. Investors hastily bought more shares, but this time around, things didn't turn out so well. Beginning in 2000, shares of Lucent began a downward spiral that left the company on shaky ground. The first wave of declines in 2000 pushed the stock price down a moderate amount, but that was only the beginning. Investors who thought the decline was a brief downturn, seeing it as a buying opportunity, were disappointed as the decline turned into a nosedive. By fall of 2001, the stock price had dropped from its high of over $80 per share in late 1999 to just under $6 per share.
>
> What or who was to blame? Lucent had structured itself into eleven autonomous business units. The idea was that each unit could operate autonomously, reducing bureaucracy and creating faster, more agile market responses. Unfortunately, this had the opposite effect. The optics business unit placed big bets that a new optical networking gear technology was just a passing fad, while competitors embraced the new technology.

Lucent's flawed actions and faulty market analysis took their toll. The firm missed a lucrative market opportunity, allowing competitors to gain first-mover advantages. Lucent's executive team didn't even see the problems coming. As late as mid-2000, Lucent's CEO Rich McGinn continued to project optimistic growth. But it takes more than projections to boost a stock price. Eventually, bottom-line measures take over. Despite the upbeat tone coming from Lucent's executive suite, Wall Street demanded results, not promises. Lucent began deeply slashing prices just before quarterly sales reports became available to Wall Street analysts. This increased sales and pumped up quarterly revenue, but in the long run, the discounted prices hurt the firm's future earning potential.

Another problem was that inventories grew much faster than sales. In 2000, annual revenue growth increased by 12 percent, but inventory increased by 34 percent. This was not only a problem at Lucent; the whole industry faced similar problems. Sharp declines in demand for telecom equipment from declining capital investment of the industry's primary buyers stalled new sales. Unable to find buyers, at least a half dozen telecom upstarts such as ICG Communications, PSI Net, Inc., and GST Telecom faced bankruptcy. Layoffs in the industry totaled approximately 170,000 employ0ees in the first seven months of 2001. To further illustrate the industry's woes, from 1996 to 2000 capital investment in the industry had risen 25 percent annually. However, analysts estimated a 15 percent decrease for 2001. This erosion in aggregate industry demand aggravated Lucent's existing self-inflicted wounds. In addition to its previous problems, it found itself competing in an industry where it was difficult for *any* firm to remain above water.

Today's leaders—such as those at Lucent Technologies—face a large number of complex challenges in today's 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.[2] 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. This view dominates the popular press in business magazines such as *Fortune, Business Week,* and *Forbes,* 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 leaders such as Jack Welch, the late Katharine Graham, and Herb Kelleher for the tremendous accomplishments of their firms, General Electric, The Washington Post Co., and Southwest Airlines, respectively. In the world of sports, managers and coaches, such as Joe Torre of the New York Yankees, get a lot of the credit for their team's outstanding success on the field. 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, Rich McGinn, Lucent's CEO, made a lot of mistakes. These included errors in assessing market and competitive conditions, deciding what objectives to set and which strategies to pursue, redesigning the organization into the 11 business units, and so on.

However, this only gives part of the picture. Another perspective of leadership is called the "external control" perspective. 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. One doesn't have to look far to support this perspective. Lucent, like other firms in its industry, suffered from a precipitous drop in the demand for telecommunications equipment during 2000 and 2001. Somewhat coincidentally, Nortel, which was considered far ahead on the technology curve, also saw its stock drop by an amount similar to that of Lucent Technologies!

The point, of course, is that while neither the romantic nor the external control perspective is entirely correct, we must acknowledge both 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 as well as have a thorough understanding of their firm's resources and capabilities. They can't do it all by themselves.

Before we move on, we'd like to provide a recent, dramatic example of the external control perspective at work: the terrorist aircraft hijacking and bombings of the twin towers of the World Trade Center in New York City and the Pentagon building in Washington, D.C., 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 a loss of about $1.4 *trillion* dollars in the five trading sessions after the market reopened on September 17. The effect on many industries was devastating. Strategy Spotlight 1.1 looks at some industries that were particularly hard hit.

Now that we've briefly discussed the importance of strategic management, let's turn to some of the central concepts and ideas in this field of study.

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. 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.[3] That is fine if your 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, there are many accelerating changes that exert pressure on managers to increasingly make both major and minor changes in a firm's strategic direction.

Rather than see their jobs merely as custodians of the status quo, today's leaders must be proactive, anticipate change, and 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.

Defining Strategic Management

As we stated at the beginning of this chapter, strategic management consists of the analysis, 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: *analysis, decision,* and *actions.* That is, strategic management is concerned with the *analysis* of the hierarchy of the 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

STRATEGY SPOTLIGHT 1.1 | TERRORISM AND U.S. BUSINESS

The morning of September 11, 2001, two planes hijacked by terrorists flew into the twin towers of the World Trade Center in New York City, bringing them to the ground and killing thousands. A third plane flew directly into the Pentagon in Washington, D.C., where hundreds more lost their lives. A fourth plane crashed in a Pennsylvania field in a failed attempt to crash into another likely target in Washington, D.C.

The economic fallout has been enormous. The United States was already experiencing economic weakness prior to the attack, but things got worse literally overnight. Gross domestic product had been projected to decline by 0.3 percent for the third quarter of 2001, but projections suddenly changed to a full 1 percent decline.

The financial services industry, which leads New York City's employment at 552,000 workers, was especially hard hit. The industry usually contributes about $207 billion to the city's $444 billion in output annually. But with many financial services offices located in the World Trade Center, it will be difficult for the industry to make a fast comeback.

Demand in the airline industry dried up as passengers cancelled their reservations, afraid that other hijackings might ensue. Soon after the attack, Boeing announced it would lay off up to 30,000 workers, nearly one-third of its workforce in its commercial aircraft division. The airlines quickly followed suit; announcing layoffs of approximately 100,000 employees. Before the disaster, the industry had already lost $2.5 billion and was on track to lose $3.5 billion. This would have been its worst annual performance since 1992. However, after the September 11th tragedy, the losses for 2001 were estimated to be enormous: between $10 billion and $11 billion.

Tourism will be particularly devastated. Tourism in New York City, for instance, had been climbing all year until the attack, with 282,000 jobs, annual revenues of $17 billion, and 3,500 new rooms added from the first of the year until the attack. But with a rapid decline in the nation's economic outlook coupled with the city's focus on rebuilding, demand for tourism services seems drastically reduced.

Internet travel sites, one of the few profitable areas in e-commerce in the recent past, are not immune. E-commerce travel site Orbitz, for example, has slashed marketing in half, Lowestfare.com has laid off 460 employees, and BizTravel.com has gone out of business altogether.

Sources: B. Powell "Battered but Unbroken" *Fortune,* October 1, 2001, pp. 69–80; J. L. Lunsford and A. Pasztor "Boeing Co.'s Course in Terror's Wake Seen as a Wider U.S. Test," *Wall Street Journal,* September 20, 2001, p. A1; M. Merzer and S. Chatterjee "Bush Urges Americans to Trust Airlines," *Lexington* (KY) *Herald Leader,* September 28, 2001, p. A1; R. S. Dunham, A. Borrus, and S. Crock "This Changes Everything," *Business Week,* September 24, 2001, pp. 38–40; M. Mandel, L. Cohn, C. Tierney, S. Anderson-Forest, C. Elton, and A. Barrett "Worldwide, Hope for Recovery Dims" *Business Week,* September 24, 2001, pp. 42–45; L. Braham, M. Conlin, T. Lowry, S. Scherreik, and A. Tergesen "On the Disabled List: New York" *Business Week,* September 24, 2001, p. 48; and, S. Tully "From Bad to Worse" *Fortune,* October 15, 2001, pp. 118–128.

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. As we will see in the next section, this is an ongoing, evolving process with a great deal of interaction among these three processes.

Second, the essence of strategic management is the study of why some firms outperform others.[4] 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?* 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 will enable the firm to charge premium prices—or some combination of both.

Managers must also ask how to make such advantages sustainable, instead of highly temporary, in the marketplace. That is: *How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute?*[5] After all, if managers focus only on making minor improvements to their firm's operations, it will be quite easy for competitors to duplicate their moves and take away their advantages in the marketplace. At best, they will be forced to engage in intensive price competition that will erode everyone's profits. At worst, if they direct the vast majority of their efforts to internal operations, they might be blindsided by a new competitor offering a far superior product, service, or technology that just might make their firm irrelevant.[6]

The Four Key Attributes of Strategic Management

Before discussing the strategic management process in more detail—which forms the overall framework for the book—let's briefly talk about four attributes of strategic management.[7] In doing so, it will 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."[8] That is, what might look "rational" or most appropriate for a functional area such as operations may not be in the best interest of the firm overall. 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 marketing 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. Therefore, in this course you will look at cases and strategic issues from the perspective of the organization rather than that of the functional area(s) in which you have had the most training and experience.

Second, strategic management involves the inclusion of multiple stakeholders in decision making. Managers must incorporate the demands of many stakeholders when making decisions. Stakeholders are those individuals, groups, and organizations who have a

Exhibit 1.1 Strategic Management Concepts

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.
- Involves the inclusion of multiple stakeholders in decision making.
- Needs to incorporate short-term and long-term perspectives.
- Recognizes trade-offs between efficiency and effectiveness.

"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 in the next section. 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. As we will see, however, many organizations have been able to satisfy multiple stakeholder needs simultaneously. For example, financial performance may actually be greater because employees who are satisfied with their jobs make a greater effort to enhance customer satisfaction, thus leading to higher profits.

Third, strategic management requires the *need to incorporate 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."[9] 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 the executives to the middle-level managers to the managers at the level of operations, there tends to be a narrower, short-term perspective. 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.[10]

Fourth, 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 for organizations to strive to act effectively and efficiently. Some authors have referred to this as the difference between "doing the right thing" (effectiveness) and "doing things right" (efficiency).[11] While managers must allocate and use resources wisely, they must still direct their efforts toward the attainment of overall organizational objectives. Managers that are totally focused on meeting short-term budgets and targets may fail to attain the broader goals of the organization. Consider the following amusing story told by Norman Augustine, formerly CEO of defense giant, Martin Marietta:

> 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."[12]

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've identified three ongoing processes—analysis, decisions, and actions—that are central to strategic management. In practice, strategies are not developed in a lockstep manner wherein managers conduct a sophisticated analysis, make appropriate strategic

STRATEGY SPOTLIGHT 1.2 | ONLINE PRESCRIPTIONS: GOOD IDEA, BAD STRATEGY

Wouldn't customers love to be able to refill prescriptions without the hassle of waiting in line at a pharmacy? This was an opportunity just waiting to happen. Once a few online pharmacies such as Drugstore.com and Planet Rx entered the scene, a host of others followed.

But today, most have gone out of business and customers are once again waiting in line at the local drugstore. The websites were well designed, easy to use, and less expensive than traditional pharmacies. So what was the problem? Why couldn't such an innovative idea that customers loved be successful?

These new ventures didn't take into account the nature of competition in the retail industry. Pharmacy benefit managers work with insurance companies to approve reimbursement of prescription costs. Viewing online drugstores as competitive threats, pharmacy benefit managers simply made sure that insurance companies didn't reimburse many of these sales. This dried up the online orders, forcing many of the Web pharmacies out of business and the few survivors to team up with traditional bricks-and-mortar drugstores.

Sources: L. Downes, "Strategy Can Be Deadly," *The Industry Standard,* May 14, 2001, pp. 72–75; Anonymous, "NABP Awards VIPPS Certification to VitaRx.com," National Association of Boards of Pharmacy press release, November 23, 2000.

decisions, and engage in the necessary actions to implement the chosen strategies. Instead, these three processes—often referred to as strategy analysis, strategy formulation, and strategy implementation—are highly interdependent. Success in one of the processes does not guarantee success in the marketplace.

Let's go back to our opening example of Lucent Technologies. Regardless of how effective its strategies were implemented, Lucent seemed doomed to a rapidly eroding competitive and financial position. This is, in large part, because Lucent formulated strategies that were based on a faulty assessment of the opportunities and threats in its competitive environment. Similarly, many firms experience dismal results because seemingly sound strategies are poorly implemented. In Strategy Spotlight 1.2 we discuss the problems that some firms have had implementing Internet strategies.

In the next three subsections, we will address each of the three key strategic management processes: strategy analysis, strategy formulation, and strategy implementation. We provide brief examples from business practice that are based on the opening vignettes for each chapter. They serve to demonstrate that effective strategic management poses complex challenges and that sometimes things can go wrong.

Exhibit 1.2 depicts the strategic management process 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.

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. Many strategies fail because managers may want to formulate and implement strategies without a careful analysis of the overarching goals of the organization and without a thorough analysis of its external and internal environment.

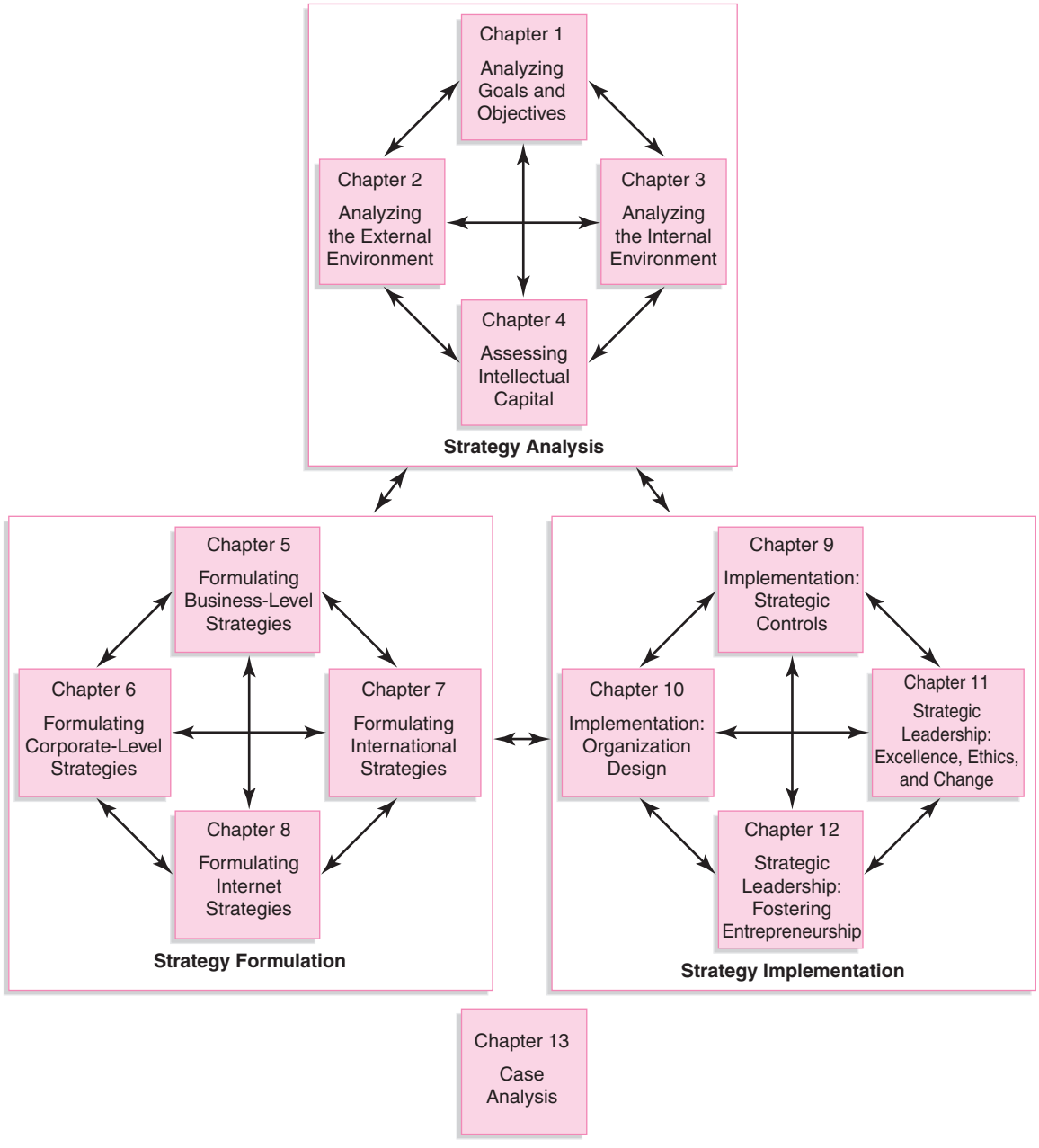


Exhibit 1.2 **The Strategic Management Process**

Analyzing Organizational Goals and Objectives (Chapter 1) Organizations must have clearly articulated goals and objectives in order 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 1.2, this hierarchy of goals is not developed in isolation. Rather, it is developed in concert with a rigorous understanding of the opportunities and threats in the external environment (Chapter 2) as well as a thorough understanding of the firm's strengths and weaknesses (Chapter 3). Chapter 1 describes a set of interrelated strategic problems that caused a "rising star," Lucent Technologies, to fall from grace.

- Lucent lost over $200 billion in market value alone in 2000 by failing to anticipate changes in overall demand and competitor moves. It also had major problems with strategy formulation and implementation. For example, Lucent set unrealistic sales and profitability goals. It also did a poor job in implementing its strategies, particularly the restructuring of the firm into 11 separate business units.

Analyzing the External Environment (Chapter 2) Managers must monitor and scan the environment as well as analyze competitors. Such information is critical in determining the opportunity and threats in the external environment. We provide two frameworks of the external environment. First, the general environment consists of several elements such as demographic, technological, and economic segments from which key trends and events can have a dramatic impact on the firm. Second, the industry environment is "closer to home" and consists of competitors and other organizations that may threaten the success of a firm's products and services.

- We go back into history and look at two firms, Aristo (a slide rule maker) and A. C. Gilbert (the producer of the famous "American Flyer" trains and Erector sets). Aristo failed to note the arrival of the "electronic calculator" and A. C. Gilbert ignored the powerful potential of television as an advertising medium. Despite long histories, both firms failed in the 1960s.

Assessing the Internal Environment (Chapter 3) We provide some useful frameworks for analyzing a firm's internal environment. 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 strength and relationships among the activities that comprise a firm's value chain (e.g., operations, marketing and sales, and human resource management) can be a means of uncovering potential sources of competitive advantage for the firm. Chapter 3 describes a promising young firm named Frox that ignored the rules of value creation.

- Frox seemed to have everything going for it—money, talent, and experience. Its goal was to develop and market a state-of-the art "smart TV" for the home entertainment market. However, it put all of its "eggs" in the engineering "basket" and wound up producing a product with an astonishing retail price of $30,000 and technical problems. Poor product, limited market.

Assessing a Firm's Intellectual Assets (Chapter 4) The knowledge worker and a firm's other intellectual assets (e.g., patents, trademarks) are becoming increasingly important as the drivers of competitive advantages and wealth creation in today's economy. In addition to human capital, we assess how well the organization creates networks and relationships among its employees as well as its customers, suppliers, and alliance partners. We also address the need for organizations to use technology to enhance collaboration among employees as well as provide a means of accumulating and storing knowledge. Chapter 4 describes how one of America's greatest corporate icons botched its lead in technology by managing its intellectual assets poorly.

- To say Xerox has disappointed its shareholders would be an understatement. Its stock has plummeted from a high of $64 in 1999 to around $8 in late 2001. Why? In addition to poor product-market choices, the firm mismanaged its intellectual capital and there were poor working relationships among executives. Among other things, this inhibited their ability to provide a solid strategic direction for the firm.

Strategy Formulation

A firm's strategy formulation is developed at several levels. First, business-level strategy addresses the issue of how to compete in given business environments to attain competitive advantage. Second, corporate-level strategy focuses on two issues: (1) what businesses to compete in and (2) how businesses can be managed to achieve synergy—that is, create more value by working together than if they operate as stand-alone businesses. Third, a firm must develop international strategies as it ventures beyond its national boundaries. Then the central issue is whether a firm desires to treat foreign markets as homogeneous and achieve scale economies by producing undifferentiated goods and services or whether it should consider each country's market as unique and tailor its products and services to local market conditions. Finally, the growing importance of the Internet has increased the necessity for firms to explore the ramifications of this new strategic platform and formulate Internet and e-business strategies.

Formulating Business-Level Strategies (Chapter 5) The question of how firms compete and outperform their rivals and how they achieve and sustain competitive advantages goes to the heart of strategic management. Successful firms strive to develop bases for competitive advantage that can consist of cost leadership and/or differentiation as well as by focusing on a narrow or industrywide market segment. We'll also discuss why some advantages can be more sustainable (or durable) over time and how a firm's business-level strategy changes with the industry life cycle—that is, the stages of introduction, growth, maturity, and decline. Chapter 5 describes how a fast-growing competitor overextended its cost reduction efforts in its attempt to get ahead.

- Food Lion, a player in the grocery business, had a very successful overall low cost strategy for a long time. But they carried it too far. The firm suffered from a startling exposé on ABC's *PrimeTime Live* charging employee exploitation, false packaging data, and unsanitary meat-handling practices. The result: soured employees, eroding profitability, and a damaged reputation. But Food Lion is trying to make a comeback.

Formulating Corporate-Level Strategies (Chapter 6) Whereas business-level strategy is concerned with how to create and sustain competitive advantage in an individual business, corporate-level strategy addresses issues concerning a firm's portfolio (or group) of businesses. That is, it asks (1) what business (or businesses) should we compete in? and (2) how can we manage this portfolio of businesses to create synergies among the businesses? In this chapter, we explore the relative advantages and disadvantages of firms pursuing strategies of related or unrelated diversification. In addition, we discuss the various means that firms can employ to diversify—internal development, mergers and acquisitions, and joint ventures and strategic alliances—as well as their relative advantages and disadvantages. Chapter 6 describes a well-known international company that tried unsuccessfully to build on its fame.

- Saatchi & Saatchi was one of the world leaders in the advertising industry. Its client list expanded as it diversified into related areas such as marketing services, public relations, direct marketing, and promotion. But the firm strayed from a successful strategy and nearly went bankrupt. Saatchi & Saatchi eroded its most important asset: relationships with marketing clients.

Formulating International-Level Strategies (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." Chapter 7 describes the Ford Motor Company's missteps in trying to introduce its cars in Japan.

- Even historically successful multinational firms can make blunders. Ford tried to sell its Taurus automobile in Japan—and failed. The car was too long and had poor fuel efficiency—hardly selling points in Japan! After all, Japan has small parking places and very high gasoline prices. But then Ford followed up with the Ka—a subcompact car. It too was unsuccessful. Why? It had a stick shift—and Japanese drivers prefer automatic transmissions. Also, Ka in Japanese means "mosquito."

Formulating Internet Strategies (Chapter 8) Given the rapid advances in technology in recent years, the Internet and e-commerce promise new opportunities and threats for virtually all businesses. We believe that when firms formulate their strategies they should give explicit consideration to how these technologies might impact their strategies. The effective use of the Internet and e-commerce strategies can help an organization improve its competitive position in an industry and enhance its ability to create advantages based on cost leadership or differentiation strategies. Chapter 8 describes one Internet start-up that misread the competitive environment.

- Garden.com seemed destined for success. This high-flying Web start-up was chalking up awards for Web savvy and design and was attracting thousands each month to its website. However, it became one of many casualties of the dot-com crash. Why? People would shop on the website—getting a free garden show and

information—but not buy. And far too often, when they did buy, they often got sick or dying plants—hardly, a product to enhance customer loyalty.

Strategy Implementation

As we have noted earlier in the chapter, effective strategies are of no value if they are not properly implemented. Strategy implementation involves ensuring that a firm has proper strategic controls and organizational designs. Of particular importance is ensuring that the firm has established effective means to coordinate and integrate activities within the firm as well as with its suppliers, customers, and alliance partners. In addition, leadership plays a central role. This involves many things. Paramount among these, however, is ensuring that the organization is committed to excellence and ethical behavior as well as consistently being entrepreneurial in creating and taking advantage of new opportunities.

Implementing Strategy: Achieving Effective Strategic Control (Chapter 9) Firms are unable to successfully implement their chosen strategies unless they exercise effective strategic control. This consists of two types. First, informational control requires that the organization continually monitor and scan the environment and respond effectively to threats and opportunities. Second, behavioral control involves the proper balance of rewards and incentives, culture, and boundaries (or constraints). Organizations that have strong and effective cultures and reward systems typically require fewer rules and regulations because employees tend to understand and internalize the "boundaries" of acceptable behavior.

- Dan Gill, a tough, "bottom-line" manager, was CEO of Bausch & Lomb. "Make the numbers or else" was the clear message to his managers. However, problems arose when overall demand eroded and managers still were forced to maintain historical double-digit growth rates. Poor judgment and ethical lapses followed. Restatements of earnings and an SEC investigation cost Dan Gill his job. That seemed to be about the only good news in a long time—the firm's stock went up 7.2 percent the day of that announcement!

Implementing Strategy: Creating Effective Organizational Designs (Chapter 10) To succeed, firms must have organizational structures and designs that are consistent with their strategy. For example, firms that diversify into related product-market areas typically implement divisional structures. In addition, in today's rapidly changing competitive environments, firms must design their companies to ensure that their organizational boundaries—those internal to the firm and external—are more flexible and permeable. In many cases, organizations should consider creating strategic alliances in order to capitalize on the capabilities of other organizations. Chapter 10 describes how one company failed to design a new organizational structure to match its newly implemented technology.

- This End Up, a furniture manufacturer, was highly successful, with sales reaching $100 million. However, the failed implementation of a computerized logistics system forced the company into bankruptcy. Why? The system failed to link important internal operations at This End Up with customers, suppliers, and distributors. Everybody wound up losing—except, perhaps, the firm's competitors.

Effective Strategic Leadership: Creating a Learning Organization and an Ethical Organization (Chapter 11) Effective leaders must engage in several ongoing activities: setting a direction, designing the organization, and developing an organization that is committed to excellence and ethical behavior. In addition, given the rapid and unpredictable change in today's competitive environments, leaders need to create a "learning organization." This ensures that the organization can benefit from individual and collective talents throughout the organization. Chapter 11 describes how one leader's mismanagement almost caused a world-class company to go under.

- Morrison Knudsen is one of the world's best-known construction companies. It worked on projects such as the Hoover Dam, the Trans-Alaska Pipeline, and the San Francisco–Oakland Bay Bridge. However, under Bill Agee's leadership, the firm almost folded. Among his failings was a lack of visionary leadership, inappropriate diversification, an inability to empower managers, poor communication, and ethical lapses. A textbook case of poor leadership.

Effective Strategic Leadership: Fostering Corporate Entrepreneurship and New Venture Creation (Chapter 12) Today's success does not guarantee success in the future. With rapid and unpredictable change in the global marketplace, firms of all sizes must continue to seek out opportunities for growth as well as find new ways to renew their organizations. Within corporations, autonomous entrepreneurial behavior by product champions and other organizational members can emerge from anywhere in the organization to fill essential entrepreneurial roles and activities. Additionally, many of the concepts that we address in the text can be applied to new ventures and small businesses. Chapter 12 describes some of the pitfalls faced by two brothers who wanted to start a new venture.

- Rosen Motors started out with an ambitious goal: to develop an innovative, hybrid drive train for the largest automobile manufacturers. Unfortunately, Rosen's technological success did not translate into commercial success. Among the problems: The big automakers were not willing, in essence, to scrap their own investments in hybrids and adopt Rosen's product. Similarly, the automakers were unwilling to subcontract out such a vital component of their cars to a fledgling firm. Clearly, unfavorable market forces and competitive dynamics can prevent a new technology from attracting customers.

We've discussed the strategic management process. In addition, Chapter 13, "Analyzing Strategic Management Cases," provides guidelines and suggestions on how to evaluate cases in this course. Thus, the concepts and techniques discussed in these 12 chapters can be applied to real-world organizations.

Let's now address a concept—stakeholder management—that must continually be taken into account during the strategic management process.

THE ROLE OF STAKEHOLDER MANAGEMENT

Most business enterprises that employ more than a few dozen people are organized as corporations.[13] As such, the managers are charged with the primary task of maximizing profits and producing a satisfactory return for the shareholders, who are the owners. In turn, the management of the corporation is overseen by a board of directors who are sup-

posed to look out for the interests of those shareholders.[14] That is, the management of the company runs the day-to-day operations while the board of directors governs the management and protects the interests of the firm's shareholders. At times the board mediates and resolves conflicts when shareholders and managers disagree. Some of the key issues that they address include takeovers and control, executive compensation, capital structure, top management succession, board nomination, and shareholder rights.

Despite the board's charge to look out for the best interests of shareholders, this is certainly not always the case. If we go back to our opening vignette of Lucent Technologies, one could claim that its board of directors was hardly fulfilling its responsibility.

> Under the board's watch (using the term loosely), Lucent Technologies destroyed more than an astonishing $200 billion in market value during 2000 alone! Although it eventually fired CEO Rich McGinn and brought back former CEO/Chairman Henry Schacht, little has been done to address the firm's problems.
>
> Few could argue that the board is *not* overpaid. Directors get an annual retainer of $100,000. This amount is nearly twice that of the board of Nortel and three times that of Cisco Systems. There is no nominating committee, and important functions that merit their own standing committees (finance, audit, and compensation) are simply lumped together. This "suggests that [the board] has not yet recognized the importance of focused and independent oversight," says Nell Minow, editor of the Corporate Library, an online source of corporate governance information.[15]

Exhibit 1.3 summarizes some examples of the attributes of both excellent and poor boards of directors.

Exhibit 1.3 Excellent versus Poor Boards of Directors

Fortune magazine recently pinpointed some of the key attributes of some excellent and poor boards of directors.

Hall of Fame	Hall of Shame
A good board is hard to find, but a few draw raves year after year.	*Entrenched, clubby, blind to shareholder concerns: These boards just don't get it.*
Coca-Cola This feisty board isn't afraid to make waves, nixing CEO Doug Daft's plan to acquire Quaker Oats last year.	**Advanced Micro Devices** Talk about weak: This board slavishly kowtows to omnipotent founder/CEO Jerry Sanders.
Intel Its big-name directors regularly assess one another's performance, a rarity in the boardroom.	**Archer Daniels Midland** As the stock falls near 10-year lows, the family-controlled board twiddles its thumbs.
Pfizer This year the Wharton School named this board—packed with heavy hitters—the second best in the nation.	**Maxxam** With loads of common and preferred stock, CEO/Chairman Charles Hurwitz has most of the voting power.
Target The proof is in the performance. This unflashy board has presided over years of solid returns.	**Occidental Petroleum** Its board pays CEO Ray Irani obscene amounts even as the company underperforms its peers.
Texas Instruments Deadly serious about good governance, TI's board had near-perfect attendance in 2000.	**Warnaco** This board, dominated by Chairman/CEO Linda Wachner, seems to exist solely to redefine excessive CEO pay.

Source: M. Boyle, "The Dirty Half-Dozen: America's Worst Boards." © 2001 Time Inc. All rights reserved.

As you recall from your finance classes, 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."[16]

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 such as alienated employees, increased governmental oversight and fines, and disloyal suppliers.

Clearly, in addition to *shareholders,* there are other *stakeholders* that must be explicitly taken into account in the strategic management process.[17] A stakeholder can be defined as an individual or group, inside or outside the company, that has a stake in and can influence an organization's performance. 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.[18]

Zero Sum or Symbiosis? Two Alternate Perspectives of Stakeholder Management

There are two opposing ways of looking at the role of stakeholder management in the strategic management process. The first one can be termed "zero sum." In this view the role of management is to look upon the various stakeholders as competing for the attention and resources of the organization. In essence, the gain of one individual or group is the loss of another individual or group. That is, employees want higher wages (that drive down profits), suppliers want higher prices for their inputs and slower, more flexible delivery times (that drive up costs), customers want fast deliveries and higher quality (that drive up costs), the community at large wants charitable contributions (that take money from company goals), and so on. This zero-sum thinking is rooted, in part, in the traditional conflict between workers and management, leading to the formation of unions and sometimes ending in adversarial union-management negotiations that can lead to long, bitter strikes.

Although there will always be some conflicting demands placed on the organization by the various stakeholders, there is value in exploring how the organization can achieve mutual benefit through stakeholder symbiosis, which recognizes that stakeholders are dependent upon each other for their success and well-being.[19] That is, managers acknowledge the interdependence among employees, suppliers, customers, shareholders, and the community at large as we will discuss in Chapter 3 in more detail. Sears, for example, has developed a sophisticated quantitative model to predict the relationship between employee satisfaction, customer satisfaction, and financial results.[20] 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.

Social Responsibility: Moving beyond the Immediate Stakeholders

Organizations must acknowledge and act upon the interests and demands of stakeholders such as citizens and society in general that are beyond its immediate constituencies—customers, owners, suppliers, and employees. That is, they must consider the needs of the broader community at large and act in a socially responsible manner.

Social responsibility is the expectation that businesses or individuals will strive to improve the overall welfare of society.[21] 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 behavior 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 lowering amounts of wastes. Today, in the wake of terrorist attacks on New York City and Washington, D.C., a new kind of priority has arisen: the need to be responsible and vigilant concerning public safety.

McDonald's Corporation has claimed that its "social responsibility is part of our heritage and we are committed to building on it worldwide."[22] Exhibit 1.4 lists some of its wide-ranging efforts.

To become viable in the long run, many companies are measuring what has been called a triple bottom line. This technique involves an assessment of environmental, social, and financial performance.[23] 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.

In the new "triple bottom line" accounting model, the first bottom line presents the financial measures with which all leaders are familiar. 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, training delivered to employees, and philanthropic contributions compared to the prior year (bottom line #3).

Exhibit 1.4 Social Responsibility at McDonald's: Some Elements

- Supporting more than 200 Ronald McDonald Houses in 19 countries (providing comfort and care to children and their families).
- Eliminating 150,000 tons of recycled products and more than one million tons of corrugated cardboard in the United States over a 10-year period.
- As part of their diversity program, more than 30% of their franchisees are now women or minorities. In 1999 McDonald's purchased approximately $3 billion worth of goods and services from women and minority suppliers.
- Providing about $5 million in educational assistance through a variety of scholarships.
- Partnered with Chicago's Field Museum to restore Sue, the largest Tyrannosaurus Rex fossil ever discovered, for public viewing.

Source: McDonald's Corporation 1999 Annual Report, p. 6.

STRATEGY SPOTLIGHT 1.3 | BEN & JERRY'S: PROFITS AND ETHICS

Ben Cohen, one of the founders of Vermont-based Ben & Jerry's Ice Cream, stated:

> Values-led business is based on the idea that business has a responsibility to the people and the society that make its existence possible. Our experience has shown that you don't have to sacrifice social involvement on the altar of maximized profits. One builds on the other.

Indeed, Ben & Jerry's treats its employees well, is involved in social causes, and supports charities through company donations. In fact, the firm donates 7.5 percent of pretax profits to charities. This is nearly four times as much as the average donated by other U.S. companies.

But when a company answers to multiple stakeholders, the tightrope between maximizing shareholder value and maintaining social responsibility can become a difficult balancing act. For example, Ben & Jerry's became concerned about purchasing supplies from RJR Nabisco because of RJR's strong ties to the tobacco industry. The firm discontinued its Oreo Mint ice cream to avoid working with RJR as one of the primary suppliers for this flavor. Instead, Ben & Jerry's changed the name of the product to Mint Chocolate Cookie, which doesn't require the same ingredients. However, the artery-clogging fat content may be as detrimental to health as the nicotine sold by RJR.

Former CEO Robert Holland tried to remedy this situation. He suggested that the company move to nonfat sorbet. But to do this, the company would need less hormone-free milk from the Vermont dairy farmers it had worked with and supported over the years. The result: Keep that fat and keep the dairy farmers in business.

Holland also tried to enter the ice-cream market in France. This worked fine until Holland issued a statement condemning a nuclear testing program initiated by the French government. The outcome: no Ben & Jerry's for the French.

Interestingly, Holland is no longer with Ben & Jerry's. In an ironic twist, the company replaced him with a consultant from the shotgun and rifle industry. Maybe they struck a compromise—just don't use the guns on the Vermont dairy farmer's cows! After all, that would dry up the supply of hormone-free, high-fat milk.

Sources: A. Taylor III, "Yo, Ben! Yo, Jerry! It's Just Ice Cream!" *Fortune,* April 28, 1997, p. 374; B. Cohen, J. Greenfield, and M. Maran, *Ben & Jerry's Double-Dip: Lead With Your Values and Make Money, Too* (New York: Simon & Schuster, 1997).

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, such as wood or animal by-products.
- *Material* Nonrenewable 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.

Despite the inherent value of a commitment to social responsibility, leaders must continue to assess the relative benefits and costs of such initiatives as well as their implications for the other stakeholder individuals and groups. At times such initiatives may become somewhat misguided and inadvertently have an adverse impact on the primary goal of a corporation—creating value for shareholders. Strategy Spotlight 1.3 provides an example of the well-known producer and retailer of superpremium ice cream, Ben & Jerry's.

THE STRATEGIC MANAGEMENT PERSPECTIVE: AN IMPERATIVE THROUGHOUT THE ORGANIZATION

As we have noted in this chapter, strategic management requires managers to take an integrative view of the organization and assess how all of the functional areas and activities "fit together" to help an organization achieve its goals and objectives. This cannot be accomplished if only the top managers in the organization take an integrative, strategic perspective of issues facing the firms and everyone else "fends" for themselves in their independent, isolated functional areas. Marketing and sales will generally favor 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 offer design products to demonstrate technical elegance, and so on. Instead, people throughout the organization need to be striving toward overall goals.

The above argument clearly makes sense. However, the need for such a perspective is accelerating in today's increasingly complex, interconnected, ever-changing global economy. In this section, we will address some major trends that are making the need for a strategic perspective throughout the organization even more critical. 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 gone." He went 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 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."[24]

In this section we will first address some of the key forces that are driving the need for a strategic perspective at all levels as well as greater participation and involvement in the strategic management process throughout the organization. Then, we will provide examples of how firms are engaging people throughout the organization to these ends.

Some Key Driving Forces

There are many driving forces that are increasing the need for a strategic perspective and greater involvement throughout the organization. Among the most important of these are globalization, technology, intellectual capital, and increasing change.[25] 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 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.[26]

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. Computer networks permit instantaneous transactions, and the market watchers operate on a 24-hour basis.

Along with the increasing speed of transactions and global sourcing of all forms of resources and information, managers are struggling to balance the paradoxical demand to think globally and act locally. This requires them to move resources and information rapidly around the world to meet local needs. In addition, they must add new and important ingredients to the mix when formulating strategies: volatile political situations, difficult trade issues, ever-fluctuating exchange rates, and unfamiliar cultures. Today managers must be more literate in the ways of foreign customers, commerce, and competition than ever before.

As markets become more open—as evidenced by free trade agreements between nations—more foreign firms are likely to enter domestic markets, thus increasing the amount of competition. Furthermore, since firms are operating in global markets, competitive moves in a domestic economy may negatively impact the firm in another segment of the international market. Such increasing amounts and types of competition place pressure on firms to move into international markets in order to maintain their competitiveness in areas where they already operate. To summarize, 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 development and diffusion accelerates the importance of innovation for firms if they are to remain competitive. David de Pury, former cochair of the board of Asea Brown Boveri, claimed that "innovate or die" is the first rule of international industrial competition. Similarly, continuous technological development and change have produced decreasing product life cycles. Andrew Grove, chairman of Intel, explained the introduction of a new product at his company. In January 1998 the firm introduced a sophisticated product in which it had invested considerable funds. However, by December of that year, Intel introduced a new product that would cannibalize its existing product. Thus, 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.

From videoconferencing to the Internet, technology has made our world smaller and faster moving. Ideas and huge amounts of information are in constant movement. The

STRATEGY SPOTLIGHT 1.4 | DESIGNER BABIES

No one would dispute that it's all right to custom-design some products and services. With individual tastes, it's only natural to desire to bring customization into the plan. But customization, and the associated technology, can go too far.

Since Watson and Crick's discovery of the DNA molecule in 1954, customization possibilities regarding children have become technologically feasible. Watson and Crick probably never foresaw this. But nearly a half century later, the potential to genetically alter babies before birth is here.

This raises a host of ethical questions. Imagine designer babies, children that are born to parents that have the financial resources to create the "perfect" child. Without a doubt, DNA experimentation has led to scientific advances, such as treatment of certain diseases, that are valuable and ethical. But when it comes to customizing a human being, the line between right and wrong can become blurry. For example, some may believe it is ethical for parents to choose the color of their baby's eyes, but not the baby's gender. Others may find an ethical dilemma in artificially raising a baby's potential for a high IQ, but believe that it is ethical to genetically enhance a baby's overall health. Technology, with all its benefits, must also be considered in light of these and other ethical considerations.

Source: E. Licking, "Ten Technologies That Will Change Our Lives," *BusinessWeek,* Spring 2000.

challenge for managers is to make sense of what technology offers. Not all technology adds value. In the coming years, managers in all organizations will be charged with making technology an even more viable, productive part of the work setting. They will need to stay ahead of the information curve and learn to leverage information to enhance business performance. If not, they risk being swallowed in a tidal wave of data—not ideas.

In addition to its potential benefits, technology can raise some important ethical issues that need to be addressed. Strategy Spotlight 1.4 raises the issue of "designer babies."

Intellectual Capital Knowledge has become the direct source of competitive advantage(s) for companies selling ideas and relationships (e.g., professional services, software, and technology-driven companies) as well as an indirect source of competitive advantage for all companies trying to differentiate themselves from rivals by how they create value for their customers. As we will note in Chapter 4, Merck, the $40 billion pharmaceutical company, has become an enormously successful company because its scientists discover medicines, not because of their skills in producing pills in an efficient manner. As noted by Dr. Roy Vagelos, Merck's former CEO: "A low-value product can be made by anyone anywhere. When you have knowledge no one else has access to—that's dynamite. We guard our research even more carefully than our financial assets."[27]

Exhibit 1.5 displays some interesting figures on the importance of knowledge or "brainpower" in the creation of value. What's behind the numbers? While manufactured 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. Geoffrey Colvin, the *Fortune* magazine writer, noted that the "magic ingredient, brainpower, can work in many ways. Sometimes, it takes

Exhibit 1.5 Brainpower Weighs In

Product	Price	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 E-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. © 2001 Time Inc. All rights reserved.

the form of ultrahigh technology, as in the Pentium chip. Sometimes it's brand power, as in the Hermès scarf. Most often it's both, as in the Mercedes-Benz."[28]

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.[29] However, successful firms must also create an environment with strong social and professional relationships where people feel strong "ties" to their colleagues and their organization. Gary Hamel, one of today's leading strategic management writers, noted: "As the number and quality of interconnections between individuals and ideas go up, the ability to combine and recombine ideas accelerates as well."[30]

Technologies must also be used effectively to leverage human capital to facilitate collaboration among individuals and to develop more sophisticated knowledge management systems.[31] The challenge and opportunity of management is not only to acquire and retain human capital but also to ensure that they develop and maintain a strategic perspective as they contribute to the organization. This is essential if management is to use its talents to effectively help the organization attain its goals and objectives.

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.[32] 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.[33]

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."[34] Culture and processes in which leaders emerge at all levels, both up and down as well as across the organization, typify today's high-performing firms.[35]

Now we will provide examples of what some firms are doing to increase the 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 informal structure where 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.[36]

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 throughout 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:

> This year, Ford will send about 2,500 managers to its Leadership Development Center 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 the Business Leaders Initiative, all 100,000 salaried employees worldwide will

STRATEGY SPOTLIGHT 1.5 | 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 soundstage.

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.

participate in business-leadership "cascades," intense exercises that combine trickle-down communications with substantive team projects.[37]

We'd like to close with a favorite example of how inexperience can be a virtue. It further reinforces the benefits of having broad involvement throughout the organization in the strategic management process (see Strategy Spotlight 1.5)

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, when no one knows what the firm is striving to accomplish, they have no idea of what to work toward. As the old nautical expression puts it: "No wind favors the ship that has no charted course."

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. We will now address visions, missions, and goals in the next subsections.[38]

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." 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 a 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 them 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 the critical knowledge skills, the leaders cited "strategy formulation to achieve a vision" as the most important skill. In other words, managers need to have not only a vision but also a plan to implement it. Regretfully, 90 percent reported a lack of confidence in their own skills and ability to conceive a vision for their organization. For example, T. J. Rogers, CEO of Cypress Semiconductor, the electronic chipmaker that faced some difficulties in 1992, lamented that his own shortsightedness caused the danger: "I did not have the 50,000-foot view, and got caught."[39]

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)
- "We want to satisfy all of our customers' financial needs and help them succeed financially." (Wells Fargo)
- "Our vision is to be the world's best quick service restaurant." (McDonald's)

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

The vision statement may also contain a slogan, a diagram, or picture—whatever grabs attention.[40] 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 with Xerox, Canon's slogan or battle cry 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."

Clearly, vision statements are not a cure-all. Sometimes they backfire and the leaders's credibility may be eroded. Visions fail for many reasons, including the following:[41]

The Walk Doesn't Match the Talk An idealistic vision can arouse employee enthusiasm. However, that same enthusiasm can be quickly dashed if they find that senior

management's behavior is not consistent with the vision. Often, vision is a sloganeering campaign of new buzzwords and empty platitudes like "devotion to the customer," "teamwork," or "total quality" that aren't consistently backed by management's action.

Irrelevance A vision that is created in a vacuum—unrelated to environmental threats or opportunity 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 behavior. A vision simply cannot 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 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 is encompasses both the purpose of the company as well as the basis of competition and competitive advantage.

Exhibit 1.6 contains the vision statement and mission statement of WellPoint Health Networks, a $9 billion, managed health care organization. Note that while the vision statement is broad based, the mission statement is more specific and focused on the means by which the firm will compete. 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 sur-

Exhibit 1.6 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: Company records.

vive 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 e-commerce. (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 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)[42]

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.[43] Employees of organizations or departments are usually the mission's most important audience. For them, the mission should help to build a common understanding of purpose and commitment to nurture.

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. Two studies that linked corporate values and mission statements with financial performance found that the most successful firms mentioned values other than profits. The less successful firms focused almost entirely on profitability.[44] In essence, profit is the metaphorical equivalent of oxygen, food, and water that the body requires. They are not the point of life, but without them, there is no life.

Although vision statements tend to be quite enduring and seldom change, a firm's mission can and should change when competitive conditions dramatically change or the firm is faced with new threats or opportunities. Strategy Spotlight 1.6 provides an example of a firm that changed its mission in order to realize new opportunities.

Strategic Objectives

Thus far, we have discussed both visions and missions. Statements of vision tend to be quite broad and can be described as a goal that represents an inspiring, overarching, and emotionally driven destination. Mission statements, on the other hand, tend to be more specific and address questions concerning the organization's reason for being and the basis of its intended competitive advantage in the marketplace. Strategic objectives are

STRATEGY SPOTLIGHT 1.6 | STARBUCKS CHANGES DIRECTION

"You've got to understand with great clarity what you can do better than any other company in the world," according to author Jim Collins. Starbucks's CEO Howard Schultz realized this just before he directed company resources in what may have been a disastrous direction.

Schultz envisioned Starbucks as the Internet coffeehouse of the world. You would be able to order specialty coffees, cappuccino machines, even pots and pans. But before he tried to move the aroma of freshly brewed latté to the Internet, he reconsidered his strategy. According to one writer, "It's as if he woke up one morning, rubbed his eyes, sipped a strong Sumatran brew, and said to himself, 'Wait a minute. I sell coffee!' "

Schultz realized in time that Starbucks's market was not Internet shoppers, but local customers who wanted a relaxing atmosphere to enjoy quiet conversation and a cup of cappuccino. By rethinking Starbucks's attraction to customers, Collins quickly changed direction, returning to what the company was renowned for—the atmosphere, the aroma, the ambiance of a small, intimate coffeehouse.

The opportunity Starbucks sought turned out to be right in its own backyard. Schultz's realization encouraged him to focus on the increasing attraction of the public to local bricks-and-mortar coffeehouses. By turning his attention away from expansion to the Internet and toward those features that attracted customers into his cafés, Schultz capitalized on the opportunity offered by his market. It must be working: From January through August 2001, revenues totaled $2.4 billion, a 22 percent increase from the same period the previous year.

Source: J. Creswell, "Remedies for an Economic Hangover," *Fortune,* June 25, 2001, p. 130; C. Stetkiewicz, "After 30 Years, Starbucks Still the Roast of Seattle," Reuters, September 7, 2001.

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.

Setting objectives demands a yardstick to measure the fulfillment of the objectives.[45] 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 1.7 lists several strategic objectives of corporations divided into financial and nonfinancial 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 objectives to be meaningful, they need to satisfy several criteria. They must be:

- *Measurable* There must be at least one indicator (or yardstick) that measures progress against fulfilling the objective.
- *Specific* This provides a clear message as to what needs to be accomplished.
- *Appropriate* It must be consistent with the 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 accomplishment of the objective. After all, as the economist John Maynard Keynes once said, "In the long run, we are all dead!"

Exhibit 1.7 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 (Nonfinancial)
■ Capitalize on e-commerce. (Federal Express)
■ We want a majority of our customers, when surveyed, to say they consider Wells Fargo the best financial institution in the community. (Wells Fargo)
■ We want to operate 6,000 stores by 2010—up from 3000 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 percent (from a 1990 base) by 2010. (BP Amoco)

Sources: Company documents and annual reports.

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.

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

Next, we introduced an important concept—stakeholder management which must be taken into account throughout the strategic management process. 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 endeavor 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 five key attributes?
2. Briefly discuss the three key activities in the strategic management process. Why is it important for managers to recognize the interdependent nature of these activities?
3. Explain the concept of "stakeholder management"? Why shouldn't managers be solely interested in stockholder management, that is, maximizing the returns for owners of the firm—its shareholders?
4. How can "symbiosis" (interdependence, mutual benefit) be achieved among a firm's stakeholders?
5. 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?

6. What is meant by a "hierarchy of goals"? What are the main components of it and why must consistency be achieved among them?

APPLICATION QUESTIONS AND EXERCISES

1. Go to the Internet and look up one of these company sites: www.walmart.com, www.ge.com, and www.fordmotor.com. What are some of the key events that would represent the "romantic" perspective of leadership? What are some of the key events that depict the "external control" perspective of leadership?
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 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 behavior of some executives is contrary to these statements. Could this raise some ethical issues?

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