

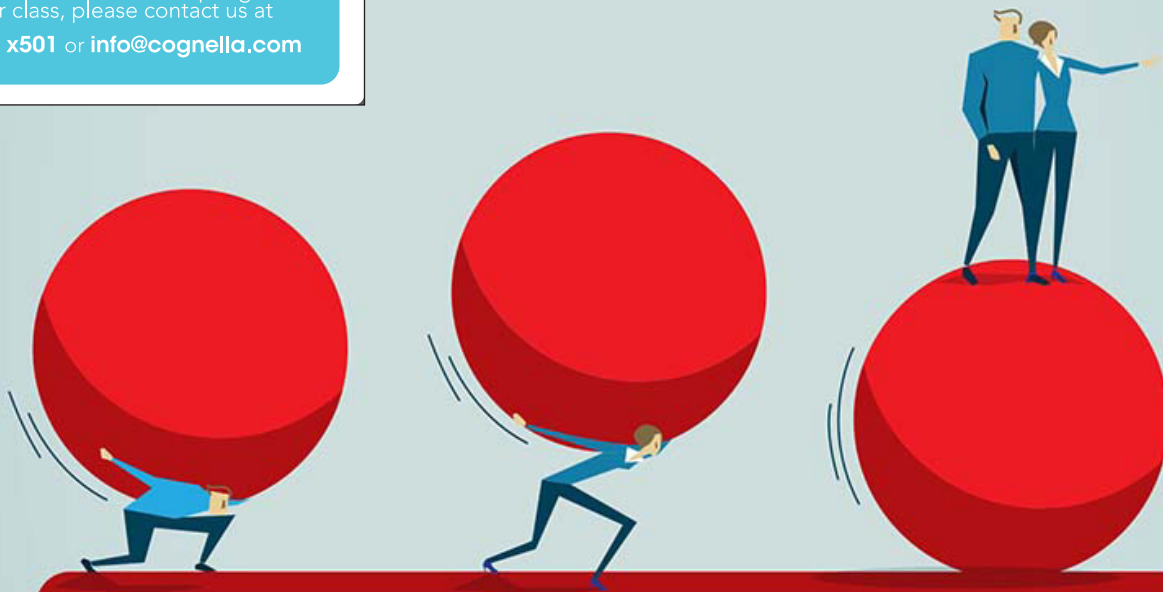
2nd EDITION

ACTING STRATEGICALLY THINKING CRITICALLY



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CONCEPTS, CASES, & TOOLS FOR BUSINESS STUDENTS

BY **MICHAEL J. MERENDA, Ph.D.**

ACTING STRATEGICALLY, THINKING CRITICALLY

CONCEPTS, CASES, AND TOOLS FOR BUSINESS STUDENTS

Second Edition

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PREFACE



Welcome to this second edition of *Acting Strategically, Thinking Strategically: Concepts, Cases, and Tools for Business Students*. The book was developed for the required capstone course in undergraduate and graduate business programs. It is designed to meet AACSB assurance of learning goals and standards. Students will gain a foundation in strategic management and its process, become familiar with various strategy schools, and acquire analytical tools. They will learn to identify the concepts and tools used in strategy analysis, crafting, and execution. They will also learn how to act strategically and think critically by applying concepts and tools to cases, thinking criti-

cally exercises, and problem solving. This book is divided into two parts. The eight chapters in Part I provide a foundation in core strategy concepts, strategic schools of thought, analytical tools, and frameworks to help prepare business students to act strategically and think critically. Each chapter contains an opening case and several Thinking Critically exercises. Two types of these exercises are presented: (1) company-specific exercises that emphasize pragmatic real-world challenges, models, or pressing issues and (2) exercises aimed at applying and using strategy concepts as a foil for personal development, managing oneself, and continuous learning. The personal development exercises assume that the strategy concepts and tools used in improving and sustaining organizational performance can be applied to individual continuous learning and self-improvement.

PART I: CHAPTER OVERVIEW

Chapter 1 provides an overview of strategy: its purpose and importance, the basic elements of strategic thinking, criteria for identifying a strategic decision, strategy roots and definitions, types of strategies, open- versus closed-system thinking, emergent versus realized strategy, defining competitive advantage, resource capabilities, business models, as well as a brief overview of five schools of strategic thought (i.e., style, competitive forces, resource-based view, learning, and entrepreneurship schools), the strategic management process model, and what it means to act strategically and think critically. Chapter 2 provides a financial framework for business model evaluation. Several company and stock market ratios and metrics are provided for conducting a strategic financial audit. The formulas, meaning, and rules of thumb for interpreting the ratios are offered. The assumption behind the ratio analysis is that the first step of conducting a case analysis is an assessment of a firm's overall financial health and the effectiveness of its business model. The chapter emphasizes the importance of evidence-based research in case study and student learning by presenting several steps for conducting and analyzing cases. The Thinking Critically exercises in the chapter focus on these steps and offer a framework for students to apply strategy concepts and analytical tools in analyzing and preparing cases. To act strategically and think critically, students need to take an active role—learning by doing. The Socratic method in individual learning, along with applying and actively using strategy concepts, are emphasized. Chapter 3 covers the strategic management process model in greater depth, along with an examination of the style (or design) school of thought, and how to conduct SWOT analysis (strengths, weaknesses, opportunities, and threats), PESTEL (political, economic, social, technical, environmental, and legal) analysis, and a strategic audit at the macro, mezzo, and micro levels of analysis. Chapter 3 also lays out the business case for ethics and corporate social responsibility. It does this by presenting two models of corporate governance: the single-sovereign model, where the firm exists to maximize shareholders returns; and the multiple-sovereign model, where the firm needs to manage and balance the interests of several stakeholders or interested and powerful players that can

facilitate or block firm performance. The chapter illustrates how to conduct a stakeholder analysis; it concludes with an overview of the principles of business ethics and sustainable (think “green”) business practices.

Chapter 4 focuses on external environmental analysis and strategy crafting through the competitive forces school of strategic thought. This school advances the argument that competitive advantage is earned in the external environment by customer purchasing decisions. The chapter focuses on conducting an external situational analysis through an analysis of Michael Porter’s five competitive forces framework (power of customers, power of suppliers, threat of new entrants, threat of substitute products, and competitive intensity of industry rivals) and the PESTEL factors. Industry attractiveness and the firm’s position in the industry, its influence on competitive dynamics, and success in exploiting its position (PIE) determines its return on invested capital and ability to create and sustain organizational performance. Among other topics covered are: how to prepare a strategic group map, how to identify industry-driving forces and key success factors, how to assess an industry’s exit and entry barriers, industry life cycle analysis and S-curve, experience curves, and customer knowledge.

Chapter 5 covers internal environmental analysis and strategy crafting with a focus on the resource-based school of strategic thought and business-level strategy. This school advances the notion that competitive advantage is earned internally by assessing the firm’s ability to develop and nurture heterogeneous tangible and intangible resources. The firm’s resource strengths, core capabilities, and distinctive competencies can be nurtured and developed in offering customers a superior (over rivals’) value proposition. The chapter shows how to conduct a VIRO (valuable, imitable, rare, and organizational) test, a SPACE (strategic position and competitive action evaluation) analysis, and the Boston Consulting Group’s (BCG) product portfolio analysis, as well as how to identify and assess the potential sources of a firm’s competitive advantage in the primary and supporting activities within its supply and value chains. Other topics covered in the chapter are the multiple business firm, the conglomerate firm, and benchmarking as a tool for evaluating a firm’s products, processes, or strategies.

Chapter 6 focuses on crafting and analyzing corporate-level strategy under varying organizational and environmental contexts. The chapter emphasizes the ongoing challenge strategists confront in maintaining a firm’s continuous performance in environments that are in constant flux. Among the topics covered are firm vitality, agility, and adaptability. The chapter shows how to construct a GE/McKinsey spotlight matrix for businesses that operate in several markets. It covers three categories of corporate-level strategies (and several substrategies)—offensive (aggressive growth strategies), maintenance (continue as is or conservative strategies), and defensive (turnaround, harvest, or exit strategies); blue ocean versus red ocean strategies; radically inclusive strategic thinking; exponential growth and accelerated change; advances in telecommunications and information technologies; detablized industry boundaries; and skills for individuals to remain vital and agile.

Chapter 7 covers the strategy implementation, execution, and control steps found in the strategic management conceptual model. The chapter covers the critical role that strategic leaders play in executing strategy and managing organizational change through the learning school of strategic thought. Three kinds of leaders (transactional, charismatic, and transformative) and three types of organizational change (incremental, strategic, and transformative) are discussed, along with strategic intent, the competitive advantage life cycle, and gap analysis. Among the topics covered are: challenges associated with strategy implementation and execution, as well as the importance of properly aligning a firm’s new crafted strategies with its vision, mission, goals and objectives, culture. It also focuses on strategic intent organizational structure, customer value creation proposition, and value appropriation proposition. The chapter covers four types of organizational structures and the advantages and disadvantages of each—simple, functional, divisional, and matrix. In addition, Chapter 7 discusses the steps normally associated with managing organizational strategic change and managing high-performance teams. Finally, the chapter identifies what it takes to be a successful CEO in career and in life.

Chapter 8 examines strategy crafting and competitive advantage in the international, entrepreneurial, and social enterprises. It covers going international in the context of Porter’s Diamond Model of the competitive advantage of nations. The model looks at four drivers of a nation’s competitive advantage: factor conditions (basic roads, natural resources, and higher education, think tanks, advanced information technologies, and telecommunications networks); economic conditions and presence of sophisticated and demanding customers;

related and supporting industries (industry clusters and value chains); and rival strategies and structure. Two other factors contained in the model are chance events and the role local, regional, and national governments play in a nation's competitive advantage. The chapter also examines four archetypical types of strategies for competing across borders: international, multidomestic, global, and transnational. It provides an overview of the advantages and disadvantages of doing business across borders including an assessment of business, political, cultural, and technical opportunities and threats. The second half of the chapter focuses on the entrepreneurship school of strategic thought. The entrepreneurial school is rooted in the "mysteries" of intuition, improvisation, and imagination. It shifts strategic thinking away from precise design, plans, positioning, specialized capabilities, and learning to the creative and visionary mind of the entrepreneur. It assumes that strategy setting and execution require constant creativity guided by inside-the-box, outside-the-box, and where-there-is-no-box-at-all strategic thinking and critical inquiry. Among the topics covered are: the innovator's dilemma, strategy as creative destruction, first-mover advantage, what entrepreneurship is, who the social entrepreneurs are, the not-for-profit organization, how to foster creativity and innovation, choosing the legal form of business ownership, and essential questions for preparing a business plan.

PART II: OPENING CHAPTER AND PART II CASE OVERVIEW

Part II contains eight in-depth strategic management cases. The cases can be assigned for classroom discussion, group work, or take-home exams. All the cases are classroom-tested and contain adequate information for students to apply the strategy concepts and tools found in Part I of the book. Many of the cases build on the Thinking Critically exercises found in Part I and offer instructors the opportunity to use and develop their own thinking critically exercises and questions. Part II contains eight cases all of which can be used for class discussions, group case presentations or individual or group case write-ups, and examinations. The eight cases in Part II include the following:

Case 1. Apple, Inc. 2014 and the Global Smartphone Industry: Despite beating market projections for fiscal first quarter (Q1) results of 2014, Apple, Inc., headquartered in Cupertino, California, disappointed industry analysts and Apple watchers when it reported iPhone sales grew at a 7 percent rate, falling short of Wall Street expectations of a 15 percent increase. Apple's supremacy as the top dog in the fiercely contested high-technology consumer electronics industry, especially in the United States, was under attack. Since 2011, Apple was constantly losing ground to the Android operating system in the battle for smartphone supremacy at home and abroad. Analysts were looking for Tim Cook, Apple's CEO, to quickly act to prevent further market erosion and stem the advances of competitors. *Apple, Inc. 2014 and the Global Smartphone Industry* focuses on the competitive forces school. It highlights Cook's challenges in sustaining Apple's competitive advantage after the death of Apple's founder, Steve Jobs.

Case 2. Half a Century of Supply Chain Management at Walmart: This case looks at the company's sources of competitive advantage in its value chain. Walmart was the world's largest retailer by total sales. Competitors had copied many aspects of Walmart's distribution system, including logistics, IT telecommunications strategy, marketing and merchandising, cross-docking products, eliminating storage time in warehouses, positioning stores around distribution centers, and widespread adoption of electronic data interchange (EDI), RFID, data analytics, as well as global sourcing and collaborative supplier networks. A stock analyst for a large U.S. investment house wanted to determine whether Walmart was still a good investment or if his firm should sell its investment in Walmart based on its recent underperformance and increased competition from online rival Amazon, large grocery chains, and entry of several small-format discount retailers, such as Dollar Tree and Dollar General. The case lends itself to an in-depth VIRO test and internal situational analysis based on the resource-based school.

Case 3. Tesla Motors: Evaluating a Growth Company: Tesla is an interesting entrepreneurial venture case that will attract a great deal of student interest and discussion. The case focuses on Elon Musk, Tesla's CEO and serial entrepreneur, and his company's entry into the premium electric vehicle market. Musk's business model calls for beta-testing his electric vehicle entry with a high-priced roadster (more than \$100,000) and then moving down the value chain to middle priced (Model X) and lower priced (Model S) mass-market models. Tesla is burning through cash at an exponential rate. If the company cannot introduce a lower-priced Model S and break even (economies of scale), soon its survivability as a company will be called into question. How much of Tesla's success is dependent on Musk the person and how much of it is dependent on the company's bet that it can change the entrenched business models of traditional automobile manufacturers? Musk is undertaking a risky, large-scale organizational process and product innovation. The case highlights the entrepreneurship school of strategic thought, industry dynamics, stakeholder analysis and value chain analysis, and changing industry dynamics.

Case 4. Volkswagen's Diesel Emissions Control Scandal: This case examines the dark side of management actions that not only violate public trust but also undermine the very fabric of democratic societies. It traces the events and efforts that led VW to evade U.S. carbon emission regulatory standards and the actions undertaken by Mathias Müller, its CEO, to restore profitability and public trust in the company. The September 18, 2015, announcement by the U.S. Environmental Protection Agency (EPA) that VW had cheated emissions testing caused its CEO, Martin Winterkorn, to resign. Winterkorn and Müller denied any involvement in the scandal, blaming it on a few senior engineers. While admitting guilt, the company faced many unanswered questions. Who authorized the cheating, and how high up in the VW hierarchy did knowledge of the cheating go? The case ends with a decision by former chairman Ferdinand Piëch to sell his ownership stake in Porsche Automobile Holdings (PAH), the majority stockholder in Volkswagen AG. Piëch's planned actions could threaten Müller's turnaround strategy. The focus of the case is on business ethics and corporate governance, culture, and change management.

Case 5. Ashokan Center: Fostering Deep Connections: The case chronicles the transition of the Ashokan Center from a public, nonprofit entity under the supervision of the State University of New York at New Paltz to a private, nonprofit, social enterprise dependent on program revenues, grants, and donations. The case focuses on husband-and-wife social entrepreneurs Jay Ungar and Molly Mason, co-founders of the Ashokan Foundation Inc. and Ashokan Center, Inc. Early in 2017, Ungar and Mason and the Center's board faced several challenges. Ungar and Mason were two well-known musicians who had recently taken on the interim management of the Center in response to the sudden departure of its executive director. The Center offered educational and community programming in natural sciences, living history, culture, and music and dance. The case ends with Ungar wondering whether the board's recent actions were radical enough to sustain the Center's financial health and achieve its social and economic missions. The focus of the case is on not-for-profits and social entrepreneurship, corporate governance, and stakeholder analysis.

Case 6. Yahoo!: Are the Parts Greater Than the Sum?: The Yahoo! case is designed to enable students to analyze and assess the problems faced by Yahoo! and its CEO Melissa Mayer. Mayer is under the gun to meet the board's and stockholders' expectations regarding the company's declining sales and profits. In July 2016, Yahoo! announced the sale of its core assets to Verizon for \$4.8 billion (all-cash deal). The case describes the events that led to the sale of Yahoo!'s core assets and its management's attempts to revive it before the sale. The case also describes the propositions of activist shareholders to revive Yahoo! There is sufficient information in the case for students to analyze and assess the effectiveness of Mayer's strategic attempts to improve performance, and examine her actions through the lenses of corporate strategy, strategy execution, style, competitive forces, and RBV schools.

Case 7. Xiaomi in China: Struggling with “Cooling” Growth: Xiaomi is a China-based smartphone company founded by Lei Jun in 2010. In a very brief span of five years, it became the leading smartphone company in China, threatening Apple and Samsung as a major industry player. Faced with flattening sales in its home market, however Jun and his company considered expansion into international markets, including gearing up for a launch in the U.S. Was it the most opportune time for the company to venture overseas where behemoths like Apple had a strong presence? Should Xiaomi strengthen its position on its home turf when analysts had started questioning its much-hyped valuation figures? What should be the next course of action for Xiaomi? The case is best suited for international strategy, industry analysis, and corporate strategy.

Case 8. Avon’s Turnaround Plans: A Move in the Right Track?: Avon Products Inc., a globally leading beauty products manufacturer and direct seller, had been witnessing many restructuring efforts over the years. Andrea Jung, Avon’s CEO, faced declining sales and stiff competition from online and brick-and-mortar industry rivals. In response to declining sales, Jung came up with a multiyear restructuring program but failed to reverse the company’s declining sales. In 2012, Jung was made chairman and Sheri McCoy became its new CEO. McCoy is faced with the challenges of improving the performance of Avon, revamping its IT business in Brazil, solving the bribery scandal, and also coming up with a strong strategy to survive in the market. McCoy’s efforts to turn Avon around were not well-received by some shareholders who wondered whether her actions would work in the long run. The case focus is on business model evaluation, customer value creation and leading and managing organizational and technological change including e-commerce platforms, industry dynamics, and value chain analyses.

ACTIVE LEARNING RESOURCES FOR STUDENTS AND INSTRUCTORS

The *Acting Strategically, Thinking Critically* second edition comes with several online student active learning resources and faculty resources. These include chapter PowerPoint slides, access to videos that support and supplement chapter opening and Part II cases, Thinking Critically exercises, and chapter concepts, chapter quiz banks, chapter tests, concept and term flash cards, sample syllabi, and case instructor notes for Part II cases. The online resources also include a summary overview of the chapter opening cases and Part II comprehensive cases.

CREDITS

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ACTIVE LEARNING

Throughout the text, when you see this Active Learning icon:



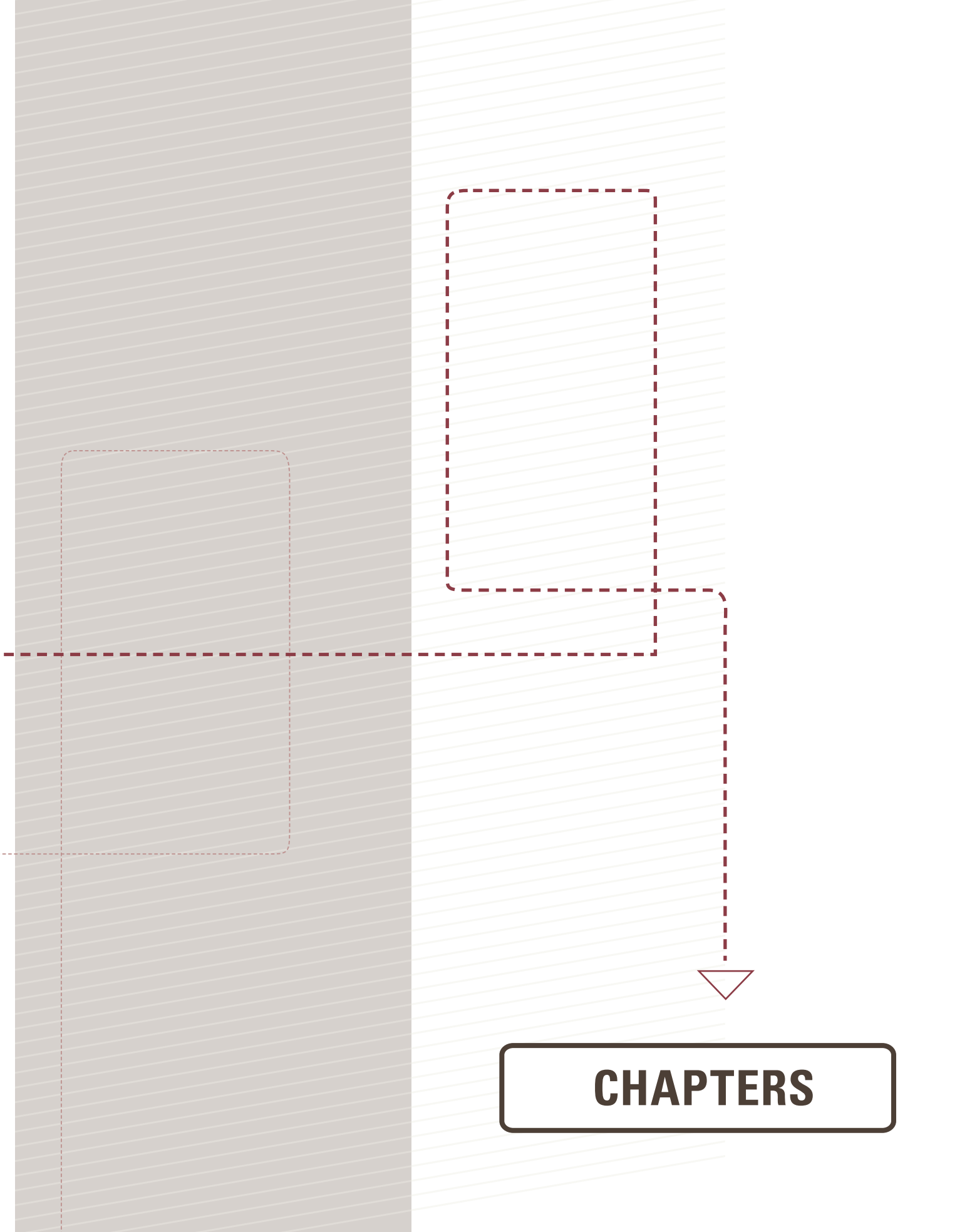
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PART 1




CHAPTERS

JIM DONOVAN (A)¹

Jim Donovan, 37, the new president and chief executive officer of Famous Products, suddenly found himself in the toughest spot of his life. Having just been selected by Omega Corp., a huge conglomerate, to take over as the president of their latest acquisition, Donovan was feeling very good about his position. After growing up on “the wrong side of the tracks,” working his way through engineering college, earning an MBA from Harvard Business School, working for 10 years as a management consultant, and for two more years as a successful president of a small company, he felt that he had finally arrived. The company he would manage was known worldwide, had a respectable reputation, and would provide a good opportunity for visibility within the parent company. The pay would be the highest he had ever earned, and while the money itself was not that important (though he’d be able to ensure his wife and four children financial security), he enjoyed the indicator of success that a high salary provided. Jim was eager to manage a company with more than 1,000 employees as the power to accomplish tasks on such a large scale proved very attractive to him.

When Omega had initially selected Donovan, they revealed that Don Bird, the current president of Famous Products, was close to retirement and would be moved upstairs as chairman of the board. Bird had been president of Famous for 22 years and had done reasonably well, steadily building sales and guarding quality. The top management group was highly experienced, closely knit, and very loyal to the company, having held their positions for an extended period of time. As long-term



employees, they were not only reported to be good friends of Don Bird, but they also were all in their early 60s and quite proud of the successful record associated with their moderate-sized company. Famous had not, however, grown in profits as rapidly as Omega expected of its operating companies, and Omega's president advised Jim to "grab ahold of Famous and make it take off."

With this challenge ringing in his ears, Jim booked a flight to Milwaukee for his first visit to Famous Products. He had talked briefly with Don Bird to say that he'd be arriving Thursday for half a day and then would be back for good after 10 days at Omega in New York. Bird had been cordial but rather distant on the phone, and Jim wondered how Bird was taking his appointment. "I've only got a few hours here," thought Jim. "I wonder how I should play it ..."

1. INTRODUCTION: QUESTIONS TO THINK ABOUT

- What is a strategic decision?
- What is strategy?
- What is the purpose of strategy, and why is it important?
- What is a business model?
- What are the key elements of strategic thinking?
- What is dynamic strategy?
- How does strategy relate to sustainable competitive advantage?
- What is a strategy school?
- What does the strategic management process entail?
- What is strategic fit? Alignment? Matching?
- What is it to manage oneself?
- Why is it important to think and act like a CEO?

Have you ever wondered what it would be like to be an entrepreneur, president, or CEO of a major company? A Jack Ma, founder and executive chairman of the Alibaba Group; Theo Epstein, president of baseball operations for the Chicago Cubs; or Mary Barra, CEO of General Motors?² What were their career paths, and how did they get to be top-tier leadership of successful companies? You are about to embark on a challenging and enriching journey that will take you through the boardrooms and offices of numerous managers empowered with the authority and responsibility for the well-being and health of their respective organizations. In doing this, we ask you to stop and think about what it is you would like to learn and why it is so necessary to study

others who have embarked on similar pathways, but usually without the benefit or protection of the classroom. What is it to act like and think like a seasoned CEO or entrepreneur?

The focus of this chapter is introducing the concept of strategy and how it can be applied to the study of organizations and their strategic positioning and management in the 21st century. And, more importantly, how it can apply to your own professional and personal journey throughout your life. By studying strategy concepts and strategy cases, you will begin to develop a richer understanding and appreciation of just what it is like to be a thought leader and seasoned CEO. A strategic manager's primary responsibility is to critically think about and act on the pressing questions and challenges facing the organization. Put simply, do you have an interest in studying or observing the key strategists and decision makers in organizations, as well as why some top managers are consistently recognized as among the best at what they do? Why are some managers the newsmakers and leaders, not only in their own organizations but also in society? Moreover, what exactly is it that these top managers and strategists actually do? What are some of the strategy tools, concepts, and theories available to help them guide and position their organizations for success?

**Thinking
Critically
Exercise 1**

JIM DONOVAN (A)

- a. Assume you are Jim Donovan. How should Donovan prepare for his first meeting with Don Bird? What questions should he ask Bird? What advice would you give Donovan in anticipation of this initial meeting and his return to Famous 10 days after?
- b. Omega is a huge conglomerate. What is a conglomerate? What are some conglomerate strategies? What does Omega's president expect Donovan to do as president of Famous Products?
- c. Without knowing why Omega acquired Famous, how should Bird and his managers "play" Donovan's visit? That is, what should they hope to accomplish, and how should they greet Donovan?
- d. Donovan, based on his record, appears to be on the fast track to a successful career. What type of career is Donovan pursuing? What are some challenges faced by Donovan as the president of Famous?

1.1 WHY STUDY STRATEGIC MANAGEMENT?

It is evident that, as an area of study, strategic management has come of age. What is more important, however, is that as we advance into the 21st century, strategic management will continue to play a vital role in the competitiveness of organizations, the welfare of society, and the lives of the women and men who make organizational success possible. It is important to study strategy and strategic management because:

- Everyone in the organization needs to play an active, direct, or supporting role in the strategic management of the organization for the organization to be successful
- Understanding what it is to be a more effective and knowledgeable strategic decision maker is important for you personally so that your work performance will be more valued and rewarded accordingly³
- Managing strategically better prepares the organization for creating, managing, and exploiting rapidly changing environments
- Managing strategically improves organizational performance

- Managing strategically helps the organization better manage diverse activities that need to be coordinated and focused on for achieving organizational purpose
- Learning to act strategically and think critically can help you in both your career and your life

The study of strategy and strategic management is also important because its primary purpose and focus are on satisfactorily answering the following pressing questions, which all organizations need to ask regularly:

- a. What is the overall current financial and strategic health and performance of the organization?
- b. What should it be? What might it be?
- c. If the financial and strategic health is not what it should or might be, then what strategic actions need to occur to correct the situation?

Failure to recognize and act on these questions in a timely manner puts the organization at serious strategic and financial risk.

1.2 WHY IS IT IMPORTANT TO THINK LIKE A CEO?

The study of strategy is not just about making well-reasoned, thoughtful business decisions. Strategy and strategy concepts can also be applied to managing oneself. Think about the important decisions that you will encounter in your personal life. Decisions about what college you will attend, your major in college, your employment decisions, how you spend your time, and how you allocate your well-earned income all have elements of a strategic decision; that is, what you would like to aspire to in your professional career and in life. Think about the strategic decisions that any business organization constantly faces. History tells us quite a bit about successful businesses and unsuccessful ones. Some of the notable strategic failures include:

- Quaker Oats losing \$1.4 billion in Snapple over three years
- Yahoo!'s board turning down a \$44.6 billion acquisition offer from Microsoft and then selling to Verizon for less than \$6 billion
- Blockbuster passing on buying Netflix, then going bankrupt
- Kodak filing the first patent for a digital camera in 1977 and then filing for bankruptcy in 2012 because it couldn't see past film
- IBM dismissing minicomputers and losing significant revenue
- DEC rejecting PCs, even though it was the first company to introduce minicomputers
- Excite, a search engine, passing on acquiring Google for \$250,000
- Decca Records passing on the Beatles because "guitar groups were on their way out"
- Motorola failing to launch a new generation of smartphones, instead leveraging its once highly successful Razr phones. By the time the company released a new line of Razr phones in 2010, Motorola was unable to compete with the Apple iPhone and Android smartphones⁴

Why do businesses (people) make poor decisions? Why do some businesses (people) fail? Businesses or people fail primarily from making poor strategic decisions or choices in life. This could be because of inexperience or incompetence, inability to identify and manage risk, lack of customer focus, inability to handle growth, cash problems, not knowing your business or yourself, and in some cases, just plain "bad luck." All strategic business and life decisions involve risk. Strategic leaders, CEOs, and individuals can lower the risk of a strategic decision by always acting strategically and thinking critically. Unless you do, how can you make good decisions? Employees who think like a CEO advance fast; employees who think and act like a CEO advance even faster. To strategically manage yourself means to act and think like a well-respected, seasoned, and successful

PERSONAL STRATEGY AND LEADERS YOU ADMIRE

- a. Do you have a personal strategy? What is it? Quickly write down those things in your life that excite you the most and those things that wear you down. Are there any revealing insights about how you spend your time?
- b. Is there a well-known business leader or other leader that you admire for his or her clarity in leadership, critical thinking, and strategic approach to life? Who is this person, and what managerial and personal attributes do you like about this person's strategic thinking and critical inquiry skills?

VIDEO 1.1 Tesla CEO
Musk Offers Rare
Look Inside Model
3 Factory



CEO. Strategy is not just about making and effectively executing critical business, military, or political decisions; it's about making better decisions in business and in life.

2. WHAT IS A STRATEGIC DECISION?

A strategic decision is one that, if not achieved, could seriously affect the long-term viability of the firm. In comparison, a tactical decision affects the day-to-day implementation of actions required to reach the goals of strategy. A strategic decision has at least one of the following characteristics:

- *It involves unusual risk and a high potential for failure.* Think about the risks involved with Elon Musk and his Silicon Valley startup company, Tesla Motors. Starting a new car company from scratch is not often tried in the United States. The last time one was truly successful was about a hundred years ago. Tesla faces some unusual hurdles. Musk not only plans to shift the world over to electric cars through his multibillion dollar startup; he also plans to partner with Panasonic to build advanced lithium-ion batteries at a “gigafactory” in Nevada that could cost as much as \$5 billion. He also intends to sell his lithium-ion batteries for use in solar-energy panels. His factory will be larger than the whole of the world's current capacity for manufacturing lithium-ion batteries. There are almost innumerable barriers to the realization of Musk's vision for a sustainable future with electric cars and solar energy. Not the least of these fears are the current low-cost panels and lithium-ion batteries currently being produced in China. He also runs the risk that superior product-technology platforms will make both his lithium-ion batteries and his electric cars obsolete before either venture can achieve economies of scale to lower cost and become profitable.⁵
- *It involves unusual benefits in the event of success.* When Steve Jobs took over Apple Computer Company in 1997, he changed the company name to Apple, Inc. and announced that he was targeting consumers, not just businesses, for his Mac computers and other high-technology products and services. Jobs inspired Apple's consumer products and services including iPhone, iTunes, iPod, iPad, iStore, iTV, and a host of others. Jobs died in October 2011. At the time of his death, Apple's market capitalization was in the \$300 billion market capitalization range (number of common shares outstanding times stock price). Its market capitalization topped \$900 billion in November 2017, causing analysts to predict that Apple was on the path of becoming the first trillion dollar company.⁶
- *It involves unusual commitment of critical resources (money, management, physical capacity, and know-how) over long periods of time.* To execute his bold strategies, Musk must

commit substantial dollars to factories; professional, technical, and management talent; operating staff; and a wealth of other critical resources. To be successful, Tesla also has to invest in a network of global retail stores and other distribution channels to sell and service its innovative electric cars. The company is unveiling a new network of superchargers—refueling stations that can top off the batteries in its cars in under an hour. So far, Tesla has built a small number of vehicles for the high-end market, but now it wants to go mainstream. To do so, Musk must construct a network of battery-charging stations across the countries where his cars will be sold. In 2013, Tesla sold 23,000 cars. The gigafactory would make enough batteries for 500,000 electric cars by 2020 (it would produce enough batteries annually to store 35 gigawatt hours of electricity, hence the name). Battery companies normally announce factories only after they are funded and a site is selected, and they typically scale up gradually. Not Musk. His commitment to build Tesla Motors, including its gigafactory and physical infrastructure, requires a significant commitment of technical, financial, human, and physical resources.⁷

- *It tends to change the competitive dynamics and nature of industries.* Amazon has transformed several industries as one of the world's most successful e-commerce companies. Under its founder and strategic leader Jeff Bezos, Amazon now rivals Walmart as a discount retail store, Apple as a device maker, and IBM as a data services provider. Bezos's diligence in getting Amazon's strategy right, with his constant focus on monitoring, adjusting, and adapting the company's strategy, has made it the fastest-growing e-commerce company, taking significant market share from rivals. Amazon has also aggressively entered additional markets with a smartphone called Fire, three new Kindle Fire tablets, 8 million square feet of new fulfillment center capacity, and 1,382 newly deployed Kiva robots that roam Amazon's warehouses delivering pallets of products to human workers. Although he does not always get it right the first time or provide short-run profits to Wall Street analysts' satisfaction, Bezos's diligence in monitoring and adjusting Amazon's strategic decisions has transformed the company into an \$81.7 billion e-commerce behemoth.⁸
- *It requires leadership at all levels of the organization and ongoing support from everyone in the firm.* General Motors Company's chief executive Mary Barra spent much of her first nine months as CEO bogged down in a scandal over decade-old failures in the company's handling of deadly ignition switch defects. Barra started working for General Motors at the age of 18 as a co-op student in 1980. Nearly 35 years later, in January 2014, she became GM's CEO. During her first year, she issued 84 safety recalls involving more than 30 million cars. Barra now hopes to move past the scandal and GM's decades of weak accountability and profitability, declining U.S. market share, and bankruptcy. A high priority for Barra is changing GM's culture and mindset. Commenting at an investors' meeting, she stated, "I hate the word *culture* ... culture is really just how we all behave." She stressed to investors that all GM employees need to behave differently—starting with herself, her top management team, and all GM employees. For GM to be successful, everyone in the company needs to support Barra's plans and vision. Barra was even tough on herself, commenting: "In the past ... I was too nice." At a meeting with GM's top 300 executives, Barra explained they could no longer confuse steady progress with winning. She told the executives that GM must do what it takes to be "the world's most valued automotive company," a measure that included customer satisfaction, quality, and financial results. "If you're not in line with this vision," she told the group, "you don't need to be here." The question of how GM will deploy the roughly \$39 billion in cash and cash equivalents on its balance sheet to achieve her goals and make it the most valued auto company will require that change and leadership at all levels. Barra's drive to boost profitability will depend on whether she and her top executives change behavior deep in the company's bureaucracy. She noted that GM should be a company where employees go home enthused about a "really cool project" instead of complaining, "I had to go climb Mt. Stupid today to try and get the right thing done."⁹
- *It requires constant monitoring, adjusting, and vigilance to get it right.* It took Gary Hirshberg and Samuel Kaymen (cofounders of Stonyfield Farms, Inc.'s yogurt) and their families nine painful years before the

company reached profitability. Gary's wife, Meg Hirshberg, commenting on Stonyfield's road to profitability, wrote:

We endured countless disasters, mishaps, and near-death experiences. That meant there were countless times we could have rid ourselves of the misery we called a business. Gary and Samuel were overworked and exhausted but determined to persevere. I never had a voice in the decision to carry on, but there were many moments when I was forced to answer the question: Was I in or was I out (in helping the business succeed)?¹⁰

VIDEO 1.2 Strategy
Example:
Introduction to
business strategy



3. WHAT IS STRATEGY?

The word **strategy** and its derivatives (e.g., *strategic*, *strategically*, *strategists*) conjure up a lot of different notions, interpretations, and meanings; each of us has our own. A strategic action is distinct from an operational or routine action in that if a strategic action is not achieved, the overall well-being and health of the organization is threatened. If a strategic action is achieved, it provides the organization with the means for improving firm performance.

The word *strategy* is derived from the Greek noun **strategos** (literally interpreted as “the art of the general”). The Greek verb **stratego** means “to plan the destruction of one’s enemies through the effective use of resources.”¹¹ These two terms capture the essence of strategy and its enduring value as a key management concept. As a noun, the “art of the general” highlights who is responsible for setting and executing strategy. And the verb *stratego* implies action and forward thinking. “To plan the destruction of one’s enemies” lays out the terrain and sets in motion the challenges ahead for the general. Strategy is about the future—to plan and set a direction for an army or an organization. Whether it is to gain political, military, or economic advantage, the essence of good strategy is good management, good leadership, and good execution.

Thinking
Critically
Exercise 3

WHAT IS A STRATEGIC DECISION?

- McDonald's announced in April 2015 that it planned to raise wages by more than a dollar per hour and offer employees personal time off for all its U.S. company-owned restaurants. The increase would raise wages for more than 90,000 U.S. employees. Is this a strategic decision or just a salary adjustment? If you consider it a strategic decision, what makes it strategic? If not, why not?
- In April 2015, General Electric announced that it would be selling or spinning off the bulk of its \$500 billion GE Capital business. GE Capital accounted for around half of the company's profits, but it was under pressure from nervous investors who worried about the value of GE's stock. Is this a strategic decision? If so, based on what criteria? How might this decision change GE? How might this decision change the competitive dynamics in the banking and financial services industry? (See <http://www.nytimes.com/2015/04/11/business/dealbook/general-electric-to-sell-bulk-of-its-finance-unit.html>.)
- Identify a company that is currently engaged in a major strategic decision or initiative. Identify and explain the characteristics of this strategic decision—that is, what makes it a strategic decision? What's at risk if this decision does not pan out? What's the potential upside to this decision if things do pan out?

In his book *Strategy: A History*, Lawrence Freedman carefully provides an in-depth study of the evolution and development of strategy. Freedman defines strategy as a continuous process for improving organizational performance with no endpoint.¹² In his study, Freedman concludes that strategy is about employing whatever resources are available to achieve the best outcome in situations that are both dynamic and contested. It is about getting more out of a situation than the starting balance of power would suggest. It is the art of creating power.¹³

3.1 FREEDMAN'S THREE BROAD STRATEGY APPROACHES

In *Strategy: A History*,^a Freedman identifies three broad approaches to strategy that emerged over time. He observes that each strategy approach evolved to help political, military, industrial, and other leaders achieve the best outcome in situations that are dynamic and contested. The approaches he describes are:

- I. **Strategy as Superior Force Versus Strategy as Guile or Craftiness:** As seen through the study of Greek classics, confrontations between parties were fought or addressed through strategy as the application of superior force (personified by the heroic Achilles), or guile, the use of seduction (personified by the crafty Odysseus, who conceived the idea of the Trojan horse). Freedman observes that though guile is more seductive because it offers the possibility of cleverness in defeating brute power, he argues that guile alone is overrated, particularly against enemies that are clever as well as strong.
- II. **Strategy as Cunning and Finesse:** In Sun Tzu's masterful book *The Art of War*, the Chinese general celebrates cunning by arguing that doing the opposite of what your opponent expects ensures victory; and though strategic goals are often best achieved by avoiding the destructive uncertainty of pitched battle, he is quoted as saying, "All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved."^b

Tzu preferred the use of "stratagem and finesse" to defeat an enemy, such as starving one's foe through famine compared to exposing oneself to the risk of battle and "the chance of arms." He forewarned that military should always avoid the destructive uncertainty of pitched battle because depriving or preventing the enemy from using a superior strength or competency in warfare could achieve a winning or superior outcome. Not surprisingly, Sun Tzu's teachings are still used in business schools and military academies today.

- III. **Strategy as Political Negotiation, Bargaining, Military Might, and Science:** In the late 18th century, largely as a result of the military and political thinking of the Napoleonic wars, strategy became viewed as a way to merge scientific, operational art and the precision of military strategy with the craftiness and skill of a seasoned politician. This concept of strategy is generally considered the main application of business strategy today. As such, strategy became a way of uniting operational art in the military sphere with political objectives. Carl von Clausewitz, the great Prussian general and strategist, described it this way: "War is not merely an act of policy but a true political instrument, a continuation of political intercourse carried on with others."^c

Freedman concludes in his historical study that strategy is discerning a sensible way to get from one stage (of performance) to the next. With each stage, a new set of problems has to be negotiated before you can move beyond it. He concludes in his masterful book that there is no endpoint when it comes to strategy; strategy is not simply a grander name for a plan. As former professional boxer Mike Tyson painfully discovered: "Everyone has a plan 'til they get punched in the mouth."^d

a Lawrence Freedman, *Strategy: A History* (New York: Oxford University Press, 2013).

b "Sun Tzu," Brainy Quotes, http://www.brainyquote.com/quotes/authors/s/sun_tzu.html.

c "Carl Von Clausewitz," Wikiquote, last modified May 26, 2017, https://en.wikiquote.org/wiki/Carl_von_Clausewitz.

d Lawrence Freedman, *Strategy: A History* (New York: Oxford University Press, 2013), ix.

Thinking
Critically
Exercise 4

FREEDMAN'S THREE BROAD STRATEGY APPROACHES

- Freedman identifies three broad approaches to strategy. How does the author define or view each strategy approach? Find one business example for each strategy approach. How was the approach used to help improve organizational performance? From a business perspective, is there one approach that is better than another? If so which one? If not, why not?
- Find one sports example for each strategy approach. From a sports perspective, is there one approach that is better than another? If so, which one? If not, why not?
- Find one political or military example for each strategy approach. From this perspective, is there one approach that is better than another? If so, which one? If not, why not?

Sources: Freedman, Lawrence. "What Is Strategy?" In *Strategy: A History*. New York: Oxford University Press, 2013.; "Why a Strategy Is Not a Plan: Strategies Too Often Fail Because More Is Expected of Them Than They Can Deliver." *The Economist*. November 2, 2013. <https://www.economist.com/news/books-and-arts/21588834-strategies-too-often-fail-because-more-expected-they-can-deliver-why>.; "Sun Tzu: The Art of War." History.com. 2009. <http://www.history.com/topics/sun-tzu>.

3.2 WHAT CONSTITUTES A GOOD STRATEGY?

Michael Porter defined strategy as what determines corporate performance:

As a multisport athlete, I was always fascinated with competition and how to win. At Harvard Business School and later at the Harvard Department of Economics, I was drawn to the field of competition and strategy because it tackles perhaps the most basic question in both business management and industrial economics: What determines corporate performance?¹⁴

Some of the most common observations as to what constitutes a good strategy include:

- Alternative(s) chosen to make a desired future happen, such as achievement of a goal or solution to a problem
- Art and science of planning and marshaling resources for their most efficient and effective use¹⁵
- A particular set of activities and how they fit together
- A pattern in a stream of decisions¹⁶
- Creating and sustaining a firm's competitive advantage
- Making choices about what industries to participate in, what products and services to offer, and how to allocate resources¹⁷
- Positioning an organization for sustainable competitive advantage¹⁸
- Making choices, trade-offs; it's about deliberately choosing to be different¹⁹
- An approach for first creating value for customers (value creation) and in turn creating value for the firm (value capture)²⁰

Thinking
Critically
Exercise 5

YOUR FAVORITE COMPANY'S STRATEGY

Do you have a favorite company that you admire for its continued strategic successes? What is the company? Describe the company's strategy in 50 words or less. Explain what it is that you admire about this company.

3.3 WHAT IS THE PURPOSE OF STRATEGY?

We can further understand strategy by how we define it, what its purpose is, and the reasons why so many hours and resources are devoted to getting it right. Good strategy and good execution of strategy drive wealth creation. The primary purpose of strategy is to help strategic managers make informed judgments in anticipation of future success. It is about the decisions, competitive actions, and activities the strategic manager needs to make in the face of uncertain, unpredictable competitive markets. As such, the purpose of strategy is not to eliminate risks in taking strategic actions, but to instead:

- Identify, assess, and understand the nature of risk
- Increase the odds of a favorable outcome
- Help the general manager gain greater control over the firm's external environment than the external environment has over the firm
- Improve organizational performance

4. WHAT IS A BUSINESS MODEL?

Why do entrepreneurs go into business for themselves? Businesses serve a number of economic, social, and political purposes. They drive and sustain economic and social value in society, leading to a higher standard of living and better quality of life for the citizens of a city, state, region, or country. The purpose of a business is to create value of some kind, not just for its owners, but also for customers and others in society. A firm's business model defines and identifies its value creation activities or, in other words, its value proposition. A firm's customers determine whether



VIDEO 1.3 What is a "Business Model"?

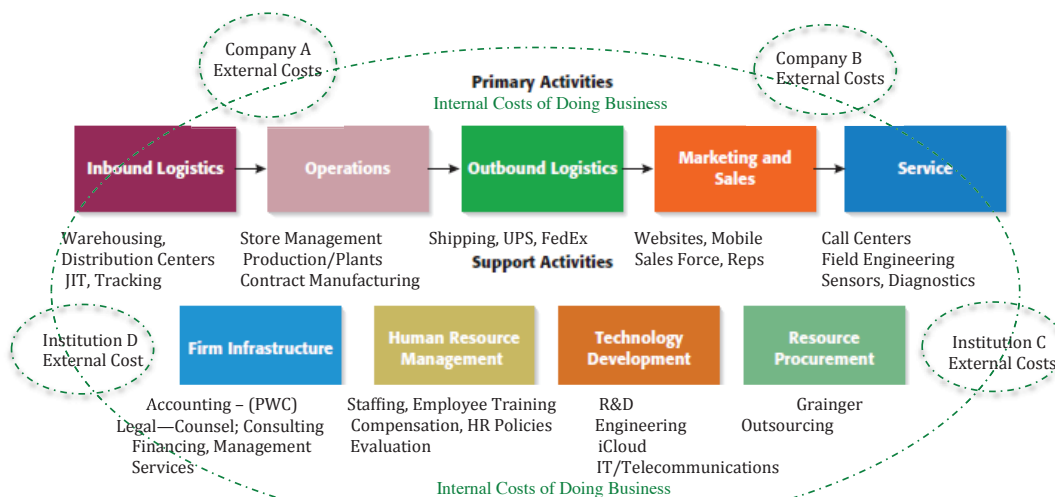


Exhibit 1.1
Value Chain
Activities and
Internal and
External Costs
of Doing
Business

Transaction costs cover a wide range of actions and primary and secondary activities in the firm's value chain. A **value chain** is defined as the interlinked value-adding activities that convert inputs into outputs, which in turn add to the firm's top line (revenues) and bottom line (profitability). A value chain shows where and how a firm can create customer value and capture it

Source: Michael J. Merenda 2018

a firm's value proposition has value. A **value chain** is defined as the interlinked value-adding activities that convert inputs into outputs, which in turn add to the firm's top line (revenues) and bottom line (profitability). A value chain shows where and how a firm can create customer value and capture it (See Exhibit 1.1: Value Chain Activities and Internal and External Costs of Doing Business).

VIDEO 1.4 The
Economics of Uber



4.1 BUSINESS MODEL EFFECTIVENESS AND COMPETITIVE ADVANTAGE

To determine business model effectiveness, examine the firm's profitability and financial health both at a single moment in time and over a longer period (discussed in more detail in Chapter 2). Is the firm's financial performance and health below, equal to, or above the performance and health of its rivals? If the firm's financial health is superior, then there is strong evidence that the firm's customer value proposition is succeeding as it has a superior competitive advantage over its rivals. **Competitive advantage** is when a firm can provide the same value as its competitors at a lower price or charge higher prices by offering greater value through differentiation. Firms employ different business models than their rivals in order to win consumers by providing superior customer value. For example, internet advertising revenues make up the majority of Google's overall revenues and profits. Google's business model and value proposition in the internet advertising e-commerce industry differs from those of Facebook, Amazon, Yahoo, Apple, and others.

**Thinking
Critically
Exercise 6**

FINANCIAL SNAPSHOTS

- a. Go to your college or university's online databases (or a business publication that reports financial information). Click on a business and economics database link, such as Mergent Online, or a similar service. Find the latest financial information for Starbucks and Dunkin' Brands. Peruse each company's financial statements (income statement and balance sheet or financial highlights) for the past three years. Which company has the superior business model based on its overall financial performance during this three-year time period?
- b. Go to your college or university's online databases (or a business publication that reports financial information). Click on a business and economics database link, such as Mergent online, or a similar service. Find the latest financial information for Google, Facebook, and Apple. Peruse each company's financial statements (income statements and balance sheets or financial highlights) for the past three years. Which company has the superior business model based on its overall financial performance during this three-year period? Now what do you think of Yahoo!'s business model and its overall effectiveness?
- c. Assume that you received a \$10,000 inheritance from a wealthy uncle. The will specifies that you are to buy stock in all three of the following companies: Apple, Inc., Google, Inc., and Facebook. Conduct a brief financial audit for each company. Based on this financial audit, how many shares of each company's stock would you buy, and why? The only restriction in the will is that you need to invest at least 50 percent of the money (\$5,000) in one company's shares, and you cannot sell these shares for at least three years.

5. WHAT ARE THE KEY ELEMENTS OF STRATEGIC THINKING?

Strategic thinking is about individuals and organizations trying to make sense of complex, dynamic environments, and relationships.²¹ It is reflective and action-oriented, focusing on analyzing, understanding, assessing, and synthesizing information into knowledge.²² Strategic thinking is a management concept that aids the general manager and students of strategy and management in making informed decisions. It can also have a positive impact on organizations and on one's life. Our definition of strategic thinking includes several elements:

- a. **Critical Thinking.** Critical thinking is the art of analyzing and evaluating the thought process with a view toward improving it.²³ The conceptual foundation for critical thinking is **critical theory**. Julia Sloan defines **strategic thinking** as “an intent-driven approach to strategy based on critical theory and supported by a complex cluster of cognitive capabilities that are distinct and different from strategic planning.”²⁴ Critical theory evolved from several different intellectual traditions associated with the meaning of criticism and critique.²⁵ It was originally derived from the Greek word *kritikos*, meaning “judgment” or “discernment.” Critical theory or thinking is based on an epistemological approach to learning. **Epistemology** (referred to as “theory of knowledge”) is a branch of philosophy concerned with the nature and scope of knowledge. It questions what knowledge is, how it can be acquired, and the extent to which knowledge is pertinent to any given subject or entity.²⁶ Critical thinking can be defined as:

The process of analyzing and assessing thinking with a view to improving it. Critical thinking presupposes knowledge of the most basic structure in thinking (the elements of thought) and the most basic intellectual standards for thinking (universal intellectual standards). The key to the creative side of critical thinking (the actual improving of thought) is in restructuring thinking as a result of analyzing and effectively assessing it.²⁷

- b. **Mastering Information and Knowledge.** Knowledge is what is understood, known, and generally available to the decision maker. **Knowledge** is the stock of information turned into the know-how used by managers to make decisions with greater certainty.²⁸ That is, knowledge can reduce uncertainty by identifying and evaluating the nature and degree of risk associated with a strategy or action.²⁹ Knowledge is tacit and explicit—it is what is already in your head (tacit) and what is written down (explicit). Information turned into useful knowledge is power and can make the difference between an organization's success and failure. **Wisdom** is the creative use of knowledge (See Exhibit 1.2: Data, Information, Knowledge, and Wisdom Pyramid).
- c. **Strategic Analysis.** Strategic analysis is a breakdown of the components and elements found in a firm's external and internal environments into understandable, digestible, and workable pieces of information. The input of analysis is data and information. The output is knowledge. Knowledge guides, shapes, and informs the strategic management process. Analysis helps to dissect and map the geographic, temporal, spatial, structural, relational, and behavioral characteristics of the firm's external and internal environments. The goal of strategic analysis is an understanding and assessment of the firm's internal and external environments. Analysis is not a substitute for strategic thinking, but it does help to stimulate, influence, shape, and guide the strategic leader's thinking and actions.
- d. **Creativity.** According to Henry Mintzberg, “Strategic thinking, in contrast [to strategic planning], is about **synthesis**. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too-precisely articulated vision of direction ...”³⁰ **Intuition** is the innate understanding of knowing based on knowledge and experience. **Creativity** is new thought and action—rearranging something that already exists in innovative ways or adopting something completely new. Creativity results in embracing new technologies. Mihaly

Exhibit 1.2
Data,
Information,
Knowledge,
and Wisdom
Pyramid

“Creatively applying knowledge”^a
Bob Buckman

Wisdom

What we know to be true

Knowledge-stock of information turned into
know how used by managers to make decisions
with greater certainty

Knowledge

Understanding how best to use information
know-how or capabilities

“Information enables us to make
a selection from a set of
possibilities about which
we are ignorant” (MacKay)^c

Information

“There are increasing returns
to the uses of information”
(Arrow)^b

Processed data turned into some
useful classification, form
or category

Raw data
Unprocessed facts
Uncategorized
Unclassified

^aFulmer, William, F, Case Study: Buckman Laboratories (A) (Harvard Business School Press, 1969)

^bKenneth J. Arrow, the limits of organization, (New York, Norton & Company, 1974) 38

^cD. M. Mackay, *Information, Mechanism and Meaning* (Cambridge, Mass., MIT Press, 1969) 11

Csikszentmihalyi defines **creativity** as “any act, idea, or product that changes an existing domain, or that transforms an existing domain into a new one.” He defines **domain** as a set of symbolic rules or procedures.³¹ In strategic management, the well-established patterns or behaviors of industry players, along with the conduct and behaviors of firms and their strategic leaders, form the domain in which strategies are crafted, executed, and adapted. Csikszentmihalyi describes a creative person as someone whose thoughts or actions change a domain or establish a new domain. Furthermore, he asserts that a domain cannot be changed without the explicit or implicit consent of a field responsible for it. A **field**, according to Csikszentmihalyi, includes all the individuals who act as gatekeepers to the domain.³² In strategy, the field of play includes all the individuals who position, influence, and exploit their firms in competitive and dynamic markets. Broadly defined, **technology** is the process by which strategic leaders’ creativity transforms labor, capital, materials, and information into new strategies, business models, products or services, processes, and activities aimed at creating customer value. We can view the main elements of acting strategically, thinking critically as an equation:

Strategic Thinking = f (Function) of (a, b, c, and d) = Sense Making

**Thinking
Critically
Exercise 7**

YOUR LIFE IN PICTURES

Do you have a mental model of what your ideal “whole” or “big-picture” life would look like in five years, 10 years, and 30 years? Describe in pictures what your life will look like in five years if everything goes according to your social, family, business, and personal aspirations.

6. WHAT IS STRATEGIC MANAGEMENT?

As a discipline, management is classified as a social science. It focuses on the study of behavior of people and the human institutions and organizations they create.³³ Strategic management is the management of the total organization. CEOs or general managers are ultimately responsible for the strategic management of their total organization. Some firms constantly succeed or win because their top managers are good at strategic management and critical thinking. Firms fail for a number of causes, but the biggest reason is poor strategic management—they lack any one or a combination of good management, good leadership, and good execution skills. The study of strategic management is complex. Strategic managers must possess a deep understanding and appreciation of the total organization and the varied and dynamic environmental contexts in which strategic decisions are made and executed. To lead and guide the organization through good and not-so-good times requires the general manager to be forward-thinking and open to change and to have the knowledge, capabilities, and skills necessary to be an effective leader, strategist, and critical thinker. Management scholar Robert Katz defines a skill as “an ability which can be developed, not necessarily inborn, and which is manifested in performance, not merely in potential. So the principal criterion of skillfulness must be effective action under varying conditions of an effective manager.”³⁴ Katz identifies three basic development skills to be an effective administrator (manager):

- *Technical Skills:* An understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures, or techniques. It is easy to identify the technical skills of a data analyst, accountant, musician, and surgeon. For Katz, a technical skill involves specialized knowledge, analytical ability within that specialty, and facility in the use of the tools and techniques of the specific discipline.³⁵
- *Human Skills:* These skills primarily focus on working with and relating to people. For Katz, human skills demonstrate an executive’s ability to work effectively as a group member and to build cooperative effort within the team he or she leads.³⁶
- *Conceptual Skills:* Katz defines conceptual skills as an executive’s ability to see the enterprise as a whole. It includes recognizing how the various functions of the organization depend on one another and how changes in any one part affect all the others. It also extends to visualizing the relationship of the individual business to the industry, the community, and the political, social, and economic forces of the nation as a whole.³⁷

Bennis and Nanus, two well-known leadership scholars, noted that a business enterprise is not only an economic entity but also a community, possibly the central community of our times.³⁸ The leader, according to Bennis and Nanus, hopes to unite the people in the organization into a responsible community. They studied successful chief executive officers in 90 businesses and organizations of all types and sizes and found that there seemed to be no obvious pattern for CEO success. The CEOs they studied “were right-brained and left-brained, tall and short, fat and thin, articulate and inarticulate, assertive and retiring, dressed for success and dressed for failure, participative and autocratic.”³⁹ Still, after going over their interviews with the CEOs in further detail and revisiting the CEOs over another two-year time period, they were able to conceptualize four major themes and areas of competencies that all 90 leaders embodied:

- *Attention Through Vision:* Management of attention through vision is the creating focus for a business. All 90 people interviewed had an agenda and unparalleled concern with outcome. Leaders are the most results-oriented people in the world, and results get attention.
- *Meaning Through Commitment:* Leaders have a capacity to relate a compelling image of a desired state of affairs—the kind of image that induces enthusiasm and commitment in others.

- *Trust Through Position:* Trust is the lubrication that makes it possible for organizations to work. Trust implies accountability, predictability, and reliability. As the “glue” that maintains organizational integrity, trust requires knowing where the organization is going and what is right and necessary to get there. It is what sells products and keeps organizations humming.
- *Deployment of Self Through Positive Self-regard:* Positive self-regard consists of three major components—knowledge of one’s strengths, the capacity to nurture and develop those strengths, and the ability to discern the fit between one’s strengths and weaknesses and the organization’s needs.⁴⁰

Other important skills needed to be an effective strategic manager include:

- *Communicative Skills:* Ability to effectively inform, debate, and communicate strategic decisions to and with boards of directors, managers, employees, and other stakeholders.⁴¹
- *Application Skills:* Ability to demonstrate strategy concept, methodologies, tools, and paradigms that help one’s ability to think like a CEO, act strategically, and think critically.⁴²

7. HOW ARE STRATEGY AND STRATEGIC MANAGEMENT DYNAMIC?

A **strategic action** is distinct from an operational or routine action in that, if a strategic action is not achieved, the overall well-being and health of the organization is threatened. If a strategic action is achieved, it provides the organization with a **competitive advantage**. The strategic management process is dynamic. The word *dynamics* appears frequently in discussions and writing about strategy, and it is used in two distinct, though equally important, senses. The **dynamics of strategy and performance** concern the “content” of strategy—the initiatives, choices, policies, and decisions adopted in an attempt to improve performance and the results that arise from these managerial behaviors. Secondly, the **dynamic model of the strategy process** is a way of understanding how strategic actions occur. It recognizes that strategic decisions are dynamic—that is, strategy making involves a complex pattern of actions and reactions. It is partially planned and partially unplanned.⁴³

Thus, strategy can be viewed as a **deliberate** set of carefully formulated actions and steps with well-defined outcomes or endpoints, or it can be viewed as **emergent or adaptive**, with a set of certain consistent actions or behaviors that form an unintended pattern that was not anticipated in the initial planning phase.⁴⁴ For example, though unintended, adopting an emergent strategy might help a business adapt more flexibly to the practicalities of changing market conditions. In a deliberate process, the general manager as strategist operates under a closed-system logic or perspective when making and executing strategy or a strategic plan. In an emergent process, the general manager as strategist assumes an open-system logic or perspective of the firm when making and modifying strategic decisions. A **system** is a set of detailed steps, actions, methods, procedures, and routines created to carry out a specific set of decisions.⁴⁵

7.1 WHAT IS CLOSED- VERSUS OPEN-SYSTEM LOGIC?

Under **closed-system logic**, decisions are analyzed and made within well-defined boundaries that are closed; in other words, they do not interact with the environment or other systems and are not influenced by their surroundings.⁴⁶ Under closed-system logic, all decision inputs, outputs, and feedback mechanisms are identified, and strategic decisions maintain a steady, deterministic state despite a changing external environment. Only the components defined within the closed system are significant in the strategic decision-making process.

When an **open-system logic** or perspective is used, general managers make strategic decisions and take continuous strategic actions from a real-world perspective. From this viewpoint, decision boundaries and actions are fluid and open, allowing for constant exchanges of energy, materials, and information within the

larger external environment or other systems in which the organization exists.⁴⁷ There is an interrelated and interpenetrating nature to strategic decisions and actions. Strategic managers' decisions are not bounded by borders, and they take on different properties—called *emergent properties*—over time. In this sense, strategy formulation and implementation can be viewed as an emergent, adaptive process that requires the ongoing analysis of the external and internal environments, as well as the constant management of information and knowledge used to support and rationalize strategic decisions. As an emergent and adaptive process, initial strategic decisions need to be adjusted and altered with the goal of improved organizational performance. The effective management of this process is important to the organization's long-term survival and success. In terms of process, strategy is viewed as a continual series of decisions and relationships that incrementally move the organization into new areas or ways of doing business; it becomes the ongoing overall management of the organization. Strategies are formed over time, as opposed to being formulated at a point in time from an open-system perspective. Strategic management requires an open-system perspective and consideration of how business actions impact not only internal operations and outcomes (such as costs, sales, and profitability) but also external outcomes—that is, the competitive environment and other social systems in which organizations take part (see Figure 1.1: Open-System Logic).

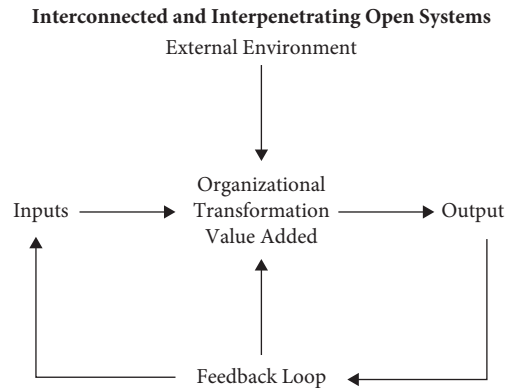


Figure 1.1
Open-System
Logic

7.2 EMERGENT VERSUS DELIBERATE STRATEGY

Henry Mintzberg made a distinction between deliberate strategy and emergent strategy (see Figure 1.2: Deliberate vs. Emergent Strategy).⁴⁸ Emergent strategy originates not in the mind of the strategist but in the interaction of the organization with its environment. Mintzberg claims that emergent strategies tend to exhibit a type of convergence in which ideas and actions from multiple sources integrate into a pattern. This is a form of organizational learning; in fact, in this view, organizational learning is one of the core functions of any business enterprise.



Figure 1.2
Deliberate vs.
Emergent
Strategy

8. WHAT IS STRATEGIC PLANNING?

Strategic planning became prominent in corporations during the 1960s and remains an important aspect of strategic management today. Strategic planning is a process that maps out what future courses of action an organization should take to achieve a desired endpoint. Unlike strategy, there is an endpoint with a plan.⁴⁹ A **plan** is something that moves you forward in predetermined steps to a specific desired or planned-for conclusion; strategy, however, does not. A plan specifies the direction, strategies, resources, time frames, responsibilities, and actions needed to achieve a stated endpoint or outcome. A plan may also act as a control mechanism for guiding the implementation of strategy. Strategic planners involve many parties (who conduct research and gather, analyze, and assess data) in order to produce a document that maps out the environment in which the organization is to compete. Strategic planning is also a tool that supports and aids strategic managers in their critical and strategic thinking, as well as strategic management of the organization (see Exhibit 1.3: Three Basic Strategy Concepts: Thinking, Management, and Planning).

Exhibit 1.3 Three Basic Strategy Concepts: Thinking, Management, and Planning

Strategic Thinking: “An intent-driven approach to strategy based on critical theory and supported by a complex cluster of cognitive capabilities that are distinct and different from strategic planning” (Sloan, Julia, *Learning to Think Strategically*, 2nd Ed., Routledge, New York 2014).

Strategic Management is the management of the total organization for competitive advantage. It is the province of an organization’s strategic leaders, strategic thinkers and doers acting on behalf of owners and customers.

A plan is something that moves you forward in predetermined steps—a strategy doesn’t (Freedman, Lawrence, *Strategy: A History*, Oxford: New York 2013).

Strategic Thinking
Reflective, Interpretive, Knowledge-Driven, Circular, Tacit, Intuitive, Figurative, Conceptual, Rigorous, Metaphoric, Conscience, Sub-conscience, Creative, Innovative Synthesis, Sense-Making
Action Focused

Strategic Management
Integrative, Across Organizational Units, People and Process Oriented, Action Oriented, Total Organization, Resource Focused, Outcome Driven, Deliberate and Emergent, Open System Logic, Adaptive, Driven by Mental Models

Strategic Planning
Deterministic, Future Oriented, Analytical, Formulaic, Numbers Oriented, Scenario Building, Extrapolative, Closed System Logic, Linear, Deliberate, Sequential, Assumptions Driven, Imperfect, End Point Focused

What is Strategy?
“It is about employing whatever resources are available to achieve the best outcome in situations that are both dynamic and contested. It is about getting more out of a situation than the starting balance of power would suggest. It is the art of creating power (Freedman, Lawrence, *Strategy: A History*, Oxford: New York 2013).”

WHAT'S AN OPEN SYSTEM?

Identify and explain which of the following are examples of closed versus open systems. Circle the item(s) that are open systems: nuclear power plant; jet engine; human circulatory system; business organization; business plan; decision-making process; architectural blueprint; gasoline engine; mobile phone; manufacturing plant; ecological system; planet earth; football game.

Thinking
Critically
Exercise 8

DELIBERATE AND EMERGENT STRATEGY EXAMPLES

Give one example of a deliberate strategy and one example of an emergent strategy. Why do crafted strategies change over time, and what are some of the driving factors that altered intended or crafted strategies? If we know that crafted strategies change over time, why engage in deliberately crafting strategies?

Thinking
Critically
Exercise 9

9. STRATEGIC MANAGEMENT PROCESS MODEL AND STRATEGY ALIGNMENT

Strategic management is as much a philosophy and perspective as it is a well-defined set of activities and actions. The strategic management model can be conceptualized as a seven-step process: Steps 1 and 2 focus on external and internal environmental scanning; Step 3 involves vision and mission; Step 4 deals with goals and objectives; Step 5 emphasizes formulating and making strategy; Step 6 concentrates on strategy implementation and execution; and Step 7 centers on evaluation and strategic control. This process is depicted in Exhibit 1.4: The Strategic Management Conceptual Model. The strategic leader's challenge is to win constantly—that is, to achieve organizational purpose by helping the organization perform at its highest level to continuously deliver customer value. Peter Drucker claimed the most important reason that businesses fail is

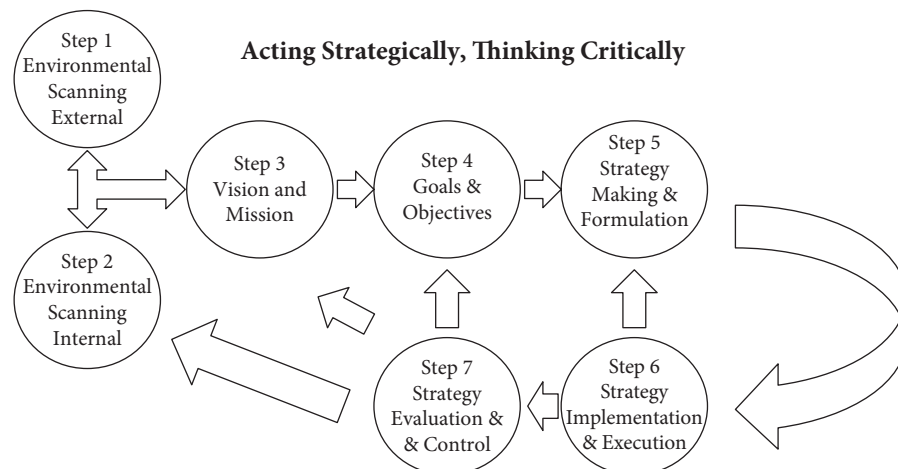
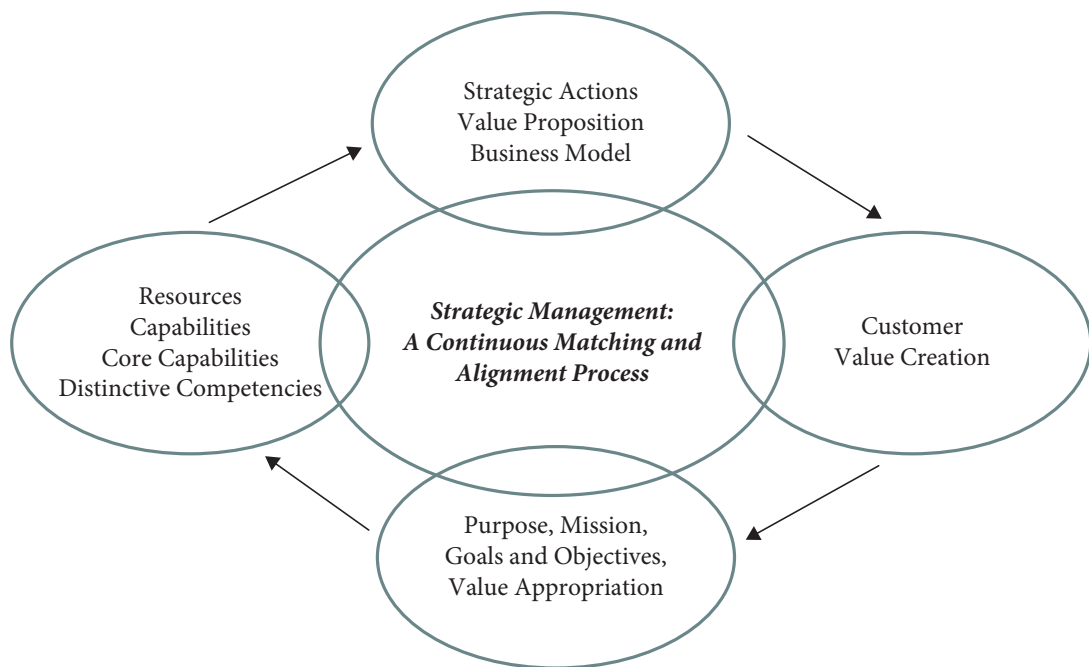


Exhibit 1.4
The Strategic
Management
Conceptual
Model

that management did not ask clearly: “What is our business? Who is our customer? What does the customer consider value?” He argues that “an enterprise’s purpose begins on the outside with the customer ... it is the customer who determines what a business is, what it produces, and whether it will prosper.”⁵⁰ The purpose of the strategic management process model is to address Drucker’s questions.⁵¹

It is the responsibility of an organization’s strategic leaders to oversee the strategic management of the firm. This requires constantly matching and aligning the firm’s strategies, resources, actions, and value-creation endeavors to meet customers’ wants, desires, and needs. Value is created and achieved through exploiting the firm’s intangible and tangible resources, its capabilities, and its distinctive competencies. The firm appropriates value when its customer value-creating activities provide superior revenue and profits (competitive advantage) over its rivals. As such, strategic management is the continuous management of a firm’s strategies and resources for competitive advantage. Strategies must be properly aligned and adapted (see Exhibit 1.5: Strategy Alignment). Although strategies are deliberately formed and crafted, external and internal change forces are constantly at work, altering and changing the intended strategies. In reality, intended strategies take on different characteristics as they are constantly adjusted and adapted through the strategic management process. Deliberate and intended strategies seldom mirror or coincide with realized strategies. As such, the strategist’s job is to constantly match firm resources with external opportunities and create customer value by exploiting these opportunities. Given that firms operate in dynamic, constantly changing environments, the strategic management process model and strategy alignment require strategic management to be a continuous matching-and-alignment process, rather than a one-time discrete action.

Exhibit 1.5
Strategy
Alignment



10. WHAT IS A STRATEGY SCHOOL?

Strategy schools can help to inform and guide managers' behavior, decision making, and ability to act strategically and think critically. Managers can use strategy schools to help them conceptualize and analyze a firm's external and internal environments. **Strategy schools** offer mental models and normative recommendations or prescriptions for managers' strategic actions, activities, and behaviors (what should be) but are based on positive, descriptive critical inquiry of the real world (what is). A **mental model** is an explanation of someone's thought process about how something works in the real world. It is a representation of the surrounding world, the relationships between its various parts, and a person's intuitive perception about his or her own acts and corresponding consequences. Mental models can help shape behavior and set an approach to solving problems (akin to a personal algorithm) and completing tasks.⁵² Jay Wright Forrester defined general mental models as the following: "The image of the world around us, which we carry in our head, is just a model. Nobody in his head imagines all the world, government, or country. He has only selected concepts, and relationships between them, and uses those to represent the real system."⁵³

Drucker notes that basic assumptions about reality are the **paradigms** or prevalent general theory of social science. Management is a social science—the study of the behavior of people and human institutions. According to Drucker, assumptions largely determine what the discipline (management and strategy scholars and practitioners) assumes to be reality—what it takes to be true.⁵⁴ Assumptions drive management paradigms, mental models, and strategy schools. This textbook covers five of the leading schools of strategic thought: style/design, competitive forces, resource-based view, learning, and entrepreneurial schools (see Figure 1.3: Five Schools of Strategic Thought). The dimensions of the five leading strategy schools can be found in Table 1.1: Schools of Strategic Thought: Basic Assumptions. Although there are many important differences among schools, they are not mutually exclusive but rather intertwined and interdependent.

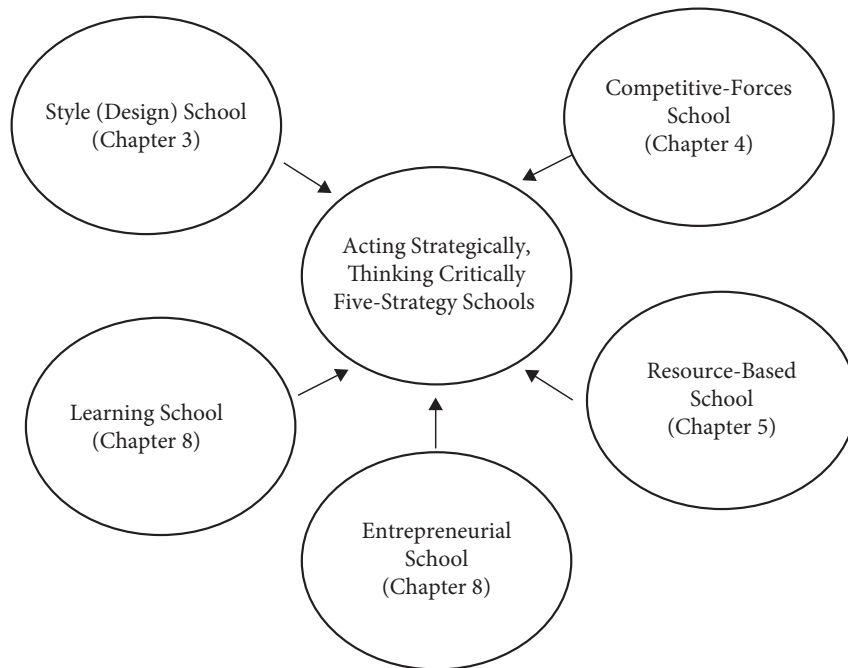


Figure 1.3
Five Schools of
Strategic
Thought: Basic
Assumptions

Table 1.1
Schools of
Strategic
Thought: Basic
Assumptions

Schools	Leading Thinkers	Category	Champion	Intended Message	Realized Message	Analytical Tools
Style [Design]	Ansoff Drucker Andrews	Prescriptive (Normative)	Case Study Teachers Generalists Harvard Business School	Alignment and Fit Strategy as Intuition Critical Inquiry Evidence– Analytical Design	Strategic Thinking Strategy as Case Study Radically Inclusive Thinking Continuous Improvement	SWOT Case Method Cases Ratio Analysis Stakeholder Analysis PESTEL Analysis Infographics
Positioning	Porter Sun Tzu “Art of War” Military Strategists	Prescriptive (Normative)	Planners, Consul- tants, Analysts, Economists, Financial Planners	Formal-Analytical Position, Influence, Exploit Strategy as Analysis Evidence Based Critical Inquiry	Calculate, Critical Inquiry, External Situational Analysis Exploit competitive Forces Continuous Improvement	Five Forces Infographics Ratio Analysis S-Curve Experience Curve Strategic Group Map PESTEL Analysis SWOT
Resource Base View or School	Penrose Hamel, Prahalad Barney	Prescriptive	Organizational Theorists Strategy as Process Sustainable Advantage	Create Value Imitable, Rare, flexible Sustainability Competitive Advantage Evidence Based Critical Inquiry	Adaptability Critical Inquiry Continuous Improvement	(BCG) Product Portfolio Analysis SPACE Analysis Ratio Analysis VIRO Test Value and Supply Chain Analysis SWOT
Learning	Senge Simon March Life Long- Learners Quinn	Descriptive	People Inclined to Experiment Managing Oneself Problem-Solvers Self-Reflective Thinkers	Continuous Learners Self-Reflection Learn through Experiment Cognitive	Play, Act, Experiment Continuous Learning Continuous Improvement	Problem-Solving Gap Analysis Benchmarking Best Practices GE Spotlight Matrix PEST SPACE Five Forces Ratio Analysis PESTEL
Entrepreneurial	Schumpeter Timmons Drucker	Descriptive (Positive)	Some Economists Individuals Business Press Entrepreneurship Centers Economic and Community Developers	Envision Creative Visionary Asymmetry Acts Pragmatic	Opportunity Recognition Entrepreneur(s) Parsimonious use of Resources Imagination Creativity Intuition Continuous Improvement	Business Plans Business Proposals Elevator Pitches Business Plan Competitions All analytical tools are available to the entrepreneur Any of the above
No One Best School	Drucker Combina- tion of All Schools	Descriptive And Prescriptive	Change Leaders Life Long Learners CEOs as Entrepreneurs	Strategy as Change Manage Transitions Organizational Transformation	Strategy is Continuous No End Point in Strategy Crafting and Execution Critical Inquiry	Thinking Critically Thought Provoking Analytical Tools Any of the Above

Sources: Adapted from Vadim Kotelnikov, “Ten Major Strategic Management Schools: A Comparative Analysis,” Dimensions of Ten Schools, MIT, Sloan School of Management, Downloaded at: http://1000ventures.com/business_guide/mgmt_inex_strategy_10schools.html; Retrieved 4/15/15

10.1 STYLE (DESIGN) STRATEGY SCHOOL OF THOUGHT

In the 1950s, Andrews, Ansof, Drucker, and others laid the foundation for the style school (also known as the design school) as a conceptual framework and approach for strategy making.⁵⁵ The school focuses on the CEO as the person who designs or makes strategy and then forwards it to subordinates for implementation. As such, strategy making is not overly analytical or intuitively difficult to comprehend. Some of the analytical frameworks and decision-making tools and concepts associated with this school are:

- Financial ratio analysis
- Case method
- SWOT template: strengths, weaknesses, opportunities, threats
- PESTEL analysis
- Stakeholder analysis

10.2 COMPETITIVE FORCES STRATEGY SCHOOL

This school (also known as the five forces model, the **industrial organization (IO)** school, and the **positioning** school) is considered to be one of the most dominant conceptual models and analytical tools for strategy making. The school focuses on the attractiveness of a firm's products and services in the industry(s) in which it operates and attempts to address the following question: "What is the market or industry potential for this product or service?" Michael Porter, one of the school's founders and its leading advocate, prescribes structural analysis as a way to answer this question by evaluating industries and competitors.⁵⁶ He asserts, "The essence of formulating competitive strategy is relating a company to its external environment."⁵⁷ As such, strategy making starts with an analysis of the competitive forces in the external environment. Structural analysis has its roots in classical military strategy and industrial economics. Some of the analytical frameworks and decision-making tools and concepts associated with this school include:

- Company and industry financial ratio analysis
- Industry life-cycle analysis–S-Curve
- Experience curves
- Strategic group map
- Competitive forces analysis
- Entry and exit matrix
- Mobility barriers

10.3 RESOURCE-BASED VIEW (RBV)

The resource-based view (RBV) focuses on an in-depth understanding of the firm's internal tangible and intangible resources, especially a firm's strengths, core capabilities, and distinctive competencies. Advocates of this view assume that firms can deliver and sustain competitive advantage when resources are managed in a way that competitors cannot imitate. Unique or superior resources that are not replicable ultimately become the source of a firm's competitive advantage by erecting competitive barriers for rivals. As such, the RBV takes a decidedly internal view of the firm, one in which people play a critical (if not superior) role compared to other factor inputs and the external environment. Some of the analytical frameworks and decision-making tools and concepts associated with this school are:

- Company and industry financial ratio analysis
- VIRO test (valuable, imitable, rare, organizational)
- Value-chain analysis
- Supply chain analysis
- SPACE analysis
- GE Spotlight analysis
- Product portfolio analysis

10.4 LEARNING SCHOOL

This school of thought largely took shape in the late 1980s and early 1990s—though its conceptual roots are based on the behavioral theory advanced through the seminal organizational research of Simon, Cyert, and March in the 1950s and 1960s.⁵⁸ The underlying logic assumes that competitive advantage is built less on controlling resources and commanding people and more on learning. Learning school advocates argue that a firm's competitive landscape is not static with well-defined rules or principles for maximizing behavior but dynamic, constantly changing, hypercompetitive, and unpredictable. These competitive dynamics make it difficult for any firm to sustain its competitive advantage for long. This school operates under the premise that strategists need to create learning organizations that regularly adapt strategies through continuous learning that is retrospective, reflective, and active. Some of the analytical frameworks and decision-making tools and concepts associated with this school include:

- Case method
- Open-system principles
- Socratic method
- Learning disciplines
- Learning by doing
- Experimentation
- Gap Analysis
- Competitive advantage life cycle
- PEST
- VIRO Test

10.5 ENTREPRENEURIAL SCHOOL

The entrepreneurial school argues that strategic managers must be good at both management and innovation. This emphasis on entrepreneurship changes the focus from particular individuals or contexts to the CEO as an entrepreneur and strategic leader. As such, strategic management and entrepreneurship are inseparable concepts. All organizations, no matter their size or context, need to be innovative to sustain performance and survive. Some of the analytical frameworks and decision-making tools and concepts associated with this school are:

- All analytical tools or frameworks found in Chapters 1–8
- Writing a business proposal
- Elevator Pitches–Shark Tank
- Business Plan Competitions and Prizes

11. WHY IS IT ALWAYS IMPORTANT TO ACT STRATEGICALLY AND THINK CRITICALLY?



VIDEO 1.5 How to Think like a CEO and Act like a Leader

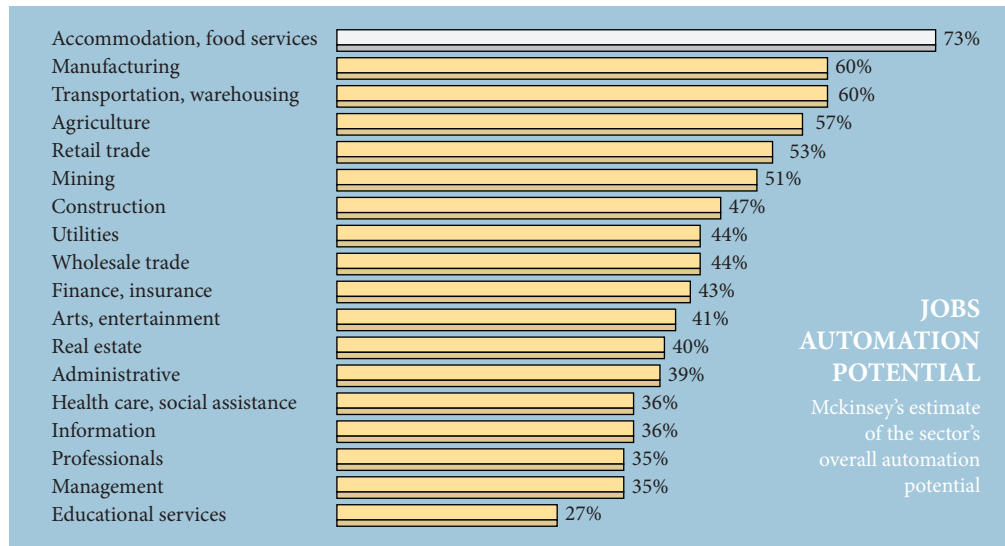
We live in exciting and interesting times. Peter Drucker observes that, as we entered the new millennium, the United States transitioned from an industrial-based economy to a knowledge-based economy. He notes, “We should expect radical change in society as well as in business.”⁵⁹ He continues, “Information will be infinite; the only limiting factor will be our ability to process and interpret information.”⁶⁰ The knowledge worker will be responsible for productivity improvements by accessing, interpreting, connecting, and translating information into knowledge. The nature of the organization and the nature of competition will be in constant flux. The 21st century will be characterized and driven by disruptive technologies, data analytics, and the rise of knowledge work and knowledge workers.⁶¹ New waves of advanced technologies, the growth in collaborative, distributed, and decentralized networked enterprises will destabilize traditional supply chains, flatten organization hierarchies, disrupt or annihilate industry boundaries, shorten product one-cycles, hasten product obsolescence, and change the nature of work and the way we work. Drucker observes that “success in the knowledge economy comes to those who know themselves—their strengths, their values, and how they perform.” He asks, “How will you stay mentally alert and engaged in a career that could span a 50-year working life?”⁶²

A recent study conducted by McKinsey Global Institute reported that automation and A.I. (artificial intelligence) have the potential to increase the nation’s productivity by .08 to 1.4 percent over the 1.2 percent annual rate.⁶³ In the 1990s, nonfarm productivity grew 2.2 percent per year. Why is this important to businesses and to you personally? The wealth and welfare of a nation or region are heavily dependent upon the competitiveness of a nation or region’s industries. Industry competitiveness is based on its firms’ ability to create and sustain competitive advantage. Competitive advantage is achieved through productivity improvements. Productivity improvements are accomplished through constant innovation and advances in technologies. Automation and advances in A.I. present a “double whammy,” not only to the enterprise but also to the men and women whose livelihoods depend on them. Automation and A.I. have a significant impact on job creation and job loss, not only for blue-collar workers but also for their white-collar counterparts. The McKinsey study estimated the overall automation potential for each sector of the U.S. economy based on the job-related activities performed. The automation potential (from a low of 27 percent for the educational services sector to a high of 73 percent for the accommodation, food services sector) are graphically displayed in Exhibit 1.6: Automation Ahead. The activity that has the lowest potential for automation across all sectors was managing people, followed by using expertise (decisions, creative tasks), except for retail trade, agriculture, and automation/food service sectors; and interacting with people, except for agriculture, transportation, and accommodation/food services. (Both of the last two categories had less than or equal to 30 percent automation potential.)

How does one stay relevant in an age of dynamic and constant change? To remain significant, individuals must act and think like a strategist and effective CEO; that is, they must act strategically and think critically. Sloan identifies several cognitive capabilities in strategic thinking. Effective strategic thinkers must demonstrate an ability to be popular, reflective, divergent, nonlinear, panoramic, critical, metaphoric, abstract, A-rational, conceptual, intuitive, creative, symbolic, and generative.⁶⁴ Maxell, in his book *How Successful People Think*, states, “Strategic thinking can make a positive impact in any area of life.”⁶⁵ He also identifies five benefits of strategic thinking:

1. Strategic thinking simplifies the difficult.
2. Strategic thinking prompts you to ask the right questions.

Exhibit 1.6
Automation
Ahead



3. Strategic thinking prompts customization.
4. Strategic thinking prepares you today for an uncertain tomorrow.
5. Strategic thinking reduces the margin of error.⁶⁶

11.1 MANAGING ONESELF

The ability to act strategically and think critically goes hand in hand with the ability to constantly manage oneself. It requires continuous learning and an aptitude to be ready for new opportunities and challenges as they arise. For eminent management scholar and philosopher Peter Drucker, managing oneself starts with asking the right questions:

- *What are my strengths?* Most people, according to Drucker, know what they are not good at, but they do not always know what they are good at. He suggests that one way to better understand what you are good at (what your strengths are) is to conduct a feedback analysis for a major or significant decision in your life. When you make a key decision or take a crucial action, write down what you expect will happen. Sometime later, compare what you expected would happen with what actually happened. The feedback analysis helps to identify what you are good at doing, what worked, and what did not work. He advises individuals to always try to align themselves where their strengths can produce results.⁶⁷
- *How do I perform? How do I get things done?* How you perform (your strengths and capabilities) are unique to you. To help you determine how you perform, it is important to know how you learn. Do you learn by reading? By listening? Are you a copious note taker? Or do you learn by doing or by practical experience? How you learn reveals a lot about how you acquire, process, and retain knowledge. It also tells you what your strengths are and how you apply them.
- *What are my values? What values do I hold dear?* Personal values are those beliefs that legitimize your behavior. They are the motivation behind how you use your time. What do you enjoy doing? What are you passionate about? What motivates you? Drucker cautions, “To work in an organization whose value system is unacceptable or incompatible with one’s own condemns a person both to frustration and to nonperformance.”⁶⁸

- *Where do I belong?* According to Drucker, knowing your strengths, how you perform, and your values will help you figure out where you belong. Are you good with people, or with numbers? Will you do well as an accountant, marketer, human resource specialist, manager, entrepreneur, or CEO?
- *What should I contribute?* Answering this question requires knowing answers to three additional questions: What does the situation require? Given my strengths, my way of performing, and my values, how can I make the greatest contributions to what needs to be done? What results have to be achieved to make a difference?⁶⁹

JIM DONOVAN (B)⁷⁰

When Donovan pulled up to Famous Products's headquarters in his rented car, he noticed the neat grounds and immaculate landscaping. To his surprise, Don Bird, dressed in a very conservative blue business suit, black tie, black shoes, and white shirt, met him at the door. He peered at Donovan through old-fashioned steel-rimmed glasses and said, "Welcome to our plant. You're just in time for our usual Thursday morning executive meeting. Would you like to sit in and meet our people?" Donovan, thinking that the meeting would give him a chance to observe the management group in action, readily agreed. He planned to sit back and watch for as long as he could. Donovan was ushered into the most formal meeting room he had ever seen. A long heavy table, with 12 high-backed chairs around it, dominated the dark-paneled room. Seven of the chairs were filled with unsmiling executives in dark suits.

Bird led Donovan to the front of the room, indicated an empty chair to the left of the head of the table, and sat down in the place that was obviously his. Turning to the group, he said, "Gentlemen, I want you to meet Mr. Donovan, but before I turn the meeting over to him, I want you to know that I do not believe he should be here. I do not believe he's qualified, and I will give him no support. Mr. Donovan?"

- a. Why do you think Bird took the position he did in introducing Donovan at the board meeting? Do you think that Bird had an obligation to inform Donovan about the board meeting? Why or why not?
- b. Now how should Donovan "play it"? What should he say, and how should he respond to Bird's comment and to the rest of Bird's management team?
- c. What type of change do you suspect is needed at Famous: incremental, significant, or transformative? Why?
- d. What type of leadership style do you believe might fit with the type of change required at Famous?
- e. What should Donovan say to Bird after the meeting? To Omega's president when he travels back to New York?

Thinking
Critically
Exercise 10

12. REFLECTION

This chapter provided an overview of strategy: its purpose and importance, the basic elements of strategic thinking, criteria for identifying a strategic decision, strategy roots and definitions, types of strategies, open- versus closed-system thinking, emergent versus realized strategy, defining competitive advantage, resource capabilities, business models, as well as a brief overview of five schools of strategic thought (i.e., style, competitive forces, resource-based view, learning, and entrepreneurship schools), the strategic management process model, and what it means to act strategically and think critically. Strategy has been embraced implicitly and explicitly as an important concept throughout the ages. Whether it's military, political, social, business,

or personal strategy, it is an essential, if not critical, factor in determining success or failure. Strategy is the glue that ties the firm to its internal and external environments. Knowledge allows this glue to take hold. Leaders create or capitalize on opportunities as they initiate, manage, craft, and implement innovative strategies to exploit opportunities. The strategic leader's challenge is to constantly win—to perform at the highest level.

Strategy is no longer just the domain and responsibility of those residing at the top of an organization. In order to win and improve organizational success, everyone in an organization must be actively involved in the strategic management process by playing either a leading or supporting role. According to Drucker, an organization is really its people—specifically, their knowledge, capabilities, and relationships.⁷¹

Understanding strategy concepts and what it means to act strategically and think critically is important to organizational and individual success. As we advance into the 21st century, strategic management will continue to play a vital role in the competitiveness of organizations, the welfare of society, and the lives of the women and men who make organizational success possible. Unlike a plan, there is no endpoint to strategy. Strategy is about trying to work out, in a sensible way, how to constantly get from one stage of organizational (or individual) success or performance to the next stage as new challenges arise and circumstances change. Strategy is crafted, implemented, executed, and adapted from an open-system perspective. With each stage, a new set of problems must be negotiated in order to move beyond it. Strategy is not simply a grander name for a plan cast from closed-system logic; rather, strategies emerge and need constant adjustments. Emergent strategies coalesce and converge around new ideas, innovations, and actions from multiple open systems forming consistent patterns. The strategic management process is a form of organizational learning, one of the core functions of any business enterprise. From the perspective of organizational learning, strategists must create learning organizations that regularly launch new strategies based on retrospection, reflection, and sense making. That is, to be successful in dynamic, constantly changing environments and circumstances, strategic managers must act strategically and think critically. They can partially do this through active learning, problem solving, and continuously conducting the strategic management process.

Thinking
Critically
Exercise 11

JIM DONOVAN (C)⁷²

Mind racing and heart pounding, Donovan stalls by smiling broadly at Don Bird and then slowly looks around the room. “*Why don’t I smoke a pipe so I could fiddle with it and look wise?*” he thinks ironically to himself. Then, “*Son of a bitch, I’m going to win; I’m going to make sure that the people in this room know that I’m going to lead.*” Folding his arms across his chest and sitting up very straight, Donovan turns to Bird, says, “Thank you, Don,” and swivels back towards the others: “I’m delighted to be here this morning, even though some of you probably do not share my enthusiasm. I realize all of you may not be with me. Given the success of Famous Products, it is presumptuous of me to think that you know I’m qualified to lead you; we’ll let time tell on that score. In the meantime, I’m looking forward to getting to know all of you well and working with you to make this great company even greater in the future.”

Then, determined to not only take charge and establish his leadership but also to show his humanity, Donovan proceeds to tell some nonthreatening facts about himself: he is married, has four kids, is Catholic, and the like. He then concludes by saying, “I hope in the days ahead we become good friends—colleagues—and I will try not to let you down.” Then he turns back again to Bird, says, “You lead for a while,” and sits back to observe.

What he saw over the next two and a half hours made him feel worse and worse. The meeting seemed to have no point, discussion was superficial and rambling, and only low-level operating details were discussed. Near the end of the meeting, one of the executives, Ed Walker—the only one who appeared to be younger

than 60—raises his hand and is called on by Bird. Flushing visibly, and with a voice quivering with emotion, Walker faces Donovan and says, “Jim, I do not understand what kind of a man you are. If you are so good, why didn’t you stay with your last company? We don’t think we need you; why do you think you can help us?”

Smiling once again, while rapidly thinking to himself, “*He’s attacking me, not my qualifications. What kind of a person am I? Am I really pure and doing the right thing? What would General Patton, a great leader, have done now? Oh, hell, you have to be a bit Machiavellian if you’re going to be powerful ...*” Donovan readies himself. Taking a deep breath, and looking Walker right in the eye, Donovan says, “Thanks for getting it right out on the table, Ed. It’s important that I know how you feel. I hope in the days ahead we get to know each other.”

Then the meeting ends. “*That was the most boring, useless meeting I have ever attended,*” thinks Donovan. “*They were right in sacking Bird, and the treasurer is a basket case. Holy Hanna, is this going to be a big headache!*” Just before Donovan leaves that day, Bird takes him aside and says, “Why don’t you have a word with Ed Walker?” Musing to himself about great leaders always thinking of the organization’s welfare and appreciating Bird’s concerns, Donovan finds Walker in his office and reassures him—once again looking him right in the eye—“I see that you’re a person who has never uttered a word you didn’t believe.”

Finally, as hurries to catch his plane, Donovan is stopped by the beer-bellied sales manager. “I’m sorry for the way things went at the meeting, Jim.” “Don’t feel sorry,” replies Donovan, adopting the hearty voice and warm manner key in relating to sales types. “Famous Products is a great company, and I’ll see you in 10 days!”

- a. Why do you think Walker reacted as he did? What is your assessment of Donovan’s actions and responses regarding Bird and Walker? What does this say about Donovan’s leadership style and ability to lead Famous?
- b. What are some of the strategic and leadership challenges Donovan faces as Famous’s new president? How should Donovan play it when he gets back to Omega? What should he report back to Omega’s president?
- c. Now how should Donovan plan for his return trip to Omega? What should he do, look for, and accomplish in his first weeks on the job? After three or four months on the job? His first year on the job?
- d. It certainly appears that Donovan has both strategy-making and strategy-executing challenges ahead of him at Famous. What are the some of the challenges, and what advice would you give him as the president of Famous Products?
- e. What type of career development and self-reflection should Donovan engage in as he readies himself for the next step up the corporate ladder? How might Donovan’s experience at Famous help you think critically about your career choices and career development?

FREEDMAN’S LEVEL AND TYPES OF STRATEGY

In his book,^a Freedman identifies several levels and types of strategy including:

- a. *Strategy as Force*. Personified by military strategy and illustrated in some forms as game theory accounting for the rise of asymmetric warfare today. Game theory is a study of strategic decision making. Specifically, it is “the study of mathematical models of conflict and cooperation between intelligent rational decision-makers.”^b Game theory applies to a wide range of behavioral relations

a Lawrence Freedman, *Strategy: A History* (New York: Oxford University Press, 2013).

b “Game Theory,” Wikipedia, last modified November, 10, 2017. https://en.wikipedia.org/wiki/Game_theory.

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and has developed into an umbrella term for the logical side of decision science. Asymmetric warfare describes a conflict in which the resources of two belligerents differ in essence in the struggle, interact, and attempt to exploit each other's characteristic weaknesses. Such struggles often involve strategies and tactics of unconventional warfare with the weaker combatants attempting to employ strategy to offset deficiencies in quantity or quality. The U.S. war on terrorism and its engagement with Al Qaeda and ISIS can best be described as asymmetric warfare where conventional U.S. military doctrine is waged against unconventional strategies and tactics of what would seem to be weaker or inferior terrorists' forces. This is in contrast to symmetric warfare, where two powers have similar military power and resources and rely on tactics that are similar overall, differing only in details and execution.^c

- b. *Strategy from Below.* This strategy examines several forms of political strategy that, according to Freedman, can embody 19th-century professional revolutionaries like Karl Marx who saw himself as the general staff of the downtrodden. A more current example is economist-turned-social activist Muhammad Yunus, who founded Grameen Bank as a way to raise destitute women above poverty. Through Grameen Bank and his social activism, Yunus changed people's mindsets regarding social business and social entrepreneurship, not just for the rich but also for the poor in society. Grameen Bank has given millions of impoverished women the means to make something of themselves.^d
- c. *Strategy from Above.* Strategy from above examines the development of strategy in business, mainly as a late-20th century phenomenon. In this approach, the general manager is accountable for leading, designing, and executing strategy with the main goal of constant improvement in organizational performance.

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Exercise 13

FREEDMAN'S LEVELS AND KINDS OF STRATEGY

- a. The United States is at war with Al Qaeda and ISIS. What is different about asymmetric warfare versus conventional warfare where superior force is the principle military doctrine (strategy)? How has ISIS used the internet to wage war? How has it utilized the news media? Where is ISIS obtaining its human, financial, and technical resources?
- b. Freedman identifies three approaches to strategy. Which of the three approaches exemplifies the tactic used by the United States to fight ISIS? How is the U.S. military using this approach?
- c. Can you think of any business examples where a larger company with superior resources fell victim to a much smaller competitor? How did the smaller competitor gain a superior competitive advantage over its much larger rival?

CHAPTER ENDNOTES

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