

Chapter 1 & 11

WPC 480 Spring 2019

Vision

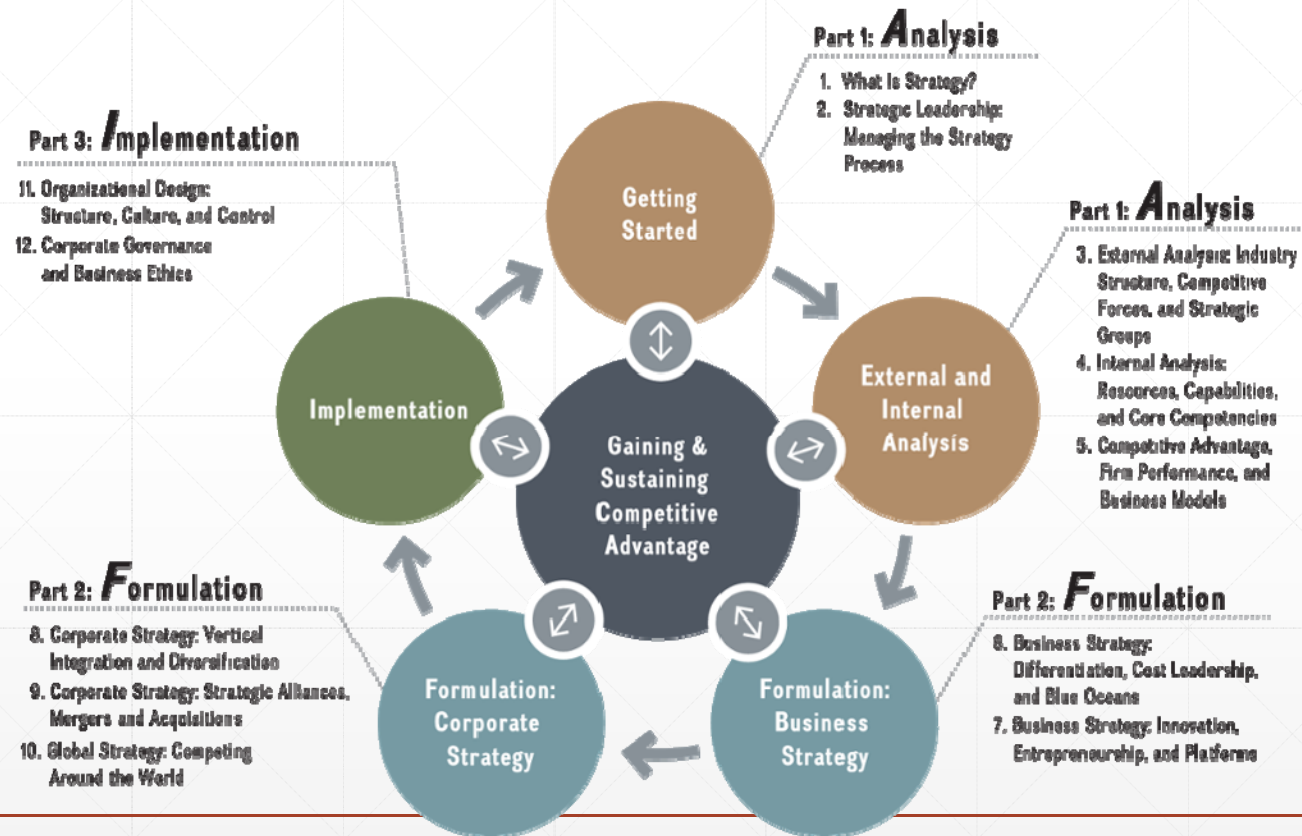
The most reliable
and efficient way to
create or increase
Enterprise Value is
through the
alignment of Vision,
Culture and Strategy

Enterprise
Value

Culture

Strategy

The AFI Strategy Framework (1 of 4)



[Jump to Description in Appendix 1.](#)

Learning Objectives

- LO 1-1 Explain the role of strategy in a firm's quest for competitive advantage.
 - LO 1-2 Define competitive advantage, sustainable competitive advantage, competitive disadvantage, and competitive parity.
 - LO 1-3 Describe the roles of vision, mission and values in a firm's strategy.
 - LO 1-4 Evaluate the strategic implications of product-oriented and customer-oriented vision statements.
 - LO 1-5 Justify why anchoring a firm in ethical core values is essential for long-term success.
 - LO 1-6 Explain the AFI strategy framework.
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Strategy

A set of goal-directed actions a firm takes to gain and sustain superior performance *relative* to competitors.

To achieve superior performance, companies compete for resources:

- New ventures: financial and human capital
 - Existing companies: profitable growth
 - Charities: donations
 - Universities: the best students and professors
 - Sports teams: championships
 - Celebrities: media attention
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What Is a Good Strategy?

A diagnosis of the competitive challenge.

- Analysis
- A guiding policy to address the competitive challenge.
 - Formulation

A set of coherent actions to implement the firm's guiding policy.

- Implementation
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Elements of a Good Strategy: Analysis

Diagnosis of the competitive challenge

Analysis of the firm's internal and external environments

Example: Tesla

Vision: “accelerate the world's transition to sustainable transport.”

Goal: zero-emission electric vehicles that are attractive and affordable

Elements of a Good Strategy: Formulation

Effective guiding policy

Backed by strategic commitments

- Investments
- Changes

Example: Tesla

Cost-competitive mass-market vehicle

\$5b investment in lithium-ion battery plant in Nevada

Elements of a Good Strategy: Implementation

A set of coherent actions

Example: Tesla

- Ramp-up of production volumes
 - Achieve economies of scale
 - Cutting edge robotics
 - Secure steady supply of batteries
 - Network of charging stations
 - Sharing of technology
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Competitive Advantage

Superior performance relative to other competitors in the same industry or the industry average.

Assess competitive advantage:

- Compare firm to competitors in the same industry.
 - Compare firm to industry average.
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Sustainable Competitive Advantage

A firm that is able to outperform its competitors or the industry average over a prolonged period

Example: Apple (smartphone industry)

- Sustainable competitive advantage over Samsung
 - Has lasted over a decade
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Competitive Disadvantage & Competitive Parity

Competitive Disadvantage: A firm that underperforms its rivals or the industry average.

Example: Is 15% ROIC superior?

- Depends on the industry
- 20% ROIC is expected in the consulting industry

Competitive Parity: two or more firms that perform at the same level.

How to Gain a Competitive Advantage

Provide goods or services consumers value more highly than those of its competitors, or

Provide goods or services similar to the competitors' at a lower price.

Create Raving Fans And prepare for winter!

Strategic Positioning

A unique position within an industry that allows the firm to provide value to customers, while controlling costs.

Value Creation – Costs = Economic Contribution

- The greater, the better
 - Enhances the likelihood of a competitive advantage
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Strategic Positioning Requires Trade-offs

Managers must make conscious trade-offs.

- How to allocate resources
- Which activities to pursue

Example: The retail industry

- Walmart – Cost Leader
 - Big box outlet / low prices
 - Nordstrom – Differentiator
 - Professional salespeople / luxury setting
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A Unique Strategic Position

The key to successful strategy

Requires combining activities

Competitive advantage has to come from:

- Performing different activities or
- Performing the same activities *differently* than rivals

Example: Walmart

- Strategic activities strengthen its position as cost leader
 - Big stores, low overhead, low wages
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What Strategy Is Not

1. “Big Fact Claim” statements
 - Example: “We will be No. #1”
 2. A failure to face a competitive challenge
 - Example: Blockbuster didn’t address Netflix, Redbox, Amazon Prime, and Hulu
 3. Operational effectiveness, competitive benchmarking, or tactical tools
 - Examples: “pricing strategy,” “operations strategy,” “brand strategy”
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Defining Vision, Mission and Values

The first step in gaining and sustaining a competitive advantage

Vision:

- What do we want to accomplish ultimately?

Mission:

- How do we accomplish our goals?

Values:

- What commitments do we make, and what guardrails do we put in place, to act both legally and ethically as we pursue our vision and mission?
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Vision

Captures an organization's aspiration

Identifies the long-term objective

Should be forward-looking and inspiring

An effective vision:

- Pervades the organization
 - Provides a sense of winning
 - Motivates employees to aim for the same target
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Vision: Strategic Intent

Outlines a firm's stretch goal
Is based on a firm's vision

Actions based on vision will:

- Build necessary resources
 - Build capabilities
 - Ensure continuous organizational learning
 - Ensure learning from failure
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Mission

What an organization actually does

- The products and services it will provide
- The markets in which it will compete

Defines how the vision is accomplished

Mission: Strategic Commitments

Credible actions that back up vision and mission statements.

These commitments are often:

- Costly
 - Long-term oriented
 - Difficult to reverse
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Customer-Oriented Vision Statement Examples

VISION STATEMENTS

Amazon: To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

Alibaba: To make it easy to do business anywhere.

Better World Books: To harness the power of capitalism to bring literacy and opportunity to people around the world.

Facebook: To make the world more open and connected.

GE: To move, cure, build and power the world.

Google: To organize the world's information and make it universally accessible and useful.

Nike: To bring inspiration and innovation to every athlete in the world.

Tesla: To accelerate the world's transition to sustainable energy.

SpaceX: To make human life multi planetary.

Walmart: To be the best retailer in the hearts and minds of consumers and employees.

Vision and Competitive Advantage

Research shows that vision statements and firm performance are related.

This relationship is strongest when:

- The vision is customer-oriented.
 - Internal stakeholders help define the vision.
 - Organizational structures align to the vision.
 - Example: Compensation
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Values

Helps employees

- Understand the company culture
- Deal with complexity
- Resolve conflict

Organizational core values

- Ethical standards and norms
 - Govern the behavior of individuals
 - Provide stability to the strategy
 - Serve as guardrails to keep the company on track
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Organizational Design

- The process of:
 - Creating, implementing, monitoring, and modifying...
 - The structure, processes, and procedures of an organization
 - Key components:
 - Structure
 - Culture
 - Control
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Organizational Structure

- Determines how efforts of individuals and teams are orchestrated
 - How resources are distributed
 - Includes four building blocks:
 1. Specialization
 2. Formalization
 3. Centralization
 4. Hierarchy
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Mechanistic vs. Organic Organizations

Mechanistic Organization

- Much specialization and formalization
- Tall hierarchies
- Centralized decision making

Organic Organization

- Little specialization and formalization
 - Flat organizational structure
 - Decentralized decision making
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Organizational Culture

- Shared **values** and **norms** of an organization's members
 - Values: what is considered important
 - Norms: appropriate attitudes and behaviors
 - Expressed through artifacts:
 - Physical space
 - Symbols
 - Events
 - Vocabulary
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The Elements of Organizational Culture

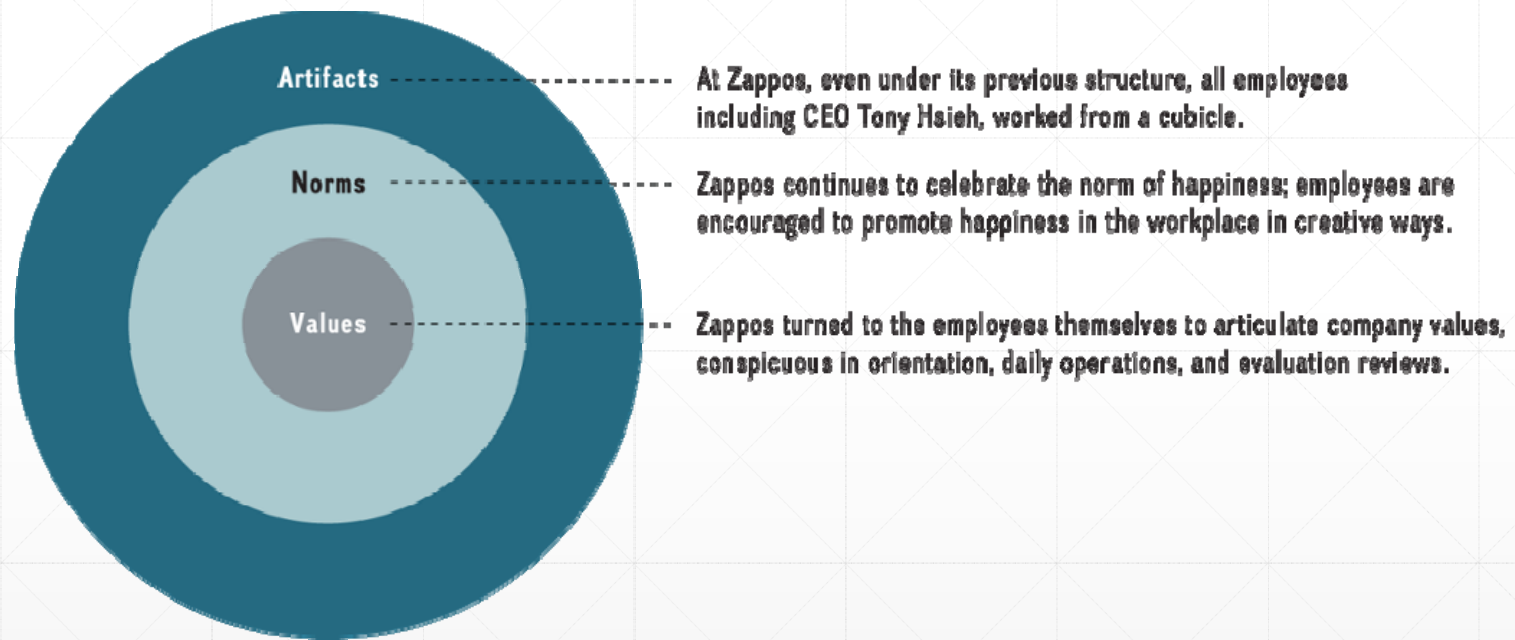


Exhibit 11.14

[Jump to Appendix 8 long image description](#)

Where Do Organizational Cultures Come From?

- Founder imprinting
 - Examples: Steve Jobs, Walt Disney, Michael Dell, Oprah Winfrey, Martha Stewart, Bill Gates
 - Beware of groupthink
 - When individuals don't challenge a leader's opinion
 - Values
 - Should be linked to a reward system
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How Does Organizational Culture Change?

- When the environment changes
 - A firm must hone, refine, and upgrade
 - To ensure a core rigidity doesn't emerge
 - New leadership
 - Changes in strategy and structure
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FOURTH EDITION

Strategic Management

Chapter Case: Zappo's

Chapter Case 11: Zappo's (1 of 2)

An online shoe and clothing store

- The world's largest shoe store
- Mission: deliver happiness

Zappo's has also made investors happy

- 10 years after founding, has achieved \$1 billion in annual sales
 - Amazon.com acquired the company for \$1.2 billion
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Chapter Case 11: Zappo's (2 of 2)

Zappo's has experienced rapid growth.

- 20 million unique visitors a month

Is reorganizing to a holacracy

- Employees self-direct their work instead of reporting to a manager who tells them what to do.
 - The goal is to provide excellent customer service

This structure can be hard to implement.

- Zappo's is the first large corporation to do it.
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Chapter Case 11: Consider This... (1 of 2)

Zappos' implementation of holacracy is not going well.

- Holacracy distributes power to self-managed teams.
- Zappos has dropped from 6th to 86th place in the 100 Best Companies to Work list

Reasons why the implementation was difficult:

- Removed paths for clear advancement
- Employee circles introduced paralysis
- Made the organization more political
- 200 employees quit.

Chapter Case 11: Consider This... (2 of 2)

What elements of an organic organization are apparent from the chapter material?

What is holacracy, and how does this structure differ from others discussed in this chapter?

Why is Zappos' experiencing significant implementation problems with holacracy? What should they do for it to be more effective?

Do you think that holacracy is good match with Zappos' business strategy?

TEAM LEAD: EMAIL TO INSTRUCTOR

- **SUBJECT:** WPC 480 Thursday PM – Company (letter)
 - **Vision Statement**
 - **Culture for your Company**
 - **Optional:**
 - Mission Statement
 - Values
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