

Chapter 2

WPC 480

Learning Objectives

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|--------|--|
| LO 2-1 | Explain the role of strategic leaders and what they do. |
| LO 2-2 | Outline how you can become a strategic leader. |
| LO 2-3 | Describe the roles of corporate, business, and functional managers in strategy formulation and implementation. |
| LO 2-4 | Evaluate top-down strategic planning, scenario planning, and strategy as planned emergence. |
| LO 2-5 | Assess the relationship between stakeholder strategy and sustainable competitive advantage. |
| LO 2-6 | Conduct a stakeholder impact analysis. |
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What Is Strategic Leadership?

Successful use of power and influence

Directing the activities of others

Pursuing an organization's goals

Enabling organizational competitive advantage

What Do Strategic Leaders Do?

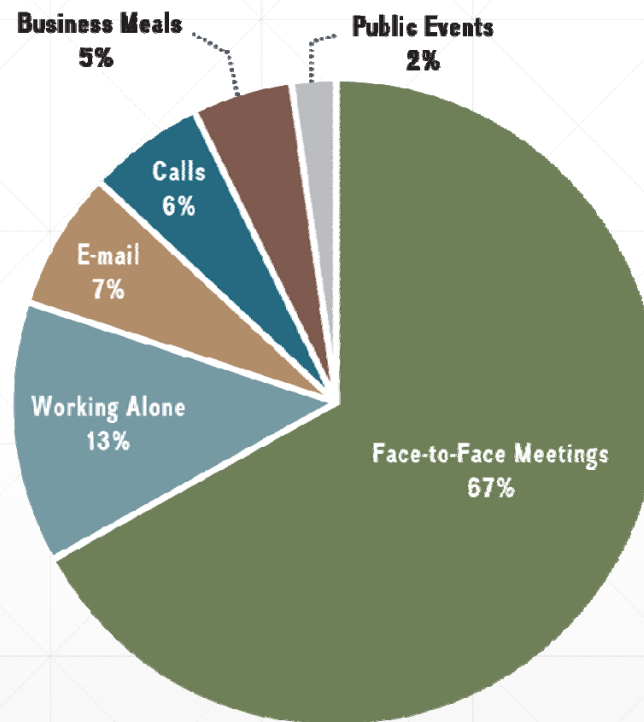


Exhibit 2.1

SOURCE: Data from O. Bandiera, A. Prat, and R. Sadun (2012), "Management capital at the top: evidence from the time use of CEOs," *London School of Economics and Harvard Business School Working Paper*.

[Jump to Appendix 2 for long description.](#)

How Do You Become a Strategic Leader?

Leadership actions reflect:

- Age, education, and career experiences
- Personal interpretations of situations

Strong leadership: innate abilities and learning

Upper Echelon's Theory

Organizational outcomes reflect the values of the top management team.

Outcomes include:

- Strategic choices
 - Performance levels
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Great Companies

Based on the bestseller Good to Great

- Written by Jim Collins
- Over 1,000 companies were analyzed.

Great companies had things in common:

- Sustained competitive advantage
 - Stock returns of almost 7x the general market
 - Consistent patterns of leadership
 - Summarized in the Level 5 Leadership Pyramid
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Level-5 Leadership Pyramid

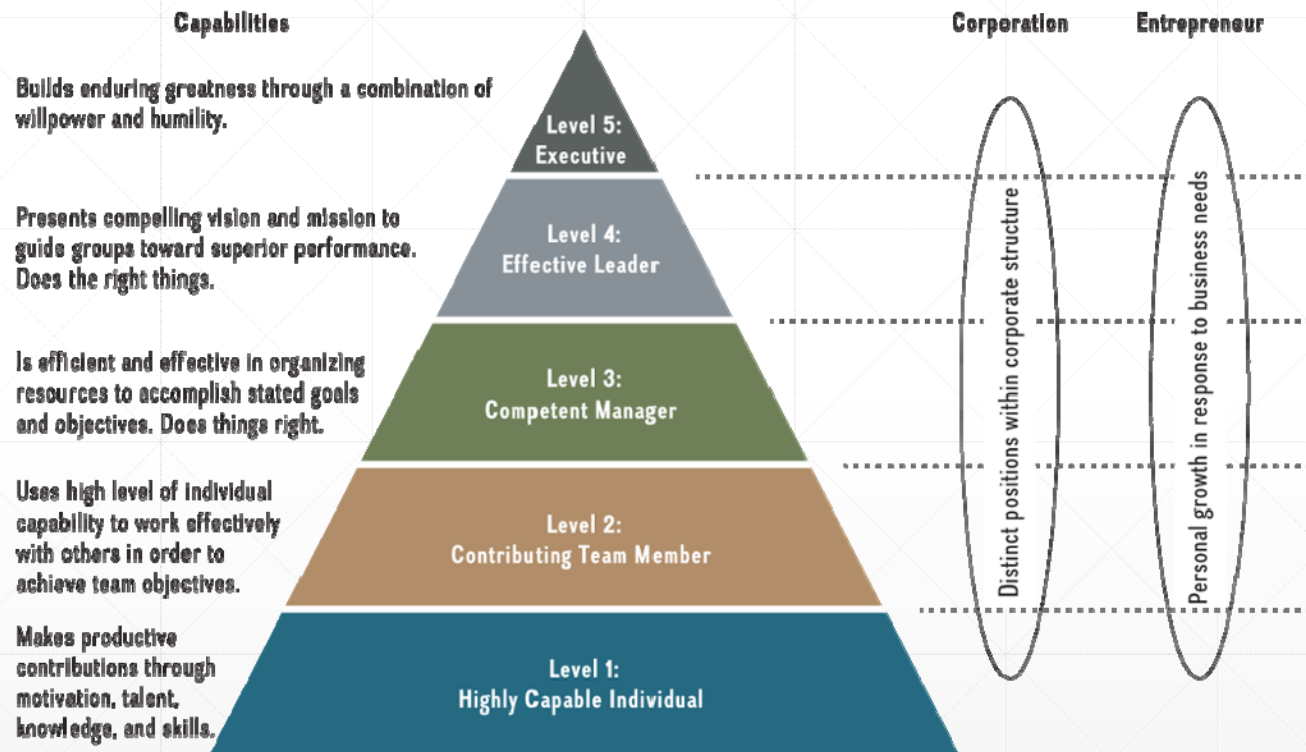


Exhibit 2.2

(Adapted to compare corporations and entrepreneurs) SOURCE: Adapted from J. Collins (2001), *Good to Great: Why Some Companies Make the Leap . . . And Others Don't* (New York: HarperCollins), 20.

[Jump to Appendix 3 long image description](#)

Progression of Leaders Through the Pyramid

Each level builds upon the previous one.

Prior levels must be mastered before moving on.

Each level helps individuals develop the capacity for greater success.

A Level-5 executive:

- Works to help the organization succeed
 - Helps others reach their full potential
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The Strategy Process

Strategy Formulation:

- The choice of strategy
- Where and how to compete

Strategy Implementation:

- Organization, coordination, integration
 - How work gets done
 - The execution of strategy
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The Strategy Process Across Levels

Corporate Strategy

- Where to compete?
- Industry, markets, and geography

Business Strategy

- How to compete?
- Cost leadership, differentiation, or value innovation

Functional Strategy

- How to implement a chosen business strategy?
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Formulation and Implementation Across Levels

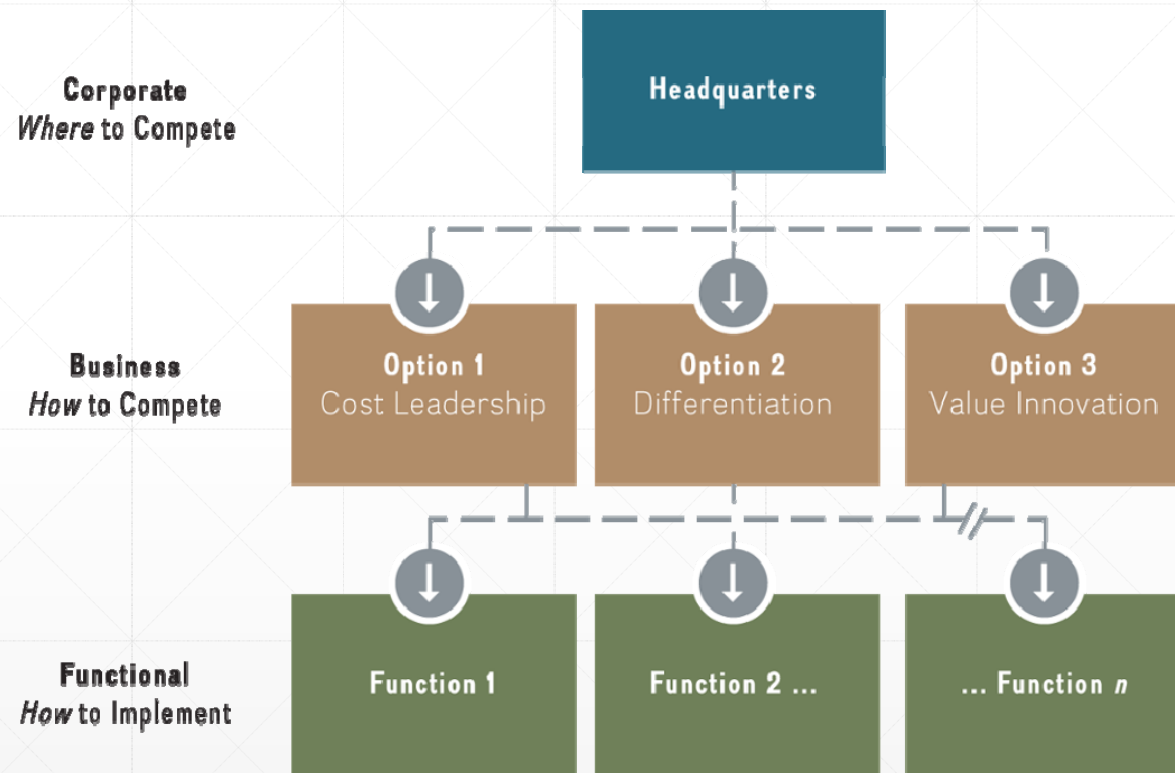


Exhibit 2.3

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Corporate Strategy

Decide in which industries, markets, and geographies their companies should compete.

Corporate executives:

- Create synergies across SBUs.
 - Decide whether to enter or exit industries and markets.
 - Set strategic objectives.
 - Allocate scarce resources among SBU.
 - Monitor performance.
 - Make adjustments to the portfolio as needed.
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Business Strategy

Standalone division of corporate

Profit and loss responsibility

Work with corporate to determine business strategy

- Cost leadership
 - Differentiation
 - Value innovation
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Functional Strategy

Within each strategic business unit:

- Accounting
- Finance
- Human resources
- Product development
- Operations
- Manufacturing
- Marketing
- Customer service

Functional managers are responsible for decisions and actions within the function.

Three Approaches to Organizational Strategy

Strategic planning

- A formal, top-down planning approach

Scenario planning

- A formal, top-down planning approach

Strategy as planned emergence

- Begins with a strategic plan, but is less formal
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Top Down Strategic Planning (1 of 2)

Data-driven strategy process

Top management attempts to program future success through

- Analysis of:
 - Prices
 - Costs
 - Margins
 - Market demand
 - Head count
 - Production runs
 - Five year plans and correlated budgets
 - Performance monitoring
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Top-Down Strategic Planning (2 of 2)

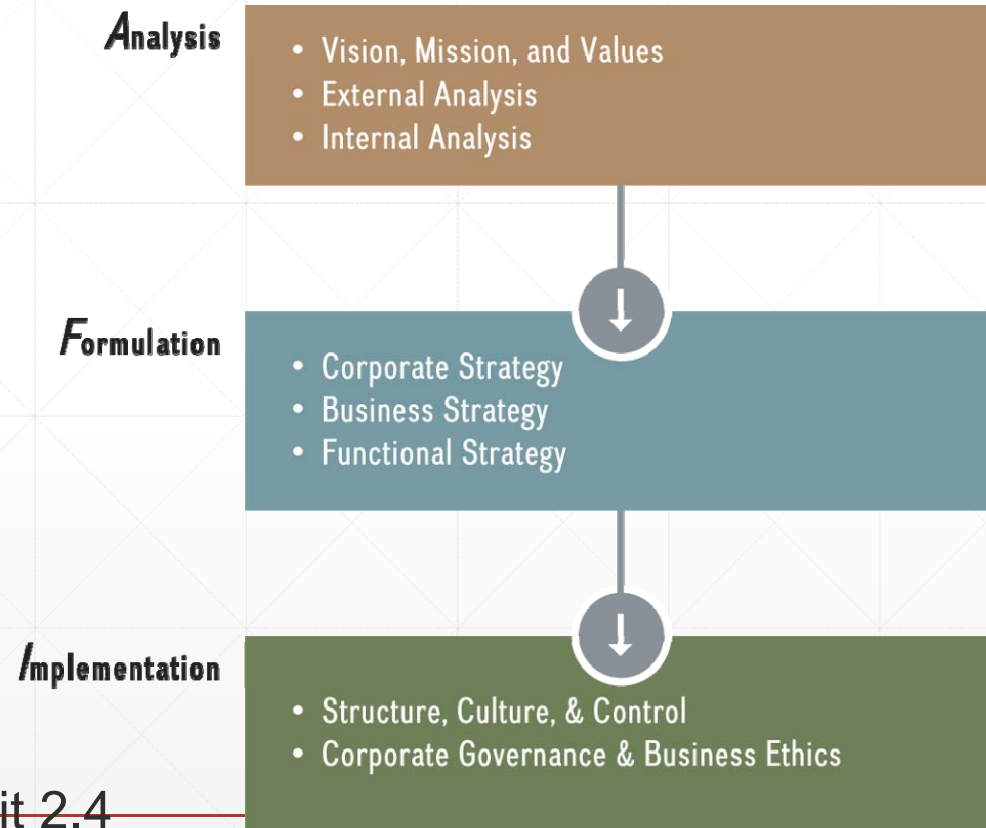


Exhibit 2.4

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Shortcomings of the Top-Down Approach

May not adapt well to change

Formulation separate from implementation

Information flows one-way

Leaders' future vision can be wrong

Example: Apple

- Steve Jobs predicted customers needs
 - Apple didn't engage in market research
 - Since Cook took over, their planning process has evolved
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Scenario Planning (1 of 2)

Asks “what if” questions:

- Top management envisions different scenarios
- Then they derive strategic responses

Optimistic and pessimistic futures planned

Considerations can include:

- New laws
 - Demographic shifts
 - Changing economic conditions
 - Technological advances
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Scenario Planning (2 of 2)

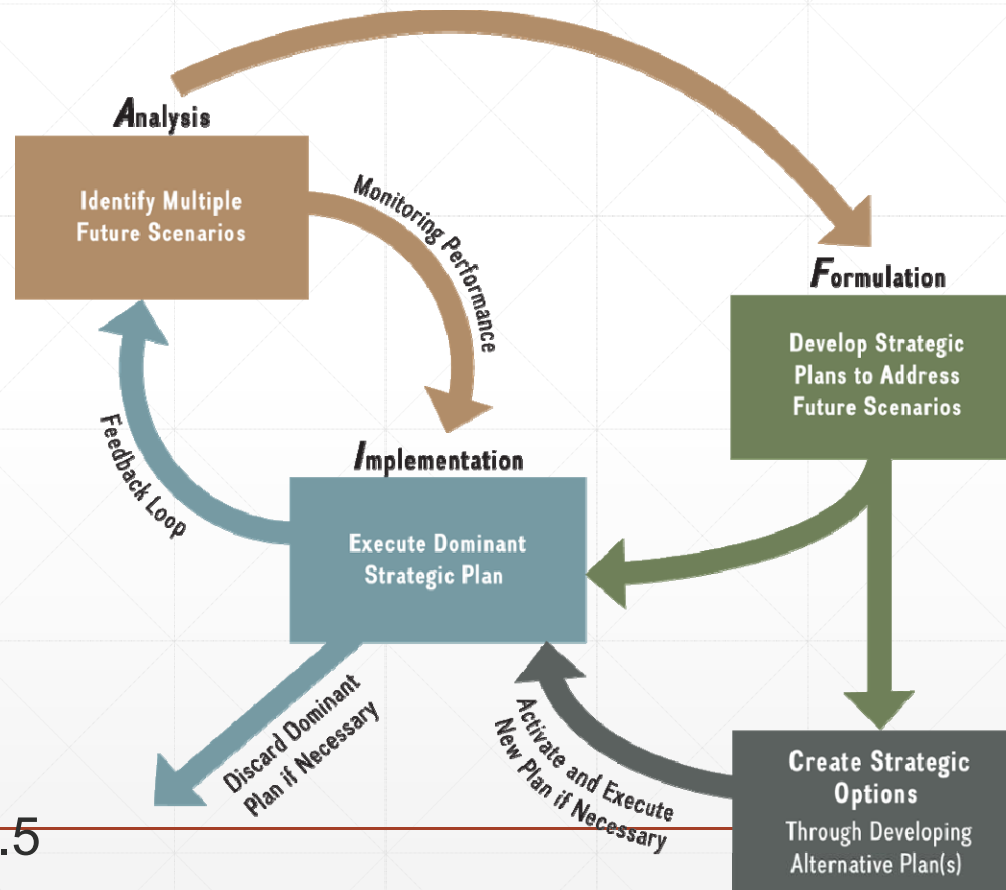


Exhibit 2.5

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Approaches to Scenario Planning

Obtain input from different levels and functions

- R&D, manufacturing, and marketing and sales

Determine how to compete situationally

- Example: UPS
- What if the price of a barrel of oil was \$35, or \$100, or even \$200?

Attach probabilities to different future states:

- Highly likely vs. unlikely
 - 85% vs. 2% likely
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Black Swan Events

The high impact of a highly improbable event.

In the past, most people assumed that all swans were white.

- When they first encountered swans that were black, they were surprised.

Examples:

- Security breach of an IT system
 - Accounting Scandals: Enron
 - Real Estate Bubble: 2008 financial crisis
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Questions to Ask in Scenario Planning

What resources and capabilities do we need to compete successfully in each scenario?

What strategic initiatives should we put in place to respond to each scenario?

How can we shape our expected future environment?

Strategy as Planned Emergence

Top Down and Bottom Up

- Bottom-up strategic initiatives emerge
- Evaluated & coordinated by management

Relies on data, plus:

- Personal experience
 - Deep domain expertise
 - Front line employee insights
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Key Points About Strategy

Intended strategy

- The outcome of a rational and structured top-down strategic plan

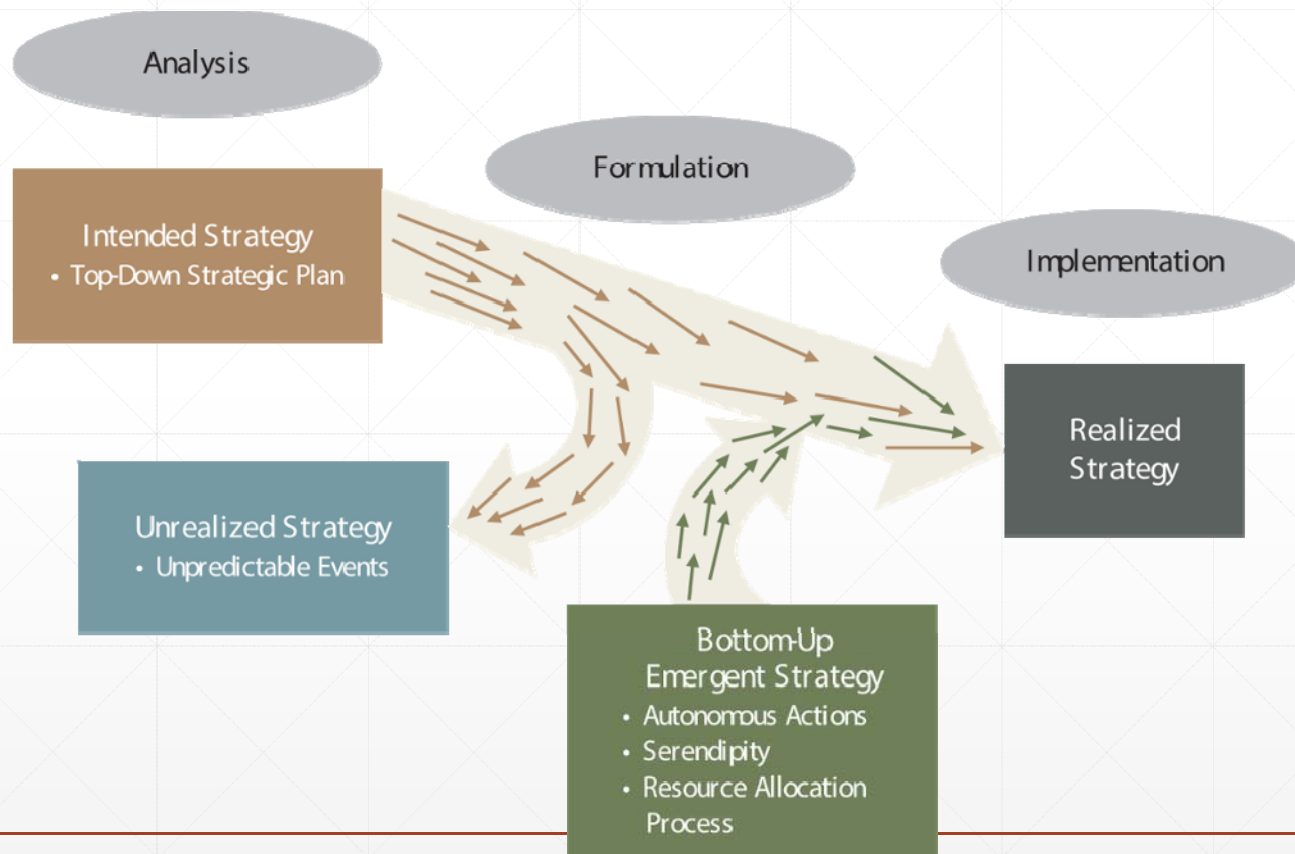
Realized strategy

- Combination of intended and emergent strategy

Emergent strategy

- Any unplanned strategic initiative
 - Bubbles up from the bottom of the organization
 - Can influence and shape a firm's overall strategy
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Intended vs. Realized Strategy



[Jump to Appendix 7 for long description.](#)

Strategic Initiatives

Any activity a firm pursues to explore and develop

- New products and processes
- New markets
- New ventures

Can bubble up from deep within a firm through:

- Autonomous actions
 - Serendipity
 - Resource-allocation process (RAP)
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Autonomous Actions, Serendipity, and the Resource Allocation Process (RAP)

Autonomous Actions

- Strategic initiatives undertaken by employees
- In response to unexpected situations

Serendipity

- Random events, surprises, coincidences
- Has an effect on strategic initiatives

Resource-Allocation Process (RAP)

- How a firm allocates resources based on policy
 - Helps shape realized strategy
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Companies with Good Strategy Are Valuable

Companies with a good strategy:

- Provide products or services to consumers at an affordable price
- Make a profit
- Can provide benefits such as:
 - Education, infrastructure, public safety, health care, clean water and air

Strategic failure is expensive

Stakeholders

Organizations, groups, and individuals

Can affect or are affected by a firm's actions

Have an interest in the performance and survival of the firm

Internal stakeholders:

- Stockholders, employees (including executives, managers, and workers), and board members

External stakeholders:

- Customers, suppliers, alliance partners, creditors, unions, communities, media, and governments at various levels
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Internal and External Stakeholders in an Exchange Relationship with the Firm

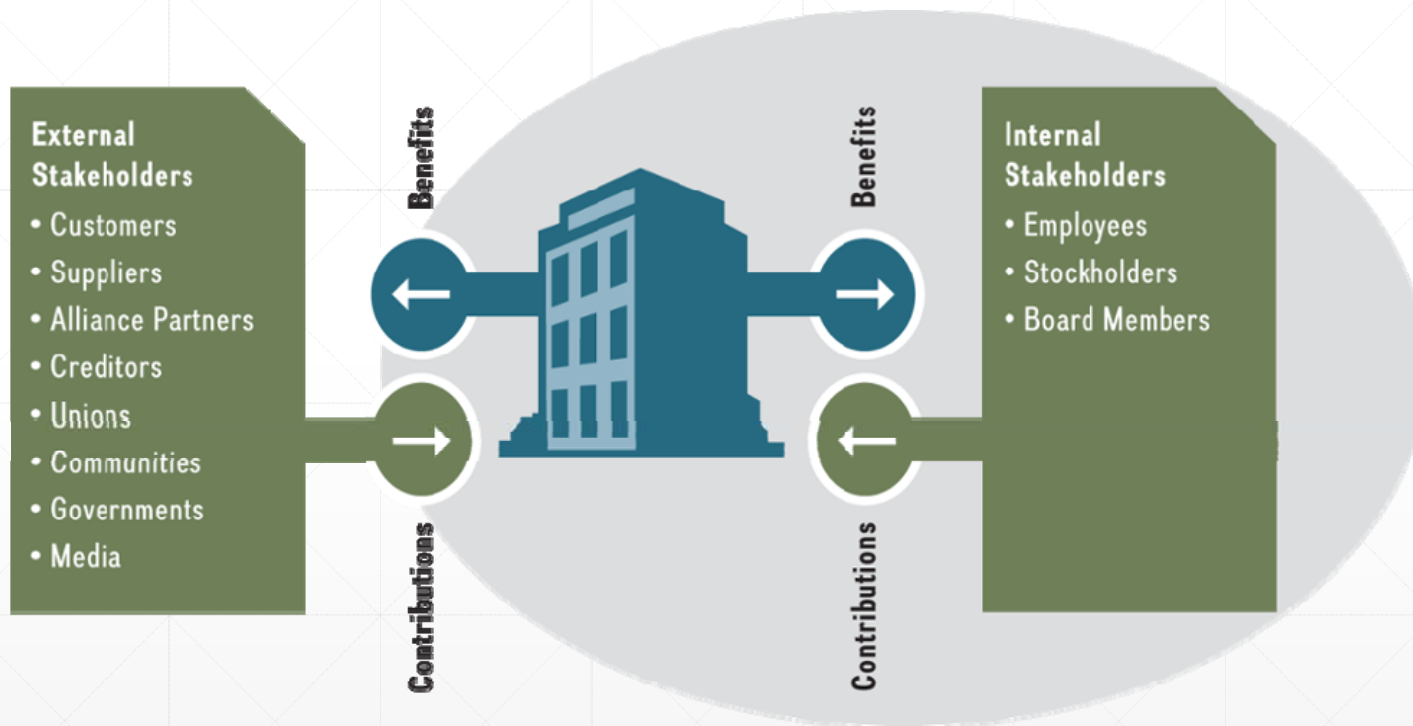


Exhibit 2.8

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Stakeholder Strategy

An integrative approach to managing a diverse set of stakeholders to gain and sustain competitive advantage

Stakeholder management benefits firm performance

- Stakeholders more cooperative
 - Lower business transaction cost
 - Greater adaptability and flexibility
 - More predictable returns
 - Stronger reputation
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Stakeholder Impact Analysis (1 of 2)

A decision tool

Helps strategic leaders can recognize, prioritize, and address the needs of different stakeholders.

Important stakeholder attributes:

- Power: control over actions
 - Legitimacy: valid concerns
 - Urgency: require immediate attention
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Stakeholder Impact Analysis (2 of 2)



Exhibit 2.9

[Jump to Appendix 9 long image description](#)

The Pyramid of Corporate Social Responsibility



Exhibit 2.10

SOURCE: Adapted from A. B. Carroll (1991), "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders," *Business Horizons*, July-August: 42.

[Jump to Appendix 10 long image description](#)