

Section

5

Lecture Notes

Strategy, Business Models, and Competitive Advantage

Chapter Summary

Chapter one explores the fundamental concepts surrounding organizational strategy. It begins with an explanation of the term strategy and discusses why companies need a distinctive strategy in order to compete successfully. Next, it explores why a company must have a viable business model and the five most dependable strategic approaches for setting a company apart. The chapter wraps up with an illustration of how a company's strategy tends to evolve over time due to changing business conditions and the three tests for winning strategies.

Lecture Outline

I. Introduction

1. A company's *strategy* is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability.
2. In effect, managers must determine how many and which strategic options to pursue including:
 - a. How to create products or services that attract and please customers.
 - b. How to position the company in the industry.
 - c. How to develop and deploy resources to build valuable competitive capabilities.
 - d. How each functional piece of the business (R&D, supply chain activities, production, sales and marketing, distribution, finance, and human resources) will be operated.
 - e. How to achieve the company's performance targets.

CORE CONCEPT

A company's **strategy** is the coordinated set of actions that its managers take to outperform the company's competitors and achieve superior profitability.

II. The Importance of a Distinctive Strategy and Competitive Approach

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. For a company to matter in the minds of customers, its strategy needs a distinctive element that sets it apart from rivals and produces a competitive edge.
2. Simply trying to mimic the strategies of the industry's successful companies never works.

3. Every company's strategy needs to have some distinctive element that draws in customers and produces a competitive edge.

III. The Relationship Between a Company's Strategy and Business Model

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. A company's business model is management's blueprint for delivering a valuable product or service to customers in a manner that will yield an attractive profit.
2. The two elements of a company's business model are:
 - a. *Customer value proposition* — The company's approach to satisfying buyer wants and needs at a price customers will consider a good value.
 - b. *Profit formula* — The Company's approach to determining a cost structure that will allow for acceptable profits given the pricing tied to its customer value proposition
3. Concepts & Connections 1.1 discusses three contrasting business models in radio broadcasting.

CONNECT ACTIVITY

Consider adding a File Attachment assignment requiring the student to develop a response to this Illustration Capsule. You can post instructions for the student within the assignment and collect their attachments for grading.

CONCEPTS & CONNECTIONS — 1.1

PANDORA, SIRIUS XM, AND OVER-THE-AIR BROADCAST RADIO: THREE CONTRASTING BUSINESS MODELS

Discussion Question 1: What is the prominent difference between the business models of these three organizations?

Answer: While all three provide essentially the same type of entertainment service, the business models employed by Pandora, Sirius XM, and Over-The-Air Broadcast Radio are completely different. In the area of value proposition (what the customer sees), Sirius XM provides commercial free entertainment with some local content based upon a monthly fee, while Broadcast Radio provides entertainment with some local content with interruptions for commercials without a fee. Pandora bridges these two methods. In one mode it operates more like Over-the-Air Broadcast Radio in that it provides entertainment without a fee that includes targeted advertisements, with the added benefit of allowing the listener to customize the music mix. In the other mode, listeners can elect to go ad-free for a fee using Pandora One.

For profit, Sirius XM must attract a large enough customer base in order to cover costs and provide profit, while Broadcast Radio must attract a large enough advertiser base to cover costs and provide profit. Pandora, once again bridging the two, generates profit by either an advertiser base or through ad-free services.

IV. Strategy and the Quest for Competitive Advantage

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The heart and soul of any strategy is the actions and moves in the market place that managers are taking to gain a competitive edge over rivals. The five most used and dependable approaches are:
 - a. *Low Cost Provider* — Achieving a cost-based advantage over rivals.

- b. Broad Differentiation — Seeking to differentiate the company's product or service from rivals' in ways that will appeal to a broad spectrum of buyers.
 - c. Focused Low Cost — Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower priced.
 - d. Focused Differentiation — Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products.
 - e. Best Cost Provider — Giving customers more value for the money by satisfying buyers' expectations on key quality/features/performance/service attributes, while beating their price expectations.
2. Concepts & Connections 1.2 illustrates how Apple has gained competitive advantage in its market segment.

CONNECT ACTIVITY

Consider adding a File Attachment assignment requiring the student to develop a response to this Illustration Capsule. You can post instructions for the student within the assignment and collect their attachments for grading.

CONCEPTS & CONNECTIONS — 1.2

APPLE INC.'S STRATEGY IN THE MARKETPLACE

Discussion Question 1: Describe Apple's strategic approach in the computer industry.

Answer: The student should be able to discuss that Apple uses a Focused Differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. The company designs its own operating system, hardware, and application software through continuous investments in R&D. These higher cost approaches to the market place are offset by premium pricing that the niche market can support.

CORE CONCEPT

A company achieves **sustainable competitive advantage** when an attractively large number of buyers develop a durable preference for its products or services over the offerings of competitors, despite the efforts of competitors to overcome or erode its advantage.

V. The Importance of Capabilities in Building and Sustaining Competitive Advantage

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Winning a *sustainable* competitive edge over rivals with any of the five strategies relies on two interrelated efforts:
 - a. Building competitively valuable capabilities that rivals cannot readily match.
 - b. Having a distinctive product offering.

VI. Why a Company's Strategy Evolves over Time

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Every company must be willing and ready to modify its strategy in response to changing market conditions, advancing technology, competitive moves, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well.
2. Most of the time a company's strategy evolves incrementally from management's ongoing efforts to fine tune pieces of the strategy, but, on occasion, major strategy shifts are called for.
3. The evolving nature of a company's strategy means the typical company strategy is a blend of (1) proactive moves to improve the company's financial performance and secure a competitive edge and (2) adaptive reactions to unanticipated developments and fresh market conditions.
4. **Figure 1.1, A Company's Strategy is a Blend of Proactive Initiatives and Reactive Adjustments,** depicts the typical blend found within a company's strategy.
5. A company's realized strategy tends to be a combination of proactive and reactive elements.

CORE CONCEPT

A company's realized strategy is a combination deliberate planned elements and unplanned emergent elements. Some components of a company's deliberate strategy will fail in the marketplace and become abandoned strategy elements.

VII. The Three Tests of a Winning Strategy

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Three Questions can be used to distinguish a winning strategy from a so-so or flawed strategy:
 - a. How well does the strategy fit the company's situation?
 - b. Is the strategy helping the company achieve a sustainable competitive advantage?
 - c. Is the strategy producing good company performance?
2. Strategies that come up short on one or more of the above tests are plainly less appealing than strategies passing all three tests with flying colors.

VIII. Why Crafting and Executing Strategy are Important Tasks

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. High-achieving enterprises are nearly always the product of astute, creative, and proactive strategy making.
2. Indeed, good strategy and good strategy execution are the most telling signs of good management.

IX. The Road Ahead

1. Throughout the remaining chapters and the accompanying case collection, the spotlight is trained on the foremost question in running a business enterprise: What must managers do, and do well, to make a company a winner in the marketplace?
2. The mission of this book is to provide a solid overview of what every business student and aspiring manager needs to know about crafting and executing strategy.

CONNECT ACTIVITY

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

Assurance of Learning Exercises

1. Based on your experiences as a computer, tablet, or smartphone user, does Apple, Inc.'s strategy as described in Concepts & Connections 1.2 seem to set it apart from rivals? Does the strategy seem to be keyed to a cost-based advantage, differentiating features, serving the unique needs of a niche, or some combination of these? What is there about Apple Inc.'s strategy that can lead to sustainable competitive advantage?

CONNECT ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

Setting Itself Apart — The student should be able to discuss that Apple uses a Focused Differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. They strategically place stores in areas where their target market frequent and staff them with knowledgeable people. The firm is also committed to CSR and sustainability throughout its supply chain.

Elements of Strategy — The student should identify that some of key elements of Apple's strategy include a strong focus on R&D, providing a complete hardware/software/service solution, and a strong brand identity. These elements, along with the focus on CSR and sustainability combine to form a high end value proposition for consumers that allows for premium pricing.

Sustainable Competitive Advantage — The student should identify that developing a sustainable competitive advantage relies on a) building competitively valuable capabilities that rivals cannot readily match and b) having a distinctive product offering. Further, they should be able to highlight that the two areas described above are both distinctive and difficult to match.

2. Go to investor.siriusxm.com and check whether the SiriusXM's recent financial reports indicate that its business model is working. Are its subscription fees increasing or declining? Is its revenue stream advertising and equipment sales growing or declining? Does its cost structure allow for acceptable profit margins?

Response:

General — The responses developed by the students may include information such as the following. SiriusXM is a leading satellite media company that provides commercial free music from numerous genres, live play by play sports, news and talk shows, and other forms of audio entertainment streaming to the consumer's home, auto, business, or even boats within 200 miles of the coast.

Is the business model working — The student should note that the company's annual revenue has increased steadily over the last three reporting periods from \$4.57B in 2015 to \$5.42B in 2017, while net income has grown from \$509M to \$647M over the same period. This is an increase in net profit from 11.1% in 2015 to 11.9% in 2017. This illustrates an increasing value proposition (revenue) as well as an effective and growing profit formula (earnings). The conclusion the student should reach is that the business model is working effectively.

Subscription Fees — The student should identify that the company had subscription revenue of \$3.8B in 2015 and \$4.47B in 2017, representing a 5.86% average annual growth.

Revenue Stream from Advertising — The student should identify that the company had advertising revenue of \$122M in 2015 and \$160M in 2017, representing a 10.3% average annual growth.

Revenue from Equipment — The student should identify that the company had revenue from equipment of \$111M in 2015 and \$131M in 2017, representing a 6% average annual growth.

Cost Structure and Profit Margins — The student should identify that the company had consistently growth in Operating Profit with \$1.3B in 2013 and \$1.68B in 2015, representing a 9.7% average annual growth. This demonstrates that the company's cost structure allows for attractive profit margins.

3. Elements of Amazon's strategy have evolved in meaningful ways since the company's founding in 1994. After reviewing the company's history of innovations at www.aboutamazon.com/innovation and all of the links at the company's investor relations site (ir.aboutamazon.com), prepare a one- to two-page report that discusses how its strategy has evolved. Your report should also assess how well Amazon's strategy passes the three tests of a winning strategy.

CONNECT ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

Strategy Evolution — From the information found in the links provided, the student's report should include information similar to the following.

Amazon.com began as an online bookseller in 1995 with Bezos viewing books as a commodity where price was the only differentiating factor. By warehousing and shipping in high volume, the traditional brick and mortar bookstores such as Barnes & Noble were unable to compete. By 2018, Amazon.com is the largest U.S. bookseller.

By the late 90's, Amazon.com has diversified the product portfolio to include electronics, software, video games, and many other categories. Once again, the core strategy is to focus on commodity products where price point is the key factor. By 2000, Amazon.com had adopted a new concept called marketplace where merchants were able to offer products on the website and warehouse at Amazon as a service to the merchant.

This allowed a broader product portfolio without impacting Amazon's cash flow. With the 2005 release of Prime membership, the company was able to position themselves as the 'first choice' for many on-line shoppers. By 2018, the company is the leader in e-commerce with over 40 percent of the industry.

Amazon adopted an overarching strategy called flywheel with the idea of pursuing projects that would support other initiatives already in place. This has resulted in another string of innovations to include Web Services in 2006, the Kindle e-reader in 2007, the 2009 acquisition of Zappos, and the 2017 acquisition of Whole Foods.

The student should conclude that all of these innovations follow a careful underlying strategy of adding services and features to the overall product mix that leverage and take advantage of developments already in place and meet shifting consumer demands. The company's strategy has evolved from a simple mission of providing on-line books to becoming the leading global retailer across many industries.

Strategy Assessment — The student's report should include specific indications that the company's strategy is a winner as follows.

- a. Does the strategy fit the company's situation? — Yes, the company's strategy fits the evolving demands of both in-person and e-commerce shoppers.
- b. Does the strategy help the company achieve a sustainable competitive advantage? Yes, the growing base of customers and revenue streams from various services and platforms is led by continuous innovation which differentiates the company well. The growing profit stream indicates that the strategy is sustainable.
- c. Does the strategy produce good company performance? Yes, the company is estimated to have close to 1% of global retail sales and close to 8% of U.S. retail sales.

Strategy, Formulation, Execution, and Governance

Chapter Summary

Chapter Two presents an overview of the managerial tasks associated with developing and executing company strategies. Special attention is given to the importance of a clear vision for the company and the strategic and financial objectives that will guide the way. The importance of setting objectives at all levels of the organization is explored along with the role of operating excellence in the successful execution of strategy. The chapter wraps us with an exploration of the role of the company's board of directors in overseeing the strategic management process.

Lecture Outline

I. The Strategy Formulation, Strategy Execution Process

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Crafting and executing a company's strategy is an ongoing process with five integrated phases:
 - a. Developing a strategic vision that charts the company's long-term direction, a mission statement that describes the company's business, and a set of core values to guide the pursuit of the strategic vision and mission.
 - b. Setting objectives for measuring the company's performance and tracking its progress in moving in the intended long-term direction.
 - c. Crafting a strategy for advancing the company along the path to management's envisioned future and achieving its performance objectives.
 - d. Implementing and executing the chosen strategy efficiently and effectively.
 - e. Evaluating and analyzing the external environment and the company's internal situation and performance to identify corrective adjustments that are needed in the company's long-term direction, objectives, strategy, or approach to strategy execution.
2. **Figure 2.1, The Strategy Formulation, Strategy Execution Process**, displays this five-stage process, and the need for management to evaluate the company's performance on an ongoing basis.
3. **Table 2.1, Factors Shaping Decisions in the Strategy Formulation, Strategy Execution Process**, exhibits the external and internal considerations that come into play in the strategic management process.

4. The evaluation stage of the strategic management process shown in Figure 2.1 also allows for a change in the company's vision when it becomes evident to management that the industry has changed and rendered its vision obsolete. Such occasions can be referred to as **strategic inflection points**.
5. The first three stages of the strategic management process make up a strategic plan.

II. Stage 1: Developing a Strategic Vision, a Mission, and Core Values

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

A. The Vision Statement

1. Top management's views about the company's direction and future product-customer-market-technology focus are shaped by its views of the external industry and competitive environment and the internal situation and constitute a strategic vision for the company.
2. Well-conceived visions are *distinctive* and *specific* to a particular organization; they avoid generic, feel-good statements. A clearly articulated strategic vision communicates management's aspirations to stakeholders about "where we are going" and helps steer the energies of company personnel in a common direction.

CORE CONCEPT

A **strategic vision** describes "where we are going"—the course and direction management has charted and the company's future product customer-market-technology focus.

3. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions.
4. **Table 2.2, Characteristics of an Effectively Worded Vision Statement**, lists some characteristics of effective vision statements. For a strategic vision to function as a valuable managerial tool, it must provide understanding of what management wants its business to look like and provide managers with a reference point in making strategic decisions.
5. **Table 2.3, Common Shortcomings in Company Vision Statements**, provides a list of the most common shortcomings in company vision statements.

CONNECT ACTIVITY

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CONCEPTS & CONNECTIONS — 2.1

EXAMPLES OF STRATEGIC VISIONS – HOW WELL DO THEY MEASURE UP?

Discussion Question 1: What appears to be missing from the Whole Foods vision statement presented in Capsule 2.1?

Answer: (1) Brevity – the statement is very long which makes it difficult to keep the attention of the audience. (2) Memorable – the statement cannot be easily reduced to a few choice lines or a one-phrase slogan.

Discussion Question 2: What is effective in the Nike vision statement presented in Capsule 2.1?

Answer: The statement is short, making it focused and memorable. The vision described is feasible and flexible.

6. The Importance of Communicating the Strategic Vision
 - a. A strategic vision has little value to the organization unless it's effectively communicated down the line to lower-level managers and employees.
 - b. One effective method is to expressing the essence of the vision in a slogan.
 - c. A well-thought-out, forcefully communicated strategic vision pays off in several respects:
 - (1) Crystallizes senior executives' own views about the firm's long-term direction
 - (2) Reduces the risk of rudderless decision making by management at all levels
 - (3) Is a tool for winning the support of employees to help make the vision a reality
 - (4) Provides a beacon for lower-level managers in forming departmental missions
 - (5) Helps an organization prepare for the future
7. An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company in the intended direction.

B. Developing a Company Mission Statement

1. The distinction between a **strategic vision** and a **mission statement** is fairly clear-cut: A strategic vision portrays a company's *future strategic course* ("where we are going and what our focus will be") whereas a company's mission statement typically describes its *present business and purpose* ("who we are, what we do, and why we are here").

CORE CONCEPT

A well-conceived **mission statement** conveys a company's purpose in language specific enough to give the company its own identity.

2. Ideally, a company's mission statement is sufficiently descriptive to:
 - a. Identify the company's products or services.
 - b. Specify the buyer needs it seeks to satisfy.
 - c. Specify the customer groups or markets it is endeavoring to serve.
 - d. Specify its approach to pleasing customers.
 - e. Give the company its own identity.
3. Occasionally, companies state that their mission is to simply earn a profit. This is misguided – Profit is more correctly an *objective* and a *result* of what a company does.

C. Linking the Vision/Mission with Company Values

1. By **values or core values**, we mean the beliefs, traits, and ways of doing things that management has determined should guide the pursuit of its vision and mission.

CORE CONCEPT

A company's values are the beliefs, traits, and behavioral norms that company personnel are expected to display in conducting the company's business and pursuing its strategic vision and mission.

2. Company values statements tend to contain between four and eight values, which ideally, are tightly connected to and reinforce the company's vision, strategy, and operating practices.
3. The extent to which company values translate into actually living the values varies widely:
 - a. At one extreme are companies with window-dressing values; the professed values are given lip service by top executives but have little discernible impact on either how company personnel behave or how the company operates.
 - b. At the other extreme are companies whose executives are committed to grounding company operations on sound values and principled ways of doing business. Executives at these companies deliberately seek to ingrain the designated core values into the corporate culture—the core values thus become an integral part of the company's DNA and what makes it tick.

CONNECT ACTIVITY

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CONCEPTS & CONNECTIONS — 2.2

TOMS SHOES: ITS MISSION-DRIVEN BUSINESS MODEL

Discussion Question: TOMS Shoes presents the following mission statement: *With every product you purchase, TOMS will help a person in need. One for One.*® In what way is this mission ingrained in the company?

Answer: The student should be able to identify that since inception, TOMS Shoes has built the cost of giving away a pair of shoes into the price of each pair they sell. It is a core component of their business model and is expanded into new products as they go into the market place to include eye-ware, coffee, and backpacks. The mission is clearly and consistently communicated inside and outside the company.

III. Stage 2: Setting Objectives

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

A. The Purpose of Setting Objectives

1. The managerial purpose of setting **objectives** is to convert the strategic vision into specific performance targets.
 - a. They focus organizational attention and align actions throughout the organization
 - b. They serve as yardsticks for tracking a company's performance and progress
 - c. They motivate employees to expend greater effort and perform at a high level.

CORE CONCEPT

Objectives are an organization's performance targets—the results management wants to achieve.

Stretch objectives set performance targets high enough to stretch an organization to perform at its full potential and deliver the best possible results.

A company exhibits **strategic intent** when it relentlessly pursues an ambitious strategic objective, concentrating the full force of its resources and competitive actions on achieving that objective.

2. What Kinds of Objectives to Set — Two very distinctive types of performance yardsticks are required:
 - a. Those relating to financial performance
 - b. Those relating to strategic performance

CORE CONCEPT

Financial objectives relate to the financial performance targets management has established for the organization to achieve.

Strategic objectives relate to target outcomes that indicate a company is strengthening its market standing, competitive vitality, and future business prospects.

3. Achieving acceptable financial results is a must. Without adequate profitability and financial strength, a company's pursuit of its strategic vision, as well as its long-term health and ultimate survival, is jeopardized.
4. As a result of often competing objectives, utilizing a performance measurement system that strikes a *balance* between financial objectives and strategic objectives is optimal. This Balanced Scorecard approach is illustrated in **Table 2.4 The Balanced Scorecard Approach to Performance Management**.

CORE CONCEPT

The **balanced scorecard** is a widely used method for combining the use of both strategic and financial objectives, tracking their achievement, and giving management a more complete and balanced view of how well an organization is performing.

4. Short-Term and Long-Term Objectives: Short-term objectives focus attention on delivering performance improvements in the current period, while long-term targets force the organization to consider how actions currently under way will affect the company at a later date.

CONNECT ACTIVITY

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CONCEPTS & CONNECTIONS — 2.3

EXAMPLES OF COMPANY OBJECTIVES

Discussion Question 1: What is the prominent purpose of an organization's stated objectives?

Answer: Objectives identify an organization's performance targets. They serve to function as measures for tracking the organization's performance and progress toward achievement of desired goals.

Discussion Question 2: What are some specific examples of top level objectives that are included in the Capsule:

Answer: The student should be able to locate the top level objective for each firm and then the measurable strategic and financial objectives that support it:

Jetblue — Produce above average industry margins by offering a quality product at a competitive price. They go on to set very specific financial and strategic goals that are measurable.

Yum Brands — Add 100 new Taco Bell units in India by 2021 Increase Taco Bell revenues from... Expand the number of Pizza Hut locations in globally by...

5. The Need for Objectives at All Organizational Levels: Company objectives need to be broken down into performance targets for each of the organization's separate businesses, product lines, functional departments, and individual work units, employees within various functional departments, and individual work units.

IV. Stage 3: Crafting a Strategy

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Strategy formulation should involve managers at all organizational levels.
2. In most companies, crafting strategy is a *collaborative team effort* that includes managers in various positions and at various organizational levels. Crafting strategy is rarely something only high-level executives do.

CORE CONCEPT

Corporate strategy establishes an overall game plan for managing a *set of businesses* in a diversified, multi-business company.

Business strategy is primarily concerned with strengthening the company's market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.

3. A Company's Strategy Making Hierarchy — The larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. Figure 2.2, A Company's Strategy Making Hierarchy illustrates this concept.
 - a. Corporate strategy establishes an overall game plan for managing a set of businesses in a diversified, multi-business company.
 - b. Business strategy is primarily concerned with strengthening the company's market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.
 - c. Functional-area strategies concern the actions related to particular functions or processes within a business.
 - d. Operating strategies concern the relatively narrow strategic initiatives and approaches for managing key operating units.

V. Stage 4: Implementing and Executing the Chosen Strategy

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Easily, the most time demanding and consuming part is managing the implementation and execution of the strategy-management process.
2. In most situations, managing the strategy-execution process includes the following principal aspects:
 - a. Staffing the organization with the needed skills and expertise

- b. Allocating ample resources to activities critical to good strategy execution.
- c. Ensuring that policies and operating procedures facilitate rather than impede effective execution
- d. Installing information and operating systems that enable company personnel to perform essential activities.
- e. Pushing for continuous improvement in how value chain activities are performed.
- f. Tying rewards and incentives directly to the achievement of performance objectives.
- g. Creating a company culture and work climate conducive to successful strategy implementation and execution
- h. Exerting the internal leadership needed to propel implementation forward.

VI. Stage 5: Evaluating Performance and Initiating Corrective Adjustments

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The fifth phase of the strategy-management process – monitoring new external developments, evaluating the company’s progress, and making corrective adjustments – is the trigger point for deciding whether to continue or change the company vision, objectives, strategy, and/or strategy-execution methods.
2. Successful strategy execution entails vigilantly searching for ways to continuously improve and then making corrective adjustments whenever and wherever it is useful to do so.
3. A company’s vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

VII. Corporate Governance: The Role of the Board of Directors in the Strategy-Formulation, Strategy-Execution Process

CONNECT ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Although senior managers have lead responsibility for crafting and executing a company’s strategy, it is the duty of the board of directors to exercise strong oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders, in the case of investor-owned enterprises, or stakeholders, in the case of not-for-profit organizations.
2. The board of directors share four important corporate governance obligations:
 - a. Oversee the company’s financial accounting and financial reporting practices.
 - b. Diligently critique and oversee the company’s direction, strategy, and business approaches.
 - c. Evaluate the caliber of senior executives’ strategy-formulation and strategy-execution skills.
 - d. Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests

CONNECT ACTIVITY

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CONCEPTS & CONNECTIONS — 2.4

CORPORATE GOVERNANCE FAILURES AT VOLKSWAGEN

Discussion Question 1: In what way did the Board of Directors at Volkswagen contribute to the Emission Test scandal in 2015?

Answer: The primary cause is the absence of a strong group of independent directors. Based upon German Corporate law, governance is provided by a Management Board and a Supervisory Board, with employees making up 50% of the Supervisory Board. This should have allowed for at least 50% of the Supervisory Board to be fully independent. While staying within the 'letter of the law', they sidestepped the 'spirit of the law' by cycling recent former senior executives through the Supervisory Board Chairmanship position and other board positions. This had the effect of removing truly independent oversight.

A secondary cause is that 50 % of voting shares are controlled by the Porsche family. Family members, acting as Chairman of the Board, will regularly remove an independent CEO and replaced them with unqualified family members. This has the effect of removing qualified and independent senior management oversight.

CONNECT ACTIVITY

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

Assurance of Learning Exercises

- Using the information in Table 2.2 and Table 2.3, critique the adequacy and merit of the following vision statements, listing effective elements and shortcomings. Rank the vision statements from best to worst once you complete your evaluation.

CONNECT ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

The student should develop a table similar to the following:

Company Name	Effective Elements	Shortcomings
American Express	<ul style="list-style-type: none"> • Easy to Communicate • Feasible 	<ul style="list-style-type: none"> • Vague • Not distinctive
Hilton Hotels Corporation	<ul style="list-style-type: none"> • Directional • Focused • Feasible • Desirable 	<ul style="list-style-type: none"> • Not forward-looking • Not distinctive
MasterCard	<ul style="list-style-type: none"> • Easy to Communicate 	<ul style="list-style-type: none"> • Vague
BASF	<ul style="list-style-type: none"> • Directional • Focused • Desirable 	<ul style="list-style-type: none"> • Not forward looking

The student should rank vision statements from best to worst as: Hilton Hotels Corporation, BASF, and American Express, MasterCard.

- Go to the company investor relations websites for Starbucks (investor.starbucks.com), Pfizer (www.pfizer.com/investors), and Salesforce (investor.salesforce.com) to find examples of strategic and financial objectives. List four objectives for each company and indicate which of these are strategic and which are financial.

Response:

The student should identify objectives similar to the following:

Starbucks, From their 2015 Annual Report

- Revenue growth of 10 for Fiscal 2016 (financial)
- Addition of approximately 1800 new stores in 2016 with nearly half in the developing China/Asia Pacific segment (strategic)
- Improved operating profits increasing earnings per share by \$0.06 per share for 2016 (financial)

Starbucks, From their 2015 Annual Letter to Shareholders

- Continue to focus on Corporate Social Responsibility and Sustainability, adding an 8th farmer support center in Mexico in 2016 (strategic)
- Full year revenue growth of 10% on a 52 week basis (financial)

Salesforce, From their 2015 Annual Report:

- Offer multiple versions of business solutions at different price points to target wider range of customers (Strategic)
- Focus expansion into high growth markets including marketing, communities, business intelligence, and cloud platforms (Strategic)
- Salesforce, From their Fiscal 2016 First Quarter Results:
 - Increase revenue to \$6.55 Billion for Fiscal 2016 (Financial)
 - Increase EPS to \$0.17 to \$0.18 for Fiscal 2016 (Financial)

Pfizer, From their 2015 Annual Review: Improving the performance of the innovative core by transforming R&D focusing on Oncology, Inflammation & Immunology, Cardiovascular & Metabolic Disease, Neuroscience & Pain, Rare Disease, Vaccines, and Biosimilars (strategic)

Pfizer, From their 1st Quarter 2016 Results: Growth in projected revenue for 2016, up from \$49B — \$51B to \$51B — \$53B (financial)

- Boeing has been recognized by Forbes and other business publications as one of the world's best managed companies. The company discusses how its people and organizational units bring to bear the "best of Boeing" to its customers in 150 countries at www.boeing.com/company. Prepare a one- to two-page report that explains how the company has become a leader in commercial aviation through tight coordination of strategic initiatives at various organizational levels and functional areas.

Response:

The student should identify overall strategic initiatives need to be broken down into performance targets and objectives for each of the organization's separate business units, functional departments, individual work

units, and employees within various functional departments and individual work units. This is because the larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. This is illustrated in figure 2.2, A Company's Strategy Making Hierarchy.

A careful examination of the Corporate Overview provides insight into how the company is organized in a way that allows it to fulfill its strategic initiatives:

Strategic Initiatives: Four primary initiatives are presented in their vision; 1) Connect 2) Protect 3) Explore 4) Inspire

Business Units: Three business units are present to fulfill the initiatives; 1) Commercial Airplanes 2) Defense, Space, and Security (BDS) 3) Boeing Global Services

Supporting Units: Two supporting units provide the necessary services for the three business units to meet their objectives; 1) Boeing Capital Corporation 2) Shared Services

The student should be able to discuss the objectives of each of the business units and supporting units and make the connection between those objectives and each of the four primary initiatives the company is driving towards.

4. Go to the investor relations website for Walmart (<http://investors.walmartstores.com>) and review past presentations it has made during various investor conferences by clicking on the Events option in the navigation bar. Prepare a one- to two-page report that outlines what Walmart has said to investors about its approach to strategy execution. Specifically what has management discussed concerning staffing, resource allocation, policies and procedures, information and operating systems, continuous improvement, rewards and incentives, corporate culture, and internal leadership at the company?

Response:

The student should be able to identify core strategic elements focused on low cost and value:

- Walmart Discount Stores: Wide, clean, brightly-lit aisles and shelves stocked with a variety of quality, value-priced general merchandise
- Walmart Superstores: Convenient, one-stop family shopping featuring our famous Every Day Low Prices
- Walmart Neighborhood Markets: quick and convenient shopping experience for customers who need groceries, pharmaceuticals, and general merchandise all at our famous Every Day Low Prices.
- Walmart Express Stores: offer low prices every day in a smaller format store that provides convenient access for fill-in and stock-up shopping trips in rural and urban areas.
- Marketside: Small community pilot grocery stores specializing in fresh, delicious meals at great prices.
- Walmart.com: The convenience, great merchandise selection, friendly service and Every Day Low Prices of your neighborhood Walmart to the Internet.

The student should be able to identify core cultural elements that impact all aspects of life as a Walmart employee (Source: <http://walmartstores.com/AboutUs/295.aspx>)

- Open Door: Our management believes open communication is critical to understanding and meeting our associates' and our customers' needs. Associates can trust and rely on the open door; it's one of the most important parts of our culture.

- **Sundown Rule:** Observing the Sundown Rule means we do our best to answer requests by the close of business on the day we receive them. Whether it's a request from a store across the country or a call from down the hall, we do our very best to give each other and our customers same-day service. We do this by combining our efforts and depending upon each other to get things done.
 - **Grass Roots Process:** Sam's philosophy lives on today in Walmart's Grass Roots Process, our formal way of capturing associates' ideas, suggestions and concerns.
 - **3 Basic Beliefs & Values:** Our unique culture has helped make Walmart one of the world's most admired companies. Since Sam Walton opened Walmart in 1962, our culture has rested on three basic beliefs. We live out these beliefs each day in our interactions with our customers and each other.
 - **10-Foot Rule:** The 10-foot Rule is one of our secrets to customer service. During his many store visits, Sam Walton encouraged associates (employees) to take this pledge with him: "I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."
 - **Servant Leadership:** Sam Walton believed that effective leaders do not lead from behind their desks. "It's more important than ever that we develop leaders who are servants, who listen to their partners – their associates – in a way that creates wonderful morale to help the whole team accomplish an overall goal," Sam said.
 - **Teamwork:** Sam Walton, our founder, believed in the power of teamwork. As our stores grow and the pace of modern life quickens, that philosophy of teamwork has only become more important over the years.
 - **Walmart Cheer:** Don't be surprised if you hear our associates shouting this enthusiastically at your local Walmart store. It's our cheer, and while it might not sound serious, we take it seriously. It's one way we show pride in our company.
5. Based on the information provided in Concepts & Connections 2.4, describe the ways in which Volkswagen did not fulfill the requirements of effective corporate governance. In what ways did the board of directors sidestep its obligations to protect shareholder interests? How could Volkswagen better select its board of directors to avoid mistakes such as the emissions scandal in 2015?

CONNECT ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

The student should be able to identify the characteristics of an effective independent Board of Directors:

- Is well informed about the company's performance.
- Guides and judges the CEO and other top executives.
- Has the courage to curb management actions the board believes are inappropriate or unduly risky.
- Certifies to shareholders that the CEO is doing what the board expects.
- Provides insight and advice to management.
- Is intensely involved in debating the pros and cons of key decisions and actions.

The student should then be able to provide a detailed discussion of the failures of the Board of Directors. Leading failures resulting in the Emmissions Scandal include:

- **The primary cause is the absence of a strong group of independent directors.** Based upon German Corporate law, governance is provided by a Management Board and a Supervisory Board, with employees making up 50% of the Supervisory Board. This should have allowed for at least 50% of the Supervisory Board to be fully independent. While staying within the 'letter of the law', they sidestepped the 'spirit of the law' by cycling recent former senior executives through the Supervisory Board Chairmanship position and other board positions. This had the effect of removing truly independent oversight.
- A secondary cause is that 50% of voting shares are controlled by the Porsche family. Family members, acting as Chairman of the Board, will regularly remove an independent CEO and replaced them with unqualified family members. This has the effect of removing qualified and independent senior management oversight.