[Module – Strategic Management]

Lecture Title 1:

Mastering Strategy: Art and Science

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Undergraduate Diploma in
Business Administration

Lecture 1: Mastering Strategy: Art and Science

1. What is the difference between strategic management and strategy?
2. Why does strategic management matter?
3. What are intended, emergent, and realized strategies?
4. What is the history of strategic management?
5. What is the basic strategic management process?
6. How do you use the techniques which are used in the development and formation of strategies?
7. How do you enable an Ethical OrganiSation?
8. What is Corporate Governance, Corporate Ethics, and Social Responsibility?

Introduction

Successful organisations have found that a strategic management process helps them achieve their goals within a dynamic and competitive environment.

Strategic management is a comprehensive process designed for firms to best use their resources and capabilities to provide superior firm performance.

Analysis of the external, competitive, and internal environments help shape the strategies that a firm pursues to be successful.

Strategies are broad goals that, as accomplished, help the organisation move forward toward its vision.

- Strategy formation goes back to ancient times, particularly used in warfare.

- Although not perfect, the *strategic management process creates a framework for an organisation to look outside of itself and set a course for success.* ***A strategic plan is different from a business plan.***

- The process should always be performed with a framework of corporate ethics and values to limit the temptation to cross the line where an organisation should not go.

Will Tesla Make It?

- On January 7, 2020, Tesla Inc. became the most valuable US automaker in history. Valued at $81.39 billion, Tesla passed Ford Motor Company as most valuable.

- Approximately two weeks later, Tesla passed Volkswagen to become the second most valuable car company worldwide. Still well behind Toyota, which has a $233 billion market capitalization, Tesla's growth is unprecedented in the automotive industry.

- Can Tesla become number one worldwide?

- Despite tremendous growth, Tesla has its share of problems as well.
- Its founder, Elon Musk, tweeted that the company's stock price was too high; sending the stock tumbling, the Model 3 lost Consumer Reports recommendations, and COVID-19 shutdowns of factories slowed production.
- These problems raise serious questions…

- *Will Elon's Twitter use continue to cause problems?*
- *Are the quality problems going to minimize Tesla's growth?*
- *The company faces stiff competition from automakers attempting to regain their footholds in a highly aggressive market.*
- *Competitors are attempting to compete in the same areas as Tesla. Porsche's Taycan, a Tesla competitor, got a huge win with a purchase from Bill Gates.*
- *As competitors continue to develop autonomous capabilities and better electric batteries, will Tesla continue to dominate US auto markets?*

Defining Strategic Management

- Issues such as those currently faced by Tesla are the focus of strategic management because they help answer the key question examined by strategic management.

- *”Why do some firms outperform other firms?”*

- More specifically, strategic management examines how actions and events involving top executives (such as Elon Musk), firms (Tesla), and industries (the electric car market) influence a firm’s success or failure.

- Strategic management involves the utilization or planned allocation of resources to implement major initiatives taken by executives on behalf of stakeholders to improve performance of firms in an environment.

- Formal tools exist for understanding these relationships, and many of these tools are explained.

- But formal tools are not enough; creativity and *"thinking outside the box"* is just as important to strategic management.

- Mastering strategy is therefore part art and part science.

- This session is intended to enable students to understand *what strategic management is and why it is important.*

- Because strategy is a complex concept, we begin by explaining what strategy is.

- Types of strategies and the history and critique of strategic management are introduced.

- Students are presented with the process of strategic management that firms use and how to enable an Ethical Organisation?

- Defining strategy is not simple. Strategy is a complex concept that involves many different processes and activities within an organisation.

- It involves goals and objectives that an organisation needs to achieve to be successful in the marketplace.

- The development of these goals, however, requires a strategic management process to be done correctly and thoroughly.

- *A strategy is typically a higher level, broad goal, without a lot of specifics. It is long-term in nature. More than 5 years.*

- It provides the direction that an organization wants to move toward to be more successful.

- New or revised strategies may be developed as a result of changes in the business environment, such as what happened during the COVID-19 pandemic.

- Firms also routinely revise or create new strategies, often annually, by assessing and reacting to external and competitive forces and to maximize organizational performance.

- By identifying their resources and capabilities, firms attempt to deploy these through strategies that will give them a competitive advantage, so consumers will buy their product or service instead of a competitor's.

Video: What is Strategic management?

- The video for this section further explains strategic management and strategies.

- https://www.youtube.com/watch?v=5xD2JLleGqk

Key Takeaway

- Strategic management focuses on firms and the different strategies that they use to become and remain successful.
- Firms develop strategies, or longer-range goals, to achieve success in the competitive marketplace.
- In the dynamic environment in which firms exist, firms may alter their strategies as conditions change.

Groups Exercise and Discussion

1. What business that you visit regularly seems to have the most successful business model?

2. What makes the business model work?

Intended, Emergent, and Realized Strategies

- A few years ago, a consultant posed a question to thousands of executives: "*Is your industry facing overcapacity and fierce price competition?*" All but one said "yes." The only "no" came from the manager of a unique operation - the Panama Canal!
- This manager was fortunate to be in charge of a venture whose services are desperately needed by shipping companies and that offers the only simple route linking the Atlantic and Pacific Oceans.
- The canal's success could be threatened if transoceanic shipping were to cease or if a new canal were built.
- Both of these possibilities are extremely remote, however, so the Panama Canal appears to be guaranteed to have many customers for as long as anyone can see into the future.

- When an organisation's environment is stable and predictable, strategic planning can provide enough of a strategy for the organization to gain and maintain success.

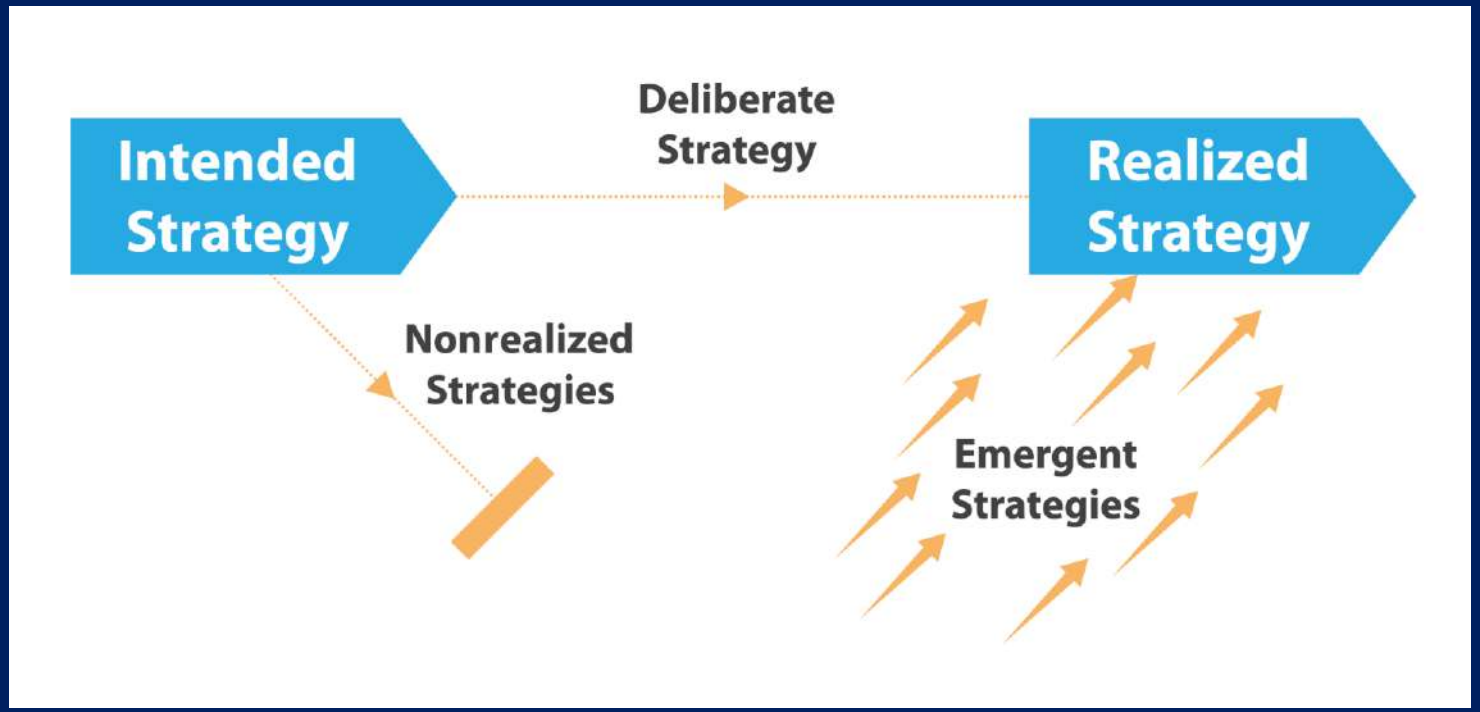
- The executives leading the organisation can simply create a plan and execute it, and they can be confident that their plan will not be undermined by changes over time.

- But as the consultant's experience shows, only a few executives - such as the manager of the Panama Canal - enjoy a stable and predictable situation

- Because change affects the strategies of almost all organisations, understanding the concepts of intended, emergent, and realized strategies is important.

- Also relevant are deliberate and unrealized strategies.

The relationships among these five concepts are presented in "A Model of Intended, Deliberate, and Realised Strategy" (Mintzberg & Waters, 1985).



Intended Strategy

David McConnell aspired to be a writer. When his books weren't selling he decided to give out perfume as a gimmick.

When father and son team *Scott and Don Rasmussen* were fired from the New England Whalers, they envisioned a cable television network that focused on sports events in the state of Connecticut.

In 1977, a cash-strapped advertiser gave a radio station managed by *Lowell Paxson* 112 electric can openers to pay off an overdue bill. The can openers were offered over the air for $9.95 and quickly sold out.

Emergent Strategy

- The perfumes McConnell gave out with his books were popular, inspiring the foundation of the *California Perfume Company*.

- As the network became successful, *ESPN* has branched out beyond the local softball games and demolition derbies that were first broadcasted.

- An idea emerged. Soon the radio station featured a regular show called *"Suncoast Bargaineers."* In 1982, Paxson and a partner launched the Home Shopping Club on local cable television in Florida

Realized Strategy

- The company changed its name to *Avon* in 1939, and its direct marketing system remained popular for decades. *Avon is now available online and in retail outlets worldwide.*

- *ESPN is now billed as the worldwide leader in sports*, owning several ESPN affiliates as well as production of ESPN magazine, ESPN radio, and broadcasting for ABC.

- The *Home Shopping Network* evolved into a retail powerhouse selling on their own channel on television. With the increased popularity of online shopping and competitors like Amazon, their success has faltered.

Intended Strategy

- An intended strategy is the strategy that an organization hopes to execute. Intended strategies are usually described in detail within an organization's strategic plan.

- As an undergraduate student at Yale in 1965, Frederick Smith had to complete a business plan for a proposed company as a class project. His plan described a delivery system that would gain efficiency by routing packages through a central hub and then pass them to their destinations.

- A few years later, Smith started *Federal Express* (Funding Universe, n.d.), a company whose strategy closely followed the plan laid out in his class project.

- *FedEx* has achieved a ranking among the World's Most Admired Companies according to Fortune magazine. Certainly, Smith's intended strategy has worked out far better than even he could have dreamed (Donahoe, 2011; Memphis Business Journal, 2011).

Emergent strategy

- Emergent strategy has also played a role at Federal Express. An emergent strategy is an unplanned strategy that arises in response to unexpected opportunities and/or challenges.

- Sometimes emergent strategies result in disasters. In the mid-1980s, FedEx deviated from its intended strategy's focus on package delivery to capitalize on an emerging technology: facsimile (fax) machines.

- The firm developed a service called ZapMail that involved documents being sent electronically via fax machines between FedEx offices and then being delivered to customers' offices.

- FedEx executives hoped that ZapMail would be a success because it reduced the delivery time of a document from overnight to just a couple of hours.

- Unfortunately, the ZapMail system had many technical problems that frustrated customers.

- Even worse, FedEx failed to anticipate that many businesses would simply purchase their own fax machines. ZapMail was shut down, and FedEx lost hundreds of millions of dollars following its failed emergent strategy.

- In retrospect, FedEx made a costly mistake by venturing outside of the domain that was central to its intended strategy: package delivery.

- Emergent strategies can also lead to tremendous success. Southern Bloomer Manufacturing Company was founded to make underwear for use in prisons and mental hospitals.

- Many managers of such institutions believe that the underwear made for retail markets by companies such as Calvin Klein and Hanes is simply not suitable for the people under their care.

- Instead, underwear issued to prisoners needs to be sturdy and durable to withstand the rigors of prison activities and laundering.

- To meet these needs, Southern Bloomers began selling underwear made of heavy cotton fabric.

- An unexpected opportunity led Southern Bloomer to go beyond its intended strategy of serving institutional needs for durable underwear.

- Just a few years after opening, Southern Bloomer's performance was excellent. It was servicing the needs of about 125 facilities, but unfortunately, this was creating a vast amount of scrap fabric.

- An attempt to use the scrap as stuffing for pillows had failed, so the scrap was being sent to landfills. This was not only wasteful but also costly.

- One day, co-founder Don Sonner visited a gun shop with his son. Sonner had no interest in guns, but he quickly spotted a potential use for his scrap fabric during this visit. The patches that the gun shop sold to clean the inside of gun barrels were of poor quality.

- According to Sonner, when he “saw one of those flimsy woven patches they sold that unraveled when you touched them, I said, “Man, that’s what I can do” with the scrap fabric.

- Unlike other gun-cleaning patches, the patches that Southern Bloomer sold did not give off threads or lint, two by-products that hurt guns’ accuracy and reliability.

- The patches quickly became popular with the military, police departments, and individual gun enthusiasts.
- Before long, Southern Bloomer was selling thousands of pounds of patches per month.
- A casual trip to a gun store unexpectedly gave rise to a lucrative emergent strategy (Wells, 2002).

Realised Strategy

- A realized strategy is the strategy that an organisation actually follows.

- Realised strategies are a product of a firm's intended strategy (i.e., what the firm planned to do), the firm's deliberate strategy (i.e., the parts of the intended strategy that the firm continues to pursue over time), and its emergent strategy (i.e., what the firm did in reaction to unexpected opportunities and challenges).

- In the case of *FedEx*, the intended strategy devised by its founder many years ago - fast package delivery via a centralized hub - remains a primary driver of the firm's realized strategy.

- For *Southern Bloomers Manufacturing Company*, realized strategy has been shaped greatly by both its intended and emergent strategies, which center on underwear and gun-cleaning patches.

- In other cases, firms' original intended strategies are long forgotten.
- An unrealized strategy refers to the abandoned parts of the intended strategy.
- When aspiring author David McConnell was struggling to sell his books, he decided to offer complimentary perfume as a sales gimmick.
- McConnell's books never did escape the stench of failure, but his perfumes soon took on the sweet smell of success.

- The California Perfume Company was formed to market the perfumes; this firm evolved into the personal care products juggernaut known today as Avon.

- For McConnell, his dream to be a successful writer was an unrealized strategy, but through Avon, a successful realized strategy was driven almost entirely by opportunistically capitalizing on change through emergent strategy

Strategy: The Social Network

- Did Harvard University student Mark Zuckerberg set out to build a billion-dollar company with more than 2.6 billion active users? Not hardly.
- As shown in 2010's The Social Network, Zuckerberg's original concept in 2003 had a dark nature.
- After being dumped by his girlfriend, a bitter Zuckerberg created a website called "FaceMash" where the attractiveness of young women could be voted on.
- This evolved first into an online social network called The Facebook that was for Harvard students only.

- When the network became surprisingly popular, it then morphed into Facebook, a website open to everyone.
- Facebook is so pervasive today that it has changed the way we speak, such as the word friend being used as a verb.
- Ironically, Facebook's emphasis on connecting with existing and new friends is about as different as it could be from Zuckerberg's original mean-spirited concept.
- Certainly, Zuckerberg's emergent and realized strategies turned out to be far nobler than the intended strategy that began his adventure in entrepreneurship.

Key Takeaway

- Most organisations create intended strategies that they hope to follow to be successful.

Over time, however, changes in an organisation's situation give rise to new opportunities and challenges.

Organisations respond to these changes using emergent strategies.

Realised strategies are a product of both intended and realized strategies.

Practical Application: Individual Exercise

1. Can you think of a company that seems to have abandoned its intended strategy?

2. Why do you suspect it was abandoned?

The History of Strategic Management

"Those who cannot remember the past are condemned to repeat it. "

– George Santayana, The Life of Reason

- Santayana’s quote has strong implications for strategic management.
- The history of strategic management can be traced back several thousand years.
- Great wisdom about strategy can be acquired by understanding the past, but ignoring the lessons of history can lead to costly strategic mistakes that could have been avoided.

- Certainly, the present offers very important lessons; businesses can gain knowledge about what strategies do and do not work by studying the current actions of other businesses.

- But this section discusses two less obvious sources of wisdom:

  (1) strategy in ancient times and (2) military strategy.

- This section also briefly traces the development of strategic management as a field of study.

Strategy in Ancient Times

- In ancient China, strategist and philosopher Sun Tzu offered thoughts on strategy that continue to be studied carefully by business and military leaders today. Sun Tzu's best-known work is The Art of War.

- As this title implies, Sun Tzu emphasized the creative and deceptive aspects of strategy.

- Strategic management borrows many ideas from ancient uses of strategy over time.

- Video: The Art of War – Sun Tzu

- https://www.youtube.com/watch?v=aF2pCff3ocg

- The following anecdotes provide a few notable examples of historical actions that remain relevant for the study of modern strategy.

- Indeed, the Greek verb *strategos* means “army leader” and the idea of stratego (from which we get the word strategy) refers to the idea of destroying one’s enemies through the effective use of resources.

- One of Sun Tzu's ideas that has numerous business applications is that winning a battle without fighting is the best way to win.
- Apple's behavior in the personal computer business offers a good example of this idea in action.
- Many computer makers such as Toshiba, Acer, and Lenovo compete with one another based primarily on price.
- This leads to price wars that undermine the computer makers' profits.

- In contrast, Apple prefers to develop unique features for its computers, features that have created a fiercely loyal set of customers.
- Apple boldly charges far more for its computers than its rivals charge for theirs.
- Apple does not even worry much about whether its computers' software is compatible with the software used by most other computers.
- Rather than fighting a battle with other firms, Apple wins within the computer business by creating its own unique market and by attracting a set of loyal customers.
- Sun Tzu would probably admire Apple's approach.

- Perhaps the most famous example of strategy in ancient times revolves around the Trojan horse.
- According to legend, Greek soldiers wanted to find a way to enter the gates of Troy and attack the city from the inside.
- They devised a ploy that involved creating a giant wooden horse, hiding soldiers inside the horse, and offering the horse to the Trojans as a gift.
- The Trojans were fooled and brought the horse inside their city. When night arrived, the hidden Greek soldiers opened the gates for their army, leading to a Greek victory.
- In modern times the term Trojan horse refers to gestures that appear on the surface to be beneficial to the recipient but that mask a sinister intent.
- Computer viruses also are sometimes referred to as Trojan horses.

- A far more noble approach to strategy than the Greeks' is attributed to King Arthur of Britain.

- Unlike the hierarchical approach to organizing Moses used, Arthur allegedly considered himself and each of his knights to have an equal say in plotting the group's strategy.

- Indeed, the group is thought to have held its meetings at a round table so that no voice, including Arthur's, would be seen as more important than the others.

- The choice of furniture in modern executive suites is perhaps revealing.

- Most feature rectangular meeting tables, perhaps signaling that one person - the chief executive officer - is in charge

Lessons Offered by Military Strategy

- Key military conflicts and events have shaped the understanding of strategic management . Indeed, the word strategy has its roots in warfare.
- The Greek verb strategos means “army leader” and the idea of stratego (from which we get the word strategy) refers to defeating an enemy by effectively using resources.
- A book written nearly five hundred years ago is still regarded by many as an insightful guide for conquering and ruling territories.
- Niccolò Machiavelli’s 1532 book The Prince offers clever recipes for success to government leaders.
- Some of the book’s suggestions are quite devious, and the word Machiavellian is used today to refer to acts of deceit and manipulation.

- Two wars fought on American soil provide important lessons about strategic management. In the late 1700s, the American Revolution pitted the American colonies against mighty Great Britain.

- The Americans relied on non-traditional tactics, such as guerilla warfare and the strategic targeting of British officers.

- Although these tactics were considered by Great Britain to be barbaric, they later became widely used approaches to warfare.

- The Americans owed their success in part to help from the French navy, illustrating the potential value of strategic alliances.

- Nearly a century later, Americans turned on one another during the Civil War.
- After four years of hostilities, the Confederate states were forced to surrender.
- Historians consider the Confederacy to have had better generals, but the Union possessed greater resources, such as factories and railroad lines.
- As many modern companies have discovered, sometimes good strategies simply cannot overcome a stronger adversary.

- Two wars fought on Russian soil also offer insights. In the 1800s, a powerful French invasion force was defeated in part by the brutal nature of Russian winters.

- In the 1940s, a similar fate befell German forces during World War II. Against the advice of some of his leading generals, Adolf Hitler ordered his army to conquer Russia.

- Like the French before them, the Germans were able to penetrate deep into Russian territory.

- As George Santayana had warned, however, the forgotten past was about to repeat itself. Horrific cold stopped the German advance.

- Russian forces eventually took control of the combat, and Hitler committed suicide as the Russians approached the German capital, Berlin.

- Five years earlier, Germany ironically had benefited from an opponent ignoring the strategic management lessons of the past.
- In ancient times, the Romans had assumed that no army could cross a mountain range known as the Alps.
- An enemy general named Hannibal put his men on elephants, crossed the mountains, and caught Roman forces unprepared.
- French commanders made a similar bad assumption in 1940.
- When Germany invaded Belgium (and then France) in 1940, its strategy caught French forces by surprise.

- The top French commanders assumed that German tanks simply could not make it through a thickly wooded region known as the Ardennes Forest.
- As a result, French forces did not bother preparing a strong defense in that area.
- Most of the French army and their British allies instead protected against a small, diversionary force that the Germans had sent as a deception to the north of the forest.
- German forces made it through the forest, encircled the allied forces, and started driving them toward the ocean.

- Many thousands of French and British soldiers were killed or captured.

- In retrospect, the French generals had ignored an important lesson of history: do not make assumptions about what your adversary can and cannot do.

- Executives who make similar assumptions about their competitors put their organizations' performance in jeopardy.

- Strategic management often borrows lessons as well as metaphors from classic military strategy.

- For example, major business decisions are often categorized as “strategic” while more minor decisions (such as small changes in price or the opening of a new location) are referred to as “tactical” decisions.

Strategic Management as a Field of Study

- Universities contain many different fields of study, including physics, literature, chemistry, computer science, and engineering. Some fields of study date back many centuries (e.g., literature), while others (such as computer science) have emerged only in recent years.

- Strategic management has been important throughout history, but the evolution of strategic management into a field of study has mostly taken place over the past century.

- A few of the key business and academic events that have helped the field develop are discussed next.

- The ancient Chinese strategist Sun Tzu made it clear that strategic management is partially art. But it is also part science.

- Therefore *Strategic planning is the art and science of a company's overall long-term goals or desires.*

- Major steps toward developing the scientific aspect of strategic management were taken in the early twentieth century by Frederick W. Taylor.

- In 1911, Taylor published The Principles of Scientific Management.

- The book was a response to Taylor's observation that most tasks within organizations were organized haphazardly.

- Taylor believed that businesses would be much more efficient if management principles were derived through scientific investigation.

- In The Principles of Scientific Management, Taylor stressed how organizations could become more efficient through identifying the “one best way” of performing important tasks.

- Implementing Taylor’s principles was thought to have saved railroad companies hundreds of millions of dollars.

- Although many later works disputed the merits of trying to find the “one best way,” Taylor’s emphasis on maximizing organizational performance became the core concern of strategic management as the field developed.

- Also in the early twentieth century, automobile maker Henry Ford emerged as one of the pioneers of strategic management among industrial leaders.

- At the time, cars seemed to be a luxury item for wealthy people. Ford adopted a unique strategic perspective, however, and boldly offered the vision that he would make cars the average family could afford.

- Building on ideas about efficiency from Taylor and others, Ford organized the first production car produced on an assembly line also lowering costs dramatically.

- Despite his wisdom, Ford also made mistakes.
- Regarding his company's flagship product, the Model T, Ford famously stated, "Any customer can have a car painted any colour that he wants so long as it is black."
- When rival automakers provided customers with a variety of colour choices, Ford had no choice but to do the same.

- The acceptance of strategic management as a necessary element of business school programs took a major step forward in 1959.

- A widely circulated report created by the Ford Foundation recommended that all business schools offer a training course.

- The goal of this course would be to integrate knowledge across different business fields such as marketing, finance, and accounting to help students devise better ideas for addressing complex business problems.

- Rather than seeking a “one best way” solution, as advocated by Taylor and Harvard’s business policy course, this course would emphasize students’ critical thinking skills in general and the notion that multiple ways of addressing a problem could be equally successful in particular.

- The Ford Foundation report was a key motivator that led US universities to create strategic management courses in their undergraduate and master of business administration programs.

- Although strategy has been important throughout history, strategic management as a field of study has largely developed over the past century.

- Below are a few key business and academic events that have helped the field evolve.

- Two pivotal events that firmly established strategic management as a field of study took place in 1980.

- One was the creation of the Strategic Management Journal. The introduction of the journal offered a forum for researchers interested in building knowledge about strategic management.

- The second pivotal event in 1980 was the publication of Competitive Strategy: Techniques for Analyzing Industries and Competitors by Harvard professor Michael Porter.

- This book offers concepts such as five forces analysis and generic strategies that continue to strongly influence how executives choose strategies more than thirty years after the book's publication.

- Many consumers today take web-based shopping for granted, but this channel for commerce was created recently. The 1995 launch of Amazon by founder Jeff Bezos was perhaps the pivotal event in creating internet based commerce.

- In pursuit of its vision *"to be earth's most customer-centric company,"* Amazon has diversified far beyond its original focus on selling books and has evolved into a dominant retailer.

- Powerful giants have stumbled badly in Amazon's wake. Sears had sold great varieties of goods (even including entire houses) through catalogues for many decades, as had JC Penney.

- Neither firm created a strong online sales presence to keep pace with Amazon, and both eventually dropped their catalog businesses. As often happens with old and large firms, Sears and JC Penney were outmaneuvered by a creative and versatile upstart.

- Ethics have long been an important issue within the strategic management field.

- Attention to the need for executives to act ethically when creating strategies increased dramatically in the early 2000s when a series of companies such as Enron Corporation, WorldCom, Tyco, Qwest, and Global Crossing were found to have grossly exaggerated the strength of their performance.

- After a series of revelations about fraud and corruption, investors in these firms and others lost billions of dollars, tens of thousands of jobs were lost, and some executives were sent to prison.

- Enron Case Study
- https://www.youtube.com/watch?v=NvslpOUDaHo

- Like ethics, the implications of international competition are of central interest to strategic management.

- Provocative new thoughts on the nature of the international arena were offered in 2005 by Thomas L. Friedman.

- In his book The World Is Flat: A Brief History of the Twenty-First Century, Friedman argues that many of the advantages that firms in developed countries such as the United States, Japan, and Great Britain take for granted are disappearing.

- One implication is that these firms will need to improve their strategies if they are to remain successful

- Looking to the future, it appears likely that strategic management will prove to be more important than ever.
- In response, researchers who are interested in strategic management will work to build additional knowledge about how organizations can maximize their performance.
- Executives will need to keep track of the latest scientific findings.
- Meanwhile, they also must leverage the insights that history offers on how to be successful while trying to avoid past mistakes

Key Takeaway

Although strategic management as a field of study has developed mostly over the last century, the concept of strategy is much older.

Understanding strategic management can benefit greatly by learning the lessons that ancient history and military strategy provide.

Groups Exercise: Refelection and Discussion

1. In what ways are the strategic management of business and military strategy alike? In what ways are they different?

2. Do you think executives are more ethical today as a result of the scandals in the early 2000s? Why or why not?

Contemporary Critique of Strategic Management

- The field of strategic management has always had its critics, and, as with any academic discipline, this criticism has challenged the field to adapt and improve over time.

- Over time, both practitioners and scholars have voiced concerns about various areas of the strategic management process, and this section summarizes the general critiques to deepen your own ability to critically consider the processes of strategic management in your own organizations and career.

- Some critics go so far as to suggest that committing to a strategy may limit a firm's ability to respond to a changing environment when companies "*make future decisions on obsolete data.*"

- In the opening paragraph of Michael Raynor's bestselling book The Strategy Paradox, he says:

"Most strategies are built on specific beliefs about the future.

Unfortunately, the future is deeply unpredictable.

Worse, the requirements of breakthrough success demand implementing strategy in ways that make it impossible to adapt should the future not turn out as expected.

The result is the Strategy Paradox: strategies with the greatest possibility of success also have the greatest possibility of failure."

Leading an Ethical Organisation

- Today, more than ever, stakeholders are placing a variety of ethical and socially responsible demands on firms across industries.
- Subsequently, strategic management will be unsuccessful if it is performed in an ethical vacuum.
- Strategy development and implementation must reflect the firm's mission, vision, and values.
- Ethical assessments of the external and internal environments must be performed using accurate information and transparent processes even in competitive environments.

- When firms attempt to gain a competitive advantage, many companies engage in legitimate and accepted competitive tactics, but sometimes firms cross the line and enter unethical, and perhaps illegal, space in their quest.

- The potential costs of unethical corporate business practice is born by the perpetrator - if they are “caught.”

- However, in many cases, like environmental dumping or exploitative labor practices, society and its members may pay the costs years before the firm does.

- Minimally, business level, corporate level, and international strategy development should always occur within acceptable practices in the industry and in light of the firm's own code of ethics and compliance.

- As firms move from "doing right" to "doing good," and endorse corporate social responsibility philosophies and activities, employees, managers, customers, and other stakeholders take pride and satisfaction in the impact their company has on improving the society.

- Further, as contemporary societal expectations have shifted, firms have witnessed new opportunities to turn corporate values and ethical decision-making into a competitive advantage within the market place.

- In the 1990s and early 2000s, several corporate scandals were revealed in the United States that showed a lack of board vigilance.

- Perhaps the most famous involves *Enron,* whose executive antics were documented in the film The Smartest Guys in the Room. Enron used accounting loopholes to hide billions of dollars in failed deals.

- When their scandal was discovered, top management cashed out millions in stock options while preventing lower-level employees from selling their stock.

- The collective acts of Enron led many employees to lose all their retirement holdings and their jobs, stockholders lost $74 billion, and many Enron execs were sentenced to prison.

- This scandal also caused the dissolution of Enron's outside accounting firm, Arthur Anderson, one of the five largest accounting firms in the world at the time

- Around the same time as Enron, other corporate scandals created colossal damage. WorldCom, a telecommunications firm, inflated its assets.

- When discovered, shareholders lost $180 billion and 30,000 employees lost their jobs.

- Another famous one is Tyco, where the CEO and CFO stole $150 million and inflated the company revenues by $500 million.

- Before being discovered, the CEO threw a birthday party for his wife on a Mediterranean island that cost $2 million, paid with company funds. The CEO and CFO both went to prison.

Ethics and CSR as Corporate Strategy

- One positive outcome of the corporate scandals has been an increased focus by firms on corporate ethics.
- Many companies now have an Ethics and Compliance Officer and a detailed Ethics and Compliance Code.
- For example, Walmart's Global Ethics and Compliance Program is provided online for the public and has numerous pages.
- Many firms provide annual training to all its employees on their company's ethics and compliance standards

The impact of ethics on business

- https://www.youtube.com/watch?v=A9i8dwKC7TE

- In response to persistent “rule-breaking” by corporate actors, Corporate Social Responsibility (CSR) emerged in the 1970s to assert that a “social contract” exists between business and society.

- At its base is the assumption that businesses thrive when the society it relies on thrives, and therefore, firms have a duty to provide more than profit back to its environment.

- It is a business model that attempts to “give back” to the members of the community or society that help the firm succeed through the purchasing of its products or services.

- The goal of CSR is to enhance the success of a business by enhancing the society in which the organization operates.

- It can take the form of philanthropy or donating funds to causes it believes are important to its stakeholders.

- Some forms of CSR include corporate volunteerism, such as asking company employees to volunteer to build a Habitat for Humanity house on a Saturday.

- Improving environmental sustainability is one of the most recognized recent forms of CSR.

- Another form of regulation designed to prevent corporate misbehavior are “whistleblower” laws and policies.
- Many firms intentionally encourage employees to report any suspected misconduct by the firm, its managers, or employees.
- A “whistleblower” hotline is often provided where suspected violations can be reported anonymously.
- Anti-retaliation policies encourage employees to come forward to report misconduct without fear of retaliation or losing their job.
- Although all these measures are helpful, unfortunately, fraud and misconduct still occur.

What Is Corporate Social Responsibility?

- As introduced early in this chapter, Corporate Social Responsibility (CSR) *"is a self-regulating business model that helps a company be socially accountable - to itself, its stakeholders, and the public."*

- By practicing corporate social responsibility, also referred to simply as social responsibility, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental (Chen, 2020).

- Philanthropy is the simplest form of CSR, where a firm donates funds to a nonprofit organization such as the Red Cross.

- However, CSR can take many forms, with the end result that society benefits.

- in some way. Environmental efforts in CSR might include reducing the company's pollution or helping to clean up the plastic that washes up on beaches.

- *Any other examples?*

- Some examples of CSR efforts are:

- Reducing their carbon footprint - Coca Cola
- Ensuring contract manufacturers pay a living wage - Patagonia
- Improving sustainable manufacturing -BMW
- Matches employees' donations to nonprofits - Microsoft and Google
- Reducing carbon emissions - United Airlines
- Promoting literacy among children - Twitter
- Eliminating foam cups -Dunkin'
- Donating employees' hours to children's tutoring – Salesforce

https://www.youtube.com/watch?v=E0NkGtNU_9w

- The CSR approach is not without controversy.

- When CSR was introduced, the famous economist Milton Friedman opposed CSR on philosophical grounds. He believed, as some others did, that no profits should be diverted for CSR activities.

- The logic was that company investors and stockholders took a risk when they invested in the company, and therefore the company's first obligation is to them.

- On the other hand, many who practice CSR believe that CSR activities ultimately do benefit the company investors and stockholders.

- The belief is that having a CSR strategy provides good public relations for the firm and enhances their brand image, creating loyalty and more sales long term.

- One criticism of CSR is that it is seen as an “add on” endeavor for firms.
- Often, CSR is not an ingrained component of the firm’s philosophy and operations.
- In response to this criticism, a rather new movement emerged in an attempt to remedy this deficiency.
- Michael Porter and Mark Kramer suggest that instead of CSR, wise corporations are shifting to a Creating Shared Value (CSV) model that argues that firms should address social issues by creating shared value, which is fundamentally focused on expanding the total pool of social and economic resources.

- Creating shared value (CSV) is a business strategy that creates a direct link between the success of the firm and the improvement of society. Generally, CSV can be considered to be a particular strategic approach within the more general CSR landscape.

- A key differentiating detail is the explicit focus of CSV in generating positive economic outcomes through its strategic investments. As a company prospers economically, so do those it impacts.

- However, CSV and CSR both take a longer-term, rather than a short-term, approach to measuring impact. For example, Whole Foods was one of the most high profile companies to adopt CSV as a guiding strategy.

- This strategy translated into investing in local schools to ensure a well prepared work force and supporting local agricultural communities so it could reliably source produce from local vendors.

- While one traditional view of “business as usual” is that when a company prospers, it is at the expense of the consumer and society. CSV and CSR flip this view.

Group Exercise

You work for a Bank Head Office Department – Marketing Unit.

You have been selected to serve on a team to come up with ideas on how your office can implement corporate social responsibility. What specific CSR ideas will you share with the team?

Corporate Governance

- *"You're fired!"* is a commonly used phrase most closely associated with Donald Trump as he dismissed candidates on his reality show, The Apprentice.

- But who would have the power to utter these words to today's CEOs, whose paychecks are on par with many of the top celebrities and athletes in the world?

- This honour belongs to the board of directors - a group of individuals that oversees the activities of an organization or corporation.

- Potentially firing or hiring a CEO is one of many roles played by the board of directors in their charge to provide effective corporate governance for the firm.

- An effective board plays many roles, ranging from the approval of financial objectives, advising on strategic issues, making the firm aware of relevant laws, and representing stakeholders who have an interest in the long-term performance of the firm

- The possibility of conflicts of interest is considerable in public corporations.
- A conflict of interest exists when a person could receive personal benefit from decisions they make in their official capacity.
- *For example, if a firm's purchasing agent's husband owns an office supply company that could sell products to the firm, the purchasing agent has a conflict of interest,*
- On the one hand, CEOs favour large salaries and job stability, and these desires are often accompanied by a tendency to make decisions that would benefit the firm (and their salaries) in the short term at the expense of decisions considered over a longer time horizon.
- In contrast, shareholders prefer decisions that will grow the value of their stock. This separation of interest creates an agency problem wherein the interests of the individuals that manage the company (agents such as the CEO) may not align with the interest of the owners (such as stockholders).

Managing CEO Compensation

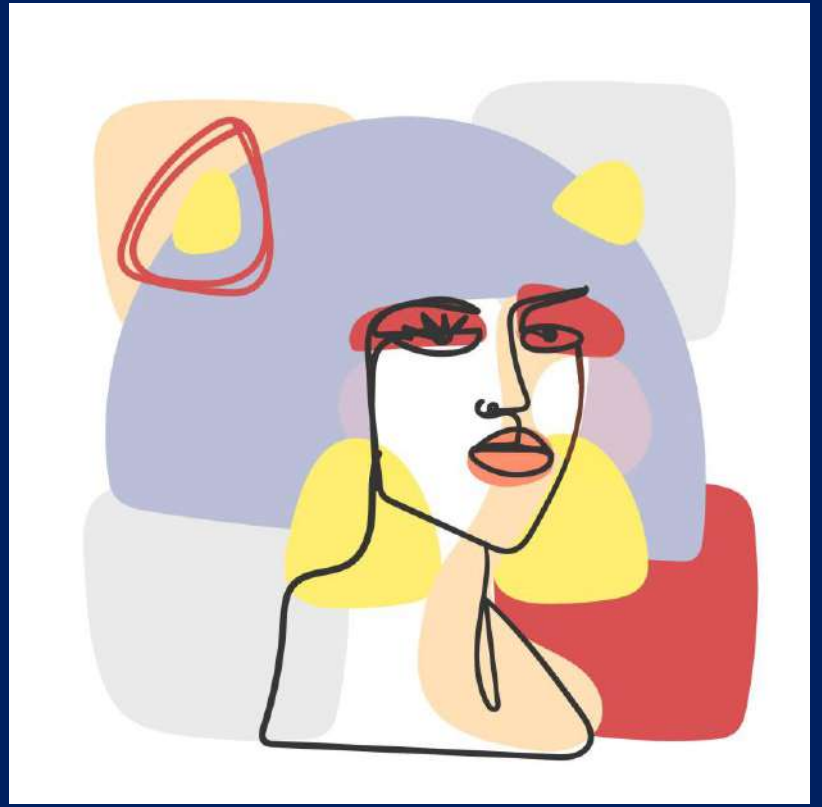
- One of the most visible roles of boards of directors is setting CEO pay.

- The valuation of the human capital associated with the rare talent possessed by some CEOs can be illustrated in a story of an encounter one tourist had with the legendary artist Pablo Picasso.

- *As the story goes, Picasso was once spotted by a woman sketching. Overwhelmed with excitement at the unexpected meeting, the tourist offered Picasso fair market value if he would render a quick sketch of her image.*

- *After completing his commission, she was shocked when he asked for five thousand francs, responding, "But it only took you a few minutes."*

- *Undeterred, Picasso retorted, "No, it took me all my life".*



- This story illustrates the complexity associated with managing CEO compensation.
- On the one hand, large corporations must pay competitive wages for the scarce talent that is needed to manage billion-dollar corporations.
- In addition, like celebrities and sport stars, CEO pay is much more than a function of a day's work for a day's pay.
- CEO compensation is a market driven function of the competitive wages that other corporations would offer for a potential CEO's services.

Firms can benefit from superior corporate governance mechanisms such as an active board that monitors CEO actions, provides strategic advice, and helps to network to other useful resources.

What is corporate governance?....

When such mechanisms are not in place, CEO excess may go unchecked, resulting in negative publicity, poor firm performance, and the potential for a takeover by other firms.

An agency problem exists when the CEO acts in their own best interest instead of the best interest of the firm.

AGENCY THEORY

https://www.youtube.com/watch?v=wdnlvq_sOD4

Contemporary Questions of Corporate Ethics

- The subject of corporate ethics is an ever-evolving theme. Sometimes companies and the individuals in those companies cross the line and commit acts that are unethical, immoral, or illegal.

- Society has attempted to erect barriers to prevent these activities from happening by passing laws and regulations, expecting a strict code of ethics and conduct, and providing measures of a firm's social contribution.

- Unfortunately, whatever the legal climate, violations of society's standards and expectations continue to occur, and it is critical to recognize that laws represent the minimum ethical standard tolerated by a society.

- Firms committed to ethical business practices must start by recognizing that just because an action is legal, it does not mean it is ethical.

- Strategists understand the importance of this distinction because it will be the organization's stakeholders, and not the legal system, that will decide if the firm is satisfactorily ethical.

- For example, the 2020 boycott by advertisers of Facebook was a reaction to Facebook's failure to take a more active position on hate speech, but Facebook's decisions did not break any laws. (Fung, 2020).

- The world wide pandemic created by the COVID-19 virus had tremendous impact on businesses domestically and globally.

- For some, sales increased dramatically, such as in the grocery; medical ventilator industries; take away food/drink.

- For most, however, volumes shrunk as countries mandated stay at home orders and social distancing. Local and national economies across the world were devastated, creating vast numbers of unemployed.

- Governments were tempted to open the economy back up as soon as possible, and sometimes even when the incidence of infections and hospitalization were still on the rise.

- This conflicted decision was also deliberated by executives and owners of businesses large and small.

- The pandemic created an ethical challenge for both political leaders and citizens:

- *Open up to get the economy going and people back to work and school, but risk raising infection rates, or, continue to lock down to control and diminish the impact of the virus but keep people unemployed, or some balance in between.*

Suppose you are the CEO of a 200 person company that makes specialized parts for airplanes.

You outsource the manufacturing to another company in Mexico. With the coronavirus outbreak, you initially followed the governor's guidance, closed the office and had people work from home. Productivity is suffering, and you have a lab where 30 people work in two shifts who cannot work from home. You have paid them for the first 4 weeks anyway, but now you are running in the red with sales down.

What do you do?

Bring everyone back to the office, and risk them getting infected?

Bring only the lab staff back, with the same risk?

Lay off the lab staff?

Furlough *(suspension or discharge of a worker or workers on account of economic conditions, especially when temporary*) everyone to stop the bleeding until this passes?

Continue paying everyone and risk bankrupting the company?

Some combination of these options?

Or is there another option you haven't thought of yet?

What's your decision, CEO?

- In the midst of this chaos, there are strategic opportunities for those firms positioned to take advantage of the new environment.

- What might some of those opportunities be?

- **Remember: A plan is not a strategy**
- https://www.youtube.com/watch?v=iuYlGRnC7J8&t=21s

Understanding the Strategic Management Process

- Strategic management is a process that involves building a careful understanding of how the world is changing, as well as a knowledge of how those changes might affect a particular firm.

- CEOs, such as late Apple founder Steve Jobs, must be able to carefully manage the possible actions that their firms might take to deal with changes that occur in their environment.

- We present a model of the strategic management process “Overall Model of the Strategic Management Process”. This model also guides our presentation of the sessions of the course.

"Overall Model of the Strategic Management Process"

- Session 1 "Mastering Strategy - both an art and a science"
- Session 2 "Assessing Organizational Performance"
- Session 3 "Evaluating the External Environment"
- Session 4 "Evaluating the Internal Environment"
- Session 5 "Selecting Business-Level Strategies"
- Session 6 "Innovation Strategies"
- Session 7 "Selecting Corporate-Level Strategies"

- The strategic management process begins with an understanding of strategy and performance.
- As we have noted in this introductory session, strategic management is both an art and a science, and it involves multiple conceptualizations of the notion of strategy drawn from recent and ancient history.
- In the next session "Assessing Organizational Performance", we focus on how the organization's mission and vision shape the development of the firm's strategy.
- Consequently, how managers understand and interpret the performance of their firms is often central to understanding strategy.

- Environmental and internal scanning is the next stage in the process.
- Managers must constantly scan the external environment for trends and events that affect the overall economy, and they must monitor changes in the particular industry in which the firm operates.
- For example, Apple's decision to create the iPhone demonstrates its ability to interpret that traditional industry boundaries that distinguished the cellular phone industry and the computer industry were beginning to blur.

- At the same time, firms must evaluate their own resources to understand how they might react to changes in the environment.

- For example, intellectual property is a vital resource for Apple.

- Between 2008 and 2010, Apple filed more than 350 cases with the US Patent and Trademark Office to protect its use of such terms as apple, pod, and safari (Apple Inc.).

- A classic management tool that incorporates the idea of scanning elements both external and internal to the firm is SWOT (strengths, weaknesses, opportunities, and threats) analysis.

- Strengths and weaknesses are assessed by examining the firm's internal resources, while opportunities and threats refer to external events and trends.

- The value of SWOT analysis parallels ideas from classic military strategists such as Sun Tzu, who noted the value of knowing yourself as well as your opponent.

- “Evaluating the External Environment” examines the topic of evaluating the external environment in detail, and

- “Evaluating the Internal Environment” presents concepts and tools for managing firm resources.

- Synthesizing the information gained in the external and internal analysis into a SWOT framework is addressed next. The SWOT is then used to formulate the strategic issue(s) that the firm must deal with as it formulates strategies

- Strategy formulation is the next step in the strategic management process. This involves developing specific strategies and actions.

- Certainly, part of Apple's success is due to the unique products it offers the market, as well as how these products complement one another. A customer can buy an iPod that plays music from iTunes - all of which can be stored in Apple's Mac computer

- In "Selecting Business-Level Strategies", we discuss how selecting business-level strategies helps to provide firms with a recipe that can be followed that will increase the likelihood that their strategies will be successful.

- In "Innovation Strategies", we present insights on the role innovation plays in strategy development and implementation.

- "Selecting Corporate-Level Strategies" focuses on selecting corporate-level strategies,

Section Video

- Strategic Management Process [04:35]
- The video for this lesson explains the strategic management process.

https://youtu.be/o0U0gwvnhek

Key Takeaway

Strategic management is a process that requires the ability to manage change.

Consequently, executives must be careful to monitor and to interpret the events in their environment, to take appropriate actions when change is needed, and to monitor their performance to ensure that their firms are able to survive and, it is hoped, thrive over time.

Conclusion

- This session provided an overview of strategic management and strategy.
- Ideas about strategy span many centuries, and modern understanding of strategy borrows from ancient strategies as well as classic military strategies.
- You should now understand that there are numerous ways to conceptualize the idea of strategy, and that effective strategic management is needed to ensure the long-term success of firms.
- The study of strategic management provides tools to effectively manage organizations, but it also involves the art of knowing how and when to apply creative thinking.

- Knowledge of both the art and the science of strategic management is needed to help guide organizations as their strategies emerge and evolve over time.

- Such tools will also help you effectively chart a course for your career as well as to understand the effective strategic management of the organizations for which you will work.